

Jan. 2009 / No.110

Published by:

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

Director and Editor-in - Chief:

Seyed Gholamhossein Hassantash

Editorial Manager:

Homayoun Mobaraki

Editorial Board:

Majid Abbaspour, Reza Farmand, Ali Moshtaghian,
Mohammad-reza Omidkhah, Ebrahim Bagherzadeh,
Fereidoun Barkeshly, Hassan Khosravizadeh,
Mohammad-ali Movahhed, Behroz Beik Alizadeh, Ali
Emami Meibodi, Seyed Mohammad-ali Tabatabaei,
Afshin Javan, Hamid Abrishami, Mohammad-bagher
Heshmatzadeh, Mehdi Nematollahi, Mozafar Jarrahi, Ali
Shams Ardakani, Mohammad Mazreati

Layout :

Adamiyat Advertising Agency

Advertisement Dept:

Adamiyat Advertising Agency
Tel: 021 - 88 96 12 15 - 16

Translators: Mahyar Emami, Kianoush Amiri

Subscription: Hamideh Noori



In The Name of God

INDEX

Articles on Oil & Gas in the English section,
in cooperation with IranOilGas.com

EDITORIAL

Need to Redefine OPEC Regulatory
Policy / 2

VIEWS ON NEWS

Breathing in the Atmosphere of Low Oil
Prices / 6

ENERGY HIGHLIGHTS

/ 10

INTERVIEW

South Pars Needs Fast Track Action / 14

ARTICLE

The Effects of Iran-Pakistan-India
Pipeline on Consolidation of Regional
Cooperation / 17

REPORT

Glance Over North Azadegan Deal
with CNPC / 31

Need to Redefine OPEC Regulatory Policy

World economy continues to shrink. Susceptibilities perceived in various communities, industrial communities in particular, which is a result of the emergence of bubble markets particularly in the housing and stock exchange sectors and the pressures exerted on the people, have persuaded the public to practice more caution in the face of all their assets and their spending of course. Such a trend is unveiling new bubbles or fresh cases of fraud on a daily basis intensifying economic crisis. Arrest of the chairman of NASDAQ, Bernard Madoff is just an example.

Economic crisis has diminished consumers' confidence in the industrial states particularly in the world's largest market and economy i.e. the United States of America. Under such a state of financial despair, people tend to cut demand for goods and services which follows decline of production and intensified economic recession giving way to higher unemployment rates, hence, financial crisis strikes with even more force. In the industrialized states, the solution out of recession depends only on growing rates of demand and consumption that would facilitate higher rates of production.

This is just the tip of the ice burg. The dimensions of the crisis remain out of sight. However, analysts forecast that the current crisis is far from any foreseeable improvement at least by the end of 2009. Other sources such as Wall Street Journal believe that the crisis has just begun.



Future Energy Crisis

Economic crisis has as well struck energy and oil markets. Oil prices continue to decline globally. The intensity of crisis in the oil market is to the extent that even the decisions adopted by OPEC to cut crude production rates, particularly the Organization's December 19th, 2008 consensus to cut production significantly from the beginning of January 2009, failed to contain the slipping trend of prices and had it not been for discontinued Russian natural gas supplies to Europe and severe cold winter in that continent, one could expect even lower oil prices.

At any rate, economic crisis will not last for ever. However, the notion of guaranteed supply of energy is a strategic and long term issue which has been pursued by the industrialized countries regularly and permanently ever since the 1970s. The experience of the recent several years (until before emergence of the

recent economic crisis) revealed the very fact that the future energy crisis is serious and undeniable. The upward trend of global prices of crude in recent years, was a result of such factors as supply and demand and shortage of supply capacities.

Forecasts reveal that in the long run, huge investments should be made in the energy and oil sector. The International Energy Agency (IEA) in its latest global energy outlook report which was released in late 2008, estimates this figure at USD 26 trillion within the next 20 years, that is the 2009-2030 period of which at least 40% should be injected into the world's oil and gas sectors. At current prices and under circumstances when a huge crisis has struck financial markets and there is shortage or lack of credits, such huge amounts of investment, whether in the world's energy sector or in the area of oil and gas is neither feasible nor practical. Even many plans and projects have been suspended prior to becoming operational. There resides a great degree of concern in majority of energy conferences that are arranged world-wide recently about the future of global supplies of energy should prices continue to fall. This concern is more evident in the consuming countries which lack energy resources and are mere importers of oil and gas. The global price of crude in fact serves as index of energy prices, an index which is influential on investments in the field of energy. Such a concern is likely to affect all investments in the energy sector.

On December 19th, 2008, an important conference was arranged in London on the invitation of the British premier. That conference was attended by the officials of the member states of the International Energy Agency (IEA), OPEC ministers and officials of the International Energy Forum

The major concern raised at that conference was the question of investment in the energy sector that would otherwise disturb future demand for oil. The organizers of the Conference had called on Cambridge Energy Research Associates (CERA) to present a report to the conference concerning the effects of the

international economic crisis on oil market. CERA's report that was presented to the Conference centered on investment in the field of energy and raised the concern that at current oil prices, there will reside no incentive for sufficient investments. The result would be clear. As soon as the global economic crisis fades off and the world experiences a period of economic stability or bloom, shortage in energy and crude oil production capacities will grip the world. The report by CERA makes it clear that oil price swings should be restricted.

The second forum that was organized in Ukraine in November 2008 and addressed security of energy in the European states and the Caspian Sea region concentrated on a similar concern and the deputy secretary general of the World Energy Charter, in his important remarks expressed concern about the future energy crisis and sharp changes in the price of oil. He stated that continued downtrend of oil prices would disturb current investments and may entail a halt in the already planned investments.

Such investments are crucial in the coming decade. Cancellation or any delay in these investments shall expose security of supplies and in general world economy to grave risks. Daniel Yergin, distinguished energy expert and chairman of CERA in his short article entitled "what would low oil prices mean to the world" published in Financial Times in November 2008, expresses concern that the energy policies of the new US administration which are mainly based on maximum energy optimization and efficiency and development of new energies and cutting off of dependence on imported oil, are doomed to failure at present oil prices.

