

The Contribution of Energy Diplomacy to International Security; with Special Emphasis on Iran

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Abstract

This article discusses how energy diplomacy is used in today's world to secure and promote the national and international security of nations. It focuses on the case of Iran as a major energy power. It will be argued that the emergence of energy as one of the main global concerns on the one hand and the emergence of multi-polarity in the wake of the demise of the Cold War on the other, have provided a foundation for the use of energy resources as a new means to pursue the international diplomacy of nations. In this context, the isolationist outlook in international politics advocating hard power as the main anchor for a nation's security is rejected; instead a new approach based on the principles of engagement, participation, and partnership in the world's mega trends is emphasized and, in fact, recommended. It is argued here that the level and degree of the meaningful role a country plays in the current world affairs and also in contributing to shaping the prospective international system is directly correlated with the level and degree of safety and security it would be able to secure for itself. In this vein, the traditional as well as modern outlooks in Iran's energy diplomacy will be briefly examined. While the former views oil and gas resources as a source of income to be utilized – primarily – to bankroll current activities and hence, ignoring the political economy considerations of energy, the latter, fully cognizant of such considerations, is based on the new vision of engagement and partnership with global partners and calls for adoption of a comprehensive energy plan that addresses both domestic and international concerns of this sector.

Based on authentic empirical evidence, the article argues that Iran is well suited to utilize its oil and gas resources and capacities in a manner to secure an appropriate place commensurate with its true potential and play a meaningful role in the international community. Achievement of such a position will undoubtedly contribute to the consolidation of the national and international security of Iran.

Keywords: Iran, Energy, Diplomacy, International Security, Partnership, Strategic Asset

1. Fundamental Concepts

1-1. Energy Diplomacy

Energy diplomacy, as defined in this article, comprises of a set of plans and policies of individual countries that seek to achieve through international interaction at least two main objectives. The first objective is to secure the goals of the energy sector as defined and articulated in the country's policy documents or national white papers on energy. The second objective is to advance the national and international security of the country concerned through securing a better place and playing a more influential role in the international arena.

The primary, conventional goal for the energy sector, which the author believes is shared across the board, is to secure a sustainable source of energy for the society at large, and for economic growth and development in particular. This has come to be known as security of supply, which applies to all countries - economies. The situation assumes other equally important dimensions when applied to energy producing countries; that is, it should also include security of demand in addition to the need for uninterrupted supply of energy for domestic use. The second objective is geared to the use of energy capacities as an instrument of foreign policy in order to deter, reduce, or



eliminate national threats and risks, and preferably even to influence or control the direction of events for furthering national security and interests. Therefore, effective energy diplomacy seeks to define the international relations of the country concerned in a manner that would address and pursue both the particular goals of the energy sector along and concomitant with national and international security.

Energy has increasingly become a more complex issue in the course of the past several decades. It has emerged as a challenging international concern, and assumed more and more political dimensions. Therefore, it is reasonable to state that the complexity as well as the international and the political dimensions of energy all coalesce to shape the challenges of today's energy diplomacy. Two sets of actors influence the dynamism of energy diplomacy; state/governmental actors and non-state/non-governmental actors.

At the state level, three main players could be recognized. Oil- and gas-producing countries; oil- and gas-consuming countries; and the countries aspiring to use such potential as transit position or financial capacity to influence energy transactions and trends. Each group of these players view the energy scene differently and pursue different policies and priorities. At the non-government level, multiple actors are involved, ranging from international oil companies, national oil companies, international organizations, national and international financial institutions, providers of transport, technology and R&D, to climate change and green movement NGOs.



Given this complex, multi-stakeholder, dynamic, and highly competitive global energy equation, the art of energy diplomacy by any actor, in our immediate case, a state actor – Iran – requires taking into serious consideration of a number of factors, among others, recognition of the actual parameters of the realities on the ground, clear, objective definition of priorities, and articulation of requisite strategic plans and programmes geared to the effective, targeted pursuit of objectives through sound interaction with other partners and stake-holders at all levels – both regional and international.

1-2. National and International Security

Notwithstanding monumental changes over time in the essential requirements of governance of societies – nation-states in the Westphalian sense - security proper still remains the most singular prime responsibility of the state. States are supposed, by definition, to provide the nation with a secure environment, both internally as well as externally, in order for the citizenry to be able to go about their own affairs, to think and express their minds freely, to be creative and to make innovations, to invest and to be productive while living a safe and a happy life. Security lays the ground for the individual as well as the society to develop and to expand their capacities and capabilities. Security, nonetheless, has gradually become a far more complex phenomenon and acquired other dimensions beyond the traditional conception, especially in the post-Cold War world. Globalization, emergence of global markets, rapid, substantial and qualitative expansion of means of communications, easy



movements of people, and new global economic and social trends, have all contributed to the complexity and change in the concept of security in this era.

The traditional outlook about national security has mainly focused on accumulation of hard power, especially in the form of military prowess. In this outlook, other sources of power are given due attention only in so far as they relate to – or can be translated into – the military power. Moreover, defence, intelligence, and security policy come to define and determine the state's diplomacy.

