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Russia and Outlook of Gas in Central Asia and Caucasus
Opportunities and Threats of Iran

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To

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ABSTRACT

Based on the rules of supply and demand in the case of any goods and services, the amount of supply has a direct effect on the price of the same goods and services, and increasing of supply will result to decreasing of prices.

Some countries which are located in Central Asia and Caucasus (CA&C) have gas resources and are able to extract and offer it for sale.

All of these countries are newly established, with an increasing need to the financial sources of exporting. So their efforts for selling gas (as much as possible) is a natural and perceivable policy, but such efforts can create economic problems for Iran and Russia.

Since Central Asia and Caucasus are located in the borderlines between Iran and Russia, so the best markets for the countries in those regions are the same markets which are potentially perceived as Iran's or Russia's.

Russia and Iran have the first, and the second natural gas reserves in the world respectively, and from a competitive point of view, endeavors for supplying gas by the countries of CA&C (as mentioned before) may enforce negative effects on prices, which is not compatible with national interests of Iran, Russia, and even themselves. This thesis deals with the policies and approaches of Iran, in confrontation with these issues, and find the answer of this question that whether the policies of Iran and Russia should be against or parallel, in relation to above mentioned matters.

ABBREVIATIONS

- 1 - BEA : Bureau of Economic Analysis
- 2 - BTC : Baku - Tbilisi - Ceyhan (Pipeline)
- 3 - BTE : Baku - Tbilisi - Erzerum (Pipeline)
- 4 - CA&C : Central Asia and Caucasus
- 5 - CBR : Central Bank of Russia
- 6 - CSTO : Collective Security Treaty Organization
- 7 - ECI : ECO Cultural Institute
- 8 - ECO : Economic Cooperation Organization
- 9 - ECOTA : Economic Cooperation Organization Trade Agreement
- 10 - EIA : Energy Information Administration
- 11 - ESISC : European Strategic Intelligence and Security Center
- 12 - IEA : International Energy Agency
- 13 - LNG : Liquefied Natural Gas
- 14 - NIGC : National Iranian Gas Company
- 15 - NIGEC : National Iranian Gas Exporting Company
- 16 - NIOC : National Iranian Oil Company
- 17 - NIS : Newly Independent States
- 18 - RCD : Regional Cooperation of Development
- 19 - SCP : South Caucasus Pipeline
- 20 - TAPI : Turkmenistan - Afghanistan - Pakistan - India (pipeline)

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Chapter One: Introduction

There are many reasons that oil and gas are most strategic goods in the world, but it is suffice to say that heating, transportation, and most of the economic activities are nothing without oil and gas.

As it has been shown in the graph of the oil consumption (page 8)¹ the daily consumption of oil has increased 45 percent (from 58 to 84 million barrels) between 1983 and 2008, while the similar graph (page 9)² shows an increasing rate of 100 percent (from 1500 to 3000 billion cubic meters) in relation to the gas consumption, during the same period.

It shows that the consumption of oil, is increasingly substituted by gas, and gas will be the most important energy source in the international energy markets, in the future.

The columnar graph which has been presented in the page 10 shows that Russia and Iran, are respectively the first and the second owners of the

1- BP Statistical Review of World Energy, June 2009, p. 13

2- Ibid, P. 29

resources of gas in the world ranking, and increasing demand for gas, gives an important role to the both of them, which is more important in the case of Iran, due to many reasons such as follows:

1- Iran has an special location in the Middle East, as an important region of hydrocarburic energy resources.

2- Iran is located between Europe and many countries in the south eastern regions of Asia (West- East corridor).

3- Iran is a geographical bridge between African countries and many northern countries of Asia.

4- Iran is also located between Russia and Qatar which are respectively the first and the third owners of gas resources in the world.

5- And the most important of all, Iran has a pivotal role in Persian Golf and also is a geographical link that makes Persian Golf accessible for the land-lock countries of Central Asia and Caucasus¹.

On the other hand, Russia is an important neighbor of Iran with an international importance mood from many aspects, for example: its land

1- Central Asia and Caucasus are two regions (with a potential of exporting oil and gas) which are located between Iran and Russia (see p. 7)

expansiveness, its military abilities, and its regional influence, and it is necessary to be told that some specialties of that country, relative to gas affairs are unique, like the amount of its resources, and its pipeline network.

