

# Iran sanctions cycle set to repeat

The country is no stranger to its energy industry blowing in the political wind

Politics has bedevilled Iran's energy sector ever since the Iranian Revolution of 1978-9, but even as far back as the premiership of Mohammad Mossadegh in the 1950s.

Development of the country's vast oil, and especially gas, reserves has progressed during periods of détente, but been set back when political tensions heighten. The full re-imposition of US sanctions from 4<sup>th</sup> November 2018 is set to usher in another such period of turmoil.

Iran faces political challenges on four fronts-within different factions of the regime; between the regime and ordinary Iranians; with its Arab neighbours; and with the US and the other leading international powers.

The reputation of the Rouhani administration, mostly a mix of moderates and reformists, has been badly damaged by the US withdrawal from the Joint Comprehensive Plan of Action (JCPOA), the nuclear deal on which it had staked so much political capital. Opposed by hardliners, it had not really drawn economic advantage from the brief period of sanctions' relaxation, and is now faced with a collapsing currency, worsening unemployment and shortages of imported goods such as medicines.

But American hostility has, as usual, caused something of a closing of the ranks within the ruling regime. Rouhani has been working with prominent pragmatic conservative Ali Larijani, the speaker of parliament, who could be a presidential candidate in 2021. And the eventual departure from the scene of supreme leader Ali Khamenei, now 79, casts a shadow over all political manoeuvrings.

## Popular protest

Iran is seeing widespread protests over poor economic conditions and lack of political and human rights. These demonstrations cover many more towns than the 2009 "green movement", which was focused mainly in Tehran, and apparently attract a wider range of social classes.

But the Islamic Republic is no stranger to phases of mass protest, and, so far, the regime appears under no serious threat. A major uprising would anyway likely be met by deadly force and perhaps a more overt takeover of the government by the leadership of the hard-line Revolutionary Guard.

## **Neighbourly disputes**

Iran's alleged malign regional activities have been a favourite target of the US, and the subject of much lobbying by Saudi Arabia and its regional allies. Tehran props up the genocidal regime of Bashar Al Assad in Syria and also supports Houthi forces in Yemen in their deadlocked war against Saudi Arabia, the UAE and their Yemeni allies.

And Iran exerts strong, although often overstated, influence in Iraq. Iranian-aligned parties performed strongly in Iraq's May elections, while still coming in second to Moqtada Al-Sadr's alliance, which has espoused a more nationalist, populist line. But new prime minister Adel Abdel Mehdi and president Barham Salih are acceptable to both Washington and Tehran, and must do their best to balance both sides' competing interests. Iraq has so far been awarded a US waiver to continue purchasing Iranian gas and electricity, although the US has sought to divert Iraq's oil swap with Iran towards Turkey instead.

Oman, which helped mediate the 2015 nuclear deal, Qatar, which shares with Iran the super-giant North Field/South Pars gas reserve, the world's largest, and, to an extent, Kuwait, have stayed more amicable. To some extent, the Gulf Cooperation Council dispute, which led to an embargo on Qatar by Saudi Arabia, the UAE, Bahrain and others, helped open up Qatar to Iran, although Doha has overall moved closer to Ankara than Tehran.

In August, Iran did improve one set of regional relations by settling some questions of the legal status of the Caspian Sea. Iran had to make concessions, particularly to Russia, but the arrangement has reduced the chance that the Americans or Israelis could look to use Azeri or Kazakh bases in any military action against it. It also modestly boosts the chance of some cross-border oil and gas field developments and pipelines in Caspian waters.

## The art of the deal?

Iran's relationship with the US remains key. After withdrawing from the JCPOA in May, the Trump administration has expressed unremitting hostility to the Iranian regime and sought to ramp up economic pressure. It has so far, though, not departed much from the Obama administration's policies in the various regional conflicts involving Iran. Given Donald Trump's liking for headlines and disdain for conventional wisdom, a *deus ex machina* involving a deal with Tehran, like his meeting with Kim Jong Un of North Korea, cannot be totally ruled out.

But such an accord would be bitterly opposed by hardliners both in Tehran and Washington, and Iran's hawks in particular believe they have been proved right in their contention that the US cannot be trusted. For now, Iran probably hopes to wait out the Trump administration and hope to deal with a new president after 2020, particularly if the effectiveness of sanctions wanes over time.

The EU joins in with the valid criticism of Iran over its human rights and terrorism record. Relations have not been improved by the revelation of an apparent Iranian plot to kill a Denmark-based opposition leader, in retaliation for a September terrorist attack on a military parade in its Ahvaz oil hub. But the Europeans, wary of yet another conflict on their doorstep, have sought to preserve the economic benefits of the JCPOA and stall an Iranian return to large-scale enrichment.

Their plans to set up a special-purpose vehicle (SPV) for trade will probably not help to maintain large-scale oil trading, but may keep some small and medium businesses engaged, facilitate humanitarian supplies, and perhaps be picked up by Russia and China.

## Cosying up to the bear

Given its problems with the US, Tehran's relations with the other great powers are crucial. It has forged a close partnership with Moscow, despite historic suspicions of its giant northern neighbour. As noted, the two have worked together in Syria. Russia has proffered a grand but vague \$50 billion "goods for oil" swap to help Iran avoid sanctions, and it has a strong interest in undermining the efficacy of such American-led measures.

On the other hand, Russia has also cooperated deeply with Saudi Arabia in delivering the “OPEC+” deal on oil production cuts, which Iran joined only reluctantly and now feels cheated by. Russia is glad to see a potential oil and gas-exporting competitor hampered. And Moscow has accepted investment from Saudi Arabia, the UAE and Qatar.

China seeks not to take sides in the Middle East, and is the most important single market for Iranian as well as Saudi crude oil. It is vital for Iran that Beijing continues at least to maintain its level of purchases.

While not wishing to defy the US outright, China is also not in the mood to do it any favours, particularly given the intensifying trade war which has led it to advance tariffs on American oil and gas. China also sees an opportunity to boost oil trade in its own yuan currency, a long-term objective to diminish dependence on the dollar.

Turkey is a regional peer of Iran’s, seeing itself as a leader in the Sunni Muslim world. Its relations with Tehran are complicated, but it continues to buy Iranian oil and gas, and was granted a temporary waiver to continue in November.

Thus, Iran is not as politically isolated as it was under President Obama, but its relations even with some of its closer partners and allies are complicated. It is striking that Iran, unlike Saudi Arabia and Russia, does not gain much geopolitical leverage from its hydrocarbon resources. But, then again, it needs less distractions, as it has to combine its economic and political clout as best it can to survive discontent within, and sanctions without.

Robin M. Mills is CEO of Qamar Energy

---

Source: <http://www.petroleum-economist.com/articles/politics-economics/middle-east/2018/iran-sanctions-cycle-set-to-repeat>

[Disclaimer]