While this approach and outlook prevailed during the Cold War, a new outlook has emerged since. Political realism and pluralism as well as multi-polarity can partially explain the emergence and prevalence of the new paradigm and discourse in international relations. Security, defined as such, is important both inside and outside of the borders, i.e. citizens should feel safe and secure both within the national borders as well as beyond them at the international level. The new outlook accords a special priority to policies geared to active engagement at the regional and international levels. In Brzezinski's word, no longer is military power, reinforced by economic prowess and exercised by a superior elite pursuing a sophisticated strategy, sufficient to sustain imperial domination (Brzezinski 2007). The traditional approach is predicated on the accumulation of military power with the objective of establishing and maintaining a balance of power with rivals and adversaries. It is also based on an isolationist and unilateralist policy with minimal foreign relations. The new approach, however, is predicated on an active



regional and international engagement in order to gain and secure a fair and meaningful role and place in various areas of national interest and concern. Economic growth and, more importantly, long-term development, constitute the core element of such an approach, where economic advantages in their comparative or competitive forms play a major role. Similar to military power, possession of economic power also enables a state to influence the nature and direction of world politics. Countries rely on and use their economic capabilities as a means of pursuing a proactive and dynamic policy of engagement. The main objectives of such an approach and its requisite policies and measures would be the maximization of interests and provision of security at both national and international levels through securing a better position and a higher rank among other countries. It is through engagement and interaction that the interests and security of countries become interlinked and inter-dependent, and hence, each and every country involved would be committed to the maintenance of engagement and ultimately the preservation of the status quo.

1-3. Partnership as a Policy Instrument in International Diplomacy

In the post-Cold War period where bipolarity and ideological confrontation have faded away and the world is increasingly becoming less Western-dominated (Vosconsolece 2009), international diplomacy is generally driven by various sources of power, or a combination thereof, such as military, economy, technology, education, information and media, rich culture and

history, along with human capital, and the capacity to engage and play internationally (Nye 1990). As a result, participation and engagement have become the main policy instruments for international diplomacy, and widely considered as an effective deterrence against threats and also as a conduit to securing national security and interests. As defined by Nye, active and effective foreign relations in the global politics constitute a kind of soft power that a country may be able to enjoy (Nye 2007). This vision encourages interaction and participation rather than isolation and confrontation. It also serves to reduce tensions (Bertran 2006). A partner shares the risk and simultaneously benefits from the result. Each party takes its own share of risk and endeavors jointly with others to maximise the total benefits. Partnership has practically become the code word for an interdependent, networked world. Dynamic and ongoing division of labor based mostly on comparative and competitive advantages is constantly forged across the board. That is why partners are naturally willing to observe collective security and protect their own interests collectively. This vision has come to be welcomed increasingly by international powers and players and has contributed to the building of peace (Perthes 2008). Empirical evidence suggests that benefits from positive engagement for developing and emerging economies have also proved to be substantial. However, Developing countries need to be further supported and encouraged to engage positively in economic diplomacy and, when feasible, seek influence in accordance with their national objectives and visions and commensurate with their voice and weight (Bayne and



Woolcock 2003).

In light of the above, and given the critical role oil and gas resources play in the world economy, use of energy reserves in economic diplomacy becomes extremely relevant. In fact, these resources – valuable assets - can pave the way for oil- and gas-exporting countries towards securing a good position in the international arena. Economic diplomacy, therefore, has evolved into an effective policy instrument for a wide range of countries, both developed and developing, to pursue their national objectives and priorities. As underlined by Bayne and Woolcock, economic diplomacy should opt for a value creating policy and package deals whereby the parties involved in partnership are also involved in sharing the end result (Ibid. 2003).

2. Energy and International Diplomacy

2-1. Oil and Gas as Strategic Assets in Energy Diplomacy

In today's world energy is one of the most strategic commodities. Moreover, there exists a strong nexus between security and energy politics (Westphal 2004). Fossil fuels, particularly oil and gas, still enjoy the dominant position as sources of energy on a global scale, which makes them a suitable strategic asset for the producing-exporting countries. This asset, notwithstanding its depletable nature, can in fact be employed as an instrument of foreign and security policies. The following data depict a very clear picture of the critical importance of oil and gas resources for the world economy, currently and for the foreseeable future.



1. Global demand for energy is estimated to increase significantly in the future. OPEC estimates in 2009 indicate that energy use is set to rise by 42% by 2030 (OPEC Outlook 2009).

2. In spite of development of alternative sources of energy, it is estimated that fossil fuels will remain the dominant energy source at least until 2050. According to OPEC, fossil fuels will be contributing more than 80% to the global energy mix and oil continues to play a leading role up to 2030 (Ibid.). The share of oil in the energy mix will drop from 34% currently to 30% by 2030, which will still constitute the biggest share among all sources. According to the International Energy Agency (IEA), the current demand of 85 mbd for oil will rise to 105 mbd by 2030. This means that the world growth and development will heavily remain dependent on fossil fuels and oil will be the single biggest factor in this context (Ladoucet 2007). There is a similar situation for the gas as well. Currently the global demand for gas increases by 1.5% per year. This will raise current level of demand from 3 TCM to 4.3 TCM in 2030. According to the IEA estimates, the share of gas in the total energy mix will rise from 20.9 per cent to 21.2 per cent during the same period (IEA 2009).

3. Available estimates indicate that during the past one hundred years almost two third of global oil reserves have been consumed and only 1/3 remains. Moreover, world oil and gas reserves are being depleted in an increasing pace. They are after all exhaustible resources.

4. While currently quite a large number of countries enjoy substantial oil and/or gas reserves, the current and expected



pace of consumption will inevitably limit the future supply of oil and gas to much fewer countries. The five countries of Saudi Arabia, Iran, Iraq, Kuwait and UAE are known to remain as big oil producers. Table 1 below shows their proven reserves.

