Iran Oil. Petrodiplomacy and the Challenge to America.

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Introduction

Like an individual who suffers sudden and unexpected misfortune, great powers can decline and fall with a rapid, even dramatic speed. Although the influence and prestige of many great empires has seeped away gradually and imperceptibly over many decades, or even centuries, in the way that was true of the British Empire or what Edward Gibbon called the 'slow decay'[1] of the Roman, the sudden demise of others can sometimes elicit as much surprise among contemporaries as the historian. Such a startling transformation eventuates most obviously after military defeat, of the sort that befell ancient Persia, or as a result of political turmoil and revolution, similar in scale to the upheavals that brought a tumultuous end to tsarist Russia. At the present moment it seems possible that the United States could suffer a serious loss of global influence with a comparable rapidity. The same country that on the eve of the invasion of Iraq in March 2003 appeared to be an untrammelled colossus, confident of its ability to stride with ease through the Middle East and elsewhere, prompting admiration among its friends and allies in equal proportion to the hostility and contempt it provoked among its rivals and enemies, could in the next few years conceivably look defensive and vulnerable, with the loyalties of its long-standing allies increasingly uncertain, its former allies even more distant and its enemies ever more emboldened. At the same time, the predictions of those who had heralded 'the next American century', and looked forward with joyous anticipation to the peace, democracy and progress it would supposedly bring, might equally look hollow and premature.

Should it come about, the single most important factor in engineering this change of fortune will not be America's experiences in Iraq, where its name, reputation and resources have been undermined by insurgency, civilian casualty and atrocity. The USA, after all, survived defeat in Vietnam and maintained its global pre-eminence despite the war's serious damage to every party. Nor will it be simply because of the fiery rise of the Chinese dragon, whose raw economic power is currently on course to make it the world's biggest marketplace and knock the United States into second place. Even if this happens, America can still remain a global superpower, if not a superpower quite as pre-eminent as before. Instead, much more important is the world's economic dependence on oil and natural gas, and the degree to which political power has suddenly begun to move into the hands of those who do possess the resources to feed that dependency at the expense of those who do not.

Of course this presents a clear irony. Throughout the twentieth century, the governments of the developed nations were frequently accused of exploiting the resources of the less developed, and alleged to be using their overwhelming military superiority to plunder and take advantage. Nationalist leaders such as Mohammed Mossadeq in Iran and Gamal Abdul Nasser in Egypt played this card to great effect before seizing with resolute hand the Western-owned oil enterprises, the Anglo-Iranian and Suez Canal companies, that had long enjoyed lucrative local concessions. Similar accusations were ventured by those who argued that the US invasion of Iraq in March 2003 was essentially motivated by an interest in its vast deposits of high quality oil. But in the course of the present century, a clear change of emphasis has quickly come about, as the leaders of Europe and America openly accuse their counterparts in energy-rich states of exploiting their oil and gas deposits to devastating political effect. As US Vice-President Dick Cheney claimed in a telling phrase in May 2006, the Russians are using their energy resources as 'tools of intimidation or blackmail'.[2]

A glance at the wider geopolitical picture in 2006 illustrates the degree to which political power is in the process of rapidly migrating to the hands of those countries that do possess deposits of oil and gas.

In January, Moscow had briefly cut off supplies of gas to the Ukraine amid a price dispute, and four months later, as its giant energy supplier Gazprom considered making a bid for Centrica, the Western European utility company, Russian premier Vladimir Putin warned that his country would simply switch its energy supplies to Asia if Western governments blocked the expansion plans of Gazprom and any other Russian energy groups. With an overwhelming dependency on imported oil, one that has for some time caused deep consternation within the highest offices,[3] the United States can only listen to such demands with a mixture of envy and alarm.

On the other side of the world, in Venezuela, President Hugo Chavez has been voicing a stridently anti-American rhetoric and has pursued policies deliberately antagonistic to Washington, with a vehemence that has been fuelled by the rise in the price of oil. When first elected as president in 1998, at a time when a barrel fetched a mere $12 on the world's market, Chavez had neither the spare cash nor the political influence to antagonize Washington. But ever since the price subsequently began to spiral, the Venezuelan leader has been a moving force of regional anti-Americanism, furnishing Castro's cash-strapped Cuba with some 90,000 barrels of oil a day and funding leftwing political parties throughout Latin America.[4] While many of those who listen may be lukewarm towards, or disagree strongly with, his anti-Washington line, the threat of retaliation by such a key regional oil exporter does not always give them much room for choice. And although Chavez continues to export more than half of his oil to the USA while speaking in such vituperative terms about his best customer, both he and the Americans know that, in the event of any clash, Venezuelan oil would find new markets much more readily than Washington would ever find new suppliers.

Besides allowing governments that produce petroleum to openly defy Washington, the world scarcity of oil also undermines American global power in another way. For, given a choice between respecting American interests and wishes on the one hand, and securing a source of energy supplies on the other, foreign governments are being increasingly tempted to prioritize their energy concerns. One stark illustration of this prioritization came in September 2004, when Beijing abstained from a US-sponsored UN resolution condemning the genocide in Sudan, and instead promised to block moves to enforce an oil embargo on a country that was a major oil exporter to China. This was no easy option for the Chinese government, which was anxious not to tarnish its international image by being seen to pass easy excuse for a Sudanese regime that was complicit in mass-scale atrocities against innocent civilians.

Lying at the heart of the new petropolitics is an imbalance between the supply of and demand for refined oil. Although there have been numerous occasions when a similar imbalance has wreaked serious economic havoc — during the OPEC oil embargo on 1973, for example, or in the early days of the Iran-Iraq War in 1980 — the present situation is differentiated by the dramatic, prolonged and seemingly inexhaustible economic growth of China and, to a lesser extent, India. Since 1993, when it was last self-sufficient in oil, China's GDP has trebled and its demand for oil has almost doubled, thereby creating a 'demand shock' with far-reaching political and economic tremors. While China's overall share of the world's oil market is a relatively meagre 8 per cent, its economic expansion has accounted for nearly a third of global growth in demand since 2000.

Of course it is impossible to tell if the price of oil will continue to remain so high in the years ahead, before alternative forms of energy become available: predicting the energy market is notoriously difficult. But the International Energy Agency, the oil sector monitoring body, expects global demand to more than double by 2030, with many of the world's current producers, notably Saudi Arabia, facing real hurdles if they are to maintain, let alone increase, current levels of supply.[5] And even a semblance of such a market imbalance cannot fail to have major political repercussions, putting more power and influence into the hands of those countries that possess natural resources of oil and natural gas at the expense of the rest.

It is in this big picture of the new petropolitics of the twenty-first century that Iran's challenge to the United States forms part. The rise in the price of oil has been profoundly important, for example, in creating the newly found nuclear defiance of Iran, one of the world's leading oil exporters. In October 2003 Iranian negotiators had suddenly and unexpectedly caved in to international pressure by granting extra powers to the inspectors of the International Atomic Energy Agency and by immediately halting uranium enrichment. But just two years later the same regime was willing to openly defy the threat of referral to the United Nations, its subsequent deadlines and the passage of condemnatory resolutions. The key difference was not the election as premier of the hot-headed Mahmoud Ahmadinejad, who came to power in the summer of 2005, but the rise in the price of oil from a relatively meagre $33 per barrel in early 2004 to a peak of $70 in August the following year. Not only did this make the passage of meaningful sanctions impossible but it also gave Tehran scope to threaten retaliation against its critics while rewarding those countries, notably China, that took its side. Hence the brazen defiance of the president, who in a typical statement openly declared, the day before a UN deadline to stop sensitive nuclear work expired at the end of April 2006, that his country would 'not bow to injustice and pressure '.

Iran's vast resources of oil and natural gas have not only emboldened the Tehran regime but also put increasing strains on America's international influence. Washington's attempts to isolate Iran from foreign investment and build a united front with which to confront its nuclear ambitions are made considerably more difficult by the lure of these resources. Confronted by a growing domestic demand for oil and gas that they cannot readily ignore, numerous countries throughout the world have greater reason than ever before to sidestep or even openly defy Washington's wishes and instead prioritize their links with Tehran. The result is a growing tension between the US and its international allies and rivals, and with non-aligned countries, a tension that is posing a clear challenge to American political power.

As the conclusion of this book argues, however, these tensions do not render inevitable any negative impact on the global influence of America. Far from it; in international affairs, just as in an individual's everyday life, there is very rarely such a thing as inevitability. There are only a series of choices, which can be taken with varying degrees of ease and difficulty. In this particular case, the question of how far Washington can adapt its political position in order to meet the petropolitical challenge from Iran, is ultimately reducible to one of the American mindset, for the choices that confront those who pull the strings of political power are made difficult essentially because they are obstructed by certain psychological barriers, such as the difficulty of doing business with a 'terrorist regime'. It is this psychological barrier, not Iranian oil, that ultimately presents the challenge to America.