Britain's Royal Institute of International Affairs known as Chatham House has sponsored a conference for February 9th and 10th, 2009 under the title of "Energy supply and investment policies". The conference is scheduled to address the present oil and energy prices and their effect on investment.

OPEC's Role

Amidst all these developments however, it so appears that OPEC should review its policies. OPEC's background in similar periods of time reveals the very fact that basically, as long as the crisis continues, the Organization will attempt to prevent further price drops through maintaining control on production and specifying production ceiling for each member state. But the question which remains unanswered is whether or not a similar policy should be pursued at all times and under all circumstances.

In fact, OPEC's production control mechanism that is intended to prevent oil prices from further declines and halt of investments in the energy sector, serves the interests of the entire human community. OPEC should not be left alone in this fundamental task. Neither should it withstand negative propaganda and psychological pressures. The managers of the industrialized states are used, ever since 1970s, to attribute many of their economic impediments and shortcomings to OPEC's performance, an approach which continues to this date. Although some western managers and experts who are well aware of the problems associated with energy may, in private, view OPEC's measures positively, they join others in bias and keep on accusing OPEC and its member states. Nor is it advisable for OPEC to cut production and leave its market share to non-OPEC producers of oil. If a likely crisis in the future of energy is a global concern which requires global cooperation, both main consumers of energy who make huge benefits from taxes they levy on oil products and producers of oil should cooperate insofar as production cut and price control are concerned. After all, consumers' oil incomes well transcend those of the producers.

Even under conditions when oil prices were jacking up on a daily basis in recent years, OPEC member states frequently gave assurances to consumers that if necessary they would increase production, thus psychologically controlled market situation in favor of

consumer countries. In case, under those circumstances, the market and consumers could realize the bottlenecks that resided in the way of production of oil and noticed that OPEC's surplus production capacity had approximated zero, oil prices would climb well above record highs of USD 147 a barrel in July 2008. Even in those conditions, OPEC was target of accusations.

Oil market and prices need a regulator. Excessive growth of oil prices worldwide can somehow put world economy into trouble while very slipping oil prices can disturb the industrialized states' energy security policies that would follow future energy crises. OPEC has so far managed to regulate and contain oil



price fluctuations, otherwise, the host of factors affecting oil prices to which reference has been made in CERA's report, would intensify oil and energy problems way beyond what is being observed today.

As regards investment in the oil and gas upstream sector, only upstream projects in the OPEC member states are economically feasible. CERA's report indicates that at crude prices of under USD50 a barrel (WTI crude index), new investments in the area of oil will be economically feasible only in the Middle Eastern member states of OPEC and in some oil fields in China. Under conditions when oil investment in other regions of the world is not economically feasible, industrialized states expect OPEC member countries to make huge investments in their upstream oil industries and cooperate with international oil companies.

The industrialized states are certainly aware of the fact that oil and energy are inseparable constituents of world economy and any halt in oil projects would intensify economic recession worldwide. In such a case, many of manufacturers and suppliers of oil equipment and services will lose their jobs. Very low oil prices will weaken the purchasing power and demand of the oil exporting countries for the products and services of the industrialized states. That too, will provide for intensified levels of economic recession worldwide.

How can OPEC member states be expected to invest their limited financial resources in huge oil projects and guarantee supply of energy to the industrialized states in the post-crisis period under circumstances when OPEC oil incomes are dwindling and global demand for crude and oil products is shrinking? A cartel-oriented approach would suggest that in these conditions, OPEC should refuse to invest its resources in the development of its oil production capacities and instead adopt the policy of self-restraint and remain in expectation of the day when crisis is over and then sell its oil at higher prices.

In the world of energy interdependency, the only solution to prevent occurrence of future energy crises, as Vladimir Pakhmanin, secretary general of Energy Charter puts it: "there should be selected a win-win option and not a winner-loser one to the detriment of OPEC member states."

OPEC member states have proved that in their oil policy makings, they have refrained from just thinking of their own interests. International facilities and cooperation are required if the world expects OPEC to develop its production capacities in order to be able to meet future world demand for oil.

And as regards regulating oil market and price swings, again OPEC should not be left alone. All producers of oil including OPEC and non-OPEC should negotiate and examine the case with the member states of the International Energy Agency (IEA) as major consumers of oil.

Iran's Role

In view of the strategic role the Islamic Republic of Iran plays in the OPEC as one of the founders of the Organization and as OPEC's second producer of oil, it is evident that the managers and experts in charge of the industry shall study and adopt proper policies and follow up on those policies within the OPEC.

This article implies that OPEC, more than ever, is in need of reviewing its policies and devises a long term strategy. Perhaps this is now the best opportunity for OPEC to demand a reasonable and fair interaction between producers and consumers of oil (OPEC or non-OPEC). Through setting its oil diplomacy in motion and persuading the OPEC member states collectively, the Islamic Republic of Iran can organize a realistic wing that would follow up the real interests of the member states. Otherwise, perhaps the Islamic Republic of Iran would need to reconsider its membership in the Organization of Oil Exporting Countries.

Director



Breathing in the Atmophere of Low Oil Prices

threats and relative consolidation of the value of dollar are all factors playing role in the decline of prices. Meanwhile, the financial crisis - now changed into an economic crisis - is considered as the most important factor. By influencing demand, this crisis has weakened the foundations of the oil market. The latest OPEC estimates indicated that the ultimate demand in 2008 would be about 70,000 barrels per day (bpd) less than the previous year.

Behrouz Beike Alizadeh

Following the sharp decrease in the oil prices, the average price of OPEC basket declined to about \$39.2 in December from \$131.22 in July 2008. In fact, this average dropped by \$92.02 per barrel within six months.

The international financial crisis, demand weakness, presence of surplus supply in the market, high oil stocks in OECD countries, action of the speculators in selling oil contracts, removal of geo-political

While at the beginning of the year, it was conceived that the demand in 2008 would be about 1.3 mbpd more than that of the year 2007. In 2009, it is predicted that demand will decrease by another 150,000 bpd falling to about 85.7 mbpd. In case of the continuation of the current economic condition, the weakness in oil prices will also continue throughout 2009. It is anticipated that there is no possibility for world economic conditions to restore to its previous condition at least not until the end of the year.

