

# **Iranian Role in Crude Oil Security For Asia**

**BY**

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## **In the Name of God the Compassionate the Merciful**

It is an honour for me to be invited to this meeting with such a distinguished speakers and great audience. Let me express my gratitude to the organizers of this Forum for giving me the chance to share my opinions with you on Asia's oil supply and demand and energy security with emphasis particularly on Iranian role.

### **Introduction**

Whenever the dynamics of a phenomenon is disturbed, instability occurs and due to long-term uncertainty changes in fundamental principles appear and a crisis follows consequently.

Instability and uncertainty have been prevailed in the oil market for several months, but yet no one likes to call the present situation as a new oil crisis because producers and consumers hope the market will resume to its normal behavior soon.

Vast continent of Asia with more than 60%, of the world population as well as more than 70%, of oil and gas reserves and more than 35% of coal resources, consumes 32% of oil, 25% of gas and 52% of coal on world consumption basis. Where as the United States with less than 5% of world population, consumes 25%, 24% and 22% of world oil, gas and coal respectively.

Iran by holding 11.4% and 15.2% of world oil and gas reserves ranks the second between countries that have these hydrocarbones. Being second of OPEC for oil production and export, Iran has played a major role in Asian oil market.

### **Asian Oil Consumption Trend**

#### **a. Rapid Urbanisation**

One of the main reasons for oil consumption increase in Asia is rapid urbanisation in this continent. Forecasts of international institutes declares that 2.5 billion or half of Asians will live in cities by 2015. The important point is that nearly 900 million Asians will live in cities with more than one million people - more than rest of the world - by that time.

#### **b. Rapid Economic Growth**

Rapid economic growth in many Asian countries and especially the South East Asia have started three decades ago and it is foreseen to continue in the future.

Table 1: GDP in Selected Asian Countries

(Per Centage)

| Country \ Period | 1970-1979 | 1980-2001 | 2002 | 2003 |
|------------------|-----------|-----------|------|------|
| China            | 7.5       | 9.61      | 8.0  | 9.1  |
| Hong Kong        | 9.2       | 5.33      | 1.9  | 3.2  |
| India            | 11.3*     | 5.62      | 4.0  | 8.1  |
| Inodonesia       | 7.8       | 4.7       | 3.7  | 4.1  |
| Japan            | 6.67      | 2.61      | -0.4 | 2.7  |
| Malaysia         | 8         | 6.26      | 4.1  | 5.2  |
| Pakistan         | 18.2*     | 4.99      | 3.2  | 5.1  |
| Philippines      | 6.1       | 2.39      | 4.4  | 4.5  |
| Singapore        | 9.4       | 7.04      | 2.2  | 1.1  |
| South Korea      | 9.3       | 7.25      | 7.0  | 3.1  |
| Taiwan           | 10.2      | 6.74      | 3.6  | 3.2  |
| Thailand         | 7.3       | 6.04      | 5.4  | 6.7  |

\* 1972-79

Even the most conservative prediction for Asian countries economic growth indicates that the main Asian oil consuming countries' economic growth between 2005 - 2020 will be more than the world forecasted one (3.2% -3.5%).

Table2: GPD Average Growth Rate 2005-2020

| Region          | Per Centage |
|-----------------|-------------|
| China           | 5.6         |
| South East Asia | 3.9         |
| West Asia       | 5.1         |

Since oil consumption percentage out of fossil energy consumption basket in Asian OECD and developing countries will not be less than 40% and 50% respectively, oil demand growth in those countries until 2020 will be much more than world oil demand growth.

Table 3: Crude Oil Demand Forecast

(In million barrels)

| Region \ Year   | 2005 | 2010 | 2015 | 2020  | Demand Growth 2000-2020 |
|-----------------|------|------|------|-------|-------------------------|
| China           | 5.7  | 7.3  | 9.3  | 11.4  | 4.5                     |
| South Asia      | 3.2  | 4.2  | 5.6  | 7.3   | 5.3                     |
| South East Asia | 3.3  | 3.9  | 4.5  | 5.3   | 2.9                     |
| World Total     | 81   | 89.3 | 97.9 | 107.3 | 1.75                    |

Therefore urbanisation which itself can be partly due to economic growth in one hand and economic growth which has to prepare the required infrastructure and makes the quick changes

in production structure, cargo and passenger transportation and housing for households with different incomes, in the other hand will contribute to higher energy consumption and mainly increasing crude oil demand.

## **Iranian Role in Supplying Crude Oil to Asia**

Iran has been one the major crude oil suppliers to Asian countries traditionally. In 1960's and 1970's Iranian crude oil supply helped the advancement of Japanese industries, which lead Japan to Economic Development.

In 1970's and then despite tremendous difficulties during the imposed war by Saddam in 1980's, Iran provided good amount of needed crude oil of South Korea for her industrial development.