CHAPTER ONE

WHY IRAN'S NATURAL RESOURCES MATTER

From the dramatic moment in the early hours of 26 May 1908 when a British geologist, George Reynolds, was suddenly woken in his tent by earth tremors and the sound of something violently bursting through the ground outside, Iran's oil has always been an intensely political commodity. For in the years that followed their discovery at this remote wilderness spot known as Mas-jid-i-Suleiman, these enormous oil reserves were a prize of immense value over which numerous participants played desperate political games and fought often vicious military battles, typically sparing no expense in their determination to take possession or to keep rivals at bay. Great explorers of the British Empire, cunning Bolshevik agents, ruthless Nazi spies, theatrical Iranian nationalist martyrs and bitter Cold War rivals — all of these different types, some of them dark and sinister, others romantic and charming, have their place in the rich and fascinating story of Persian oil.[1]

Today, almost exactly a century after their discovery, Iran's superb natural resources of oil and gas are also standing firmly on the stage of world politics. But this is not so much because the outside world is fighting tooth and nail to win control over them, in the way that it once was, but because the possession of such supreme natural wealth is now allowing the Tehran regime to pose a subtle challenge to the global political influence exerted by the United States. This challenge may not as yet stand centre-stage — on the contrary it has hitherto played its part largely unnoticed by its audience — but it is one that is nonetheless growing fast in stature and, unless there is some dramatic and unexpected political transformation in either Tehran or Washington, it seems destined to soon assume a starring role.

This is of course a very different type of 'threat' from the one that the Tehran regime is usually supposed to present both to America and the wider outside world, for in an age in which visions of nuclear catastrophe and terrorist violence loom large, contemporary Iran cannot fail to conjure up some very disturbing images. In American eyes, above all, Iran has long been viewed as 'the world's primary sponsor of terror', while its nuclear programme, ostensibly for the production only of civilian energy, is invariably regarded as disguising a secret bid for a warhead that could target not just the densely populated cities of southern Europe and Israel but also the Saudi oil fields and their Gulf transit routes on which the American and the wider global economy so strongly depend.

Yet Iran's challenge to the United States is not born of any military threat. Nor can it in any way be labelled as 'terrorist', whatever that elusive term really means. Iran instead poses a challenge to American interests that is less readily measured and, to those accustomed to viewing 'threats' only in more traditional terms, one that is more easily overlooked than any military menace of the sort that the United States faced in the Cold War and continues to face from the Al Qaeda terrorist network.

This contemporary challenge to the United States is instead a consequence of a political leverage that essentially hinges on the world's increasing need for the very resources that Iran possesses in such abundance. Their ownership inevitably bestows a degree of power and influence that exists in equal proportion to the need that others have for them, and this means that one country's possession of oil inevitably has powerful political repercussions in the same way that the possession of any highly valued commodity, like brains or beauty, also confers power and influence on its beholder.

Of course no oil or gas-rich country poses a political threat to another simply because it possesses such an enormity of natural resources: Saudi Arabia, to take one obvious example, has had a very strong diplomatic relationship with Washington since 1943, when President Roosevelt, declaring that 'the defence of Saudi Arabia is vital to the defence of the United States', extended a helping hand of large American aid to Riyadh.[2] Instead, Iran's contemporary political challenge to the United States represents a convergence of two influences, one born of its possession of immense natural wealth, the other a result of nearly three decades of enmity, mistrust and outright hostility to the world's greatest superpower. And it is from the interrelationship between these political conditions and material resources that this challenge to the United States arises.

There are three distinct ways in which this convergence is undermining US power. On the one hand, it is putting increasing strain on America's relationship with many of its allies across the world, notably the European Union, Japan and Pakistan. For while all of these countries share America's great and growing need for Iran's oil and gas, no ally of Washington — with the exception of Israel — harbours any comparable strength of hostility towards the Iranians, and all therefore feel much more at liberty to trade with a regime that the Americans refuse to deal with. The result is that these countries are being increasingly tempted to build and cement ties with Iran that Washington does not share and which it has also desperately wanted to stop others from having.

While undermining Washington's ties with its allies, Iran is also creating stronger political links with American rivals such as China and Russia, and with a country, India, that is formally 'non-aligned'.[3] In the case of China and India, these links reflect the particularly important role that Iranian oil and gas is playing in feeding their rapid economic growth: Beijing's relatively new commercial and political relationship with Tehran, for example, one that is still only in its relative infancy, has been created and sustained by an insatiable Chinese thirst for oil that its domestic production has failed to quench since the early to mid-1990s. In the case of Russia, which is a net exporter of oil and gas, Iran's natural resources are important in another, more indirect, way because they create highly lucrative business opportunities that Russian enterprise is extremely keen to exploit, opportunities that are born both of Iran's need to develop its outdated energy infrastructure as well as the demand that has sometimes been created by the vast earnings generated by the international sale of oil and gas.

In each case, Iranian natural resources are undermining not just American power and influence over this 'international community' but also over the Tehran regime itself. For, without the wider support of other countries, America speaks with a lone voice that is much less easily heard and listened to than a louder chorus. What is more, there are also a number of other ways in which the status and power of the Tehran regime — America's chief rival and enemy in the Middle East since the deposition of Saddam Hussein in 2003 — has been bolstered by the export of vast quantities of oil and gas. For the sale of these commodities has secured huge earnings that have allowed the regime to purchase political support with a series of populist measures, to expand the size and strength of its security apparatus and to pursue a vastly expensive nuclear programme that would be quite unsustainable, or even unthinkable, without them. So in these wider terms Iran's oil and gas are also presenting Washington with a clear challenge.

Of course the process by which Iran's energy resources are undermining American global power is far from linear but is instead highly sensitive to fluctuations in the temperature of the world's wider political climate. In the latter months of 2005 and in early 2006, for example, the global political pendulum was pushed subtly and inadvertently away from Tehran by the aggressive rhetoric of Iran's new hardline president, Mahmoud Ahmadinejad, whose highly charged speech before the United Nations General Assembly in September 2005 and fiery talk about 'wiping Israel off the map' confirmed all the worst fears of those who claimed that his election, three months before, spelt unmistakable trouble for the outside world. As a senior US official in Washington put it, such radical posturing meant that, for the moment at least, countries that had previously been prepared to side with Iran were now 'running for the doors' because 'nobody wants to be associated with someone that outlandish'.[4] As some international investors took fright and the Tehran Stock Exchange collapsed, these words looked far from exaggerated. Yet although an abrupt and sometimes broken course it may be, it is a process that is nonetheless unmistakably unfolding.

The Iranians are fully aware of the political fissures that they can use their natural resources to exploit, and adequate testimony to this awareness is their tactic of linking the rewards and penalties yielded by their energy resources with the outside world's cooperation on the hot political issues of the day. So it is probably no coincidence that the Iranian authorities have suddenly and unexpectedly announced the discovery — or supposed discovery — of new oil and gas fields, and the availability of new contracts to develop them, just as international negotiations on the nuclear issue have reached important junctures. So on 26 August 2002, just days after the world had been shocked by the exposure of a covert uranium enrichment programme, the Iranian Oil Minister, Bijan Namdar Zanganeh, held a press conference and announced that at least 50 billion barrels of new oil reserves had been found in Iran in the course of the preceding four and a half years. And when in the following year controversy over the issue flared up again, as Iranian officials denied weapons inspectors access to one of their suspected nuclear facilities, the director of Iran's Oil Development and Engineering Company (ODEC) on 14 July suddenly announced, without citing evidence, the discovery of another new reserve, not far from the Iranian Persian Gulf port of Bushehr, whose estimated 38 billion barrel deposits promised to make it the world's second biggest oil field after Saudi Arabia's Ghawar development. More was to come, for in March 2005, as the Iranians tried to extract as many concessions as they could from European negotiators in return for surrendering their nuclear ambitions, Zanganeh announced that new oil and gas fields had been discovered in the southern province of Khuzestan and south of the South Pars gas field in Bushehr province, with an estimated capacity of 5,700 million barrels of oil.

It is with these 'petropolitics', the politics of Iran's energy, that this book is concerned. But before looking at each of the different ways in which American powerand influence is being undermined, this opening chapter now seeks to look in more detail at the background to the Iranian challenge that represents a convergence between two exceptional, if not unique, factors. One of these, it has been mentioned above, is its possession of outstanding natural resources that are of increasing value to the outside world. The other is the existence of a very considerable degree of animosity between the Tehran regime and the country that currently wields more political influence and power than any other — the United States. It is the interaction of these two exceptional influences that has given birth to a unique challenge to American hegemony, one that is already in its early stages of infancy and growing up fast.