In the same time, there are not so much gas resources in owner countries of Central Asia and Caucasus, which be comparable with Iran's or Russia's, and it is a perceivable policy for these new established countries to extract and export as much as they can, in order to make their young economies. But selling huge amounts of gas by them may be resulted in decreasing gas prices, and some other results which are not compatible with national interests of Iran, Russia, and not even to the benefit of other gas exporting countries including themselves.

This thesis is dealing with the national interests of Iran and Russia in facing of above mentioned problems.

It is hoped that information which have been acquired during the research could be able to provide a reliable background for the concrete conclusion.

1: Statement of Problem

How Russia and outlook of gas (in Central Asia and Caucasus) may provide opportunities and threats for Iran?

The rule of supply and demand indicates that in the case of any goods (and services), the amount of supply has a direct effect on the price of the same goods (and services), and increasing of supply will result to decreasing of prices. Some countries which are located in Central Asia and Caucasus have gas resources and are able to extract and offer it for sale.

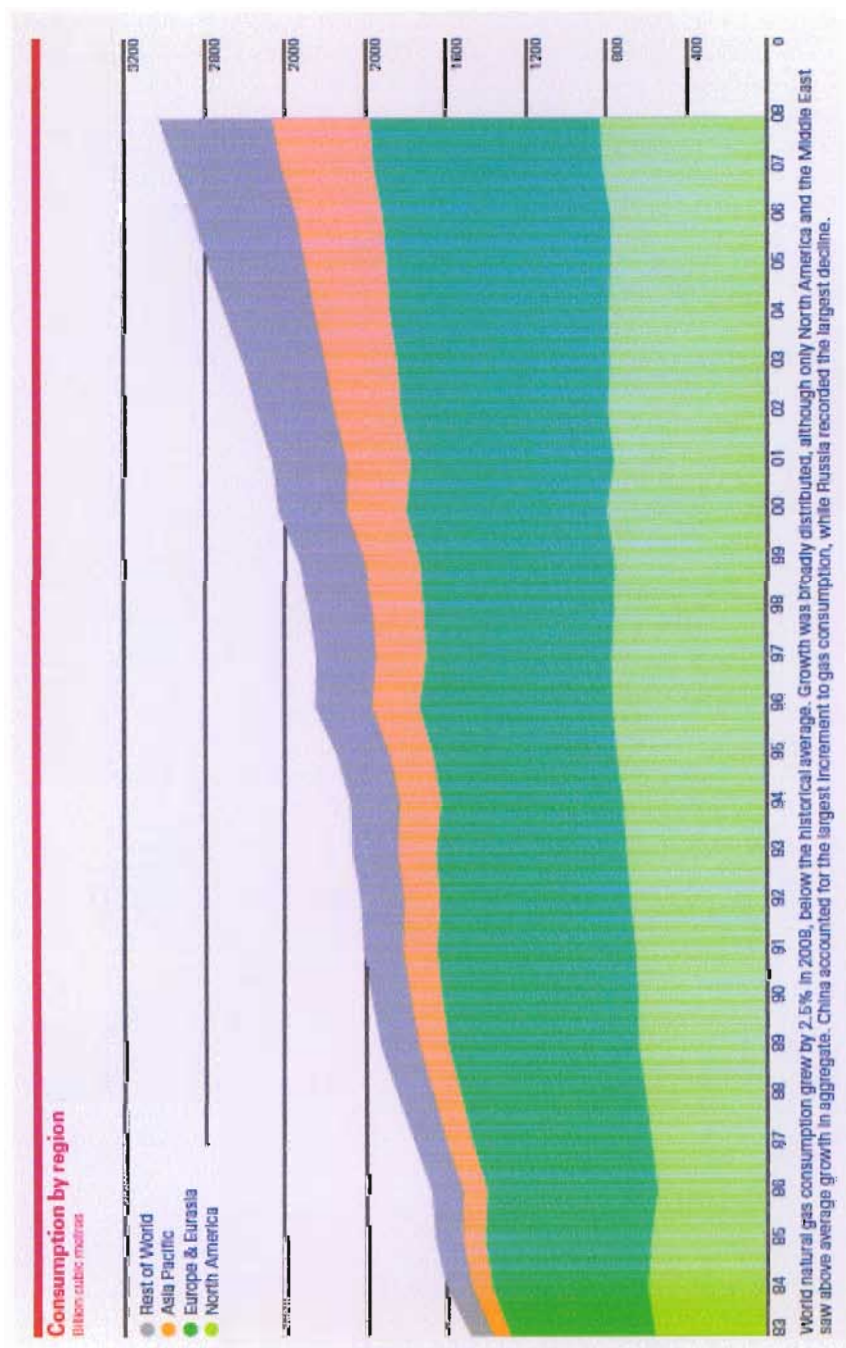
If those gas owner countries could be able to export their gas through Iran (by pipelines or by the way of swap via Iranian ports), Iran would be able to get a good profit from the transportation (as an opportunity), and having control on the amount and the prices of exported gas will be the other opportunity for Iran. But if Iran could not be able to get these opportunities, related countries in Central Asia and Caucasus will export their gas by the way of Russian pipelines network, that will be a threat for Iran, and this thesis tries to discuss about the various dimensions of this problem.