Table 1- Proven Oil Reserves

Country	Reserves BB	% of Total
Saudi Arabia	264	21
Iran	137.6	10.9
Iraq	115	9.1
Kuwait	101	8
Venezuela	99.4	7.9
UAE	97	7.8

Source: BP Statistics 2009

As for gas, only Russia, Iran and Qatar appear to have the capacity to remain as big global exporters of gas. Russia with 43 TCM holds 23.4% of world gas reserves, while Iran with 29% TCM holds 16% & and Qatar with 25.4% TCM holds 13.8% per cent of world reserves.

Some analysts with a pessimistic view have argued that the mere concentration of 65% of world proven reserves in five Persian Gulf countries is in itself a matter of concern for the security of supply because the Arab countries have already demonstrated a propensity to use oil as a weapon for political purposes (Maugeri 2006). Such arguments, whether realistic or not, nonetheless point to the intrinsically political nature and importance of the global discourse on energy.

5. The geography of global demand is rapidly changing in favor of developing countries. Rapid and sustained economic growth, accelerated urbanization and development plans of sorts in many developing countries in recent years have significantly



increased their demand for energy. OPEC estimates indicate that that 80% of the net growth in oil demand between 2008 and 2030 will be coming from developing countries in Asia, with China and India leading in growth rates (OPEC 2009). According to the same estimates, China and India put together will account for 40 per cent of increase in demand for oil up to 2030.

6. Another relevant aspect of the global energy equation concerns the role of such factors as financial resources and investments, technological innovations, and project management. These factors, particularly the financial factors, have come to play a determining role in the energy equation and markets. Some experts have even ascribed the root cause of oil price volatilities to financial markets with the paper barrel in the leading role.

7. The role of big actors in the energy field; that is, oil and gas multinationals (IOCs), national oil companies (NOCs), and specialized regional and international organizations, forums and institutions such as OPEC, IEA, and IAEA, has been constantly changing. In more recent years new arrangements such as consumer-producer forum and the newly established gas forum by Russia, Iran Qatar, and Algeria (CEGF) have also emerged on the global energy scene and assumed an important role.

8. While the impact of climate change phenomenon and its related international agreements (e.g., Kyoto protocol) and green movements may not play a vital role in changing the current patterns of energy production and consumption, especially in so far as fossil fuels are concerned, but indications are that the



impact will be felt gradually and steadily in the long- run. The on-going post-Copenhagen multilateral process towards forging a new binding agreement on climate change will most probably turn out to leave a stronger impact in this field in the future, particularly with regard to fossil fuels.

2-2. Changing Role of Energy in International Diplomacy

The picture presented in the previous section clearly shows complex situation in the global politics in general and in the political economy of energy in particular. Competition for access to – control of - reliable sources of energy for the long term has become very intense. The Security of supply as well as the security of demand have become major concerns of consumer and producer countries. This has also precipitated a new era of hidden tension among the existing and the emergent powers. These developments have all contributed to bring energy to the forefront of world politics. In fact, the focus of the on-going debate in this regard has already shifted to global challenges that transcend the mere security dimension (Vosconcelos 2009). Given this complex and dynamic situation, energy diplomacy has emerged as the main instrument for interaction.

Notwithstanding the paucity of empirical evidence, developments on the ground attest to the fact that such a high stake rivalry has taken place and has even moved to the center stage of politics among nations involved. The US invasion of Iraq in 2003 - regardless of all other intentions and purposes behind it - has, as a matter of fact, resulted in the American dominance of the third richest oil reserves of the world. With



115 billion barrels of proven oil reserves, Iraq stands on the third ranking after Saudi Arabia and Iran. The US dominance of Iraq would not only contribute to the security of supply for the US, but it will also provide it with a strong leverage over the supply of Iraqi oil to rival consumers. Whatever other difficulties the US may face in its Iraqi adventure, it can hardly be disputed that it has already secured a major, long-term gain with regard to energy and energy politics. Moreover, this position of dominance of Iraqi oil will also help strengthen the US position vis-a-vis the energy politics of the Persian Gulf as well as the OPEC.

Another relevant development concerns the use of energy leverage by Russia over Europe. Europe currently relies on Russia for 25% of its imported gas and around 7% of its oil. While Europe endeavors to diversify its gas resources and lessen its heavy reliance on the Russian supply, Russia has been trying to maintain its share in the European market and preserve its unique leverage, as exhibited blatantly in the case of cutting off gas exports to Ukraine a couple of years back. Russia has also embarked on such projects as blue stream and south stream pipelines for the transfer of its gas to Europe through different routes. Russian extreme sensitivity in this regard goes further and Moscow views with vigilance all projects intended to supply energy to Europe. The recent Russian effort to dominate the Nabucco project to supply gas to Europe through Turkey from Iran and/or Central Asian sources clearly underlines such sensitivity. Russians have also been keen to become a party to the pipeline projects in Central Asia and the Caucasus which



they consider as strategic and vital to their security (Adeebfar 2005). Put in a nutshell, Russia has been playing an energy hard ball game and has also pursued concomitantly a soft energy diplomacy to maintain and advance its energy role in the global markets, which would as well help further buttress its place in the global politics and international scene.