IRAN'S NATURAL RESOURCES

One of the two roots from which Iran's challenge to American global hegemony stems is its possession of outstanding natural resources. Its proven[5] oil reserves are undoubtedly vast and widely estimated to hold at least 95 billion barrels, meaning that they are outsized only by those of Saudi Arabia, whose deposits are estimated to contain 260 billion barrels, by Canada's 170 billion barrels, and perhaps by Iraq's, which are thought to contain around 115 billion. Moreover the size of Iran's underlying reserves, or 'oil-in-place', like those of many other countries, may well be considerably greater, since most experts feel sure that there are many more undiscovered deposits, particularly in Caspian waters. Its massive new oil field at Azadegan in the southwestern province of Khuzestan, for example, one which alone has the potential to provide a very large consumer like Japan with more than 6 per cent of its annual oil imports, was discovered only in 1999, while two important onshore oil fields near Gavaneh, which are thought to have combined reserves of over 100 million barrels, were also located in the same year. This means that Iran's hopes of increasing its production capacity to as much as 7 million barrels each day (b/d) by the year 2024 may also be assisted by the discovery of even more deposits, just as the announcement in July 2003 of the discovery near Bushehr also prompted a sharp upward revision of estimates of its reserves.

Of course no one knows exactly how big Iran's resources really are, or how much of those reserves are recoverable: 'oil data is [always] like paint thrown across a canvas — you get the broad outline of the situation, but even then the paint later moves of its own accord', as one analyst has put it.[6] In the autumn of 2003, some independent analysts were highly sceptical of Iranian claims about the size of the Bushehr field, which pushed the size of Iran's national reserves up from 95 to 130.8 billion barrels, putting it ahead of Iraq. So although this figure has been accepted by some highly respected sources,[7] a leading Honolulu-based consultancy claimed that the Iranians had double-counted existing reserves and assumed a recovery rate that was well above the average figure for the Middle East. Instead, Iran's self-assessment, the analysts concluded, was really just a bid to convince OPEC that Iran should continue with a high export quota that Iraq's newly founded freedoms might imperil.[8] Put bluntly, they were cheating in the same way that they have sometimes made announcements about their oil industry at curiously convenient times, almost as if to provide international governments with carrots that can win them support just when Tehran most needs it.[9]

Yet no one disputes that Iran has huge potential as a major player in the future oil industry, and while in recent years Iranian wells have certainly been producing oil at a sharp rate — between 3.5 and 4.2 million barrels every day, which amounts to around 4 per cent of global production — most analysts reckon that, with sufficient investment, they have the potential to increase such capacity considerably. Even if, in the years ahead, the Iranians fail to inject the investment necessary to recover a higher proportion of their underlying reserves — Iran's recovery rate, which stands at around 24 per cent of their overall national reserves, is much lower than the Middle Eastern average of 32 per cent — then their oil is still important for another very simple reason: there would be an overall global shortfall if its supply was ever seriously disrupted, a shortfall that would cause the price of oil to increase dramatically and affect every country in the world, whether directly importing Iranian oil or not.

Besides oil, Iran also holds vast deposits of another commodity that has immense and rapidly increasing value to the outside world — natural gas. Because Iran's natural gas reserves are reckoned to total something around 940 trillion cubic feet (cf), second in size only to those in Russia, it clearly has huge potential as a key exporter of natural gas. Its current production, of only around 2.7 trillion cf each year, will also be considerably boosted if yet more important reserves are discovered, as most independent experts expect: Tabnak, a super-giant gas field containing 15.7 trillion cf of gas and 240 million barrels of condensate, was found only in April 2000, and as recently as June 2004 the Iranian news agency announced that two new natural gas fields had been discovered at Balal and Lavan Island in the Persian Gulf.

One of the great jewels in Iran's energy crown is the massive gas field at South Pars in the Persian Gulf whose reserves, which are really just an extension of Qatar's North Field, amount to somewhere between 280 and 500 trillion cf. Such is the size of this single field that the Iranians are having to develop it in a series of distinct phases, which are in the course of being offered to national and international bidders. Nor are there just a handful of these individual 'phases', for although the Iranian parliament has given the Oil Ministry authorization to go ahead with 1 8 phases in the development of this giant gas field, the Oil Minister has previously said that 28 different phases, maybe more, could eventually be required. Whatever its capacity may ultimately prove to be, the Iranians undoubtedly have immense ambitions for the field and have declared that they want the Pars Special Econo-Energy Zone, established in 1998, to become 'one of the most important industrial energy centres of the Middle East'.

Once again though, these figures, like those of the country's oil reserves, have to be viewed with a highly sceptical eye because it is likely that they have sometimes reflected ulterior motives, such as an effort to lure outside investment or the interest of the outside world when Tehran has needed it. In 2005, for example, another report by the FACTS independent consultancy [10] argued that South Pars might really be considerably overrated: 'most foreign companies with hands-on experience in South Pars believe the capability to be 13 -15 billion cubic feet per day (cfd). [But] Iranian field engineers estimate the field to be more productive, based on the results of the first three phases and believe the upper limit to be 20 billion cfd.' The enormous difference between these two estimates could conceivably be explained by deliberate Iranian distortion, although it will remain a distortion of academic importance until the field's production has reached a lot more than it has at present.

Of course the importance of Iran's superb natural resources cannot be assessed just in terms of either their raw size or the relative ease with which they can be extracted. Just as important is their accessibility to foreign markets, and on this count Iran certainly scores very high marks. Some of its most important potential customers include the states of the Middle East, notably Dubai, which has in recent years experienced a particularly urgent need to import gas, as well as Kuwait, Abu Dhabi, Oman and Bahrain, whose own needs are growing rapidly. Iran has already made some preliminary agreements to supply some of these Middle Eastern countries: on 1 2 January 2003 initial deals were signed in Tehran by the Kuwaiti Foreign Minister, Sheikh al-Ahmad, for the eventual implementation of a plan to import around 300 million cf of Iranian lean gas into Kuwait every day along a 200km underwater pipeline, while on 1 5 March 2005 the Iranian Oil Minister, Zanganeh, and the Omani Energy Minister, Mohammed al-Rumhy, signed an agreement to supply the kingdom with 350 billion cf of Iranian gas every year, a quantity to be eventually increased to 800 billion cf each year by 2012.

Of course Iran is not alone in eyeing this Middle Eastern market, and Qatar in particular is a major rival. But Iran is geographically much better positioned than Qatar to serve some other potential markets, notably Turkey and the former Soviet Union, through which pipelines can move Iranian oil and gas to much wider European and Asiatic destinations. Moreover Iran also has two sophisticated deep-water ports and refinery facilities, at Asaluyeh and Kish Island, from which tankers can channel its oil or liquefied natural gas (LNG) to even remoter destinations, such as South Korea and coastal China. So far some important steps have been made towards linking Iran with these wider markets. In September 2004 Alikhan Malikov, the head of the Azeri Gas Company, announced that Iran would soon start supplying up to 12 billion cf of gas every year to the autonomous republic of Nakhichevan in Azerbaijan, while six months before the National Iran Gas Exporting Company (NIGEC) agreed to annually deliver 12.6 billion cf of natural gas over the next 20 years along a proposed $220 million pipeline to Armenia in return for receiving supplies of electric power from a state-run plant in Yerevan. One of the main customers, however, is Turkey, which in 1996 agreed to purchase Iranian natural gas over a 22-year period, starting in 1999. In practice, of course, things have not turned out to be as easy as everyone originally hoped, and a series of technical and political problems brought years of delay until 2002, when Iran and Turkey officially inaugurated a natural gas pipeline running between Tabriz and Ankara, along which 106 billion cf of Iranian gas is eventually expected to move each year. Although there have subsequently been persistent disagreements between the two countries on the price and quality of Iranian gas, the opening of this pipeline has put a much wider European market within Iran's grasp: on 13 March 2002 the Greek state gas company Depa signed a $300 million deal with NIOC to extend the Tabriz-Ankara link into northern Greece, from where it could be fed into the rest of Europe, while in January 2004 a joint Austrian-Iranian venture was initiated to extend the new pipeline, whenever it was completed, into southern Austria. If the Iranians decide to make a commitment to feed it, then this 'Nabucco' pipeline could move between 720 and 900 billion cf to Austria each year.

At the same time plans to feed the vast and rapidly growing markets of India and Pakistan have also been slowly fomenting. In February 2002 Tehran and Islamabad initiated a feasibility study to assess the prospects for a 1,600-mile, $4 billion pipeline that would cross southern Pakistan to supply India with Iranian natural gas, providing Islamabad with lucrative transit fees as well as its own gas supply in the process. For many months political tensions between India and Pakistan over the status of the disputed region of Kashmir seemed to make this project a mere chimera, particularly when, in the summer of 2002, the two countries appeared to be on the verge of full-scale nuclear war. Yet by mid-2005, as a thaw in relations between the two countries seemed to have melted a considerable amount of the 58-year ice that had hitherto made such a plan unthinkable, the Iran-New Delhi pipeline looked to be a very real prospect. And it certainly seemed to be much more realistic than another proposed solution to the region's energy needs — a pipeline that would move Turkmen gas across remote and lawless regions of Afghanistan, which would not only be very difficult to build but would be highly vulnerable to military attacks and acts of sabotage. By the spring of 2006, as the outside world closed ranks before Iran's unexpected nuclear confrontationalism, the Iranian-Pakistan section of the pipeline looked ready to proceed, even if the final leg, between Pakistan and New Delhi, looked far from certain.

