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Trump's Iran decision could be bad news for big oil companies

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United States President Donald Trump's decision to "decertify" the Iran nuclear deal probably won't have an immediate impact on oil prices, but the decision could plant the seeds of problems further down the road.

That is because nothing happens right away—Trump kicked the decision to Congress. But he still significantly increases confrontation with Tehran, and is somewhat backing himself into a corner if Congress does nothing, or if Iran doesn't offer concessions regarding its missile program—two scenarios that seem more likely than not. With little chance of making headway, Trump may leave himself with few options beyond escalation.

Geopolitical risk has had very little influence on oil prices in the last three years due to the enormous glut of supply. But by 2018, the market will be much closer to balance, with inventories falling back to average levels. With tighter conditions, geopolitical risk will have greater salience.

The timing of that lines up with a potential deterioration in relations between the U.S. and Iran. "The president has made it very clear that he wants to escalate the pressure on Iran. So sometime middle of next year you could see the deal start to deteriorate and then you could have meaningful impact on oil supplies right when the market is tightening," Benjamin Salisbury, energy policy analyst at FBR Capital Markets, told CNBC.

It's unclear if the U.S. will reimpose sanctions, but if it does, the impact will be uncertain. Most likely, they'll be substantially less effective than the sanctions coordinated by the international community prior to 2016. That's because the U.S. will probably go it alone. Shortly after President Trump announced that he was de certifying the nuclear deal, the leaders of France, Germany and the UK issued a joint statement supporting the continuation of the agreement. Iran also said that it will continue to abide by the agreement. "This creates a giant wedge—it's Iran and the rest of the world on one side and the U.S. on the other," John Glaser, director of foreign policy studies at the Cato Institute in Washington, told Bloomberg.

Unilateral action from Washington won't have the same bite. Iran's crude oil exports were curtailed by more than 1 million barrels per day from sanctions prior to 2016. After sanctions were lifted, exports doubled very quickly to 2.2 mb/d. But don't assume that U.S. action, alone,

will simply take Iran's exports back to pre-2016 levels. The impact on Iran's exports "will come down too, whether the sanctions come back, first of all, and then whether the U.S. wants to kind of bully foreign refineries or foreign companies from investing in Iran," Helima Croft of RBC Capital Markets told CNBC.

Goldman Sachs singled out the ability of Iran to secure international insurance for its crude shipments as a crucial determinant in how effective sanctions prove to be. The international community was able to severely limit Iran's exports between 2012-2015 because Iran was unable to obtain insurance. The U.S. probably can't isolate Iran in this way without help, and as such, might struggle to slow Iran down.

American sanctions would "put at risk a few hundred thousand barrels of Iranian exports," Goldman Sachs wrote in a research note. "Without the support of other countries, however, it is highly unlikely though that production would fall back to its pre-deal levels or that a drop in export is imminent."

Although the U.S. may struggle to shut down Iran's oil exports, it could scare away new investment. Iran has been courting international oil companies to invest in new oil and gas projects. Some major oil companies, including Royal Dutch Shell, Eni and Statoil, said they'll stay away from Iran if U.S. sanctions are set to make a comeback, according to the WSJ.

"New investment may be an early casualty" from a return of U.S. sanctions, Columbia University's Center on Global Energy Policy wrote in a recent report. "Major oil and gas companies with significant U.S. exposure are most likely going to either wait to commit to business in Iran or hedge their bets by making any investment modest and of short duration."