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Energy Security and Geopolitics Business with Iran
A Dangerous Opportunity

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The European Union (EU), recently struck by a severe financial crisis, has been looking to gain from fruitful investments in new markets and for cheaper energy imports. Iran, a largely unexplored 80 million people market with significant energy reserves, could appear to be the perfect partner fitting the economic needs of the EU. However, business with Iran entails empowering a country with a very divisive legacy and at odds with Europe's most important ally, the United States (US). This is especially problematic now that the Trump administration has fully embraced a Tehran hostile agenda. Furthermore, the control exercised by Iran's Islamic Revolutionary Guard Corps (IRGC) over the economy of the Islamic Republic, over the profitable energy sector in particular, presents dilemmas and severe geopolitical challenges for both Europe and the MENA region. This paper is also centred on Tehran's developing role in the Eastern Mediterranean.

Business opportunities in the Islamic Republic

The signing of the Joint Comprehensive Plan of Action (JCPOA) in 2015 effectively opened up Iran's large and developing market to EU companies in an unprecedented way. Iran presents several characteristics making the country very attractive for business. Iran offers a high degree of employability with 41% of the Iranian population that is younger than 25 years. This is coupled a youth literacy rate of 98% and a university enrolment rate of 58%, standards which are comparable to the ones in France. Therefore, Iran offers a large workforce which is both young and specialised. Such figures indicate that Iran is set for economic growth and business expansion. Iran's natural resources (natural gas and crude oil, in particular) account as the 17th largest in the world. The country is also characterized by established industries with potential for further development such as pharmaceuticals and auto manufacturing, the latter being capable of producing more than 1 million vehicles per year. Such favorable conditions pushed and are still pushing many European companies to invest in different sectors of Iran's economy. German companies have profited from

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selling factory machinery and construction equipment. French and British company have benefitted from profitable cooperation with Iran's energy industry, while Italian companies have exploited Iran's need for strategic infrastructure, key to speed up the country's development.

The Islamic Revolutionary Guard Corps

It is impossible to contextualise Iran's impact over EU interests and in the Eastern Mediterranean more specifically without understanding the role that the Revolutionary Guards play over Tehran's political establishment and economic system. Major General Ali Jafari is not only the IRGC leader but also the head of Iran's internal security apparatus. The Grand Ayatollah himself would not be able to exercise his function as the Supreme Guide of the country without Jafari's support. Iran's Islamic Revolutionary Guard Corps (IRGC), have historically held tight control over Iran's economy by permeating all of its sectors. Such control grew so powerful that is currently seemingly impossible to oppose it.

Despite the fact that the current supreme leader, Ayatollah Ali Khamenei, as recently as January 2018, according to the Middle East Institute, issued a decree aimed at reducing the IRGC role in the country's economy, the IRGC's growing economic empire has successfully engulfed Iran's vast natural resources which constitutes its main export goods. Iran exports goods for a total of $31.8B (USD). The top exports of Iran are Crude Petroleum, $18.3B (USD) accounting for over 60% of the total export, followed by Ethylene Polymers $2.4B (USD). In addition, Iran's Revolutionary Guards are increasing their control over the country's developing gas industry. The economic potential related to Iran's gas reserves is increasing due to explorations and investments by France's energy giant Total. Total has held tenders worth $860 million (USD) in Iran's South Pars gas field since summer 2017. The power derived from the control of Iran's energy industry makes the IRGC an indispensable interlocutor when it comes to the country's economic affairs. Both the EU establishment and current Iranian president Hassan Rouhani, who opposes the IRGC involvement in the economy, argue that enhanced trade relations amid the JCPOA would strengthen Iran's private sector and weaken the control of the IRGC on local businesses and companies in Iran.