The third important development concerns China, which has emerged as of late as a major oil and gas consuming country and has shown its serious concerns about the security of supply for its increasing oil and gas needs. Put simply, without reliable energy supply China will not be able to sustain its growth in the future, hence, the concerted efforts in recent years to forge closer engagement with the energy-exporting countries in the Persian Gulf. . While expanding its presence in the upstream activities of oil and gas in Iran, China has also developed an extensive cooperation with Saudi Arabia. Special long-term contracts have been concluded between the two countries, including the construction of huge oil reservoirs in China. The activities of the Chinese oil companies in the resource rich parts of the world have been supported by more intense Chinese diplomatic efforts (Tang 2006), hence, a reiteration of the fact that foreign policy is used to advance economic goals (Verdi Nejad 2007). The three different examples just mentioned clearly demonstrate the will and the requisite policies of countries – both producers and consumers – bent on employing their power to secure a place in the highly competitive energy markets and/or use their energy resources to promote their position in the world politics.



3. Energy Diplomacy in Iran

3-1. Background and Policies

Ever since the exploration of oil in Iran in 1908, oil has served as one of the major elements in the country's international relations. Big powers, too, have also considered and treated oil as a major defining element in their strategic view of Iran and in their approach and policies towards the country. This is how oil - and more recently gas - have come to impact Iran's foreign policy. This impact reached its peak in 1951 when Dr. Mohammad Mossadegh, then Prime Minister, decided to nationalize the oil industry. Although he succeeded in dramatically changing the oil equation at the time and left a very strong impact on other oil countries, nevertheless the whole exercise was aborted through the Anglo-American coup in August 1953 that overthrew the elected government and restored the Shah to the throne.

While politics in Iran has changed quite dramatically since the early 1950s, inclusive of the February 1979 Revolution and its far-reaching impact and consequences, oil - and the oil revenues as the major source of foreign exchange earnings - have continued to play a pivotal role in the national economy, and as a corollary, in the country's international relations and foreign policy. Within the overall framework of the preponderance of oil and the oil industry, management of energy diplomacy in Iran in the post-revolutionary period has undergone substantial change. The following two major approaches could be discerned in this regard.



1. Traditional Outlook - In this outlook, practically dominant up until the end of the Iran-Iraq War (1988), the management of economy and energy were largely separated from foreign policy and international security. Put otherwise, it could be said that the traditional outlook was mainly concerned with the economics of energy and not its political economy. Viewed as such, these two aspects were dealt with separately and independent of one another. Once viewed as a purely economic matter, oil and gas were looked at as sources of income and as instruments for financing the economy – the country. To be more specific, in this outlook oil and gas revenues were used in order to execute the government agenda and finance its expenditures; and to run the country. The normal process in this approach is the use of revenues to finance the budget, and to import goods and services for various sectors of the economy. . Execution of such an outlook and policy has over time led to the heavy dependence of the national economy on oil revenues, concomitant with the pursual of very traditional mercantile relations with foreign clients. Utilized as such, the net impact of energy (oil and gas) assets on to national and international security of the country in this situation would be minimal and also volatile. This approach and policy have been pursued in many oil (energy) exporting countries. In fact, this outlook prevailed even after OPEC had been established as a collective arrangement in the early 1960s – and subsequently in the 70s. Energy diplomacy, as defined in the present article, was not on the agenda, nor a comprehensive plan within OPEC to move in that direction.



2. Modern Outlook - The modern outlook - an alternative outlook - in energy diplomacy, unlike the traditional outlook, is based on new vision of international relations and an alternative approach to international diplomacy. This outlook views the world as a global, interdependent network in which each member (player/stake-holder) has a role to play while competing with others to promote its status, role and weight through partnership, sharing and effective interaction. This outlook advances national agenda and development through dynamic partnership and interaction with the world. Engagement and sharing constitute the key policy elements in this approach. Within the framework of such an overarching outlook, oil and gas assets, similar to other economic assets, would be employed in the context of energy diplomacy and with the stated objective of securing national energy goals and addressing international security concerns (Adeli 2005). Demise of the Cold War and the subsequent international developments much contributed to the promotion and wide acceptance of this modern outlook, which was further bolstered by developments in the energy markets as well as by the growing global concerns over energy security across the board.

In Iran Energy diplomacy, as defined here, came to be gradually recognized in the 1990s, even though it took some time before it could be implemented as a policy, partly due to the government's preoccupation with post-war reconstruction and also partly due to lack of consensus among policy-makers. In the mean time while oil and gas capacities was gradually used to promote energy sector, yet no plan could be made for energy



diplomacy due to the lack of consensus among top decision makers. As of In late 90s and early 2000s and following the completion of the Third Five - Year Development Plan, new policies and measures were adopted in the energy sector in the Fourth Development Plan (2004-08). The 4th Plan stipulated that an oil stabilization fund shall be established to further the strategic goals of economic development of the country. This was in fact the first effective step towards the utilization of oil and gas capacities to promote long-term economic development of Iran. The Plan also called for “active interaction with the world economy” and envisioned a number of specific provisions towards the promotion of international interaction. The Fourth Plan’s proactive outlook and the wide range of policies and measures envisioned in its various chapters reflected a very solid, clear understanding of the Iranian planners of the imperatives of meaningful engagement with the international community. That positive overall outlook could also be seen in the energy sector, allowing the government to extensively engage with IOCs for the development of oil and gas fields. This approach was further reinforced through the adoption of the “20- Year Economic Outlook”- an overarching blueprint for the long-term development of the country up to year 2024. While some good progress has already been made towards a meaningful, effective energy diplomacy, it should be underlined, however, that a full-fledged policy is yet to be articulated and implemented. Without ignoring the constraints of domestic politics, it is fair to state that the unfavorable international environment and foreign pressures of sorts have also played a



negative role in this regard.

