
Iran Strives To Join "Nabucco"

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Many countries have decided to benefit from the recent Russia-Ukraine gas row. Tehran was not an exception. During his visit to the European Parliament Deputy Foreign Minister of Iran Mahdi Safari announced Iran's intention to join the "Nabucco" project. The diplomat said Iran was ready for trading gas to Europe as well as to provide transportation services.

Over the past few years "Nabucco" has been supported by Europe not for economic but for political reasons. But plans to lay a new branch of the gas pipe bypassing the Russian territory were broken since the potential supplying countries did not have enough of free gas. No matter how often the delegations from the EU and US visited Baku, they would fail to make gas out of nothing.

None of the serious investing companies could have viewed Azerbaijan, possessing the only one big gas field Shakh Deniz in the Caspian Sea, as a reliable partner in the "Nabucco" project. Today Azeri gas exports are far from that required for the foreign investments. The new "Nabucco" pipeline could have become cost-effective only if it pumped no less than 30 billion cubic meters of gas. Although Azerbaijan promises to commission the second line of the Shakh Deniz main by 2013 and thus increase production to 8-12 billion cubic meters, investors are still risking their billions.

Even if Baku succeeds, the investing companies still will be doubtful about the issue. There is also little hope for Turkmenistan, Uzbekistan and Kazakhstan to join the "Nabucco" project. At the recent talks with the Russian President Dmitry Medvedev, the Uzbek leader Islam Karimov confirmed that the gas from Uzbekistan would be sold to Russia. The sides had already signed the corresponding agreements. Moreover, Moscow may even fail to receive all the gas from Uzbekistan due to some technical restriction on its gas transit capacities.

Kazakhstan and Turkmenistan also have long-term deals with Moscow. Since the sides had agreed on the price last year, foreign companies have no chances to poach Moscow's partners in Astana, Ashkhabad and Tashkent.

However, the whole situation is good for Iran. Some experts believe that without Iran the "Nabucco" project will remain unimplemented, while its participation could give an impulse to the process. Iran has the second largest gas reserves in the world after Russia (27,5trillion cubic meters, or 18% of the world's gas reserves and 33% of that of the OPEC).

Still there are some difficulties. In the meantime Iran produces only 460 million cubic meters of gas per 24 hours and thus is not listed among the world's leading gas suppliers. Besides, Iran has never been a leading natural gas exporting country. Currently its exports do not exceed 15 million cubic meters. And we may name at least two reasons for that.

First, Iran uses the lion's share of produced gas (360 million cubic meters daily) for civil purposes. By the year 2014 Tehran plans to provide gas to 93% of the population of 630 cities and to 18% of the rural population in more than 4,000 villages. Iran's factories and electric power plants also need much gas. Another share of the produced gas Iran has to inject into its reserves to keep oil production at a high level (experts say this helps Iran increase output by more than 30%). Iran has long been enjoying infrastructure for oil exports but yet has not such for exporting gas.

Secondly, most of the Iranian gas fields are located in the south-on the coast of the Persian Gulf and on its shelf, which is quite far from the operating gas pipes and those being under construction, including the "Nabucco". South Pars, the largest offshore gas field in the world, located on the Iran-Qatar border in the Persian Gulf with its 13,1 trillion cubic meters and 19 million barrels of condensate is the most illustrative example. Apart from South Pars, Iranian gas output is provided by Nar, Cangan, Shanun, Varui, Homa, Tanbak fields. It is worth mentioning that more than 60% of the Iranian gas reserves are located in non-associated fields.

That is why Iran currently has to focus more on importing gas from Turkmenistan and sometimes from Azerbaijan. According to BP estimates (London stock exchange) Iran traditionally consumes more gas than it can produce.

So to join the "Nabucco" project Tehran should have a lot of luck- at least find investors ready to pay not only for the construction of the pipe 1500 kilometers longer than "Nabucco" but also for the exploration of other Iranian fields. Several European energy companies have long been working in Iran, Italian ENI and AGIP being among them. France, Denmark, Malaysia, the Koreans and Russian Gazprom also take part in the development of Iranian gas deposits. But since the US had imposed sanctions to prevent the flow of foreign investments into Iran, other countries do not dare to join in.

However, we should take into consideration that originally "Nabucco" was meant for Iranian gas and not for that from Azerbaijan or Central Asia.

In January of 2004 the Austrian oil and gas giant OMV and the National Iranian Gas Company signed a memorandum on the exports of the Iranian gas to Europe through the "Nabucco" via Turkey, Bulgaria, Romania, Hungary to Austria. But later in view of the aforesaid political reasons Austria focused on other supplying countries.

That is why we should expect some changes. For Russia it appears to be of special importance that recently Iran has been actively supported by Turkey.

Turkish Prime Minister Recep Tayyip Erdogan insists there won't be enough gas for "Nabucco" without participation of Iran. Here Turkey acts on its own and does not depend on US. Iran is Turkey's closest neighbor. More than 5,000 Turkish firms are operating in Iran, their total capital being 7 billion dollars. By 2010 it is expected to reach 10 billion. Turkey had long been buying Iran's gas (more than 10 billion cubic meters per 24 hours).

