

IRAN'S GEOPOLITICS IN MIDST OF THE US-RUSSIA-CHINA ENERGY SECURITY STRUGGLE FOR THE GEO-STRATEGIC CONTROL OF EURASIA

Thrassy N. Marketos (PhD)

(Thrassy N. Marketos is as Jurist, was specialized in Public International Law in the University of Aix – Marseille III (France) and was nominated doctor in International Relations by the Panteion University of Athens (Greece). He works for the Hellenic Ministry of Foreign Affairs and serves as a lecturer of Eurasia geopolitics in the Athens branch of the 'Centre for Diplomatic and Strategic Studies' (C.E.D.S. – Paris). He published the monograph 'China's Energy Geopolitics: The Shanghai Cooperation Organization and Central Asia' (Routledge - Taylor & Francis Books Ltd, Oxfordshire: UK) and several other analyses.

Copyright: www.rieas.gr

This paper examines Russia's Central Asian policy in the context of the continued Iranian – American confrontation which affects Central Asian geopolitics and the Eurasian approach dominating Russia's foreign policy (which presupposes Russia-Iran partnership in Central Asia). It is absolutely clear that the nature, content, and pace of Russia's involvement in the region, as well as cooperation between the two countries, directly depend on the state and level of Iranian – American relations. In fact, Iran's geostrategically key location in the very center of the emerging Eurasian network of transportation and pipeline routs originating in Central Asia is the main attraction. Any country, be it the United States or the Russian Federation, that can draw Iran into its sphere of influence will simultaneously acquire control over the energy resources and transportation corridors of the Middle East, Caucasus, and Central Asia. This will mean global superiority in the new system of international relations.

Keywords: Iran, Caspian Sea energy resources transportation routes, United States of America, Europe, Russia, and China.

Introduction

For reasons both of world strategy and control over natural resources, the US administration is determined to secure for itself a dominant role in Eurasia. The Eastern Caspian shore of the Central Asian states of Kazakhstan and Turkmenistan is crucial to the oil and gas control flow, because by determining which one or both of the two major projects -Trans-Caspian Corridor plus Nabucco pipeline or Pre-Caspian pipeline plus South Stream pipeline-, will reach the European or Asian market, will in effect determine which major power- the U.S., Russia or China- will gain the geostrategic control of Eurasia.

The important geographical location of Central Asia (CA), in relation to the transport and communication networks in the 'West-East' and 'North-South' directions, concentration of sizable fuel reserves there, as well as its vulnerability to the problems of the neighboring regions of South Asia and the Middle East, have revived the ideas of the 'Heartland' and 'Eurasian Balkans' with the emphasis on the specific role and significance of CA in world politics.

The struggle of leading world powers (US, Russia, China) for geopolitical and geo-economic domination in the Caspian region is explained first by their geo-strategic aspirations for leadership in the post-Cold War world order, as well as by necessity to solve various regional and global security problems, many of which are linked with the Islamic Republic of Iran.

This paper argues that the key to this equation is Iran. In fact, how Moscow proceeds with the reconfiguration of Russo-Iranian relations could well form the centrepiece of the geopolitics of energy security in Eurasia.

Moscow can be expected to make robust efforts to coordinate with Iran over its oil and gas output and exports. The rationale for such a coordinated strategy involving Iran is very obvious. First, Moscow is intensely conscious of the Western awareness of Iran's enormous untapped hydrocarbon reserves as an alternative to Russian supplies.

Russia will strive to stay ahead of the European, and eventually American, overtures to Iran. Second, the hydrocarbon sector in Iran is firmly under state control and Moscow and Teheran are in harmony in this regard. Third, the two countries will be coordinating their energy policies for wider geopolitical purposes within the broad framework of their strategic cooperation. Furthermore, market forces dictate the rationale of Russia-Iran cooperation. Moscow would simply like to avoid competing with Iran as a major oil and gas route connecting the Caspian and Central Asian energy producing countries. Russia and Iran control roughly 20% of world's oil reserves and close to half of the world's gas reserves and it makes good sense to accommodate each other.

Iran is indeed an important energy partner for Russia for many reasons. Russian oil companies, flush with funds, are keen to invest abroad. The Iranian upstream oil and gas sector and Iran's energy ventures, such as pipeline projects, offer an attractive proposition for Russian investment. Again, Iran's geographical location is ideal as an export outlet for expanding Russian energy exports, especially its ambitious developing liquefied natural gas (LNG) industry. Besides, Iran is an influential member of the Organization of Petroleum Exporting Countries, whose decisions have bearing on price stability and Russian export volumes.

But the most important consideration for Russia will be that Iran's energy policy should not come into conflict with Russian interests. Once the US's engagement of Iran commences, Tehran will have plenty of choice while accessing foreign capital and advanced upstream oil and gas technology (1). Iran is bound to probe gas markets such as Turkey, the Balkans and central and east Europe. Also, Iran is keen to develop a new LNG industry. Over and above, Iran could well end up competing with Russia as a major oil and gas route connecting the Caspian and Central Asian energy producing countries.

¹ Bhadrakumar, M. K., "Russia, Iran and Eurasian Energy Politics", Japan Focus, <http://www.japanfocus.org/products/toppdf/2613>

Cooperation with Iran is no less important for Russia in terms of Caspian Sea issues. True, the two countries have divergent views on how the Caspian Sea should be divided. Russia prefers a median line solution, whereas Iran has insisted on an equal share (20%) solution for each littoral state regardless of the length of coastline. All the same, Russia and Iran are in profound agreement in their opposition to the US-led trans-Caspian pipeline projects.

