

AMERICAN UNIVERSITY OF BEIRUT

POLITICS AND ECONOMICS OF IRAN'S OIL & GAS
POLICIES POST JCPOA

by

NICHOLA LARKINS

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NICHOLA LARKINS

Approved by:



[Signature]

[Dr. Tariq Tell, Assistant Professor of Political Science]
[Political Studies and Public Administration]

First Reader



[Signature]

[Dr. Ali Ahmad, In-Residence Faculty and Director]
[Issam Fares Institute for Public Policy and International Affairs]

Second Reader

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AN ABSTRACT OF THE PROJECT OF

Nichola Larkins for Master of Arts
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This project is concerned with a contemporary analysis of the political and economic implications of Iran's oil and gas policies post implementation of the Joint Comprehensive Plan Of Action (JCPOA). Iran's oil and gas have long been an essential element of the country's economy, in large part due to their significant scale. As a result, Iran's energy industry has been the target of sanctions and international pressure and thus positions itself as an insightful sector to assess, following the Iranian nuclear deal. Research is therefore focused on the state and orientation of Iran's oil and gas sectors. This comprises an overview of the industry, how it has been affected, or not by the JCPOA and to which companies and countries Iran is aiming to align its energy industry. This research provides the framework for the ensuing analysis of how and what these domestic energy policies imply in terms of Iran's foreign policy directions both regionally and internationally.

In conclusion, research suggests that Iran is currently implementing energy policies that may be construed as 'a-political'. As such, Iran's energy policies are considered to prioritize economics with the sole purpose of redeveloping and reenergizing its energy industry. Regionally, Iran is pursuing cooperation and negotiation whilst at the international level it is seeking collaboration with the full range of global actors. Whilst U.S. engagement in oil and gas remains inexistent, research indicates that this is a U.S. policy, rather than an Iranian one. On the contrary, Iran has indicated openness towards commercial U.S. engagement in its energy sector. European engagement remains limited but this is considered to be a result of the continuation of other U.S. sanctions that limit commercial involvement for both European oil and gas companies alongside major European banks. On the other hand, Russian and Chinese commercial engagement in Iran's oil and gas is continuing to grow but with differing geostrategic objectives going forward.

CONTENTS

ABSTRACT.....	v
LIST OF ILLUSTRATIONS.....	vii
LIST OF TABLES.....	viii
Chapter	
I. INTRODUCTION.....	1
A. The Islamic Republic of Iran and the United States of America.....	2
B. Joint Comprehensive Plan Of Action.....	4
II. OVERVIEW: IRAN’S OIL AND GAS SECTOR.....	9
III. JCPOA.....	21
A. Impact on Iran’s Oil and Gas Sector.....	21
B. Global Context.....	25
C. International Financial Markets.....	30
D. International Oil and Gas Markets.....	32
IV. DISCUSSION: IRAN’S OUTLOOK.....	39
A. Russia and China.....	39
B. Regional.....	46
C. United States.....	52
D. European Union.....	55
E. Pipeline Politics.....	58
V. CONCLUSION.....	66
REFERENCES.....	72

ILLUSTRATIONS

Figure		Page
1	Middle East Oil and Gas.....	1
2	Composition of the Iranian GDP (2014).....	9
3	Gross Natural Gas Production in Iran.....	12
4	Iranian Petroleum and Other Liquids Production and Consumption.....	13
5	Iran's Gas Production (bcm/y).....	14
6	Iran's Natural Gas Pipeline Imports and Exports.....	15
7	Iran's Monthly Exports of Crude Oil and Condensate.....	19
8	Iranian Oil Production, million b/d.....	24
9	OPEC Basket Price.....	26
10	China's Crude Oil Imports by Source, 2014.....	43
11	China's Oil Production and Consumption, 1993-2016.....	43
12	Iran-Arab Trade as Reported by Arab Countries (in millions of dollars)...	47
13	European Union, Trade with Iran.....	55
14	Middle East Oil and Gas.....	58
15	Qatar-Turkey Pipeline.....	59
16	Iran Pipeline.....	59

TABLES

Table		Page
1	Natural Gas Production in OPEC Members.....	25
2	IOC's Certified to Bid at Iran's Upcoming Oil and Natural Gas Tender ..	37
3	Iran's Imports from GCC Countries (in millions of dollars).....	48
4	Iran's Exports to GCC Countries (in millions of dollars).....	48
5	Iran, I.R. of: Imports of Goods from its Partners. Millions, US Dollars...	49
6	Iran, I.R. of: Exports of Goods to its Partners. Millions, US Dollars.....	49

CHAPTER I

INTRODUCTION



This paper considers both the political and economic implications of the Islamic Republic of Iran’s oil and natural gas policies following the implementation of the Joint Comprehensive Plan of Action (JCPOA). Given the domestic, regional and international importance of Iran’s hydrocarbons – in large part due to the scale of their resources - this project aims to better ascertain the current state and orientation of Iran’s oil and gas industry following the Iranian nuclear deal. In so doing, the paper fundamentally seeks

¹ Library of Congress. 2007. “Middle East Oil and Gas”. <<https://www.loc.gov/resource/g7421h.ct002142/>>

to ascertain whether Iranian energy policies may provide an insight into Iranian foreign policy, both regionally and internationally. The paper begins with a brief appraisal of modern Iran-U.S. relations, which helps to highlight the importance of having arrived at the JCPOA, which may be considered as a diplomatic compromise that includes two hostile states. Following this, the paper overviews the current state of Iran's energy industry in order to begin a discussion on the tangible impacts of the JCPOA, with regards to Iran's energy sector. This section includes research into the domestic economic and political impacts of easing sanctions, current domestic economic diversification efforts, the viability and implementation of foreign investment and foreign corporate engagement in Iran, to which countries and with which corporations Iran is potentially re-aligning its oil and gas industries, the implications of remaining sanctions and how this is impacted by the structure of the international oil and gas markets. The final section is concerned with an analysis of what this reveals with regards to Iranian foreign policy towards regional countries, China and Russia, the European Union, the United States and the region's pipeline politics theories. Via this research and discussion, the project contributes towards debates concerning whether the consequences of the JCPOA – pertaining to Iranian oil and gas industries - will entice Iran to integrate into the U.S. led international liberal order, or if Iran will utilize the financial opportunities of the deal in order to continue a path of self-reliance and resilience, alongside its alternative regional and international strategic alliances.

A. The Islamic Republic of Iran and the United States of America

With the advent of the 1979 Revolution, Iran rapidly shifted from having been an essential United States (U.S.) ally in the Middle East region, with a critical role in

global U.S. strategic aims, to one at fundamental odds with the U.S.² Past events such as the Iran hostage crisis from 1979 to 1981 and the downing of Iran Air flight 655 in 1988, highlight this change of alignment. With the end of the Cold War, in 1990, a global shift from a bipolar to a unipolar world occurred, with the U.S. acquiring the ability to act as the sole hegemon to "...‘lay down the law’ on behalf of the world capitalist system"³. Given the earlier rupture and deterioration of relations, Iranian access into this new, U.S. heralded, international order was further curtailed, as demonstrated by the Iran-Libya Sanctions Act of 1996⁴. Yet, despite this U.S.-driven economic isolation and castigation, Iran has continued to maintain important economic, political and military roles in the Middle East and beyond. Broadly speaking, this has been enabled by Iran’s ability to function in alternative regional and international orders, which include, but are not limited to, countries such as China, Russia, Syria and Pakistan⁵. In parallel to this, Iran has also pursued certain attempts for a rapprochement

² See Gause, Gregory. 2010. *The International Relations of the Persian Gulf*. Cambridge: Cambridge University Press & Parsi, Trita. 2006. "Israel and the Origins of Iran’s Arab Option: Dissection of a Strategy Misunderstood." *Middle East Journal*. Vol.60, no.3. <www.jstor.org/stable/4330283>

Prior to the Iranian revolution, Iran had been one of the "twin pillars" of America’s foreign policy in the Middle East. When the British withdrew from the region in 1971, the U.S. was unwilling to politically and militarily fill the vacuum. Instead, the U.S. supported Iran and Saudi Arabia (the twin pillars), as pro-US allies to manage regional politics and security. Additionally, these countries were of long-standing import to U.S. oil interests and the containment of the Soviet Union. This strategic, economic and political American-Iranian alliance was severed by the Revolution.

³ See Hinnebusch, Raymond. 2015. *The International Politics of the Middle East*. Manchester; Manchester University Press: 4, Hinnebusch & Ehteshami. 2014. *The Foreign Policies of Middle East States*. Colorado: Lynne Rienner Publishers & Roberson, B.A in Hinnebusch & Ehteshami. 2014

During the Cold War, the Soviet Union and the U.S. were in a power contest. In the Middle East, a global bipolar contest allowed regional actors to exploit the rivalry in order to further their own interests. Following the end of the Cold War, the U.S. became the sole global hegemon. With regards to the Middle East, this meant that the U.S. could intervene in the region, as there was no Soviet Union deterrence. U.S. intervention in retaliation to Saddam Hussein’s invasion of Kuwait is an example of the U.S.’s newly acquired hegemony.

⁴ See Vahkhshouri, Sara. 2012. "Oil Sanctions on Iran; Cracking Under Pressure?". *Economist Intelligence Unit*. <http://svbenergy.com/files/files/Oil%20Sanctions%20on%20Iran,%20EIU.pdf> & Cordesman, Anthony. 2015. "The Iran Nuclear Agreement and Iranian Energy Exports, the Iranian economy, World Energy Markets." *Center for Strategic and International Studies*. <https://cis-prod.s3.amazonaws.com/s3fs-public/legacy_files/files/publication/150817_Impact_Agreement_Iran.pdf>

The U.S. first imposed sanctions on Iran in 1979 but the Clinton administration increased the scope and severity of sanctions during the 1990s. Moreover, the U.S. also pressured its allies – Japan and the E.U. for example – to reduce their commercial ties with Iran, in order to increase economic pressure on Iran.

⁵ Howard, Roger. 2007. *Iran Oil: The New Middle East Challenge to America*. London: I.B. Tauris.

with the U.S., yet these have all fallen short⁶. As a result of this history, there has been a long-standing history of hostility between Iran and the U.S. These relations, reportedly, nearly reached a recent tipping point during George W. Bush's second term, with claims that the U.S. was pursuing clandestine activities inside Iran and had established plans for air attacks and the toppling of the Iranian regime⁷. Given this context, the Joint Comprehensive Plan of Action (JCPOA – also known as the Iran deal, the Iran nuclear deal or simply the nuclear deal) may be considered as a momentous event in terms of bridging long-standing political, economic and military chasms between the Islamic Republic of Iran and the United States of America⁸.

B. Joint Comprehensive Plan of Action (JCPOA)

October 18, 2015, marked the Adoption Day of the JCPOA, which was soon followed by Implementation Day on January 16, 2016⁹. This day marked the verification, by the International Atomic Energy Agency, that Iran had implemented the required nuclear-related measures and thus, as a result, the P5+1 (China, Russia, France, Germany, the United Kingdom and the United States) lifted all UN Security Council, E.U. and U.S. nuclear-related sanctions on Iran¹⁰. Whilst there has yet to be any “snap

⁶ See Gause, 2010, Hazbun, Waleed. 2015. “Comment” in Mohseni (ed.) *Iran and the Arab World After the Nuclear Deal*. Report for Belfer Center, Harvard Kennedy School & Vahkhshouri, Sara. 2012.

During the 1990s, Iran attempted to normalize relations with its regional neighbors and the U.S., as exemplified by Iran's stance during the first Gulf War and President Khatami's efforts for dialogue. Iran also introduced “buy back” oil and gas schemes that would allow for foreign investment, which had been forbidden under the post-revolutionary constitution of 1979. In 2003, Iran also proposed a ‘grand bargain’ with the U.S.

⁷ Hersh, Seymour. April 17, 2016. “The Iran Plans”. *The New Yorker*.

<<http://www.newyorker.com/magazine/2006/04/17/the-iran-plans>>

⁸ See Goldberg, Jeffrey. April, 2016. “The Obama Doctrine.” *The Atlantic*.

<<http://www.theatlantic.com/magazine/archive/2016/04/the-obama-doctrine/471525/>>

President Obama openly discusses the tumultuous history of U.S.-Iran relations. Further, he discusses his opinion on how the nuclear deal and U.S. interests in reducing the risk of nuclear arms expansion and the creation of a more effective regional balance of power framework, which required a diplomatic rapprochement between the two countries.

⁹ European Council. 01 August 2016. “Joint Comprehensive Plan of Action and Restrictive Measures”.

<<http://www.consilium.europa.eu/en/policies/sanctions/iran/jcpoa-restrictive-measures/>>

¹⁰ European Council. 2016.

back” by any member of the P5+1 with regards to the nuclear-related sanctions lifted under the JCPOA, there has, however, been a continuance of other sanctions, implemented by the U.N., E.U. and the U.S.

In terms of U.N. sanctions, whilst the vast majority were lifted following the JCPOA, there remains in place a list of sanctioned entities and “...restrictions in terms of Iran’s development of nuclear capable ballistic missiles and its importation or exportation of arms...”¹¹. In terms of E.U. sanctions, the vast majority were lifted but some were retained such as an “embargo on sales to Iran of arms, missile technology, other proliferation-sensitive items, and gear for internal repression” as well as a list of Iranian entities barred from Europe on the grounds of human rights¹². With regards to China and Russia, sanctions implemented against Iran were generally only those required by U.N. Security Council resolutions and thus trade and relations between the countries are generally considered as having re-improved following the JCPOA’s implementation¹³. Most complex, following the JCPOA, is the U.S. stance towards Iran¹⁴. The U.S. continues to retain a variety of sanctions against Iran, which include, but are not limited to: Iran as a “state sponsor of terrorism”; Iran’s weapons of mass destruction, missile and conventional arms; Iranian access to the U.S. financial system; U.S. trade and investment with Iran and Iran’s involvement in Iraq and Syria¹⁵. In addition to this, the U.S. Congress extended the Iran Sanctions Act (ISA) for a further ten years, in December 2016. This action was compounded, in February 2017, when the

¹¹ Katzman, Kenneth. 31 January 2017. “Iran Sanctions”. *Congressional Research Service*. <<https://fas.org/sgp/crs/mideast/RS20871.pdf>>

¹² Katzman. 2017

¹³ Katzman. 2017

¹⁴ See Katzman. 2017 & U.S. Department of the Treasury. 9 March 2017. “Iran Sanctions”. <<https://www.treasury.gov/resource-center/sanctions/Programs/Pages/iran.aspx>>

Given the longevity of U.S. sanctions and executive orders dating back to 1979-1981, there is a complex multitude of Iranian-US disagreements, pending court cases and other matters.

¹⁵ Katzman. 2017

new Trump administration implemented new U.S. sanctions under the remit of the UNSC's resolution pertaining to Iranian ballistic missiles¹⁶. The extension of the ISA and the February 2017 sanctions under Trump, have been a source of considerable political disagreement, with arguments raised concerning whether these events go against, or not, the essence of the JCPOA.

Following the 2016 election of Donald Trump, the extension of the ISA and the newly imposed sanctions of February 2017, there has been increasing U.S. political rhetoric devoted to Iran and the nuclear deal. Whilst Donald Trump's personal stance towards the agreement still remains unclear - having previously said that he would "dismantle"¹⁷ it, "renegotiate"¹⁸ it and most recently tweeting that "Iran is playing with fire – they don't appreciate how "kind" President Obama was to them. Not me!" – other appointed cabinet members have expressed a more clear vision of Iran and the nuclear deal. For example, Mike Pompeo, the new CIA director, has claimed he wants to see the deal rolled back¹⁹ and Mike Pence, the current Vice President, has said he would "rip up the Iran deal"²⁰. Furthermore, the Republican Party, which dominates Congress, has made its opposition to Iran and the JCPOA adamantly clear²¹. Most recently, Rex Tillerson, the U.S. Secretary of State, raised additional concerns regarding Iran's involvement as a "state sponsor of terrorism", which has been coupled by a Trump

¹⁶ BBC. 4 February 2017. "US Sanctions Iran After Missile Test"

<<http://www.bbc.com/news/world-us-canada-38860352>>

¹⁷ Begley, Sarah. March 21 2016. "Read Donald Trump's Speech to AIPAC". *Time*.

<<http://time.com/4267058/donald-trump-aipac-speech-transcript/>>

¹⁸ Trump, Donald. September 8 2015. "Donald Trump: Amateur Hour with the Iran Nuclear deal." *USA Today*.

<<http://www.usatoday.com/story/opinion/2015/09/08/donald-trump-amateur-hour-iran-nuclear-deal-column/71884090/>>

¹⁹ Wall Street Journal. "Mike Pompeo's Iran File."<<http://www.wsj.com/articles/mike-pompeos-iran-file-1479771252>>

²⁰ He, Alan. October 12 2016. "Pence Goes Farther than Trump on Iran Deal, says US will "rip up"" *CBS News*.

<<http://www.cbsnews.com/news/pence-goes-farther-than-trump-on-iran-deal-says-us-will-rip-up/>>

²¹ Maloney, Suzanne. November 20 2016. "Whither the Iran Deal Under Trump?" *The Atlantic*.

<<http://www.theatlantic.com/international/archive/2016/11/trump-iran-jcpoa-obama-tehran/508211/>>

administration decision to review whether the lifting of sanctions is in the U.S.'s national security interests, despite acknowledging Iranian compliance to the JCPOA²².

It is important to stress that the Iran nuclear deal is not a unilateral US-Iran agreement, but one that comprises the Europeans, Russians and Chinese. This renders any U.S. renegeing or renegotiating of the JCPOA considerably more difficult to enact²³. What the U.S. could more feasibly do is to increase other unilateral sanctions on Iran²⁴ or perhaps even aim to “snap back” its unilateral nuclear-related sanctions on Iran, should it deem there to be Iranian non-compliance²⁵. However, it is essential to note that sanctions imposed on Iran only really had effect when they acquired a multilateral nature (European, Japanese, South Korean and U.S. sanction combination) as of 2007 onwards²⁶. Should the U.S. choose to re-pursue a unilateral, and one-dimensional, repositioning towards Iran, history would suggest that this undermines both U.S. power and leverage, with only minimal economic impact on Iran itself²⁷. Given the multilateral context of the nuclear deal, any European (pending upcoming elections) Russian or Chinese change in posture towards the JCPOA and Iran could also impact the agreement and its enactment. In addition to this, Iran’s Supreme Leader, Ayatollah Khamenei, has also recently alluded that Iran could react to the nuclear deal, should it deem that the U.S. is not respecting their side of the agreement²⁸. Iran’s positioning

²² Wroughton, Lesley. April 19, 2017. “U.S. says Iran complies with nuke deal but orders review on lifting sanctions”. *Reuters*. <<http://www.reuters.com/article/us-iran-nuclear-usa-tillerson-idUSKBN17L08I>>

²³ Maloney, Suzanne. November 20 2016.