What was done for Japan and South Korea previously, has been done for China since early 1990's, the only difference between securing a part of crude oil demand of Japan and South Korea and or China was the oil price as it is shown in Tabal 4:

Table 4: Oil Price, Yen Parity, GDP Growth

| Year    | Dubai<br>\$/bb * | \$ 1 = ¥ | GDP % |                |       |
|---------|------------------|----------|-------|----------------|-------|
|         |                  |          | Japan | South<br>Korea | China |
| 1956-60 | 1.81             | 360      | 8.84  |                |       |
| 1961-70 | 1.49             | 360      | 10.17 |                |       |
| 1971    | 1.75             |          |       |                |       |
| 1972    | 1.90             | 303.17   |       |                |       |
| 1973    | 2.83             | 271.70   |       |                |       |
| 1974    | 10.41            | 292.08   |       |                |       |
| 1975    | 10.70            | 296.79   |       | (avg)          | (avg) |
| 1976    | 11.63            | 296.55   | (avg) | 9.3            | 7.5   |
| 1977    | 12.38            | 268.51   | 3.5   |                |       |
| 1978    | 13.03            | 210.44   |       |                |       |
| 1979    | 29.75            | 219.14   |       |                |       |
| 1980    | 35.69            | 226.74   |       |                |       |
| 1981    | 34.32            | 220.54   |       |                |       |
| 1982    | 31.80            | 249.08   |       |                |       |
| 1983    | 28.78            | 237.51   |       |                |       |
| 1984    | 28.06            | 237.52   |       | (avg)          | (avg) |
| 1985    | 27.53            | 238.54   | (avg) | 8.9            | 10.3  |
| 1986    | 13.10            | 168.52   | 4.1   |                |       |
| 1987    | 16.95            | 144.64   |       |                |       |
| 1988    | 13.22            | 128.15   |       |                |       |
| 1989    | 15.64            | 137.96   |       |                |       |
| 1990    | 20.38            | 144.79   |       |                |       |
| 1991    | 26.63            | 134.71   | 5.2   |                |       |
| 1992    | 17.16            | 126.65   | 3.4   |                |       |
| 1993    | 14.95            | 111.20   | 1.0   |                |       |
| 1994    | 14.74            | 102.21   | 0.2   |                |       |
| 1995    | 16.10            | 94.06    | 1.1   |                |       |
| 1996    | 18.52            | 108.78   | 1.9   | (avg)          | (avg) |
| 1997    | 18.23            | 120.99   | 3.4   | 5.6            | 9.7   |
| 1998    | 12.21            | 130.91   | 1.3   |                |       |
| 1999    | 17.25            | 113.91   | 1.9   |                |       |
| 2000    | 26.20            | 107.77   | -1.1  |                |       |
| 2001    | 22.81            | 121.53   | 0.1   |                |       |
| 2002    | 23.74            | 125.39   | 2.8   | 7.0            | 8.0   |
|         |                  |          | 0.4   |                |       |
| 2003    | 26.78            | 115.93   | -0.4  | 3.1            | 9.1   |
|         |                  |          | 2.7   |                |       |

\* 1956-1985 Arabian Light, 1986-2003 Dubai dated

Post Second World War Japanese Industrial reconstruction and economic development were supported by very low crude oil prices until the first oil shock. But because of oil market structural changes, the same could not happen to South Korea and China. Except for short intervals in 1980's and 1990's that the oil price declined, it should be admitted that Chinese enjoyed less of low oil price than Japan and South Korea. Records show that this was not done just for the said three countries but Iran provided the same opportunity for Taiwan, India, Philippines, Indonesia and Thailand.

Although Iranian oil export to Asia have been fluctuating during past two decades but Iran has doubled her oil export to Japan at the end of last Iranian fiscal year compare to 15 years ago. Iranian crude oil export to the rest of Asia has increased 2.5 times in the same period. In another words since three years ago a little more than 60% of Iranian oil export is destined to Asia where as this share was 40% a decade ago (Tabal 5):

Table 5: Asia Share of Iranian Crude Oil Export (Per Centage)

| Iranian Fiscal Year Ended<br>March 20 | Japan | Rest of Asia &<br>Far East |
|---------------------------------------|-------|----------------------------|
| 1988                                  | 12.12 | 12.75                      |
| 1989                                  | 12.61 | 13.75                      |
| 1990                                  | 15.91 | 14.83                      |
| 1991                                  | 20.20 | 15.88                      |
| 1992                                  | 14.79 | 19.89                      |
| 1993                                  | 14.89 | 15.68                      |
| 1994                                  | 16.28 | 21.54                      |
| 1995                                  | 17.95 | 20.79                      |
| 1996                                  | 16.08 | 18.65                      |
| 1997                                  | 17.92 | 27.15                      |
| 1998                                  | 17.41 | 28.66                      |
| 1999                                  | 20.49 | 23.76                      |
| 2000                                  | 23.81 | 29.73                      |
| 2001                                  | 21.77 | 35.79                      |
| 2002                                  | 23.67 | 37.73                      |
| 2003                                  | 25.90 | 35.09                      |
| 2004                                  | 25.51 | 34.74                      |

Today's prediction shows that Asian crude oil import share From the Middle East which was 72% and 74% for 2001 and 2004 increases to 78% in 2010. This share increase plus the actual demand hike for Asia (Table 3) proves that Iranian long term planning for petroleum cooperation with major Asian consuming countries such as Japan, China, India, Indonesia and

South Korea in order to secure their future crude oil (as well as gas) demand was a wise and accurate decision.