Russia's number one priority in energy cooperation with Iran will be for upstream participation by Russian companies. Gazprom has had some limited participation so far in the early phases of Iran's massive South Pars gas fields with an estimated aggregate cumulative production range of a stunning 13 trillion cubic meters. Moscow will be keen to promote greater involvement. Gazprom has shown interest in the Iran-Pakistan-India pipeline project not only as a contractor but also as an investor.¹

But the big-ticket item will be the future development phases of South Pars, which Tehran has earmarked as feedstock for producing and exporting LNG for the European and Asian markets. Without doubt, Moscow will be keen to develop a role in Iran's nascent LNG industry so that it doesn't end up competing with Russia's own LNG industry.

Over and above, Moscow would be pleased at the present orientation of Iranian energy exports toward the Asian market. On the one hand, this would ease the competition from China for gaining access to Central Asian energy producers and on the other, it reduces the likelihood of Iranian energy flows to Europe, which may otherwise cut into Russia's market share.

Equally, Russia would actively promote an Iranian gas pipeline to China via Pakistan and India. But the project is stalled due to US pressure on India. By opposing the Iran-Pakistan-India gas pipeline, the US is principally trying to deny China easy access to Iranian energy reserves.

To be sure, Moscow began anticipating several months ago that with the inevitable collapse of the United States' policy of containment of Iran and with Iran's ensuing arrival as a gas exporting country, an altogether new scenario would shape up on Eurasia's energy map.

Beijing too is highly interested in the future orientation of the Iranian hydrocarbons. First, we should bare in mind that China, according to the country's declared security concept, seeks to create a worldwide atmosphere of mutual trust, mutual benefit, equality, and collaboration. It is willing to implement its previously elaborated principle of refraining from any pressure on smaller countries and interference in their internal affairs, to implement policies aimed at demonstrating to the world community its fundamental position of great power, to explain the main content of China's foreign policy, which is focused on friendly relations and partnerships with a wide range of states, and to convince the world community that it is actively fighting for peace, equal rights, and justice, and is trying to dissociate itself from the "thesis on the Chinese threat".

It is in that sense that Beijing approaches questions referring to hydrocarbon export from the landlocked countries of CA. China's proximity to Central Asia permits it to quickly build oil pipelines from Kazakhstan to Xinjiang. The joint construction of a Sino-Central Asian gas pipeline is still underway. In June 30, 2008, the first phase of construction of a gas pipeline from Uzbekistan to China began a project with a total value of over 2 billion dollars. According to a previously signed agreement between the oil and gas companies of Uzbekistan and China, Chinese companies refine oil and gas reserves in Uzbekistan, and they have preferential access to wells once drilling is complete. These projects will give China direct access to oil and gas deposits in Uzbekistan, Turkmenistan, in addition to Azerbaijan and Iran, and will fulfil these countries' willingness to sell their energy directly to China regardless of Russia. Therefore at present, China is intensifying its investments for the exploration and exploitation

of new oil and gas fields in Kazakhstan, Uzbekistan, and Turkmenistan, as well as building infrastructure to deliver energy to its maritime regions.

Thus, Teheran's choice to cooperate in the energy sector with Russia and China against the US and EU interests in CA, or with the one power against the other, or even aligning itself with America's energy security policy in Central Eurasia, may define the 21st century world order.

This paper, following the principles of the neo-realist school of thought in geopolitics, is organized in three sections. Firstly, we shall examine the way in which tensions in Iranian-US relations stimulate CA states to maneuver within the limits of the Iran-US-Russia triangle.

In the second part, we shall define the reason why the development of Sino-Iranian relations over the past two decades is part of the steady expansion of ties between China and the wider Middle East, and more broadly, between the countries of East and West Asia.

Finally, in the third part, we will shed light in the reason why many Chinese energy firms are increasingly shifting their investments towards Africa and Central Asia, probably trying to diversify, to the extent possible, away from the Persian Gulf, and thus from the risks and uncertainties associated with the deeply entrenched U.S. military power, local instability, and maritime transportation of oil supplies.



Map 1. Eurasia energy infrastructure. Iran's central

Map 1. Eurasia energy network.

Map 1. Iran's role in existing and projected oil and gas pipelines.

Part A: Russian Energy Geopolitics in Central Asia: the Iranian factor.

Historically, 'Big Iran' comprises the Middle East and part of CA (Tajikistan, Uzbekistan, and Turkmenistan), an Arab part of Western Asia and Egypt. In the 1990's Teheran was trying to take control over the former Soviet republics in CA and in the Gulf.

The essence of the Iranian foreign policy lies in formation of a multi-polar world order under the aegis of the UN, in which Iran and the other Islamic countries will represent one of the poles. At the same time, CA is considered in Teheran as a continuation of the Persian Gulf region, which is a vitally important zone of Iranian economic interests as a whole. There for, the Islamic Republic traditionally defends projects of energy routes from CA states through its territory as the cheapest and most economically grounded (2).

However, Soviet Union's collapse, US economic sanctions, Teheran's non-admission in the CA region energy projects, and formation of a negative image of Iran as a state-sponsor of international terrorism, all hinder Iran's strategy to develop full-fledged relations with CA states. But, like Turkey, Iran failed to win the leading position in the region and in 2000 gave way to China. In the early 2000's a sharp rise in oil prices, and most of all, US mistakes

2. "New Regional Developments and National Security of the Islamic Republic of Iran", An Iranian Quarterly Discourse, Vol. 1, Summer 1999, No 1

in Iraq (toppling of Saddam Hussein), gave Iran an unprecedented opportunity to stand against US.

