

June. 2009 / No.115

Published by:

**IRANIAN ASSOCIATION FOR ENERGY
ECONOMICS (IRAEE)
ISSN 1563-1133**

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In The Name of God

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in cooperation with IranOilGas.com

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Energy Sector in Urgent Need of a Regulator

 On various occasions in the past and in a host of articles published in this magazine, we have reiterated the urgency which is attached to the launching of a sovereign and policy making body within the energy sector.

We have frequently stated that the energy sector currently suffers from lack of a serious sovereign body and that underlies many of the disorders and impediments that reside within this sector. We have meantime made it clear that sovereignty is synonymous with policy making, control and supervision. We have also laid emphasis on a more serious question that is indifference of statesmen to such an immediate need. The challenge ahead of us is a gap, a vacuum that could be filled had more attention been

paid to the issue of a sovereign body. Perhaps even the High Council of Energy which enjoys some degree of authenticity but is still being neglected could be a promising start for filling the existing gap.

The experiences of countries which have performed successfully in the area of energy management reveal the very fact that the policy making apparatus should primarily be able to build up a mighty regulatory arm while a regulating body is one that should be able to define and establish norms, regulations and laws, indices and standards required in the energy sector, supervise their implementation, revise and update them proportionate with technological developments, national requirements and other influential transitional factors.

The following are some examples intended to further clarify the subject. These examples mainly address the oil and gas sectors; however, many similar impediments still linger in the power industry.

- 1- We begin by discussing home gas regulators and meters observable everywhere in town. What regulations should really supervise these devices? Do they ever undergo routine repair and maintenance? Are these devices not exposed to natural hazards, are they not deformed or damaged from inside as time passes? What would be the consequences of a damaged gas meter? Who will be the looser? Why do many of these regulators leak? Is it not about time to replace the old regulators with new ones?
- 2- Does there exist any criterion to specify the quality of natural gas available to households and industrial units? Has anyone been assigned to supervise whether or not these standards are being observed? Does the household natural gas comply with standards in terms of likely contaminations or impurities? Turkish government frequently tests and examines specifications of Iran 's natural gas supplies to that country and in case of quality incompatibility, they raise claims

and take the case to court. Is the same true in the case of local consumers of natural gas?

- 3- Another important issue is whether or not supply of gas and electricity should be monopolized. In a competing market, the rights of consumers are guaranteed by the suppliers. In a non monopolized supply market, certain contracts are signed with the consumers that foresee compensation for any likely damage or loss done to them and their home appliances.
- 4- Has there been devised any standard for oil products? Is there any control and supervision over observation of these standards? Does there reside any single body that would redefine these standards in compliance with fresh technological achievements and environmental restrictions? Who will be accountable in case poor quality gas oil or petroleum damage car engines?
- 5- What standards should equipment that are installed and erected in power plants, refineries and other oil and gas installations comply with? What should their outputs be like? Are repair and maintenance standards observed in them?
- 6- How long is an underground pipeline constructed for the transfer of oil and gas is expected to survive? How should such pipelines be protected against natural hazards? Who will be accountable if pipelines are rotten and as a result gas and oil leak into the ground and contaminate farms and underground water reserves?
- 7- What protective standards should be observed when drilling and operating oil fields?

The above cases are just few examples revealing the urgency which is attached to any regulating body. The likelihood exists that the subject may have already angered our readers who specialize in this field. We are not arguing that there resides no structure or body in charge of dealing with the above questions; however, we do insist that there exists no impartial and independent organ or body to address

the issue of regulation. Within such organizations such as National Iranian Oil Company or National Iranian Gas Company, there have been set up inspection and supervision units; however, they are naturally neither independent nor impartial. Under circumstances when countless impediments and restrictions obstruct implementation and operation of projects in our country, in most cases, standards and norms are victimized by pace of work and other problems of this nature. In certain cases, under outside pressures, managers have even initiated to dissolve inspection and supervision units.

When a regulating body is administered by the executive management team, how can one possibly expect it to be able to reveal inefficiencies and breach of regulations and standards? Such a gap does exist and no one but an independent sovereign body can fill it.

Of course, there exist inspection and supervision systems and mechanisms within the bodies in charge who act as management team's arms. That is not in contrast with our discussion, however, where national and corporate interests are concerned or the rights and interests of consumers and producers are discussed, those systems lack competence and prove to be inefficient.

At any rate, the new government is expected to duly heed sovereign bodies within the energy sector and restore the High Council of Energy or launch any other institutions or bodies of a similar nature and ultimately manage to fill the residing gap.

Evidently, the government should avoid involving itself in all executive dimensions of the regulatory job, rather, similar to all progressive nations of the world, non governmental organizations (NGOs) can be provided the opportunity to contribute to the fulfillment of this task and each have a share of watchdogging relevant laws, regulations, norms and standards.

Director



Nabucco Pipeline to Transfer Iran's Gas to Europe

*N*abucco natural gas pipeline once again became headline of news media following the recent meeting of the Pipeline partners in Budapest, Hungary.

When prominent Italian composer and opera singer, Josepe Verdi was busy composing the "Nabucco" opera back in 1841, he could not imagine that the title would be used to furnish a giant natural gas transfer project 160 years later.

Selection of this title for the Project has been entirely by accident. However, Verdi's lyrics about Nabucco address the king of Babylonia, a content which is totally oriental. What a coincidence!

Nabucco is the first gigantic natural gas project intended to link the natural gas-rich Caspian Sea, Egypt and the Middle East regions to the thirsty European market. But, is this ambitious project really practical ambition?

The pipeline route extends from Eastern Turkey. In fact, Turkey plays a key role in this project due to her strategic geographical situation. The pipeline will then stretch to Baumgarten in Austria via Bulgaria, Romania and Hungary. The route is 3300 kilometers long and is expected to transfer 31 billion cubic meters of natural gas to Europe. Project feasibility studies began in 2002 and it was technically approved and finalized in 2005. As costs of engineering, equipment procurement and construction work have escalated, the overall cost of construction of this project is estimated at US\$ 8 billion.

Construction of this 3300 km long pipeline (1935 km in Turkey, 400 km in Bulgaria, 495 km in Romania, 519 km in Hungary and 46 km in Austria) is scheduled to begin in 2010. When completed, the pipeline is expected to transfer an annual 31 billion cubic meters (3 billion cubic feet)

of natural gas. In the first phase, a 2000 long pipeline shall link the city of Ankara in Turkey to the Austrian city of Baumgarten. The border installations already in place in Turkey, Georgia or Iran are scheduled to be utilized temporarily for two years in which case, the project shall practically go into effect in 2012 with an initial annual transfer capacity of 8 billion cubic meters of natural gas. In parallel, construction of the remaining portions of the pipeline will continue.

Construction of phase 2 will commence in 2012 and is expected to be commissioned in late 2013. The total annual transfer capacity of this pipeline has been foreseen at 30 billion cubic meters by 2017 which would require setting up of additional numbers of pumping stations.

The pipeline project is expected to facilitate:

- Development of a new corridor for importing natural gas into Europe.
- The en route states to benefit from the pipeline.
- Contribution of natural gas suppliers to the security of energy supplies.
- Boosting of Europe-wide pipeline network.

Germany's RWE, Austria's OMV, Hungary's MOL, Romania's Transgaz, Bulgarian Energy Holding and Turkey's Botas companies each have an equal share of 16.6% in this joint project.

When Russian Gazprom Company discontinued natural gas supplies to Ukraine in January 2006, Europe became exposed to shortage of gas supplies and that is why the EU strongly supports the Nabucco pipeline project.

Construction of the project has so far experienced delay due to absence of a strong and reliable contract that would guarantee consistent injection

of gas into this pipeline.

In July 2007, Turkey's Botas Company, reported of signing a contract with Iran that would allow for the transit of up to 30 billion cubic meters of natural gas per year via Nabucco pipeline.

Pursuant to the gas crisis which reemerged between Russia and Ukraine in winter of 2008, European states became more resolute to implement the Nabucco project. Senior officials of Turkey, Bulgaria, Romania, Austria, Hungary and Germany attended a meeting in Budapest recently. These six states are members of the consortium for the construction of Nabucco pipeline as well. High ranking officials of Azerbaijan Republic, Turkmenistan, Egypt, Kazakhstan and Georgia were also present in the recent meeting.

Although the participants expressed satisfaction with the results of this meeting, Turkmenistan refused to verify the closing statement of the meeting. Germany had not been represented in this meeting at a ministerial level. Germans are dissatisfied and concerned about the likelihood of Nabucco pipeline to become a political subject and for that matter dispatched their deputy minister of economy to Budapest meeting.

Turkish premier, Recep Tayyip Erdogan has made Ankara's approval for this pipeline conditional on Europe's support for Turkey's joining the EU.

President of the Republic of Azerbaijan, Ilham Aliyev stated in the meeting: "we extend support for the construction of Nabucco pipeline. Of course, Europe should manage to make Turkey change her mind concerning earmarking 15% of Nabucco pipeline gas for Turkey's local consumption."