## Iranian Oil Export Policy and Cooperation with Asia

### **a. Pricing**

It is close to 15 years that Iran based on market information, possible forecasts of changes in price factors and after negotiation with the biggest Iranian oil importer refiner in Japan, announces her Asian Standard Crude Oil Price Formula for each quarter. If price factors and similar crude oil prices change drastically within a quarter then the Asian Standard Price Formula will change accordingly.

Base price for Asian Standard Price Formula – like other competitive crudes – is monthly average of Oman plus Dubai. But since Oman and Dubai price quotations do not represent their real quality value, Asian refiners in general are complaining about the Asian crude oil price premium of Persian Gulf crudes against price of the same crudes to the West of Suez.

Many of the Asian refiners like to change the present price markers to crudes with enough production and less manipulation and true quality appraisal.

Explaining Iranian oil export policy to Asian refiners, Iran has assured them of her readiness to replace the present two price markers to any new marker or basket of markers, provided that a common understanding will be generated between major Persian Gulf crude oil exporters to Asia, considering the fact that a part of Asian premium is due to Asian market structure rather than the marker itself.

Iran started her efforts to choose proper markers some years ago, but by making adjustments in price assessments through some price assessment wires, many refiners preferred to stick to the previous markers. Unrealistic increases in the markers during the past year ended the Asian premium to \$ 4 a barrel in some days, which encouraged many Asian refiners to import crudes from the Mediterranean, Baltic and Latin America to replace Persian Gulf crudes. Although in this month (September 2004) these markers acted reversly and Asian Premium changed to Asian Discount as much as \$4 a barrel in late September, but the Asian premium is a challenge that the Middle East oil producers and Asian refiners will face in future.

Iranian oil export policy has been always avoiding any tension in the market. Hence, unless a common approach for using new markers is agreed by major Persian Gulf oil exports to Asia, Iran will use the same markers, but a new thought is necessary in this important issue.



Iranian oil export policy in last several years has been based on supplying oil to refiners and reliable oil trading houses in form of term – evergreen or yearly – contracts and just a small portion of that was sold as spot. To follow the same policy, by increasing the potential production and OPEC quota, Iran intends to add to her term contracts.

### **b. Cooperation in Oil Industry**

To stock a part of oil available to export to East of Suez in different tank farms in Asia as well as crude oil and product carriers building in those Asian countries that they can provide the best technology and acceptable financial facilities are between many plans that Iran has for the cooperation with Asia.

Although being involved in Asian refining system had never been forgotten – Iran participated in South Korean and Indian refining industry in 1960's – but due to nonattractive refining margins in recent years in Asia, apart from a thorough economic feasibility study, it requires a reliable international partner.

Construction and expansion of crude oil pipeline from South of Caspian Sea to Tehran in order to evaluate Caspian littoral states' crude oil to northern Iranian refineries and swap it with Iranian crude oil at Persian Gulf for Asian destination, not only gives a chance to Asian investors in oil fields of the Caspian to choose the cheapest and fastest route to export their shares of crude oil, but provides more crude to Asia eventually.

The upstream cooperation in oil industry is the most important part of the Iranian present and future joint work with Asia. Presence of Malaysia in mid 1990's in one the gas fields (South Pars Phases 2&3 Gas Field) followed by Japanese interest for Azadegan oil field in 2000. Signing Azadegan upstream oil contract some months ago leveled up the two countries relations.

Recent exploration contracts signed between Iran, China and India with the possibility of extending both for production and development will materialize the cooperation intended with major Asian oil consuming countries.

## **Conclusion**

Holding 70% of world oil reserves, Asia consumes just 32% of world demand. The increasing oil consumption trend in Asia till 15 years from now – which mainly is due to rapid

urbanisation and fast economic growth – not only compensates for less consumption growth in the industrial world but by 4 – 5.5% will be above the world average oil consumption growth of 3.2 – 3.5%.

Iran with her world second rank between liquid hydrocarbone reserve holders as contributed to industrial development of Japan (1960's–1970's), South Korea (1970's –1980's) and China (1990's – now), with her high crude oil production potentials will continue to provide a part of crude oil demand of other Asian developing countries in the future.

Iran's past three years of 60% of her of export to Asia compare to 40% a decade ago, proves her commitment to Asia.

Oil export policy of Iran has been based on fair treatment of customers and since many Asian customers are not happy with present crude price markers of the Middle East, Iran is ready to study the present markers with new marker(s), provided major Persian Gulf exporters to Asia and main Asian oil consuming countries find a common understanding for this replacement.

Diversity of Iranian cooperation with Asian countries in upstream, midstream and downstream of oil industry manifests the willingness of Iran to secure a part of energy that Asia needs in future.

**Thank you for your kind attention.**

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