²⁴ See Maloney, Suzanne. November 20 2016 & Cordesman, Anthony. 2015

The U.S. continues to enforce an array of additional sanctions, which relate to Iran’s defense industry, ballistic missile program, terrorism and human rights allegations

²⁵ Maloney, Suzanne. August 3 2015. “Un-Sanctioning Iran: What the nuclear deal means for the future of sanctions.” *Brookings*. <<https://www.brookings.edu/blog/markaz/2015/08/03/un-sanctioning-iran-what-the-nuclear-deal-means-for-the-future-of-sanctions/>>

²⁶ Maloney, Suzanne. August 3 2015.

²⁷ Howard, Roger. 2007. *Iran Oil: The New Middle East Challenge to America*. London: I.B. Tauris. & Maloney, Suzanne. August 3 2015.

²⁸ See Sharafedin, Bozorgmehr. November 23 2016. “Iran warns of retaliation if U.S. breaches nuclear deal.” *Reuters*. <<http://www.reuters.com/article/us-iran-nuclear-idUSKBN13I0VH>> & MEE and agencies. “Iran Sanctions:

with regards to the JCPOA will most surely be further problematized with the upcoming Iranian Presidential elections, set for May 2017²⁹.

10 year extension violates nuclear deal, says Iran.” *Middle East Eye*. <<http://www.middleeasteye.net/news/us-congress-passes-iran-sanctions-extensions-bill-654023077>>

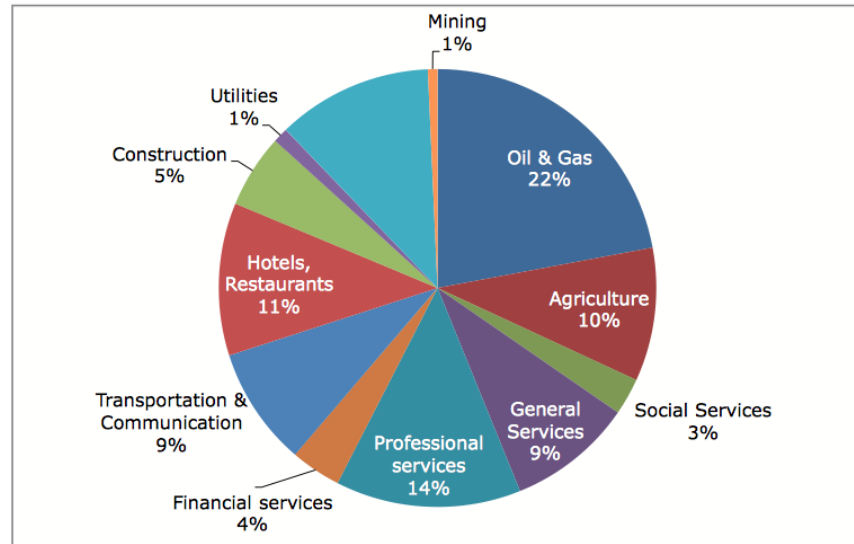
Iran’s response to any perceived U.S. infringement of the JCPOA is also being discussed. The U.S. Congress’s recent decision to extend, for a further ten years, an additional set of unilateral sanctions on Iran, has been publically rebuked by Iran, as it deems this is an infringement of the JCPOA agreement. Iranian officials have also noted that, should President Obama sign and confirm the bill, the Iranians would be forced to respond. The future viability of the JCPOA is thus questionable both from the U.S. and Iran’s side.

²⁹ Dubai Newsroom. July 27 2016. “Iran Sets Presidential Election for May 2017.” Reuters. <<http://www.reuters.com/article/us-iran-election-idUSKCN1071W6>>

CHAPTER II

OVERVIEW: IRAN'S OIL AND GAS SECTOR

Graph: Composition of the Iranian GDP (2014)



Source: Statistical Center of Iran

30

Within this wider historical context and the current volatility pertaining to the JCPOA, Iran's oil and gas industries play a central role. Their centrality is in large part due to the Iranian economy's dependence on its oil and gas resources, which is greatly a result of their sizeable scale. Given their importance, international sanctions have tended to target the oil and industries. Historically, this is exemplified by the U.K.'s decision to embargo Iranian oil in 1951 in order to curtail the state's financial revenue, in retaliation to its nationalization politics³¹. In more recent times, sanctions and diplomatic pressures - which have expanded since 1979 - specifically, targeted Iran's oil

³⁰ Khajehpour, Bigan. May 12, 2016. "Reading Iran's Economic Indicators. *Konrad Adenauer Stiftung*. <http://www.kas.de/wf/doc/kas_45168-544-2-30.pdf?160512171514>

³¹ See Vahkhshouri, Sara. November 16 2015. "Iran's Energy Policy After the Nuclear Deal." *Atlantic Council*. <http://www.atlanticcouncil.org/images/publications/Iran_Energy_Policy.pdf> & Yergin, Daniel. 1992. *The Prize*. New York: Simon & Schuster: 462-466.

Britain, in response to Mossadegh's efforts to nationalize the Anglo-Iranian oil company, embargoed Iranian oil, goods to Iran and suspended financial and trade facilities between the bank of England and Iran. "In short, the expropriation was being met with economic warfare". By 1952, Iranian oil production had decreased to circa 20,000 barrels a day, compared to 666,000 barrels in 1950. As a result of this, Iran's liquidity had become an issue and economic conditions were deteriorating.

and gas industries³². This comprised, for example, direct interdiction of Iranian oil and gas imports into Europe and the U.S.; technological and financial sanctions that hindered the development of Iranian oil and gas fields as well as LNG facilities and refineries; obstruction of regional gas pipeline construction; and impeding international insurance mechanisms for oil shipments³³. The conclusion thus appears that U.S. led sanctions aimed to cripple Iran's economy by targeting their oil and gas industries, in order to bring Iran to the negotiation table³⁴.

In parallel to this, Iran responded to the long-standing enforcement of sanctions by developing a resilient and semi-insular oil and gas industry. Thus, while Iran's economy still greatly depends on its oil and gas (in 2013 oil and gas accounted for circa ninety-eight percent of domestic Iranian energy and crude oil exports represented circa eighty percent of total export earnings and fifty percent of government revenue³⁵), it is not as reliant on these industries as countries with similar levels of hydrocarbon resources tend to be, as exemplified by Iran having the most diverse GDP composition in the entire Middle East region³⁶. Saudi Arabia, for example, sees their oil and gas sector account for circa eighty percent of budget revenues and circa ninety percent of its export earnings³⁷. The irony of the U.S. led sanctions is that Iran was able to counter with an economy of resilience and self-reliance³⁸. Thus, while Iran's oil and gas still

³² Vahkhshouri, Sara. 2012.

³³ Vahkhshouri, Sara. 2012, Vahkhshouri, Sara. 2015 & Cordesman, Anthony. 2015.

³⁴ Maloney, Suzanne. August 3 2015.

³⁵ Vahkhshouri, Sara. 2015

³⁶ European Parliament – Directorate General For External Policies – Policy Department. 2016. “An EU strategy for relations with Iran after the nuclear deal”.

[http://www.europarl.europa.eu/RegData/etudes/IDAN/2016/578005/EXPO_IDA\(2016\)578005_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/IDAN/2016/578005/EXPO_IDA(2016)578005_EN.pdf)

³⁷ Forbes. Saudi Arabia. <<http://www.forbes.com/places/saudi-arabia/>>

³⁸ See Katusa, Marin. 2015. *The Colder War*. Wiley. El-Gamal & Jaffe. 2010. *Oil, Dollars, Debt, and Crises*.

Cambridge: Cambridge University Press. & Molavi, Reva. 2009. *Oil and Gas Privatization in Iran*. U.K.: Ithaca Press.

Iran is not critically dependent on oil and gas - or on the U.S. dollar - and has alternative strategic alliances that allow it to maintain a certain degree of oil and gas trade. U.S. led sanctions meant that Iran found alternative methods to conduct business. Furthermore, since 1989, there have been long-standing initiatives to diversify the Iranian

remains somewhat vulnerable to international pressure, it is insulated to the point where sanctions, whilst damaging, are not disastrous³⁹. In 2014, Iran's Supreme Leader announced plans for an official "economy of resistance"⁴⁰, which signalled an intention to further diversify the Iranian economy and entailed a reduction of their dependence on oil export revenue⁴¹. In the short-term, however, Iran will be compelled to rely on its oil and gas industries in order to reanimate and implement these long-term and intensive changes to its economy⁴².

In terms of physical resources, Iran has the world's fourth largest proven crude oil reserves. This represents circa ten percent of the world's total crude oil reserves and thirteen percent of the Organization of Petroleum Exporting Countries (OPEC) reserves⁴³. Moreover, it is reported that nearly eighty percent of these reserves were discovered before 1965⁴⁴. One important impact of this is that Iran's oil reserves are considered to be mature⁴⁵. A mature oil field is defined when the field's oil production has reached its peak and is in the process of declining⁴⁶. At this stage, in order to

economy. This has focused on an expansion of the domestic petrochemical industry and reforms relating to the services sector, the agricultural sector, the financial sector, and the insurance sector.

³⁹ See Vahkshouri, Sara. 2015 & Vahkshouri, Sara. 2012.

Examples of Iran's self-reliance and semi-insulated oil and gas industry relate to the existence of its nationalized oil tanker company, pricing its oil in currencies other than the U.S. dollar, shifting its foreign oil sales to Asia, alternative payment structures (bartering oil for goods and services) and alternative mechanisms to provide insurance for its oil shipments. Iranian responses to the sanctions have meant that Iran's vulnerability is more based on the price of oil, rather than on the quantity of oil sales per se.

⁴⁰ Vahkshouri, Sara. 2015.

⁴¹ Vahkshouri, Sara. 2015.

⁴² See Ahmad, Ali. December 05 2016. "More to OPEC deal than meets the eye." *The Daily Star*.

<<http://www.dailystar.com.lb/Opinion/Commentary/2016/Dec-05/384038-more-to-opec-deal-than-meets-the-eye.ashx>>, Vahkshouri, Sara. 2015 & Molavi, Reva. 2009.

Iran is seeking to expand its oil and gas industries. In the latest OPEC agreement pertaining to a general reduction in oil production, Iran in fact negotiated to increase its production. Moreover, Iran's need for foreign direct investment in its oil and gas industries is apparent in its "buy back" agreements offered in the 1990s and now via the International Petroleum Contracts. This highlights the need for foreign capital in Iran's old and mature oil sector and to enable the expansion of its gas industry, which reflects a current Iranian need for oil and gas revenues.

⁴³ Energy Information Administration. 19 June 2015. "Iran".

<<https://www.eia.gov/beta/international/analysis.cfm?iso=IRN>>

⁴⁴ Energy Information Administration. 2015.

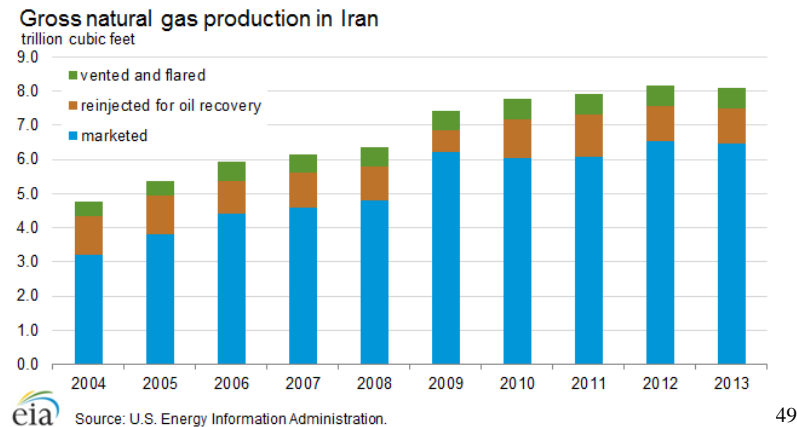
⁴⁵ Brew, Gregory. 19 January 2016. "The oil of Iran: Past and Present". *E-International Relations*.

<<http://www.e-ir.info/2016/01/19/the-oil-of-iran-past-and-present-in-perspective/>>

⁴⁶ Hull, Rob. 26 April 2012. "What is a Mature field?". *Halliburton Blog*.

<<http://halliburtonblog.com/what-is-a-mature-field/>>

maintain production levels, the oil fields require enhanced recovery techniques⁴⁷. Different techniques and technologies exist in order to enhance the production of mature oil fields, but broadly speaking this process tends to require significant investment⁴⁸. One such method is the injection of natural gas to bolster oil production. As demonstrated in the below graph, Iran extensively employs this technique



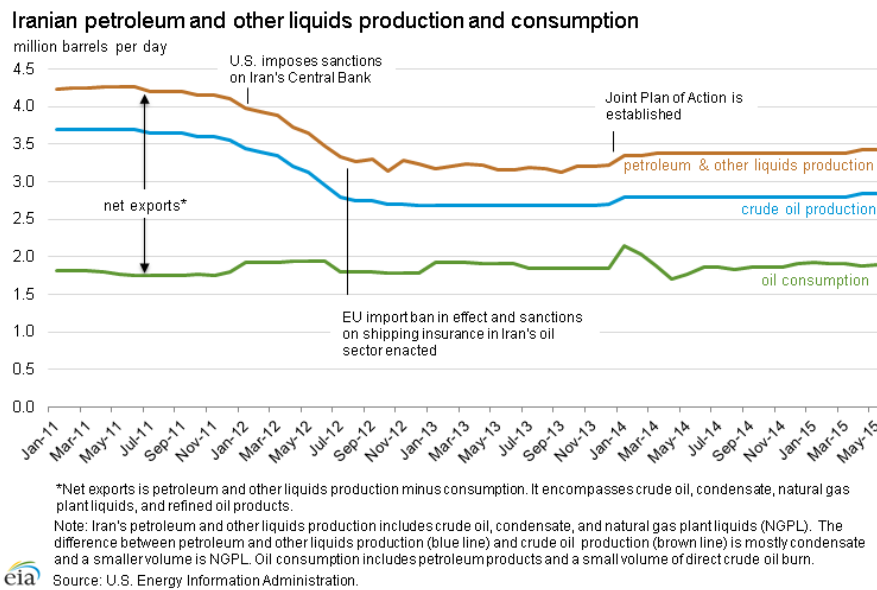
49

Another upstream option to curtail the effects of mature oil fields, whilst maintaining the same production quantities, is the discovery and exploration of new oil fields. Again, however, this discovery and exploration aspect of the upstream oil industry also requires significant investment. Restrictions in Iran’s ability to enhance production in matured oil fields, coupled with restrictions in the discovery of new oil fields, partially explains the stagnating trend in Iran’s production of oil, limiting both domestic use and export. As the below highlights, there are also additional factors that influence production rates, such as the imposition of international sanctions.

⁴⁷ Jalilvand, David. January 2017. “Iranian Energy: A Comeback with Hurdles”. *The Oxford Institute for Energy Studies*.
<https://www.oxfordenergy.org/wpcms/wp-content/uploads/2017/01/Iranian-Energy-a-comeback-with-hurdles.pdf>

⁴⁸ Hull, Rob. 2012.

⁴⁹ Energy Information Administration. 2015.



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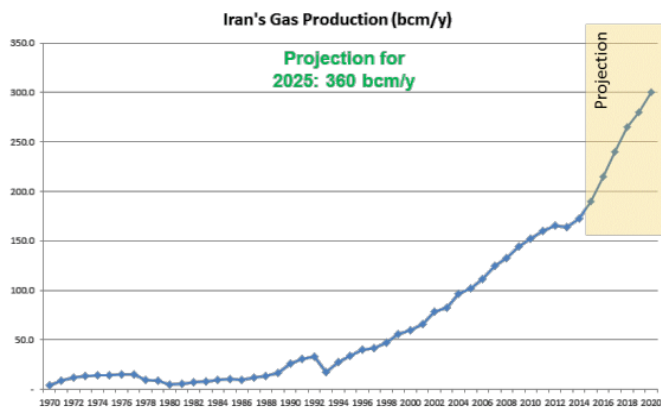
The above also reveals the high levels of Iran's domestic consumption of oil, both for energy production and electricity provision purposes. The strong domestic consumption demand is greatly attributed to Iran's population growth and energy policies of the 1990s⁵¹. Indeed, curbing domestic demand has become a priority for Iran, with the aim of being able to maximize oil exports for revenue purposes and also to end the previous energy subsidies, which proved to be a financial burden on the Iranian state and encouraged wastage⁵². Efforts to curb this domestic demand are exemplified by the implementation of Iran's subsidy reforms from 2010 onwards⁵³.

⁵⁰ Energy Information Administration. 2015.

⁵¹ Brew, Gregory. 2016.

⁵² Energy Information Administration. 2015.

⁵³ Energy Information Administration. 2015.



Source: National Iranian Oil Company (<http://en.nioc.ir/Portal/Home/>) and EIRG projections.

54

With regards to natural gas, Iran has the world's second largest reserves, second only to Russia. This represents circa seventeen percent of the world's total proven natural gas reserves and more than one third of OPEC's reserves⁵⁵. Despite these considerable quantities, Iran has relatively low production levels, with many known reserves remaining undeveloped⁵⁶. The largest gas field is South Pars, located offshore and which crosses the territorial water borders of Iran and Qatar⁵⁷. Future trends - as the above graph indicates - are for considerably higher production levels, with the main objective of increasing exports⁵⁸. Despite these considerable gas resources, Iran is not a key player in international gas trade due to low production volumes, coupled by growing domestic consumption, which in turn leads to low export volumes⁵⁹. As the below graph demonstrates, there have been several years where Iran has in fact imported more gas than it actually exports.

⁵⁴ European Parliament – Directorate General For External Policies – Policy Department. 2016: 15

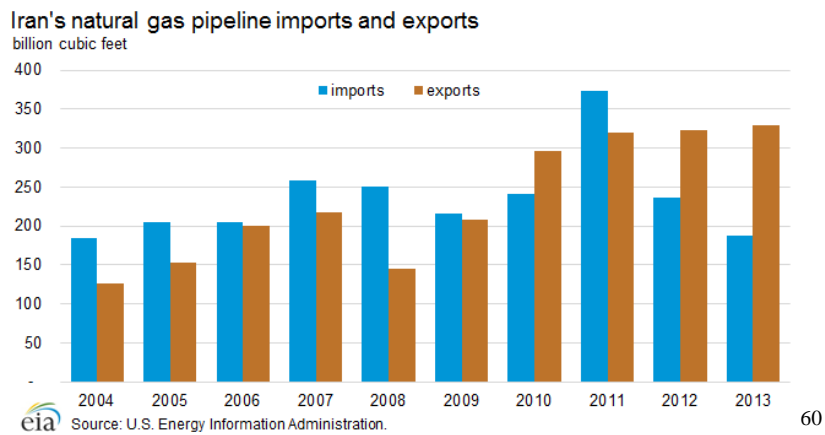
⁵⁵ Energy Information Administration. 2015.