Of course there are numerous other factors besides the size and accessibility of such resources, which one way or another may influence Iran's future as an oil and gas exporter. Above all its potential as a leading player in the regional gas market may eventually prove to be more limited than that of other countries, notably Qatar, because there is at present much stronger domestic opposition to the export of natural gas. Led by Dr Saeidi, the former head of the NIOC Reservoir Engineering Department, this body of opinion argues that Iran's own reserves are needed to meet growing domestic demand and should be injected back into the country's oil fields to boost their production. This uncertainty is compounded by the fact that no one is sure how much gas will in future be required for this re-injection to boost oil supply: the government estimates that 5 billion cfd will be needed for this purpose during the 2005-9 Five-Year Plan, a much lower figure than the 20 billion cfd cited by those who oppose gas exports. The Iranians,' as one leading authority, Professor Jonathan Stern, emphasizes, 'have not realized the export potential of their gas resources over the past 30 years. Whether they will choose to do so and succeed in doing so over the next 30 years, remains to be seen.' [11]

Whatever its growth potential may eventually prove to be, it is clear that such an exceptional natural wealth does not in itself create any political challenge to the hegemony of the United States, which has of course often had very strong and successful relations with numerous regimes that are just as wealthy as Iran and, in many cases, have human rights records that are at least as dubious. For example, other oil- and gas-rich countries like Russia and Venezuela have in recent years also grown in political confidence but have not provoked a comparable American reaction, just as Washington's relations with Riyadh have remained strong. What lies behind Iran's challenge to American global hegemony is rather an interplay between Tehran's massive natural wealth and the intense hostility and mistrust that have characterized US-Iranian relations since the Islamic revolution of 1979.

Viewed in these terms, it is obvious where a tension might lie. Such wealth in the hands of one's enemy inevitably provides economic muscle, financial earnings and a political bargaining power that can hold some sway over one's own allies, feed your rivals and buttress the enemy regime. Iran's contemporary challenge to the United States, in short, represents an explosive tension between politics and resources.

THE US-IRANIAN POLITICAL FRAMEWORK

For the United States, the immensity of Iran's natural resources is of no benefit, or rather of no direct, immediate benefit because, since 1995, there have been no economic ties of significance between the two countries and since 1980 no formal diplomatic relations either. In the eyes of many ordinary Americans and certainly for a very considerable number of highly influential US policymakers, the Iranian regime is simply a terrorist-supporting, human-rights oppressing, nuclear-arming and even evil-embodying political order with which Washington should not and cannot deal, unless a massive change of policy, rhetoric and attitude comes about in Tehran.

The background to such antagonism is well known. Until the attacks on the World Trade Center 22 years later, there have in the post-war era been few images more traumatic for the American public than those that emerged from Iran during and in the immediate aftermath of the Islamic revolution of February 1979, when Shah Mohammed Reza Pahlavi's monarchical order was swept away by the violent demonstrations of millions of street protestors. Having strongly supported the royalist regime for years, and having offered the dying Shah a place of temporary refuge after he fled his homeland, the United States soon became a target for the revolutionary hotheads, and on 4 November, nine months after the revolution began, several hundred young Iranian students overran the US embassy in Tehran. The pictures of what followed shocked and horrified the American public, which watched footage of some of the blindfolded diplomats and soldiers, 66 of whom were held as hostage, being led around the embassy compound by their mocking captors.

If these images were not bad enough, worse was to follow when in April 1980 President Carter's bid to rescue the hostages by force, Operation Eagle Claw, backfired badly. The mission, designed to fly special forces personnel into Iran, attack the embassy, rescue the hostages and fly them out of the country, got off to a disastrous start when three of the helicopters encountered severe and unexpected weather conditions in the Iranian desert which forced the commander on the spot to cancel the operation. But as the Americans pulled away from their base, 200 miles south of Tehran, one of the helicopters collided with a transport plane, killing eight American servicemen in a giant fireball that lit up the night sky and which, in its enormity, was visible from hundreds of miles distant. America's sense of humiliation, not long after the end of the Vietnam War, was of course overwhelming and compounded by even more shocking images that emerged from

Iran, this time of revolutionary zealots gleefully pointing to the charred remains of the unfortunate Americans killed in the aborted operation

Over the decade that followed, Iran's image in the eyes of most Americans, and indeed most Europeans, as a brutal, fanatical and violent regime was reinforced by quite a few other incidents. During the eight-year Iran- Iraq War, which began in September 1980, stories emerged of very young Iranian soldiers, perhaps no older than 12 or 13, voluntarily undertaking suicide missions against the Iraqi army, although to most members of the general public much better-known cases were the American allegations, never conclusively proven, that Tehran had instigated the 1982 car-bombing of a US compound in Beirut in which 241 marines died. But the Iranians undoubtedly did have links of some kind with the Beirut kidnappers who seized high-profile figures such as Terry Waite and John McCarthy, and who in 1984 tortured and killed the local CIA chief, William Buckley. Nor did the regime appear to have lost much of its fervour and fanaticism when, a decade after the revolution, a death sentence was pronounced against the British writer Salman Rushdie for the publication of his allegedly blasphemous work The Satanic Verses, or, for that matter, when Iranian Kurdish leaders were gunned down in a Berlin restaurant by regime assassins in 1992.

Yet this background does not in itself explain either the divide between Iran and the United States or the depth of animosity and mistrust that we see today. Although the 444-day US embassy siege had prompted both the immediate rupture of diplomatic relations between the two countries, which were formally broken off on 7 April 1980, as well as the cessation of trade with Iran, this economic impasse had began to break down significantly by the early 1990s. So while Ronald Reagan's Executive Order 1 2613, signed on 29 October 1987, had imposed a new import embargo on goods that originated from Iran, it did not technically prevent the overseas subsidiaries of American companies from importing them into the United States or stop US-based companies from exporting these Iranian goods to other foreign markets elsewhere in the world. Such loopholes meant that by the mid-1990s US companies were buying and exporting very large quantities of Iranian oil: throughout 1994, for example, Iran exported a daily output of 2.6 million barrels, 23 per cent of which was moved by American companies such as Exxon, which was contracted to buy 250,000-300,000 barrels each day, Coastal (130,000), Bay Oil (70,000) and Caltex (60,000). By 1995, two years into the Clinton presidency, this trade had grown substantially as American businesses continued to find and exploit legal loopholes that had by now allowed the United States to become Iran's third largest trading partner and its sixth largest export market.

It was also at this time, in March 1995, that Washington had a major opportunity to patch up relations with Tehran, or at least to establish some kind of relations. The opportunity came when Iranian premier Hashemi Raf-sanjani offered an American company, Conoco, a lucrative $1.6 billion contract to develop two of its offshore oil fields that did not require prior US government approval because the deal involved only its Dutch affiliate, Conoco Iran NV. This was a dramatic gesture by Tehran, one that stunned Washington because it would have opened a gateway to a much wider economic relationship and, by extension, a window of opportunity through which political and diplomatic dialogue could be started.

US SANCTIONS AGAINST IRAN

Although business leaders proclaimed the Rafsanjani offer as a golden opportunity for both countries, the deal was soon scuppered in Washington, but not because anyone of influence harboured traumatic memories of the days of revolution, or because they remembered the fate of Buckley or the threats against Rushdie. Though these perhaps influenced the image of Iran in the public mind, it was the 'high politics' on Capitol Hill, where so much foreign policy was determined, that now mattered. Claiming that Iran was directly implicated in many of the violent attacks on Israeli targets in the Middle East by groups such as Hamas and Islamic Jihad, Senator Alfonse D'Amato (Rep-NY) had already introduced draft legislation into Congress that sought to impose a blanket ban on all American trade, including deals struck by the overseas subsidiaries of US companies. Two months later, as Rafsanjani made his offer to Conoco, D'Amato found strong support from the Israeli government, which pressed Clinton to impose the trade ban on the grounds that, unless such pressure was exerted on Tehran, premier Yitzhak Rabin could not 'take risks for peace' in the ongoing negotiations to find a lasting Middle East settlement.

The Rafsanjani offer had brought matters to a head and led to Washington decisively turning a cold shoulder. Echoing D'Amato's claim that 'all trade with Iran must stop so we don't provide terrorists with hard currency', President Clinton argued that 'there are times when important economic interests must give way to even more important security interests, and this is one of those times'. On 1 5 March, barely a week after the offer was made to Conoco, Clinton signed a new Executive Order, number 1 2957, prohibiting all oil development deals with Iran, and on 6 May, as he declared a state of emergency with Iran, issued Order [12] 95912 which effectively imposed a blanket ban on all commercial and financial transactions with Iran. This more-or-less outright prohibition on Iranian imports was complemented by similarly sweeping restrictions on exporting US goods to Iran.