Central Asia and Caucasus, source: Wikipedia

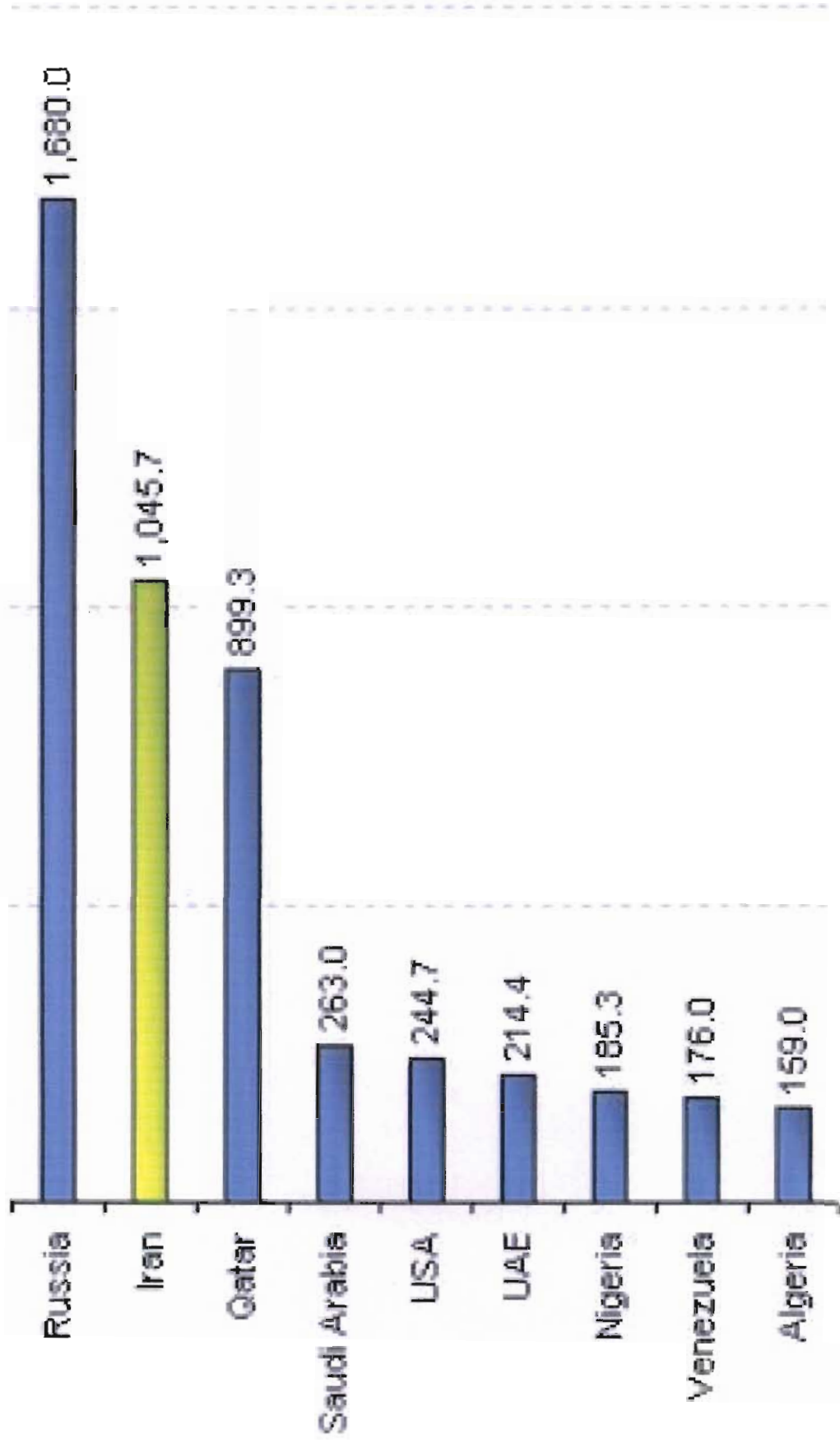


Source : BP Statistical Review of World Energy June 2009 Page : 13



Source : BP Statistical Review of World Energy June 2008 Page : 28

World Natural Gas Reserves by Country, January 1, 2010



Trillion Cubic Feet

Source: Oil & Gas Journal, Jan. 1, 2010

1.1: Key Question

This thesis tries to answer the question that, what kind of policies and approaches does Russia exert in relation to gas matters (gas exporting, gas markets, gas pipelines, etc.) with the countries which are located in Central Asia and Caucasus¹, and what kind of policies, is better for Iran (in relation to the same above mentioned matters) in connection with Russia, against, or parallel, and in another word, competition, or cooperation.

1.2: Hypothesis

The position of being the first and the second producer of gas, for Russia, and Iran, from one side, and increasing consumption of gas (in the world) from the other side, create an special importance for both of countries.

The main hypothesis of this thesis is based on this subject that common (or at least parallel) approaches and policies, will be resulted in increasing of

2- The map of Central Asia and Caucasus, has been presented in page 7 and geographic definitions of these regions offered in page 16.

revenues, for Iran and Russia, and even for the other related countries in Central Asia and Caucasus.

1.3: Subjective Literature and Former Researches

In this thesis, most of matters have been rendered in a subjective literature of energy, the supply and demand of energy, international gas environment, and most important of all, regional policies between Iran, Russia and other gas exporting countries (which have been located in Central Asia and Caucasus) from the view point of gas-related affairs.

Many of former researches and former studies in relation to this matter have been written about the legal regime of Caspian Sea and also about the initiation of an organization for preserving and increasing the benefits and the revenue of the related gas exporting countries, which can be something like OPEC but gas one's.