Teheran considers that Washington continues to be² hostile to revolutionary Iran, aspires to world leadership, acts against Iranian economic goals in the CA region, and leads a propagandistic campaign against Iran. Moreover, it considers the US military-technical cooperation with CA states and NATO's movement towards the East as an American desire to control and dominate in the Caspian region, as part of the US global efforts to surround and isolate Iran (3). In this sense, conflicts in Afghanistan and Palestine are also regarded by the conservative Iranian clergy as an "attack on the whole of the Moslem world" (4). Teheran also regards the growing³ presence of Israel, a US ally, in CA as a challenge to its national interests.

The anti-Iranian US sanctions, and the Iranian-American dispute over CA, played such a decisive role in regional states economic strategy that the Caspian region leading energy states, Kazakhstan and Turkmenistan, did not consider the mostly economically attractive transportation route through the Iranian territory, and restricted their cooperation with Iran only to swap operations. Most importantly, tensions in Iranian-US relations stimulated CA states to maneuver within the limits of the Iran-US-Russia triangle, a situation that promoted militarization of the Caspian Sea that delayed development of the regional economy.

3. Yuldasheva Guli, "Geopolitics of Central Asia in the context of the Iranian Factor", *Caucasian Review of International Affairs (CRIA)*, Vol. 2(3), Summer 2008: 134

4. Yuldasheva Guli, *ibid.*

Speeding up of the armament race virtually put the Caspian states in the so-called 'resource wars' stimulated by the American-Russian competition in the sphere of energy resources. Kazakhstan itself, having officially declared a multivector external relations strategy, considers the Iranian transit route to be a direct exit to the sea ports and hence the most realistic intermediate route of raw material supply to the markets of South Asia and Asian-Pacific states. Turkmenistan is also vitally interested in partnership with Iran, since for Ashgabat, the Iranian corridor means a possible liquidation of Russian monopoly of its national gas reserves.

Factors like, (a) the traditional American approach⁴ connecting the problem of Islamic fundamentalism⁵ with the problem of human rights and development of democracy in CA, (b) US-CA states discrepancies in the ways and methods of solving regional security problems, (c) unsettled wars in Afghanistan and Iraq, along with (d) strengthening of American-Iranian confrontation and (e) further consolidation of the Eurasian partnership within the framework of SCO and the Eurasian Economic Community (EurASEC), distanced in the advent of the September 11, 2001 the CA states from the US and consequently invigorated Russian and Iranian positioning in the Caspian region. It has become obvious that various anti-Iranian restrictions in the oil-gas sphere promoted by the West, as well as continuing instability in Afghanistan and other adjacent to CA countries, have altered the external political preferences of the majority of the CA states in favor of Iran and Russia, both owing to economic and political motives that clearly contradict the US interests.

As far Russia is concerned, it perceives its access to CA's energy resources and control over the transportation and communication corridors through the prism of its devotion to the idea of multi-polar approaches to international relations. However, Russian Central Asian geostrategy presupposes political, economic and social stability in a region raged by Islamic extremism that threatens, above all, its own southern borders stability and territorial integrity. This geopolitical reasoning obliges Moscow in striving to play an important role in Afghanistan's post-conflict stabilization.

Furthermore, while the US-Russian rivalry is accelerating in Eurasia, and the US-Iranian contradictions remain unsettled, Moscow spends much of its political capital in building a co-operational relationship with Teheran as a counterweight to America's geopolitical and economic interests in CA. This is in fact, main stumbling block in the Russian-American relations. The main condition for the US-Russian partnership is discontinuation of the Russian-Iranian military-technical cooperation (including supplies of nuclear equipment). Of course, Moscow continues cooperating with Iran in its nuclear program, obviously being convinced that Teheran's relations with Moscow are objectively strengthening the pragmatists' position in the Iranian domestic scene and neutralizing the radical Islamist approaches (5).

Russia's stronger position there in the few last years, may have forced the US to try seeking decentralized pipeline networks, but Washington, nevertheless, insists that the pipelines bypass both Russia and Iran. For that reason, the pipelines which cross Azerbaijan and Georgia before reaching Turkey and the BTC gas pipeline are still the main instruments of geopolitical rivalry with Moscow. The future of many of these projects depends on the extend Kazakhstan and Turkmenistan or even Iran are prepared to use these lines.

5. Yuldasheva Guli, "The Russian Factor in Central Asian Geopolitics in the context of Iranian – American Contradictions", 'Central Asia and The Caucasus' Journal of Social and Political Studies, 2007: 4 (www.ca-c.org/online/2007/journal_eng/cac-05/04.shtml)

It is noteworthy that Iranian outstanding gas reserves were essential to the early prospects for Nabucco. Iran has 28.13 tcm of natural gas reserves, accounting for 15.5% of global and ranking the country the second place in the world after Russia. These resources are both mismanaged and underexploited, so that the huge 105 bcm/y output is not enough to meet the domestic demand. As a result, Iranian gas is totally removed from the international markets with the exception of a small amount (5.60 bcm/y) exported to Turkey (6). Several scholars consider Iranian gas as the only source able to meet Nabucco's needs (7) to a twofold extent: on the one hand, obviously, the size of the reserves and the high reserves/production ratio. By exporting an⁶ additional 30 bcm/y to fill Nabucco, Iranian reserves⁷ are expected to last about 205 years. On the⁸ other hand, the strategic position which makes Iran the most economically viable way to ship Turkmen gas away from Gazprom's control (8). Unfortunately, Iranian gas exports suffer considerable setbacks as far as the systemic level is concerned. By limiting foreign investments in Iranian hydrocarbons sector to 20 million USD, the US Iran-Libya Sanctions Act (ILSA) seriously undermines the attractiveness of Iran for western investment. Despite the fact that most of the

