Iran's Energy Mix and Europe's Energy Strategy

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The recent Russian-Georgian conflict brought to the forefront several important international issues, not least the thorny problems concerning Russia's energy clout and the European Union's energy vulnerability. It became increasingly clear that Russia has no intention of becoming a passive or marginalised power. Indeed, for the last two years Russia has constantly challenged US and Western domination and, subsequently, their interests. Furthermore, the conflict confirmed Russia's belief that the former Soviet republics are within its sphere of influence, perceiving any intimacy between the former Soviet republics and the West as an infringement on its regional influence and, consequently, an infringement on its national security. We can agree, therefore, that the foreign policy vision of 'new Russia' may have detrimental effects on European and Western energy security.

A 'new Russia' requires a 'new' European energy strategy. A viable alternative to Russian energy can only be achieved if Europe and the West roll back their hostile attitude towards key energy actors, namely Iran. Europe cannot continue to pursue a semi-idealistic foreign policy, turning a blind eye to a country that accounts for the third largest proven oil reserves as well as huge gas reserves. Any disregard for such a large energy hub is simply unrealistic and irrational – regardless of what the policy motivations may be. Ultimately, we need to embrace Iran within any plan to erode Russia's grip on energy supply to the European Union and the West.

The fall in demand and slow global growth has led to a dramatic collapse in oil prices, from $147 per barrel to, currently, below $55 per barrel. However, low oil prices will not last. The International Energy Agency (IEA) says the era of cheap oil is over and prices could soon be back to up to $100 a barrel. Moreover in its World Energy Outlook for 2008 the IEA predicts that prices could soar to as high as $200 a barrel by 2030. The oil industry has been investing less in exploration in recent years and has continued to rely on aged oilfields, aged infrastructure and an aged workforce. This is significant given that "future [oil] supply is far more sensitive to [production] decline rates than to the rate of growth in oil demand"[1]. According to a recent report by the IEA, $360bn a year will need to be invested to increase oil production to the level of demand. Currently, worldwide oilfields are declining at an annual natural rate of 9.1%. The UK's oil production from the North Sea, for instance, will decline from today's 1.7 million barrels a day to a mere 500,000 by 2030[2]. Russia, furthermore, is unable to increase production due to the simple fact that many of the country's oil fields are ageing and declining, while there has been inadequate development of new fields. Clearly, investment is essential if we are to meet our energy needs. It is important that Iran be part of near-future investment programmes and arrangements – both economically and politically.

The current containment policy towards Iran has failed. Iran has an active foreign policy whereby it meddles intensely in the affairs of Iraq. It is influencing events in the Palestinian territories and continues to fund and support Hezbollah in Lebanon. In an effort to export its Islamic revolution, Iran has become a major patron of the Shiites in the Middle East, making Arab Sunni-majority countries anxious of its increasing influence. Therefore, any notion that Iran has been contained is a mere illusion. Iran's territorial geography makes it highly unlikely to be militarily occupied or restrained – particularly at a time when the US is tied up in Iraq. The current Western stance on Iran seems somewhat unrealistic and self destructive: an ideology-driven foreign policy that has consistently proved to be counter-productive. We cannot simply choose to ignore Iran. We must accept that it has the energy resources and the capacity to serve positive and pragmatic interests. Ultimately, engagement will provide greater leverage for the West to influence Iran, while securing greater energy wealth for the international community.

We also have to consider the threats to existing pipeline routes. The Russia-Georgia conflict raised considerable concern over the security of pipelines running across the former Soviet Republic. Indeed, BP was forced to shut down two of its three pipelines running through Georgia during the conflict. Furthermore, there have been concerns over the security of the Baku-Tbilisi-Ceyhan (BTC) pipeline, which pumps one million barrels per day to Europe through Turkey's Mediterranean seaport of Ceyhan[3]. With Kurdistan Workers Party (PKK) guerrillas in active pursuit for any opportunity to sabotage Turkish installations, the maintenance and sustainability of this strategic pipeline is proving more difficult, as highlighted by the attack on the pipeline in Turkey during the summer, with the PKK claiming responsibility[4].

Iran's Largesse

According to Iran's Petroleum Ministry, the country holds the third largest proven oil reserves estimated at 136 billion barrels (some 10% of the world's proven reserves) and the second largest proven gas reserves in the world estimated at 988 trillion cubic feet (Tcf)[5] [6].

One proposal is for the development of an alternative strategic petroleum route from both the Caucasus and Central Asia into the Persian Gulf, via Iran. It would be a wise foreign policy initiative in *realpolitik* terms. Iran has the potential to become an international petroleum port pumping station for its own petroleum resources, as well as that of oil-rich Central Asian Republics and the Caucasus. This will minimize Russian influence and European reliance on Russian energy and pipeline routes, while providing a greater sense of energy security for the industrial world.

In addition, let us not forget that pragmatic politics sometimes serves ideological positions as well. The economic interaction of China with the international community has led to significant developments. The Chinese are starting to see the merits of democracy, human rights and free enterprise. The West is starting to see the merits of a prosperous and engaged China. It is only reasonable to assume that Iran should and could be allowed the same opportunity. Indeed, to become an active member of the international community, Iran would surely develop – over time – a sense of duty to conform to the prevailing policies on terrorism and Islamic fundamentalism. Influence and leverage can only be exerted on Iran with engagement and diplomacy – not war rhetoric. Experience over the years has proven that the more pressure is applied on the Islamic Republic, the more antagonistic and hostile it will become. We cannot continue to polarize Iran from the West. Iran has the potential, history and an educated middle class to help realise such aspirations. Iran can indeed change only if the economic opportunities and the end of draconian and unproductive policies allow it to.