3-2. Essential Elements of Iran's Energy Diplomacy

Iran, a major energy-producing country in the world, with a medium-sized population, and huge economic potential in various fields, is well suited to have a dynamic, multi-purpose energy diplomacy. Such diplomacy not only can serve the objectives of energy and economic sectors, it can also address the country's major foreign and security concerns. There are at least two major pre-requisites for Iran to embark on such a project. Firstly, the rather urgent need for an integrated national energy plan that would encompass both domestic and international dimensions of Iran's energy activities. Secondly, the equally urgent need for achieving national consensus with regard to adopting a new vision in its international diplomacy that would secure the country's interests and mitigate threats of sorts through international engagement and partnership.

As for the first requirement, the Fourth Development Plan and the 20-Year Economic Outlook have envisioned some policy instruments to this end, including the reform policies geared to the rationalization of the high subsidies in the energy sector. While necessary, such measures do not appear to be sufficient both in terms of domestic reforms needed by the energy sector and a transparent plan for international cooperation, long-term engagement and partnership. As for the second requirement, the country needs to adopt a realist approach to international relations, and more importantly, to muster the will to engage internationally, to be complemented



with a concrete plan to play the role and effectively participate in the international system.. Fact of the matter is that the emerging multi-polarity and the rise of energy as a global challenge have coalesced – even inadvertently – to create a new opportunity for Iran to become a full-fledged actor in this playing field (Adeli 2006).

The following policy areas constitute the essential elements of a macro plan for an effective Iranian energy diplomacy in the years ahead.

1. Oil Production - Iran has been one of the OPEC's major producers since its establishment in the early 1960s, and is currently ranking second (after Saudi Arabia) with a production of 4.1 mbd, accounting for 12-13% of total OPEC production. - Given the expected rise in global demand for oil and the estimated OPEC production of 42 mbd by 2030 (OPEC 2009), various OPEC members are investing to develop their fields and increase their production and export capacities. As reported, Iraq is pursuing a very ambitious plan to produce 10 mbd by around 2015 (Shahrestani, 2010). . This prospect confronts Iran with a very serious challenge; if Iran wants to keep its status and weight in OPEC's decision- making it should maintain its relative share of production and export. As envisioned in the 20-Year Economic Outlook, Iran's oil production should reach 5.3 mbd in 2014, which requires huge investments in upstream activities. Failing to do so Iran will lose its current status and weight in OPEC. Expansion in production capacity proportionate to the country's proven reserves will not only consolidate Iran's position inside OPEC, but it will also



strengthen its international position and enables it to play a stronger role in OPEC- Non OPEC negotiations and Producer-Consumer dialogue.

2. Gas production - Iran's gas production is currently very low (below 400 mcm/d) proportionate to its reserves, and also far below the level of 701 mcm/d as envisioned in the 20-Year Economic Outlook. It produced 116.3 BCM in 2008 (BP 2009) that hardly meets the internal consumption at the peak time. . With 29 TCM of gas reserves Iran is trailing Russia with 43 TCM, and is followed by Qatar with 25.4 TCM (Ibid). It is quite clear that the current level of production will not allow Iran to become a major gas exporter in the future. The on-going project for the rapid development of South Pars field represents the Iranian government's awareness of the challenge. Iran will increase its gas production to 1427 mcm daily by 2017 and 1820 mcm/d by 2024 provided that its plan for South Pars development is implemented on time. Expansion in production capacity of gas will provide Iran with an opportunity to secure a solid position among gas exporters and will also enable it to play a significant role in the gas market.

3. Market Share - Currently Iran does not possess a significant market share at the global level. It used to be the biggest oil exporter to Japan and China, but it no longer enjoys that position. Considering the developments in the overall global energy market as well as in various regions, it appears that Iran should define its target markets in both East and West and should try to maintain a meaningful share in both of them. . This market share should be diversified only to the extent that it



allows Iran to play a meaningful role in the market. Since Iran is indeed one of the few sources capable of providing alternative gas supply to Europe (Yarjani 2008), therefore Europe should be considered as a natural and important gas market for Iran and accorded special attention. Expanding gas markets in Asia, both in East Asia in such countries as China and Korea, and in India and Pakistan in South Asia, offer reliable opportunities for Iran's future gas exports.

4. Reserve and Storage Management - Energy-producing countries with sufficient reserves, spare and storage capacity will be able to play oil games at the global level. Possession – and efficient management - of such capacities provide these countries with a strong leverage in advancing their goals in the market. This is true for both oil and gas, even though oil is more relevant under current market conditions. Possession of oil storage capacity provides the owner with the potential to play a role in pricing and also to act as a swinger under propitious circumstances.. While Iran may not be in a position now to play a major role in this area, yet its past experience in floating storage underlines the necessity of planning for an effective and efficient management of its reserves.

5. Investment and Financial Resources - Given the highly capital- and technology intensive nature of the energy sector, access to adequate financial resources play a significant role in developing energy resources and, as a result, in providing long-term security of supply and demand. The recent global financial crisis and the ensuing economic recession have resulted in a substantial decline of investment in the energy sector as a whole.