6 BP, "Statistical Review of World Energy", (2008): 22-27.

7 Mangott Gerhard and Westphal Kirsten, "The Relevance of the Wider Black Sea Region to EU and Russian Energy Issues", in Hamilton Daniel and Mangott Gerhard (eds), "The Wider Black Sea Region in the 21st Century: Strategic, Economic and Energy Perspectives", (2008): 147-176, Washington, Centre for Transatlantic Relations; Fee, Florence F., "The Russia-Iran Energy Relations", in: Middle East Economic Survey, vol. 59:11 (2007): 12-17.

8. Ghorban Narsi, "By Way of Iran: Caspian's Oil and Gas Outlet", in Amirahmadi Hooshang (ed), "Caspian Region at a Crossroad", (2000): 147-161, Houndmills, MacMillan.

penalties harmed US companies such as ConocoPhillips and no European company has been targeted so far (9), the threat of the sanctions,⁹ focused on credit access, prevented companies such¹⁰ as OMV and Shell from undertaking massive¹¹ investments in development of both Iranian upstream and domestic transport. As a result, given the political climate stemming from the Iranian nuclear issue, it seems to be considerably difficult for the EU to engage Iran in participating in the Nabucco project, whilst avoiding at the same time the emergence of disruptive effects on transatlantic relations. In other words, Nabucco turns out to be undermined by US sanctions more than by Russian attempts to build up alternative routes like Southern Stream. Other commentators are more dismissive about the necessity of Iranian gas. Their main argument is rooted in the poor Iranian infrastructural network, which is under massive strain because of growing domestic demand as well as the lack of investments aimed at upgrading the grid, notably the south-north trunk line which should ship the gas from the giant South Pars offshore field (10). In other words, leaving aside the political consequences caused by Iranian involvement, the question of how Iran ultimately will be able to free up gas for export remains unresolved.

Coming now to Turkmenistan, -another most important gas supplier, vital to the viability of any projected pipeline scheme-, it has huge natural gas resources and high levels of production, but these resources need massive western investments to be developed. At the same time, Russia is apparently succeeding in boosting its grip on the Central Asian infrastructural landscape.

The Nabucco pipeline needs to rely on Turkmen gas given the position of two other potential suppliers. Azerbaijan is the safest source, but it is still importing gas to satisfy its increasing domestic

9 Rivlin Paul, "Iran's Energy Vulnerability", *Middle Eastern Review of International Affairs*, vol. 10:4, (2006): 103-116.

10. Norling Niklas, "The Nabucco Pipeline: Reemerging Momentum in Europe Front Yards", (2008): 136-138.

demand and the gas predictably coming from the giant Shah Deniz field is unlikely to fill the Nabucco's double outlet. As a result, the participation of Azerbaijan alone seems to be unable to justify the huge investments required by the construction of Nabucco. Furthermore, there are strong elements of uncertainty related to the Russian leverage, given that Russia is the only source for Azerbaijani gas imports.

Iran has at its disposal a huge amount of gas reserves, able to challenge the Russian dominance on European markets. Unfortunately, the political climate is preventing western companies from undertaking investments aimed at developing the Iranian gas upstream as well as the Iranian domestic grid, given the limited capacity of the south-north corridor.

Turkmenistan's engagement is needed to fill Nabucco in the short and medium terms, but several doubts arise concerning the available resources and the transit corridors. As far as resources are concerned, the EU should consider Turkmenistan gas as a "transitional source" whilst waiting for significant improvement of the political climate around Iran. However, Turkmenistan has committed itself to long-term agreements with Russia and China, with Europe losing its sole attractiveness as Gazprom promised to raise the prices paid to Turkmenistan to the international levels. From a broad political perspective, Russia profited from the need of the Turkmen President Berdymammedov to consolidate his power in the light of a regional context potentially sensitive to "destabilizing pressures" coming from the systemic level, within the framework of the US involvement in the "broader Middle East". Furthermore, given the unlikelihood of exporting Turkmen gas to Europe through Iran, Nabucco's prospects seem to be highly dependent on TCP prospects, which are turning out to be poor so far in the aftermath of the previous mid-2000s failure. However, the improvement of Azerbaijani-Turkmen relations, as well as a partnership between Turkmenistan and Russia which is not so stable as it seems, leave some room to maneuver for the EU and western companies.

Overall, the involvement of Iran in the region of Central Asia during recent decades has shown the

inadequacy of efforts to limit the export of Islamic fundamentalism from Iranian territory using methods of economic sanctions and political isolation at regional and global levels. This is why the Iranian vector in Central Asian foreign policies will steadily increase due to economic and political considerations, stimulated by de-ideologization of the Iranian foreign policy. It is obvious that this cooperation would strengthen more under new, moderate and flexible Iranian regime. At the same time Iran continues to be a potential competitor for the Central Asian states in the sphere of energy resources, which justifies a plurality of energy pipelines from the region.

