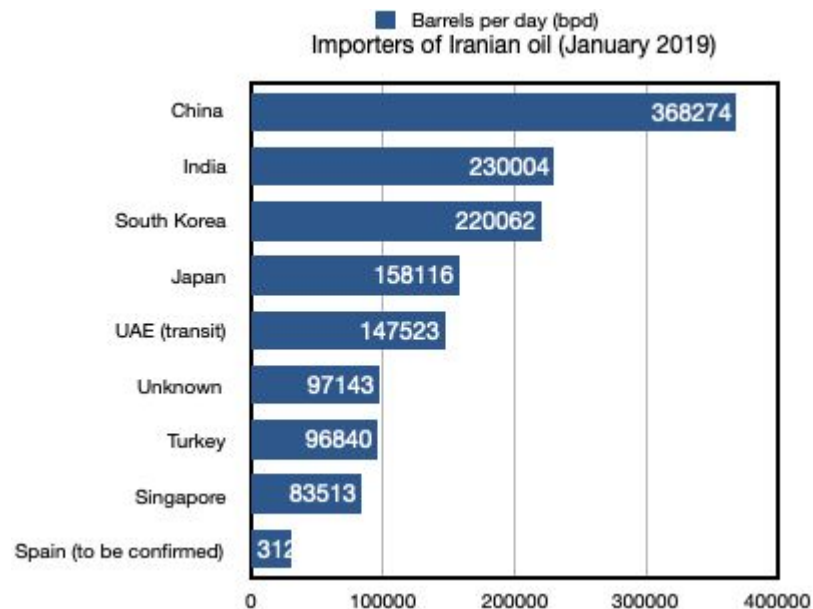


Higher Exports, Lower Production, Higher Imports

A new report from Tankertrackers allows us to take the pulse of Iran's oil industry three months after the full imposition of US sanctions on the country. In spite of a lower level of production of 2.9 million bpd, Iranian exports seem to have significantly increased compared to previous months. In fact, Iranian oil exports have grown by 30% from December 2018 to January 2019, from 1,100,724 bpd to 1,432,605 bpd.

Visibly, China, India and South Korea imported the bulk of Iranian oil exports, accounting for 818,340 bpd or 57% of Iran's daily exports. Other major importing countries are Japan and Turkey, both having US waivers to purchase Iranian oil. Evidently, Syria with its regime being a client of the Islamic Republic accounts for a large part of the 97,000 barrels sent to unknown destinations.

More surprisingly however are importing countries such as Singapore and maybe Spain, which do not have any US waivers but seem to still have loaded Iranian crude and condensates during the month of January. Another open question remains the UAE, which does not import Iranian oil per se anymore but still opens its ports for vessels transiting to and from Iran.



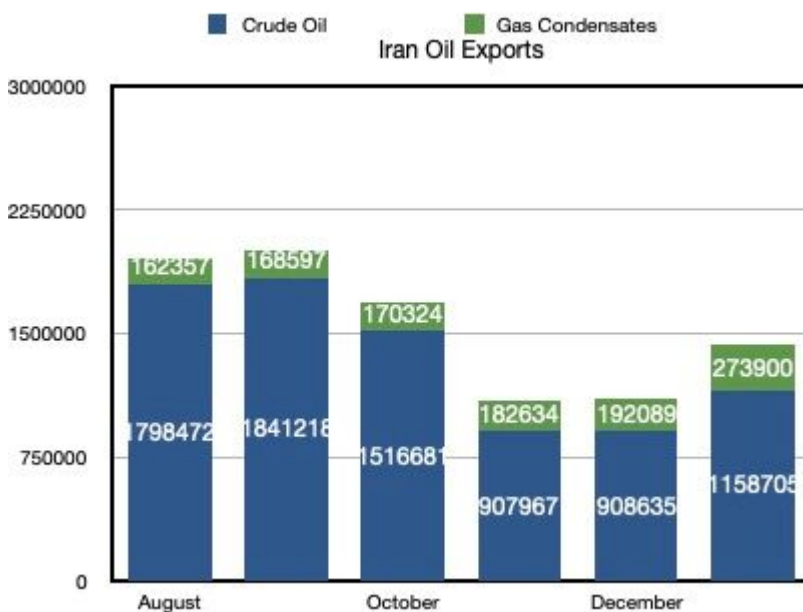
According to Tankertrackers, tracking vessels in January was easier than previous months as the number of foreign-held vessels travelling to and from Iran increased. Such vessels are less likely to switch off their radio navigation system known as Automatic Identification System (AIS) for long periods of time since this method is dangerous for international navigation and transparency remains

important for such vessels.

