**PAUL HODGES** LONDON

# Iran talks offer hope

The entire global petrochemical outlook stands to change with Iran's nuclear deal with European chemicals standing to benefit the most. Crude oil prices could fall even further

The deal struck between Iran and six countries, including the US, on freezing the former's nuclear programme, could have broad implications for the global oil and petrochemical markets.

Iran has been at the centre of all the major oil market price spikes in the past few decades. Today's record prices on an annual basis are partly due to market fears over supply disruptions due to the Iran/Israel nuclear issue.

Fears over a nuclear showdown also led prices to jump to $150/bbl in July 2008, when the ICIS Chemicals & the Economy Blog then correctly forecasted that "if diplomacy works, they could easily fall $50/bbl, to $100/bbl".

The ousting of the Shah in 1979 and the Iran hostage issue led to the Second Oil Crisis, when prices jumped from $14/bbl in 1978 to $30/bbl (equal to $100/bbl in 2013 dollars). Iran was also part of the OPEC oil embargo following the Yom Kippur War in 1973 that took prices from $3/bbl to $12/bbl ($50/bbl in 2013 dollars).

Now a new era may be close as Iran seeks to return to world markets. Lifting petrochemical sanctions will permit $1bn in exports for Iran, according to US officials close to the talks. Iran may not feel an immediate impact because it's been able to ship materials such as polyethylene (PE) to China in violation of sanctions.

Any future increase in Iranian supplies of oil and gas would trickle down to Europe's chemical industry, creating a potential game changer for energy-intensive industries, including those making polyvinyl chloride (PVC).

You'd have a traditional major producer coming back into the market and desperate to sell. This suddenly has the potential to change the entire outlook as Iran wants to sell and also needs to sell.

Every single chemical plant in Europe would benefit. That would be a bonus for companies from German plastics maker Bayer and synthetic rubber supplier LANXESS to Arkema of France and Solvay of Belgium.

Iran has clear potential to be a major player once more in oil markets. It produced 6m bbl/day of oil in the 1970s and was 10% of world oil output and 21% of OPEC's production.

Last year it produced just 3.7m bbl/day, and was just 4% of world output and 10% of OPEC's.

Iran's oil exports have fallen 60% to just 1m bbl/day, compared to 2.5m bbl/day before sanctions. So it has a lot of oil that could potentially come to market over time.

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Oil prices have been boosted since 2009 by fear over potential supply shortages and speculation funded by the central banks. Now, both influences may be about to disappear, if the Iran dialogue continues to develop and the US Federal Reserve starts to taper its spending.

This would be very good news for chemical companies, as it would likely move oil prices back down towards their historical parity with US natural gas prices. It would also be very good news for Iran's long-suffering population.

Of course the price slide will be painful for chemical companies from a working capital perspective. But history shows that chemical companies make the greatest profits on a sustainable basis when oil prices are low and consumers have cash in their pocket to spend. ■

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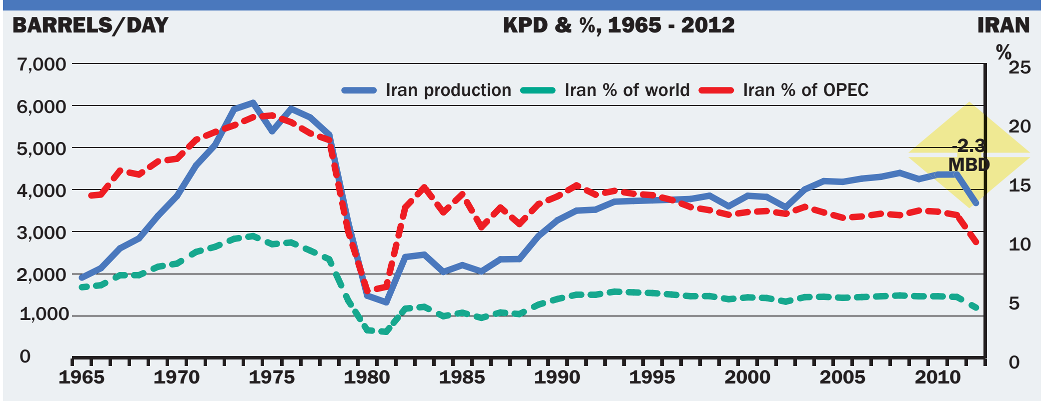
**IRAN OIL PRODUCTION**




SOURCE: International eChem, BP data

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