However, the tough Iranian position on the nuclear issue and its inflexibility in solving regional security issues have brought Tehran to the edge of war with the US. Any military action under the above-mentioned circumstances would surely involve all interested political parties, movements and states in Central and South Asia, Caucasus and Middle East, and would have potential for turning into another world war.

As a whole the positive dynamics of the geopolitical processes in the examined region will be dependent on well-defined constructive behaviour by all regional "game" participants, including the US, EU and Russia, Iran, as well as states of Central Asia.

Meanwhile, it is worth to take into account positive changes in Iran as indicating the readiness of Tehran to moderate its position. It seems that with the advent of the new, more monolithic and united conservative cabinet in Tehran, prospects for holding serious talks with the US will grow. Especially if one takes into account the Iranian interest in "sincere cooperation" with Russia and the US in the energy sphere and the possible development of new, positive approaches to the situation in the Caspian proceeding from this fact.

Balanced Eurasian-Atlantic cooperation in Central Asian region corresponds to the interests of the Central Asian states, which aspire to a multipolar world order and a collective security system in Central Asia as the sole effective means of providing stability and development in the region. Moreover, constructive cooperation of the two main players in

the region – the US and Russia – could potentially restrict the growth of regional ambitions of Iran and China and serve as the basis of stability for forming a Eurasian system of energy supplies and transport links.

In the new multi-polar architecture of international relations, with various complex mechanisms of restraints and counterbalances Iran, as well as other states with hegemonic intentions, could become a stable, but not dominant, player in Central Asia and the Caucasus.-

Part B: Chinese Energy Geopolitics in Central Asia: the Iranian factor.

China is aiming to quadruple its per capita GDP to \$3,200 by 2020 from \$ 800 attained in 2000. This would imply an average annual economic growth of 7.2% till 2020. In order to attain this, China will have to keep meeting the enormous appetite of its manufacturing economy for raw material and energy resources. On the other hand, it has to open up new markets for Chinese products while keeping the competitive economies of Asia and America at bay. This has to be driven by international relations backed by strategic defense capability. Conscious of these imperatives, China's international relations are developing on twin tracks: gaining sources of raw material across the globe, and increasing its strategic power projection. Beijing is on a fast track development of missile capability and submarine fleet. Some analysts say, China would be able to match the defense capability of US by 2050.

Considering the above as an imperative, Beijing opens itself rapidly towards South Asia. This region's geographic location, midway between the oil rich Middle East and the South East Asian regions, borders most of China's sensitive southern boundary. This gives China the strategic option of opening direct access through South Asia to the international sea lanes of Indian Ocean. The Indian Ocean region has always been the scene of power play between Russia, the US and the West, and theocratic Islamic states like Iran, simply because 75% of global merchant shipping passes through it.

China has used Iran to bridge its connection to the Middle East. China and Iran are important geopolitical actors as well as major players in the global energy market (11). In recent years, the Sino-Iranian relationship has broadened and deepened. Energy cooperation is the main axis around which this partnership revolves. As a result, China is a stakeholder in the outcome of the diplomatic crisis that has been brewing over the Iranian nuclear program.

The development of Sino-Iranian relations over the past two decades is part of the steady expansion of ties between China and the wider Middle East, and more broadly, between the countries of East and West Asia. At the same time, the Sino-Iranian relationship has distinctive origins and characteristics, not to mention potentially far-reaching implications. The relationship is rooted in shared historical experiences, in common outlooks and concerns about the current state of international and regional affairs, and in overlapping interests.

Energy cooperation is the backbone of the Sino-Iranian economic relationship, though economic ties have been forged in other areas as well (12). Trade

11. According to 'Ali Akbar Vahidi Ale-Agha, Deputy Managing Director of Petroleum Engineering & Development, an National Iranian Oil Company subsidiary, "China and Iran are perfectly matched for each other ... China has the world's biggest market of customers and no secure resource for energy. We have a lot of energy, and we need foreign currency. And they have a lot of money to invest. It's a win-win situation". Quoted in Vivienne Walt "Iran Looks East", *Fortune*, (February 21, 2005).

12. "Iran's Crude Oil Sales to China," Mehr News Agency, FBIS-Near East and South Asia [hereafter FBISNES], (April 12, 2005).

in crude oil is the core of energy cooperation. In 2005, Iran was China's third-leading foreign supplier (behind Saudi Arabia), satisfying about 14% of its import requirements (13). In January 2006, Iran¹² replaced Saudi Arabia as China's number one source¹³ of imported oil. With respect to the benefits¹⁴ accrued¹⁵ to China, it is worth noting that Iranian crude oil not only helps meet skyrocketing Chinese consumption needs, but helps contain rising import costs through the purchase of the relatively cheap, heavy (sulfur-rich) oil that is plentiful in Iran (and Saudi Arabia) (14).

China's growing appetite for natural gas in the form of liquefied natural gas (LNG) has provided a second energy link with Iran, which has an estimated 15% of¹⁶ the world's natural gas reserves (15). In March 2004, the state-owned Zhuhai Zhenrong Corporation¹⁷ (a spin-off of NORINCO) agreed to import 110 million tons of Iranian liquid natural gas (LNG) over 25 years, a deal worth approximately \$20 billion.¹⁸ According to the terms of the Yadavaran project¹⁹ agreement, Sinopec has committed to the purchase of 10 million tons per year of liquefied natural gas

¹³ "Iran's Crude Oil Sales to China" Mehr News Agency, *FBIS-Near East and South Asia* [hereafter FBISNES], (April 12, 2005).