Meanwhile, OPEC in its 151st conference in

December 17, 2008 decided to reduce its output (without Iraq and Indonesia) by 2.4 mbpd from the beginning of the year 2009. This reduction will be calculated based on the output in September 2008. So if members fully observe their commitments, OPEC's output will stand at 24.845 mbpd from the beginning of 2009. But it is likely they will not fully observe their commitments.

Total OPEC output will reach to 29.35 mbpd if OPEC members observe 50 percent of their commitments from beginning of 2009 and Iraq supplies 2.4 mbpd. Under such a circumstance, stock draw will only amount to 20,000 bpd in this year which is not a significant figure. Based on latest available statistics, stock building in OECD reached to the level of 56 days of demand in these countries in the third quarter of 2008. But the average strategic oil reserves have been 52 days during the past five years. OECD consumption was 46.6 mbpd at the end of the third quarter of 2008. And at least 186.4 million barrels of oil has been stored in these countries. The reduction of OPEC output by 50 percent will only absorb about 7 million barrels from this extra oil which is insufficient to restore prices to previous levels.

It can therefore be expected that the prices will not be restored to their previous peak at least in the

short term and probably in the medium term. The low oil prices can also leave its impact on many variables. The study on the impact of low oil prices on the conditions of the oil industry can be useful and can reveal some realities.

At these prices, the oil producers will not be able to rely on domestic resources to develop oil production capacities. They may be obliged to benefit from foreign capital and technology. Under this circumstance, a surge of nationalism started in the past six years comes to a halt or its trend will be reversed. They can not abandon the oil industry's development which is the only major source of their foreign exchange earnings. The producers enjoyed a higher bargaining power in the negotiations when the prices were high. With the continuation of the decline in prices, however, they may gradually be compelled to employ more attractive terms for encouragement of international companies to participate in their upstream contracts. Also, the oil producers require prices higher than current levels to balance their foreign accounts. This price is different depending on every country's requirement. As prices decline further and stay low for much longer, countries like Venezuela - with more excitement due to new surge of nationalization - will suffer more.

Table 1 – World Oil Supply & Demand in 2009 (million barrels per day)

	First quarter	Second quarter	Third quarter	Fourth quarter	Average of the year
World oil demand	85.88	85.04	85.05	86.76	85.68
Non-OPEC supply	50.65	50.18	49.82	50.24	50.22
Indonesian output	0.86	0.86	0.86	0.86	0.86
OPEC unconventional oil and condensate	5.04	5.15	5.34	5.44	5.24
Total non-OPEC supply	56.55	56.19	56.02	56.54	56.32
Demand for OPEC oil	29.33	28.85	29.03	30.22	29.36
OPEC output without Indonesia	29.35	29.35	29.35	29.35	29.35
Surplus supply in oil market	0.01	0.49	0.31	-0.88	-0.02
Changes in stocks	-0.70	1.00	0.40	-0.40	

Note 1: Assuming OPEC's step to reduce committed output by 50 percent or 1.2 mbpd and Iraqi output equivalent to 2.4 mbpd

Note 2: The total may not be equal to the added sum due to rounding off the figures

Table 2 – Requisite Price of Oil to Balance Foreign Accounts (dollar per barrel)

	2000	2007	2008	2009	2010
Venezuela	26.54	81.01	90.96	99.88	102.68
Iran	12.42	49.73	57.32	86.33	83.31
Saudi Arabia	20.56	42.86	42.86	50.74	54.26
Kuwait	5.62	37.92	43.55	50.35	52.07
UAE	1.89	27.69	33.53	40.56	45.59
Algeria	21.24	14.27	16.85	17.94	30.85
Qatar	15.85	17.38	14.76	10.18	8.35

Source: PFC Energy

The government of Alberta State in Canada announced in November 2008 that in the next five years it will receive less royalty from companies undertaking development of oil and gas fields. This is while Alberta had increased royalties at the end of 2007. The deputy of ExxonMobile in early December 2008 said: As conditions become more challenging, the need for technology and expertise becomes more and this is something we can present to the host countries.

Sufficient investment in the industry had not taken place in the 80s and 90s due to weak outlook of the oil price. Because of this, the oil market faced shortage of capacity in different upstream and downstream sectors following significant growth in demand during 2000 to 2007. This was the most important factor leading to increase of oil prices. In the period of booming oil prices, the idea was to absorb more investment in the oil industry in order to obviate the shortage of investment. But under the condition that demand and oil prices enjoyed high strength and their outlook were also promising, the producers enjoyed the upper hand. Enormous oil income allowed them to rely on domestic resources for developing the oil industry offering more rigid terms to investors. The wave of nationalism in the oil industry encompassed from Saudi Arabia and Russia to Algeria, Venezuela and Bolivia. If the crisis had not occurred and the oil prices continued to remain at high levels, the international companies still had to

compromise with hard investment conditions in oil producing regions.

It is now appropriate to look for an answer to explain the current oil market situation by raising a number of questions. During the years of high prices, the industrial and oil consuming countries fully realized that their economies would be fragile and vulnerable without the existence of spare capacity in the oil and gas industries' upstream and downstream sectors. The necessity for investment and increase of capacities was fully emphasized in the final declaration of Jeddah meeting held in June 22, 2008. It was emphasized in the first paragraph of this declaration that spare capacity for oil supply has a high importance for the world oil market. Thus, making investment in the upstream and downstream sectors is necessary to ensure sufficient and timely supply. Suitable energy policies, predictable investment and better access to technology are a necessity in this respect. The Jeddah meeting was held at a time when prices were at unprecedented level. The oil ministers from OPEC and non-OPEC producing countries, energy ministers from consuming countries, political authorities of the countries, authorities from international oil companies and energy organizations and institutions (in total 36 delegates from the related countries and 22 national and international companies) participated in this meeting.