Ankara will benefit both economically and politically from Iran's participation in the "Nabucco" project. It may help Turkey increase its geopolitical presence in Europe and maybe even join the EU. From the economical perspective, thanks to the transit of the Iranian gas via Turkey, the both countries could improve their trade balance. In early July 2007 Turkey agreed to invest \$3,5 billion in modernization of Iran's gas capacities and construction of a 2,000 kilometer long gas pipe. Here we see the establishment of a new Turkish-Iranian gas alliance.

Though the world financial crisis nipped these initiatives in the bud, in a mid-term perspective all the projects appear to be quite manageable.

Everything might change when Iran receives an opportunity to become a large natural gas exporter. By 2015 Tehran expects to deliver more than 60

billion cubic meters of gas per year. However, we should not blindly believe Iran.

Some of the country's experts say Iran's annual gas output will reach 210 billion cubic meters, the third part of which is said to be spent on home gas consumption, while two other parts- on exports through the pipelines and in liquid form.

Anyway, Tehran yet has no plans to integrate into the European markets. Iran plans to supply 20 billion cubic meters to India, and 7 and 2,3 billion to Pakistan and Armenia respectively. Tehran also reached deals with some of its Arab neighbors: with the United Arab Emirates (for 14 million cubic meters), with Kuwait (for 8 million cubic meters). But if Europe accepts the idea of Iran's participation in the "Nabucco" project, Tehran will eagerly focus on cooperation with the EU.

Strictly speaking, Iran has a card up sleeve. If Iran decides to develop its liquefied gas production technologies (the issue is already under discussion between Tehran and British Gas, NIOC and Royal Dutch/Shell companies), this may become a good alternative to gas deliveries through pipelines. Actually, this will boost its capacities up to 20,2 million tons of liquefied natural gas per year. Iranian experts sometimes talks about 43,7 million tons. Like Qatar, Iran thus might diversify its exports and not depend on USSanctions against transit countries.

Yet it is difficult to predict what market Tehran will choose for exports.

>From the one hand, by supplying gas to Pakistan, India and Arab states, Tehran can reduce its transportation expenditures, but from the other hand, Europe, Japan and South Korea are able to buy Iranian gas at a higher price. Apart from this, those will have more rights who will build liquefied gas factories in Iran and develop all necessary technologies. And here Russia has a chance to decide on the routes through which hypothetical gas from Iran would flow. Though Russia cannot boast perfect gas-to-liquid technologies...

Not long time ago energy ministers from at least 11 gas exporting countries met in Moscow as part of the so-called "gas OPEC" summit. However, they say this organization should not be viewed as analog to real OPEC as the participants have no plans to decide on the gas prices or gas production quotas for the members of this new gas cartel since there is no global unified gas market. But members of the "gas OPEC" could discuss measures to avoid unnecessary competition for market outlets and achieve a compromise on the issue. And here Moscow has something to offer Tehran. It is not necessary arms deliveries or equipment for the atomic power plants.

Gazprom could co-invest in the pipelines to connect the biggest Iranian gas fields with Pakistan and India.

In any case, Iran's position should be kept a close eye on. It was not by chance that the abovementioned Iranian diplomat talked about Iran as a transit country. Which gas Iran wants to let through its territory? Apparently, the gas from Turkmenistan and Central Asia.

The idea had been actively discussed 10 years ago. In December, 1997, "Shell" reached a deal with the Turkmen government on preparing reports on technical and economical details of the project to deliver gas from Turkmenistan via Iran to Europe. From the "Dovletabad" deposit in southern Turkmenistan through the Iranian cities of Meshed, Gorgan, Resht and Tabriz and further on to Turkey. Then the cost of the project was reported \$7,6 billion.

In 1998 the Turkmen government and "Shell" signed a deal on the "Turkmenistan-Iran-Turkey-Europe" pipe line. Under the deal, 'Shell' was responsible for the construction. Experts predicted the pipe's capacity at 23 billion of cubic meters by 2005 and 30 billion cubic meters by 2010. But soon the project was halted, among other reasons due to the US-initiated D'Amato Act, which allowed the government to withhold U.S. financing and contracts from foreign companies that traded with Libya and Iran. Since then the project has not been considered by Ashkhabad as a perspective one. And now we see Iran ready to revive the project.

To sum up, I should say that today neither Azerbaijan nor Turkmenistan are able to compete with Russia in terms of natural gas deliveries from Asia to Europe. They are likely to give way to Iran. And here we should remember that "Nabucco" is a shortened name of the Babylonian King Nebuchadnezzar and an opera of the same name by Giuseppe Verdi. And Babylon fell to Cyrus the Great, king of Persia, the one who forged the Achaemenid Empire. That is why for Moscow Iran should be a partner and in no way a competitor or a rival.