14. Calabrese John, "China and Iran: Mismatched Partners", Jamestown Foundation, *Eurasia Daily*, (August 2006): 6

15. International Energy Outlook 2006, U.S. Energy Information Agency (June 2006), Table 8 (http://www.eia.doe.gov/oiaf/ieo/nat_gas.html).

(LNG) over a period of 25 years, beginning in 2009 (16). Iran's Deputy Oil Minister Hadi Nejad-Hosseini estimates that gas exports to China will gradually increase to 40 million tons per annum (17).

A third area of cooperation in the energy sector is²⁰ upstream and downstream development. Participation by Chinese companies in such projects is part of the internationalization of their business operations and part of their global effort to obtain equity stakes in production, thereby enhancing long-term energy security. In August 2000, CNPC won its first drilling contract in Iran (to drill 19 gas wells in southern Iran). The most significant breakthrough in this area is the widely reported preliminary agreement (reached in October 2004) between the National Iranian Oil Company (NIOC) and Sinopec to develop the Yadavaran oil field, whereby NIOC would sell 150,000 barrels per day (bpd) of crude oil to China at market prices over a period of 25 years when the field becomes fully operational (18).

For Iran, engaging Chinese companies in these²¹ ventures stems from a mixture of motives. The main²² commercial objectives are access to much-needed²³ foreign investment capital and technology. These objectives dovetail with the strategic imperative of locking in an economic partnership with a major world power that holds a permanent seat on the UN Security Council—a potentially useful lever in countering U.S. and Western pressure.

16. Associated Press, (March 19 2004); The Asian Wall Street Journal, (March 13, 2004).

17. "Iran: Official Says Gas Exports to China To Start in 2009", Mehr News Agency, FBIS-NES, (July 5, 2005).

18. "China, To Cooperate with Iran in Oil, Gas Sectors", Islamic Republic News Agency [hereafter IRNA], in FBIS-NES, (December 27, 2004).

China and Iran have also found common ground in construction of oil and gas pipelines. Chinese companies are involved in projects that will enable Iran to augment the volume of its swap deals. The Neka-Sari pipeline, built by a consortium of Chinese companies led by Sinopec and CNPC (completed in 2003) carries Russian crude oil shipped from the Caspian ports of Astrakhan and Volgograd from the Iranian port of Neka farther into Iran. Another pipeline being built with Chinese participation will carry oil from the Neka terminal to a refinery on the southern outskirts of Tehran in the municipality of Ray (19). China has an interest in expanding Iran's oil/gas pipeline network quite separate from whether or not its own firms help to build them. Consistent with its aim to develop alternative supply delivery networks (20), Beijing hopes to receive the necessary guarantees from Tehran to build an oil pipeline from the Caspian Sea, at a length of 386 km, to another pipeline in Kazakhstan that will be connected to China (21).

In addition, China and Iran have been working separately and jointly to augment their capacity to handle the increased volumes of oil, gas, and refined²⁴ products moving from the Persian Gulf to East Asia. For example, in order to support the²⁵ growth of LNG imports from Iran and other²⁶ suppliers, China is building receiving terminals at²⁷ Guangdong, Shanghai, and Fujian (22).

19. Hooman Pemani, "Russia Turns to Iran for Oil Exports", Asia Times, (February 11, 2003).

20. This is evident, for example, in the Chinese government's decision to finance about 80% of the estimated \$ 248 million cost of construction of the deep-sea port of Gwadar, and thus move oil overland through Pakistan to western China.

21. Calabrese John, *ibid*: 7

22. Quoted IRNA, in FBIS-NES, (October 14, 2005).

In sum, whereas Iran seems determined to develop a²⁸ full-blown strategic partnership, China appears primarily interested in commerce and limited political-strategic engagement. Foreign Minister Manouchehr Mottaki's statement reflects Iranian thinking: "China is seeking reliable energy and we are able to guarantee to supply it. In fact, a strategic phase is now being started in cooperation between the two countries" (23). With Western pressure on Iran tightening, Iranian officials have, at every opportunity, sought to draw closer to China. According to Ali Larijani, Secretary of Iran's National Security Council, China (along with Russia and India) "can play a balancing role" (24). Similarly, President Ahmadinejad's statements at the SCO summit in Beijing in June 2006 are illustrative of the way in which Tehran has attempted to use its energy assets as a political lifeline (25). Echoing these statements, Dr. Ali Akbar Velayati, former foreign minister and now advisor to Spiritual Guide Ali Khamenei, referred to the SCO as a "political bloc" (26).

23. See text of interview with Islamic Republic of Iran Broadcasting (IRIB), IRNA, BBC-SWB-NES, (June 8, 2005).

24. Bill Savadore, "Tehran Seeks Allies Through Energy Cooperation", South China Morning Post (Hong Kong), (June 16, 2006).

25. "Iran-China co-operations will strengthen energy security in the region", E'temad-e Melli, (February 25, 2006), in SWB-ME.

26. Calabrese John, *ibid*: 12

Iranian officials appear, at times, to underestimate how much the Sino-American relationship means to China and perhaps overestimate how far Beijing might be willing to go to support Tehran. In²⁹ addition, to the extent that the Iranian leadership are enamored by the “Chinese model” and determined to apply an Islamic version of it, they appear to have conveniently omitted from their frame of reference the fact that China’s success has hinged on a dynamic economic relationship and a political *modus vivendi* with the West, particularly with the United States. Finally, by proclaiming China to be the “superpower of the new century” and implicitly tying Iran’s future to the latter’s coattails, Iranian officials run the risk of becoming prisoners of their own wishful thinking, while the Chinese leadership, keenly aware of its present limitations vis-a-vis the United States, has been quite careful to avoid stumbling or being dragged into a direct confrontation with Washington (27).

