

Middle East has high potential for Asian investors

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A panel of analysts discussed the issue at the AOGC's Energy Hotspot session on Monday

Saudi Arabia's decision to let the global oil market find its own pricing level and the prospect that Iran could regain its status as a major hydrocarbons player should give both buyers and sellers of oil and gas in Asia considerable food for thought, a panel of leading analysts told AOGC's Energy Hotspot session on Monday.

The Iranian issue is perhaps the most interesting topic in terms of future oil and gas supply, largely because of the considerable uncertainty regarding if and when sanctions on the state will be loosened. Optimism over a possible agreement between Iran and the international community on the development of its nuclear programme could be followed by the lifting of restrictions on Iranian energy exports.

"A deal between Iran and world powers will obviously change some of the equations in the region," Bijan Khajepour, managing partner of Vienna-based consultancy Atieh International, told delegates. However, while the prospect of a resurgent Iran may cause disquiet among some of its neighbours, the return of the country to the regional stage also presents opportunities, especially in terms of cooperation on energy.

Khajepour noted that Iran's substantial gas reserves could provide a valuable resource for Gulf countries, many of which suffer from a deficit of gas, given most of Qatar's gas production is exported out of the region. Power exports from Iran could also benefit increasingly energy-hungry Gulf states, while cross-border investments could help smooth over intra-regional differences. Trade delegations from Oman, Kuwait, the United Arab Emirates and Qatar have already visited Iran, he added.

Greater cohesiveness among Gulf economies will not just benefit that region – there will be knock-on benefits for the rest of the world, and, in particular, Asia, according to Jaafar Altaie, managing director of Dubai-based Manaar Energy Consulting and Project Management. He said the Association of Southeast Asian Nations (ASEAN) countries needed to develop strategic ties with countries such as Iraq, Iran and Turkey, suggesting that the potential of the oil

and gas value chain between Middle East producers and the ASEAN region remains under-explored.

ASEAN-based companies are starting to take a stronger interest in the Middle East. Petronas, has interests in Iraq, for example. Altaie suggested that, in order for ASEAN-Gulf relations to flourish, both Iraq and operators interested in working there were going to need to “think out of the box” over fiscal terms and the nature of contracts.

He said that while the integrated businesses had a role to play, companies needed to consider more joint-venture structures and more exotic fiscal systems when operating in countries such as Iraq. “Asian operators and investors more than anyone else, have shown an uncanny talent to adapt to geopolitical conditions and to feed stability into the region through their long-term presence,” Altaie said.

The ability to run stable operations in the Middle East is not just down to an improved operating framework, it will also depend on the machinations of the oil price, as Thomas Wallin, editor-in-chief of Energy Intelligence, pointed out. He thought Opec was unlikely to re-emerge as a force in the same shape it had before Saudi Arabia decided not to curtail its contribution to global oil supply – a decision he described as totally rational, given the background of rising supply from non-Opec sources, such as the US.

For now, the market is likely to remain a “free” one, with neither Saudi Arabia nor the US likely to occupy the role of swing producer in the short term – while US firms can theoretically can adjust production to suit market conditions, in practice they tend to take several months to do so, compared to a couple of weeks in a more centrally controlled oil producer such as Saudi Arabia, he said.

However, Wallin said that, given that the global oil market had rarely been a free market in its century and more of existence, some form of market management was likely to return, even if its nature is unclear now.