
EU'S OIL MARKET BUFFERED AGAINST IRAN CRISIS

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The killing of a senior Iranian general is raising fears of a global price rise.

Anca Gurzu

If the Iran crisis shuts down oil tanker traffic out of the Gulf, the EU oil market is unlikely to face a major supply disruption — although global oil prices could soar.

In case of a conflict and a possible closure of the Strait [of Hormuz], this would have an impact rather on the global market prices rather than a direct energy security impact, an EU official said Monday.

Last week's U.S. assassination of a top Iranian military leader, Qassem Soleimani, prompted Iran to vow revenge — ratcheting up tensions between Washington and Tehran and sending oil prices higher.

While a supply disruption in the region would not leave the EU unscathed, the bloc's dependence on Middle East oil is limited. Oil accounts for almost 35 percent of the EU's energy mix, 87 percent of which was imported. About a fifth of that came from the Middle East, according to European Commission statistics for 2018.

Saudi Arabia and Iraq supplied about 8 percent each, while Iran sent about 3.5 percent — most shipped by tanker through the Strait of Hormuz, a key gateway for oil traffic.

The most obvious impact is on prices, which rose slightly on Monday after a 3 percent jump on Friday.

About 21 percent of global petroleum liquids consumption passes through the strait, but of that about three-quarters went to Asia in 2018, according to the U.S. Energy Information Administration. Only 7 percent goes to Europe.

Most of the EU's oil comes from elsewhere: Russia supplied 27 percent, with other countries in the former Soviet Union, including Azerbaijan and Kazakhstan, bringing that to almost 39 percent. Norway supplied 11 percent.

The EU has an additional buffer, as the bloc's rules mandate that member countries maintain emergency stocks of crude oil or petroleum products accounting for at least 90 days of net imports or 61 days of consumption, whichever is higher.

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The USS Abraham Lincoln aircraft carrier transits the Strait of Hormuz on November 19, 2019 | Stephanie Contreras/U.S. Navy via Getty Images

A protracted conflict would potentially have global repercussions, in particular through its effect on oil prices, credit rating agency Moody's said in a report Monday. For hydrocarbon producers, an increase in oil prices could mitigate some of the credit-negative implications, as long as global demand for oil remains sustained.

Angus Rodger, research director at consultancy Wood Mackenzie, said, Geopolitical tension is particularly high at the moment, with unrest in the Middle East lifting prices, and a sense that there is more drama to come.

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