⁵⁶ Energy Information Administration. 2015.

⁵⁷ Energy Information Administration. 2015.

⁵⁸ European Parliament – Directorate General For External Policies – Policy Department. 2016.

⁵⁹ Jalilvand, David. June 2013. "Iran's Gas Exports: can past failure become future success?". *The Oxford Institute for Energy Studies*. <<https://www.oxfordenergy.org/wpcms/wp-content/uploads/2013/06/NG-78.pdf>>



Moreover, Iran's natural gas production allocates a significant portion for re-injection into mature oil fields, in addition to losing significant quantities due to flaring and venting⁶¹. In terms of its gas exports, Iran only trades regionally. The majority of this trade is with Turkey, with some smaller quantities exported to Armenia and Azerbaijan⁶². Broadly speaking, Iran's failure to be a significant gas exporter, which would be in line with the scale of its resources, is due to stalled or non-realized pipeline constructions, the lack of LNG facilities and persistently undeveloped gas fields⁶³. This tends to be explained as a result of the international sanctions but domestic limitations also play a role. Domestically, the natural gas industry is considered to have been hampered by the plurality of Iranian political institutions involved, domestic over-consumption propelled by the state's energy subsidies and domestic obstacles, which limit investment and engagement of foreign firms⁶⁴.

The management structure of Iran's oil and gas industries comprises a variety of actors. The most widely known actor is the National Iranian Oil Company (NIOC), whose predecessor was the Anglo-Iranian Oil Company. The work of the NIOC is,

⁶⁰ Energy Information Administration. 2015.

⁶¹ Jalilvand, David. 2013.

⁶² Jalilvand, David. 2013.

⁶³ Jalilvand, David. 2013.

⁶⁴ Jalilvand, David. 2013.

however, undertaken under the tutelage of the Supreme Energy Council, established in 2001, which is chaired by the President of Iran⁶⁵. This council constitutes ministers from the Ministry of Petroleum, Economy, Trade, Agriculture and Mines and Industry. The Ministry of Petroleum plays a key role in the management of oil and gas as it supervises the work of the NIOC, the National Iranian Gas Company (NIGC), the National Iranian Gas Exports Company (NIGEC), the National Petrochemical Company (NPC) and the National Iranian Oil Refining and Distribution Company (NIORDC)⁶⁶. The plurality of actors involved, coupled with overlapping remits and, at times, contradictory objectives, partially explains how Iranian political institutions have contributed to the underdevelopment and stalling of the energy industry. Moreover, it is generally considered that the Iranian institutions involved in this industry are highly politicized. A pertinent example of this is the reported rise in the role of the Islamic Revolutionary Guard Corps (IRGC) within the energy industry, which occurred under the tenure of former President Ahmadinejad⁶⁷.

One significant feature of the Iranian constitution, which has intimately impacted the country's energy industry, is the prohibition of foreign or private ownership of Iran's natural resources in addition to the prohibition of production sharing agreements⁶⁸. In terms of foreign corporate engagement with Iran, there has always existed an ability to invest and work within the energy industry. However, the extent of foreign engagement has ebbed and flowed over the years dependent on the overall political relations between Iran and foreign countries. Moreover, foreign corporate engagement with Iran is also greatly dependent upon where the company

⁶⁵ Energy Information Administration. 2015.

⁶⁶ Energy Information Administration. 2015.& Mohamedi, Faeed. August 2015. "The oil and Gas Industry". *United States Institute of Peace – The Iran Primer*. <<http://iranprimer.usip.org/resource/oil-and-gas-industry>>

⁶⁷ Mohamedi, Faeed. 2015.

⁶⁸ Energy Information Administration. 2015.

emanates from, again reflective of Iran's political relations with other states, and vice versa. Linked to this is the prohibition of production sharing agreements, which has led to the creation of alternative procedures, which allow for the investment and engagement of foreign firms within the oil and gas industries. This includes the earlier "buy back" methods, which have now been replaced by the Iran (International) Petroleum Contracts (IPCs). Iran's conundrum is that it requires foreign firms and international oil companies to invest and engage in their oil and gas industries in order to receive the needed capital, technology and expertise to maximize the value of their resources⁶⁹. Thus, the initial "buy back" agreements – implemented in the 1990s following the Iran-Iraq war in order to help the industry's redevelopment - were employed so as to allow foreign firms to enter the Iranian energy market. Broadly speaking, the terms of the "buy back" agreements were contentious, both domestically and externally. This is reflected by updates in their structure and by their eventual phasing out and the introduction of the IPCs⁷⁰. Amidst many differences between these two contracts, for the purpose of this paper, the IPCs are interesting indicators to monitor, in that they allow for a joint venture between the Iranian firm and the international firm; the duration of the contract lasts between twenty to twenty five years and there has been a design incorporated that allows Iran to take advantage of the

⁶⁹ Batmanghelidj, Esfandyar. 1 February 2017. "Emerging Privatization in Iran's Energy Sector Deserves a Second Look". *Bourse & Bazaar*.
<<http://www.bourseandbazaar.com/articles/2017/1/27/emerging-privatization-in-irans-energy-sector-deserves-a-second-look>>

⁷⁰ Gulf Intelligence. 17 January 2016. "Buyback Vs. New Iran Petroleum Contract, A Winning Model?" *The Gulf Intelligence*.
<<http://www.thegulfintelligence.com/Docs.Viewer/bb9597f1-191e-4d75-8060-5319427d2fb9/default.aspx>>
& Yong, William. May 2013. "NIOC and the State: Commercialization, Contestation and Consolidation in the Islamic Republic of Iran". *The Oxford institute for Energy Studies*.
<<https://www.oxfordenergy.org/wpcms/wp-content/uploads/2013/05/MEP-5.pdf>>

foreign company's marketing expertise, with the aim of allowing Iran to broaden its export market⁷¹.

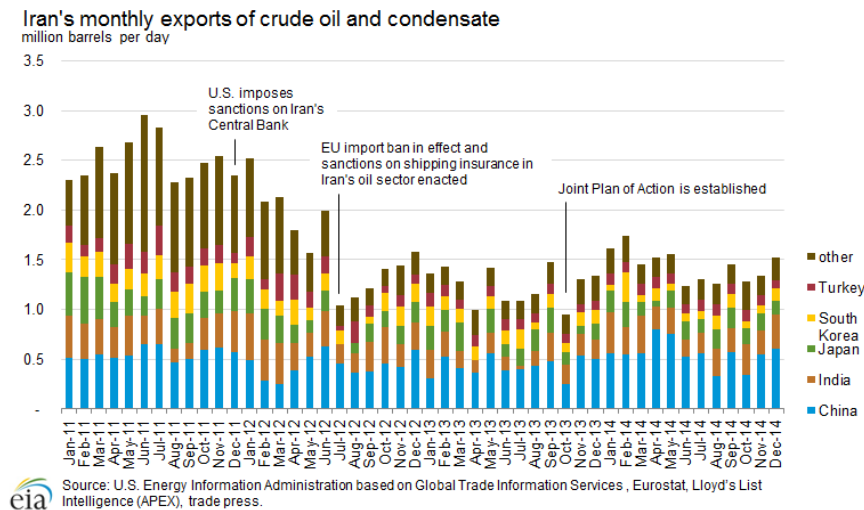
Finally, the prohibition of private ownership has resulted in the majority of major institutions involved in Iran's energy and gas to be state owned. Whilst there has been some impetus to support privatization and private companies within this sector, with the purpose of reenergizing the economy and rendering it more efficient, nationalization remains a significant feature. Hindrances to privatization and private investment in the energy industry have been, in large part, a result of the state energy subsidies that have made this a generally economically unfeasible endeavour⁷². The main actors (NIOC, NIGC, NIGEC, NPC, and NIORDC) are thus typical of most state-owned institutions, in that they tend to be large bureaucracies that overlap and lack efficiency. Moreover, given that these institutions are highly politicized, and that there has been a reported entrance of the IRGC within their management structure, this has created many restrictions in terms of foreign businesses engaging with them, due to the continuance of many sanctions that specifically target the IRGC.

These complexities help to explain, in addition to international political constraints and the imposition of sanctions, why Iran has had a tumultuous past in terms of the country's engagement with international oil companies. In addition, given that Iran requires the technological and capital provided by foreign firms, this also serves to explain some of the infrastructure and development limitations that the oil and gas industries currently face. Despite this context, Iran has maintained both energy trade and energy investment ties with certain countries, regardless of international sanctions and in spite of domestic restrictions for foreign engagement. As per the below graph,

⁷¹ Gulf Intelligence. 2016.

⁷² Jalilvand, David. 2013.

exports of oil to China and India have remained a key pillar of the Iranian energy industry and persisted, despite some reductions in quantities, following the imposition of US, U.N. and E.U. sanctions.



73

Moreover, it is also to be noted that despite the termination of all Western oil and gas company engagement in Iran, certain Chinese and Russian firms continued to participate in Iran's energy industry⁷⁴. China, notably, has been Iran's biggest trading partner. In the last few years there has in fact been considerable growth in this trade, which is broadly conceived as China having filled the market gap when sanctions were imposed⁷⁵. The significance of Chinese-Iranian trade is further exemplified and strengthened by the "one belt, one road" policy. This policy also includes Russia⁷⁶ and leads to the conclusion that "...one cannot underestimate just how much Asia and Russia have invested in Iran..."⁷⁷. Indeed, the majority of Chinese and Russian

⁷³ Energy Information Administration. 2015.

⁷⁴ Energy Information Administration. 2015.

⁷⁵ Silver, Hatcher, Dalton, Jenkins & McCleary. 30 March 2017. "The Iran deal in the Trump era – What the Trump presidency means for the JCPOA and business with Iran". *Clyde & Co.* <<http://www.workcast.com/AuditoriumAuthenticator.aspx?cpak=4977944333142065&pak=5842215656035652>> (Boyd McCleary; 7.08)

⁷⁶ Silver, Hatcher, Dalton, Jenkins & McCleary. 2017. (Boyd McCleary; 8.02)

⁷⁷ Silver, Hatcher, Dalton, Jenkins & McCleary. 2017. (Jonathan Silver; 8.26)

investment and engagement in Iran's oil and gas industries continued despite sanctions to this end⁷⁸. These ties are further strengthened in light of Chinese and Russian energy firms either being state-owned or close to the state, which thus translates into the forging of relations between the Iranian government and the governments of these respective countries⁷⁹. In addition, these state ties contribute towards the concept of these countries belonging to the 'non-aligned' bloc. Despite these alignments in policies between Russia, China and Iran, there have also been, and continue to be, misalignments with regards to Iran's oil and gas. Whilst China imports and invests in these commodities for its own domestic requirements and for commercial opportunities, Russia is said to view Iran as a potential competitor, especially with regards to the European Union's gas market⁸⁰. There is, therefore, differing energy geopolitics in play between these three countries, despite general appearances of cohesiveness and unity. Regardless of these complexities, it is generally considered that the support of Chinese and Russian oil and gas firms were vital to the sustenance of Iran's energy industry⁸¹.

⁷⁸ Gundzik, Jephraim. 06 April 2005. "The Ties That Bind China, Russia and Iran". *Information Clearing House*. <<http://www.informationclearinghouse.info/article9057.htm>> & Energy Information Administration. 2015.

⁷⁹ Jalilvand, David. 2017

⁸⁰ Cronin, Stephanie. 2013. *Iranian-Russian Encounters: Empires and Revolutions Since 1800*. U.K.: Routledge

⁸¹ Jalilvand, David. 2017

CHAPTER III

JCPOA

A. Impact on Iran's Oil and Gas Sector

The E.U., U.N. and U.S. nuclear related sanctions all comprised significant sections pertaining to Iran's oil and gas industries. When sanctions became multilateral in nature, it led to the end of U.S. and European oil and gas companies investing and working in Iran; prohibited the importation of Iranian oil to certain international markets; the exclusion of Iran from the SWIFT banking system, and terminated engagement of European and U.S. banks and insurance companies working with Iran⁸². When applied simultaneously and in combination, these sanctions greatly explain the decrease in Iran's oil production and oil exports. For example, in 2011, figures estimated Iranian production at 3.7 million barrels per day, which decreased to 2.7 million barrels per day in 2013, whilst exports were estimated at 2.6 million barrels per day in 2011, which decreased to 1.3 million barrels per day in 2013⁸³. In terms of Iran's gas industry, sanctions greatly impeded the country's ability to increase production despite the country's vast reserves⁸⁴. Moreover, sanctions have also inhibited Iran from pursuing regional gas pipeline construction and liquefied natural gas (LNG) facilities⁸⁵. Broadly speaking, as mentioned above, sanctions focused on curtailing Iran's oil and gas industries given their importance in sustaining the Iranian economy.

The implementation of the JCPOA - in terms of the lifting of oil and gas sanctions - led to predictions of a rapidly re-energized oil and gas industry, leading to increased production, increased exports and, in turn, increased state revenue. Considerable debate

⁸² Jalilvand, David. 2017

⁸³ Jalilvand, David. 2017

⁸⁴ Energy Information Administration. 2015

⁸⁵ Energy Information Administration. 2015

ensued regarding the JCPOA's implications for the oil and gas industries in terms of whether this would entice Iran to integrate into the U.S. led international liberal order, or if Iran would utilize the financial opportunities of the deal in order to continue a path of self-reliance and resilience, alongside its alternative regional and international strategic alliances. The consensus assumption was that Iran's oil and gas industries would improve, with a consequent assumption that this would allow Iran to "expand its influence..." as it "...will only have more financial resources and access to commercial and military trade"⁸⁶. This opens one current hypothesis that suggests that Iran would seek to exploit the benefits of the JCPOA in order to extend its military activities and increase its power projection in regional geopolitics. However, an additional hypothesis exists as to whether the benefits of the JCPOA would result in Iran focusing on domestic economic revitalization.

On the other hand, little attention was awarded to the implications of sanctions that would remain in place, despite the implementation of the JCPOA. In addition to this, little analysis was directed towards the impact of maintaining the Iran Sanctions Act (ISA) that was extended for an additional ten years, as of December 2016. As a result of this, there continues to remain many implementable sanctions, which continue to significantly hinder the development of Iran's oil and gas. As mentioned above, due to the politicization of this industry and the reported role of the IRGC within this sector, much speculation abounds as to whether E.U. and U.S. oil and gas companies can in fact engage with these sectors without financial reprisals from the U.S.⁸⁷. Past applications of U.S. extraterritorial laws have seen European Banks convicted of

⁸⁶ Hazbun, Waleed. 2015.

⁸⁷ KPMG. January 2016. "Entering the Iranian Market". *KPMG Corporate Intelligence*. <<https://home.kpmg.com/content/dam/kpmg/pdf/2016/02/Entering-the-Iranian-Market-Opportunities-and-Risks-KPMG.PDF>> & Smith, Katy & Westwood, Douglas. 15 January 2016. "Iranian Oil and Gas Production Shows Significant Upside Potential, But Limitations Remains". *Society of Petroleum Engineers*. <<https://www.spe.org/en/print-article/?art=20>>

“...Iran-related dealings and subjected them to fines of more than \$13 billion”⁸⁸. The ISA extension, alongside other remaining and newly imposed U.S. sanctions, is viewed, from the Tehran perspective, as being flagrant violations against the essence of the JCPOA⁸⁹. This stance is well expressed by Hossein Mousavian: “...on U.S. banking restrictions...definitely this has already hindered tens of billions of dollars of agreements between Europe, Japan, Korea and India, and other countries. They have signed agreements and because of the dollar U-turn transaction and the US sanctions, it is practically on paper... the U.S. Congress extended the Iran Sanction Act...for another ten years, which Iranians, unanimously, they said this is a clear violation of the Iranian nuclear deal and some members of P5+1, like Russia and China, also they agree that the U.S. has already violated the JCPOA during President Obama. Therefore if Iran and some members of the P5+1, they believe even Obama has violated, what do you expect from Trump? However, I think, President Trump and his administration they would not tear up the deal, they would let the deal go on, but they would try to undo, practically, the Iranian nuclear deal through many other sanctions under the coverage, under the umbrella, of terrorism, missiles, human rights, regional issues. They would bring many other sanctions to undermine totally the Iranian nuclear deal”⁹⁰.

In essence, the lifting of some sanctions, the extension of others, the imposition of new U.S. sanctions, and uncertainty pertaining to the legal ability of E.U. and U.S. firms to engage commercially in Iran, is well reflected in the current state of Iran’s oil and gas industries. As the below graph highlights, Iranian oil production has increased

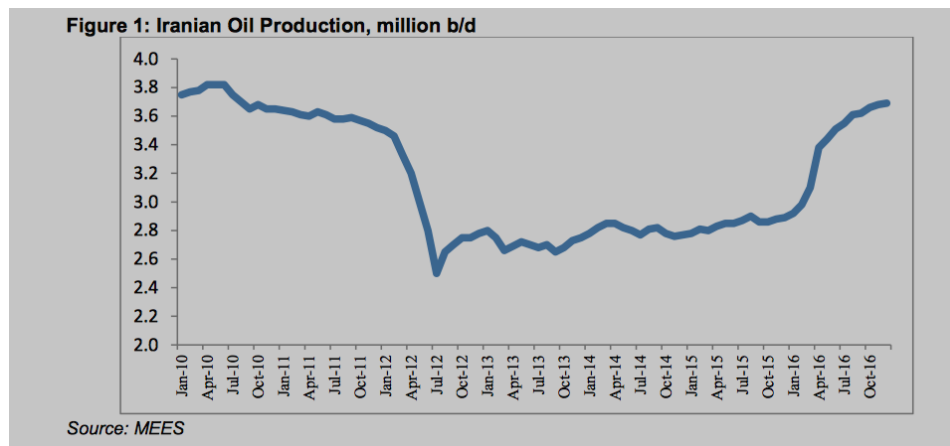
⁸⁸ Jalilvand, David. 2017: 3

⁸⁹ Associated Press. 04 December 2016. “Iran Demands that Obama allow US sanctions to expire”. *The Daily Star*. <<http://www.dailystar.com.lb/News/Middle-East/2016/Dec-04/383981-iran-demands-that-obama-allow-us-sanctions-to-expire.ashx>>

⁹⁰ American University of Beirut’s Issam Fares Institute for Public Policy and International Affairs. 16 March 2017. “Global and Regional Nuclear Challenges”.