Researches about the exporting policies and benefits of Iran and Russia are mostly referred during such studies.

1.4: Data Gathering and Related Methods

Newly established states which are located in Central Asia and Caucasus have a short life-span, and their economic background in relation to gas and its various aspects, are often shorter than their life-spans.

There are not also enough information and statistics about this regions during the Soviet Union ruling period, and for these reasons the period of independent researches and sources about this regions and its countries, is limited to a few years after the collapse of the Soviet Union in 1991.

Initiation of plans and implementation of projects in relation to gas (or other reserves) of Iran or Russia, are not in accordance with priorities of international organizations and other countries, and for the same reason, Western countries are not willing to study and research about such a matters or at least to issue it, and their issued studies are usually from the view point of their national interests.

Gas related articles about the Central Asia, and Caucasus (specially from the aspect of the benefits of the countries in these regions), and also about

Iran and Russia from the same aspects, mostly are limited to a few, which are researched, and published in the regions countries.

With an eye to above mentioned explanations, information, and statistics have been gathered from publications and issues of international organizations like IEA. BP. and some other sources as mentioned in references part.

1: Description of Methodology

This thesis is descriptive and correlational, and comparing is the most important method, which has been used for resulting. Comparison between the abilities and achievements (or failures) of Iran and Russia, in relation to gas, and also in relation to gas exporting countries in Central Asia and Caucasus.

This correlational comparison has been done by the way of comparing in various aspects of abilities such as gas resources, extracting power, exporting markets, and from some other aspects.