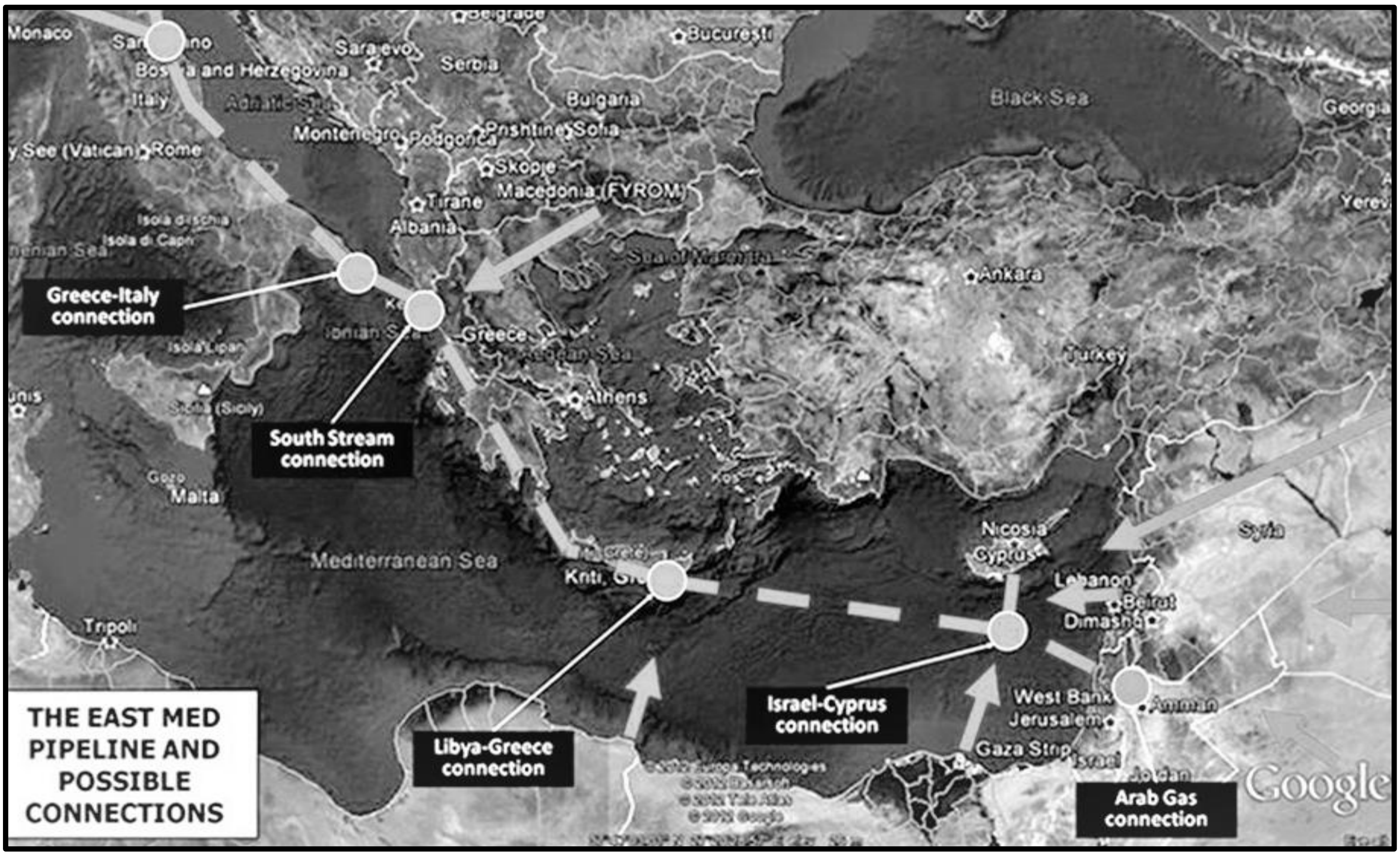
Yet, most businesses and companies within Iran are directly controlled by current or former members of the IRGC and the remaining ones are forced to operate within a system shaped by the IRGC's economic interests. In Iran the government controls more than 80 percent of the economy. A conservative estimate, by the US-based Rand Corporation, points out that the IRGC now controls at least half of government owned companies. This is partly due to the Revolutionary Guards increasing their control over the Tehran Stock Exchange. This capillary control of the Pasdaran, makes it impossible for Western companies to make any significant inroads into Iran's economy without involving, directly or indirectly, the IRGC. On the other hand, making business with the IRGC-controlled private sector in Iran only increases the IRGC's political and financial power.

The strengthening of Iran's IRGC is particularly counterproductive for the strategic long-term interests of the EU and European countries. This is clear when looking at the vulnerable geopolitical situation facing the Middle East North Africa region and the destabilising impact of the IRGC's actions at a regional level. European interests are damaged by IRGC's actions in both Iraq and Syria. The Revolutionary Guards are currently arming and training Shiite Popular Mobilization Units in Iraq. The sectarian crimes committed by the Tehran-backed militias are igniting sectarian tensions and weakening popular support for the EU-backed Iraqi central government. The IRGC are also a crucial destabilising factor in the Syrian conflict as they coordinate the common efforts of Syria's President, Bashar Al-Assad, loyalists and Hezbollah fighters while providing them with sophisticated military equipment. Such IRGC involvement could cause an escalation in Israeli air strikes on Syrian soil with devastating consequences in the region, potentially triggering a new refugee exodus towards the EU.