The second meeting of this kind was held in London on 19th December 2008 upon invitation by the

British prime minister. In its final declaration, it was also emphasized that the participants for the first time had agreed statistics be gathered and published by the International Energy Forum (IEF) regarding annual investment plans in the energy sector in order to give more assurance to the market and the companies. Also, it was emphasized in a statement published by the British government that during the London energy summit the participants stressed on the importance of transparent and stable investment regimes agreeing to cooperate for the removal of obstacles in the way of investment. The London meeting was held at a time when the oil prices had dropped to its lowest level between this meeting and the Jeddah conference. In this meeting the representatives of more than 30 countries as well as international organizations had also taken part. In fact, it indicates that the necessity of investment in this industry whether at high prices or low prices has an equal significance.

The question probably considered by major consumers is that if the atmosphere of high oil prices had led to more stringent conditions for foreign investment, whether lower prices could break up this atmosphere providing an appropriate environment for the entry of major oil companies and increase in

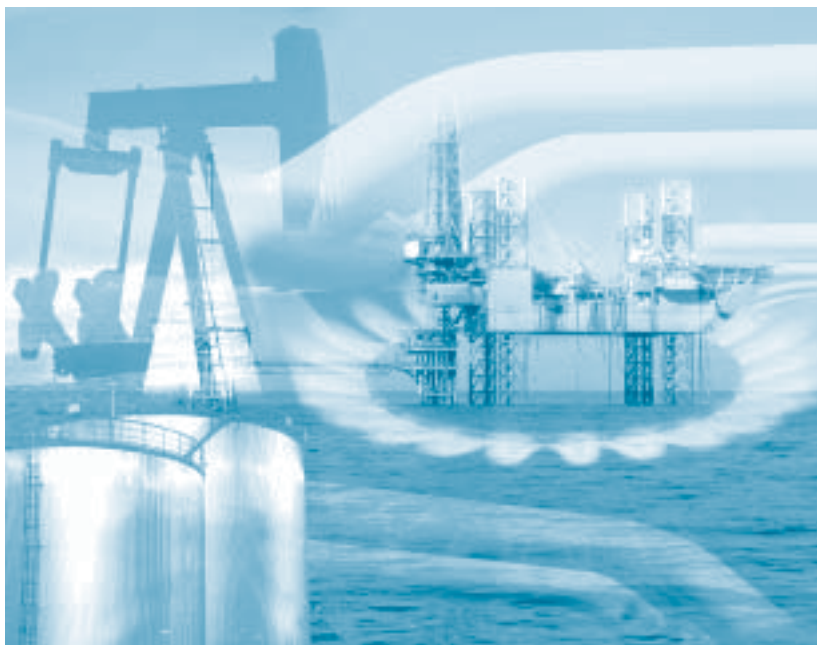
investment? If the answer to this question is positive, it can be concluded that - in addition to the market's fundamental factors mainly responsible for the drop of oil prices - the political desire of the main consuming countries also instigates lower prices to prepare better conditions for the entry of international companies in the world's oil producing regions so that it provides the possibility to increase the required capacities to meet demand in the future decades.

It seems the issue of the security of oil supply as a strategic commodity has more importance for these countries than the prices. Therefore, if low prices endanger the security of supply, they will make an effort to raise prices to a level that encourages investment for developing new capacities and maintaining the available capacities. But currently, such an attitude is not observed from the consumers.

From the consuming countries' point of view, the nationalistic attitude of countries possessing oil will cause ambiguity for the future of the oil industry. Perhaps for this reason, OPEC's decision to reduce output in its last conference faced with negative reaction of the major consumers. Based on economic theory, the outlook for return profit must be high enough for encouraging investment in an industry. But currently it appears that in

order to compel the host countries to open up their oil industry for international companies to meet the fuel required by the industrial world, they must be put under pressure and obliged to breath in the atmosphere of low oil prices. This is while that the economic crisis and the weakness of the market foundations have practically created this atmosphere and the political desire of the western industrial countries has also added fuel to this situation.

Sources are available in the Journal's office.



Parsian 1&2 producing 80 mcm/d of treated gas

Iran's Parsian Gas Refining Company (PGRC) has produced a total of 20.129 Bln cubic meters of gas during the past ten months, a rise of 25%, year on year, says managing director of PGRC Nasser Eslami.

According to the news agency

of Iran's oil ministry, Eslami said his company had produced some 9.196 Mln barrels of condensate during those ten months, a rise of 15%, year on year.

Parsian Gas Refinery is made up of two parts of Parsian 1 and Parsian 2 and is producing over 80 mcm/d of treated gas.

Parsian 1 is capable of produc-

ing 45.8 mcm/d of gas, but is currently producing 40 mcm/d. Parsian 2 can produce 38 mcm/d of gas, and is currently running at full capacity.



Turkmenistan to increase production of oil, gas in 2009

Oil production in Turkmenistan will increase to 10.9 million tons in 2009, regional media said on Wednesday, citing an announcement at a Turkmen-British Energy Business Forum.

The forum was held in the Turkmen capital of Ashgabat

and involved the Central Asian state's Oil and Gas Industry and Mineral Resources Ministry and Foreign Ministry, as well as the British Embassy in Turkmenistan.

It was also announced during the forum that Turkmenistan would produce up to 75 billion cubic meters of natural gas this year, the majority of it for export.

In 2008, Turkmenistan produced 70.5 billion cubic

meters of gas, of which 47 billion was exported. The main consumer of Turkmen natural gas is the Russian gas giant Gazprom, which on average purchases some 50 billion cubic meters of gas annually from the former Soviet republic.

The forum's participants also noted that during 2009 the construction of gas pipelines in Turkmenistan would continue to see rapid development. However, there was no information on which pipelines were discussed at the forum.

A pipeline between Turkmenistan and China is making good progress. However, it has not yet been revealed when the project will be commissioned. Work on another pipeline, to be laid jointly by Turkmenistan, Russia and Kazakhstan, is due to start this year in the Caspian Sea area.



