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What the Iran Nuclear Deal Could Mean for U.S. Oil Companies

ENERGY & RESOURCES

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The latest news cycles have been dominated by talk of a deal between world powers, including the United States (U.S.) and Iran, regarding Iran's nuclear program. To the casual observer, it may not seem like this will have any effect on the day-to-day life of Americans; however, those who are currently connected to the energy industry know better.

Iran is currently sitting on approximately 30 million barrels of oil that it has been unable to export over the past few years due to the sanctions imposed by the European Union (EU) and the U.S. In addition, Iran is estimated to have the fourth-largest proved oil reserves in the world, approximately 158 billion barrels. With the lifting of the sanctions that have previously hampered Iranian exports, the flow on Iranian oil coming on to the market could increase global supply, driving prices down. While this may be good for consumers in the form of lower gas prices, this can have the effect of suffocating cash flows for drillers in shale regions like Pennsylvania, which have already slashed costs and improved efficiency to stay competitive.

A good risk-management strategy can be an integral part of the solution for these companies. There are a variety of tools available, from futures to options to even more exotic instruments and strategies that can help companies lock in a risk profile that is acceptable to them.

U.S. companies that have a vested interest in the market price of oil should follow developments closely while adjusting their risk management strategies accordingly. If history has taught us anything, nothing is guaranteed when it comes to oil prices and politics. There is a lot of uncertainty, as the deal will still need to be approved by Congress, where it will surely meet opposition. Iran will also need to approve it and live up to all of its stipulations, which is far from a certainty. As events unfold either way, swings in the price of oil will happen. If a company is not prepared for that volatility, severe impacts to cash flows and/or operations are possible.

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