

Iran Rations Its Petrol Consumption

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Iran that holds the world's second-largest oil and gas reserves could, according to a study by Roger Stern appearing in January 2007 in *The Iranian Petroleum Crisis* and United States National Security, become an importer of hydrocarbons ten years from now. There are several reasons for this: a weakness of foreign investment, a decrease in Iranian petroleum production and an increase of domestic consumption. All the same, if the perspective of seeing Iran as an importer of hydrocarbons ten years from now remains difficult to envision because of diverging estimates on the production decrease that oscillate between 2 and 8%, and the increase in consumption, between 2 and 6%, Iran's energy situation remains worrying.

Iran's level of oil production was 3.9 million barrels per day in 2005, 2.5 million barrels of which went for export. To maintain its exportation capacity, the authorities decided to put in place a plan for the reduction of domestic petroleum product consumption. Iran remains the country where a litre of gas is the least expensive in the world, even after a 25% price increase in May 2007 (12 cents per litre).

The weakness of prices constitutes an obstacle to the command of domestic energy demands. Iran's government must fight against the resale of refined oil across its borders, particularly with Turkey and Pakistan. Each year, this traffic amounts to 900 million euros for a quantity of 1.8 billion litres of fuel, according to Ali Soltani, the head of the national police in charge of economic crimes, in the June 24th edition of the newspaper *Iran*.

This question of the price of petrol was also at the heart of political debates for several months because of recurring budgetary problems linked to state subsidies for refined products. These subsidies are harmful to the Iranian economy due to the fact that the country's refining capacities cover only 40% of its needs. The solution proposed by Parliament's Commission on Energy in February 2007 was to put in place a system of rationing (any car owner purchasing more than 100 liters per month must pay the free-market price of about 50 cents).

So-called “Intelligent” gas cards (kârt-e hooshmand-e benzine) were distributed to citizens to regulate consumption. Despite persisting technical problems including a lack of cards and the incomplete equipping of filling stations with card readers, the measure finally came into effect on June 27th, 2007, inciting the anger of the Tehran's residents.

Natural gas is perhaps the most dynamic sector, since Iran has signed numerous contracts with different international companies such as ENI, Total, Shell and Statoil. All the same, these contracts are, for the most part, Memoranda of Understanding (MOU). In other words, they are protocols, which in many cases have not translated into new gas plans.

If the production of natural gas goes up, the national policy of finding a new equilibrium for the country's energy balance—using natural gas to replace petroleum products—will bring about a significant rise in consumption. Consequently, Iran is not always a net exporter of natural gas because the quantity imported from Turkmenistan is approximately equivalent to that exported to Turkey, about 27 to 28 million cubic meters per day.

In the winter 2007, in order to satisfy peak domestic demand due to a fall in the temperatures, the authorities had to interrupt the delivery of gas to Turkey. If waste is a reality accentuated by the fact that energy products are almost free of charge for Iranian producers, improving the situation requires not only the reform of energy politics but also a revolution of attitudes and behaviours. For example, in wintertime, in Tehran, it is a common sight to see apartments, heated by gas, with their windows open.

Gas OPEC or Reinforced Cooperation Between Producers and Consumers?

The pertinence of the idea of the creation of a gas OPEC should be evaluated in light of these particularities of Iran's gas sector. It would be surprising to see Iran step up first to support the creation of a gas cartel, given that, despite its considerable potential, it is not yet an exporter of gas.

Many obstacles to this project's realization remain, including the principally regional dimension of the gas market, long term contracts and the political dimension of Iran's re-launching of the project during Russian Defence Minister Sergei Ivanov's visit to Tehran in January 2007.

The political question is key to the Iranian energy strategy, which is subject to strong international pressure aimed at quelling the country's nuclear ambitions. To what extent will other producing countries be ready to create a new organization, given the acute crisis between Iran and the international community?

Although the question of relations between producing countries and consumers was raised, the Gas Exporting Countries Forum in Doha in March 2007 failed to come to a consensus on the creation of a gas cartel.

During the forum, the Iranian ambassador to OPEC, Kazempour Ardebili, said that it is preferable to pursue and reinforce energy cooperation between natural gas producers and consumers rather than focusing on the creation of a gas OPEC.

All the same, contrary to the context that prevailed in 1973 during the creation of OPEC, it is not the natural gas-producing countries that are under pressure but rather the natural gas-consuming countries, notably those of the European Union.

Finally, Iran does not wield all of the liquefied natural gas (LNG) capacities and knowledge that remain the monopoly of international Western companies. In addition, the *raison d'être* for the creation of a natural gas cartel—i.e. the market's evolution towards a greater number of short-term contracts and its internationalisation with the diffusion of LNG—depends on the transfer of LNG technology from international companies to gas-producing countries.

Although Iran's potential places Tehran at the heart of the international market, political obstacles to the development of the national energy sector remain. On the one hand, Iran needs international companies to optimize the exploitation of its resources. On the other hand, the growth in world demand places Iran at the centre of politics aimed at securing energy supplies for gas-consuming countries.

These exchanges are complicated by the nuclear crisis. Washington is putting pressure on international companies that operate in Iran and the National Iranian Oil Company (NIOC) has increasing difficulty supplying the technical components required to exploit its natural resources.

In the absence of political *détente*, the Iranian energy question could have consequences both on the domestic level—a decrease in petroleum revenues and difficulties maintaining export levels—and on the international level—European dependence on Russian gas imports and the increase in the price of a barrel of oil.