Abouzar's crude production suffers loss due to accident

Following the gush-out of gas from a pipeline of a platform of Abouzar field, few productive wells of the field were closed down and the field is feared to have lost between 50 to 100,000 bpd of its crude production, Mehr news agency reported.

The accident is thought to have been caused by a defect in the field's drilling operation. Abouzar oil complex produces 195-220,000

bpd of crude oil and has three platforms of AA, AB and AC.

In related news, ISNA reported that production manager of IOOC Mohammad Baqer Solaimani confirmed the accident at Abouzar's AB platform, but put its production loss at 50-60,000 bpd.

Solaimani said IOOC was doing its best to overcome the problem, but could not give any specific reason for the gush-out of gas, and hence no forecast for overcoming it.



Azadegan likely to produce 50,000 bpd by Mar/Apr 09

Two more wells of Iran's Azadegan oilfield, out of the planned eight, are foreseen to be coming on production in two weeks' time, says deputy managing director of NISOC in drilling affairs Hamid Bovard.

According to ISNA, Bovard added that: "In this phase, the plan is to produce 30,000 bpd of oil from eight production wells of Azadegan. Three of those eight wells have already been brought on stream and the drilling of another three wells is foreseen to be completed either by the end of this Iranian year (20th March) or early next year".

For obtaining the early production of 20,000 bpd of Azadegan, first phase of the oilfield's development, the six exploratory wells of the field were converted into production types.

Earlier this month Iran's oil minister Gholam Hossein Nozary had said production of Azadegan would reach 50,000 bpd by March 2009.

Iran stockpiling gasoil while prices are low

Iran is storing around 2 million barrels of gas oil on ships, as cheap prices encourage the country to stockpile the gas oil

even though a mild winter has capped demand, industry sources said on Tuesday.

"We have had to do this because as you know we have limited onshore storage capacity," said a source familiar with Iran's

fuel import programme.

"We have been doing this for about two months now, and we will continue to buy because of the low prices. Domestic requirements have not been heavy because of the milder winter."

'Iran LNG' gets \$200 Mln loan: ILC MD

Following months of negotiations for securing part of the financial needs of 'Iran LNG'

project, recently a \$200 Mln loan contract was signed for the project with a European company, says managing director of Iran LNG Company (ILC) Ali Khayrandish.

According to ISNA, Khayrandish added that negotiations with another European company for a • 200 Mln loan were underway and would be finalized in the next 2-3 weeks.

The ILC MD disclosed that the economic committee of Iran's Cabinet and the Central Bank had approved the allocation of \$900 Mln credit from Iran's Foreign Exchange Reserve Fund (FERF) to Iran LNG project, adding: "Paper works are being done for the credit and hopefully it will be put to use before the end of this year".

He said the first two trains of 'Iran LNG Plant' were estimated to cost \$4-4.5 Bln.



Works begin on Forouzan development

A Letter of Credit (LC) has been established for the project to refurbish the platforms of Iran's Persian Gulf oil field of Forouzan and the relevant down-payment has been made available to its contractor Iranian Offshore Engineering and Construction Company (IOEC), says managing director of Iranian Offshore Oil Company (IOOC) Mahmoud Zirakchian Zadeh.

According to ISNA, Zirakchian Zadeh explained: "Development of Forouzan is made up of two parts of; refurbishment of the

existing platforms of the field and fabrication of new platforms for it. The LC has been opened for the first part and the pertinent down-payment has been made available to IOEC".

The IOOC MD said the first part would cost • 130 Mln and is foreseen to be completed in 3 years' time. He said the designing of the project had started and its procurement was being planned.

It's worth noting that IOEC was named the winner of the refurbishment project in June 2007.

He said fabrication of new platforms, the second part of development of Forouzan, would facilitate the dispatch of 250 mcf/d

of gas of the field to Kharg NGL plant.

According to Zirakchian Zadeh the second part, also foreseen to be completed in 3 years' time, has been contracted out to PetroIran and its LC has been opened and down-payment made available to its contractor.

In May 2008, PetroIran contract out the fabrication of one Living Quarters platform, two production platforms for Forouzan and the construction of Forouzan-Kharg sub-sea pipeline (150 km 24") to IOEC. IOEC is still negotiating with the British SLP for the engineering sector of the project.

Govt. urged to establish 'Oil Industry Development Bank'

A senior adviser to Iran's oil minister said creation of an "Oil Industry Development Bank" was simply not possible by Iran's private sector because of its poor financial capacity and it had to be established by the government and oil minister should be appointed as the chairman of its board.

According to the news agency of Iran's oil ministry the former chief

of NIORDC, Mohammadreza Nema'tzadeh went on to explain: "At present, the existing capacities and capabilities of Iran's banks and insurance companies are inadequate for providing the services required for increasing investment in Iran's petroleum industry. And they will not acquire that capability at least for the next ten years".

Suggesting that the "Oil Industry Development Bank" be established concurrent with the '1st Congress on Promotion of

Iran's Contracting System' (convened during 10-11 March 09), Nema'tzadeh stressed that the statute of the 'Bank' should be prepared carefully and quickly and sent to Majlis for approval.

He said despite the present difficult times for Iran, there were other ways of securing the financial needs of Iran's projects, like selling the products of projects in advance. He believed there were many customers for Iran's petroleum industry products.

PetroPars to help develop gas field in Turkmenistan

Iran and Turkmenistan have set up a joint team of experts for the development of a gas field in Turkmenistan, disclosed managing director of National Iranian Gas Export

Company (NIGEC) Reza Kassaie Zadeh.

According to the Borna news agency, Kassaie Zadeh said that in his recent visit of Ashgabat, he had introduced PetroPars Company to its Turkmen counterpart for the development of that gas field. He said

the two had met and decided to quickly prepare the details and technicalities of the project to be used as the framework for the ensuing contract.

The NIGEC chief said the aim of developing the gas field was to import its gas output into Iran in the future.

Nabucco can not deliver without Iran: Nozary

Iran's oil minister Gholamhossein Nozary said without Iran, Nabucco gas pipeline will not become a reality.

