Iran and Russia, allies in Syria, forge major energy links

Gareth Smyth

Beirut

As the world waits for US President-elect Donald Trump to move from tweeting to conducting foreign policy, Iran and Russia continue to extend their energy cooperation.

Visiting Russian Energy Minister Alexander Novak on December 13th signed an agreement for a 5-year Russian loan for a $1.6 billion gas-fuelled power station in Hormozgan province, aimed at producing 1,400 megawatts (MW) as Iran seeks to increase production from 76,000 MW to 100,000 MW by 2021.

In recent months, Iran has signed memoranda-of-understanding (MoUs) with Russian companies for seven oil fields, six of which are already operating but with very low recovery rates.

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Moscow's calculations are nuanced. Its three largest energy companies — Lukoil, Gazprom and Rosneft — are reaching into Europe and across Asia. Their gas and oil pipelines follow many byways of age-old silk roads but their growing power and links to the Russian state are very modern.

Iran's wariness of Russia goes back even beyond the 1828 Treaty of Turkmenchay, when the Qajar dynasty ceded vast Caucasus territories to the Russian empire. More recently, Iran's leader Ayatollah Ali Khamenei balked in 2006 at the failure of his top security official, Ali Larijani, when the latter's "tilt to Moscow" failed to stop Russia supporting UN Security Council sanctions over Iran's expanding nuclear programme.

Tensions with Russia eased with the landmark 2015 nuclear agreement with US-led world powers but old suspicions persist in Tehran.

"True, the Russians treat Iran as a pawn, not a partner," a leading Iranian business journalist told The Arab Weekly. "History — and perhaps the Russian mentality — shows that they would never favour 'strengthening' Iran, other than for a limited time in a way that suits their broader goals in their chess-like international policy.

"Specifically on oil and gas, cooperation should help both sides, given Iran's relative isolation but it may also give Russia further means to exert pressure [if it chooses to do so] and even give [Russian President Vladimir] Putin more ammunition when it comes to dealing with Trump."

Tactics, however, are not strategies: Iran's relationship with Russia will outlast Trump. Moscow has a huge, well-staffed embassy in Tehran, a city where Washington has lacked diplomatic representation since 1979.

Russia supplies arms — most recently the S300 air-defence missile system — and has developed Iran's only functioning nuclear power station at Bushehr. Moscow strongly supports the nuclear deal.

Contact between Iranian President Hassan Rohani and Putin seems good. The two have, in recent weeks, had telephone conversations about oil production levels — just before the Organisation of the Petroleum Exporting Countries (OPEC) agreed to reduce output by 1.2 million barrels a day and more recently over finding a "quick resolution" to the Syrian conflict.

Given the deals Iran has struck since sanctions eased in January 2016 with, among others, Total and Shell, there is every incentive for Russian operators.

The seven oil-field MoUs signed by Russian companies are among 49 Iran has designated for the new Integrated Petroleum Contract (IPC), designed to give greater profit incentives to foreign operators through removing set production-shares and extending contract lengths from five to up to 20 years.

Iranian Oil Minister Bijan Zanganeh (L) and Russian Energy Minister Alexander Novak walk to a meeting in Tehran, last December. (AP)

The two largest fields, Mansouri and Ab Teymour, each with about 15 billion barrels, have been assigned to Lukoil. Gazprom, Tatneft and Zarubezhneft share the other five.

Iranian Oil Minister Bijan Zanganeh has said Iran was in talks with Rosneft over four other oil fields while Gazprom is reportedly discussing gas projects, including a pipeline to India, storage and developing conversion facilities for liquefied natural gas (LNG), all areas in which Gazprom has vast experience.

As well as financial muscle, the Russian operators have technological expertise. Of the seven fields covered by MoUs all except Dehloran, a new field containing 5.2 billion barrels assigned to Tatneft, are in operation but with low recovery rates varying from 6-17%.

Nor does the cooperation stop there. Zanganeh announced that Iran intends to supply Russia with 100,000 barrels of oil a day with half the payments in technology and equipment, apparently a means to minimise problems with dollar payments, which Washington has been slow to facilitate despite the 2015 nuclear agreement.

The Oil Ministry in Tehran has suggested there will be a "swap" agreement by which northern Iran would receive gas and oil from Russia in return for supplying Russian tankers with oil to export from Iran's southern coast, reducing transportation costs for both sides.

These arrangements flow from coinciding national interests, even geography. Whatever wariness exists on both sides, Moscow and Tehran have a relationship based on *realpolitik* and mediated by communication.

Both are seasoned chess-players. As of January 20th, Trump will need more than 140-character tweets if he is to play with either one.

Gareth Smyth was chief correspondent in Iran for the Financial Times from 2003-07.

Egyptians pin hopes on new measures to reverse economic slump

Amr Emam

Cairo

Fewer foreign tourists, a slowdown in exports and lack of investment incentives negatively affected Egypt's economy in 2016 but measures have been instituted that are designed to reverse Egypt's economic fortunes in 2017.

"Egyptians will feel the positive effects of these measures in the new year," said Samir Morqos, a former economics professor from the American University in Cairo. "The measures were well-calculated and based on thorough studies of Egypt's economic needs in the future."