There are at present some minor exceptions to this outright prohibition, exceptions that allow particular items of value and interest such as carpets and caviar to be imported,[13] and the export of humanitarian goods and services, which found their way into the country in the aftermath of the massive earthquake that devastated the Bam region of southern Iran in December 2003. Although on 17 March 2000 President Clinton's Secretary of State, Madeleine Albright, did announce a slight easing of sanctions, these regulations have nonetheless remained substantially unchanged since they were introduced, having been renewed by President George W. Bush in March 2006, who argued that 'because the actions and policies of the government of Iran continue to pose an unusual and extraordinary threat to the national security, foreign policy, and economy of the United States, the national emergency declared on March 15, 1995, must continue in effect beyond March 15, 2006'.

The US authorities vigorously enforce these sanctions and the various other laws that supplement them. In 2002, for example, the Houston-based oil-field services company BS & B Process Systems was fined almost $1 million by the US Department of Commerce for illegally exporting oil-field equipment to Iran, after a lengthy investigation by the Department's Bureau of Export Administration (BXA) revealed that the company had made the sales to Iran in April 1996 for a sum that was far less than the fines imposed. The BXA brought its case not under the 1995 sanctions legislation but under a more general foreign export policy that calls for the prevention of exports of any equipment to any listed country which 'could make a significant contribution to that country's military potential or could enhance its ability to support acts of international terrorism'. Other companies have also fallen foul of similar prosecutions, such as Pars Company Inc of North Carolina which was fined $10,000 in September 2001 for exporting gas monitors to Iran without a Department of Commerce licence.[14]

SECONDARY SANCTIONS

But what makes the scope of US sanctions highly unusual is their applicability to foreign nationals wanting to do business with Iran. Washington has at times passed and enforced comparable legislation against other countries but does so only very rarely in order to avoid the fierce political battles that are likely to ensue. In the 1980s, for example, attempts by the Reagan administration to prevent international companies from supplying Russia's trans-Siberian pipeline project proved to be immensely controversial, while from 1996 the introduction of the Helms-Burton bill for secondary sanctions against Cuba had led to litigation in international courts — a complaint was lodged before the World Trade Organization in 1997 against a US law that blocked investments in Cuba — and had eventually forced Washington to strike a compromise with the European Union. Yet such obstacles did not prevent a determined number of Congressmen from pushing their case forward and in the summer of 1996, only a year after first proposing new sanctions against Iran, Senator D'Amato put forward a new bill that called for secondary sanctions on any 'extra-territorial' investment in Iran's oil and gas sectors that exceeded $40 (later $20) million. Under this legislation, the US president has the discretion to impose up to two of six possible sanctions on any company that falls foul of its terms. These include a ban on its imports of goods and services into the United States, a federal government ban on the purchase of its goods and services, the imposition of a loan ceiling of $10 million by all US financial institutions, a prohibition on the sanctioned business from acting as a primary dealer of US treasury bonds, a ban on US export-import assistance, and a denial of licences that approve the export of controlled technology to that business. After Senator Kennedy added Libya to its remit, the legislation became the Iran-Libya Sanctions Act (ILSA) as it passed through Congress in July 1996.

To date ILSA has not been enforced, although its spectre has occasionally been raised, most notably in the six months after an international consortium — led by the French oil giant Total SA but also including Malaysia's Petronas and Russia's Gazprom — signed a $2 billion contract with the Tehran authorities in October 1997 to develop part of the massive South Pars field. After seven months of perusal, President Clinton eventually gave in to strong international pressure and used the discretionary powers under Section 9(c) of the legislation to waive the enforcement of the sanctions on the grounds that doing so is 'important to the US national interest'. Since then the State Department has conducted official investigations into a number of other deals, notably those struck by Shell, Eni and Sheer Energy, the Canadian company that in 2002 was awarded an $88 million contract to redevelop the Masjid-i-Suleiman field.

The reluctance to enforce ILSA against Total encouraged other international oil companies to consider making new arrangements with Tehran. 'Dozens of foreign companies are watching our reaction to the Total deal,' D'Amato and Rep. Ben Gilman, the House International Relations Committee chairman, had argued in 1997; 'if we do not sanction Total as an ILSA violator, it is likely that foreign investment will pour into Iran's oil and gas fields'. They were proved right, and within months there was a flurry of international interest in the Iranian market. On 1 March 1 999 the Iranian government signed a deal with the French Company Elf Aquitaine and Italy's ENI to develop the Dorood oil field near Kharg Island in the Persian Gulf, while the following month Elf made its second deal with Iran, this time siding with Bow Valley Energy of Canada to strike a $300 million contract to develop the Balal offshore oil field, another vast deposit with recoverable reserves of around 100 million barrels. In both Iranian and American eyes, each and every one of these deals undermined the credibility of the Iran-Libya Sanction Act by driving, as one Iranian official has put it, a 'nail into the coffin' of the US embargo.[15]

This is not to say that the threat of US sanctions does not continue to loom large for many would-be international companies, particularly those that feel highly vulnerable to retaliation because they happen to have a large number of American investors or because they hold a large stake in the American economy. Even after Clinton backed down from penalizing Total's 1 997 deal to develop South Pars, the threat of ILSA, though receding, probably still played some part in subsequently deterring an Indonesian company, Bakrie, from making a bid to develop the Balal oil field and has subsequently continued to significantly restrain international development in the Iranian petroleum industry. Perhaps the main example of the dark shadow that ILSA continues to cast is provided by the proposed pipeline to move Caspian oil across Iran to the Persian Gulf: although on paper this proposal is easily the most attractive option, American pressure always made another much less viable option by far the most likely contender.

Yet the political obstacles that inhibit ILSA's enforcement have not led to any strident demands in US political circles to repeal the legislation and to rethink the economic or political relationship with Tehran. Nor, for that matter, has the huge cost to American industry of a trade embargo with a country that after 1995 immediately found other international purchasers of its oil and whose domestic market has yielded huge profits that American businesses have had to watch their rivals reap. Far from it. Iran continues to be castigated in American politics as a ‘terrorist’ and ‘nuclear-arming’ state, and in Congress a powerful call to restore economic and political ties with Tehran continues to be heard only rarely.

It is from the fusion of these two factors — Iran’s natural resources and an American economic embargo on that country — that a very volatile political creation has been born. The tensions are obvious. If American businesses cannot trade with Iran, then of course a void is created that can be filled by other countries that Washington would ordinarily consider rivals or even enemies. Moreover American allies and ‘non-aligned’ countries are being pulled in one direction by the looming shadow of the Iran-Libya Sanctions Act and by the more gene-ral political and economic weight of the United States, which wants to stop them from supporting the Tehran regime. But they are also being pulled in the other direction by their need for Iran’s natural resources and by the huge profit that the demands of its domestic mar-ket, created in large part by the oil and gas industry, increasingly offer. Why, though, are such tensions particularly evident now rather than at any previous time? After all, as this chapter began by saying, Iran’s natu-ral resources have in some sense always been deeply ‘political’.

THE POLITICS OF ENERGY

If Iran’s possession of such outstanding natural resources has always had powerful political ramifications, then those that are in evidence today are no more or less potent than those that have preceded them.

Right from the onset, there was bitter international rivalry to gain control over Iranian reserves. This was initially a privilege that belonged exclusively to the British government, which took full advantage of a deal struck in 1901 between William Knox D’Arcy and Shah Muzzaf-far al-Din that gave the British entrepreneur an exclusive right to search for oil in a vast area of Persian territory. After 1908 British ministers helped establish the Anglo-Persian (later Iranian) Oil Company (AIOC) to explore and develop the Persian oil that was particularly indispensable to the Royal Navy after Churchill’s decision, as First Lord of the Admiralty, to convert the fuelling of ships’ engines from coal to oil. But such a valuable asset inevitably raised the strong interest of foreign governments, and equally strong fears in London of their plots to seize the Persian jewel. In 1919 the British government effectively assumed control over Persia under the terms of a new Anglo-Persian agreement that was partly intended, as Foreign Secretary Lord Curzon announced, to prevent ‘enemy intrigue’ in a country that could be ‘overrun by Bolshevik influence from the north’. And when, in the early stages of the Second World War, thousands of Nazi agents arrived in Tehran hoping to strike a deal with the shah in case the German armies in North Africa or Russia got close enough to the Iranian border, the British did not fail to act, launching a full-scale invasion of the country in August 1941 that, together with Russian actions further north, took just two weeks to overwhelm the shah’s army.