In a press conference yesterday in Tehran marking the 30th birth anniversary of the Islamic Republic, Nozary was asked why Iran was not invited to the Budapest Nabucco gathering of last Tuesday. He said: "Iran has

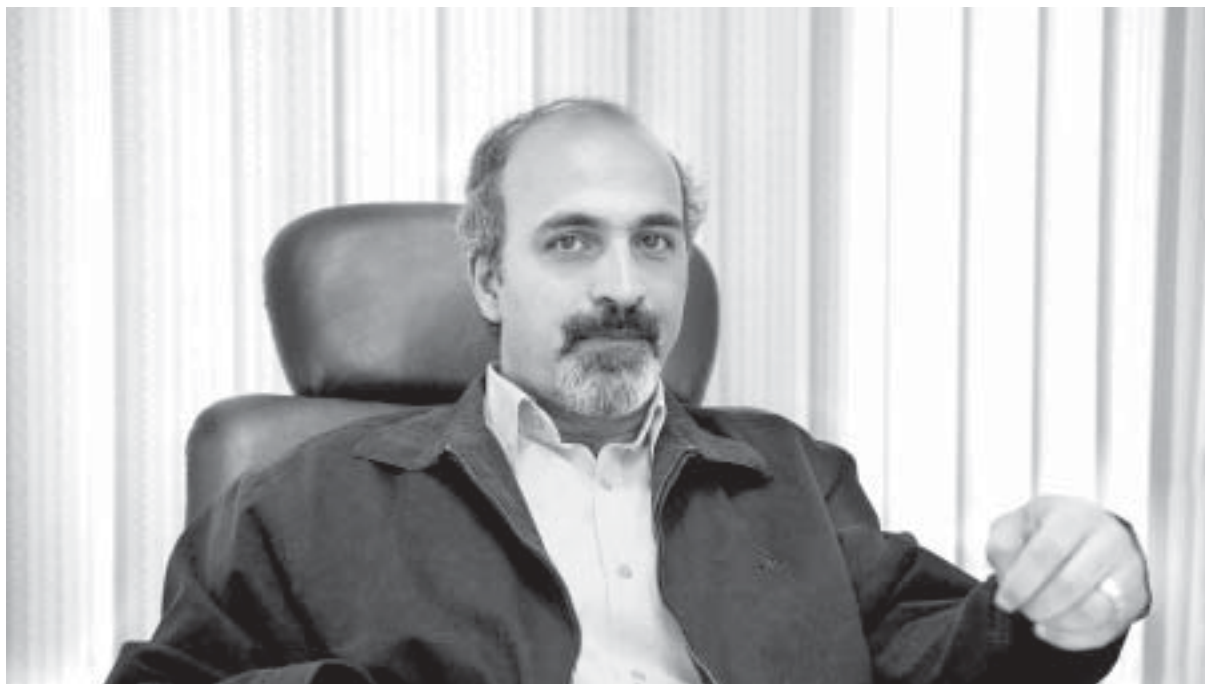
proposed construction of 'Persian' pipeline for carrying its gas to Europe. Besides, the recent gas dispute between Russia and Ukraine showed that Russia can not be a long term (reliable) supplier of gas to Europe".

Nozary stated that he would give Nabucco partners time to go through all their assessments and calculations and then come back to Iran as the final destination, asserting: "Their final decision will be that Iran has to a partner in

Nabucco pipeline".

Last week, a conference of some European heads of states was convened in Budapest to put some impetus into Nabucco gas pipeline project to carry the gas of Caspian region to Europe via Turkey.

Most analysts saw the Budapest gathering as a political leverage for the European consumers of the Russian gas, which could be used as a bargaining chip in future gas negotiations with Russia.



South Pars Needs Fast Track Action

Homa Kabiri

The giant South Pars Gas Field in the Persian Gulf has become an energy hub in the world. Shared by Iran and Qatar, South Pars constitutes a main source of energy for the Islamic Republic.

The field is sprawling on a total of 9,700 square kilometers of which Iran owns 3700 square kilometers.

Iran's sector holds 14 trillion cubic meters of gas along with 18 billion barrels of gas condensates. In other words, Iran's South Pars sector holds eight percent of the world's and nearly half the country's gas reserves.

Iran has divided its South Pars sector into 24 phases for development in an attempt to recover 820 million cubic meters a day of natural gas.

Currently under construction, Phase 12 of South Pars is strategically significant. Dr Mohammad-Reza Bahari, director of Phase 12

pipelines plan at the Iranian Offshore Engineering and Construction Company (IOEC), has granted a detailed interview to our monthly on the project. Here is the full text of the interview.

- Would you please provide us with a summary of Phase 12 so that we could have an overall picture of the project?

Phase 12 is divided into three sub-phases known as 12A, 12B and 12C. Two liquefied natural gas (LNG) projects are involved; Iran LNG and Pars LNG. Another pipeline has been defined for IGAT6, to supply gas to different parts of the country.

In general, Phase 12 involves the construction of a refinery, coastal preparation and an SBM for gas condensate exports as well as three pipelines leading to three platforms.

- What products are Phase 12 expected to offer and what investments are to be made?

Like other phases of South Pars, this phase is to produce nearly one million cubic feet (2,850 cu-

bic meters) of natural gas, and 120,000 barrels of gas condensates a day. Gas condensates and other compounds like 750 tons a day of granular sulfur are to be exported. The project was launched in August 2005 and is predicted to come on stream in 66 months. The Iranian side is required to maintain a 51 percent share. Since no foreign investor has agreed to cooperate in this project, the Naftiran Intertrade Company (NICO) is financing the project. In view of the tumbling crude prices, we have anxieties about financing the project. Petropars is the main financier and it has its own preoccupations now including projects in Venezuela, Darkhuwein, and phases 6, 7 and 8.

- How does the Petropars engagement in 6, 7 and 8 phases affect IOEC activities?

Petropars lacks investment for further projects. IOEC believes that Petropars should not ignore the lack of cooperation on the part of Norwegian Statoil. Phase 12 could have picked up if Statoil had not delayed Phases 6, 7 and 8. Petropars remains the sole investor now.

- What does IOEC do exactly in this project?

