

Interview Narsi Ghorban

'If I were Turkey, I would sign an energy deal with Iran today'

While the EU and the US are pushing for more sanctions against Iran, Turkey is improving its political and economic cooperation with Iran, especially in the energy sector. The two countries are on the verge of signing a major energy deal.

| by Marc Guillet

In August, Iranian president Mahmoud Ahmadinejad, visited Turkey to – among other things - negotiate a \$3.5 billion energy deal. This was part of broader natural gas plans in the region. Although no formal agreement was concluded on this occasion, Turkey and Iran did issue a 'joint communique for mutual energy cooperation'. In addition, Turkish Energy Minister Hilmi Guler promised he would visit Iran in September with his colleague of Foreign Affairs, Ali Babacan, to sign an energy investment deal. Turkey is one of the few countries that refuses to follow American foreign policy towards Iran. Dr. Narsi Ghorban, respected Iranian energy analyst, does not think Turkish policy is likely to change any time soon. 'Iran and Turkey have quite a long history together', he says. European Energy Review interviewed Ghorban about Turkish-Iranian relations and the state of the Iranian energy sector generally.

Recently Total of France announced a suspension of new investments in Iran. Statoil and Shell did the same. Does the current political climate deter other energy players as well?

'Yes the international political tensions plus the different kind of

sanctions deter investors. There are three types of sanctions. The first are under the regime of what the Americans call executive order. It was an order of President Clinton to American companies not to deal with Iran. As a result, companies in the US have refused to invest in Iran. The second type of sanctions are the result of ILSA, the Iran and Libya Sanctions Act of 1996. This was an act by the American Congress to institute sanctions against both American and foreign companies that invest more than \$20 million annually in the Iranian oil and gas sector. This is a controversial measure, since it targets foreign companies and President Bush has refrained from taking action against non-European companies that invested in Iran. The third type of sanctions are the ones by the UN Security Council. Those are mainly related to the nuclear issue and have nothing to do with the oil and gas sector. There are very few dual use materials that can be used for both nuclear energy and the oil and gas sector. To add to that the EU has recently imposed new and stricter punitive measures on Iran, including an asset freeze on Bank Mellî, Iran's largest bank. As a result European companies have been further deterred from investing in Iran. In the case of Total



Iran's President Mahmoud Ahmadinejad shakes hands with his Turkish counterpart Abdullah Gul during a signing ceremony at Ciragan Palace in Istanbul.
Photo: Office of the President of Iran/Corbis

there is the additional pressure of President Sarkozy, who is a close ally of Mr. Bush.'

What is the effect of the new EU measures on Iran's energy sector?

'Any development on the energy side requires huge financing and large amounts of payments and transactions. When you start closing the doors of the banks it will definitely have negative repercussions on the industry as a whole. These huge financial transactions cannot be done by second or third class banks.'

Turkey is an important ally of the US in Nato, but the country is improving its cooperation with Iran on energy and trade. Is Turkey taking advantage of its strategic position?

'Iran and Turkey have quite a long history together, in war and peace and trade and everything else. It is not as if they met each other yesterday. All the recent projects, visits and cooperation have to be seen in the context of centuries of relationships. They cannot just leave each other. They are important neighbours; they are Muslims. They have treaties together and there is an extensive cooperation in many areas. Turkey is in a unique

position and it uses it in several ways. It is even trying to play the role of mediator as well to solve the current nuclear issue. Turkey wants to help and defuse the situation. I have a feeling that they have a positive impact on what is developing.'

Iran is negotiating with the Turkish Petroleum Corporation (TPAO) about the development of phases 22 and 24 of the South Pars gas field. Will these talks be finalized soon?

'I really don't know. All these phases have taken a long time to negotiate. The concept of 'buy-back' which is used by Iran in these negotiations is generally not favoured by the international oil companies. They prefer joint ventures. According to the Iranian petroleum law, foreign companies can only work within the buy-back formula. They have to hand over the oil and gas to the Iranian government when production is up and running. TPAO and other companies can extract petroleum from the south of Iran. But they have to sell the gas to Iran. If TPAO wants to bring this gas to Turkey or sell it to another company, it will have to buy it back from Iran. In the case of TPAO, which is a state oil company, there is a different way of looking at it.