Having been ruled by outsiders for so long, a nationalist reaction within Iran always seemed likely, and it emerged most unmistakably in April 1951, five years after a serious outbreak of rioting in the refinery port of Abadan had yielded clear proof that popular attitudes among Iranians to British involvement were hardening considerably. On 28 April, as a chorus of nationalist rhetoric at all levels of Iranian society grew louder, the Iranian parliament, the Majlis, voted in favour of the proposals made by Prime Minister Mohammed Mossadeq to nationalize the Anglo-Iranian Oil Company. Under the terms of the legislation, the Iranian government would now audit the AIOC's books and establish a new National Iranian Oil Company while giving British shareholders some unspecified amount of compensation for the loss they would incur. So many years on, the strength of the feelings of devastation, panic and anger that such a move provoked in London is difficult to imagine. Keen to recapture some of its lost status in Iran, the British government initiated an operation to topple Mossadeq but was foiled when his security chiefs got wind of these efforts and closed down the embassy in Tehran where the operation was based. But London's efforts to implement regime change were then resumed by a US administration fearful that the Soviets might succeed in winning Mossadeq's sympathy and, by extension, get some degree of control over Iran's resources. As Secretary of State John Dulles was reported as saying: 'The communists might easily take over [Iran]. ... Not only would the free world be deprived of the enormous assets represented by Iranian oil production and reserves but the Russians would secure these assets and thus henceforth be free of any anxiety about their petroleum situation.' [16] In an operation of astonishing ingenuity, audacity and cleverness, the CIA operation, led by the highly resourceful and daring Kermit 'Kim' Roosevelt, succeeded in finding key opponents of the premier, mainly within the Iranian armed forces, while bribing others whose loyalty was wavering, and on 19 August 1953 succeeded in forcing Mossadeq to step down and hand over the premiership to his Washington-sponsored successor, Fazlollah Zahedi. Operation Ajax, against seemingly impossible odds, had worked.[17]

Over the next three decades, until the eve of the Islamic revolution in 1 979, Washington was extremely concerned to keep Iran's resources, as well as those that moved along the Persian Gulf that straddled its southern borders, out of Soviet hands. Sharing a long and in places porous border with the Soviet Union, Iran seemed highly vulnerable not just to a military attack but to a campaign of infiltration and subversion of the sort that the Russians were often thought to excel at, and this prompted the Americans to nurture and sustain a very close relationship with Shah Mohammed Reza Pahlavi's regime. Successive Washington administrations now provided Iran with vast amounts of economic assistance — around $200 million in the three years that followed the 1953 coup — and very considerable military support, as vast numbers of American soldiers and advisers as well as huge quantities of equipment poured into the country. Not surprisingly, the Shah was adept at playing the Soviet card in order to maximize concessions from Washington: just before the 1962 Cuban missile crisis, for example, he openly pledged not to allow the deployment of foreign — and, by deliberate implication, American — nuclear missiles on Iranian soil, even though this pronouncement was really just a clever tactic designed to increase his political leverage over the Kennedy administration.[18]

So from a glance at its history, it is clear that Iran's possession of such immense natural resources has always had very powerful repercussions, both within and outside its own borders, and this means that there is clearly no novelty in the assertion that there is, in its own right, a discernible 'politics of energy': it is self-evident that any country's possession of such resources of oil and gas has such strong political repercussions in the same way as the possession of any other valuable asset. But the novel impact of Iran's natural resources on the outside world lies not in their politicization but in the unique challenge to American power that they are now posing.

This, in turn, prompts another obvious question: why is this challenge of particular importance now rather than, for example, in 1995 and 1996, when the existing US economic sanctions were first introduced, or for that matter in the year that followed the 1979 revolution, as relations between Washington and Tehran crashed and reached a nadir? Put simply, the main reason is that Washington is now seeking to put more pressure on a country with which other governments and businesses have more reason than ever before to strike deals.

WHY IRAN'S RESOURCES MATTER NOW: GREATER AMERICAN PRESSURE

The basic reason why Iran is now posing a greater challenge to American interests than ever before is simply that Washington is currently more anxious than at any previous time to pressurize its allies into toeing its own line at the expense of doing business with Tehran.

This can be measured by drawing a contrast between the events of 1997, when the Clinton administration weighed up the arguments for and against invoking ILSA to penalize the Total-led consortium, and events in US Congress in the course of 2005. On the one hand, Clinton's 1998 decision not to invoke ILSA against Total provoked only relatively isolated cries of protest from lobby organizations such as the American-Israeli Public Affairs Committee (AIPAC) and from within Congress. Furthermore only a small number of senators had also actively sought to penalize the two other companies in the project, Petronas and Gazprom, even though both were particularly vulnerable to American retaliation: the giant Russian firm Gazprom, for example, signed the deal to develop South Pars at the same time that it was seeking to raise $1 billion in US capital markets for Russian projects and to purchase of $750 million in US goods and equipment.

But in the course of 2005, on the other hand, Congressional demands to tighten the economic noose on international trade with Iran were becoming louder and more insistent and, by the early summer, support for a revision of ILSA had grown considerably. In April 2006 the House of Representatives approved by an overwhelming majority of 397 to 21 the Iran Freedom and Support Bill,[19] which tightened and codified the 1996 legislation, widening its scope while also threatening to slash or even cut out any US foreign aid received by a government that fell foul of the bill's terms: one section of the new legislation, for example, proposed extending ILSA's reach to insurers and creditors, greatly multiplying the number of people who fell within its remit, while another removed the 'sunset provision' originally written into the legislation which ensured that it would be reviewed in Congress every five years. Finding equal support among Republicans and Democrats, the proposed legislation was also strongly supported by AIPAC, which at its annual meeting in Washington in May made its implementation a high priority, and by some other pressure groups. Although the bill still faced big hurdles before it became law, its passage was an unmistakable sign that, among many highly influential people on Capitol Hill, attitudes were hardening. Other critics of Iran wanted to take things further still. On 7 February 2005 Senator Ron Wyden had also introduced the Investor in Iran Accountability Bill, which was intended to shine a spotlight on those American companies that were still using independent foreign subsidiaries to defy the US trade embargo and do business with Iran in the energy sector. The new bill required the Treasury Secretary to publish a list of those American companies whose overseas subsidiaries continued to do energy deals with Iran and had more than $1 million invested in these concerns. The legislation also sought to frighten off these businesses by making their dealings with Iran more transparent to American investors: it proposed to do this by requiring the Treasury Department to publish a list of all public and private US financial interests that held more than $100,000 worth of investment in those companies. It was this increasing pressure from within Congress and from American investors that in February 2005 prompted Halliburton to stop its independent overseas subsidiaries from dealing in Iran. Threatened with an official investigation into any possible breach of existing sanctions, and under mounting pressure from a number of shareholders about its ties with Iran, the company initially responded to shareholder concern by listing its Iranian activities, which included an annual $30-40 million of oil-field service work plus a number of comparatively small engineering and design projects, before finally withdrawing its subsidiaries from the country altogether.[20]

Later on in the year new legislation was also introduced into the Senate to restrict American businesses from obtaining nuclear fuel assemblies from any other company that also sold them to Iran. Originally proposed in September by Senator Rick Santorum, just as the Iranian nuclear controversy appeared to be reaching a diplomatic climax in Vienna,[21] the Iranian Nuclear Trade Prohibition Act of 2005 targeted fabricated nuclear items that contained enriched uranium and outlawed their purchase by any American business from another business, entity or government that also sold to Iran. 'Iran's support for terrorist organizations, its past record of nuclear enrichment deceit and its opposition to US foreign policy objectives in the Middle East make Iran one of the most pressing national security issues facing the US and the democratic countries of the world,' Santorum said, 'and the US must take this important step toward eliminating nuclear activity in Iran.' This proposal, as well as the other legislative proposals, prompted Nicholas Burns, the Under-Secretary of State for Policy, to write to Santorum on 13 October pointing out that the administration was worried that the new rules 'would impair our ability to continue working closely and successfully with our allies' on the Iranian issue.

These proposals formed part of a growing chorus for action against Iran that had been increasingly audible over the preceding two years. In the summer of 2003, for example, moves had been made to reduce the president's scope to waive and exempt foreign companies that fell foul of ILSA, notably Rep. Ileana Ros-Lehtinen's bill, introduced on 21 October 2003, to limit these exemptions. Known as the Iran-Libya Sanctions Act Enhancement and Compliance Act (ILSA-ECA), the bill sought 'to address the concerns, loopholes and changes in the world since the original bill's passage in 1996' not only by narrowing the conditions under which the White House could waive the law but also by extending the classification of the parties subjected to sanctions to include public and private financiers and lenders. The bill also made the removal of sanctions contingent on a presidential certification that Iran and Libya no longer pose a 'threat to the national security of the United States, its interests or allies'.

