

Importance of U.S. in Global Energy Situation under the Next Administration (4)

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In the fourth report on energy and environment policies of the next U.S. administration, I would like to discuss policies on the Middle East, including Iran, and their impacts on international energy markets.

Many of the Trump administration's major policies have flatly rejected what are viewed as legacies of the Obama administration, emphasizing its anti-Obama attitude. President Donald Trump has harshly criticized the Paris agreement on climate change, the healthcare system nicknamed Obamacare, and the Trans-Pacific Partnership free trade agreement, taking actions to withdraw from or repeal them since his inauguration. Another anti-Obama policy of the Trump administration that has exerted grave influence on the Middle East situation and the international energy situation is its unilateral exit from the Iran nuclear deal.

As the international community's concern grew about Iran's nuclear development, the Obama administration eased anti-Iran sanctions in exchange for Tehran accepting the reduction of enriched uranium stocks and centrifuges and other restrictions on nuclear development, paving the way for Iran to end its isolation under sanctions and come back to the international community. It developed a U.S.-Iran deal into Iran's agreement with the five permanent United Nations Security Council members and Germany (P5+1), achieving the Iran nuclear deal called "the Joint Comprehensive Plan of Action" in July 2015. Under the nuclear deal, anti-Iran sanctions were phased out, allowing Iran to resume and expand crude oil exports that hold the key to its economy. The major Middle Eastern power's comeback to the international community led to growing interests in business with Iran.

Even since before his inauguration, however, Trump has criticized the Iran nuclear deal as a bad deal that includes a sunset clause to lift restrictions on nuclear development on the expiration of the deal and lacks any restriction on ballistic missile development and others. In line with his campaign promise, President Trump unilaterally withdrew the United States from the Iran nuclear deal and revived and enhanced sanctions on Iran. The Trump administration developed its crackdown on Iran into what is called "the strongest sanctions in history" or "maximum pressure." Consequently, Iran's crude oil exports plunged, making it difficult for other countries to do business with Iran in fear of U.S. sanctions.

The Trump administration not only toughened sanctions on Iran but also continued to enhance its anti-Iran attitude in the wake of attacks on tankers near the Hormuz Strait and on key Saudi Arabian oil facilities. In early January 2020, U.S. forces killed Iranian Revolutionary Guard Commander Qassem Soleimani known as Iran's hero, leading Iran to conduct a retaliatory attack. U.S.-Iran tensions rapidly grew, causing concern about a full-fledged bilateral military clash. These

developments were appreciated as destabilizing the international oil situation, triggering a temporary spike in crude oil prices in early 2020. U.S.-Iran relations have remained a key factor behind crude oil price fluctuations.

Since during the presidential election campaigns, President-elect Joe Biden has criticized President Trump's unilateral withdrawal from the Iran nuclear deal and emphasized his readiness to come back to the deal achieved under the Obama administration that included him as vice president. The incoming Biden administration is expected to dramatically change U.S. policy on Iran. The Iranian side, plagued with "the strongest sanctions in history," might have suffered through the hardship over the past four years waiting for a U.S. administration transition. In response to the U.S. presidential election results, in fact, Iran's First Vice President Eshaq Jahangiri tweeted that the era of President Trump and his adventurist and hawkish team ended at last. The incoming U.S. administration may promote dialogue with Tehran, attracting global attention.

But the problem is not so simple. At a time when the United States has unilaterally exited from the Iran nuclear deal and raised its anti-Iran sanctions to the strongest level in history, Iran may hope that the United States would lift the sanctions resumed and enhanced since the exit from the nuclear deal and restore the status before the exit in order to lead Tehran to come back to talks with Washington. The Iranian side for its part has gradually suspended its obligations under the nuclear deal, while enduring the strongest U.S. sanctions in history. Iran has increased enriched uranium stocks and centrifuges, making the deal effectively non-functional. Even if bilateral talks are resumed, the incoming U.S. administration may not make unconditional concessions but ask Tehran to implement nuclear deal obligations. Based on developments under the Trump administration, the United States, Iran, and the P5+1 group may conduct negotiations with their respective purposes in mind. Iran will hold a presidential election in June, which will exert influence on U.S.-Iran relations and talks on the nuclear deal. The future path of U.S.-Iran relations would never be flat or easy. It is greatly uncertain.

Even if so, however, the transition to the next administration from the Trump administration that has implemented the strongest sanctions in history would undoubtedly reverse the direction. If talks start, bilateral tensions may go in the direction of easing, whether their talks are easy or not. At the same time, the international oil market may become conscious of Iran's resumption of crude oil exports. If things go well, Iran's possible oil export resumption may become an influential factor for the 2021 international oil market in the second half of the year at the earliest. If the world economy is on a recovery path after the COVID-19 pandemic in 2021, the influence of Iran's possible oil export resumption may be absorbed. If oil demand remains stagnant, however, the possible Iranian oil exports may be taken as increasing oil supply pressure, working to weaken oil prices. The OPEC-plus group, consisting of the Organization of the Petroleum Exporting Countries and non-OPEC oil producing countries, may have to readjust its current record production cuts that exclude Iran.

While the next U.S. administration's Iran policy and future U.S.-Iran relations attract attention, how they would influence the entire Middle Eastern situation is becoming a great matter of interest among analysts. The anti-Iran containment strategy under the Trump administration might have been welcomed by Israel and Saudi Arabia, U.S. allies in the Middle East, which regard Iran as the greatest threat or rival to them. If the next U.S. administration launches talks with Iran over the nuclear deal, the Middle Eastern power balance may greatly change. Such change may be a grave

matter of concern to Israel and Saudi Arabia. Middle Eastern oil producing countries including Saudi Arabia may have to reconsider their oil policies or strategies with Iran's possible oil export resumption in mind. From the second half of 2021, a new variable factor may emerge for the oil market stabilization, becoming a challenge for OPEC leader Saudi Arabia. As major countries declare carbon neutral status targets amid stagnant oil demand under the COVID-19 pandemic, the international oil market is plagued with increasing challenges and growing uncertainties. What policies the next U.S. administration would take on Iran and for the stabilization of the Middle East and what impacts they would exert on the world may become a great matter of interest from 2021.

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