Iran in the Eastern Mediterranean

According to the energy scholar Michael Tanchum, Iran, within five years, will likely have 24.6 billion cubic meters of natural gas (LNG) available for annual piped gas exports beyond its current supply commitments. Due to that not being enough to supply all major markets, Tehran will face a crucial geopolitical choice for the destination of its piped exports. Iran can choose between two main export options: Currently, Tehran's preferred option is the European Union (EU) with some members eager to reduce their current energy dependence on Russia. The main alternative option is exporting to China via Pakistan. The degree to which the system of energy relationships in Eurasia will be more oriented toward the European Union or China will depend on which importer will develop first the pipeline infrastructure needed to ensure that the gas flow is directed to its respective market.

As far as infrastructures for export are concerned, Iranian authorities have already signed bilateral agreements for their plans related to the construction of a 1,700 km long land route with authorities in Baghdad, Damascus and Beirut. The project, which Iran declared it will be able to implement within two years will be developed through the construction of a highway connecting Tehran with ports in Syria and Lebanon (as well as with their capitals) and is expected to be used primarily as a transit route for Iranian goods to the ports in the Mediterranean Sea. Despite Iranian claims it is highly unlikely that in two years only a corridor crossing into Iraq and Syria would be safe enough to complete the construction of this mega project. It is also worth pointing that a 1700 km highway crossing four countries is something completely unprecedented for the entire MENA region, however possible. The aforementioned land route will pass through areas, already controlled by Iran, allied militias or governments which to date have agreed to back Tehran's ambitions in the Eastern Mediterranean.



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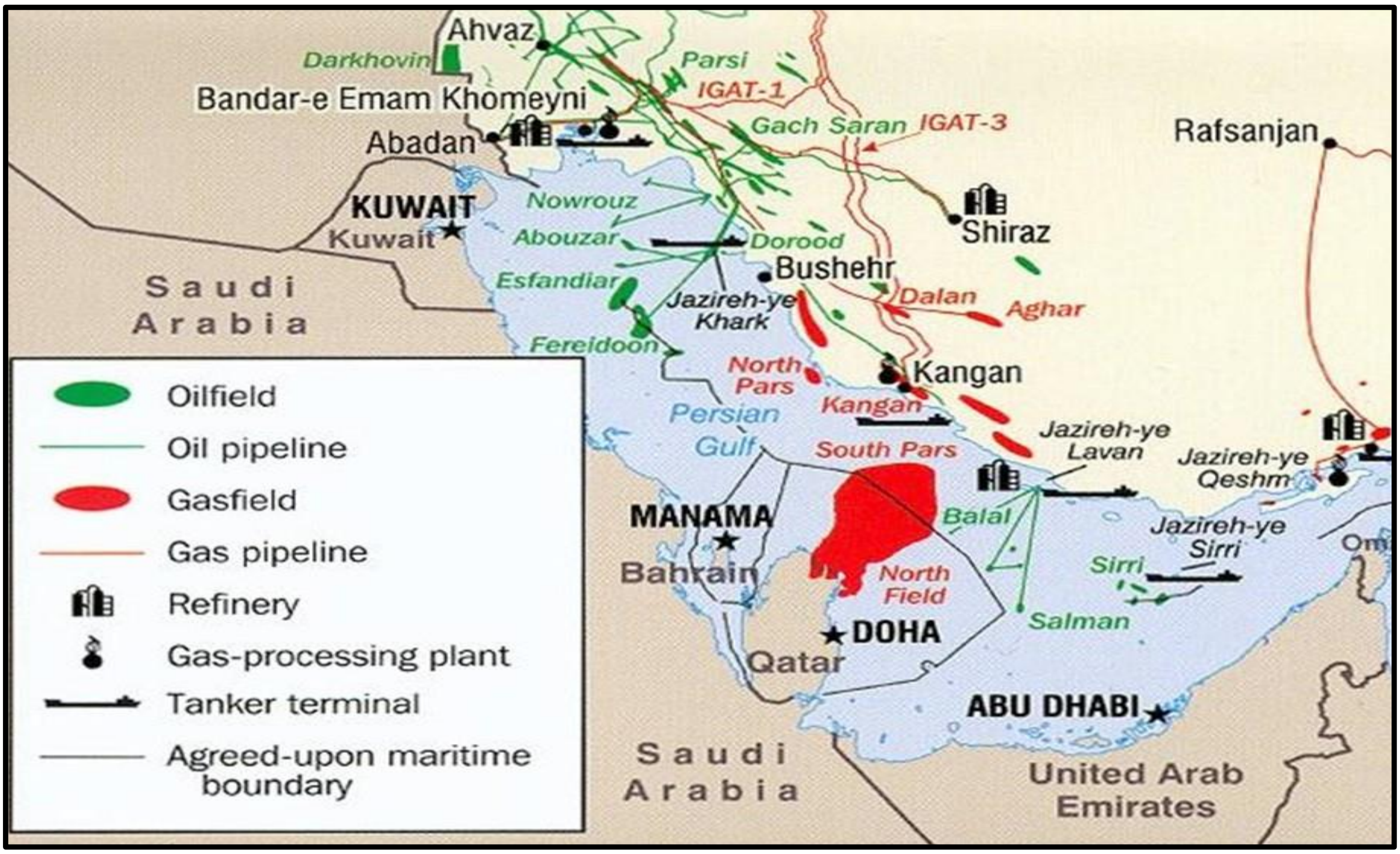
To further contextualize, in December 2017, Cyprus, Greece, Israel and Italy agreed to back the 2,000-kilometer East Med pipeline at a cost of $7.4 billion. The project is considered of strategic importance by the EU's Innovation and Networks Executive Agency (INEA). INEA's involvement contributed to enhancing the maturity of the project with a detailed and complete technical and economic assessment, enabling the project promoter to provide reliable data to the upstream producers and to downstream operators for the possible selection of the Eastern Mediterranean Pipeline as preferred export route. By giving the Eastern Mediterranean Pipeline Project the status of Project of Common Interest (PCI), the EU commission signaled its willingness to finance 50% of the expected costs, however, while the countries expressed hopes of signing an intergovernmental agreement on the project later this year, no company has yet lent its support to the project due to the expected high costs and a strong potential for hostile action against the pipeline project by other countries. Iran (with Lebanon's support) might seek to join the picture in the medium-long term in order to sabotage the aforementioned pipeline which involves EU-Israel cooperation and replace it with an alternative route in Lebanese territory. Turning the East Med pipeline project into reality is increasingly important for many EU gas importers which, through the North Europe route, are dependent on Russian energy exports. Russia is eager to prevent the entry of any new large source of natural gas into to the European Continent. Potentially, Moscow could go as far as to reduce the price of natural gas to deter investments and maintain its dominance on the European markets. Erdogan's Turkey could also present a political challenge, especially if the route attempts to traverse Turkey's claimed continental shelf area or the waters in Cyprus's EEZ, patrolled by Ankara's navy. A clear example of potential problems can be drawn by considering the recent standoff between Turkey's military vessels and ENI's drilling ship Sapiem 12000.