Prime minister of Czech Republic, Mirek Topolanek who is also the rotational president of

EU, has stressed that Russia's South Stream and North Stream pipelines are the most serious threats to Nabucco pipeline and that European states should conclude an alliance for the construction of this pipeline as soon as possible and cut their dependence on Russia's energy supplies.

This is under circumstances that Hungary, Bulgaria, Greece, Italy, Austria and Slovakia are planning to join South Stream pipeline. Meantime, Germany, the Netherlands and Britain have expressed their preparedness to have a share of the



construction of North Stream pipeline.

Russia has raised the issue of construction of the above mentioned two pipelines in order to rival Nabucco pipeline and prevent its construction and maintain its customers in Europe. Presently, there resides no alliance among European states regarding construction of Nabucco. Another question of prime significance is financing of this project. The Budapest meeting failed to come to a clear conclusion concerning financing of this pipeline. However, another important question is whether or not Iran

is going to be considered as a source of natural gas supplies to Europe via this pipeline in case it is implemented.

The route through Turkey has the highest reasonable chance of success for Iran's secure gas supplies to Europe.

Iran's 9th gas transfer pipeline project known as IGAT9 may facilitate gas supplies to Europe, however, natural gas exports to Europe will be practical in case:

- 1- Long term supplies of gas become available taking into consideration high rates of local consumption
- 2- Iran prepares to take such and other similar risks and adhere to market price in the long run
- 3- Russians avoid using pricing mechanism as a tool to discourage new rivals to have access to markets in Europe. Interaction with Russia is as important as interaction with Turkey.
- 4- New discoveries in Iraq's Kurdistan are taken into due consideration. These newly discovered gas reserves are believed to be an alternative to Iran's natural gas.

It is obvious that a collective consensus is required to be reached inside Iran for the implementation of gigantic natural gas projects. Meantime, there should also shape a reasonable, executive and realistic strategy with regard to Iran's real supply capacities to be followed by international interaction in this area.

Central bank approves \$900m for Iran LNG project

Source: Mehr News

The Central Bank of Iran has given the green light to draw \$900 million out of the Foreign Exchange Fund to be allocated to the Iran LNG project, the National Iranian Gas Exports Company managing director said in Tehran on Friday.

Seyyed Reza Kassaizadeh added the state-run Bank Mellat has been introduced as the acting bank to pay the sum.

The project is being developed by the Iran LNG Company, a subsidiary of the National Iranian Oil Company and is now 25 percent complete.

Iran LNG plant is being built at Tombak Port, approximately

50 kilometers north of Assaluyeh Port. Construction of the LNG plant started in 2007. The project includes two LNG trains each with a capacity of 5.4 million tons of LNG per annum.

Iran LNG project was planned to be online in January 2011 with a total cost of \$4.35 billion for the downstream facilities. The liquefaction plant will be developed in two phases.

Some 995 million cubic feet of gas per day for the liquefaction plant would be offered from Phase 12 of the South Pars gas field. Iran LNG has already given a gas sweetening plant contract to Iranian Farab Company, a project management contract to Spain's Socoin, and an LNG and LPG storage facilities contract to South Korea's Daelim.



Renewed sale tender for PetroPars suspended

Source: IranOilGas.com

The individual who purchased 51% of PetroPars shares in its sale tender has failed to pay the sale price, and hence the transaction has been revoked, says head of Iran's Privatization Org (IPO) Gholamreza Korde Zanganeh.

According to Korde Zanganeh, since the second best

bid for that tender was far from an acceptable level, the sale tender of PetroPars would be refreshed.

Based on reports from IPO, the renewed sale tender for PetroPars has now been suspended until further notice.

The bids for the sale of 51% of Iran's PetroPars Company were opened on 27th of last April and showed that an individual named 'Hashemi Nasab' had proposed the

price of \$ 210 Mln for the shares.

As for privatizing the North Drilling Company (NDC), Kordeh Zanganeh said that he was waiting to receive the response from Tehran Bourse (Stock Exchange) for accepting NDC shares.

Another IPO official Hossein Qalibaf said they needed some more documents from NDC before its shares could be presented to the Bourse.

Iran swapped over ½ Mln tons of products in 2 years

Source: IranOilGas.com

Managing director of National Iranian Oil Products Distribution Company (NIOPDC), subsidiary of National Iranian Oil Refining and Distribution Company (NIORDC), Farid A'meri said: "Nearly 2 years ago, permission was given to NIORDC for swapping oil products with the CIS countries and Iraq, receiving product in the North/West and delivering equal volume in the South (Persian Gulf). On this

basis some 564,000 tons of oil products have so far been swapped with those countries".

According to the news agency of Iran's oil ministry,

A'meri has explained that 119,000 tons of oil products (mainly Fueloil) were swapped in the first year and 445,000 tons in the second.



CNPC plans to start North Azadegan drilling in 2010

Source: Reuters

China's CNPC plans to start drilling in Iran's huge North Azadegan oilfield next year after a \$2 billion deal, under which the top Chinese energy firm had struck "attractive terms", an industry source said on Tuesday.

CNPC, parent of PetroChina is waiting for Tehran's final green light for a deal agreed in January with National Iranian Oil Company (NIOC) to establish 75,000 barrels per day

of oil production in four years to develop first phase of North Azadegan field.

Under the north Azadegan deal with tenure of 12 years, CNPC is committed to use 48 months to equip the oilfield with full operating facilities with the capacity of 75,000 bpd.

The source said CNPC will get a three-pronged package as a return for its investment in North Azadegan: reimbursement of investment in the form of cash or oil and gas productions, which should not exceed 40-50 percent of the total production of the field.

CNPC will also get interest compensation for the total investment calculated at Libor benchmark rate plus a certain points, plus a comparatively fixed investment return fees, said the source.

"These terms are very attractive," the source said, adding that the two sides will talk about the second phase of investment after a more precise assessment when the first phase goes through for a certain period of time.

CNPC is also very interested in the South Azadegan oilfield, which the Iranian government seems more inclined to develop on its own, the source said.

German firm provides know-how for HDPE plants

Date: Tuesday, June 09, 2009

Source: IranOilGas.com

A contract was signed yesterday between NPC and the German Lyondell Basell for the purchase of technical know-how for the High Density Poly Ethylene (HDPE) plants of Mamassani, Dehdasht and Broujen petrochemicals.

According to NIPNA, the know-how is for producing Advanced Process Control (APC) type of HDPE, with a production capacity of 300,000 ton/year (t/y) each.

This is a part of so called 'Dena Plan', which includes two other plans of Gachsaran and Kazeroun.

Work on the said projects got underway last year and are foreseen to be completed by

2012.

The budget for the three HDPE projects will be secured from contributions by their shareholders, bank loans and credit from Iran's Foreign Exchange Reserve Fund (FERF).

The Ethylene feed of the petchem plants of 'Dena Plan' are supposed to be supplied by Gachsaran Olefins, which will be producing one Mln t/y of the product.

Parsian region produced over 26 bcm of gas last year

Source: IranOilGas.com

The gas fields of Parsian region of Iran produced over 26.305 Bln cubic meters of gas and 12.639 Mln barrels of condensate during the past Iranian year (ended on 20th March 09)

According to the news agency of Iran's oil ministry, Parsian region produced an average of 71.87

mcm/d of gas and a mean of 34,535 bpd of condensate last year.

Last winter, the gas production of Parsian oilfields reached its peak of 87 mcm/d.

Parsian operational region consists of four active gas fields of Tabnak, Homa, Shnul and Varavi, which are located adjacent to Lamerd and Khonj cities of Fars Province.



Iran-Pak gas pipeline project formally signed

Source: The News International

The gas pipeline project between neighboring Iran and Pakistan has been formally signed in Istanbul late on Friday, Geo news reported.

The agreement was signed between National Iranian Gas Export Company (NIGEC) and Pakistani Interstate Gas Com-

pany (PIGC).

The Managing Director (MD) of PIGC Hassan Nawab told Geo news the agreement is governed through third country law so it was bound to be signed in a third country and has been signed here in Turkey.

He said the work on the project has commenced from today (Friday) and will be completed by 2013 whereby Pakistan will receive 750 cubic million gas on daily basis which will be enough

for generation of 4000 megawatt electricity.

“The gas pipeline will begin from Gawadar near Iranian border having 800 kilometer length”, he maintained adding, “The determination of gas price will be linked with contemporary oil prices at international market but will be less than 25 per cent as compared to crude oil prices”.

The estimated cost of the project will be US \$1.2 billion, he added.

NIOC opens door to CNPC for Phase 11

Source: IranOilGas.com

National Iranian Oil Company (NIOC) has brought in China National Petroleum Corporation (CNPC) as a potential upstream partner at the Phase 11 Pars LNG project, apparently carrying out a warning to France's Total that it would lose its role in the integrated project if it did not make an early investment commitment.

