Iran’s President makes strange statements regarding gas supplies

While attending the UN General Assembly in New York, the President of Iran made a startling statement on gas supplies which could be construed as hostile in regard to Russia. The statement was made amid the standoff between Russia and the West (the US and EU) over the crisis in Ukraine.

The statement implied that if sanctions were lifted and sufficient funds invested into constructing a modern gas pipeline, at the start of 2020s Iran could begin gas deliveries to Europe (10-20 billion cubic meters of gas per year). In light of the Russian-Ukrainian gas conflict, Iran is offering Europe a "reliable source of gas," – according to DW. This announcement was made on September 24 by Iran’s President Hassan Rouhani to his Austrian counterpart Heinz Fischer during the UN General Assembly in New York. According to Austria’s news agency APA, Iran is ready to export gas through Austria into the EU.

And the reaction from the EU was a favourable one. According to a source in the European Commission involved in the development of the EU energy policy in his statement to the agency: "Iran is one of our main priorities as one of the medium-term measures that will help reduce our dependence on Russian gas supplies. Iranian gas can be easily delivered to Europe, and there has also been a clear political rapprochement between Tehran and the West".

However, one important stipulation should be made – in order for Iran to supply natural gas to Europe, two problems have to be solved – one is political and the other one is technical. First of all, international sanctions on Iran must be lifted and a gas pipeline must be built. According to Reuters some experts say that if sanctions are lifted in the near future and sufficient funds are invested for the construction of a modern gas pipeline, Iran could begin gas delivery to Europe at the beginning of the 2020s (10-20 bcm of gas per year). The year 2020 is still a long way ahead and constructing a gas pipeline on the territories of Iraq and Syria in the midst of hostilities is a highly unlikely scenario.

The question arises - why is Hassan Rouhani making such statements, almost immediately after the end of a scheduled meeting of the Joint Russian-Iranian intergovernmental commission on trade and economic cooperation held in Iran which resulted in the signing of a protocol on projects worth tens of billions of dollars? And why did Tehran earlier make a statement in Dushanbe expressing desire to enter the SCO and talk about the possibility of entering BRICS?

There is nothing surprising in the fact that the EU is hoping to reduce its dependence on Russian gas with help from Iran. But it turns out that Tehran, in the same sanctions boat with Moscow, is playing a double game. On the one hand, Tehran is moving closer to Russia, and on the other hand it is hoping to become a supplier of gas to Europe at the expense of Russia.

It is also clear that there is an abyss between the EU and Iran’s prospective desires and reality. The EU is secretly preparing to start Iranian gas imports as relations with Tehran are improving and worsening with Russia which is a
major supplier of gas to Europe. Apparently, Iran is conducting a very intricate game: simultaneously cooperating with Russia on easing sanctions and holding talks with Europe on replacing Russian gas supplies with Iranian ones.

As early as last year, there were unofficial reports that Iran was in talks with a certain European country concerning gas supplies totalling 25 billion dollars. Based on Gazprom prices of 372 dollars for one thousand cubic meters, the total sum could exceed 62 billion cubic meters of gas. This is comparable with the capacity of "South Stream", whose construction is actively being hindered by the European Commission

Meanwhile, against the backdrop of Western sanctions against Moscow, Iran has definitely moved closer to Russia. In early August of this year Russia and Iran signed an intergovernmental memorandum on economic and trade cooperation for the next five years. This is the so-called transaction "oil-for-goods" that both sides began to informally discuss a year ago. Russia intends to buy Iranian oil in the amount of 2.5-3 million tons per year. The estimated annual contract may equal 2.35 billion dollars. Russia is ready to pay hard cash for Iranian oil, and Iran, in its turn, has agreed to spend this money to buy Russian goods. As a result, in addition to political superiority (the US could not derail the deal despite attempts), Moscow receives double income: from the resale of Iranian oil, and from the sale of Russian goods to a new market. And then all of a sudden, Tehran expresses a desire to sell natural gas to Europe. And all of this is coming from the President who announced to the Austrian leader: "Iran can become a safe energy hub for Europe".

Iran has the world’s second largest gas reserves after Russia: 33.7 trillion cubic meters. The South Pars field in the Persian Gulf holds an estimated 2.7 billion tons of crude oil and 14.2 trillion cubic meters of gas amounting to 8% of the world’s gas reserves and 50% of the total gas reserves of Iran. In the past, France’s Total and Italy’s Eni were showing interest in developing South Pars, which would be able to meet European needs for decades to come. Furthermore, it is located at a shallow depth and it is close to the shore, which is why the cost of production is lower than that in Russia, and therefore the gas itself has to be cheaper than Russian gas. It is precisely the reason why Brussels would like to become friends with Tehran.