. Despite the current slack, according to IEA's Global Energy Outlook the total energy investments through 2030 are estimated to amount to 26 trillion Dollars, 53% of which belongs to the power sector. The same estimates indicate that 50% of the total investment will be needed by developing countries, signifying the magnitude of the financial resources needed for developing oil and gas sectors of producing countries. According to OPEC estimates, an investment in the order of 150 billion dollars by OPEC countries for developing oil fields will increase their production capacity by 5 mbd (Hamel 2007). Another estimated 50-billion-dollar investment in refining field is expected to increase their capacity by 3 mbd. It goes without saying that all countries are planning to attract financial resources to develop their capacities in order to meet the target production of 2030. Given this overall picture, it is reasonable to argue that Iran should be able to define for itself a certain share from the global or even from OPEC investment pool, to be further complemented with its own share of financial resources. Failure to attract sufficient resources and in time will inevitably result in lagging behind competitors and losing the ranking and strength in the market. According to NIOC estimates, Iran will need some 500 billion dollars of investment in oil and gas industry up to 2024 for its 20-Year Economic Outlook; that is, 25 billion Dollars annually (Torkan 2008). Table 2 below shows the sum total for internal and external resources needed by each sector. Adding \$47.2 billion for oil downstream activities and another \$50 billion for petrochemicals would bring the grand total to \$500b. These



estimates clearly suggest that foreign financial resources play a very important role in meeting the targets for investment. In fact, if the external portion of the needed financial resources is not provided, the internal resources simply would not suffice or cannot be secured or even invested. Considering the prevailing financial and economic conditions and the fierce competition for attracting resources, and also the particular economic and financial constraints imposed on Iran, the urgent development of the country's oil and gas sectors becomes all the more imperative. . Such a necessity would call for an effective, proactive diplomacy geared to overcoming the bottlenecks and securing the requisite resources for investment.

Table 2- Iran Investment Plan for Oil and Gas Sector in the 20-Year Economic Outlook

Financial Resources	Oil \$ Billion	Gas \$Billion	Other Related Oil & Gas.\$B	Total\$Billion
Domestic Resources	44.150	31.10	102.3	177.55
Foreign resources	49.780	106.010	70.28	226.07
Total	93.93	137.750	172.85	404.53

6. **Technology and know-how** - As already indicated, the energy sector is highly Technology intensive, and this factor has over time become an integral part of oil and gas development plans. Countries with modern and sophisticated technology will be able to develop their fields more efficiently as compared with their competitors and secure a real edge over others. All things considered, it can be reckoned that Iran faces a real challenge in this area because of sanctions. The urgent imperative of development of oil and gas sectors, therefore, calls for an active diplomacy to enable Iran to gain access to the needed



state of art technology.

7. Geographical Advantage - Iran's strategic location situated between the two energy-rich basins of the Persian Gulf and the Caspian Sea has accorded it a unique geographical advantage that could be utilized to promote the country's place and role in the region and the world. Having served for millennia as a major transit route linking East to the West and vice versa, Iran today continues to enjoy huge potential for transit, including as a regional hub for oil and gas exchange and transit (Adeli 2000). Fast expanding large markets and consumers to the east in such countries as China, India and Pakistan, and to the west such as in Turkey and Europe augur well for Iran, both as an oil and gas producer-exporter as well as a transit route. Iran's location is such that a North-South axis of oil and gas production and an East-West axis of consumption cross each other right on Iran. This unique position also provides for the most economical transit route, even if a number of pipelines in the region have been diverted to other less economical routes for purely political reasons. Moreover, Iran's gas reserves can meet the substantial and increasing demand in the gas deficit countries in the Persian Gulf such as Saudi Arabia, Kuwait, UAE and Oman, which appears to hinge on a new political environment in the region based on removal of tension, mutual trust, genuine engagement, and collective participation on the part of all littoral states.

8. Common Fields - Iran shares several oil and gas fields with some of its neighbors. Oil fields in the west are shared with Iraq and some gas fields are shared with Saudi Arabia and Kuwait. The largest gas field is shared with Qatar in South Pars. Proper



and optimal exploitation and development of these shared fields calls for a proactive approach – and smart formulas - on both sides. Failure to do so would result in loss of precious resources, undermine the needed trust between and among neighbours, and lead to political and legal disputes which would in turn make common endeavours and projects all the more difficult. A proactive energy diplomacy should attach special importance to the issue of common fields.

9. Contract forms - Another important area of concern relates to the type of commercial engagement of multinational companies in the development of oil and gas fields, which has proved contentious over the past decade. Given the long experience with the oil industry and the traumatic experience of nationalization in the 1950s, Iran has been quite cautious in the post-1979 period to engage in production sharing agreements. . As a result of such a caution, Iran has developed its own version of buy back agreements, which, among others, do not commit the foreign companies for a long-term period. With the benefit of hindsight, it seems imperative that future production sharing contracts should be modified in such a way as to commit the participating company for the duration of the activity of the field and not merely the completion of the project – as has been the case in the past.

10. Participation in international Projects - Iran's long, rich experience in the oil industry and its current status as a major oil and gas producer-exporter carry the potentials of active engagement in international projects. Participation in the construction, ownership and management of oil and gas projects



in upstream as well as downstream activities outside Iran, especially in Central Asia, can help promote Iran's energy role beyond its national borders. The successful experiences of such companies as Statoil (Norway), Petronas (Malaysia), Gazprom (Russia), and Petrobras (Brazil) can also help to this end.

3-3. Energy Diplomacy and Partners of Cooperation

Over and above the areas already discussed, adoption and pursuit of an effective energy diplomacy would also require engagement with state and non-state actors in this field. The following are among the major stake-holders in this regard.