Tracking 70 Iranian vessels throughout the world, Tankertrackers has reported that the Iranian tanker TOUR 2 has been lost off the coasts of Syria as a result of a storm in mid-January. The SEA SHARK Suezmax-type tanker, with a loading capacity of 1 million barrels, is another Iranian vessel that seems to be grounded, this time in Ras Banas, a peninsula in eastern Egypt.

For foreign vessels, Tankertrackers reports of the many Asian vessels that have reached Iran's Kharg Island for oil loading and Asaluyeh for gas condensate loading during the month of January. While Japan sent 3 Very Large Crude Carriers (VLCC), South Korea sent one Suezmax and 3 VLCCs. 3 Suezmax have also been reported to have been sent to Turkey during the month. Despite the easier tracking of foreign ships, Tankertrackers reported the going offline of Japanese and Chinese vessels. Whilst this method is expected of China as the country seeks to tone down its disputes with the US by trying to keep the real volume of imports off the books (according to data, China imported slightly over its allowed levels in January), this method is highly unusual for Japanese tankers.

South Korea's VLCC HILDA I seems to have followed suit by being offline. South Korea accounted for 80% of Iran's exports of gas condensates for the month of January. Condensates are particularly useful in diluting heavy crude, well-drilling operation and for blending constituents in the production of gasoline.



From the data collected from Tankertrackers, it seems that Iran's gas condensates exports are increasing, after a steep fall around 40% last year. This increase is primarily due to South Korea's use of its US waiver. From 8% of its total exports in August 2018, gas condensates amounted to nearly 20% of total exports in January 2019, a higher level than the historical 15% in the previous years. This phenomenon partly explains why Iran's exports have not dropped below 1 million bpd, although it is important to state that the level of oil crude exports was only 900,000 in November and December 2018.

Another important aspect of Iran's oil industry is that the share of exports in Iran's total oil production is regaining the levels it had prior to the full imposition of sanctions on the 5th November 2018. In fact, in August 2018 exports amounted to 57% of total production, while this level dropped to 38% in November. In January, this level regained 53% of total production. This means that Iran can get more revenue out of its oil production since selling oil on the international market is financially more attractive than consuming it domestically.

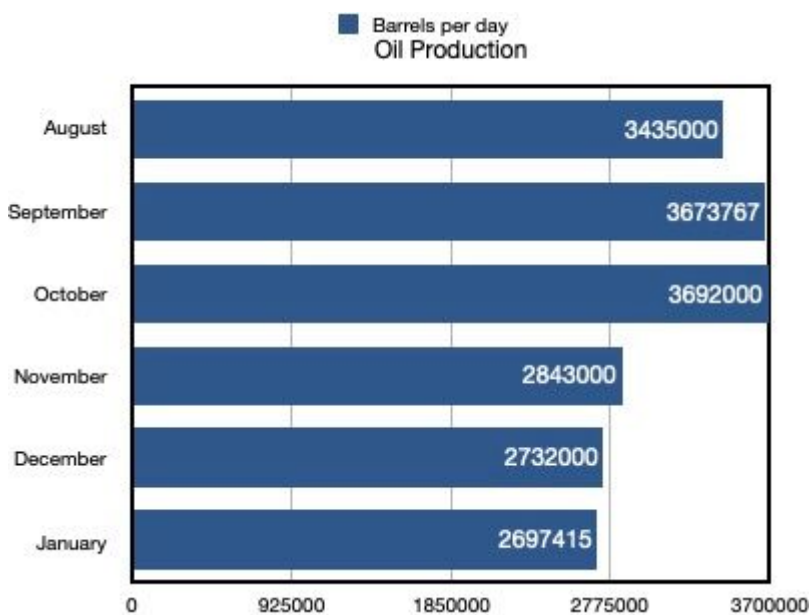
However, an even more important aspect often forgotten by analysts is Iran's level of oil consumption. According to Iranian economic papers, Iranians consume as much as 3.68 million bpd. In fact Iran's energy consumption is higher than many advanced economies. For instance, the energy use in Iran in 2014 was 3kg of oil equivalent per capita while that of the United Kingdom in 2015 was only 2.7kg according to the World Bank. This means that Iran definitely needs to import oil as it does not produce enough to satisfy domestic demand and because it prefers exporting the majority of its production abroad to increase revenues.