<<https://www.youtube.com/watch?v=DYaqgB-2X7c>> (Hossein Mousavian: 1.18.36)

to near pre-sanction levels, yet reports suggest that there has been no significant expansion in the capabilities of the country’s energy industry⁹¹. This tends to result in the following conclusion: “Most assumptions are that the oil market will grow to an extent, but actually, because there won’t be a major investment boost, then it will actually peak at not far ahead of current levels”.⁹²



93

Reaching pre-sanctions level production, whilst beneficial for Iran, does not however, take into consideration the levels of exports and production that the country could have reached had Iran not been limited by sanctions and domestic obstacles. For additional context - and to underline the importance of this point in terms of the long-term effects of economic isolation - in 1978 Iran was producing 6.6 million barrels per day⁹⁴. Thus, if one takes into consideration potential growth that could have occurred, a return to 2011 pre-sanction oil production levels is not as favourable a situation as some arguments extend, and is, arguably, well below what Iran could have achieved in a non-sanction hypothetical scenario. This speculation is exacerbated when compared to Iran’s five-year economic plan (from 2011 to 2016) in which they aimed to raise oil

⁹¹ Jalilvand, David. 2017

⁹² Silver, Hatcher, Dalton, Jenkins & McCleary. 2017. (Boyd McLeary: 23.53)

⁹³ Jalilvand, David. 2017

⁹⁴ Vakhshouri, Sara. January 2017. “Post-Vienna: Prospects for Iran’s Oil Production Exports”. *Atlantic Council*. <http://www.atlanticcouncil.org/publications/issue-briefs/post-vienna-prospects-for-iran-s-oil-production-and-exports>

production to 5 million barrels per day and gas production to 1 million cubic meters per day⁹⁵. In order to reach these levels of production, the five-year plan also estimated that the energy sector would require circa two hundred to two hundred and fifty billion dollars of investment⁹⁶. In reality, oil production decreased during this time period and gas production saw only modest increases, but remained considerably far from the 1 million cubic meters per day objective.

	2011	2012	2013	2014	2015	% change 15/14
IR Iran						
Gross production	224,122.0	231,332.0	228,887.0	244,551.0	257,623.0	5.3 ⁹⁷

B. Global Context

The timing of the implementation of the JCPOA has also had an adverse effect on the ability of Iran’s energy industry to maximize benefits of the JCPOA. The marked decrease in the price of oil, coupled with a global oversupply and OPEC’s decision to introduce supply cuts, came together to create a precarious time for Iran’s reintroduction to global markets. Moreover, given Iran’s notable size of resources, its re-entry into these international markets meant Iran itself had the ability to alter market dynamics, in that Iranian oil had the ability to further depress oil prices.⁹⁸

⁹⁵ Vakhshouri, Sara. January 2017

⁹⁶ Vakhshouri, Sara. January 2017

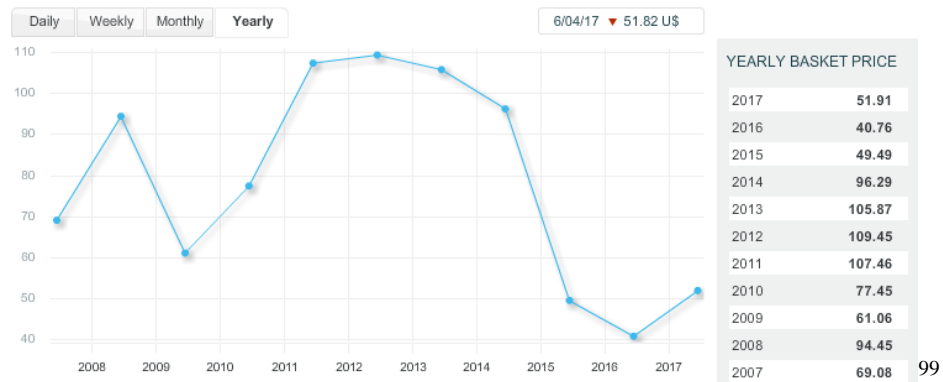
⁹⁷ OPEC. 2016. “Annual Statistical Bulletin”.

<http://www.opec.org/opec_web/static_files_project/media/downloads/publications/ASB2016.pdf>

⁹⁸ Nakhle, Carole. 25 August 2015. “Iran Nuclear Deal: Unlocking Oil and Gas Investment Opportunities”. *Carnegie Middle East Center*.

<<http://carnegie-mec.org/2015/08/25/iran-nuclear-deal-unlocking-oil-and-gas-investment-opportunities-pub-61092>>

OPEC Basket Price



Oil prices plummeted in 2013-2014 and upon the arrival of the JCPOA's implementation day, oil prices continued to remain low. Price improvements in 2016 to 2017 have only been marginal. The price of oil has a key role in the Iranian state's revenue stream. Attempts to forecast oil prices are therefore central towards planning the state budget. Misjudging oil prices, as many countries had when the volatile drop in 2013-2014 occurred has severe implications for the country's debt, inflation and currency valuation. Iran was, and is, no exception to this. In 2015, reports indicate that Iran had forecasted the oil price at seventy-five dollars, with additional reports indicating that in order to balance its budget it needed an oil price of one hundred and thirty one dollars per barrel¹⁰⁰. Iran, as a result, was forced to revise down its estimated oil price to forty dollars per barrel for the 2016-2017 fiscal year¹⁰¹. In addition to the domestic considerations, the decision of international oil companies to invest in new projects is also highly correlated to oil prices. Generally, the common practice is for oil to stay in the ground and for production, exploration and discovery costs to be trimmed

⁹⁹ OPEC. 2017. "OPEC Basket Price".

<http://www.opec.org/opec_web/en/data_graphs/40.htm>

¹⁰⁰ Bowler, Tim. 19 January 2015. "Falling Oil Prices: Who are the Winners and Losers?". *BBC*.

<<http://www.bbc.com/news/business-29643612>>

¹⁰¹ Oil Companies & News. 30 December 2015. "Iran bases 2016-2017 budget on Oil price of \$40". *Hellenic Shipping News*. <<http://www.hellenicshippingnews.com/iran-bases-2016-2017-budget-on-oil-price-of-40/>>

& Reuters. 15 January 2015. "Iran slashes oil price in budget to \$40 per barrel".

<<http://uk.reuters.com/article/iran-budget-oil-idUKL6N0UU2TJ20150115>>

until oil prices recover and make it financially viable to continue activities. Thus, whilst oil and gas companies may be prospecting for future agreements with Iran, one may postulate that there will be no immediate impetus on their behalf to immediately begin work in an environment where the price of oil production may be higher than oil's market value. Whilst Iran's oil production price is estimated around an attractive twelve dollars per barrel – mostly due to the fact that its reserves have almost all been explored and are mapped¹⁰² - corporate engagement, on paper, could be financially viable. However, the inclusion of the other financial risks, alongside political risks, reduces the current economic viability of international oil and gas companies to immediately pursue Iranian energy opportunities¹⁰³.

The fall in the price of oil was a mixture of several factors. It was partly propelled by the rise in the international gas industry, which was, to some extent, spurred by the glut of oil in the international market¹⁰⁴. The glut in oil is itself a result of over-production coupled by decreasing demand¹⁰⁵. On this occasion, however, the low oil prices were not merely a factor of economics and the rise in gas and alternative sources of energy supply, but also a result of energy geopolitics that either sought to keep oil prices low for political leverage or to counter the rise of the shale industry (specifically that of the U.S.). The persistence of abnormally low oil prices, in absence of any notable rebound, led the Organization of Petroleum Producing Countries (OPEC) - of which Iran is a member – to begin discussions during 2016 regarding whether there

¹⁰² Adams, Bozorgmehr & Crooks. 16 July 2015. "Iran" The oil and gas multibillion-dollar 'candy store'. *The Financial Times*. <<https://www.ft.com/content/92402244-2975-11e5-8613-e7aedbb7bdb7>>

¹⁰³ Sobotzki, Johannes & Sharma, Pavel. 29 February 2016. "Iran After Sanctions: Oil And Gas Opportunities For Foreign Companies". *Forbes*. <<https://www.forbes.com/sites/drillinginfo/2016/02/29/iran-post-sanctions-oil-gas-opportunities-and-challenges/#73ce5a64681d>>

¹⁰⁴ Walker, Andrew. 30 November 2016. "Can Opec agree to raise the oil price?". *BBC*. <<http://www.bbc.com/news/business-38137125>>

¹⁰⁵ The Economist. 8 December 2014. "Why the oil price is falling". <<http://www.economist.com/blogs/economist-explains/2014/12/economist-explains-4>>

should be an across the board OPEC decrease in production in order to help increase the price of oil. Given the severity and longevity of this problem, OPEC was also discussing with other major oil exporters, not party to OPEC, of their need to at least stabilize, if not reduce, their production as well. Iran's predicament was such that as soon as the JCPOA came into effect, pressure was mounting to cut, rather than increase production, as was Iran's objective. Thus, Iran was in a precarious situation where they too required higher oil prices, but needed to increase production in order to re-gain lost market share¹⁰⁶. In a backdrop of considerable political differences, specifically between Saudi Arabia and Iran, an agreement was reached, in late 2016, whereby Iran was the sole OPEC country permitted to increase production whilst other members agreed to a production decrease¹⁰⁷. Important to note here is that in so doing, OPEC members were recognizing Iran's pre-sanction production levels (based on production in 2005 at 3.97 million barrels per day). It was from this production level that Iran's current production levels were re-assessed¹⁰⁸. The agreement is such that Iran must cut production by 4.5 percent but based on the 2005 production quantity. With a 4.5 percent decrease, current Iranian production remains below this figure and therefore Iran has the right to increase production¹⁰⁹. Production, however, cannot increase more than the 4.5 percent decrease from 2005's 3.97 million barrels per day¹¹⁰. The production cap is therefore circa 3.79 million barrels per day. The outcome for Iran is favourable. The OPEC agreement to cut production has helped to increase the price of oil - even if only marginally - whilst simultaneously allowing Iran to regain lost market share. For Iran,

¹⁰⁶ Walker, Andrew. 2016.

¹⁰⁷ Vakhshouri, Sara. January 2017

¹⁰⁸ Vakhshouri, Sara. January 2017

¹⁰⁹ Vakhshouri, Sara. January 2017

¹¹⁰ Vakhshouri, Sara. January 2017

the agreement results in higher oil prices, higher production levels, higher export volumes and thus greater state revenues.

In light of these figures, questions arise in terms of Iran's oil production. Estimates suggest that, as of June 2016, Iranian production had increased to 3.6 million barrels per day and current production levels are reported to remain around the same level. As of yet, there are no indications that Iran has in fact reached the new 3.79 million barrels per day threshold¹¹¹. Moreover, it is also reported that the majority of Iranian oil exports, following the JCPOA's implementation, were in fact from stockpiles, which had been stored on oil tankers during the years of sanctions¹¹². This evidence lends itself to the supposition that Iran continues to face production limitations that have yet to be resolved in a post sanction context. The general stance is that it is a "...difficult path for Iran to raise crude output until it can get the Western expertise and investment back into the upstream, which has been notably slow to materialize"¹¹³. Here, the conclusion appears to be that the remaining U.S. sanctions, uncertainty in the Trump's administrations' approach to Iran, and upcoming Presidential elections in Iran, have significantly curtailed the interest of Western firms to engage and invest in the country's energy industry¹¹⁴. This situation is exemplified by Total's decision to invest in a two billion dollar gas project being delayed to the summer of 2017. Moreover, Total has publically noted that a renewal of U.S. sanctions waivers would be central to their upcoming decision to proceed or not¹¹⁵. Indeed, in May 2017, a more concrete view of the Trump administration's Iranian stance will come to light when he either

¹¹¹ Reuters. 6 April 2017. "Iran Struggles to expand oil exports as sea storage cleared". *Business Trader*. <<http://www.businessinsider.com/r-iran-struggles-to-expand-oil-exports-as-sea-storage-cleared-2017-4>>

¹¹² Reuters. 6 April 2017. "Iran Struggles to expand oil exports as sea storage cleared". <<http://www.reuters.com/article/us-iran-oil-storage-idUSKBN1780H6>>

¹¹³ Reuters. 6 April 2017

¹¹⁴ Reuters. 6 April 2017

¹¹⁵ Reuters. 6 April 2017

extends - or does not - the presidential sanction waivers under the auspices of the JCPOA agreement¹¹⁶. On the Iranian side, it is also being reported that formal engagements with Western firms have been suspended until after the forthcoming Presidential elections¹¹⁷. The result of these factors is that with production potentially limited and no more offshore stockpiles, Iranian oil exports will decrease. Despite increased trade between Iran, Europe, Russia and many Asian countries, the volatility of the current situation has meant that "...the actual cash investment that's going into that economy is far less than I think would be if we were in a more benign political scenario. Has the trade gone on? Yes it has, but has there been truly significant capital investment into that country? No there hasn't, and that's probably the biggest disappointment that the Iranians have...is that the flow of capital investment that they desperately need and were hoping for has not materialized..."¹¹⁸. This outcome is specifically pertinent to the development of Iran's oil and gas industry.

C. International Financial Markets

Despite the lifting of nuclear related sanctions, international banking engagement with Iran continues to be highly limited. As of today, there are about "...five different finance mechanisms in play...the first is the continued existence of the routes that people used during the sanctions era to finance trade and...get payments out of Iran. Secondly, there is normal banking. There are a few transactions being done...provided the people sponsoring the transaction, the firms selling, are prepared to pay very substantial due diligence fees over and above what they would normally pay their

¹¹⁶ Financial Tribune. 5 April 2017. "Despite nuclear deal, EU firms still cautious on Iran". *Iran Oil Gas*. <<http://www.iranoilgas.com/news/details?id=17355&title=Despite+nuclear+deal%2C+EU+firms+still+cautious+on+Iran>>

¹¹⁷ Reuters. 6 April 2017

¹¹⁸ Silver, Hatcher, Dalton, Jenkins & McCleary. 2017. (Jonathan Silver: 20.18)

bank...Thirdly, there is what I call offshoring the proceeds. So, large international companies can take a payment out of Iran and put it into a subsidiary somewhere where there is no effect of United States secondary sanctions to get in the way of them receiving value for that payment. Then there is the government lines of credit...the Japanese are going in for, Italians have got them...Then there's specific vehicles chosen for particular deals. So for example, airbus aircraft sales are being financed through leasing based in Dubai. So, if you want to do business with Iran, you need to look at the nature of your business, the location of your business, and which of these financing routes is open to you.¹¹⁹ Whilst these options exist, this description highlights Iran's continued isolation and the country's continued lack of normalization within formal international banking mechanisms. As a result, major U.S. banks and major non-U.S. banks remain highly uncertain of their ability to engage with Iran or not: "...the big banks are not going to come on board with the threat of Trump hanging over them and with the threat of potential snap-back or whatever might occur..."¹²⁰.

For U.S. banks, the current situation is that they cannot engage with Iran. For non-U.S. banks, the current conundrum relates to whether or not they have exposure in the U.S. That being said, given the globalization of capital, most large international banks tend to have considerable ties with the U.S.¹²¹. This exposure to the U.S. can either be via financial and commercial relations or simply via the employment of U.S. citizens within a European bank. Politically speaking, however, Europe has not delineated the capacities of European banks with regards to their ability to re-integrate Iran: "...We hear nothing from European governments assailing the United States, as they should, about the hypocrisy. In many ways the Iranians are right, that under the JCPOA all the

¹¹⁹ Silver, Hatcher, Dalton, Jenkins & McCleary. 2017. (Sir Richard Dalton; 30.43)

¹²⁰ Silver, Hatcher, Dalton, Jenkins & McCleary. 2017. (Boyd McCleary: 27.35 & Boyd McCleary: 34.15)

¹²¹ Silver, Hatcher, Dalton, Jenkins & McCleary. 2017. (Jonathan Silver: 20.18)

formal requirements have been undertaken by the United States and its partners, but some key other measures to facilitate trade, which was a clear requirement in the JCPOA, could have been taken but have not been taken...we can't put up any longer with this discrimination against U.K. and European businesses when it comes to the involvement of U.S. persons.¹²²” As a result, trade finance for large projects in Iran is still highly limited, with the majority of banking engagement left only to small to medium sized banks. Again, this has major implications for foreign engagement in Iranian oil and gas projects, as these types of projects inherently require the support and facilitation of large, global banks.

D. International Oil and Gas Markets

The most recent International Monetary Fund's (IMF) Iran country report notes how the continuation of U.S. sanctions has fuelled obstacles for Iran. Specifically, the IMF highlights the repercussions of sanctions, which remain in place and are related to non-U.S. banks' engagement with Iran and U.S. dollar clearing transactions. The impact, as reported by the IMF, is such that it “...restricts access to corporate trade finance and limits access to reserves, foreign assets, and export earnings particularly from dollar-denominated oil sales.”¹²³ In light of these persistent obstacles, one may suggest that this partially explains the Iranian decision to shift their oil sales from the US dollar to euros, in addition to Total's recent forays into sending small amounts of Euros to the country, with the aim to “test the banking system and learn how difficult it was to make day to day transactions in Iran.”¹²⁴ Total has officially confirmed these initiatives as a

¹²² Silver, Hatcher, Dalton, Jenkins & McCleary. 2017. (Peter Jenkins: 36.13)

¹²³ International Monetary Fund. February 2017. *Islamic Republic of Iran*. IMF Country Report No. 17/62: 4

¹²⁴ Reed, Stanley. 31 March 2017. “Even Bold Foreign Investors Tiptoe in Iran”. *The New York Times*.
<https://www.nytimes.com/2017/03/31/business/energy-environment/iran-total-energy-pouyanne.html?_r=0>

way to overcome these U.S. banking related sanctions via the use of euro-denominated cash in order to finance their future projects in Iran¹²⁵. Circumventing the historical oil-US dollar link has significant implications for international oil trade and, in turn, the pre-eminence of the US dollar as the global reserve currency. Whilst Iran had begun pricing its oil in currencies other than the US dollar prior to the JCPOA, this was greatly considered to be simply a means to insulate the country from the sanctions and sustain its economic self-resilience¹²⁶. Iranian persistence to continue this strategy, coupled with Total's initiatives – to be considered as a result of continued U.S. sanctions with regards to banking and US dollar transactions - could officially create a novel and parallel oil market, outside of the long rooted US dollar hegemony, with potentially global consequences.

