Energy, Metals Impact of President Trump's Decision to Impose Iran Sanctions - S&P Global Platts FACTBOX

NEW YORK, May 8, 2018 /PRNewswire/ -- US President Donald Trump's plan to leave the Iran nuclear deal and reimpose sanctions could have major impacts for global oil, natural gas, metals and petrochemical markets, according to a FACTBOX and infographic just released by S&P Global Platts.

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President Donald Trump said Tuesday the US will withdraw from the Iran nuclear deal and put "powerful" economic sanctions "into full effect." But he did not give any timing for when or how the US plans to restart the sanctions regime.

The so-called secondary sanctions cut off any international companies that want to continue doing business with Iran from the US banking system.

When the US enforced the measures in 2012-15, the Department of the Treasury allowed certain countries to continue importing Iranian oil, for example, as long as they demonstrated they were "significantly reducing" their dependence every 180 days. But the EU joined the US with its own import restrictions, something analysts do not expect this time.

Oil impact

Reimposing US oil sanctions on Iran will likely have an immediate impact of less than 200,000 b/d and will block less than 500,000 b/d after six months, according to most analysts surveyed by S&P Global Platts. But some analysts see the move eventually disrupting as much as 1 million b/d of oil supply.

About 200,000 b/d of Iranian crude exports are at risk by the first half of 2019, because US allies including South Korea and Japan would likely reduce their purchases in response to sanctions, according to S&P Global Platts Analytics.

"But compliance with unilateral US sanctions would be much more difficult to enforce than the multilateral measures implemented in 2012," said Paul Sheldon, Platts Analytics associate director. "This could test the Trump administration's appetite for sanctioning foreign companies, and the term 'significant' in the sanctions legislation potentially leaves some wiggle room which could be used to avoid a trade dispute."

Iran produced 3.83 million b/d in April, according to the latest S&P Global Platts OPEC survey, up from 2.91 million b/d in January 2016, when the nuclear deal took effect.

Iranian crude exports surged to 2.45 million b/d in April ahead of Trump's announcement, despite steady output, some 400,000 b/d higher than March's exports, as most analysts expected the US to exit the deal and reimpose sanctions.

Iranian crude exports to Asia rose to 1.81 million b/d in April, making up 67% of its total exports, with China the largest single destination. Demand for Iranian crude in China and India is likely to remain very strong, though refiners in Europe, South Korea and Japan are likely to tread more carefully.

Major Asian oil importers report being well-positioned to seek alternatives to Iranian crude if they need to. Refiners have increased US light crude imports since early 2017, aided by a widening WTI crude price discount to the Brent and Dubai benchmarks. Among recent supply diversification efforts, Japan imported its first Mozambican condensate, and Indian refiners have turned to Iraq.

US crude production has grown, as has US Gulf Coast crude export capacity, which is estimated to be 3.7 million b/d by Platts Analytics. That capacity compares with record high weekly US crude exports of 2.33 million b/d, according to US Energy Information Administration data.

European refiners said they were preparing for the possible return of secondary sanctions, but planned to continue to importing Iranian crude for May and June loading, for now. Europe takes around 700,000 b/d or one-third of Iran's crude exports.

Natural gas impact

Iran holds the world's second-biggest gas reserves (34 trillion cubic meters) after Russia and harbors ambitions of becoming a significant gas and LNG exporter in the coming years.

Iran already exports small volumes of gas -- around 40 million cu m/d -- to Turkey, Iraq and Turkmenistan. Those supplies were not targeted under the previous US sanctions, but Tehran wants to accelerate development of its giant South Pars gas field to enable it to begin larger-scale exports.

The vast majority of its production -- currently pegged at some 0.85 Bcm/d -- is consumed domestically. It aims to increase production to 1 Bcm/d by March 2019.

French major Total in July 2017 signed a deal with Iran's National Iranian Oil Co. to develop South Pars phase 11, which will have a production capacity of 2 Bcf/d (57 million cu m/d).

The gas will supply the Iranian domestic market starting in 2021.

Petrochemicals impact

About 4.4 million mt of polyethylene capacity that was scheduled to come online by 2025 could be in doubt from reimposed US sanctions. Fresh sanctions would interfere with the projects' $60 billion in financing and could block technology or other technical involvement needed from international companies.

Iran's petrochemical ambitions have focused on the abundance of ethane feedstock at South Pars, which it shares with Qatar.

The Middle East is currently the dominant global exporter of polyethylene. If Iranian projects get canceled, the region's net export polyethylene surplus will be closer to the North American surplus, which is expected to climb to 12.2 million mt by 2028. That means the Middle East could lose its position as the main global supplier of polyethylene to the US.

Metals impact

Reimposed US sanctions are more likely to slow Iran's steel capacity expansion program than to curb its steel and iron ore export levels. Since the 2015 nuclear deal, Iran set a target to expand its steel capacity to 55 million mt/year by 2025, from 32 million mt/year currently.

The nuclear deal allowed European equipment manufacturers, including SMS, Danieli, Sarralle, Outotec and Voestalpine, to invest or increase their existing presence in Iran's steel sector. Sources said new projects or projects already underway may be seriously hit by financing difficulties. Some may have already ground to a halt amid uncertainties over US policy.

Iran's steel and metals sector is expected to turn more to Chinese technology if new US measures restrict this European investment.

Iran has become a significant steel exporter in recent years as the domestic market has been insufficient to absorb its output growth. Total exports of steel and direct reduced iron, a steelmaking raw material, exceeded a record 9 million mt in the Iranian year that ended March 20, the Iranian Steel Producers Association said this week. Exports of semi-finished steel products such as billets and slabs accounted for 6.87 million mt of that total, an 84% jump from the previous year.

Iran aims to increase its total steel and DRI exports to 12 million-13 million mt in the current year, ending March 20, 2019, ISPA said. It aims to boost crude steel output to 26 million mt this year, from 21 million mt last year.

Iran's steel exports mainly head to Asia, Europe and the Middle East. The trades are typically done without letters of credit and

by traders without US links. Iranian steel exports are currently considered competitive due to the devaluation of the Iranian rial, which has lost around 50% of its value over the past year.

Iran's iron ore exports have dwindled in recent years due to domestic demand from steel producers.China takes most of these exports, so additional US sanctions are not expected to have an impact.

Agriculture impact

Iran regularly bans agricultural imports to support its domestic market and farmers. While sugar is not targeted directly, the US sanctions can cause issues with financing and payment for cargoes.

See Infographic at https://www.platts.com/IM.Platts.Content/InsightAnalysis/RSSFeed/Images/2018/PON_Iran_Infographic-full-size.jpg

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