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IRAN, SANCTIONS AND INVESTMENT IN ENERGY PROJECTS

The extent of Iran's energy resources and its potential, both as an oil and gas exporter and in terms of its domestic energy market, with a youthful and fast growing population of nearly 80 million people, has created serious new investor interest further to possible changes to the US led sanctions regime which has held back the country's economic development in recent decades.

There remains real hope that sanctions may soon be lifted in the light of negotiations concerning Iran's nuclear power programme. The sense of optimism amongst international investors should be tempered to some extent by US Treasury Department guidance which caveats prospects for any immediate change in the current sanctions regime:

"The parameters announced on April 2, 2015 provide a path for sanctions on Iran to be suspended and eventually terminated in exchange for IAEA verified implementation by Iran of its key nuclear commitments."

However,

"As of today and until a JCPOA is concluded, other than the sanctions relief provided under the JPOA, all U.S. sanctions remain in place and will continue to be vigorously enforced."

Iran has the second largest oil reserves in the world and is the third largest oil exporter, earning some US\$47 Billion annually (i.e. 50% of state revenue) from production totaling 4.2 million barrels per day (640,000 m3). Iran holds some 10.3% of the world's proven oil reserves. Iran also holds the world's largest reserves of natural gas (17.9%) and is the third largest consumer of natural gas produced energy after the USA and Russia.

Despite this abundance in terms natural resources, Iran faces major energy challenges. The country recycles only 28% of its used oil and gas. The figure is over 60% in some countries. In 2008 Iran paid some US\$84 Billion subsidizing domestic use of oil, gas and electricity and Iran is one of the most energy-intensive countries in the world with per capita energy

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consumption 15 times that of Japan, 10 times that of the EU and even 2.5 times the Middle Eastern average.

Perhaps these figures help to explain why the Iranian government announced plans in 2010 to construct 2,000 MW of renewable energy capacity in the 5 year period to end 2015 from a baseline of 8,500 MW of hydroelectric and 130 MW of wind capacity. In 2012 US\$650 Million was allocated for renewable energy projects from the National Development Fund and in 2014 the government extended its renewables target by announcing the ambition to promote 5,000 MW of new solar and wind projects to end 2018.

The solar industry in Iran grew from 53 MW in 2005 to 67 MW in 2011 and is now supported by the state sponsored Renewable Energy Organisation of Iran (SUNA) which is attached to the country's Energy Ministry and has an annual budget of US\$60 Million. Iran's total area is around 1600,000 km² or 1.6×10¹² m²; and 90% of the country has enough sun to generate solar power for at least 300 days per year at an average of 2,200 kilowatt-hour of solar radiation per square metre.

Iran has the potential to generate 20 to 30 GW of wind energy, half the total energy consumption needs of the country. However, as of 2012 only 163 turbines had been installed with a combined capacity of 92470 kWh. Power generated by wind and biomass installations is assisted by a feed-in-tariff of around 13 cents/kWh which is operated by the Energy Ministry. Iran also has the potential to become the ninth largest producer of geothermal energy in the world.

Iran has enormous potential as an energy superpower in the making. In future articles we will provide further updates on developments regarding the lifting of trade sanctions as well as specifically energy related stories.

Introduction to Prospect Law and Prospect Energy

Prospect Law is an energy specialist law firm which is based in London and the Midlands of the UK. It is a sister company of Prospect Energy which is a technical consultancy company. The two firms provide advice on energy development projects and energy related litigation concerning fracking, nuclear and renewable energy schemes for clients in the UK and internationally.

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