The importance of oil being priced in the US dollar is traced back to 1971. From World War Two to 1971, the world witnessed the rise of the US dollar as the global reserve currency. During this time period, the US currency was backed by gold¹²⁷. In 1971, however, President Nixon's administration ended the US dollar-gold link, which marked what many consider as the end of the World War Two Bretton Woods System¹²⁸. Terminating the gold link meant the safety, stability, and pre-eminence of the US dollar was to be questioned. Indeed, this ushered in a new international financial system of floating currencies. For the US dollar to maintain pre-eminence, it required another form of fixed and global demand to sustain its global dominance. This led to the

¹²⁵ Dittrick, Paula. 06 March 2017. "Analysts Optimistic Iran Can Increase Oil Production Medium-Term". *Oil and Gas Journal*. <<http://www.ogj.com/articles/print/volume-115/issue-3/drilling-production/analysts-optimistic-iran-can-increase-oil-production-medium-term.html>>

¹²⁶ See Vahkhshouri, Sara. 2015 & Vahkhshouri, Sara. 2012.

Examples of Iran's self-reliance and semi-insulated oil and gas industry have included, among other mechanisms, pricing its oil in currencies other than the U.S. dollar, shifting its foreign oil sales to Asia and alternative payment structures (bartering oil for goods and services).

¹²⁷ Clark, William. 2005. *Petrodollar Warfare*. New Society Publishers.

¹²⁸ Clark, William. 2005

U.S creating an alternative system¹²⁹. The alternative system was to be oil, via the creation of a petrodollar recycling system. Broadly speaking, this system relied on the fact that the US dollar was agreed to be the sole currency for oil sales. This therefore ensured that all countries - who at this stage depended on oil for the functioning of their economies - would continue to demand and therefore hold the US dollar in order to ensure their capability to buy oil. The US dollar therefore remained the international reserve currency on which the world's international financial system was predicated. "Petrodollar recycling", which was an outcome of the oil-US dollar tie, refers to the oil exporting countries channelling their surplus dollars - those which exceed their own domestic investment needs - back into New York and London banks, with a primary focus on US treasury deeds. Placing US dollars into these institutions served to bankroll the U.S. balance of trade. Thus, the US dollar shifted from being backed by gold to being backed by "black gold".

This US dollar-oil financial mechanism remained preeminent until the arrival of the Euro in 1999. The arrival of the euro propelled what is known as the petrodollar warfare stage. Shortly thereafter, the first implemented sale of oil in euros occurred. This was undertaken by Saddam Hussein in 2000 and was linked to the Oil for Food Program of the United Nations. Prior to the 2003 Iraq war, Iran, Russia, Indonesia and Venezuela hinted that they too wanted to shift their oil sales to the euro. In this light, arguments have arisen that the Iraq war "...was about dollars, euros, oil and geostrategic power in the 21st century". Despite these developments, one of the main technical obstacles for selling oil in alternative currencies relates to the creation of a platform from which to do this, as the WTI and Brent crude platforms both utilize the

¹²⁹ Clark, 2009, Spiro, David. 1999. *The Hidden Hand of American Hegemony, Petrodollar Recycling and International Markets*. U.S.: Cornell University Press & Engdahl, 1993. *A Century of War: Anglo-American Oil Politics and the New World Order*. London: Pluto Press

US dollar as their currency marker. As mentioned earlier, the imposition of international sanctions on Iran helped promulgate Iranian solutions to curtail these restrictions. One such solution was the sale of oil in currencies other than the US dollar or via simple trade exchanges. This is aptly reflected through the Iranian proposal of an Iranian oil bourse, which would have been euro dominated, in 2004.

Iran's current decision to continue to sell oil in currencies other than the US dollar is therefore significant. Indeed, this may even have the ability to undermine the stability and demand of the US dollar as the leading world currency. Moreover, given the tension between European engagement in Iran due to impediments of the U.S. banking dollar restrictions - and should Total prove to be successful in its initial trials of Euro transfers - there currently exists the possibility of creating a petro-euro system. In and of itself, this provides the possibility of linking Iran economically to Europe, without the hindrance or dominance of the U.S. At the same time, whilst this supposition arises, it should also be taken into consideration that the value of the euro has greatly decreased. The occurrence of "Brexit", alongside considerable uncertainty in Europe with regards to the upcoming French and German elections, has resulted in euro instability and devaluation. Within this overall context of U.S. sanctions, coupled with euro currency uncertainty, Iran's current strategy of selling oil and gas in a variety of currencies or via simple trade swaps, in addition to engaging with a variety of international oil and gas companies appears highly rational. Read broadly, this can imply a consequential political leverage against the U.S. and the US dollar, whilst simultaneously ensuring that Iran has spread its bets and reduced potential vulnerability to any one currency, one market or one international oil and gas company. This position feeds into Iranian plans

for an economy of resistance, without necessarily indicating a pursuit of ‘non-aligned’ alliances.

The list of companies that Iran has included in the ability to engage in the first tender is listed below. This list highlights how Iran has opted for a diversified list of international oil and gas companies, with no obvious bias towards the West or the East. Important to note, is that there is only firm with a partial U.S. origin: Schlumberger. The virtual exclusion of U.S. oil and gas companies is, however, said to be more of a result of a U.S. position rather than an Iranian stance. Indeed, the Iranians have officially said that U.S. companies face no bans in terms of working in Iran¹³⁰: “It is true to say that there is no ban on American oil companies participating in business in Iran. The service companies are certainly involved in that market already, in a truly legitimate way...U.S. companies...can operate through subsidiaries in the Iranian market so they are not precluded. But after 29 companies that were designated in January as being able to bid for blocks under the new integrated petroleum contract, there are no U.S. companies on that list. But, I suspect that is a U.S. choice rather than it is an Iranian choice...the Iranians are open to investment, they need significant investment in their oil business...a significant amount of money in order to upgrade and increase their production...the sort of technology they need to do that, a lot of it is U.S. technology...”¹³¹

Given that the new framework for IPCs entails a joint venture and a twenty to twenty five year duration agreement, which oil and gas companies Iran is targeting, reveals implicit and explicit foreign policy positions. Moreover, given that the design of the IPCs allows Iran to take advantage of the company’s marketing expertise, the choice

¹³⁰ Silver, Hatcher, Dalton, Jenkins & McCleary. 2017. (Clare Hatcher: 20.38)

¹³¹ Silver, Hatcher, Dalton, Jenkins & McCleary. 2017. (Jonathan Silver: 22.38)

of companies also provides insight into which markets Iran is seeking to target¹³². That being said, despite the below list of companies, in addition to a variety of memorandums of understanding, which have been signed between Iran and international oil and gas companies, as of yet, the only preliminary agreements between Iran and Western firms are those signed by Total and Shell - one before and one following the election of Donald Trump, respectively¹³³. Total's engagement would be related to the South Pars gas field¹³⁴, yet, as noted above, this agreement is currently stalled. Following Donald Trump's election, Shell has been the only other company to have signed a preliminary agreement. That being said, during the signing ceremony, Shell officially and publically stressed that the preliminary agreement was so far a non-binding agreement¹³⁵.

Table 2: IOCs certified to bid at Iran's upcoming oil and natural gas tender

CNOOC (China)	Lukoil (Russia)	Posco Daewoo (South Korea)
CNPC (China)	Maersk (Denmark)	PTTEP (Thailand)
CNPW (China)	Mitsubishi (Japan)	Schlumberger (Netherlands/US)
DNO (Norway)	OMV (Austria)	Shell (Netherlands/UK)
Eni (Italy)	ONGC Videsh (India)	Sinopec (China)
Gazprom (Russia)	Perenco (France/UK)	Total (France)
Inpex (Japan)	Pertamina (Indonesia)	Wintershall (Germany)
ITOCHU (Japan)	PGNiG (Poland)	
Korea Gas Corporation (South Korea)	Plus Petrol (Argentina)	

Source: NIOC¹⁴

136

The rationale behind diversifying the origins of each international oil and gas company is most certainly a result of Iran's desire – publically noted – to create an economy of resistance and resilience. Given the Iranian experience of Western sanctions, and the consequential effects these sanctions had on the Iranian energy industry, one may propose that there is an inherent reluctance to become entirely

¹³² Gulf Intelligence. 2016

¹³³ Dittrick, Paula. 2017

¹³⁴ Khalaj, Ward & Raval. December 7 2016. "Shell signs provisional oil and gas deal with Iran". *The Financial Times*.

<<https://www.ft.com/content/fa879b24-bc8c-11e6-8b45-b8b81dd5d080>>

¹³⁵ Khalaj, Ward & Raval. December 7 2016

¹³⁶ Jalilvand, David. 2017

dependent on European or U.S. firms. Opting for such a positioning would create an inevitable Iranian vulnerability, economically and thus politically, in the event of deteriorating diplomatic relations, as was the case in the past. Thus, hedging one's bet solely in one direction would be counter-intuitive for Iran. This helps to explain why such a diverse range of firms were included in the list. Whilst there clearly remains an Iranian requirement to engage with Western oil and gas firm - in order to acquire the necessitated technology, expertise and investment in domestic energy industry – the Iranian stance appears to be that they will proceed in this endeavour in a balanced manner so as to minimize any future vulnerability.

CHAPTER IV

DISCUSSION: IRAN'S OUTLOOK

A. Russia and China

Russia and China have both been essential in supporting Iran, both politically and economically, when under the imposition of international sanctions¹³⁷. Indeed, it is reported that the earlier enacted U.N. sanctions were not able to target Iran's energy sector as a result of Russia and China¹³⁸. Despite what seems as a unified group with shared objectives, and coined as part of the 'non-aligned' bloc, there are different relations and objectives at stake between these three countries.

Iran's relations with Russia have considerable longevity and have been characterised both by conflict and rapprochement¹³⁹. More recently, relations, political and economic, tend to be seen as unified and supportive, as exemplified by President Rouhani's official visit to Moscow, in March 2017¹⁴⁰. Indeed, the two countries present themselves as a unified block, which tends to be explained as a result of both Iran's and Russia's fragile relations with the United States. For Iran, the need to continue this relationship may be perceived as a form of strategic alliance should relations deteriorate with the U.S.¹⁴¹. Given that both countries have, and are, facing international sanctions, the warming relations between Russia and Iran are partially explained as a result of their co-dependency in light of limited alternative alliances¹⁴². However, when considering

¹³⁷ Jalilvand, David. 2013.

¹³⁸ Jalilvand, David. 2013.

¹³⁹ See Wheeler, Eric & Desai, Michael. September 12 2016. "Iran and Russia: A Partnership in the Making." *Middle East Institute*. <<http://www.mei.edu/content/iran-and-russia-partnership-making>>

Security, ideological and diplomatic differences, especially during the time of the Soviet Union, are broadly perceived as having created significant tensions between both Russia and Iran. The recent rapprochement between the two countries is mostly viewed as an exception to the rule given the long history of competition and distrust.

¹⁴⁰ Stratfor. March 28 2017. "Russia and Iran's Marriage of Convenience". *Stratfor*.

<<https://www.stratfor.com/sample/geopolitical-diary/russia-and-irans-marriage-convenience>>

¹⁴¹ Stratfor. March 28 2017.

¹⁴² Wheeler, Eric & Desai, Michael. September 12 2016.

Iranian-Russian relations from an energy perspective the relationship between the countries seems to face pending dilemmas. This potential energy competition is explained as a result of the large reserves the countries' have, both in oil and natural gas¹⁴³. Given that much of Russia's own re-birth, under president Putin, has been attributed to his geopolitical energy strategies, any form of market share loss, could be conceived, in turn, as a loss in Russia's political leverage internationally. One major point of contention will be whether Iranian natural gas can gain market share within the European Union, which would inevitably decrease Russia's share. An example of this natural gas competition is illustrated in the Iranian-Armenian gas pipeline, which could have acted as a transit pipeline into Europe. Gazprom, owning sixty eight percent share of the Armenian partner ArmoRosGaz is reported to have ensured that the diameter of the pipeline be reduced to 700mm instead of the initially envisaged 1,420mm. The result of this is a greatly reduced annual pipeline capacity and helps to explain why the infrastructure was not extended for the purpose of allowing Iranian gas to enter Europe¹⁴⁴. Moreover, it is also speculated that the increased quantities of Iranian oil and long-term prospects of gas, could also encroach on Russia's market share more internationally¹⁴⁵.

However, Russia, as a non-OPEC member, who itself agreed to the OPEC oil production decrease in late 2016, did so whilst advocating for Iran's ability to increase production¹⁴⁶. Russia's agreement may therefore be seen as supportive of Iran's ability to regain lost market share. Moreover, Russian energy firms Gazprom and Lukoil - both with close ties to the Russian state apparatus - are included in the list of companies

¹⁴³ Wheeler, Eric & Desai, Michael. September 12 2016.

¹⁴⁴ Jalilvand, David. 2013.

¹⁴⁵ Stratfor. March 28 2017.

¹⁴⁶ Pokrovskaya, Ekaterina. November 10 2016. "Russia and Iran Sign Flurry of Energy Deals, What's Next?" *Oil Price*. <<http://oilprice.com/Energy/Energy-General/Russia-And-Iran-Sign-Flurry-Of-Energy-Deals-Whats-Next.html>>

approved for Iranian energy tenders. The argument here is that Russian inclusion should not be viewed as a sign of gratitude for past support, or political in nature, but purely a result of Iranian economic considerations. In light of continued European and U.S. energy firms' reticence to engage in Iran's energy sectors – discussed above and in below sections – and given Iran's urgent requirements to expand and redevelop these industries, Russian companies, who are not as vulnerable to international sanctions, are more capable, in the short-term, of providing immediate investment and assistance to Iran's energy industry¹⁴⁷. For Tehran, the inclusion of Russian energy firms is as a result of their immediate ability to engage, which again highlights Iran's prioritization of economics rather than politics. Historically, Iran's energy industry further counters the perception that Iran has been allying with Russia solely for political and military purposes. With the implementation of Western sanctions, which meant U.S. firms could not operate and with the eventual departure of European firms, Russian energy companies were mostly able to continue, and even grow their commercial energy investments within Iran¹⁴⁸. The point here is that it was not an Iranian energy policy to limit Western engagement and turn to Russia but, rather, a forced economic outcome, due to the sanctions and continued imposition of secondary U.S. sanctions.

¹⁴⁷ Wheeler, Eric & Desai, Michael. September 12 2016.

¹⁴⁸ See RT. “Russia’s Lukoil set to revive energy ties with Tehran.” *RT*. <<https://www.rt.com/business/315828-lukoil-iran-oil-projects/>> & Wheeler, Eric & Desai, Michael. September 12 2016.

“The National Iranian Oil Company (N.I.O.C.) signed a series of collaborative agreements with Russian national oil company Gazprom to develop the South Pars gas field in 1997 and brokered a number of exploration and production (E&P) and natural gas distribution deals with Gazprom and other Russian oil companies in the early-late 2000s. In 2013 and 2014, the countries signed broad E&P and infrastructure development deals worth around \$10 billion. In 2016, Gazprom submitted a formal request to partner with N.I.O.C. in the construction of the country’s first natural gas liquefaction plant”. It should be noted, however, that Lukoil in 2010, and other Russian firms with commercial ties to the U.S. were forced, eventually to terminate projects in Iran. Gazprom, however, never left the country.

Seen in the underlying light of energy cooperation, rather than energy conflict, Iran's potential accession to Russia's Eurasian Economic Union (EEU)¹⁴⁹, could see these two countries further consolidate their ties and act, potentially, as a unified energy front. As of early March 2017, the EEU began preparations to form a free-trade zone with Iran¹⁵⁰. Given Russia's leadership of the EEU, this initiative proposes the conclusion that Russia, whilst wary of Iran's future ability to seize oil and gas market share in the European and Eurasian markets, prefers cooperation in order to limit any potential Russian loss. This potential accession and cooperation between the EEU and Iran may be read as a strategic alliance. For Russia, it is based on preserving its energy dominance, and thus political dominance, within these regions¹⁵¹. For Iran, it highlights and further exemplifies their policy to pursue economic energy opportunities. Should these developing forms of trade and energy cooperation be successful, it supports the supposition that these short-term agreements could lead to long-term energy cooperation. This supposition is further supported by the five-year strategic plans, between Russia and Iran, with agreements focusing on energy, trade and construction, signed in July 2016; Russian interest in building an LNG plant in Iran – which would allow for Iran's natural gas to access international markets and a Russian-Iranian bank initiative to create a single joint banking system with the aim of side-stepping U.S.

¹⁴⁹ Eurasian Economic Union. "Timeline". <<http://www.eaeunion.org/?lang=en#about-history>> & Duchatel et al. June 7, 2016. "Eurasian integration: Caught between Russia and china". *European Council on Foreign Relations*. <http://www.ecfr.eu/article/essay_eurasian>

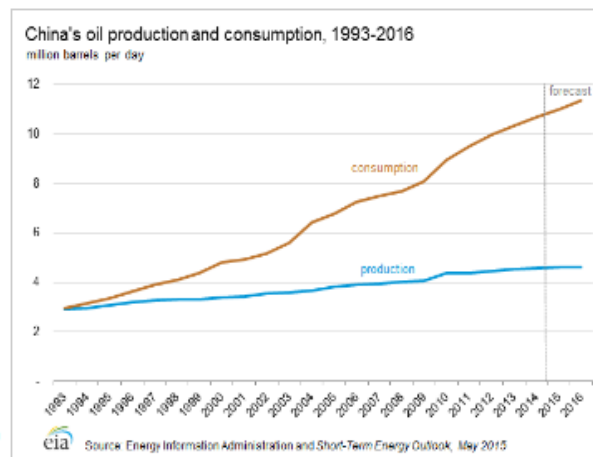
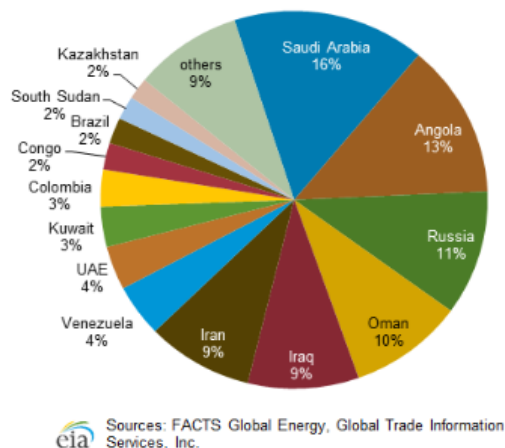
The Eurasian Economic Union provides the free movement of goods, services, capital and labour under a coordinated and harmonized single policy. The member states are the Republic of Armenia, the Republic of Belarus, the Republic of Kazakhstan, the Kyrgyz Republic and the Russian Federation. It is generally perceived as a Russian initiative in order to integrate the Eurasian landmass within a "Russian-dominated geopolitical bloc". It competed with the concept of the European Union as well as China's "One Belt, One Road" initiative.

