

Someday We'll Find It

From my Frankfurt meetings with Iranian officials in March through subsequent follow ups, one element has stood out.

Tehran is pushing both liquefied natural gas (LNG) production/export and the natural gas extraction upon which the LNG will be based as a primary vehicle to jump start a languishing economy. The problem for Iran has been the continuing lack of access to outside finance.

However, over the past several months, discussion of Iranian options has been more muted among Western financial sources. This is a direct result of the administration in Washington first claiming Iran had violated the nuclear accord (the Joint Comprehensive Plan of Action, or JCPOA, signed in July of 2015) and then pushing for additional sanctions anyway.

There had been some Western (primarily European-based) interest expressed to consider involvement, beyond majors like French Total (TOT) moving on an initial phase LNG production project review. And while those initiatives plod along, project-only finance is hardly the sole, or even the preferable, sourcing of interest to Iran.

Tehran needs access to outside finance with its own connections to the broader hard currency banking network. My Iranian contacts have frequently expressed frustration in being unable to obtain finance or an ability to fund forward export contracts (either for future LNG or pipelined gas) except through the package provided by a foreign partner and limited to a production venture.

For that, Iran requires an expanding circle of outside investment partners and access to a network of hard currency banks, rather than only oil/natural gas companies focusing only on projects. Unless it can do so, it effectively loses control over the revenue potential arising from control over future contracts and derivatives on the volume. Put succinctly, Tehran currently loses on anything beyond the first "arm's-length" sale of the LNG or gas.

Meanwhile in Doha, foreign deposits in Qatari banks continue to decline, down over 9% since the introduction of sanctions by the Saudi-led more than two months ago. For Doha – the world's leading exporter of LNG – that has become a rising concern.

Qatar has been moving quickly as an alternative financial hub, one of the elements that has catapulted

the country into the number one per capita wealth location in the world. But it has also unleashed expectations.

The government now expects the banks to tap international sources of investment for LNG, rather than depending upon central finance. Sources indicate the move has been prompted by an official concern over levels of liquidity within the domestic economy.

Why Are There So Many Songs About Jihad?

The Saudi-Qatari rift has been ongoing for some time. Twice previously Riyadh has prevailed upon other Gulf Coordination Council (GCC) members to join in severing diplomatic ties. This time around, in addition to Bahrain and the United Arab Emirates, Egypt also joined in the boycott.

From a cross-border political perspective, any heightening of the impasse could increase the threat level precipitously, further destabilize the region, and increase uncertainty in global energy markets.

Quite apart from the financing angle, Iran has gained some additional leverage in its improving connections with Qatar in the ongoing battle Tehran has with Riyadh over dominance in the Persian Gulf.

And this remains at its foundation a Sunni-Shiite feud, one that has until recently been waged in places like Bahrain. There, a Sunni minority ruling family faces an increasingly agitated Shiite majority.

Iran has had much to do with fanning that agitation as a way of outflanking Riyadh. Bahrain is an island in the Gulf. It is connected via a causeway to the main oil production region in eastern Saudi Arabia. That region is the only Shiite majority region in the country.

When the Ayatollah Khomeini declared a religiously-inspired Iranian revolution in 1979, the eastern province of Saudi Arabia – located just across the Gulf from Iran – also erupted. Riyadh was forced to put down its own citizens by force of arms.

Tehran will continue to play the political card in Doha. But in addition to having greater flexibility in funding its energy projects, Tehran also needs access to outside banking for another reason.

Iran continues to fund Hamas and Hezbollah. There is also anecdotal evidence that it has become involved at least some aspects of the penumbral area surrounding funding for the Taliban in Afghanistan

and what is left of Al-Qaeda elsewhere.

These latter two considerations are less certain. Iran continues to harbor significant concerns over the Taliban on its eastern border, while the connections with ISIS (against whom Iran has a direct confrontation in both Syria and Iraq) limit how far Iran is likely to move in supporting Al-Qaeda remnants.

Still, the broader politics of the region and the continuing battle with the US make some steps there likely.

The Persians, Qataris & Me

Of course, this is what Riyadh has been charging. Qatar has been supporting terrorism. To the extent that Doha banks have been used to facilitate money transfers to such groups, the Saudis have a point.

There is no question that Saudi Arabia is intent on destabilizing the al-Thani ruling family in Qatar. There have been several unsuccessful attempts in the past. That the family has no real domestic opposition has undermined such plans.

Still, the attack continues. Yesterday, the Saudi heir apparent (and defense minister) Mohammed bin Salman met an obscure member of the Qatari ruling family. Sheikh Abdullah bin Ali bin Abdullah bin Jassim al-Thani is hardly a household name, even in the region. But he does have connections via marriage and business to Saudi Arabia.

Riyadh has opened the previously blockaded border with Qatar, the nation's only entrance by land. The border closing had created severe problems with importing all manner of staples to Qatar.

Unfortunately, the opening is only to allow Qataris to make the pilgrimage to Mecca. It is not likely to remain once the Haj season has ended.

Meanwhile, the usage of Qatar's banks for Iranian financing continues to accelerate. There have been recently some indications that it might attract greater interest. There has been some EU movement to improve project relations with Iran.

Yesterday, I received confirmation that funds based in Germany will be looking to expand banking in Doha. The target is Iranian LNG.

About the Author



Dr. Kent Moors is an internationally recognized expert in oil and natural gas policy, risk management, emerging market economic development, and market risk assessment.

He serves as an advisor to the highest levels of 27 countries, including the U.S., Russian, Kazakh, Chinese, Iraqi, and Kurdish governments, to the governors of several U.S. states, and to the premiers of two Canadian provinces. He's served as a consultant to private companies, financial institutions and law firms in 29 countries, and has appeared more than 2,300 times as a featured radio-and-television commentator. He appears regularly on ABC, BBC, Bloomberg TV, CBS, CNBC, CNN, NBC, Russian RTV, and the Fox Business Network.

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