We are building three 150-kilometer-long 32-inch pipelines whose diameters are 32 inches. Besides, we are involved in laying 450 kilometers of a 4.5-inch Megline. The choice of Megline is because gas may cause corrosion of pipes. IOEC carries out the task of welding the pipelines and their installation. Summing up, I can say that we are laying 900 kilometers of pipelines for South Pars Phase 12 development.

- As you said, the project is expected to last 66 months. Can you give us some details?

Petropars finished its fundamental engineering in September 2007. Therefore we have 40 months to do the job but we are required to complete the project in 30 months. Such a request does not seem logical.

It would be excellent if NICO stands by us up to the end. We cannot rely on foreign companies because most of them are just intermediaries and they serve American and French companies. That is why Iranians are obliged to account for 51 percent of the projects.

Petropars has tasked Iranian companies with laying pipeline, construction of jackets, etc. But since we have no expertise in LNG sector, we have to cooperate with a US or Japanese company. Moreover, we cannot meet our refinery or SBM equipment needs.

- How much have you progressed in different sectors?

We have registered a 70 percent progress in the engineering sector. Petropars is involved in the offshore affairs, flares and jackets. The subsea pipelines were estimated to cost 753 million dollars, but now the figure is revised up to one billion dollars because of steel prices and euro-dollar conversion rate. The project has had a total progress of 36.4 percent, while we should have progressed 4.5 percent more.

- Why such delays?

The main reason for the delays results from bargaining over SBM which we intend to buy from Europe. We were close to reaching agreement with a European company, but the changing market conditions spoiled everything.

- What about purchase of other equipment?

We have delivered 170 kilometers, out of a total 450 kilometers of a 32-inch pipeline, to Khorramshahr and 25 kilometers are to be loaded soon. German Europipe is producing 250 kilometers now to deliver to us.

- Have you happened to halt your projects due to non-delivery of equipment?

Our project is not still in that stage as we are occupied with engineering and purchase. We are scheduled to begin laying pipeline from Tombak in May and we will do the job for 400 days non-stop. We

can't abandon the pipeline under water and we have to continue the project. We hope to finish the pipeline project in a year. Then, we might need 15 months for installing SBM whose launch would need three months. In the onshore section of the pipelines, we have to lay them three meters deep underground to protect them from anchors and vessels.

- In what depth the offshore pipelines are installed?

Up to 70 meters.

- How long can these pipelines work? Will they create any environmental problem for water?

The pipes are expected to work for 25 years and they would not cause any environmental problem. However, the environment is harmed when we install the onshore pipelines. In some countries, the contractor has to reinstall the corals after breaking them.

- Have you faced any problem with the kind of hard currency?

Unfortunately, we are perplexed with this issue. Due to the US sanctions, we have paid foreigners in euro and we have asked them to sign their agreements with us in euro, but we are not allowed to do so. The euro-dollar conversion rate has been subject to major changes. IOEC hardly gets five percent in profit from the project.

Another challenge is the refusal of European banks to offer letters of credit (LC) to us. We have to resort to intermediaries by paying them 3 to 5 percent of the money. Our managers should examine this issue realistically and see why three phases of the South Pars were launched with a delay of 2 to 3 years.

- How much income can this project bring for the country?

Each phase can give us between eight and ten million dollars a day. Phase 12 can offer 24 mil-



lion dollars a day, reaching 8.8 billion dollars a year. The annual budget for our country is around 140 billion dollars. Phase 12 of South Pars is the most profitable project for our country and reasonably we should avoid losing time and money. We should prevent any mismanagement in order not to lag behind. Qatar and the United Arab Emirates invest 2,000 billion dollars in their energy sector, while the figure is one-tenth in our country.

Qatar has prefigured 15 billion dollars for using its energy carriers up to 2010 because it knows well that the field is shared with another country. Vessels charge 500,000 dollars a day and each second causes 5.5 dollars loss. We should wake up and make up for the losses.

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

Abstract

Con 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 shelf, 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 consolidate 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 exami-

nation 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 Pakistan. 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.

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 on 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 cooperate 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,

- (i) Execution of joint projects, technical sector cooperation, common running of services and policy harmonization
- (ii) Joint development of common natural resources
- (iii) Joint stand towards the rest of the world
- (iv) 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.

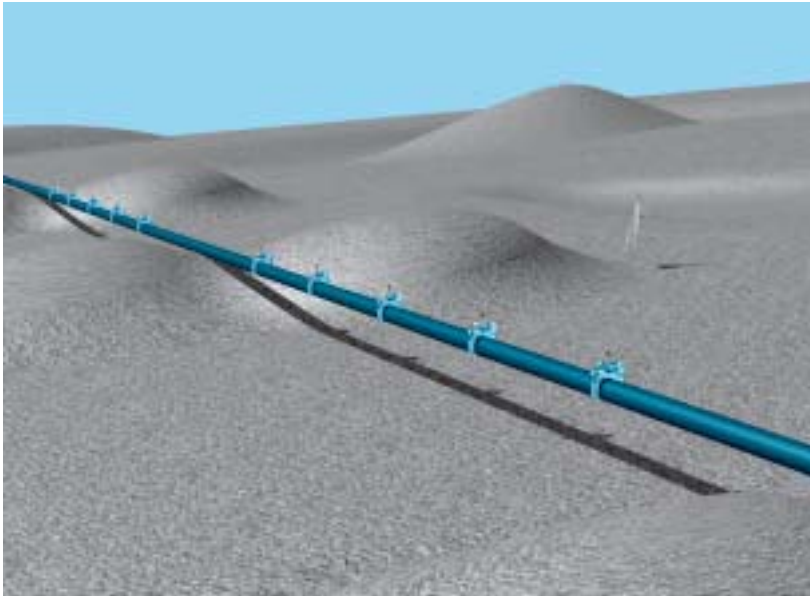
It must however be noted that the exact definition and scope of regional cooperation may vary from region to region and the phenomenon of “regional cooperation”, unlike “regional integration”, must be

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 govern-

ment 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 domestic 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.