Under what official news agency IRNA described as a “co-operation agreement”, CNPC has replaced Total, though the French giant might still be involved in the liquefaction side of the project.

Total, which had earlier dismissed reports of an impending Iran-China agreement as “rumours”, had no comment following the signing of the agreement in Beijing by NIOC managing director Seifollah Jashnsaz.

Details of the agreement between NIOC and CNPC are not known, and the deal does not appear to be a final contract.

“The Iranians may be trying to panic Total into making a decision, or the agreement might only involve some form of ‘co-operation’ or a minority stake,” said a source.



Largest Natural Gas Refining Project under Construction



The Iranian oil minister and senior officials in charge of National Iranian Gas Company have frequently reported the construction of largest Iranian gas refining project i.e. Bid Boland 2. The Project is of such a significance that in 2007 alone, a budget of 300 million euros was allocated to its construction from the Iranian Oil Stabilization Fund. When completed, this natural gas refinery will allow Iran to have a bigger share of the joint South Pars gas field. A period of 22 months has been foreseen for the return of the capital.

The following is a brief account of the com-

ments recently made by Manouchehr Taheri, the managing director of Bid Boland 2 gas refining project on the significance, investment procedure, economic feasibility and other related issues .

What makes Bid Boland 2 project exceptionally significant?

Geographical dimensions, economic feasibility and the interrelationship between this and other upstream and downstream projects constitute some of the peculiarities of this project. Bid Boland 2 project is scheduled to receive and refine products

of 900, 1000, 1200 and 1300 gas and NGL complexes and feed the nationwide natural gas network. With the transfer and refining of 57 million cubic meters of natural gas, we shall be able to inject 47 million cubic meters of methane gas into the nationwide gas network which is a very significant amount of gas to be produced by this refinery. Currently, the high quality gas produced by NGL complexes is injected into the oil fields. Should this gas be refined in Bid Boland 2 refinery, a portion of the natural gas produced in phases 6, 7 and 8 of South Pars projects will be injected into the gas fields via the fifth line which is already operational. Iran will be able to have a bigger share of the joint South Pars gas field as soon as Bid Boland 2 project becomes operational. On the other hand, sweet gas containing high volumes of ethane constitutes part of the products coming from NGL complexes and should preferably be processed in petrochemical complexes instead of being re-injected. Therefore, Gachsaran petrochemical complex has been foreseen as downstream of this project. There, the ethane extracted from this refinery shall be converted into olefin. Meantime, National Iranian Oil Company is planning to transfer C5+ gas liquids produced in this refinery to Boali petrochemical complex. The type of gas which is scheduled to be delivered to the refinery contains 1.5 million tons of LPG currently being injected into wells. This is a very valuable material which can be supplied to overseas markets instead.

Is the project economically feasible?

The feasibility study of the Project was conducted in the 2000-2001 period. At that period of time, the price of each barrel of oil was estimated at US\$30. The project is expected to generate an annual income of US\$700 million even if a barrel of oil is sold at US\$30. The feasibility study of the plan foresees production of 47 million cubic meters of methane

gas which sells for US\$0.25 per cubic meter. Even at this rate which is one tenth of real global prices, the project will generate an income of US\$300 million which brings the total earnings of this refinery to US\$1 billion a year. An investment of US\$2 billion had been initially estimated to be made in the project, thus, it would take for the project a maximum of two years to compensate for the investment made, however, if we assume that gas sells for US\$0.24 per cubic meter, the Refinery's annual sales is estimated at US\$3 billion.

Are there any plans underway to supply your products to overseas markets?

As you may already be aware, Iran's exported gas comes from a variety of resources. Bid Boland 2 refinery is scheduled to supply gas to Karanj and Parsi gas injection stations. We are scheduled to produce 15 billion cubic meters of gas annually of which 40 percent will be injected.

How extensive are the dimensions of the project?

In order to have access to feed gas, we need to construct 300 kilometers of 16, 20, 24, 36 and 42 inch diameter pipelines. One pipeline i.e. NGL 1300 is located in Kohkiluyeh and Bouyer Ahmad province and the other one i.e. NGL 1200 is located in Bushehr province. These two pipelines should be connected to the Refinery in Khuzistan province. The Refinery is located 15 kilometers west of Behbahan and its products should be transferred to Mahshahr port for export purposes. Thus, we need to construct 300 kilometers of 8 and 10 inch diameter pipelines for the transfer of products. We also need to set up special storage installations in Mahshahr.

How is the Project financed?

The Project bids were finalized in 2005. In 2006, however, the Economic Council approved of a law that foresaw a credit of approximately US\$2.2 bil-

lion for the Project.

Have local experts contributed to the construction of this Project?

Local and foreign companies had primarily formed a consortium for the implementation of the various units of the refinery and pipelines. However, foreign contractors withdrew from the consortium and the local contractors took control of the construction of the Project. As foreign companies withdrew from the project, an addendum was made to the contract and in 2007 a special budget was allocated to the National Iranian Gas Company from the Oil Stabilization Fund of which Euro 300 million was invested in Bid Boland 2 Project. On that same year, two L/Cs worth Euro 300 million were opened of which one third was intended for the construction of the feed pipeline and Mahshahr installations (portion B) and two thirds for the construction of the refinery itself (portion A). Preparation of land and the engineering works of the Project in portion A of this EPC project have been completed. At this stage, we are lagging behind the schedule due to shortage of financial instruments.

Are you satisfied with the progress of the projects?

The periods of time foreseen in the Project documents under foreign partnership for the completion of portions A and B including running and operation periods were 51 and 53 months respectively. However, final commissioning of the project after the Project units are put into trial operation will take over 4 years. Construction of the pipelines is underway and we are satisfied with the progress of the projects. Insofar as construction of the refinery is concerned, we have prepared the site land while site foundation was laid in late 2008. Equipping the contractors' workshop is also underway and soon a 2500 man work force will be stationed on the site. Generally, we are lagging 3% behind the scheduled 8%. Of

course, the delay can be compensated for at this stage of work. The area of the site and marginal installations is 260 hectares which equals the area of Mahshahr Petrochemical Free Zone. Over 4 thousand people are directly and indirectly engaged in this Project, a number which is expected to grow further as work progresses. Currently, pursuit of the financing of this national Project remains to be our main concern.

Oil Industry Pioneer in Implementing Article 44 of Constitution

Interview with Ali Kardar, Head of Article 44 office at NIOC

- Could you elaborate on paragraph C of article 44 of the Constitution at the oil ministry?

The general policies of paragraph C of principle 44 of the Constitution revolve round the issue of expansion of non-governmental sectors through transfer of governmental corporations to the private sector. Implementation of these strategic policies which include transfer of 80% of the shares of mammoth governmental factories and corporations subject of article 44 will help to materialize very significant objectives such as accelerated economic bloom and development of the country, accomplishment of social justice, removal of poverty and materializing the aspirations of the 20 year long national development plan. In light of these policies, the role of oil ministry will be switched from ownership and direct management to policy making, leading and supervision. Through such a process, not only the specialized human resources of the ministry of petroleum will increase, but various economic divisions of this ministry are expected to be empowered in order to intelligently address principles and regulations of global oil trade within a gradual framework. Privatization in oil industry is a must and the situation should be prepared in such a manner that will

allow the private sector to take utmost advantage of available opportunities. The point of prime significance in this sphere is that extensive cooperation and coordination is required for the implementation of the policies of article 44 and the guidelines of the Supreme Leader of the Islamic Revolution.

What measures has the headquarters of article 44 drawn up for the closing year of the fourth development plan?

According to our timetable, the end of the current Iranian year is the deadline for the transfer of the 16 subsidiary companies liable to article 44 within the National Iranian Oil Company.

What are the major companies on the top of the list of article 44? Will they be liable to transfer this year?

Major companies on the top of the list of article 44 are those which, in accordance

with our time table can be transferred by the end of the fifth development plan in 2014. Of the subsidiary companies of National Iranian Oil Company, the North Drilling and National Iranian Drilling Companies are covered by this law and should be handled before the end of 2014.

What priorities are considered when transferring the 19 subsidiary companies within the National Iranian Oil Company?

The companies are in four categories; 1- companies which are in priority and liable to transfer without any barriers 2- companies which are liable to transfer and mentioned on the list and are required

to change their structures and distinguish duties 3- companies liable to transfer mentioned on the list which due to the nature of their operations are scheduled to be transferred in the last year of the implementation of the said principle 4- companies liable to transfer mentioned on the list which are not related to article 44.

Are these companies prepared to undergo the ceding process?

10% of the shares of North Drilling Company have been transferred to the social security organization of the armed forces while PetroIran Development Company has been transferred through bidding. Petro Pars

Company was put out to tender last year and is expected to be transferred this year. The Helicopter Company is undergoing a reassessment for pricing by official experts in order to be transferred through bidding.