¹⁵⁰ Press TV. March 7, 2017. "Eurasian Economic Union agrees to form free-trade zone with Iran". *Press TV*. <<http://www.presstv.ir/Detail/2017/03/07/513421/Eurasian-Economic-Union-Iran-freetrade>>

¹⁵¹ Xanthos, Gregor. February 25, 2017. "Iranian Energy: A Game-Changer for Russia-Europe Relations". *The Diplomat*. <<http://thediplomat.com/2017/02/iranian-energy-a-game-changer-for-russia-europe-relations/>>

related banking sanctions¹⁵². In terms of energy, the Russia-Iran relationship can be characterised as one of immediate convenience.

China's crude oil imports by source, 2014



153

China's relations with Iran are different in nature. Broadly speaking, in terms of energy, this can be explained by China's dependence on oil imports, in order to meet domestic demand, as highlighted in the above graphs. Moreover, Sino-Iranian relations tend to have a less complicated historical past, greatly a result of China's policy of "non-interference in internal affairs"¹⁵⁴. Thus, China's predominantly financially motivated approach to foreign policy lends itself to be a wholly suitable alliance for Iran. As a result of this, China's shift to becoming a major oil importer in the early 1990s, thus cemented an energy relationship that persists to this day¹⁵⁵. Indeed, China continued its energy related trade and investment with Iran, throughout the entire period of international sanctions, with reports that Chinese companies in fact expanded their presence in Iran with the view that the cessation of activities of other firms presented an

¹⁵² Pokrovskaya, Ekaterina. November 10 2016.

¹⁵³ Energy Information Administration. May 14, 2015. "China"
<<https://www.eia.gov/beta/international/analysis.cfm?iso=CHN>>

¹⁵⁴ Hsu, Sara. January 27, 2016. "China's relations with Iran: A Threat to the West?". *The Diplomat*.
<<http://thediplomat.com/2016/01/chinas-relations-with-iran-a-threat-to-the-west/>>

¹⁵⁵ Park, John & Glenn, Cameron. 2015. "Iran and China. *United States Institute of Peace – The Iran Primer*.
<<http://iranprimer.usip.org/resource/iran-and-china>>

opportunity to expand the Chinese share due to reduced competition¹⁵⁶. In 2015, it was reported that Iran provided eleven percent of China's oil imports and, in turn, China was Iran's largest purchaser of oil. In addition, Iran has network entry into gas and oil pipelines, financed and built by the Chinese, from Kazakhstan to Alashankou and Turkmenistan to Khorgos¹⁵⁷. On the other hand, there has been some energy related disagreement between Iran and China. Perhaps as a result of Chinese firms aiming to secure the Iranian market, without a firm ability to deliver on agreements, Iran has in fact terminated certain contracts with Chinese energy firms. This includes the suspension of the contract with the China National Offshore Oil Corporation for lack of progress in 2011 and the China Natural Petroleum Corporation's withdraw from a development project in the South Pars natural gas field following an Iranian threat to void the contract citing lack of progress¹⁵⁸. Despite this, all future prospects relating to Iranian-Chinese energy relations remain strong as exemplified by the inclusion of Chinese companies being able to participate in tenders, as well as the numerous state visits conducted between the two countries¹⁵⁹.

Another parallel structure for the Eurasian region is the Shanghai Cooperation Organization (SCO). The SCO is an intergovernmental organization composed of China, Russia, Kazakhstan, Kyrgyzstan, Tajikistan, and Uzbekistan founded in

¹⁵⁶ See Park, John & Glenn, Cameron. 2015. & Downs, Erica. June 6, 2013. "China-Middle East Energy Relations". *The Brookings Institute*. <<https://www.brookings.edu/testimonies/china-middle-east-energy-relations/>>
Some sanctions, in 2012, did have an effect of reducing Iranian oil imports to China in addition to the disruption of certain energy projects and the ability to process payments. Despite this, imports and exports between the two countries continued.

¹⁵⁷ Lim, Kevjin. July 25, 2016. "Iran's Shanghai Dream". *Foreign Affairs*.
<<https://www.foreignaffairs.com/articles/china/2016-07-25/irans-shanghai-dream>>

¹⁵⁸ Downs, Erica. June 6, 2013

¹⁵⁹ See Park, John & Glenn, Cameron. 2015.

The Iranian Foreign Minister visited China in May and October of 2014, in addition to an official visit by President Rouhani in May 2014. In exchange, Iran has hosted the Chinese Foreign Minister in February 2015, followed by President Xi Jinping's visit to Iran in January 2016.

Shanghai, in 2001¹⁶⁰. Despite various objectives of the organization, its importance, in terms of Iran, relates to its focus on regional economic initiatives such as the Silk Road Economic Belt, also known as the ‘One Belt, One Road’ initiative¹⁶¹. Iran is not yet a member state and only holds the position of an observer state. Previous Iranian attempts to join the SCO were reportedly stymied by both Russia and China. Broadly speaking this is suspected to be a result of Russian objectives with regards to dominating control of oil and gas transit within Eurasia, in addition to earlier political contention concerning Iran’s nuclear status¹⁶². China, on the other hand, purportedly views the SCO in terms of advancing Chinese dominance within the region’s trade and investment.¹⁶³ However, Iran’s latest attempt to access membership to this organization, in 2016, despite publically espoused Russian backing, was stopped, with China implicitly the one behind this¹⁶⁴. Whilst this inability to accede seems to be an indicator of both Russian and Chinese caution to bring Iran into a formal security arrangement, any future Iranian accession into the SCO would result in the organization representing fifty percent of worldwide gas reserves and eighteen percent of global oil reserves¹⁶⁵. An organization representing such a large portion of hydrocarbon reserves, physically connected via the ‘One Belt, One Road’ – upon its fruitful completion – would lead to the creation of a regional bloc with global import. It is thus an interesting indicator to monitor going forward when assessing the strategic intentions of Iran, China and Russia.

¹⁶⁰ Albert, Eleanor. October 14, 2015. “The Shanghai Cooperation Organization”. *Council on Foreign Relations*. <<http://www.cfr.org/china/shanghai-cooperation-organization/p10883>>

¹⁶¹ Albert, Eleanor. October 14, 2015.

¹⁶² Cohen, Ariel. August 3, 2006. “The Dragon Looks West: China and the Shanghai Cooperation Council”. *Uyghur Human Rights Project*. <<http://uhrp.org/featured-articles/dragon-looks-west-china-and-shanghai-cooperation-organization>>

¹⁶³ Cohen, Ariel. August 3, 2006.

¹⁶⁴ Lim, Kevjin. July 25, 2016.

¹⁶⁵ Lim, Kevjin. July 25, 2016.

B. Regional

The general view of Iran's relationship with regional countries tends to be one often characterized as problematic. This is especially the case with regards to the Gulf Cooperation Council (GCC) countries, which includes Saudi Arabia, Oman, the United Arab Emirates, Kuwait, Bahrain and Qatar. This tension has a long history¹⁶⁶ and in more recent times has heightened due to conflicting objectives in a variety of issues which include, but are not limited to: Syria, Yemen, Iraq, Lebanon, the Hajj, the attack on the Saudi embassy in Tehran, and, of course, different energy strategies and priorities. Regionally, the proposal and then implementation of the Iranian nuclear deal was received both with positivity and criticism. On one hand, it was applauded in terms of its capacity to defuse tensions over potential nuclear armament and for its potential ability to support the concept of a weapons of mass destruction free Middle East¹⁶⁷. On the other hand, it was simultaneously postulated that regional countries, and the GCC countries in particular, viewed the JCPOA as an inopportune agreement in which the United States was shifting political alliances, coupled with suppositions that it could promote "malign Iranian influence"¹⁶⁸ and thus had the ability to alter regional power orders¹⁶⁹.

¹⁶⁶ See Habibi, Nader. November 2010. "The Impact of Sanctions on Iran-GCC Economic Relations". *Brandeis University – Crown Center for Middle East Studies*. <https://www.brandeis.edu/crown/publications/meb/MEB45.pdf>

Prior to the 1979 revolution, Iran, under the Shah played a policing role in the Middle East region. This in itself created some tensions, as the U.S. used Saudi Arabia in conjunction with Iran for this purpose. Following 1979, a period of ideological confrontation arose with suppositions that Iran was attempting to export the "revolution" to regional countries. With the arrival of Rafsanjani in 1989, a period of détente and diplomacy occurred, with an Iranian objective to try and reduce U.S. influence. Following the Organization of the Islamic Conference, in 1997, under the tutelage of President Khatami, continued to see a marked improvement of regional relations, as exemplified by the visit of former President Rafsanjani to Saudi Arabia and the reopening of direct flights between Jeddah and Tehran for the first time in eighteen years. Moreover, there was reported to be significant cooperation between Saudi Arabia and Iran, in the late 1990s over a shared objective of trying to increase oil prices.

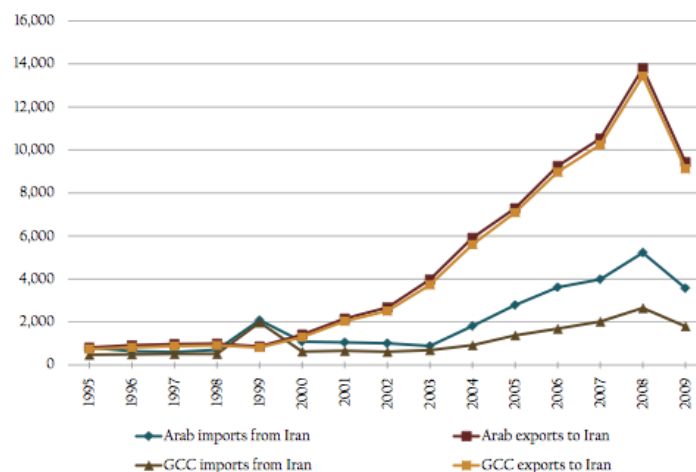
¹⁶⁷ Jahanpour, Farhang. September 29, 2015. "Iran's nuclear deal and the regional countries". *Inter Press Service News Agency*. <http://www.ipsnews.net/2015/09/irans-nuclear-deal-and-the-regional-countries/>

¹⁶⁸ Mousavian, Seyed Hossein. April 13, 2017. "Trump's Syria Strike Puts American At The Precipice Of Another Middle East War". *The Huffington Post*. http://www.huffingtonpost.com/entry/trump-syria-strike-middle-east-war_us_58ed0724e4b0ca64d919ab6c?at

¹⁶⁹ United States Institute of Peace – The Iran Primer. July 28, 2016. "Report: GCC Cooperation and Iran".

The argument here, however, is that both regional countries and Iran will prioritise economic objectives rather than political disaccords. Firstly, there is a track record of trade and cooperation at a regional level. From the Iranian perspective, due to commercial limitations in light of U.S., E.U., U.N. and other international sanctions, Iran turned to its regional neighbours for economic and trade growth, especially during the early 2000s.

**Figure 1. Iran-Arab Trade as Reported by Arab Countries
(in millions of dollars)**



Source: International Monetary Fund, Direction of Trade Statistics, June 2010.

170

Two important elements to note, based on the above graph, is that post 2010, GCC countries did tend to reduce their economic relations with Iran, in order to keep their policies in line with the increasing western sanctions imposed on Iran. Secondly, trade within the GCC countries was not equal, with the United Arab Emirates (UAE) being by the far the largest trade partner of Iran.

<http://iranprimer.usip.org/blog/2016/jul/28/report-gcc-cooperation-and-iran>

¹⁷⁰ Habibi, Nader. November 2010: 4

Table 1. Iran's Imports from GCC Countries
(in millions of dollars)

Year	Bahrain	Kuwait	Oman	Qatar	Saudi Arabia	UAE
1995	60	5	3	1	21	441
1996	129	4	1	5	77	473
1997	59	15	0	2	55	562
1998	0	0	0	0	0	759
1999	0	0	0	0	0	769
2000	24	8	2	4	74	1,154
2001	65	10	4	5	163	1,502
2002	52	11	2	20	261	1,848
2003	55	25	4	23	405	3,135
2004	42	80	6	66	249	5,476
2005	50	64	3	27	254	7,285
2006	101	107	22	31	444	8,980
2007	112	175	51	58	469	10,081
2008	147	229	509	76	615	13,199
2009	100	155	346	52	418	8,973

Source: International Monetary Fund, Direction of Trade Statistics, June 2010, Trade data as reported by the Islamic Republic of Iran to the IMF.

Table 2. Iran's Exports to GCC countries
(in millions of dollars)

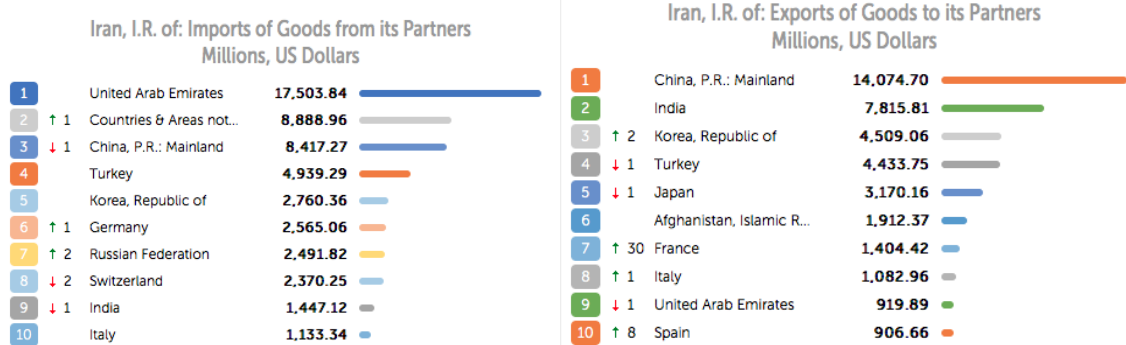
Year	Bahrain	Kuwait	Oman	Qatar	Saudi Arabia	UAE
1995	18	83	31	22	60	269
1996	15	66	29	23	59	308
1997	4	61	33	16	66	338
1998	17	73	24	18	66	325
1999	0	103	40	22	76	1,742
2000	0	134	61	23	98	315
2001	0	130	46	25	119	348
2002	0	123	22	19	90	365
2003	0	137	46	18	115	381
2004	0	157	41	14	274	438
2005	0	209	53	52	487	582
2006	0	250	112	53	583	697
2007	0	295	157	63	688	822
2008	0	386	208	82	901	1,076
2009	0	262	141	56	612	731

171

The above highlights the breakdown of regional trade between the GCC and Iran. The UAE's share is clearly the most important, but it does bear noting that the UAE's high share is largely a result of Dubai acting as a re-exporting hub for products to Iran¹⁷². Moreover, as the 2016 statistics below highlight, UAE's trade with Iran is not a balanced one, providing the UAE, and not Iran, with a significant trade surplus. Viewed at a larger scale, it should also be noted that GCC export trade represents a considerably small part in Iran's overall exports. This is greatly explained due to the pre-eminence of oil as an Iranian export, for which many of its regional neighbours have no significant demand, given their own resources.

¹⁷¹ Habibi, Nader. November 2010

¹⁷² Habibi, Nader. November 2010.



173

Iran's historic commercial and economic ties to regional neighbours helps support the argument that Iran will continue to prioritize this, rather than seek a rupture of relations as a result of political differences and tension. This helps to explain the current Iranian discourse, under the presidency of Rouhani, whereby they are seeking accommodation and negotiation. With regards to oil and gas, thus far, one major example of negotiation and cooperation between regional countries and Iran is the agreement made within OPEC, which allows Iran to increase production. The exceptionality of such an agreement was well expressed by Iran's oil Minister, Bijan Zanganeh: "The lesson to take is that it is possible to cooperate and reach an agreement despite competition and the existence of very strong political differences."¹⁷⁴ This OPEC agreement displays an accommodating tone both from Iran and OPEC member countries.

Moreover, in terms of Iranian gas policies, it may also be suggested that Iran is, and will be, deliberately seeking to aggrandize its export trade of this commodity with

¹⁷³ International Monetary Fund Data. "Direction of Trade Statistics" Iran. <http://data.imf.org/?sk=9D6028D4-F14A-464C-A2F2-59B2CD424B85&sid=1409151240976&ss=1454703973993>

¹⁷⁴ See Naharnet Newsdesk. 01 December 2016. "Iran claims victory in OPEC Oil Deal". *Naharnet*. <http://www.naharnet.com/stories/en/221336-iran-claims-victory-in-opec-oil-deal> & Geopolitical Diary. 31 March 2017. "Iran and the GCC Still have a Gulf Between Them". *Stratfor*. <https://www.stratfor.com/geopolitical-diary/iran-and-gcc-still-have-gulf-between-them>

Political differences between Iran and the GCC extend, in more recent times, to the attack on the Saudi embassy in Tehran following the execution of Shiite cleric Nimr al-Nimr; deteriorated relations and visa access for the Hajj and conflicts in Yemen, Syria, Iraq and Lebanon.

regional neighbours. In order to pursue this economic opportunity, Iran will be compelled to continue similar forms of negotiation and accommodation. The rationale behind the argument that Iran will seek to increase regional exports of gas lies in its future targets of production. Currently, Iran consumes nearly all of its gas production, yet it has clearly declared much larger future production levels. Whilst its domestic consumption will surely increase, the production levels targeted will create a surplus amount that would be allocated for export, with the purpose of increasing Iranian market share in line with the vast quantities of Iranian reserves. Evidence already suggests that Iran is looking to its regional neighbours as potential customers: President Rouhani has worked on improving foreign policies towards its Arab neighbours; Iranian energy officials have officially announced that they are engaging in discussions with neighbours regarding natural gas exports and Oman, UAE and Kuwait have engaged in gas related negotiations with Iran¹⁷⁵. Moreover, given Iran's lack of LNG facilities, which would allow for exports in specialised tankers to more international locations, Iran does have pipelines, albeit limited, already in place. Given that these pipelines have a regional focus (Turkey, Azerbaijan, Armenia, Turkmenistan and Pakistan), there therefore already exists an infrastructure framework on which to build and consolidate. That being said, low oil prices may have the effect of pushing regional neighbours, who have abundant oil reserves, to abstain from immediately pursuing natural gas trade with Iran. For example, Saudi Arabia, which is greatly dependent on oil for government revenue, could be swayed to shift to the importation of natural gas in order to allocate its oil primarily for export. Yet, given low international oil prices, this impetus to change energy sources is not, economically, a priority at the moment¹⁷⁶. On paper, the

¹⁷⁵ Vahkhshouri, Sara. November 16 2015.

