



Tech Talk - Iranian Oil and the Global Future

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There is a lot going on in the Middle East at the moment. The [revolution in Syria](#) seems to be entering some form of end game, and there are the [riots in Egypt](#). There are some signs that these events might move into countries such as [Jordan](#). Increasing levels of turmoil in the Middle East do not help stabilize the future flow of oil and natural gas around the world, and there are underlying tensions, brought about in part by the need to sustain sanctions against Iran.

Turkey, for example, is caught up in dealing with Syrian refugees and the adjacent civil war and is also largely dependent on Iranian fuel to get it through the winter. In October, Turkey is reported to have imported [75 kbd of Iranian oil](#) with larger portions of the total 417 kbd import coming from Iraq (105 kbd) and Russia (103 kbd). The volumes that continue to flow are now becoming a source of friction, since US law demands that countries continue to lower their imports every six months. While Turkey continues to work to [lower their need for Iranian oil](#) (and may increase imports from Russia), in the interim the U.S. Government is [not increasing pressure](#) but instead, is apparently moving to extend the waiver of sanctions not only to Turkey, but also to a total of 21 countries, a list that includes [China, India, and South Korea](#).

Two officials said an announcement of the six-month extensions was expected from the State Department on Friday. The officials spoke on condition of anonymity because they were not authorized to publicly preview the step.

In addition to China, India, and South Korea, the waivers will apply to Malaysia, Singapore, South Africa, Sri Lanka, Turkey and Taiwan. All nine were originally granted six-month renewable exemptions from the sanctions in June.

The exemption means that banks and other financial institutions based in those places will not be hit with penalties under U.S. law enacted as a way of pressuring Iran to come clean about its nuclear program.

A total of 20 countries and Taiwan have been granted the waivers. The others—Belgium, Britain, the Czech Republic, France, Germany, Greece, Italy, the Netherlands, Poland, Spain and Japan—will come up for review in March.

Yet Turkey, which gets some 20% of its natural gas from Iran, taking roughly [90% of Iran's natural gas exports](#) is resisting pressure to lower its gas purchases, since the fuel is the primary source for most Turkish electricity. And further, with estimates of Turkish needs estimated as [rising to 655 kbd by 2016](#), the ability of the country to sustain an adequate supply of power supply may become more difficult without reliance on Iran.

There is a somewhat similar argument made in South Korea, because while they have cut demand by some 30%, continue to import [around 186 kbd](#) of Iranian oil as of October, though the

volume varies depending on [who is doing the counting](#). Similarly, one sees that both China and India are reported to be [lowering their purchases](#) so that there is a projection that Iran might not ship more than 834 kbd in December. Some of the problem in sustaining even this level of supply is apparently coming from the lack of available tankers, and with Iran now being willing, apparently, to use false shipping transponders [in co-ordination with Syria](#) rather than just changing names; events seem to be moving toward some form of a Bond movie.

Oil is a recognized critical component in building energy supply and the current ongoing effort to contain Iranian exports seems to take much of the headline, relative to overall supply questions. But the game is being played in the margins of balance of overall oil supply and demand. The arrival of significant supplies of natural gas, whether real – as in the United States – or potential – as in most of Europe – has moved the focus away from concerns over oil supply as an issue.

Yet China does not seem to be cutting back on overall oil use; demand rose 6.6% in October 2012, over that in October 2011, and [averaged 9.76 mbd](#). If that continues, then China must find an additional source for 644 kbd next year, over and above current suppliers and volumes. And with the country still growing, that demand will also continue to grow. But there are not a lot of places that can provide for that increased need. The slow economies of the United States and Europe have dropped demand from where it could have been. And while the European economy is likely to struggle on through next year, that of the United States (lunatics [no longer being allowed](#) in Washington) is on the path to recovery, which may well swell energy demand more than anticipated, and absorb any increased domestic supply without much further change in import needs.

And thus one comes back to the [aggressive nature of the Chinese](#) in regard to the hydrocarbon resources of the China Seas. The ASEAN nations seem powerless, whether by inclination or real power, [to do much](#) to protest the Chinese position. The Chinese are also working to [minimize the American presence](#), and treaty obligations, that involve them in these discussions. China has just authorized seizure of foreign vessels in their waters (which they, disputedly, claim include most of both China Seas). At the same time India has taken notice, and is more than just expressing concern.

Although India doesn't have any direct territorial claim in the area, the waters are strategically important to New Delhi for three reasons. First, like for any trade-dependent country, the South China Sea represents an important global shipping route and freedom of navigation must be maintained. Second, India's state-run Oil and Natural Gas Corporation (ONGC) owns a stake in waters claimed by Vietnam. And third, and perhaps most importantly, the South China Sea represents an opportunity for an Indian riposte against China's 'string of pearls' naval encirclement of the Indian subcontinent.

Overall the world does not seem to be heading in the direction of a peace-filled future. The underlying imperative of energy supply to meet national needs has brought the world to war before now; remaining unconcerned about the situation means that we remain unwilling to learn the lessons of history.



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