Tehran Oil Commodities, South Turbine Industrial Equipment, Pira Drilling and Oil Logistics and Transportation Services Companies are also undergoing pricing stage. 30% of the shares of the National Drilling Company have been allocated to justice shares and the remaining portion is to be given a price tag. The Fuel Efficiency Optimization, National Iranian Gas Exports, Iran Oil Terminals, Matn, Nikoo and Nikoo Sarl companies are not transferable and some others need to change their status.

How are you going to deal with the staff of the transferred companies?

The status of the officially employed staff of the



oil industry will not be subject to change and retirement pension funds will remain unchanged.

Privatization of companies does not appear to be rewarding under the present economic recession that dominates world economy. Is the office of article 44 of National Iranian Oil Company facing any challenges in this regard?

The companies that enter the stock exchange should be able to take risks. On the other hand, we have cut the base price of these companies providing a good opportunity for investors. Meantime, purchasers are not obligated to pay the price of these companies all at once and have been given the chance to clear their debts gradually within a period of five years. All companies are expected to be privatized by January 2010.

What principles do you lay emphasis on when transferring these companies to the private sector?

Preventing monopolization, defining employers' duties and avoiding disruption of the National Iranian Oil Company's operations constitute the necessary principles when transferring companies.

What are the various stages for the implementation of paragraph C of the general policies of the article 44 within the National Iranian Oil Company?

The first step includes planning and setting the stage for determining policies and macro objectives, planning for future measures to be taken, specifying procedures for transfer, obtaining necessary approvals, nominating committees, specifying transfer priorities, addressing financial affairs and other inter-company issues. The second stage includes amendment of relevant structures, obtaining necessary approvals, determining the fate of resources (manpower, capital, ...), specifying the nature of new relations between NIOC and the companies, pricing, preparation of bylaws and directives, providing the

required budget and manpower as well as training managers and the staff.

Where will you spend the income which is generated through privatization of these companies?

Such funds will be put in a special account with the country's general treasury and spent within the framework of the approved plans and budgets in the following order; promoting self reliance in poor families and reinforcing social security, allocation of 30% of these incomes to nationwide cooperatives for the purpose of fighting poverty, laying economic infrastructures in the less developed regions, providing special facilities for the reinforcement of cooperatives and improvement of non-governmental economic corporations, facilitating partnership of governmental companies with non-governmental sectors to the ceiling of 49% to ensure economic development in the less developed regions and completing unfinished projects of state companies.

What are the general policies for practicing sovereignty and avoiding monopoly?

Continued practice of the government's general sovereignty after privatization and preventing hegemony of foreigners over national economy and preventing monopoly of the non-governmental economic institutions through regulating and ratifying relevant laws and regulations constitute the general policies for practicing sovereignty and avoiding monopoly.

And the last word?

Oil sector is an age old industry in Iran with strategic products and services and therefore, transfer of oil industry's subsidiary companies to the private sector would be a process that differs from routine procedures for the state companies. And for that reason, the issue of the privatization of oil industry's companies has been examined accurately in order to protect this strategic economic sector against any likely challenges in future.

The Effects of Iran-Pakistan-India Pipeline on Consolidation of

Regional Cooperation



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Abstract

In the base of considerable economic and geopolitics' implications of oil and gas in the contemporary world, they are considered as the most strategic sources of energy. Comparing oil and gas, natural gas due to its inherent environmentally benign nature, greater efficiency and cost effectiveness has been considered as the most preferred energy. Although given the unique features and increasing need of countries to natural gas, it can become bone of contention between the countries, the shared common basins or continental shelves, but at the same time, due to its implication on durable and sustainable development, it can be served as a mean to reduce political conflicts and consoli-

date regional cooperation between participating countries in the natural gas transaction. Accordingly, while policy maker decide about natural gas export, they should consider economic as well as political implications of natural gas export. Possessing the second largest reserves in the world, Iran is considered as the major gas producer in the Middle East as well as among OPEC member countries. So the examination of the effects of Iran's natural gas export on consolidation of regional cooperation will be very helpful for Iranian policy maker while decide about Iran's natural gas export.

Since the Iran-Pakistan-India pipeline is a good example of the long term export of Iran's natural gas export on one side and on the other hand, it is intended to be concluded between India and Pakistan which are two conflicted neighbors, the present article has attempted to concentrate on the effects of IPI pipeline on consolidation of regional cooperation between Iran, India and Paki-

stan. Given the current dynamics and the composite dialogue process between India and Pakistan, the examination of IPI pipeline's effect on consolidation of the regional cooperation will be very useful to answer, How can IPI pipeline help India and Pakistan, with their legacy of conflict, to emerge as potential regional partners along with Iran.

Key Terms

Natural gas, Export, IPI pipeline, Iran, Pakistan, India, regional cooperation

1. Introduction

Oil and gas are considered as the most strategic resources in the contemporary world. During the two major world wars, oil and gas played an important role for fuelling the war machines. In the post-war period these two energy carriers gained tremendous importance not only because of fueling the war machines but also because almost all the countries in the world needed them for their socio-economic development. In a comparative analysis between oil and gas, the natural gas has emerged as the most preferred energy due to its inherent environmentally benign nature, greater efficiency and cost effectiveness. So the natural gas is termed as the fuel of choice for the 21st century. Accordingly the natural gas consumption follows the fastest trend compared with other primarily energy carriers and the share of natural gas in the world's energy basket are growing.

At the present time, Iran with its %15.8 share of the world's proven gas reserves needs to export its gas and the Asian market is knocking own its door. Asia is developing with enormous speed and gasping for more and more energy supply to keep the machinery going. Since the pipeline is the most reasonable way to transport gas, the survey of the effect of Iran-Pakistan-India pipeline on consolidation of the regional cooperation can be considered as the best way

of finding out the effect of Iran's natural gas export on consolidation of regional cooperation.

Regarding regional cooperation in the South Asian context, this cooperation to harness energy resources poses some basic questions aimed at understanding the changing scope and dynamics of regional economic relations. What is the role of energy resources for regional economic cooperation and how can these resources and related technologies contribute to such cooperation? What are the prospects and implications of regional energy projects? What are the geopolitical considerations on energy questions? Can India and Pakistan, with their legacy of conflict, emerge as potential regional partners along with Iran? Given the various security threats haunting the region and the presence of extra-regional powers complicating the picture, how can efficient energy producer-consumer arrangements, i.e. energy transfer routes, be drawn up? Can the corporate sector in South Asia play a decisive role in conflict resolution and achieve the objective of a single market on the pattern of the European Union?

The present study is going to specially concentrate, among the above mentioned questions, on the first one which discuss about the role of natural gas on consolidation of regional economic cooperation.

2. Theoretical Aspects

Although there can not be found a universal accepted definition of regional cooperation and regional integration, but Regional cooperation has often been treated as an appendix or sub-category of regional integration. The reason for this is partly that some of the elements of regional cooperation are derived from the development integration approach, partly probably because the cooperation approach is much more diverse and academically difficult to analyze schematically than, for example, market integration and development integration. However, the many problems attached to implementing the latter, and on the other hand the necessity for individual nation states to co-

operate to enhance development opportunities have brought renewed attention politically and academically to regional cooperation.

Regional integration can be defined as “a process through which a group of nation states voluntarily in various degrees share each other’s market and establish mechanism and techniques that minimize conflicts and maximize internal and external economic, political social and cultural benefits of their interaction”. Regional cooperation, on the other hand, can be defined as “a process whereby nation states in common solve tasks and create improved conditions in order to maximize internal and external economic, political, social and cultural benefits for each participating county”. In an evaluation of exiting arrangements, it is important to be noted that the cooperative efforts can be took place on a continuum stretching from a systematic framework, aiming at continuously increasing the level of cooperation; to an episodic style, where cooperation is limited to scattered projects created more by coincidence than intent. Furthermore, Regional cooperation may contain one of the following actions,

- (1) Execution of joint projects, technical sector cooperation, common running of services and policy harmonization
- (2) Joint development of common natural resources
- (3) Joint stand towards the rest of the world
- (4) Joint promotion of production

These points shall be elaborated one by one. However it will be important to be noted that the elements specified in the definition are not necessarily all present in each regional cooperation attempt. Moreover, although the list probably represents the major relevant forms for regional cooperation presently, it is nonexhaustive, because other examples exist and new ones can be added.

It must however be noted that the exact definition and scope of regional cooperation may vary from

region to region and the phenomenon of “regional cooperation”, unlike “regional integration”, must be separately defined and analyzed in each region through by focusing on the unique characteristics of that region.

3 .The Brief Historical Relationship between Iran, India and Pakistan

The political environment in South Asia is marked by an ambience of hope and anticipation. The most intensive diplomatic engagement has been occurred between Pakistan and India. Three wars in 1947-48, 1965, and 1971 and a constant state of military preparedness on both sides of the border have marked six decades of bitter contest between India and Pakistan. The bloody and acrimonious nature of the 1947 partition of British India and continuing violence in Kashmir remain major sources of interstate tensions.⁴ Despite the existence of widespread poverty across South Asia, both India and Pakistan have built large defense establishments - including nuclear weapons capability and ballistic missile programs - at the cost of economic and social development. In 2004, New Delhi and Islamabad launched their most recent comprehensive effort to reduce tensions and resolve outstanding disputes.