¹⁷⁶ Vahkhshouri, Sara. November 16 2015.

exchange of natural gas will, however, remain an attractive energy policy for Iran and Saudi Arabia once the infrastructure is completely in place and the underlying economics proves viable. Efforts to this end are further exemplified by President Rouhani's official visits to Oman and Kuwait in February 2017, the first since he became president in 2013¹⁷⁷, recent espousals recommending a "basis for dialogue" and rapprochement from both Iran and GCC members¹⁷⁸, as well as the foreign minister of Kuwait's visit to Tehran¹⁷⁹. Again, the Iranian objective behind these regional engagements is speculated as being a result of their desire to expand energy and investment trade in the region¹⁸⁰: "the gas pipeline project between Oman and Oran will be an economical milestone for the two countries...Mr Rouhani is convinced that this [project] will also bring together all Gulf countries to address their common energy needs."¹⁸¹ In sum, Iran's oil and gas has already shown that regional cooperation is possible despite political tensions and differences. Historically, trade has been a method that has promoted regional cooperation and integration. The implementation of the JCPOA highlights a regional eagerness to expand regional commercial trade opportunities: "...many business people, up and down the Gulf, wanted to take advantage of new opportunities in Iran after the JCPOA...It's not yet regarded as unpatriotic, despite these massive political differences with Iran, in Iraq Syria and Yemen for example, for business people in Gulf states to do business with Iran to mutual benefit...It would be very difficult to stigmatize Gulf trade with Iran as

¹⁷⁷ The Economist – Intelligence Unit. February 16, 2017. "Oman". *The Economist*. <<http://country.eiu.com/article.aspx?articleid=975127081&Country=Oman&topic=Politics&subtopic=Forecast&sububtopic=International+relations&u=1&pid=1735140157&oid=1735140157&uid=1>>

¹⁷⁸ The Economist – Intelligence Unit. February 16, 2017.

¹⁷⁹ Al Shaibany, Saleh. February 15, 2017. "Rouhani meets rulers of Oman and Kuwait to reduce Iran-GCC tensions". *The National*. <<http://www.thenational.ae/world/middle-east/20170215/rouhani-meets-rulers-of-oman-and-kuwait-to-reduce-iran-gcc-tensions>>

¹⁸⁰ The Economist – Intelligence Unit. February 16, 2017.

¹⁸¹ Iranian Diplomat quoted in Al Shaibany, Saleh. February 15, 2017.

somehow wrong...Broadly speaking, at a commercial level people are allowed to get on and do what they need to do and that is separate from what's happening at a political level..."¹⁸² That being said, there is also one additional factor that may increase regional uncertainty as to whether neighbouring countries will pursue commercial opportunities with Iran or not. This extends to the Trump administration and eventualities as to how this administration will position itself towards Iran. Should U.S.-Iran relations be further constricted, regional neighbours of Iran will most certainly have to choose whether they will fall in line with U.S. policies towards Iran or pursue their own individual policies¹⁸³.

C. United States

Given Iran's rupture of relations with the United States since 1979 and the increasing imposition of U.S. sanctions on the country since, re-establishing economic relations between the two countries would be politically and commercially significant. As of today, however, there has been no rapprochement between the two countries, with regards to oil and gas. That being said, Iran has not denied the entry of U.S. energy firms. Rather, it has been U.S. firms who have reportedly chosen to avoid engagement¹⁸⁴. From this, we can read an Iranian openness to engage with the U.S. in terms of its energy industry. Again, this is most certainly a result of an Iranian need to access Western technology in this sector. Despite Russian and Chinese presence in these industries, it is understood that these firms are not in a position to provide the required technological and expert assistance required, due to Western sanctions¹⁸⁵. In

¹⁸² Silver, Hatcher, Dalton, Jenkins & McCleary. 2017. (Richard Dalton: 45.40 & Jonathan Silver: 47.25)

¹⁸³ Silver, Hatcher, Dalton, Jenkins & McCleary. 2017.

¹⁸⁴ Silver, Hatcher, Dalton, Jenkins & McCleary. 2017. (Clare Hatcher: 20.38)

¹⁸⁵ Downs, Erica. June 6, 2013

addition to acquiring technological assistance, Iran could also benefit from the marketing expertise of U.S. firms for the purpose of aggrandizing Iranian market share¹⁸⁶. As noted above, the newly instated IPCs, among other objectives, serve this purpose.

One the other hand, with the U.S. predicted to become a net energy exporter by 2026, in large part due to developments in U.S. energy production attributed to fracking¹⁸⁷, energy relations between the U.S. and Iran have no future expectations to involve simple import-export trade of the crude commodity. However, as discussed above, the historical and still existent setting of international oil sales in USD is of fundamental importance in upholding the U.S.'s dominance in the global order. Undermining the oil-USD link, from which the ensuing petrodollar system is based, could destabilize the extended financial power and leverage of the U.S., whilst providing an opportunity for alternative currencies to consolidate their positions and potentially become the dominant international reserve currency¹⁸⁸. Iran's recent declarations of selling oil in euros are not novel. Iran's 2004 proposal for an Iranian oil bourse would have provided the basis to compete with the traditional US dollar markers such as the West Texas Intermediate crude (WTI), UK Brent crude and the UAE Dubai crude¹⁸⁹. Such an endeavour would imply the following implications: "A successful Iranian oil-trading platform will introduce petrodollar versus petroeuro currency hedging and fundamentally new dynamics to the biggest market in the world, global oil and gas trades."¹⁹⁰

¹⁸⁶ Gulf Intelligence. 2016.

¹⁸⁷ Worland, Justin. January 5, 2017. "U.S. Could Become 'Energy Independent' by 2026, Report Finds". *Time*. <<http://time.com/4624001/energy-independent-crude-oil/>>

¹⁸⁸ Clark, William. 2005. *Petrodollar Warfare*. New Society Publishers.

¹⁸⁹ Clark, William. 2005. *Petrodollar Warfare*. New Society Publishers.

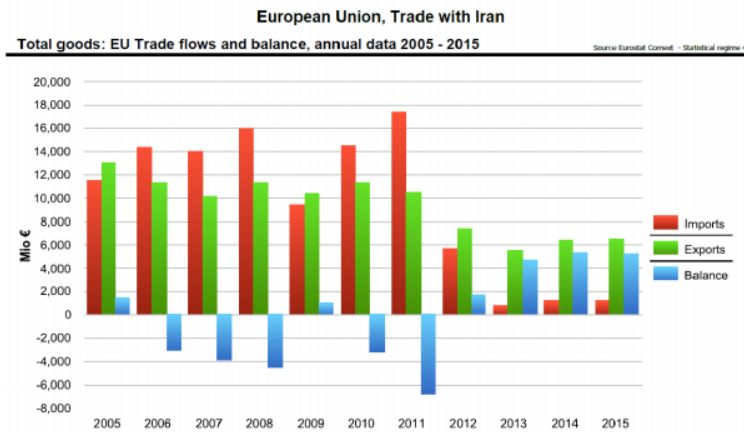
¹⁹⁰ Clark, William. 2005. *Petrodollar Warfare*. New Society Publishers: 152

Paradoxically, despite President Trump’s policy of supporting U.S. business, it appears that U.S. firms are opting out of oil and gas opportunities in Iran, which leaves other international competitors to increase their shares of the market. The predicament is such that “...the U.S. companies would be very keen to engage in that market, if it was open to them...One wonders in an administration that also has a pro U.S. business, let’s grow U.S. business, how long they can sit on the side-lines and withstand pressure to allow them to compete in that market.”¹⁹¹ The conclusion here, with regards to Iran’s energy policy towards U.S. energy firms is that the country is willing to engage and collaborate with them, but that this is being curtailed by the plurality of U.S. sanctions that remain in place. The effect for Iran is one of a loss, but perhaps not as much as a loss as it could be for U.S. oil companies: “American, at the moment, are really going to be at the end of the queue...As often happens, politicians haven’t the faintest idea of the commercial implications of bloviating.”¹⁹² Indeed, Iran has already shown that when faced with unilateral U.S. sanctions it can survive. As such, whilst Iran would have wanted to engage with U.S. oil firms, there will probably not be too much effect in terms of the redevelopment of their oil and gas industry, provided Iran can engage with European oil and gas firms instead.

¹⁹¹ Silver, Hatcher, Dalton, Jenkins & McCleary. 2017. (Jonathan Silver: 22.38)

¹⁹² Smith, David. January 2, 2016. “Foreign firms dash to get in on Iran’s ‘gold rush’ – but US companies left out in the cold”. *The Guardian*. <<https://www.theguardian.com/world/2016/jan/02/iran-business-gold-rush-us-business-investment-risky-economic-sanctions>>

D. European Union



193

The European Union plays an integral and pivotal role within the balance of Iran, the U.S., Russia and China relations. Historically, the European Union has been a significant trade partner of Iran: as a bloc, the EU was Iran's largest trading partner up until 2008, with volumes reaching twenty seven billion euros¹⁹⁴. The increased sanction imposition by the European Union, which included an embargo on Iranian oil and gas, therefore had the ability to intimately affect the Iranian economy. In terms of the countries' overall energy relations, one can postulate that there is a mutually beneficial energy demand and supply. As mentioned above, Europe is seeking to diversify the origins of its own energy sources – principally natural gas - with the aim of reducing Russian leverage. One possible solution would thus be to turn to Iran, specifically in order to import the country's natural gas¹⁹⁵. On the other side, this would be beneficial to Iran due to their quest to increase their natural gas production and through this, the country's ability to grow their share in international gas markets, which would more

¹⁹³ European Parliament – Directorate General For External Policies – Policy Department. 2016. “An EU strategy for relations with Iran after the nuclear deal”: 13
<[http://www.europarl.europa.eu/RegData/etudes/IDAN/2016/578005/EXPO_IDA\(2016\)578005_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/IDAN/2016/578005/EXPO_IDA(2016)578005_EN.pdf)>

¹⁹⁴ European Parliament – Directorate General For External Policies – Policy Department. 2016.

¹⁹⁵ European Parliament – Directorate General For External Policies – Policy Department. 2016.

appropriately reflect the quantity of their reserves¹⁹⁶. Indeed, Iran, with potentially the largest natural gas reserves in the world currently accounts for less than one percent of global gas trade¹⁹⁷. The same applies to oil. Prior to the 2012 European embargo, the European Union accounted for eighteen percent of Iran's total crude oil exports. Thus, whilst Iran shifted oil sales to other countries to make up for this loss, alternative demand could not entirely compensate this loss and thus the ability to regain this share is important. For the sake of long-term conjecture, however, oil may not represent such a strong trading opportunity as that which natural gas could offer: "Getting gas from Iran is likely to be a long-term process, but that is all the more reason why it should be taken seriously today"¹⁹⁸. Moreover, the Europeans have already publically noted their interest in Iran's natural gas resources in addition to the commercial opportunities, which are now potentially available to EU-based companies in the wake of the JCPOA implementation¹⁹⁹.

Whilst it so far appears that U.S. energy companies remain to be active in Iran, European companies have shown considerable interest in re-joining the Iranian energy industry. European interest is exemplified both by the formal memorandums of understanding between Iran and Shell and Total, in addition the various official visits by European energy executives to Iran. From an Iranian perspective, engaging with European firms is essential in that they are capable of providing the much-needed technological and technical expertise, for which the Iranian energy industry is in need. Yet, despite interest in re-engaging in Iran's energy industry, European firms remain cautious in light of remaining U.S. sanctions and the election of president Trump, with

¹⁹⁶ European Parliament – Directorate General For External Policies – Policy Department. 2016.

¹⁹⁷ Johnson, Keith. June 25, 2015. "The Next Iranian Revolution". *Foreign Policy*.
<<http://foreignpolicy.com/2015/06/25/the-next-iranian-revolution-oil-gas-opece-eu-sanctions/>>

¹⁹⁸ Johnson, Keith. June 25, 2015.

¹⁹⁹ European Parliament – Directorate General For External Policies – Policy Department. 2016.

his verbal criticisms of the deal raising the risks and concerns over whether the U.S. will “snap back” the full array of sanctions, which would greatly inhibit European commercial engagement in Iran. As already noted, this same hindrance provides a parallel opportunity to conduct oil sales in currencies other than the USD. The reports of Total’s initial trials of sending Euros into Iran, coupled with Iran’s official position that its oil sales would be only be conducted through the Euro is, in fact, realistically bringing to the fore the potential of finally breaking the USD’s grip within international oil markets. This not only represents a feasible commercial solution for Iran and European oil companies, but could also be highly beneficial to the European bloc at large, due to the consequential increase in demand for the European currency²⁰⁰. The shift from the US dollar to Euro for oil sales is not novel and the benefits for Europe are well expressed by Javad Yarjani, head of OPEC’s petroleum market analysis department, in 2002: “The question that comes to mind is whether the euro will establish itself in world financial markets thus challenging the supremacy of the US dollar, and consequently trigger a change in the dollar’s dominance in oil markets. As we all know, the mighty dollar has reigned supreme since 1945...From the EU’s point of view, it is clear that Europe would prefer to see payments for oil shift form the dollar to the euro...Should the euro challenge the dollar in strength, which essentially could include it in the denomination of the oil bill, it would be that a system may emerge which benefits more countries in the long-term...”²⁰¹ It waits to be seen exactly whether “...the European Union will decide to go its own way and build on the existing access that it has to the Iranian market”²⁰² or to fall in line with current U.S. policy and thus

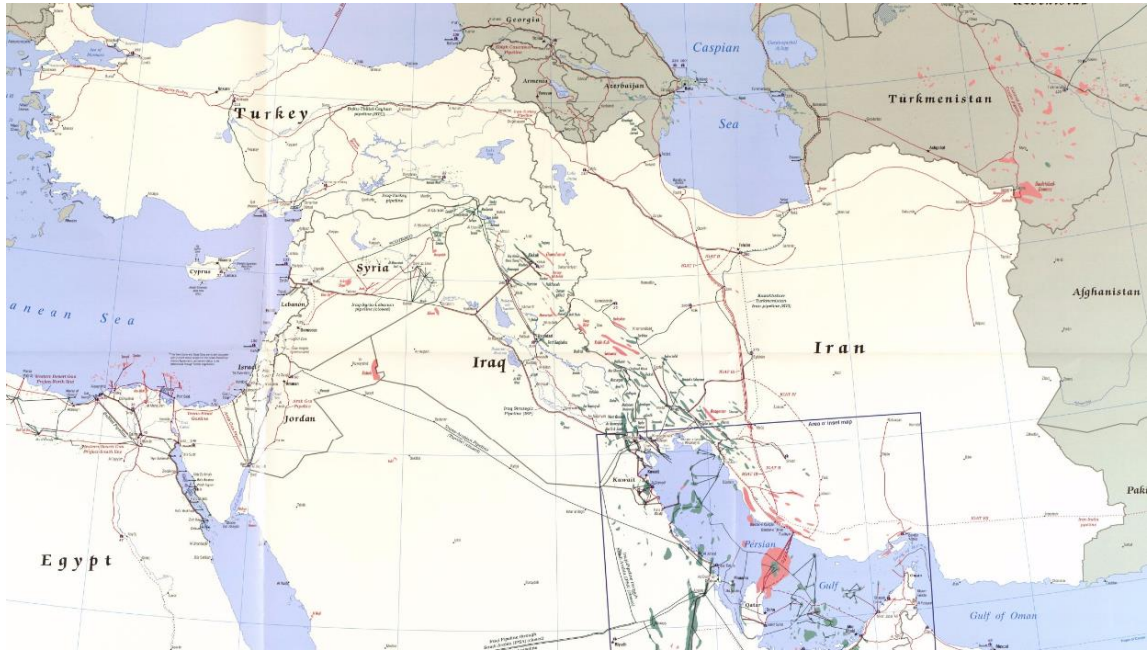
²⁰⁰ Verma, Nidhi. February 8, 2016. “Exclusive: Iran wants euro payment for new and outstanding oil sales – source”. *Reuters*. <<http://www.reuters.com/article/us-oil-iran-exclusive-idUSKCN0VE21S>>

²⁰¹ Clark, William. 2005. *Petrodollar Warfare*. New Society Publishers: 138-139

²⁰² Silver, Hatcher, Dalton, Jenkins & McCleary. 2017. (Peter Kenkin: 51.20)

not engage commercially with Iran's energy industry. Despite these limitations, European-Iranian energy relations clearly demonstrate, again, an Iranian openness and willingness to commercially collaborate with Europe and European firms.

E. Pipeline Politics



203

As the above demonstrates, pipelines, both for oil and natural gas, are abundant within the Middle East/Levant region. Given their utility in moving these hydrocarbons within, through, and out of the region, they are an essential section of the region's political energy system. Moreover, within the context of these competing energy interests within the region, regionally and internationally, pipelines provide an insightful role reflecting all of the above-mentioned countries. In more recent times, much attention has been addressed to the politics of pipelines, pipeline control and pipeline construction within the Levant. Given Iran's current involvement in this region,

²⁰³ Library of Congress. 2007.

in addition to its energy related interests, the country is inherently implicated within these subjects, alongside other relevant international actors.

For assessment here, are two pipeline projects that had been envisaged prior to the Syrian conflict. The first proposal was that of Qatar's, in 2009, which envisaged the construction of a natural gas pipeline via Saudi Arabia, Jordan, Syria and Turkey to Europe. The second pipeline proposal originated from Iran, which envisaged the construction of a natural gas pipeline via Iraq, Syria and the Mediterranean Sea to Europe. The natural gas source, for both these projects, would emanate from the large reserves that straddle the two countries maritime border: known to the Qataris as North Field and to the Iranians as South Pars²⁰⁴.