Other long term factors are taken into consideration as well of course, such as the future of the relationship, the availability of gas export to Turkey and all that. As soon as the nuclear issue is solved and the sanctions are removed a lot of tough competition is ahead for anybody who wants to sign an agreement with Iran in the energy sector. A lot of American and European companies will be rushing in. If I was Turkey I would sign a deal today, because the competition will get tougher in the future.'

One year ago Iran and Turkey signed a memorandum of understanding allowing TPAO to pump 20bcm of natural gas from South Pars. The agreement would make it possible to transport Iranian natural gas to Europe as well as the transfer of Turkmen natural gas to Europe via Iran and Turkey. How realistic are those plans considering the fact that Iran hasn't enough production capacity to supply its own population and industry with gas during the winter?

'The question of the export of gas has been a topic of a lot of debate in the Iranian parliament and government. Many people are not so keen on exporting gas for exactly the reason you mentioned. As long as Iran has a shortage in the winter period Tehran cannot be a reliable supplier of gas to other countries in the long term. Others argue that the gas reserves of Iran are so huge – around 30 trillion m3 of recoverable gas - that they

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could sustain an export of more than 100 bcm per year; it only remains to be developed. With regard to Turkmenistan it is a very reasonable and logical approach because theoretically Iran by itself is like a virtual pipeline; you can get the gas from one side of the country and use it there and get gas from another side of the country for other purposes. Turkmenistan could supply a lot of gas to Iran and it could be used in Tehran and in all the northern provinces. In return Iran could pump gas from the south to Turkey and Europe. There have been studies showing this will work.'

In the field of electricity Turkey and Iran continue to improve cooperation as well. During a two-day visit to Iran Turkish Foreign Trade minister Kürsad Tüzmen stated that the two countries have agreed in principle to allow Turkish companies to build natural gas power stations in Iran. Do you anticipate any more of these of projects?

'There is a lot of potential in the field of electricity between Turkey and Iran. First of all the time difference of the peak hours of the consumption of electricity between the east of Iran and Istanbul is about two and a half to three hours. So in that sense it is a natural phenomenon that you can use your

electricity grid in order to improve your efficiency. Investing in the electricity production in Iran also is lucrative business. Again it depends on the price of gas that you receive. Although it is a lucrative business I don't see a lot of interest to enter into it. I don't see a lot of agreements signed so far, maybe one or two.'

The deputy minister for Iranian natural gas, Seyed Reza Kasaeizadeh Mahabadi, attended the eighth International Energy Arena in Istanbul. At the conference Mahabadi told of Iran's plans to privatize its natural gas industry in order to form financially stable and transparent markets. How well developed are these plans?

'The policy of the Iranian government is to allow the privatisation of the downstream side of the oil and gas business. Many projects, like the refining and the transportation of the gas will be part of that policy. Private companies like to get into the energy business, but up till now Iranians face difficulties to invest in their own oil and gas industry. I am personally involved in a gas industry project. Over the past seven or eight years I have continuously had problems with the bureaucratic system. First it took three years to give us an allocation for gas. Until now they couldn't even decide on what price to sell the gas to the Iranian private sector. Some suggest an "international market price", but that is a meaningless phrase because there is no international price for gas. Others say that the state company should charge the Iranian businessmen the same price as they charge Turkey. That is also very unfair, because in that way the Iranian industry cannot compete with the Turkish energy sector. It all comes down to bureaucratic problems and the lack of determination to let the private sector engage properly in the gas based industry.'

The only gas Iran exports is to Turkey. In the long-term policy guideline vis-à-vis the hydrocarbon industry Iran envisages that by 2024 it will be the world's third largest gas producer, with some 8-10% of the world's gas business. Is this attainable?