The diplomatic relationship between Iran and these two countries has usually remained in stable situation. For example given the political, economic, religious, and energy reasons, political parties in India have encouraged friendly relations with Iran. Most importantly, Iran’s growing role as an energy source in the Indian economy has accelerated Iran’s prospects as a long-term supplier of gas. However, given the close relationship between India and US, the significant affects of US pressures on Indo-Iran relationship should not be ignored. On the other hand Iran-Pakistan relations have not always been calm; they

have fluctuated over the years. For example Pakistan's support of US policies on Afghanistan even while Iran perceived itself being encircled by the US, the presence of US forces on Pakistani territory and the status of Pakistan as a major non-NATO ally (MNNA) of the US created enough doubts in Iran on the prospects of stable relations with Pakistan. Despite this kind of potential contentious issues, Iran-Pakistan relations remain close. Iran extended moral, political, diplomatic, and financial support to Pakistan and supported Pakistan whenever it faced a serious crisis and was in danger. Both countries have shown their interest to cooperate while economy is a major instrument in influencing and strengthening ties between Iran-Pakistan; it is issues relating to security and politics that dominate their relations.

4. Natural Gas Statuses in Iran, India and Pakistan

Natural gas due to its unique features such as being the most environment-friendly fuel and its suitability in the terms of price is able to play an important role for promoting sustainable economic development. Iran as the world's second largest holder of natural gas owns 27 trillion cubic meters (15.8 of the world's reserves).⁷ The Iranian government by deciding to increase natural gas production (especially in South Pars field) can completely respond growing domestic demand. On the other hand it can allocate a huge amount of this production for exportation either in the form of LNG or via pipeline. There is a lot of proposal for the Iran's natural gas export to the countries such as: Ukraine, Europe, India, Pakistan, Armenia, Georgia, Turkey and etc about whom Iran should decide by considering all relevant economic and political consequent which Iran's natural gas export to them may have for Iran.

The Indian economy continues to show impressive economic growth. The country's real gross do-

mestic product (GDP) grew at an impressive rate of 9.1 percent during the first half of fiscal 2006 (April – September 2006), after growing by 8.7 percent in fiscal 2005. Together with the country's impressive growth, India has also become a significant consumer of energy resources. According to International Energy Agency (IEA) estimates, India was the fifth largest consumer of oil in the world during 2006.

Since India is the second largest developing country (after China) in the world, its natural gas consumption will rapidly increase in near future. Thereupon, Indian natural gas consumption with currently growth rate of 5.1%, will reach 2.8 trillion cubic feet in 2025. So the necessity of importing natural gas to meet India's energy demand is *prima facie*.

Furthermore, Pakistan as a crowded country in the region, with the growth rate of 7.6%, is the third largest user of CNG in the world after Argentina and Brazil. Since the energy demand in this country is quickly increase, the government of Pakistan has considered the natural gas as a most appropriate energy to meet their domestic demand. Although the current natural gas production in the Pakistan has been capable of responding its domestic demand, but due to the increasing of Pakistan's natural gas consumption in near future, the importing of natural gas will be inevitable.

5. IPI Pipeline, Background and Prospect

The idea of an overland, trans-Pakistan pipeline was first proposed in 1989 by Ali Shams Ardekani, acting Deputy Foreign Minister of Iran, and RK Pachauri, the Director General of the TATA Energy Research Institute (TERI) in New Delhi. Although the idea received a positive reaction in Iran, the initial response from New Delhi was doubtful, with Indian politicians wary of leaving their long-term energy security in the hands of Pakistan especially during a period in which their relations were becoming increasingly bitter.

However, the Persian Gulf War underlined India's need to diversify its energy sources.

In 1991, Iraq and Kuwait totally supplied two-thirds of India's oil; when the war broke out, India's supply was reduced from 15 million tons to 5 million tons of oil overnight. India realized the need to form new relationships and, in 1993, India signed a Memorandum of Understanding with Iran.

As new technologies sparked interest in natural gas as a clean and cheap substitute for crude oil, India realized that the IPI could provide a large array of potential benefits. Since the Indian economy facing significant difficulties, natural gas provided India an avenue to energy without having to compete with the US, Europe and China for the attention of a small group of oil suppliers. On the other hand, Iran with the world's second largest proven gas reserves unlike many of the other hydrocarbon suppliers did not have its hands full of foreign demand.

Iran was interested in finding a profitable market for its gas. With the added advantage of geographic proximity, the Iran option began to appear increasingly attractive. Since Iran's enormous supply could meet long-term demand, India could invest heavily in a capital intensive infrastructure without worrying that restricted supply would undermine its investments.

However, even as India began to entertain the notion of a trans-Pakistan pipeline, Pakistan resisted the idea. Citing a lack of confidence between itself and India, Benazir Bhutto and Nawaz Sharif's government made it clear that the pipeline would not be welcome on Pakistani territory. Pakistan's reluctance, combined with considerable disquiet in India, led New Delhi to look into several alternate options for laying the pipeline from Iran. Aside from the overland route, India investigated two other options: a deep sea and a shallow water pipeline. When Pakistan realized that its stake in the project was being threatened, it changed its idea. Upon his accession to power, General Musharraf, who

had opposed the pipeline as Army Chief, changed course and decided to treat the IPI project as separate from other terms of political dispute. Before 1995, both India and Pakistan seemed determined to link the pipeline to other issues. India tried to tie the pipeline to conditions about transit rights for trade links with Afghanistan and also to demands that Pakistan lift bilateral trade restrictions.

Pakistan, on the other hand, sought to see the pipeline as an instrument to settle the Kashmir issue. However, since 2005, all parties have dropped such demands and determinedly kept politics and pipeline negotiations separate.

With the three countries agreeing to guarantee the project as a commercial risk in January of 2005, the first real progress in the technological, commercial and legal aspects of the pipeline was made during the first six months of that year. The meetings took place bilaterally between Iran and India, and between Iran and Pakistan. This method ensured that political disputes would not overshadow the focus of the meetings. In December of 2005, India agreed to take part in trilateral meetings, the first of which took place in January 2006.

Several major players from the gas industry attended the meeting and a variety of international companies made presentations on the relevant technology. Aside from price and a few details of contractual structure, the delegates from the three countries agreed on most of the important aspects of the pipeline, such as pressure, thickness, etc.

5.1. Present status

The environment surrounding negotiations during the past two years provides optimism for the success of negotiations. According to people present at the negotiations, all three countries involved appeared determined to treat the pipeline as independent from the vagaries of day-to-day politics. Therefore it can be

claimed the there all parties determinedly kept political and pipeline negotiation separate. The last round of negotiations on IPI pipeline between Iranian and Pakistani delegations ended in 2007 December. After discussing all articles of the contract in different expert-level sessions in Islamabad and Tehran, the two sides ended their talks in Islamabad with the finalization of a deal to export gas which will be signed by the heads of the two countries. The Iranian delegation was led by Hojjatollah Ghanimifard, special representative of Iran's Petroleum Ministry, whereas the Pakistani delegation was led by Farrakh Qayyum, secre-

sources believe that India has taken this stance due to its agreements with the US to receive state-of-the-art nuclear technology. However it seems that this is not the main reason for India's refusal to attend the meetings given its considerable demand for energy in the coming years. In spite of the proposed Turkmenistan gas pipeline project and the US nuclear agreement, missing the opportunity to receive 30 million cubic meters gas per day from Iran would be unwise.

Certain quarters believe that internal squabbling among Indian parties prompted it to adopt such a stance. The Indian press published reports on cor-

ruption in the Oil Ministry which led to the dismissal of the minister, Mani Shankar Aiyar and his colleagues. Rumors about corruption and bribery created a tense situation which made the new team pursue the talks with caution.

In addition, this group is trying to reduce the price of the gas to the minimum so as to protect themselves from being



tary of Ministry of Petroleum and Natural Resources. The two sides noted with satisfaction that each of them had initiated work to a certain level on the project as 40 percent of the construction of the pipeline within Iran had already been completed to provide gas to the eastern provinces of Iran and Pakistan was about to complete the work to appoint a consultant firm which would initiate the feasibility study of the project within Pakistan territory by the first quarter of the next year. Due to some unknown reasons, India decided not to attend three rounds of official talks in Islamabad and Tehran in the past few months. Some

accused of corruption. This made Indian officials reveal the details of the peace pipeline negotiations held in Tehran and the ensuing agreement of the three countries over setting gas price. Iran said the window for Indian participation to join the project might not remain open for an indefinite period on the existing terms and conditions of the project, Pakistan Times reported. India must independently continue talks to finalize the deal. It must also hold talks on a contract on the gas pipeline passing through Pakistan. India has not officially announced its decision on the gas deal, but the latest remarks of Indian authorities

showed their interest in resuming negotiations. However it is well settled that Iran's gas productions are limited. Consequently, if India delays, it will definitely lose its opportunity.