However, there are a lot of challenges and obstacles along the way. And quickly overcoming them just won’t work. First of all, Western sanctions against Iran still remain in place. Imposed by the US and EU, they have been in effect for several years: there is an embargo on oil and gas supplies from Iran and a ban on investing into Iran’s gas industry, including projects for gas transportation and the development of technologies for the production of liquefied natural gas (LNG). On top of all that, Iran can only become an alternative gas supplier to the EU provided that successful negotiations are held on its nuclear program. Attempts have been made to solve this issue, but a definite decision is still a long way ahead. The deadline is set for November 24 and hopes for a solution are minimal. In the meantime, Iran exports only 4% of its average daily production.

However, even by removing sanctions from Iran, the EU will not be able to start buying gas right away from the Islamic republic. To do this, they still need to build a gas pipeline infrastructure, invest huge amounts of money and negotiate with potential transit countries. Direct deliveries of pipeline gas from Iran to the EU are possible, but the Europeans will hardly be interested. Transporting LNG from Iran is not beneficial due to its high price (at least in large amounts) while pipeline gas can only be transported through intermediary countries, including above mentioned Iraq and Syria. The shortest path of Iranian gas to Europe passes through Turkey which is already buying Iranian oil. Moreover, Ankara gave consent last year to the transit of 2 billion cubic meters of Iranian gas. However, the capacity of the existing gas pipeline Tabriz-Ankara is insufficient for transporting large amounts to the EU. The existing section of the gas pipeline permits to transport up to 40 million cubic meters of gas per day. That is why new pipelines have to be built.

Iran has been promoting the idea of a Persian gas pipeline for quite some time; the pipeline would link the large South Pars field to Europe. This is an extremely ambitious project. However, the Persian pipeline remains in question since it passes through troubled countries. In particular, the route must pass through Iraq, Syria and the Mediterranean Sea (further on to Greece and Italy). Therefore, this project could sink into oblivion, as did the Nabucco project.

Another option for the delivery of Iranian gas to Europe could be provided by Oman: Tehran plans to supply 10 billion cubic meters of gas per year. A part will be left for domestic needs, and the rest could be transported to Europe. However, for this end a pipeline with a length of 260 km has to be built (the cost is about $1 billion dollars).

In any case, according to independent estimates, if sanctions were lifted in the near future and investments flowed into Iran, the country would be able to supply Europe with gas (10-20 billion cubic meters per year) at the beginning of the 2020s. And this is the most optimistic forecast. Compared with 161.5 billion cubic meters of gas that Gazprom
delivered to Europe in 2013, this is very little. Therefore, Iran, even in the mid-term cannot present serious competition to Russian gas in its traditional European market.

Why then did Rouhani make such a statement? Was that bluffing? Or a desire to drum up support from the EU before November 24?

Possibly this was bluffing but for one interesting fact. On August 11 the deputy head of the Ministry of Petroleum of Iran, Ali Majedi also announced that Iran was ready to provide gas deliveries to the EU via the Nabucco pipeline. The pipeline which is under construction and which passes through Turkey was referred to as “the best of all possible options” by Ali Majedi. However, he also noted that there is another option - through Syria or the Black Sea. Possible transportation routes were discussed with the delegations of two EU countries, who recently visited Tehran, according to the Iranian state news agency IRNA. Ali Majedi pointed out that after the removal of the sanctions imposed on Iran, EU authorities could work together with Iranian experts to determine the best option for both parties. The deputy minister stressed that without the involvement of Iran, the Nabucco project could not be implemented due to the fact that fuel produced from the Azerbaijan’s Shah Deniz field, previously considered as the main source of gas for the cross-country pipeline, would not be enough for Nabucco.

Another option according to Ali Majedi is to supply the EU with LNG using tankers.

(For reference: Nabucco is a cross-country gas pipeline project aimed at delivering gas from Central Asia to Europe and bypassing Russia. The main suppliers were initially considered to be Azerbaijan, Iraq and Turkmenistan. Initial construction was planned to begin in 2011 and finish in 2014. However, due to problems with financing and lack of guarantees, construction was repeatedly postponed and, as a result, never began. On June 26, 2013 OMV, the company which leads the consortium on the construction of Nabucco, officially announced the cancellation of the project).

In any case, it is unlikely that President Rouhani’s statement to the Austrian President served Tehran a good turn. After all, without achieving the lifting of sanctions yet, Iran already has strained relations with Russia, which still remains Iran’s most reliable partner and could become a strategic partner in the gas sector. Now Moscow has suspicions about Tehran’s true intentions. And although Rouhani is the president, he is still not the most important figure in Iran. The country’s leader is Ayatollah Ali Khamenei who does not share the pro-Western sentiments of the head of state along with his liberal team. The command of IRGC, Iran’s leading power structure, should also be taken into account; the Revolutionary Guard is not inclined to trust the West. What matters most for it is that Russia can supply to Iran modern arms capable of ensuring the country’s security in the face of external threats. Many other influential figures are well aware that losing Russia as a partner is easy, but then Tehran would be alone in its confrontation with the United States, Israel and Saudi Arabia, NATO and the CCASG. With Moscow’s support gone, talks with Iran will be quite different.

One should think very carefully before speaking. "Measure twice and cut once," – is a wise Russian saying. Or else, you can lose long-time friends and remain surrounded by old enemies.

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