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 that 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, secretary 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 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 corruption 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 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 try 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 important 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 emphasis 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 invested 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.

References:

- Afroz, S. (ed.), (2002), *Regional Co-operation in South Asia: New Dimensions and Perspectives*, Bangladesh Institute of International Strategic, Studies (BISS): Dhaka.
- Arad, R and Hillman, A. (1979), *Embargo Threat, Learning and Departure from comparative Advantage*, journal of international Economic journal 108.
- Bailes, K, Alyson, J. (2006), *Regionalism in South Asian Diplomacy*, SIPRI Policy Paper No. 15.
- Cottey, A. J. (2006), *Regional security cooperation in the early 21st century*, SIPRI Yearbook 2006: Armaments, Disarmament and International Security, Oxford University Press: Oxford.
- David, T. (2007), *The Iran-Pakistan-India Pipeline, the intersection of energy and politics*, IPCS Research Papers, Institute of Peace and Conflict Studies.
- Davis, J. D. (1984). *Blue Gold: The Political Economy of Natural Gas*. George Allen & Unwin: London.
- Duchene, F. (1994), *the first statement of interdependence*. New York: Norton.
- Estelami, H. (1999), *A Study Of Iran's Responses To U.S. Economic Sanctions*, MERIA Vol 3, No. 3.
- Haas, E. B. (1971), *The Study of Regional Integration*, Harvard University press, Cambridge, Massachusetts.
- Hasan Nuri, M. (2003), *India and Iran: Emerging Strategic Co-operation?*, IPRI JOURNAL, Vol. III, No. 2.
- Herzig, E. (2004), *Regionalism, Iran and Central Asia*; International Affairs, Vol. 80 No. 3.
- Khurshid, K (1998). *Confidence-Building between India and Pakistan: Lessons, Opportunities, and Imperatives*. Stimson Center: Washington, D.C. p45
- Malik, H. (1993), *soviet-Pakistan relations and post soviet dynamics, 1947-1992*.
- Mansfield, E and Helen V. Milner, (1997) *The Political Economy of Regionalism*, Columbia University Press, New York.
- Mostashari, A. (2007), *The political economy of the Iran -Pakistan -India gas pipeline*, Iran Analysis Quarterly, Vol. 4, N. 1.
- Pandian, S. (March 2005) "The Political Economy of Trans-Pakistan gas Pipeline Project," *Energy Policy*, Vol. 33 Issue 5.
- Robson, P. (1990), *The Economics of International Integration*, Unwin Hyman, London. Energy Information Agency, US Department of Energy. www.eia.dov.gov
- National Iranian Gas Export Company (NIGEC), (2007), *Managing Director News Conference* www.shana.ir

Glance Over North Azadegan Deal with CNPC



Source: IranOilGas.com

A contract for the development of Iran's North Azadegan oilfield was signed between NIOC and the Chinese National Petroleum Company (CNPC) on Wednesday, the 14th of this January.

Despite earlier promises of Iran's oil industry officials about certain changes in new Buy-Back deals, the North Azadegan contract is more or

less in NIOC's regular Buy-Back mode. According to NIOC managers, the most significant change in the new form of Buy-back was expected to be that NIOC would prepare the Master Development Plan (MDP) of the field and assign its projects to contractors in accordance with that MDP. This has not been put into practice in North Azadegan deal, where the MDP of the first phase of development will be prepared in 2 to 3 months' time from the date of the contract and will be annexed to the

contract after it's endorsement by NIOC.

North Azadegan is estimated to house some 6 Bln barrels of oil-in-place with a natural recovery rate of about 6%. Hence, preliminary estimates suggest that the first phase of the field's development would yield 75,000 bpd of oil at the start, and would ultimately manage a cumulative output of 330 Mln barrels in 25 years' time.

To attain that level of output in the first phase, 43 horizontal production wells, 2 appraisal ones (vertical) and 3 waste-water wells will be drilled in North Azadegan. In addition, 10 wells for the Enhancement of Recovery Rate (EOR) of the field will be drilled in it.

If the first phase and the resulting studies prove to be favoring a second phase, then CNPC would start working on that second phase to attain 150,000 bpd of oil production in North Azadegan. This would consequently raise the field's total recoverable oil to about 500 Mln barrels.

The second phase is either injection of gas or water (or whatever else needed by the reservoir).

The contractual period for the first phase is 48 months from its start, and that for the second phase has been put at 42 months. Put together, the two phases would require 7.5 years' of time to attain their targets.

The Rate Of Return (ROR) of investment in North Azadegan Buy-Back deal has been put at 14.98%, but it is allowed to drop or raise 1% for every 1% drop or rise in the field's production. However, a 16.2% ROR ceiling has been foreseen for the rise in the production.

The whole process of the first phase development (investment plus reimbursement) has been foreseen to take 12 years. In case the second phase is added, then the process will be extended to 17 years in total.

Reimbursement of investment and its remuneration will come from the 60% share of the earnings gained from the value of crude produced for a 4-year period, extendable up to 6 years.

The estimated Capex of the project is \$ 1.76 Bln and the final Capex will be decided 14 months after the effective date of the contract. This final Capex will be determined after the contract is signed and all relevant tenders are held with the collaboration and participation of NIOC and with the final endorsement of NIOC.

During the interim, the development of the oilfield will get underway and project's contractors will be gradually selected under supervision of NIOC.

This part of the contract seems to be totally new in this sort of Buy-Back deals.

Certain general aspects of sale of the crude output of the field have also been dealt with in the contract, but details have been left to be determined by talks about the grade and type of crude the North Azadegan oilfield will be producing.

The deal also requires CNPC to respect 'Local Content' law, train NIOC staff and facilitate the transfer of technology used in developing North Azadegan oilfield to local workforce.

Besides, CNPC is obliged to implement plans for enhancing the recovery rate of the field while preserving the sustainability of its production.

The 3D seismic data acquisition of North Azadegan is underway by a consortium of local companies of Khatam-ul-Anbia HQ, NAZSA and Green Refining. The field is largely swampy and special equipments are required to carry 3D seismic operation in it.