

WASHINGTON | MAY 02, 2014

Iran-CNPC breakup: Tehran eyes the West

SIGNIFICANCE

Iran, citing major project delays, said it has terminated a \$2.5 billion contract with China National Petroleum Corporation to develop a giant oil field Iran shares with Iraq. Members of the business community say sanctions played a key role in CNPC's delayed implementation of the project, which it signed on to in 2009. However, with nuclear negotiations progressing, Iranian oil officials are starting to hope old business partners, such as French energy giant Total and Japan's Inpex Corp., will return.

IMPACTS

Business

CNPC's departure from the South Azadegan oil field project presents a new opportunity for other foreign investors if sanctions are relaxed.

Political

The oil minister's decision fortifies the Rouhani government's public image as firmly committed to reviving Iran's struggling energy sector.

Social

Iran's oil sector is eager for the possible return of former business partners in the case of a successful nuclear deal.

FULL BRIEFING

Tehran announced this week that it is terminating a \$2.5 billion contract with China National Petroleum Corp. (CNPC) to develop the South Azadegan oil field Iran shares with Iraq.

The National Iranian Oil Company (NIOC) formally canceled the deal as of April 29 because, it said, the Chinese oil giant has conducted "no effective work" since signing on to the project in 2009 and thus failed to meet its contractual obligations, according to domestic media reports. Also, on April 30, Iranian oil minister Bijan Namdar Zanganeh told local media that Chinese energy firm Sinopec, which is developing the Yadavaran oil field, which also extends into Iraq, has experienced "problems with regards to progress" as well.

Iranian oil executives cite the threat of US Treasury sanctions as a primary reason behind CNPC's delays. Chinese energy firms are among the few foreign companies still willing to invest in Iran's energy sector, and Chinese refineries are currently the top purchasers of Iranian crude. Nevertheless, the threat of sanctions by the US Office of Foreign Assets Control (OFAC) hitting against Beijing's business interests with the US has largely kept Chinese firms from completing significant work in big projects such as South Azadegan.

Now, as Tehran's nuclear negotiations with the so-called P5+1 - China, Russia, France, Britain, Germany, and the US - continue to progress, Iranian oil officials are looking forward to the potential return of former business partners, such as French energy giant Total, Royal Dutch Shell, and Japan's state-backed Inpex Corp., which withdrew from the Azadegan oil field project in 2010.

"The Chinese didn't want to take a chance and end up on the wrong side of OFAC and American sanctions because they have eyes on American markets. They were trying to keep both sides happy by keeping the contract, but doing very little work," a Tehran-based business executive tells Monitor Global Outlook. "This [cancellation] sends a message to everybody that if you are not willing to do the work, then don't come here."

NIOC chief Rokneddin Javadi was cited in local media as saying that CNPC initially promised to move forward with the project after receiving several verbal and written warnings. After more delays, CNPC was reportedly given a 90-day ultimatum in January to proceed with the development plan. The company failed to do so even after NIOC extended the original deadline by one more month. Mr. Javadi told the oil ministry's Shana news agency that while Iran is not looking to "weaken or expel" contractors, it does expect them to stick to the timelines stipulated in project contracts, especially for shared oil fields.