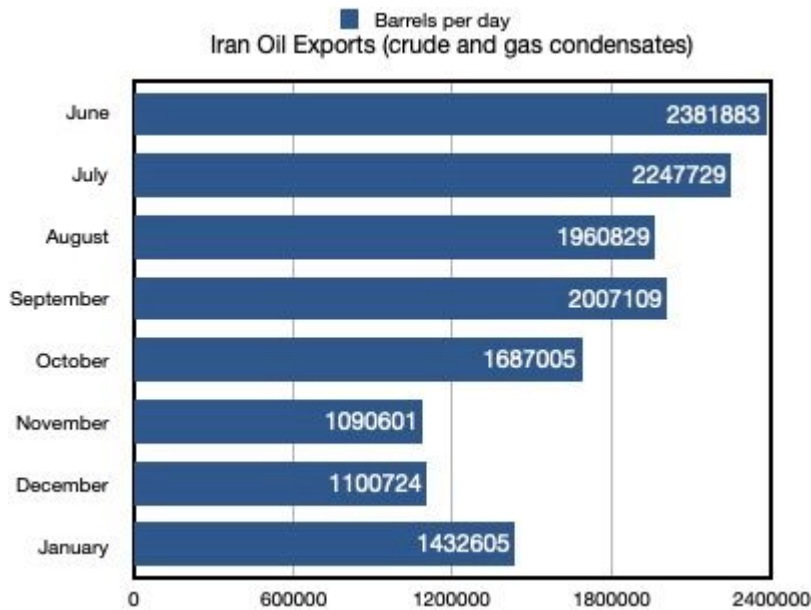
While Iran's total oil production covered 95% of domestic demand in the middle of last year, Iran now only produces 73% of what the country needs. If the data from Tankertrackers and Iranian media is correct, the reality is more worrying as it has previously been shown that the country exports the majority of its oil abroad to increase revenues. Therefore, according to our estimates, while Iran theoretically had to import 2.2 million bpd in August 2018, it now required more than 2.4 million bpd, meaning that only 34% of domestic demand is covered by local production. Information about oil imports in Iran and the provenance of such imports is scarce, but it is highly probable that Central Asian countries and Russia provide Iran with most of the oil it needs in addition to the oil Iran has already stored and uses for its domestic market. It is impossible as of now to estimate what percentage of Iranian oil demand each foreign country provides or the level of Iranian oil storage used

on a monthly basis to satisfy local demand.

However, Iranian oil consumption data from British Petroleum shows a lower daily consumption, with Iranians consuming 1.8 million bpd in 2017. This would mean that Iran's domestic production would suffice for local consumption if the country did not export oil. Accounting for exports, our estimates based on BP data shows that Iran should now be importing around 550,000 bpd to satisfy local demand.

The other question lies in how much of Iran's oil demand is for refined petroleum products. It is well known that Iran's refining industry is not self-sufficient and that the country is forced to import refined oil from other countries. The same goes for gas. Until a litigation arose with Turkmenistan a few years ago, Iran imported gas from its northern neighbour to satisfy the bulk of its population's needs, who live closer to Turkmen gas fields than Iranian ones. This also allowed Iran to import cheap gas and export its local production to different international markets where gas is more expensive.





Disclaimer: The estimates in this article rely on data that remains approximative due to the difficulty of accessing accurate information on Iran's oil production, consumption as well as exports and imports.

Sources:

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