6. IPI Pipeline and Regional Cooperation

To answer to this question that whether the IPI pipeline can promote regional cooperation or not, the factors which may cause probable success and unsuccess of this pipeline to consolidate regional cooperation must be examined. To this purpose the reasons which might cause IPI pipeline to promote regional cooperation as well as the obstacles which prevent this pipeline from playing a significant role in consolidation of regional cooperation will be discussed below.

6.1. The potential of IPI pipeline for Consolidation of Regional Cooperation

6.1.1. The inherent characteristic of each pipeline

At the first sight, it may seem obvious that natural gas can play an important role in consolidation of regional cooperation. But it must be analytically examined that whose characteristics of natural gas caused it to be a significant instrument for promotion of regional cooperation. Apart from being comparatively cleaner and cheaper source of energy which increase the importance and utility of natural gas among all countries in the world, there is a unique feature in the pipeline deal which increases its potential to consolidate regional cooperation. Since the construction of pipeline requires huge investment and advanced infrastructure, the pipeline deal is usually made for a long term period. So the countries which participate in this kind of deal must keep their relationships in stable mood and keep away the political conflict. Therefore the long term transportation of natural gas via pipeline, increase its potential to decrease conflict

between participating countries and promote regional cooperation. However, this fact should not be disregarded that the probability of raising disputes between parties will increase in the long term deal.

6.1.2. Pipeline deal as a trade, reduce friction between trade participants

Since the natural gas transaction is usually understood as a trade, the examination of the effect of trade on the consolidation of regional cooperation will be very useful to demonstrate natural gas' impact on promotion of regional cooperation. Therefore the role of natural gas as a trade in consolidation of regional cooperation will be examined below. The idea that trade can be an important force for creating and maintaining peaceful relations between countries, dates at least from the 18th century. Increasing international trade might improve security in three related ways:

1. More trade means greater economic interdependence between the countries involved. This increases the stake each country has in the welfare of its neighbor and makes war more costly. It also increases the number of people who have an economic interest in peaceable relations and so helps strengthen political pressures against going to war.
2. More trade means more interaction between the peoples and governments of the two countries, more familiarity with the neighbor's goods and services, and greater understanding of their cultural, political and social institutions.

All this likely to increase trust and promote regional cooperation. Secure trading relations will reduce the likelihood of war by increasing security of access to the partner's supplies of strategic raw materials and reducing the threat of trade embargo. This argument is especially important in a world of high trade barriers where access to other sources is difficult.¹⁵ Economists have examined some of the implications of uncertain access to strategic raw materials. Arad and Hillman show how fear of being cut off from foreign

strategic sources of energy can cause countries to attempt to consolidate regional cooperation. Hillman discusses the probability of consolidation of regional cooperation in exploitation of a mineral resource if the alternative foreign supply is uncertain. Obviously in this case a regional cooperation that ensured partner supplies would be both politically and economically advantageous.

Although direct evidence of the effect of trade on the likelihood of conflict between any pair of countries is limited, numerous studies have confirmed Polachek's conclusion that trade has a significant and negative impact on conflict by about 1 percent. A key feature of this result is that Polachek tested for causality and found that an increase in trade between partners caused a reduction in conflict but that reduced conflict did not increase trade. It has not been said that trade always promotes cooperation or that trade is sufficient for cooperation. Clearly, trade partners do fight, and sometimes over trade issues. On the whole, however, there is persuasive evidence that trade will generally tend to foster peaceable and cooperative, if not friendly, relations between countries. The above discussion can be explored for the purpose of the present study meanwhile in the South Asia; trade is gradually becoming an important factor for the healthy growth of the economies of both Pakistan and India. The two countries export much more to countries in other regions than to each other. Not only do the people on both sides want peace and steady movement on all counts and peaceful settlement of disputes but several powerful lobbies and influential regional constituencies and non-state actors have also actively pushed the process forward in the areas of energy, trade and economic relations. The Associated Chambers of Commerce and Industry (Assocham) estimated that trade between India and Pakistan could touch the \$10-billion mark by 2010, provided the materialization of the IPI pipeline and

the execution of the agreement on South Asian Free Trade Area (SAFTA) is not thwarted and the trade basket is diversified.

6.1.3. IPI Pipeline as a Confidence Building Measure

There are not many instances of large-scale cooperation between India and Pakistan. A lonely example is the often cited 1960 Indus Water Treaty. A shared gas pipeline is a strong platform for evolution of cooperation, leading to interdependence between Iran, India and Pakistan. It would also turn out to be an effective confidence building measure (CBM). There are few arenas as ripe for cooperation as the energy sector. Given the large investments and expenditures for energy and infrastructure in both countries, such cooperation could be the basis for continued cooperation in affiliated (and other) fields. There is precedent for gas pipelines to be built between countries with political differences. The Former Soviet Union began delivery of natural gas to Western Europe in 1968, and the pipeline was constructed during the height of cold war tensions.

While a joint pipeline might be a strong CBM, and appears to be economically attractive, many believe that this alone may not be a strong enough driver for consolidation of regional cooperation. They cite that India and Pakistan do not trade enough with each other, annually losing an estimated billion dollars. While part of this can be attributed to the lack of confidence between India and Pakistan, it can be argued that the success of this pipeline might build confidence between two countries and consequently solve this problem.

6.1.4. Regional Cooperation and Eastward Shift as a Priority in Iran's Foreign Policy

6.1.4.1. Regionalism

Since the end of the war with Iraq (1988); the Islamic Republic of Iran has accorded regional relations and coalition building an increasingly impor-

tant place in its foreign policy. Iran's geographical position, size, economic stature, and military muscle give it the potential to play a leading or pivotal role in the Persian Gulf, Greater Central Asia and the Caspian Basin. The collapse of the Soviet Union gave rise to a new awareness in Iran of the possibilities presented by the country's strength relative to other regional states and its geographical location at the heart of the Eurasian continent. In search of ways to frustrate Washington's policy of Iran's isolation, Iran looked towards cooperation with nearby and Muslim states and with possible alternative major centers of power (Russia, China, Europe and India). It also sought to use those regional and international organizations that were not susceptible to western domination for example, the Non-Aligned Movement, the Organization of Islamic Conference (OIC), the Organization of Petroleum Exporting Countries (OPEC) and the Economic Cooperation Organization (ECO)-for the same purpose. The constant themes of Iranian statements on regionalism have been self-reliance among regional states and the exclusion of extra regional powers, specifically the United States.

Iran's conversion to regionalism can best be understood as the response of an independent state to the external challenge posed by the strong, in circumstances when the balancing option was taken out of play by the end of the Cold War. President Rafsanjani and his successors, Muhammad Khatami, and President Ahmadi Nejad, have all placed a strong empha-

sis on regional relations. Khatami's foreign minister, Kamal Kharrazi, stated in his first address to the UN General Assembly in 1997 that "Iran's highest foreign policy priority ... is to strengthen trust and confidence and peace in our immediate neighborhood." The present Foreign Minister of Iran, Manouchehr Mottaki, has stated that the priority of Iran's foreign policy is to strengthen its Asian identity.

6.1.4.2. Iran's Eastward Shift

Within the first two decades of the "anti-western" Islamic Republic, the dependence on the West for



trade had been predominant. However, following the U.S. imposed economic sanctions in 1996; Iran's western options became more and more limited. On the other hand, the extraordinary growth of China and India's as regional and global economic powers shifted Iran's attention more and more towards the East.²² This is linked with Iran's, what may be called a Look East policy, whereby in order to resist the pressures from the US, it has been building closer ties with the countries of South and Central Asia.

The attractions of trade relations with countries such as China, India and even Pakistan are numerous. For

example, these countries can provide Iran with many of its needs in the case of more stringent sanctions by U.S. and Europe, in case there is no agreement in the United Nations Security Council for universal sanctions against Iran because of its violation of the Non-proliferation Treaty (NPT). Also none of these countries is likely to involve themselves in domestic Iranian politics. Additionally from Iran's perspective, if these countries have vested economic interest in Iran, they would be more likely to support Iran in the international political arena. ²³ Iran has vigorously moved to get associated with the South Asian Association for Regional Cooperation (SAARC). A formal application was submitted on March 3 2007 by Iran to the SAARC Secretariat for an Observer Status. This formal request underlined Iran's geographical proximity to the SAARC region, being a neighbor of two other members, Pakistan and Afghanistan, and also its economic strength, based largely on its energy resources.