There are two main influences that have made the case for primary and secondary sanctions against Iran more pressing in the course of George W. Bush's successive presidencies. These are Iran's nuclear project, which had taken sudden and unexpected strides since ILSA was first introduced, and its association in many American eyes, stronger than ever before, with 'terrorism'.

THE NUCLEAR ISSUE

Undoubtedly the single most important reason why Iran's natural resources are now undermining American global power is the increasing sophistication of the Tehran regime's nuclear programme. Although Iran is still reckoned to be some years away from developing a warhead, its nuclear programme is now known to be vastly more sophisticated than at the time when the existing range of US economic sanctions against Iran were drawn up and enforced.

Until the summer of 2002 most independent experts harboured little doubt that Iran had a covert nuclear weapons programme, which its supposedly peaceful programme to provide civilian energy was intended to disguise. But the Iranians painfully lacked the core ingredient of a bomb, notably the heavily enriched uranium or weapons-grade plutonium from which the fissile material is derived, and it was widely assumed that the prohibitive costs of developing such a facility would force the Iranians to import these ingredients from foreign sources, probably looking to the cash-starved former Soviet Union where such resources were likely to be available and where local authorities could perhaps be easily bribed.

The revelation in the summer of 2002 that Iran had secretly constructed much of its own infrastructure to enrich uranium therefore sent shockwaves of alarm and outrage throughout many international capitals. At a press briefing in August, spokesmen for a dissident organization made dramatic revelations, based on information said to have been supplied by Israeli intelligence, about the existence of two nuclear complexes of which the outside world was wholly unaware. One was a vast uranium enrichment facility at Natanz, approximately 200 miles south of Tehran, made up of six buildings that in total covered around 100,000 square metres, while the other was a site at Arak where the Iranians intended to build a heavy-water reactor from which the plutonium required for the fissile material of a warhead could easily be extracted.

By failing to declare the existence of these facilities to the International Atomic Energy Agency (IAEA), the Iranians had not strictly violated the terms of the 1968 Nuclear Non-Proliferation Treaty (NPT) or the subsequent Safeguards Agreement that gave substance to the earlier deal. Yet this hardly reassured either critics of Iran or enemies of proliferation. With a capacity to house as many as 50,000 of the centrifuge machines used in the enrichment process, the Natanz complex potentially could produce between 400 and 500 kilograms of weapons-grade uranium, enough to make perhaps as many as 20 nuclear warheads, while according to non-governmental estimates the Arak reactor, when completed, could also annually produce between 8 and 10 kilograms of plutonium. After an IAEA visit to these other sites the following February, the Iranian nuclear programme was judged to be 'extremely advanced',[22] far more so than even the most audacious independent assessments had ever expected.

In February 2003, a few months after the original revelations were made, Iran appeared even closer to attaining its own self-contained nuclear fuel cycle when President Khatami announced that deposits of uranium had been discovered in Iran for the first time and that these were already being mined in the Savand area, 200km from the historic city of Yazd. Although the process of converting this natural uranium into the highly refined product used by a warhead is very difficult and time-consuming, this was not much reassurance to those for whom the prospect of an Iranian bomb has always been an unacceptable proposition.

The further revelations certainly continued to electrify political circles in Washington and elsewhere, and as preparations for the invasion of Iraq gathered pace, many people began to wonder if it was really Iran, not Saddam Hussein, that the Bush administration should be focusing its sights on. Administration spokesmen such as the State Department's Richard Boucher announced their 'very grave concerns that Tehran is using its supposedly peaceful nuclear programme, including the construction of a reactor in Bushehr, as a pretext for advancing a nuclear weapons programme'. In practice Iran was probably still years away from completing such a programme, as the National Intelligence Estimate and highly respected independent experts [23] pointed out, but it was nonetheless much further along the road to doing so than had previously been realized.

From this moment on, the task of preventing the prospect of an Iranian bomb from becoming a much feared reality became a particularly pressing concern for Washington, even if it was for the moment overshadowed by the task of removing Saddam Hussein from power and subsequently keeping the peace in the new Iraq. In order to obstruct the Iranian nuclear project, the Bush administration echoed the Clinton line by seeking not just to pressurize Tehran into renouncing its nuclear ambitions but also to starve the regime of the foreign exchange it needed to fund such a project, even if that meant persuading the international community to minimize its trade with Iran. But when the outside world has a dire and growing need for oil and gas, this pressure can only be politically highly volatile.

The nuclear issue is one reason why the advocates of sanctions against Iran have been able to withstand the strong opposition of American business. Organizations such as 'USA Engage', an association of more than 675 US companies, has reckoned that these sanctions cost American business a total of $19 billion per annum in lost revenue, along with 250,000 jobs.[24] But there is also one other reason why anti-Iranian feeling on Capitol Hill has not only been able to withstand this pressure but has also been strengthening.

TERRORISM

The other main reason, besides its nuclear programme, why Iran is an even more contentious issue in contemporary American politics than when ILSA was first drafted is its association with 'terrorism'. For although Iran has been consistently labelled by the US State Department as 'the world's most active sponsor of terrorism' for more than a decade, several recent developments appear to have considerably strengthened this argument.

From an American perspective, the Bush administration's post-9/11 preoccupation with defeating 'terrorism' has played straight into the hands of Iran's enemies on Capitol Hill, who have emphasized to great effect Iran's qualifications as a terrorist state. In particular, Israel's strongest supporters point to Iran's association with an organization that many influential American politicians have always wanted to put in the firing line of the 'War on Terror' — the Lebanese movement Hezbollah. Within days of the attacks on the World Trade Center, Tehran had earned a prominent place on the target list produced by an influential pressure group, the Project for the New American Century, 41 of whose members had addressed an open letter to President Bush urging retaliation against Iran if it failed to bring an immediate end to its support for the Lebanese militia.

Iranian actions, or rather alleged Iranian actions, have also helped to reinforce this impression. In January 2002 the ship Karine A was intercepted by the Israelis as it moved through international waters 300 miles off Israel's Red Sea coast and was found to be carrying more than 50 tons of arms, including Katyusha rockets and anti-tank missiles, that had allegedly been loaded at the Iranian port of Kish before being sent on their way to areas of the Gaza Strip controlled by the Palestinian Authority. The cargo's seizure, said the Israelis, gave 'incontrovertible evidence' that Iran was supplying military equipment to the radical Palestinian cause. 'The connection between the Palestinian Authority and the smuggling operation is unequivocal, clear and undeniable,' stated Chief of Staff Shaul Mofaz at a press conference in Tel Aviv on 4 January 2002, as Prime Minister Sharon, inspecting the cargo at Eilat, argued that it proved the existence of a 'network of international terrorism spearheaded by Iran'. Although many large question marks continue to hang over the story of the Karine A — even if the Israeli claims are taken on trust, there is no indication of who in Iran had ordered and organized the operation or why — such an incident received massive publicity in Washington and certainly tarnished Iran's image more than ever before.

More important, however, has been the alleged involvement of Iran in the militant insurgency in post-Saddam Iraq. From the moment this campaign began in earnest, in the summer of 2003, American leaders have pointed an accusing finger at neighbouring Syria and Iran, claiming that their respective governments have not just turned a blind eye to the insurgents' cross-border movements but given them proactive assistance and training. Although such claims were initially treated with scepticism, they later appeared to be taken much more seriously by other countries. By September 2005, for example, British military officials claimed that attacks on allied personnel in Basra were to some important degree being orchestrated by the Iranian government, probably in a bid to intimidate a British government that was strongly opposed to Tehran's nuclear programme and which was at that time lobbying hard for the Iranians to be referred to the UN Security Council.[25] Similar claims were made in more mysterious fashion on 5 October, when an anonymous senior British official addressed a group of correspondents in London and stated that the Iranians were strongly supporting Shiite insurgents in Iraq. Not all independent analysts were quite so convinced,[26] especially when Prime Minister Blair admitted on 6 October that 'we can't be sure' of such support, but once again the terrorist label had been firmly pinned on to Iran.

Events in Iraq and the Karine A incident have accentuated, rather than caused, Iran's identification in American political circles with 'terror', which had been forged well before the onset of the attacks on the World Trade Center. Several political moves against Iran's 'terror' were made shortly before the 9/11 attacks, for example, and in the summer of 2001 AIPAC organized demands for the renewal of sanctions against Iran on the grounds that the clerical regime posed a clear threat both to Israel and the prospects for Middle East peace. And on 23 May 2001 a bill for the renewal of ILSA, which had originally been introduced in 1996 only for a five-year term, was introduced into the House of Representatives with over 200 co-sponsors, and was followed shortly afterwards by a parallel bill in the Senate backed by a veto-proof majority of senators. This strong and well-organized campaign took advantage of the new administration's post-electoral uncertainty and confounded the hopes of many American businesses that Bush's election would herald a significant change of stance in favour of US economic interests.