205

Given Qatar and Iran's abundant natural gas reserves, such pipeline constructions are rational. Moreover, they confirm the intentions of both countries to aggrandize their natural gas production for the purpose of exportation to Europe. In turn, Europe has an already established interest in natural gas importation, due to its reliance on this source of energy, in addition to publically noted efforts to diversify its

²⁰⁴ Mills, Robin. April 5, 2017. "Qatar's Bold Move to Reassert Its Grip on Natural Gas". *Bloomberg*. <<https://www.bloomberg.com/view/articles/2017-04-05/qatar-s-bold-move-to-reassert-its-grip-on-natural-gas-market>>

²⁰⁵ Chang, Charis. December 2, 2015. "Is the fight over a gas pipeline fuelling the world's bloodiest conflict?". *news.com.au* <<http://www.news.com.au/world/middle-east/is-the-fight-over-a-gas-pipeline-fuelling-the-worlds-bloodiest-conflict/news-story/74efcba9554c10bd35e280b63a9afb74>>

sources of natural gas. Such pipelines may therefore be considered as economically viable proposals with regards to supply and demand factors. However, suppositions of conflicting politics have emerged concerning these proposals. Syrian President Bashar Al-Assad, it is reported, declined Qatar's project, with speculations arising that this refusal was due to Russian lobbying efforts to this effect²⁰⁶. On the other hand, the Syrian President reportedly accepted Iran's proposal, with no overt rejection by Russia²⁰⁷. In 2011, the deal was formally announced and as late as 2012, despite growing uncertainty within Syria, a memorandum of understanding was signed between Iran and Syria²⁰⁸. Russia's rejection of one and acceptance of the other is speculated to be a result of its greater level of influence in Iran as compared to Qatar²⁰⁹. This Russian approach would be in line with the above-mentioned strategy of energy cooperation rather than energy confrontation with Iran. Yet, the advent of Syria's civil war, amongst other things, has at best postponed and at worst ended this Iranian natural gas project. However, the stances of regional actors within the Syrian civil war seem to broadly reflect these two different pipeline proposals²¹⁰. Indeed, this proposition is well expressed by Major Rob Taylor: "...Assad forged a pact with Iraq and Iran to run a pipeline eastward, along those Shia-dominated countries access to the European natural gas market while denying access to Sunni Saudi Arabia and Qatar. The latter states, it appears, are now attempting to remove Assad so they can control Syria and run their own pipeline through Turkey...the conflict in Syria is not a civil war, but the result of larger international players positioning themselves on the geopolitical chessboard in

²⁰⁶ Chang, Charis. December 2, 2015.

²⁰⁷ Chang, Charis. December 2, 2015.

²⁰⁸ Escobar, Pepe. December 7, 2015. "Syria: Ultimate Pipelineistan War". *Strategic Culture Foundation*. <<http://www.strategic-culture.org/news/2015/12/07/syria-ultimate-pipelineistan-war.html>>

²⁰⁹ Chang, Charis. December 2, 2015.

²¹⁰ Maj. Taylor, Rob. March 21, 2014. "'Pipeline politics in Syria". *Armed Forces Journal*. <<http://armedforcesjournal.com/pipeline-politics-in-syria/>>

preparation for the opening of the pipeline...Assad's pipeline decision, which could seal the natural gas advantage for the three Shia states, also demonstrates Russia's links to Syria petroleum and the region through Assad..."²¹¹ This explanation epitomizes one theory pertaining the conflict in Syria: that it is concerned and fuelled by oil and gas's respective wealth.

This theory also incorporates propositions concerning the U.S. role within Levantine pipeline politics. The underlying framework for U.S. concern is constructed upon the importance of the U.S.'s hydrocarbon allies, US dollar pre-eminence in international energy markets and, again, the petrodollar system²¹². The concern, from the Washington point of view, is that such a project would cement an Iranian-Russian-Iraqi-Syrian pipeline upon which the Europeans would increase their energy dependence in order to reduce that of the Russians²¹³. Such an alliance would represent an energy bloc, which would undermine the U.S.'s more concrete energy allies, such as Saudi Arabia. Moreover, given recent relations between the U.S. and Iran, Russia, Iraq and Syria, this represents a unity of countries for which the U.S. has little to no political leverage. The U.S. concern is well summarized by Escobar: "An Iran-Iraq-Syria pipeline is unacceptable in the Beltway not only because US vassals lose, but most of all because in currency war terms it would bypass the petrodollar. Iranian gas from South Pars would be traded in an alternative basket of currencies."²¹⁴ Given this context, a parallel theory for understanding the international scenario of low oil prices, is that Saudi Arabia – the U.S.'s strongest OPEC ally - deliberately flooded the oil

²¹¹ Maj. Taylor, Rob. March 21, 2014.

²¹² Escobar, Pepe. December 7, 2015.

²¹³ Escobar, Pepe. December 7, 2015.

²¹⁴ Escobar, Pepe. December 7, 2015.

market, causing the collapse in price, in order to target both Iran and Russia²¹⁵. For Iran and Russia, a low oil price has two important effects: state revenue is dramatically reduced and in turn, investments into energy projects – such as pipeline constructions – becomes economically unviable. This applies to both state funded projects and international oil and gas companies. At a broader level, the strategy is thus that “The U.S.-Saudi oil price manipulation is aimed at destabilizing several string opponents of US globalist policies. Targets include Iran and Syria, both allies of Russia in opposing a U.S. sole Superpower.”²¹⁶

However, if such a U.S. strategy - enabled by Saudi Arabia - is indeed the case, it appears to lack viability and efficiency. Firstly, China - an importer of oil - benefits from low oil prices²¹⁷. Given that low oil prices means financial savings, this simultaneously provides Chinese state oil companies the ability to enhance their commercial engagement within the energy sector, unlike their competitors. Secondly, this serves to reinforce alternative alliances within the Middle East and internationally in order to try and balance U.S. energy aggression and competition²¹⁸. Again, both Iran and Russia will seek to find mechanisms outside of the control of the U.S., which includes, for example, fortifying relations with China and reducing the control of the U.S. dollar, especially with regards to energy markets²¹⁹. U.S. strategies that incentivise states to contour the once predominant U.S. energy system, is entirely counter productive: “If the dollar ceases being the currency of world trade, especially oil trade, the US treasury faces financial catastrophe.”²²⁰

²¹⁵ Engdahl, William. March 16, 2016. “The Secret Stupid Saudi-US deal on Syria. Oil Gas Pipeline War.” *Global Research*. <<http://www.globalresearch.ca/the-secret-stupid-saudi-us-deal-on-syria/5410130>>

²¹⁶ Engdahl, William. March 16, 2016.

²¹⁷ Engdahl, William. March 16, 2016.

²¹⁸ Engdahl, William. March 16, 2016.

²¹⁹ Engdahl, William. March 16, 2016.

²²⁰ Engdahl, William. March 16, 2016.

From the European perspective, obtaining an alternative source for natural gas is a key priority. Whether it is Iranian or Qatari is perhaps of little import, but given what appears to be an increased likelihood of Iranian gas, this will probably be their default priority. Thus, the European stance to wait, due to U.S. positioning and remaining sanctions, also appears counter productive as it will result in China and Russia cementing their position in this new energy source. Whilst China may be of lesser concern, should Russia create a solid alliance of energy cooperation with Iran, Iranian gas may not prove to be the alternative energy source Europe is seeking. However, Total's pending energy agreement with Iran is in fact related to the South Pars natural gas reserve²²¹. Should one consider that these large oil and gas companies represent and serve the interests of their home country (in this case, France), this could perhaps be seen as a political energy strategy that may help to secure a European role in this new natural gas source. Well diversified, Total is, however, also engaged on the Qatari side of this same gas reserve.

Whether one agrees or not to the theory that the Syrian conflict may be explained by these different state energy interests, the oil and gas pipelines of the region will continue to bear importance. For Iran, such a pipeline may prove to be a long-term endeavour, but in the short-term such a project appears to lack viability. Uncertainty and hostilities in both Iraq and Syria means pipelines are vulnerable to sabotage, as has already been the case in Iraq. Iran's relatively low level of natural gas production, matched and at times usurped by high domestic consumption, means that even if such a pipeline existed, it is not currently in a position to provide the commodity²²². Such a project would necessitate international oil and gas companies, yet they are constrained

²²¹ Mills, Robin. April 5, 2017

²²² Butter, David. November 19, 2015. "Russia's Syria Intervention is Not All About Gas". *Carnegie*. <<http://carnegieendowment.org/sada/62036>>

both in terms of commercial engagement with Iran and in terms of their limited financial capacities to invest in such types of major energy infrastructure projects. Finally, the simple exportation of natural gas would counter Iran's 'economy of resistance' policies whereby it should prioritize investment domestically in refining the natural commodity so as to export high value goods. This implies an orientation towards LNG and natural gas processing facilities within Iran. Such a pipeline would be contrary to this, as it would entail an LNG and other processing facilities either in Syria or in Europe²²³.

On the other hand, should Iran manage to reach the natural gas production targets it has claimed, such a pipeline may be possible in the long term. Moreover, one may also suggest that such an endeavour would be well incorporated into Iran's energy diversification efforts. Despite these potentially differing policies, Iran's pipeline politics continue to consolidate the postulation that the country is pursuing economics rather than politics. In line with this pipeline politics theory, Iraq and Syria are geographically energy essential. Syria in particular - due to its geographical centrality in both the Qatari and Iranian pipeline proposals - will be, and is, pivotal. However, should one agree or not with this pipeline politics reasoning, Iranian involvement in these countries does not appear to be religiously motivated or serving to long-standing objectives to increase political power merely as a means to ferment regional rivalries. Rather, it may be viewed as an Iranian economic energy strategy, in which a variety of mechanisms have been, and are, deployed in order to achieve the economic goal. The U.S and regional U.S. allies' positioning with regards to geopolitical energy strategies, in line with this theory, may be said to have amplified Iran's relations and presence

²²³ Butter, David. November 19, 2015.

within both Iraq and Syria. Following this reasoning, international actors would perhaps find that their foreign policies would prove more successful should they acknowledge and aim to integrate Iran's redevelopment of their energy industry and growth of their market share, as Iran appears poised to prioritize energy economics rather than energy politics. Iran's understanding of the need for foreign policies to better align better with others is well expressed by Iran's Foreign Minister: "Globalization makes it impossible for you to have security when others are insecure, to have prosperity where others live in poverty. That is the nature of a globalized world. We cannot gain at the expense of others. A zero-sum game, a game that is a win-lose game, will end up making everybody lose."²²⁴

²²⁴ Yeranian, Edward. March 25, 2017. "Energy Rivalries Exacerbate Tensions in the Middle East". *Voice Of America*. <<http://www.voanews.com/a/energy-rivalries-exacerbate-tensions-middle-east/3781864.html>>

CHAPTER V

CONCLUSION

Given the size of Iran's oil and gas reserves, and the industry's predominant nature in the Iranian economy, an analysis of which actors Iran is trying to realign to and the general state of the industry, provides insight into Iran's foreign policy stances. Under sanctions, Iran's general economy, and its energy industry, was able to survive, but it was curtailed, both in terms of its development and in terms of its market share. The JCPOA was therefore a viable path for Iran to move from economic survival to economic growth, which is aptly reflected in the World Bank's GDP estimates of 4.6 percent growth in 2016 and 5.2 percent growth in 2017²²⁵. Overall, president Rouhani has opted to reduce Iran's isolation, improve the management of the Iranian economy and has thus raised domestic economic growth²²⁶. Iran's oil and gas are integral within this. The new IPCs, alongside the engagement with all types of international oil companies, reflects an Iranian policy that highlights a necessity to re-engage with the international economy, in order to further domestic economic improvement. In this regard, the conclusion is that Iran is carefully opening up to the U.S. led international order rather than choosing to solely pursue self-reliance and resilience via 'non-aligned' strategic alliances. Iran's current efforts for domestic economic revitalization have been pursued via a policy of international cooperation and engagement both with the West and the East. All current indicators to this end suggest that Iran is opting to keep its commercial oil and gas activities 'a-political'. The necessity for this stance is well

²²⁵ World Bank. January 2017. "Global Economic Prospects: Weak Investment in Uncertain Times". <<http://pubdocs.worldbank.org/en/475041481727535489/Global-Economic-Prospects-January-2017-Regional-Overview-MENA.pdf>>

²²⁶ Silver, Hatcher, Dalton, Jenkins & McCleary. 2017.

expressed by Daniel Yergin: “Tehran will need to put a century of turbulent relations with the international oil industry behind it and focus on being commercial and competitive. The big companies are preoccupied with costs and profitability.”²²⁷ The conclusion is thus that Iran is attempting to integrate into the U.S. led international order, in addition to fortifying its alternative alliances, in order to pursue an underlying objective to continue its path of ‘economic resistance’, which reflects self-reliance and self-resilience.

However, the shift to the sale of oil in Euros and the continued lack of U.S. commercial engagement with Iran’s energy industry - despite Iranian overtures for this purpose – has resulted in a very mild engagement within this U.S. dominated international order. As such, Iran’s future relations with Europe and European energy companies will be fundamental in ascertaining the extent of Iran’s engagement with the West. Moreover, the European decision to commercially engage with Iran will also be reflective of Europe’s forward posture in terms of their relations with the U.S. That being said, this is not an Iranian policy to limit interaction with the U.S. oriented system as Iran has officially and openly enacted policies to the contrary. Rather, the current status may be seen as a default position due to the remaining U.S. sanctions and the uncertainty concerning the future of the JCPOA with the arrival of president Trump. Whilst president Trump will prove to a fundamental aspect in Iran’s shaping of its energy policies, this is compounded by a variety of addition inflection points that need to monitored: Europe’s engagement with Iran or not, the upcoming Iranian Presidential elections and Russia’s energy stance towards Europe and vice versa.

²²⁷ Adams, Bozorgmehr & Crooks. July 16, 2015. “Iran: The oil and gas multibillion-dollar ‘candy store’”. *The Financial Times*. <<https://www.ft.com/content/92402244-2975-11e5-8613-e7aedbb7bdb7>>

As of today, this research into Iran's energy policies suggest that the country is simultaneously attempting to open up and engage with the U.S. led order whilst consolidating its relations with Russia and China. This diversification of interests, potentially construed as a paradox, in fact falls in line with Iran's "resistance economy". The importance of this economic strategy is exemplified in the Supreme Leader describing 2016 as the "Year of the Economy of Resistance: Action and Implementation" and by President Rouhani's message concerning the economy of resistance in which he noted oil's importance to this end as Iran was "able to reclaim our rights and regain our position in the oil market with oil diplomacy and efforts of you engineers and workers"²²⁸. Iran's energy is fundamental within this economic strategy in that one of the aims is to reduce the state's dependence on oil exports, in order to "immunize the country so that we will no longer tremble in face of sanctions and the possibility of sanctions"²²⁹. In the short term, however, Iran depends on oil and natural gas returns in order to improve economic growth and also to create a domestic energy sector, which is wholly self-sufficient. In sum, Iran is seeking to reduce its long-term dependence on its oil and gas, by depending on its oil and gas in the short-term in order to ensure that its economy can better survive any future rounds of international exclusion. Thus, in order to best implement this, Iran's pursuit of both Russian and Chinese energy relations, alongside Western energy relations, ensures a diversification of investment and engagement that reduces Iranian dependence on any one external actor.

²²⁸ Faghihi, Rohollah. March 20, 2017. "Iran's supreme leader calls for 'economy of resistance' in Nowruz message". *Al Monitor*. <<http://www.al-monitor.com/pulse/originals/2017/03/iran-nowruz-video-message-khamenei-rouhani-2017-1396.html>>

²²⁹ Takeyh, Ray & Sabbagh, Hasib. April 7, 2016. "Iran's 'Resistance Economy' Debate". *Council on Foreign Relations*. <<http://www.cfr.org/iran/irans-resistance-economy-debate/p37748>>

From an external actors point of view, an appreciation of Iran’s economic focus, rather than political rhetoric, provides some sound policy framework suggestions. Naturally, the more Iran opens up economically - despite its intentions to use this in order to be more self-reliant – creates, in turn, economic leverage for outside actors. Regionally, oil and gas considerations have already provided the ability to surmount significant political differences. Going forward, the regional demand for natural gas and perhaps even electricity imports could be provided by Iran, and thus should be seen as a robust base to further regional cooperation and integration²³⁰. From a U.S. perspective, allowing commercial activities with Iran would, firstly, provide economic opportunities for U.S. firms and, secondly, would mean a further integration of Iran within the U.S. global order. This could mitigate Iranian, Russian, Chinese, and now even European attempts to avoid U.S. restrictions, via alternative means such as the use of the Euro for oil sales, as this would be redundant. Reducing these forms of alternative trade structures would ensure, from a U.S. stand point, the continued dominance of the U.S. system. Indeed, in earlier years, it was reported that U.S. policy makers were careful of the downsides of energy sanctions: “Many observers feared that heavy sanctions would spur Tehran to establish a parallel oil economy, and while this scenario was extreme, the consequences of losing the dollar as the basic currency of the global oil trade were deemed too severe to ignore.”²³¹ The European perspective seems, so far, to be an undeclared position of caution. There does not appear to be a firm stance as to whether Europe will choose commercial engagement with Iran, at the expense of its ties with the U.S., or whether it will side with U.S. policies, at the expense of its ties with Iran. The

²³⁰ European Parliament – Directorate General For External Policies – Policy Department. 2016.

²³¹ Solomon, Dobbins & Ross. September 14, 2016. “U.S.-Iran Competition: Prospects and Limits of Cooperation”. *Breaking Energy*. <<http://breakingenergy.com/2016/09/14/u-s-iran-competition-prospects-and-limits-of-cooperation/>>

same underlying conjecture is that increased Iranian-European commerce would increase European leverage and Iranian vulnerability. Moreover, the sale of oil in Euros could dramatically increase the value and utility of the European currency, albeit at the most probable expense of the US dollar. In the meantime, Russian-Iranian relations continue to grow, but is perhaps more of a marriage of convenience with future energy objectives arising as a point of contention and competition going forward. China, however, seems to have met Iran's economic focus with its own. The deepening of commercial agreements will most certainly continue to grow and thus provides China with the most leverage on Iran, in turn making China Iran's largest vulnerability. The outcome of this is that the extent of Iran's commercial engagement with the U.S. led Western liberal order is being limited: "Iran has already re-entered the global economy. The question is, is that re-entry going to be curtailed at some point in the near future...it is in everybody's interest that that engagement is improved from where it is now, not reduced...both at a political and a commercial level..."²³². The outcome is such that Iran is being further engaged within alternative alliances with China and Russia, with Europe having the potential to either enter into this arrangement or not. The implications of this approach would be that it would further limit its alliance with the U.S. and, in turn, limit the dominance of the global U.S. order. In this light, the U.S. stance towards Iran is self-defeating, in that it claimed to seek normalization with Iran and reduce the perceived threats of the country, regionally and internationally. Now, however, Iran is compelled to enter into alliances and structures outside of the remit of U.S. control and leverage. Reverting to the beginning of this report, when the U.S. chooses to pursue a unilateral, and one-dimensional, positioning towards Iran – as this

²³² Silver, Hatcher, Dalton, Jenkins & McCleary. 2017. (Jonathan Silver: 50.17)

research has concluded - history suggests that this undermines both U.S. power and leverage, with only minimal economic impact on Iran itself. In this regard, Iran may provide the physical space where the world begins to revert from a period of unilateral U.S. hegemonic control to one of multi-polarity.

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