On February 9,2018 Ankara's naval forces prevented Saipem 12000 from reaching the area planned for exploration through a license granted by the government of Cyprus. Upon arrival to block 3 of Cyprus' Exclusive Economic Zone (EEZ), the ship was encircled and had its path blocked by Turkish military vessels. Despite this, 2019 should be the year in which a final decision on the project will be taken. The project owners, IGI Poseidon, a joint venture between Greece's natural gas firm DEPA, and Italian energy group Edison have no intention of withdrawing from a project which they claim will be able to transfer between 9 to 12 billion cubic meters (bcm) annually. The stakes for the project to succeed are also very high in Israel as the Jewish State plans to launch this summer a new auction for 20 to 30 exploration offshore blocks to trigger the development of further gas resources. Furthermore, in a sign of Israel's growing efforts to attract foreign investors into the budding energy industry, the country recently opened an economic mission in Houston.

The Republic of Cyprus is currently committing itself to become an important LNG hub both for domestic consumption purposes and to achieve an important international role in the energy sector. Nicosia's Cynergy project, involves the establishment of a natural gas supply system on the island of Cyprus. The planned investment also includes the construction of a jetty, at an estimated cost of €53,5 million and infrastructure to serve an LNG carrier at a cost of €148,7 million, which will include onshore pipelines to transport the re-gasified LNG to the already existing Energy Authority of Cyprus (EAC) power-production plant at Vasilikos. The higher the European stakes are the more incentive Iran is likely to have in seeking to join the Eastern Mediterranean energy business.



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Conclusions

Making business in Iran and with Iran, a developing market of nearly 80 million people, seems as a great opportunity as the EU recovers from the financial setbacks affecting most of its member states. A strong partnership with Iran would also provide the EU with the much needed strategic diversification in energy imports. Despite the strong potential in terms of initial dividends, the permeating IRGC presence in Iran's economy is likely to prevent the formation of an independent private sector thereby eliminating those economic benefits related to business competition. It is more likely that EU countries will have to deal with the consequences of empowering the IRGC, most evident in Iraq and Syria, in an already unstable Middle East and with the disapproval of key allies such as the US.