1. Producers of oil and gas;
2. Consumers of oil and gas;
3. Energy Organizations, forums and institutions;

Energy diplomacy, as defined and discussed in previous sections of this article, would by definition require active engagement and cooperation with the wide range of stakeholders involved. Bilateral and multilateral cooperation with consumers and producers, especially key actors and stakeholders, on a regular basis not only facilitates mutual understanding but will also create opportunities for further cooperation and partnership. Non-state energy actors - rather newcomers to the energy scene - have gradually assumed an increasingly important role in the field. Moreover, beyond engagement with stakeholders, energy diplomacy would also need to be closely engaged with the on-going global discourse on such critical global issues as energy and climate change, renewables, and energy efficiency. Drawing on the past



experiences in engagement in international and multilateral processes tackling these issues, Iran would need to further refine, recalibrate and expand its engagement with the relevant processes and stake-holders. In fact, given the dynamic nature of the on-going processes, Iran would need to define a strategy of engagement and cooperation, at both governmental and non-governmental levels. Active, sustained, and targeted liaison with the parties involved at various levels of government, corporations and multinationals, non-governmental entities, research and policy institutions, and international and/or regional organizations will help deepen Iran's engagement in the relevant regional and international processes and energy developments, thereby providing – and creating – ample opportunities and practical options for the country as a whole and its state and non-state actors to pursue national and sectoral interests and goals.

3-4. The Nexus between Energy Diplomacy and National Security

Having already laid out and discussed the policy areas for an effective energy diplomacy, we can now turn to the nexus between energy diplomacy defined as such and the country's security. It will be fair to argue that energy diplomacy as such has the capacity to contribute to Iran's security in two ways: Firstly, an effective energy diplomacy will secure sufficient and steady oil and gas revenues to finance Iran's economy, as it has in the past, and continue to make its significant contribution to the country's growth and long-term development. Secondly, it



will help buttress Iran's position as a major energy power among energy-exporting countries, which can in turn help promote a more influential position for the country on a larger scale; that is, in the bigger region surrounding Iran and ultimately in the world. The degree of success in achieving these two closely interlinked functions is correlated with Iran's national and international security. For the same token that the national security of consumer countries, e.g., US, is linked to and depends on the security of energy supply, the national security of an energy-exporting country like Iran is likewise linked to and dependent on the security of energy demand. Security of demand; that is, security of markets, would guarantee the flow of income and helps the energy-exporting country/state to avoid – and also prevent to the degree possible - interruption in the management of economic and social life. Considered as such, it can be clearly concluded that energy diplomacy serves as a strong and reliable instrument to be utilized for both functions. Moreover, there exists a clear correlation between the degree of a country's dependence on oil and gas sector and revenues and the impact of energy security and hence, the importance of energy diplomacy. The higher the degree of a country's dependence on oil and gas sector and revenues, the higher the importance of safeguarding the security of demand and markets, which as argued, can and should be pursued and secured through effective energy diplomacy – to mitigate risks, to prevent threats, and ideally to convert threats into opportunities.

Russia and China are good examples in this regard. Following the decline in the 1990s in the immediate post-Cold



War period (Provic 2009), Russia appears to have realized the tremendous potentialities of its energy sector and its impact on the Russian economy and society. Heavy and even ambitious investments in the development of Russian energy resources by foreign multinationals in late 1990s changed the situation substantially and brought in much bigger revenues. This rather dramatic turnabout in the Russian energy sector not only helped finance the rebuilding of a badly fractured economy, but equally important, it contributed to enhancing the Russian economic position and political stature in the international arena as well (Bergedof 2008). China, unlike Russia, is an energy-consuming country, and has been able to secure its huge and increasing energy needs through establishment and maintenance of sound relationships with different parts of the world, particularly with the energy-rich Persian Gulf region. Fast expanding relations in the energy sector – mostly with Iran and Saudi Arabia – clearly point to China’s strategic approach to this critical area and its impact on the country’s long-term national and international security. An important aspect of the Russian and Chinese behavior and policy, as noted by experts in the field, is that both countries adopted a pragmatic approach to the challenge facing them in the energy sector. China shifted its approach to the Middle East on the basis of “First Energy not first Taiwan” (Tang 2006). And Russia, when it came to energy, also chose to place interests above values in its foreign policy (Vosconcelos 2009). Russia’s foreign policy approach fits neatly within the Neorealist paradigm as pragmatic economic, commercial, security and geopolitical interests surpass ideological

