The United States and Iran’s oil

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President Trump’s decision to withdraw the United States from the nuclear agreement with Iran has generated unease in the markets. The price of Brent crude was close to US$80 per barrel in the days following the announcement, a level not seen in the last four years. The withdrawal from the agreement by the United States means the re-establishment of the economic sanctions imposed on Iran in 2012, which included a reduction of 20% in Iranian oil exports.

Thus, considering the current level of exports, around 540,000 barrels per day would be at risk of losing their access to international markets. However, there are reasons to think that the real impact on Iranian exports will end up being lower.

Firstly, the departure of the United States from the nuclear agreement does not have the support of the international community. In fact, France, Germany, the United Kingdom, Russia and China have decided to maintain the pact. These and other countries could continue buying crude or investing in the Iranian oil industry in spite of US pressure. This is a very different scenario from that of 2012, when there was unanimous support for the sanctions. At that time European countries practically eliminated their purchases of Iranian oil, which resulted in a fall not of 20% but of 60% in exports between 2012 and 2015, equivalent to 1.5 million barrels per day. The impact on the Iranian economy was such that it forced the government to negotiate.

Secondly, there is the possibility that the Trump administration will relax its position to avoid seriously damaging its partners. This was the case, for example, with the tariffs on aluminium and steel. Under this premise, allied countries and their companies will seek to be excluded from the sanctions. This could be the case for China National Petroleum Corp and Total S.A., which have committed some US$5 billion dollars for the development of the South Pars deposits in Iran.

Thirdly, there are doubts about the ability of the Trump Administration to monitor and enforce compliance with sanctions. At present, both the Treasury Department and the State Department are suffering from shortages of personnel. With the re-imposition of sanctions, the smuggling of oil will re-emerge, and it is not clear that it can be fought effectively, especially if the United States does not have the support of other countries.

In any case, the departure of the United States from the nuclear agreement with Iran will continue adding a risk premium to the price of oil until the negotiations reach a new equilibrium. This is due to the fact that, whatever its size, a fall in Iranian exports would reduce global supply, which is already restricted by the cuts in production by OPEC as well as by the involuntary collapse of production in Venezuela and Angola. All this is occurring in an environment in which demand is increasing steadily, driven by global economic growth.

However, the impact on the price of crude oil of a fall in Iranian exports is likely to be temporary, since there is enough export capacity in the world to cover the shortfall. In this context, Saudi Arabia and its partners in the Persian Gulf are seen as the best-placed to take advantage of this situation. To this, we should also add the growing export capacity of the United States, which will soon be supplying vast quantities of crude oil to the rest of the world thanks to the high productivity of its oil industry. The pressure to increase supply could also come from the US government, arguing that sustained increases in the price of petrol have a negative impact on the economy. Remember that President Trump has already accused OPEC in the past of artificially raising oil prices.

All in all, while the withdrawal of the United States from the nuclear agreement with Iran has increased the price of crude oil, the impact of this decision will be limited by the lack of international support and the capacity of global supply to replace the missing oil.

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