Iran's historical and cultural links with the region are long-standing and deep-rooted. No wonder, SAARC Secretary General Lyonp Chekyab Dorji received the application positively, saying Iran's association with SAARC will be mutually beneficial to both. Decisions in SAARC are taken on the basis of unanimity. Any one negative voice can defeat Iran's aspirations for SAARC. Who from among the SAARC members will try to block Iran's entry remains to be seen. One hopes that Iran has done its homework to ensure that its membership application is not opposed by any. It can be however argued, that the regional cooperation which would be consolidated in the case of materialization of the IPI pipeline may persuaded the potential opponents not to block Iran's membership to SAARC.

6.2. The IPI pipeline's impediments for Consolidation of Regional

Cooperation

The potential obstacles which may prevent IPI pipeline to promote regional cooperation can be described as following:

6.2.1 The South Asian challenges

In any survey of present-day regional cooperation, South Asia is liable to be cited as one of the problem cases. The dominant strategic feature of the region is the tension and rivalry between India and Pakistan, two powers that have more than once gone to war or to the verge of war and that now have nuclear weapons.

Even this major challenge is only one of the difficulties in the way of a non-zero-sum multilateral security order for the region. The discrepancy of size and power between India, a nation of over 1 billion people, and all its neighbors leads to natural concerns among the latter about India's dominance in the region and potential interference in their affairs. At different times this has been a significant strand in the policy thinking of states such as Bangladesh, Nepal and Sri Lanka and has led them to seek security assistance first and foremost from outside South Asia when they need it.

Internal factors of insecurity among South Asian countries are present in the region's largest states either: Pakistan has alternated between weak civilian governments and military takeovers, while India has seen significant levels of internal violence connected with religious extremism, local patriotism or local struggles for power. Terrorism also comes into play as part of the internal security challenge (and a complication for any eventual settlement) in the disputed region of Kashmir, which is divided into de facto provinces under Chinese, Indian and Pakistani administrations. Pakistan's north-western borderland with Afghanistan has long been a bridge for terrorist infiltration (spontaneous or state-sponsored) in both directions, and poses further challenges for the central authorities

because of the lawlessness of local tribes.

All these features help to explain why military spending by the powers of South Asia has remained relatively high in spite of their relatively low per capita wealth, and why arms buildups- notably between India and Pakistan-continue to show a distinctly competitive dynamic.

Some regions have been driven towards the formation of security communities by threats from an outside power or guided there by its encouragement. To get back to our discussion, the IPI pipeline must be examined in the light of above mentioned challenges in South Asia. As we mentioned above the priority of Iran's foreign policy is on eastward shift. This policy may be jeopardized by security problems because the area of the Balochistan- Punjab border, where the pipeline is supposed to run, is one of Pakistan's poorest areas and home to Balouch tribes hostile to the Pakistani government. In January 2003, sabotage of a gas pipeline from Sui cut off supply to the Punjab and it was followed by a wave of attacks against gas installations in the rest of 2003. The lack of security in this area will impact both India's willingness to invest in the IPI and its continuous feasibility as a reliable energy transit route. The success of the IPI therefore heavily relies on the ability of Pakistan to ensure the security of the pipelines and the supply chain passing through their problematic areas. This may be possible if buy-in from local leaders is secured and if some of the profits from the gas pipeline is used for regional development. Of course, that would affect the economic feasibility of the project for Pakistan, but could be seen as an important investment in domestic stability and border security.

6.2.2. The Role of US

Despite repeated statements by Indian officials that India's "relationship with one country does

not depend on that country's relationship with other countries", the budding Indo-US relationship and the nuclear deal between the two countries will undeniably impact India's ability to negotiate the IPI with the Iranians. The confrontational history between Iran and the United States has already manifested itself in Indian opposition to Iran at the IAEA and in Indo-Iranian economic cooperation. Although there is universal agreement in the US that India could provide diplomatic leverage vis-à-vis Iran, US officials have been divided in their approach to assuring Indian cooperation. Certain US politicians have sought to explicitly link US-Indian relations to Iran. Ambassador David Mulford warned India that voting with Iran at the IAEA would "be devastating" to the future of the civil nuclear initiative.

Likewise, US Representative Tom Lantos argued that "India will pay a very hefty price for its total disregard of US concerns vis-à-vis Iran." However, other US officials appear to believe that explicit measures to curb Indo- Iranian cooperation are unnecessary and counterproductive. While the House of Representatives bill on nuclear cooperation with India made it US policy to "secure India's full and active participation in United States efforts to dissuade, isolate, and, if necessary, sanction Iran for its efforts to acquire weapons of mass destruction", the legislation passed by the Senate Foreign Relations Committee contains no such wording. Moreover, an amendment to make the House stipulation on Iran binding was rejected, as were moves to delay the vote on the bill by officials who thought that India been adequately cooperative vis-à-vis Iran. In fact, one House Resolution, introduced in July 2005 actually expresses support for the pipeline as "an instrument of harmonizing the relations between India and Pakistan." Both President Bush and Condoleezza Rice, who have in-

vested significant political capital in heightened Indo-US relations, have sought to persuade India to help with Iran without explicitly linking Indo-US cooperation to the Iran issue. In testimony before Congress, Rice downplayed the Iran issue, saying only that “the United States has made it very clear to India that we have concerns about their relationship with Iran.”³¹ Meanwhile, Bush has noted that “our beef with Iran is not the pipeline” and argued that he “understands” South Asia’s need for gas. In fact, no US official has directly stated that the IPI would be considered a violation of ILSA.

7. Conclusion

There seems no controversy in respect with this fact that the energy cooperation is in the interest of entire Asia’s growing energy demands, its skilled and hardworking manpower, together with regional strengths in industrial and managerial know-how and science and technology make it ideal for long-term economic complementarities and regional partnership.

With the emergence of giant Asian consumers, the continent is set to become the gravity centre of the world’s energy consumption. A regional energy market could be formed through sustained dialogue. Asian countries, especially rapidly growing economies of the region, need long-term energy supply security. Energy producing countries are concerned about demand security. This is where regional interdependence may best serve the interests of all parties.

Regional countries need to strive to establish a structure on the basis of reciprocity in the region. If South Asian countries don’t get sufficient energy and fail to expand and diversify their regional cooperation, they will not be able to achieve the required rate of economic growth.

Due to this fact that in the coming years, economies would be determined region-wise and not country-wise, Asia needs to prepare for the future challenges and should promote regional trade and energy cooperation. Accordingly, the regional countries need to develop and institutionalize regional energy pipeline association that should be dedicated to ensure a strong and viable transmission pipeline industry in the region in a manner that emphasizes public safety and pipeline integrity, social and environmental stewardship, and cost competitiveness for the entire region.

The dream of regional cooperation can gain a new boost once IPI pipeline project materializes. The potential for economic and developmental gain from natural gas will help the countries to reassess their roles and policies. There is an undeniable international trend towards the formation of regional and trans-regional groupings for the realization of peace and development. The speedy and smooth export of natural gas supplies from Western Asia (Iran) to South Asia (India and Pakistan) can be a venture that may change the face of regional politics and economics. Economic collaboration possesses the power to engender as well as transform social and political discourse. It facilitates conflict resolution. The IPI pipeline can also be a source of strength for expanding regional economies of Asia and will help normalize the hostile relationship between Pakistan and India. This project heralds an approach for inclusion, unity and reconciliation. It can be a formidable piece of political and economic reconstruction. The IPI pipeline of energy resources can contribute to real and meaningful regional cooperation. Apart from the IPI pipeline, Iran has various pipeline options to natural gas exports. For example Nabucco pipeline which is proposed

to run 2050 miles from Iran and other Caspian states through Turkey to Austria and European Union. If this pipeline would be finalized, it can strongly improve the Iran's position in the region and it can also help Iran to play a more crucial role in the consolidation of regional cooperation. Furthermore given the existence of considerable costumers for Iran's natural gas such as Ukraine, Armenia, Azerbaijan, Georgia,

UAE, Kuwait and South East Asia countries, Iran shall endeavor to become axis of regional energy transportation network. Given the special condition of Iran in the region and glob and due to political pressures imposed by some Western countries, it seems reasonable for Iran to dictate its energy policy with considering all relevant circumstances. Consequently, Iranian government while decides 14 about Iran's natural gas export, should not restrain itself to economic issues such as natural gas price and it should take the political as well as geopolitical factors into consideration. Finally I would like to recommend the other students and scholars to examine the geopolitical and political effects of the other available options of Iran's natural gas export (such as Nabucco pipeline) for strengthen of the Iran's geopolitical position in the region and world.

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Aghajari Marathon Ends

Source: IranOilGas.com

Iran's oil minister Gholam Hossein Nozary formally opened the plan to inject natural gas into Aghajari oilfield yesterday.

Injection of gas into the oilfield has started at the rate of 1 Bln cubic feet/day (bcf/d), which will gradually be increased to 2 bcf/d by September this year.

Given the significance of this exceptionally huge gas injection project, IranOilGas Network has presented in the following report a brief history of Aghajari oilfield and the plan to inject gas into it, plus other projects so far defined for enhancing the output of the oilfield.