In that sense, it is also instructive to look at some of the shortcomings and uncertainties in the economic sphere. The mainstay of Sino-Iranian cooperation in the energy sector is the export of large and increasing quantities of Iranian crude oil to China. But the Iranian energy industry is badly in need of foreign investment and technology. To date, China’s investments are dwarfed by Iran’s investment needs. Furthermore, in an effort to diversify, Chinese energy firms are increasingly shifting their investments towards Africa and Central Asia, perhaps reflecting the need to diversify, to the extent possible, away from the Persian Gulf, and thus from the risks and uncertainties associated with the deeply entrenched U.S. military power, local instability, and maritime transportation of oil supplies.

27. Calabrese John, *ibid*, p.12

Part C: Conclusion.

Central Asia's geopolitical linking to South Asia: the evolving nexus of energy, security and maritime power.

Beijing's efforts to connect itself to the Wider Central Asian region is restrained by the all pervasive American presence in Afghanistan. Even so, it is evident that Kabul remains a vital part of Beijing's energy infrastructure, linking China with Pakistan, Iran and the oil rich Central Asian countries. So it came as no surprise when China secured in May 2008 the \$3.5 billion Aynak cooper field project in the remote Logar province. China also extended the Xinjiang railway up to Kashgar (via the Karakoram highway) about 500 kms from the China-Pakistan border, and is involved in the construction of a rail line to link Gwadar with Pakistan-Iran railway line.

China is taking advantage of its enormous cash reserves buying up major energy assets in distressed countries like Afghanistan, and secures for itself not just energy flows but key strategic advantages for years to come. Although most of its energy imports still come from the Middle East, Beijing is rapidly seeking to diversify its suppliers on a global basis: Venezuela, other Latin American countries, Africa, and Russia, as well as Central Asia. Furthermore, it has well-known strategic anxieties that the Strait of Malacca or other Indian Ocean waters may be closed to it during a time of crisis. Therefore, for geostrategic reasons, China seeks to avoid excessive dependence upon Middle Eastern and African producers. Most important, the geographic proximity of the greater Caspian basin states, many of which border China, and the lack of a strong US military presence in CA, especially one that can counter Beijing's massive land power, has made it an appealing source of energy in the eyes of Chinese planners. There would be no need for the energy to be transported across the ocean –where China's energy supplies would be vulnerable to potential maritime interdiction by US and Indian navies. Teheran in Beijing's eyes is privileged for being able to ship gas and oil to it overland through new pipelines that China is helping to build in Kazakhstan, Turkmenistan, and Uzbekistan and which

could ultimately connect to Iran. Already, in December 2005 the Atasu-Alashankou oil pipeline³⁰ from Kazakhstan to China was opened, and Beijing³¹ announced in 2006 its plans to construct also a natural gas pipeline running parallel to it. In addition, China is discussing with Uzbekistan and Turkmenistan and Tajikistan prospective gas pipelines that would link up with the projected gas pipeline, scheduled for completion in 2009-2010 (28).

In spite of these developments, the most important Caspian producer for China remains Iran. In the first quarter of 2006 alone, China's oil imports from Iran increased by 25 percent in gross volume. Iran already supplies 15-17 percent of annual Chinese oil imports, and the interest in an overland pipeline from Iran to China, makes clear that Iran's role in Chinese energy policy will only continue to increase for the foreseeable future (29).

In addition Beijing is discussing its potential participation in the projected Iran-Afghanistan-Pakistan-India pipeline. Likewise, if the projected Turkmenistan-Afghanistan-Pakistan-India pipeline is implemented, it too will likely attract Chinese participation. Were an energy relationship between Pakistan and China to materialize, it would only heighten the existing nexus of energy, security and maritime power projection exemplified by China's support for the construction of a major deep-sea port in Gwadar, Pakistan. Islamabad's role as an energy provider for China would certainly intensify Chinese efforts to help Pakistan remain secure, stable and non-fundamentalist. It is noteworthy to mention here that according to a contract signed in May 2009, Iran will start exporting per day 21.5 million c.m. of gas to Pakistan.

Teheran itself, is betting on the total "interdependence of Asia and Persian Gulf geo-economic policies". In that context, Teheran has proposed the Asian Energy Security Grid and the

28. Blank Stephen, "China's Emerging Energy Nexus with Central Asia", Jamestown Foundation, *China Brief*, V. 6, Issue 15, (19.07.2006).

29. Blank Stephen, *ibid*

\$7.6 billion Iran-Pakistan-India pipeline, both good examples of Iranian regionalization efforts, but³² doomed under great pressure from other actors, primarily the US.

In the meantime, Russia's and Iran's desire to oppose Washington's position to keep them away from Caspian energy transportation projects, the Iranian-American confrontation, and Teheran's doubts that Russian-American cooperation is viable, are forcing the country's leaders to demonstrate more flexibility in regional policy and remain loyal to their alliance with Russia in the interests of their own security and as a possible counterweight to America's Central Asian policy. Moscow itself, in the context of bitter geopolitical and geoeconomic rivalry with Washington in CA and the Middle East, finds cooperation with Teheran as its only solution, even at the expense of a compromise in the Caspian Sea delimitation process or in Iran's nuclear program. So, Iran and Russia join forces to pull Central Asian states into their side, by implementing regional projects as the international transport North-South corridor, the North-South fiber optic communication line, and other which in the future might promote economic integration of these states. Moscow is surely refund by acting as an intermediary between Iran and the West, and by Teheran's consent to Russia's intention to join the Islamic Council Organization (OIC), as a counterweight to America's influence in the Islamic world in general and in the Muslim oil and gas exporters in particular.