Iran already has a sophisticated pipeline infrastructure to support the development of new, more secure pipeline routes. After all, it is OPEC's second largest producer after Saudi Arabia. In 2006, Iran produced an estimated 4.2 million barrels per day (bbl/d) of total liquids, of which 3.8 million bbl/d was crude oil, equal to 5% of global production[7]. Furthermore, Iran has an expansive domestic oil network, including five pipelines and multiple international pipeline projects under consideration. Recently, an expansion of the 150 mile pipeline from the port of Neka on the Caspian coast to Rey, Tabriz, and Tehran refineries has reached a capacity of 300,000 bbl/d[8]. Iran has invested in its import capacity at the Caspian port to handle increased product shipments from Russia and Azerbaijan, as well as enabling crude swaps with Turkmenistan and Kazakhstan. The oil from the Caspian is consumed domestically in Iran, and an equivalent amount of oil is produced for export through the Persian Gulf.

The Iranian-Central Asian Nexus

Iran clearly has the capacity for a Kazakhstan-Turkmenistan-Iran pipeline. The project is currently being considered and may develop into a viable strategy and solution. The Kazakhstan-Turkmenistan-Iran pipeline would pump 1 million bbl/d from Kazakhstan and Turkmenistan to the Persian Gulf island of Kharg. Let us not forget that Kazakhstan has the Caspian Sea's largest recoverable crude oil reserves, and its production accounts for over half of the estimated 2.8 million bbl/d currently produced in the region[9]. In 2007, Kazakhstan produced approximately 1.45 million bbl/d of oil in 2007 and consumed 250,000 bbl/d, resulting in net petroleum exports of around 1.2 million bbl/d. It also has a proven oil reserve of 30 billion barrels. Turkmenistan has proven oil reserves of roughly 600 million barrels based on estimates by Oil and Gas Journal, although IHS claims probable and possible oil reserves are over 2 billion barrels plus 6 billion barrels of undiscovered reserves[10]. Currently, there is a pipeline between Korbeje in Turkmenistan and Kordkuy in Iran that delivers 8 billion cubic meters of gas to Iran annually. Furthermore, in July

2006, Iran's Minister of Petroleum, Kazem Vaziri Hamaneh, and Turkmenistan's Gas Minister, Qurban Atayov, agreed to increase gas exports to Iran to 14 billion cubic meters per annum. All these regional resources added together will be indispensable to the international oil market[11].

The Kazakhstan-Turkmenistan-Iran pipeline is estimated to cost around $1.2 billion[12]. Kharg Island will be the international filling terminal for the project where tankers from all around the world will be able to refill petroleum cargo. Its geographic location is also ideal for international tankers, as it is located 25 km (16 miles) off the coast of Iran and 483 km (300 miles) northwest of the Strait of Hormuz. Once the world's largest offshore crude oil terminal and the principal sea terminal for Iranian oil, the Kharg Island facilities were put out of commission in the fall of 1986 following heavy bombing during the Iran–Iraq War. In addition to all this, Iran has 40 producing fields, 27 onshore and 13 offshore, with the majority of crude oil reserves located in the south-western Khuzestan region near the Iraqi border[13]. Clearly, the creation of a major oil terminal in close proximity to such abundant resources makes Kharg Island the most logical option as an international filling terminal.

We also have to remember that to the north of Iran is Azerbaijan, which also has considerable oil resources. The State Oil Company of the Azerbaijan Republic (SOCAR) estimates proven oil reserves at 17.5 billion barrels. In 2007, oil production had risen to 860,000 bbl/d[14]. Also to the north of Iran, Armenia has been the subject of considerable energy investments, culminating in the 140km Iran-Armenia Gas Pipeline. Indeed, there are plans to extend the section of the pipeline that lies within Armenia by an additional 197km, reaching the centre of Armenia and linking with existing distribution networks[15].

Iran is undoubtedly supporting the development of new energy routes with its neighbours. Europe should consider this as an opportunity to develop new energy arrangements with Iran. There are positive signs; Iran has supported the Turkmenistan-Iran-Turkey-Europe gas pipeline which, covering a distance of 3,900km, will supply up to 30bn cubic meters of gas by 2010. Given the fact that international sanctions have prevented Iran from drawing the technology and financing necessary to liquefy gas and export it via tankers as liquefied natural gas (LNG), Iran is also considering the development of the Pars pipeline that will pump 37 million cubic meters of gas to Europe annually. This is about 20% more than either the EU-backed Nabucco link or Gazprom's South Stream project[16].

Iran has the energy resources and the capacity to become a viable alternative or addition to existing energy arrangements. If the European Union genuinely wants to reduce its reliance on Russian energy, then it must approach the issue pragmatically, not ideologically. If future energy demands are to be met, we need to increase investment. We cannot rely on aged oil fields. Investment needs to extend to Iran's oil and gas resources, and infrastructure. Applying the same energy arrangements as the Caucasus nations with Iran will ensure constant and more secure supply lines to Europe, while ensuring future energy supplies for the international community. We need to make Iran part of the solution. We cannot afford to continue with an artificially motivated and constructed policy of containment. This misguided policy has only impeded major political and economic reforms in Iran and delayed rapprochement with the West.

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Endnotes

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(2) Financial Times: Special Report: Energy; Nov 3 2008-11-19

(3) http://www.dailymail.co.uk/news/worldnews/article-1043185/The-Pipeline-War-Russian-bear-goes-Wests-jugular.html

(4) http://www.crisisgroup.org/home/index/.cfmaction=cw_search&cw_country=109&cw_date=&1=1&t=1

(5) http://www.eia.doe.gov/cabs/Iran/Oil.html

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(15) http://www.iran-daily.com/1387/3230/pdf/i5.pdf

(16) Upstream.com: 'Iran eyes $4bn gas pipeline to Europe'; Nov 19 2008