'This long-term vision of the country of getting some 8-10% of the world's gas business, which has been approved by the Parliament in 2006, doesn't mean the selling of gas only. Included in this percentage is the selling and buying of gas. So the fact that we are buying gas from Turkmenistan and selling to Turkey are both part of this target of 8-10%. Iran will use its geographical advantage to expand this gas trade with Armenia and the Indian subcontinent. I am not so optimistic that this 20-year outlook is attainable unless very drastic steps are taken soon. Certainly not with the current bureaucratic problems, the lack of privatisation and the financing problems due to international sanctions. Equally important are structural and management problems within the state oil and gas companies, as well as unattractive contracts offered to would-be investors.'

According to the latest figures of the National Iranian Oil Company (NIOC) the flaring of associated gas was around 8.4 bcm per year in

2007. That is much higher than Iran's exports to Turkey. Why is so much gas wasted?

'That is a major question in the minds of many Iranians. The amount wasted could actually be more than the NIOC figures. It is probably around 10 bcm per year. There have been plans to gather all this gas associated with production of oil. Authorities say it is difficult as the oil fields are scattered over a large area. But that is not a good excuse.'

Although Iran is the second-biggest producer in Opec, the country is highly dependent on imported gasoline because of a shortage of refining capacity. Last summer the rationing of petrol was a shock to the economy and led to violence. Did it also bring about any policy changes?

'Yes, there is a major expansion program going on with all the refineries in Iran. They are also planning to build at least two big condensate refineries which will help to produce more gasoline for Iranian cars. This problem of growing dependency on imported gasoline has been accumulated due to the pricing structure as well. The price for Iranian motorists has been so low that it encouraged the consumption. Now with the rationing and the higher prices we are seeing a gradual slow down in the consumption and we see not as much smuggling of Iranian gasoline across the border into Turkey and Iraq as in the past. The price for rationed gasoline – 100 litres per month - is still about 10 dollar cent per litre. When you want to buy more it costs 40 cents for a litre of normal and about 60 cents for super. That is still only a quarter of the price you pay in Turkey. The price increase didn't stimulate people to look for alternative ways of transportation. Iranians are not buying more bicycles.'

What steps should Oil Minister Gholamhossein Nozari take in the short and medium term to overcome Iran's current problems?

'Number one he should make the National Iranian Gas Company (NIGC) totally responsible for all gas, from production to

marketing. At the moment the National Iranian Oil Company (NIOC) is responsible for producing gas as well. The sector is so huge that we need two separate companies. Number two he should allow the Iranian public that wants to invest in the oil

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and gas business to go to the bank and convert their Iranian rials into euros or dollars. The projects in the energy sector are so lucrative that investors will have a return of more than 25%. If this is allowed billions of dollars will come from the public, because everybody will use their savings in rials and go into those projects. The financing problem will partially be solved and Iranians abroad will also bring back their money to invest in the energy sector.

The Minister should also rewrite the present laws in order to make it more attractive for international oil and gas companies to invest in Iran. The time that foreign companies totally exploited the country is way past. They should be invited to join the work in the oil and gas industry and we should make profitable ventures with them. And last but not least the Minister should invite international experts to come and work in Iran; there a lot of Iranians working abroad, he should make sure that they come back and get very good salaries. And he should see to it that all the appointments in his Ministry and in the NIOC and the NIGC would be non-political. Give people a job because they are the best engineers, accountants, drillers or whatever they are and don't appoint people because they are political allies. He should keep politics out of the state oil and gas companies.' ■

Who is Narsi Ghorban?

Dr. Ghorban, born in 1945 in Shiraz, has been an independent energy consultant in Iran and the UK since 1979. He is managing director of the Narkangan Gas to Liquid Company and director of the International Institute for Caspian Studies (IICS). He is a member of the Royal Institute of International Affairs. He has worked with the Institute for Political and International Studies, the Institute for International Energy Studies and a number of Iranian companies engaged in oil, gas and petrochemicals business in Iran. Ghorban is a fellow of the Institute of Petroleum (IP) in London and a member of the International Institute of Strategic Studies (IISS).