The same scheme applies to China, another Moscow's rival. In fact, since the mid-1990's Russia and China have been talking about building, together with Iran, the so-called pan-Asian continental oil bridge, a network of pipelines that will connect the Russian and Central Asian fuel energy producers with Chinese, and possibly also Korean and Japanese, customers. This idea has a potential to be realized, provided Teheran joins the Shanghai Cooperation Organization (SCO), in an energy security project binding actual SCO members (Russia, China and the Central Asian states) with Iran.

Talking about the European Union (EU), it is inclined to involve Russia and China in its Iranian

projects, a tendency which contradicts US interests³³ in the region (30). One has to bear in mind, that Iran³⁴ is already an energy exporter to Europe through Turkey, funneling through Turkmenistan's³⁵ gas and swapping oil with Kazakhstan and³⁶ Azerbaijan. Iran, Russia and India have also conceived new areas of cooperation that connect northern Europe to the Indian Ocean via Iran and the Russian Federation. In that sense, the 25-year supply agreement, worth up to \$42 billion, signed between Iran and Switzerland, is only the prelude of what could follow unless America finds a more comprehensive way of dealing with Iran (31).

The EU is also in favor of Iranian participation in projects such as Nabucco, White Stream and Iranian-Turkish gas pipelines, with possible inclusion of Arab gas originating from Egypt or Syria (32). These Iranian endeavors can reorient Central Asian energy routes through its territory and form a kind of "gas cartel" along with Russia and CA countries, an idea put on the table recently by the Persian Gulf Council on Cooperation and approved by Teheran.

30. Shell, Repsol, "Wary of Iran Deal: Report", Payvand News, (May 3, 2008).

31. "US Fearful of Iran-Europe Gas Deals", Payvand News, (May 3, 2008).

32. Gollust, D., "Major Powers Make New Incentives Offer to Iran", VOA, London, (May 3, 2008).

Of course, any thought about possible Teheran's inclusion in the Nabucco project, produces strong American opposition, but both EU and US are maneuvering new incentives for Iran to scrap its uranium enrichment program (33).

As for Turkey, in an effort to become the main energy corridor to Europe through the Trans-Caspian gas pipeline, is not excluding the possibility of Iran's involvement. In fact, it is actively involved in the project for moving Iranian and Turkmenian gas to Europe across Turkey, which, it is convinced, will allow Europe to become independent of alternative gas suppliers. Provided that Washington's relations with Teheran improve, these geo-economic trends might come to the fore in US Central Asian strategy.³⁷ Such thought sounded more realistic as the Bush administration was no longer looking at Turkey³⁸ as a reliable and acceptable partner when it comes to transporting energy resources to Europe.

The prospect for the development of an alternative petroleum route from both the Caucasus and Central Asia into the Persian Gulf via Iran, would be a wise foreign policy initiative in 'realpolitik' terms. Iran has the potential to become an international petroleum port pumping station for its own petroleum resources, as well as that of oil-rich Central Asian Republics and the Caucasus. This would minimize Russian influence and European reliance on Russian energy and pipeline routes, while providing a greater sense of energy security for the industrialized world.

33. Gollust, D., *ibid*

Iran clearly has the capacity for a Kazakhstan-Turkmenistan-Iran pipeline. The project, estimated to cost around \$1.2 billion, is currently being considered and may develop into a viable strategy and solution, pumping 1 million bbl oil per day from Kazakhstan and Turkmenistan to the Persian Gulf island of Kharg. Teheran is also supporting a projected Iran-Turkmenistan-Turkey-Europe gas pipeline, which covering a distance of 3.900 Km, will supply up to 30 billion cubic meters of gas by 2010 (34).

A cooperation context between Europe and Iran could include, apart of Iran's contribution of gas for Nabucco pipeline project, the use of the Iranian grid for the transportation of natural gas from Caucasian and Central Asian producer states towards the European market, as well as European investments in the Iranian energy sector (35). It may look like a paradox, but Washington will not be able to reduce Europe's dependency on Russian gas without Iran's participation. As Russian analysis point out, it is on Teheran to decide whether to get access to the Western market through participation in the Nabucco³⁹ project or join Russia, China, India, Pakistan and some countries of CA in the implementation of the 'Energy of Asia' scheme. They also suggest that cooperation within the SCO, appears to be the most convenient form of integration between Russia, Central Asian states and Iran (36).-

34. Molavi Reza – Shareef Mohammed, “Iran’s Energy Mix and Europe’s Energy Strategy”, Durham University Centre for Iranian Studies, Policy Brief, (2008).

35. Grigoriadou I. , “Evropaiki Energiaki Asfaleia – Ellhno-Tourkiki Synergasia” [European Energy Security – Greek-Turkish Cooperation], ELIAMEP, Policy Brief Nr 12, (December 2008).

36. Yurtayev Vladimir, “Iran and Russia: New Start after 30-year Pause”, *Strategic Culture Foundation*, (<http://en.fondsk.ru/print.php?id=1877>)