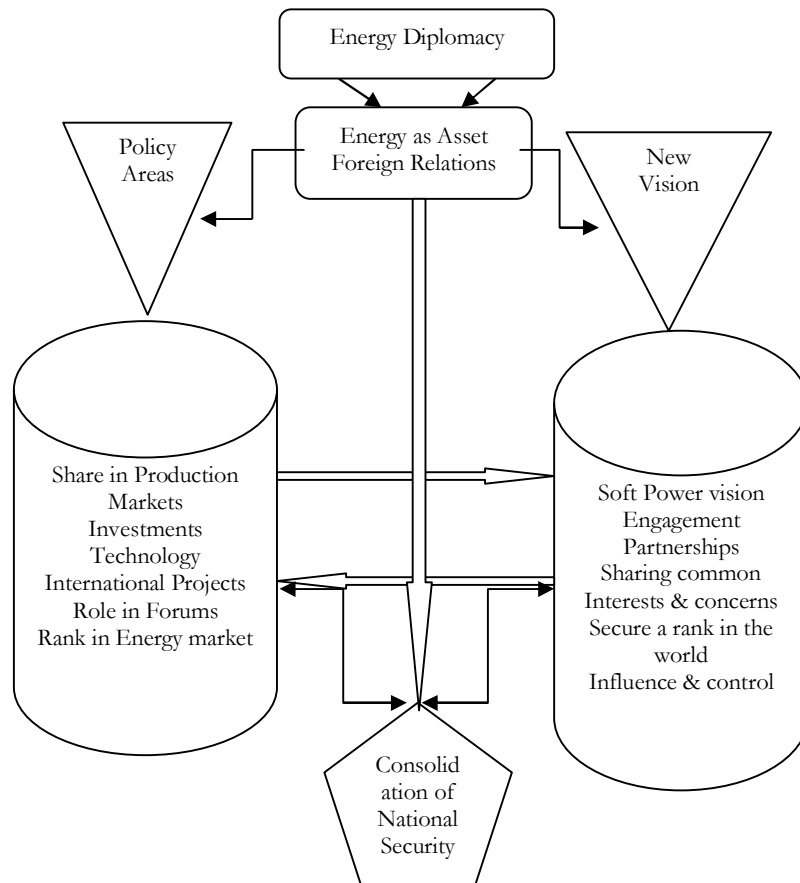


considerations (Tazmini 2008). Both countries have thus been able to pursue their security goals through intensified energy-oriented foreign policy; that is, what we call energy diplomacy. The lessons to be drawn from these two examples are quite clear; if energy constitutes an important place in a country's economy - whether in terms of consumption or production - it needs to be approached and tackled as a matter of strategic importance, and hence, a matter of national security that can either help promote or undermine the country's stability and security. Energy production, it is generally agreed, is a source of economic and political power, which can either serve to enhance cooperation or alternatively cause friction at the international level (Vosconcelos 2009).

In the case of Iran, a strategically-located country and already a major oil and gas producer-exporter, there is no reason why Iran cannot use its oil and gas resources through effective energy diplomacy to promote and achieve its national and international security goals. As discussed in the previous sections of the article, Iran enjoys huge potential in the energy sector, which needs to be materialized. A comprehensive, strategic approach to the energy sector, and subsequent adoption of requisite policies and measures in all the policy areas discussed previously, would help shape an effective energy diplomacy geared to securing the country's objectives – both short-term and long-term. Iran, like others, can – and should – play the energy game to achieve its national security objectives; internal stability and development concomitant with enhancement of regional and international posture and posture.



The following chart represents a schematic depiction of the previous discussion on the process of energy diplomacy as well as its matching foreign policy vision. The two are complimentary. Without a new vision in foreign policy it is simply too difficult – practically impossible - to achieve long-term, strategic objectives in the energy sector.





Conclusion

1. Taking the abundant reserves of oil and gas and the strategic location together with a plentiful, highly skilled manpower into account, it is fair to say that Iran carries the potential to perform as an energy power on a global scale. Energy for Iran is a source of power and can – and should – be utilized, like other sources of power, to advance national objectives at both domestic and international levels.

2. Currently energy occupies a very high position in the world agenda. By all estimates fossil fuels, first and foremost, oil and gas, will continue to be the dominant source of energy in the future and at least for the next 50 years. Since fossil fuels are exhaustible resources and that they are being depleted rapidly, the supply of oil and gas will inevitably become limited in the future. Simultaneously, the global demand is expected to increase substantially as more and more countries continue and expand their economic and industrial activities towards growth and development. . Given these two parallel trends, two sets of competing concerns have emerged; concern over security of supply on the part of energy consumers versus concern over the security of demand on the part of producers. Competition even hidden rivalry is growing among consuming nations, especially those in a position to control or to possess resources. Consuming countries concerned with the security and sustainability of supply are strategically planning for their long-term future, including through forging long-term cooperation with energy-producing countries. This situation provides the oil




and gas producing countries with the opportunity to utilize their precious energy assets as a foreign policy instrument towards achieving their own goals.

3. Global developments during the past two decades since the end of the Cold War have gradually brought about significant changes in international politics. The end of the Cold War and the bipolarity accompanied with it has altered the prevailing global political environment. New actors have emerged from the ranks of developing nations such as Brazil, India and China, along with Russia, trying to regain part of the previous position and stature under the old system. There appears to be more room than before for emerging countries to participate in international processes and influence the global trends. Engagement and partnership are emerging as practical ways and means towards promotion and consolidation of national interests and security.

4. All of these developments, as argued in this article, have coalesced, albeit inadvertently, to create a conducive environment – in fact, a golden opportunity - for Iran to consider its oil and gas reserves and capacities as a solid source of power, that could be optimally utilized in the context of and through an effective energy diplomacy. As argued in very clear terms, pursual of such an energy diplomacy requires a new vision and outlook vis-a-vis the international system as well as a national energy plan to address domestic and international concerns of this sector.

5. The energy diplomacy, as defined and articulated in this article, is premised on a new vision in foreign policy and is

 **The Contribution of Energy Diplomacy...**

predicated on active engagement with other countries/actors in the international system, is willing and prepared, in actual terms, to define shared and common interests with them, and more importantly, to effectively pursue those interests and concerns . Such an approach and outlook will allow the country to actively participate in the global affairs and processes and play its particular national role – commensurate with its capacities and capabilities - to impact the international system towards a more favourable condition. This vision encourages interaction and participation rather than isolation and confrontation. And the policies emanating from such a proactive vision will serve to secure and promote the weight, ranking and influence of the country at the regional and international levels, thus contributing to the consolidation of national and international security.

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