

Iran could be key to Middle East energy security

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Though vast swathes of the Middle East are resource-rich, several countries suffer from chronic gas shortages which have scant convenient solutions.

With the prospect of more investment should sanctions be lifted, Iran may be more likely to expand pipeline gas exports. It is an opportunity the country should take to flex its role in regional energy security.

Flexing regional importance

The sanctions, which prevent foreign companies from transacting with Iran using the US dollar clearing system, may take several years to be lifted entirely and it is unlikely that all foreign companies will want to take the risk of investment in the short-to-medium term. But this is an issue which is of slim importance to Iran's regional neighbours, seldom whipped out of action by Western sanctions.

Around 93% of Iranian gas pipeline exports flow to neighbouring Turkey. Imports from Iran are costly in comparison to alternative Russian gas and Turkey rejected a deal from Tehran to double gas exports earlier this year.

However, unlike Europe which has its cheap, if unpredictable, Russian cousin to fulfill its needs, there are fewer competitive alternatives for gas in the Middle East. Qatar's restriction on developing its supergiant North Field limits how extensively the country can supply the region, leaving gas-poor countries, such as Afghanistan, Pakistan, Kuwait, Iraq, Oman and the United Arab Emirates as possible hot-spots for Iranian pipeline expansion.

Mobilising the industry

It is beginning to look increasingly unlikely that a deal to lift all sanctions will be reached while US President Barack Obama is in office. Hardliners from within the parliament have compounded efforts from Obama to pass legislation without congressional approval.

The main hindrance to Iran's gas industry could be the limited expertise and skills available. But if Tehran turns its hand to regional pipeline markets instead of international exports, success could be significantly easier to rally and less dependent

on the outcome of the sanctions discussions.

Curtailling the country's ever-climbing natural gas usage will also be a challenge. Natural gas is heavily subsidised in Iran which means there is little public incentive to curb usage and fewer volumes available for exportation.

Resting on laurels

The potential is there in Iran, which has the largest proven gas reserves after Russia. But Iran's gas future internationally or in Europe depends on whether the country can offer competitive contract terms for foreign investors and appealing pricing structures for export partners.

With Iran's unwillingness to compromise on price, volumes alone are not enough to mobilise foreign investors and accelerate construction.

Tehran's desire to secure influence in the Middle East makes regional pipeline markets a more appealing choice than competitive European and international markets which are dubious of Iranian motives. With the outcome of the sanctions discussions a looming question mark, this is reason enough to prioritise Iran's thirsty neighbours over sceptical counterparts further afield.