> The reopening of the estimated 4,000 factories will contribute to reducing unemployment.

The measures included a free flotation of the Egyptian pound against foreign currencies, a decision made long after Egypt had lost the battle against the black market.

The presence of an official foreign exchange system and a black market created two prices for foreign currencies, a situation that scared investors and caused untold losses to importers and manufacturers. Banks bought the US dollar, for example, for 8.88 pounds while it was traded for 14-15 pounds on the black market.

The flotation decision on November 3rd was aimed at unifying foreign currency exchange rates and moving foreign currency dealings back to the banking system.

The banks collected $4 billion the month after the move was made, which eased pressure on foreign currency reserves at the Central Bank and helped meet importers' and manufacturers' demand for greenbacks.

Rashad Abdo, president of the Egyptian Forum for Economic Studies, said the big challenge in 2017 will be for Cairo to rein in commodity prices, which have shot up because of the rise in the official US dollar exchange rate.

"The pound flotation drove the US dollar exchange rate up from 8.88 pounds to 18 pounds," Abdo said. "This has automatically pushed commodity prices up."

Commodity prices have risen almost 80% since the pound flotation and there are fears that the resulting public resentment could lead to political unrest.

Before the flotation, the government struck a deal with the International Monetary Fund for a $12 billion loan, the first tranche ($2.75 billion) of which Egypt received in mid-November. The government said the loan was necessary to support foreign currency reserves, finance Egypt's economic reform programme and gain investor confidence.

Economists said the loan was needed to help increase foreign currency reserves, especially after main Gulf financiers Saudi Arabia and the United Arab Emirates reduced their financial support.

"The reserves were on the way down while revenues from tourism and exports almost totally stopped," Morqos said. "A continuity of the decline in the reserves would have been catastrophic for the economy."

A challenge in 2017, economists said, will be for Egypt to use the loan money it gets in reforming its economy as it promised.

Apart from the pound flotation, the government slashed fuel subsidies 48%, prepared to restructure the food subsidy system and raised import duties on hundreds of goods.

The customs duty increases were aimed at encouraging consumers to opt for locally made products and scrap imported ones.

The decision can have other effects, economists said.

"True, the decision will make imported products too costly for most consumers to buy but it can backfire, especially if there is not enough national output," said Mukhtar al-Sherif, an economics professor at Mansoura University.

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One of the challenges Egypt faces in increasing production is to help reopening thousands of factories that closed in the past five years because of political unrest, competition with imported products and lack of necessary fuel.

The reopening of the estimated 4,000 factories will contribute to reducing unemployment, placed at 28% of the workforce of 26 million, Sherif said.

"More production will also contribute to reducing the poverty rate, which reached 27.8% in 2016," he added.

Briefs

Gulf stock listings nosedive in 2016

Stock markets in the energy-rich Gulf saw a sharp drop in the number of initial public offerings (IPOs) in 2016, as well as the value of listings, Kuwaiti investment firm KAMCO Research said in a report.

Only three IPOs — all from Saudi Arabia — were made in the region in 2016, half the number recorded in 2015 and the lowest in 15 years, KAMCO Research said. The total value of the IPOs was $745 million, the lowest since 2013.

KAMCO said Gulf companies looking to issue IPOs decided to put them off due to events including Brexit, the US presidential election and volatility on oil markets.

Companies were also deterred by extreme turbulence on Gulf Cooperation Council (GCC) stock markets in the first ten months of 2016 before they rebounded as oil prices advanced.

Gulf companies were likely to wait until encouraging economic data start to appear before they enter the IPO market with full force, KAMCO said.

(Agence France-Presse)

Lebanon approves key gas, oil drilling decrees

Lebanon's government issued key decrees to prepare the way for oil and gas extraction off its coast after more than two years of political deadlock that had stymied previous efforts.

The decrees authorise regulators to divide the offshore areas into blocks for drilling and exploration and to issue tenders.

A bonanza of gas reserves has been discovered off the coasts of Lebanon and Israel, sparking a frenzy of development on the Israeli side to tap into the fields. Lebanon's government, beset by infighting and corruption, has made only marginal progress towards that goal.

A portion of the reserves lies in territory disputed by the two countries. The Lebanese militant group Hezbollah has issued numerous warnings that Israel should not try to tap into Lebanon's gas reserves.

(The Associated Press)

Iraq cuts oil production per OPEC deal: ministry

Iraq has cut crude production by about 200,000 barrels per day (bpd) as part of an Organisation of the Petroleum Exporting Countries (OPEC) agreement aimed at boosting flagging prices, the Oil Ministry's spokesman said.

"Iraq reduced its production to around 4.6 million barrels (per day)" from more than 4.8 million, Oil Minister Assem Jihad said.

OPEC agreed last year to cut production to reduce a global supply glut that had kept prices low. The accord represented a dramatic reversal from OPEC's Saudi-led strategy, introduced in 2014, of flooding the market to pressure rivals, in particular US shale-oil producers.

Iraq was especially hard hit by the fall in oil prices, which came as it fought a costly war against jihadists and after government mismanagement and corruption had squandered vast oil revenues when prices were high.

(Agence France-Presse)