Aghajari oilfield was discovered in 1936 and subsequently the crude oil output of its Asmari layer reached its peak of 1.150 Mln bpd in 1974. Then onwards, the production capacity of Aghajari started to drop gradually and finally to fell to 200,000 bpd in the year 2000.

Nearly a decade ago, NIOC decided to sketch out two specific plans for boosting the field's production, up to 300,000 bpd.

The first plan was about injecting gas into the field and the other was a project called 'Production Optimization & Surface Facilities Renovation' (POSFR), both of which were endorsed by NIOC board for execution.

The gas-injection plan of Aghajari oilfield was defined in three separate packages. The first package was for the construction of gas-injection facilities, the second one was for drilling the gas-injection wells and the third package was about building a pipeline to carry the gas needed for that injection from

Assalouyeh.

The first package was awarded in 2001 to a consortium formed by the Iranian companies of Chagalesh, Kayson and Hirbodan, and was foreseen to be ready by 2005. That did not happen and the gas-injection facilities were finally ready two years later, in 2007.

Since Assalouyeh-Aghajari pipeline was not complete by then, there was no gas to test those facilities. Finally the commissioning of gas-injection facilities of Aghajari oilfield started towards the end of last year and lasted until early this year.

The second package was a project for drilling 19 gas-injection wells in Aghajari and was ultimately awarded to Iran's Naftkav Company in December 2003. This package was foreseen to be completed in 14 months' time from the effective date of its contract. That did not happen and the project was finally completed in April 2008, marking a 3-year delay.

The third package was a project for the construction of a 514 km long 56" pipeline between Assalouyeh and Aghajari, to carry some 2 bcf/d of sour gas outputs of phases 6-8 of South Pars, for injection into the oilfield.

Contracts for the construction of the pipeline, in segments, were all signed in 2003 and the whole pipeline was foreseen to be ready in two years' time, i.e. by 2005.

This pipeline project was subjected to many alterations including total halt in its progress. After changing some contractors and also some of its work scope, finally the pipeline was completed early this year.

That means, the first plan for boosting Aghajari's output took about 8 years to be ready. The gas-injection plan was initially foreseen to be concluded in 4 years' time and, in the meantime, the field's output has dropped from 200,000, to 140,000 bpd.

The second plan for boosting Aghajari's output, POSFR, also aimed at boosting the fields output to 300,000 bpd, was first raised in 2002, but in practice nothing has yet been done for it. This project was subjected to many ups and downs and no date has been foreseen for its completion.

Current Oil Prices Likely to Challenge Security of Supply



The member states of the Organization of Petroleum Exporting Countries (OPEC) are preparing to attend the Organization's extraordinary meeting on May 28th, 2009, under conditions when oil prices have soared beyond psychological and key support lines. Although Iran's envoy to OPEC has stated that recent price hikes in the oil market result from high levels of crude storage in the consumer countries and

urged OPEC member states to manage oil market more seriously at the threshold of the Vienna meeting, the majority of OPEC member states seem to be reluctant to cut production ceiling one more time.

Mohammad Ali Khatibi Tabatabaei, Iran's Governor in OPEC has further made reference to escalating average of crude storage period from 52 days in the past 5 years to 61 days recently and stated that considering the slipping

trend of global demand for oil, such significant levels of storage could cause deep concern. He believes that higher prices of oil products such as gasoline underlie the meager hike in the price of oil in recent days. At a time when refineries are undergoing basic repair works in current month thus cutting output by 15 to 20%.

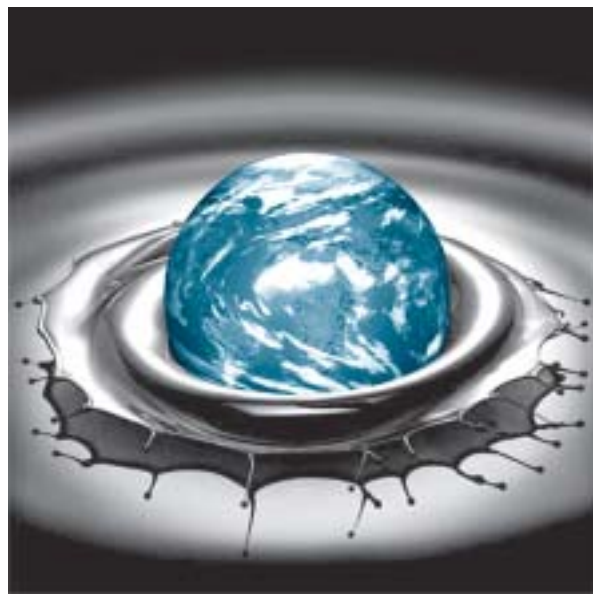
Khatibi added: "it appears that the prevailing Contango situation has provided the best opportunity for the consumer states to keep on storing crude. There is also a sharp decline in demand for crude due to the ongoing basic repair works in refineries allowing higher levels of crude storage."

According to the experts of international affairs of National Iranian Oil Company, February 2009 reports show 62 day long crude storage in the OECD states.

Iran's envoy to OPEC stresses the point that production of huge volumes of oil by producers has stirred the market, however, some OPEC member states evaluate improved economic indexes in the stock markets of the US and Europe as sign of improving economic situation. According to these member states, gradual fading off of signs of economic stagnation may not be synonymous with immediate removal of the global crisis, however, that could mean that hard days have been left behind. For instance, China's crude oil imports in current month jacked up by 13%. According to the same analysts, risks have reduced in the credit market registering a record low compared with the period when Lehman Brothers Bank went bankrupt. Meantime, the stress test is indicative of improved performance of large American banks under critical conditions. Pursuant to

improvement in credit indexes such as MarketiTraxx-CDS Index last week or so, LIBOR interest rate registered its lowest i.e. 0.97% which is an unprecedented record low indicating that the global economy is undergoing change. Thus, one can expect that economic improvement will practically affect oil market as well.

West Texas Intermediate crude for delivery in June experienced a decline of only US\$0.23 and



was traded at US\$58.27 a barrel. In the same period in London market, each barrel of North Sea's Brent crude for delivery in June sold for US\$57.39. In February, oil was traded at rates under US\$35. However, OPEC member states cannot be indifferent in the face of the high levels of storage in the consumer states, for that is expected to expose oil market to serious challenges in future. Industrialized states appear to have benefited most from decline of oil prices in the past months and completed their reserves in such a manner that last week, the US's oil reserves experienced an additional

increase of 600 thousand barrels and stood at their highest level in 19 years.

On the threshold of OPEC's extraordinary meeting, Mohammad Ali Khatibi said: "this is true that crude prices have improved because of the rate of oil products, however, we should not assume that there is no longer need for raising the issue of cuts in OPEC's production ceiling in the course of May 28th meeting."

Referring to the fact that fundamental factors in the oil market have not had any role in price improvements, he believes that OPEC decisions to be made within the Vienna meeting have to do with the inclinations of the member states. He said: "should OPEC have the resolve to reduce the storage level from 61 days to 52 days, the member states' firm inclination to reach that goal will affect OPEC's forthcoming meeting. "While OPEC's basket is experiencing a rate of US\$56, analysts believe that global oil prices are unlikely to fall to as low as US\$50 easily.

According to the same analysts, in recent days, the RSI index has surpassed 60 and is now about to be saturated. Oil traders are expected to revise prices in the coming days, therefore, in the long run, prices are likely to experience an upward trend. Prices have kept on increasing ever since the second week of February 2009. The OPEC member states are not expected to opt for cutting production ceiling in the Vienna meeting. However, there are signs indicating that OPEC will be able to increase support line further and jack up key support rate to US\$55 should member states insist on crude oil supply cuts.

Iran's representative in OPEC criticizes some

OPEC member states who insist that the present condition is adequate and states: "the current oil prices will be exposed to risk, security of supply in future, hence, impeding trend of upstream investments. Oil prices at levels ranging from US\$ 70 to 80 per barrel will benefit producers and suppliers both and we will do our best in order to bring to a unified whole, the policies of OPEC member states."

In its latest forecast, IEA had warned that in 2009, global demand for oil will come down by 2.5 million barrels per day. The forecast approves of OPEC's right decision in cutting production ceiling. OPEC is recommended to consent to cut production by 300 to 500 thousand barrels per day. This figure is perhaps insignificant enough not to expose member states to any risks. The psychological effect of such a decision however, will provoke higher prices and stabilize the recent days' upward trend. Should OPEC member states adhere to their already agreed production cuts, such a decision will boost price support line to US\$55. Under such a strategy, OPEC is expected to experience prices within the range of US\$60-70 in the third and fourth quarters of 2009. OPEC should not confine its measures to one single objective i.e. bypassing the economic crisis. In recent months, consumer states have secured maximum profits while OPEC- through pursuing the policy of production cuts- will be able to moderate the trend of crude storage. OPEC oil ministers are schedule to assemble in Vienna on May 28th to examine the oil market situation in the first place and specify a new production ceiling. OPEC currently produces 24.8 million barrels of oil per day.