Yet Iran's image has undoubtedly suffered even more since 9/11, and on Capitol Hill the sponsors of new legislation have certainly strongly emphasized Iran's credentials as a terrorist state. The 2003 ILSA-ECA Act, for example, was intended to find 'ways to restrict the increasing wave of foreign investment into Iran and Libya and must be an integral part of the same effort to suppress terrorist financing', claimed Ros-Lehtinen as her bill was debated in June 2003. She added that 'neither Iran nor Libya have shown signs of relenting in their support for international terrorism. Those companies who continue to pursue investment in the oil sectors of these rogue nations, thus enabling this aggression, must realize that they are bankrolling terrorism. ILSA must be amended to address its continued financing of terror.' Taken together, Iran's nuclear programme and its alleged support for Middle Eastern 'terror groups' have reinforced the case for economic sanctions against Iran, and in 2003 both were cited by Secretary of State Colin Powell in support of George W. Bush's decision to renew the sanctions first imposed in 1995:

‘We’ve raised this issue repeatedly. We’ve talked about the “axis of evil” and been criticized for it,’ Powell argued, ‘and lo and behold, we discover they had a far more robust nuclear infrastructure that could be used for weapons development than people had thought, or wanted us to believe. We were seen as suspicious, and we shouldn’t be moving in this direction, but now we have a real concern. When you marry that up with their continued support for terrorist organizations that foment terror in Lebanon and other places throughout the Middle East, I believe that our concerns with respect to Iran were well founded.’ [27]

The strength of US concerns about terrorism and the nuclear issue helps explain why Washington appeared to actively seek regime change in Tehran, or at least to pave the way for such a radical approach, rather than emphasizing any constructive role for economic inducements or any other ‘carrots’ designed to dissuade the Iranians from pursuing their nuclear course. Only in March 2005, four months after the negotiations, did Secretary of State Condoleezza Rice announce a policy shift by agreeing in principle not to block Iran’s application to join the World Trade Organization, having blocked a similar move to join the WTO the previous December after labelling the EU-Iran negotiations as ‘a toothless enterprise’. But even then the ‘policy shift’ in Washington fell far short of what EU negotiators had hoped for: the only sanctions lifted by the US government, Rice announced in March, was a virtually meaningless offer to sell spare parts to Iran’s decrepit fleet of civilian airliners. Such reluctance probably reflected the strong scepticism towards EU3 diplomacy that was reputedly harboured by Under-Secretary of State Nicholas Burns, National Security Adviser Stephen Hadley and his deputy, Elliot Abrams, who were said to argue that the negotiations with Tehran would never succeed but who were prepared to offer some ‘carrots’ to back them, not because they felt such incentives would work but in order to secure the support of European powers for American moves to sanction Iran when the negotiations eventually failed.

But at the same time that Washington, for political reasons, is increasingly trying to pull the outside world in one direction, another force is also pushing it in another. This force is a growing need for Iran’s energy resources, and the other main reason why Iran’s natural resources are now beginning to create more political fissures than ever before is that the outside world is more dependent on its supply of oil and gas. This means that Iran is now better placed to do deals with America’s rivals and sustain their energy requirements or to tempt Washington’s allies into breaking any US-led embargo on Iranian trade.[28]

INCREASING GLOBAL DEMAND FOR OIL AND GAS

The world’s growing need for Iran’s oil and gas reflects both increasing global demand as well as the diminishing capacity of many existing sources of supply to satisfy those demands in the long term. This lack of confidence in the capacity of existing sources partly reflects the fact that the world’s oil reserves, even if they are consumed at a steady rate, are becoming increasingly inaccessible. So although Saudi Arabia, like all the other Gulf states, still harbours vast deposits of oil, some of which are perhaps still undiscovered, billions of dollars would need to be invested in its infrastructure if these reserves are to be tapped. According to the International Energy Agency, the Persian Gulf producers would have to spend an estimated $523 billion on new equipment and technology in the three decades between 2001 and 2030 in order to increase output and meet global demand.[29] This represents not just a huge financial and technological hurdle but also a political one, since it would have to be backed by international loans that would offend the Saudis' proclaimed wish to retain complete control over their nationalized energy sector, which is dominated by the state oil company Saudi Aramco.[30] Other political and legal obstacles to foreign investment also obstruct the development of oil fields in Kuwait, the Emirates and Qatar.

This was the message from the International Energy Agency, the oil sector monitoring body, which struck a note of alarm in 2005. 'It is not a problem of availability of reserves or capital,' as Fatih Birol, the group's chief economist told a British newspaper; 'we need to be sure that the increase in production will be high enough and a sustained production capacity increase is in place. That will need sustained political will.' But although Saudi Arabia would need to almost double current output of 10 million b/d to meet the level of demand anticipated in 2030, Mr Birol said that the kingdom might muster the long-term political will to produce just over half the extra barrels deemed necessary.[31]

Outside the Gulf, oil production has been stagnating, sometimes declining, in areas that were once highly productive. The output from Mexico's major oil field, the Cantarell site in the Bay of Campeche, for example, has naturally depleted over a number of years and is not expected to recover,[32] while many of Venezuela's fields, some of which have been in operation for a century or so, are also unmistakably waning. In 2005 Britain also became a net importer of oil for the first time in more than three decades, as its North Sea reserves became depleted. In other parts of the world, some of the most plentiful oil reserves are also the most inaccessible: Kazakhstan's newly discovered fields, for example, are located in a section of the Caspian Sea that freezes over in winter, making drilling operations extremely difficult, while Angola's fields are situated in very deep ocean waters. International investment in developing these deposits is also deterred by high political obstacles, notably endemic corruption, political instability and complex legal and financial barriers.

But while international governments may feel less sure than before about securing long-term supplies, global demand is also growing, and US Department of Energy figures show that between 2001 and 2025 major Middle Eastern oil producers will have to double their total daily output to satisfy growing demand.[33] This is partly because there is much greater demand in the developing world, whose populations and economies are rapidly expanding and whose consumers have higher expectations of material comfort than ever before. A classic case in point is India, whose annual rate of population growth averages between 3 and 4 per cent — roughly the same as Pakistan — and whose fast-expanding economy has created a new 'middle class' with a sophisticated taste for Western comfort. Another example is China, whose consumption of oil alone in the next 25 years is expected to jump from 6.5 to 12.8 million barrels per day, while demand in Asia as a whole will rise from 1 5 million to 32 million. Yet this increase in demand is certainly not just specific to any particular country or region but is instead a global phenomenon: in the United States, for example, demand for petroleum is projected to increase to around 27 million barrels of oil per day by the year 2020, compared with its daily demand of 20 million barrels in 2000.[34] The United States has had the occasional glimpse of this pending oil crisis, when, for example, Hurricane Katrina crashed through New Orleans in 2005 or after the steep oil price increases of 1999-2000 prompted the Bush administration to dramatically assert that 'America in the year 2001 faces the most serious energy shortage since the oil embargoes of the 1970s'.[35]

Most experts also expect a dramatic increase in global demand for natural gas over the next quarter century or so, even though this is likely to be tempered by high prices. In 2005 the International Energy Outlook forecast an average annual increase of 2.3 per cent, well above the 1.9 per cent increase it predicted for oil consumption. This overall 70 per cent increase in global demand, from 92 trillion cf in 2002 to 1 56 trillion cf in 2025, partly reflects the robust growth of the developing world, which needs natural gas to power electricity, but also the increasing tendency to view gas as a more efficient, cost-competitive and cleaner fuel than oil. These considerations also explain why European demand is projected to grow at a high annual rate, estimated to be around 1.8 per cent, which will make its governments far more dependent than ever before on imports. On the assumption that the production of European gas stays flat at 10.6 trillion cf this means that gas imports will have to increase to 17 trillion cf each year by 2020.

For those countries that are not hindered by geographical or political obstacles from doing business with Iran, the rest of the world's growing need for oil and natural gas has clear consequences. Most obviously it means that no such country would be able to join any US-led embargo on Iranian oil. In an ideal world, the US would of course always have liked to see its European allies follow its example and impose an oil embargo on Iran, in the same way that in the two years following Mossadeq's nationalization of the AIOC in 1951 the British navy successfully imposed a blockade of oil exports that crippled the Iranian economy. But many of America's allies import huge quantities of Iranian oil: in 2004 Japan imported 572,000 barrels a day, Korea 105,000 and Western Europe 620,000.

The key difference is simply that the British embargo was made possible by a glut of world oil, whereas today's relative shortage means that Washington cannot make any comparable demands on its European and other allies whose economies are both very oil-dependent and highly susceptible to any increase in its price. Similarly the oil-importing countries were in a much stronger position in the early 1980s, when they successfully withstood the major oil supply disruption that followed the outbreak of war in September 1980 between two countries, Iraq and Iran, that were both leading members of the Organization of Petroleum Exporting Countries (OPEC). Although this conflict suddenly reduced world oil supplies by approximately 4 million barrels a day, most countries had very substantial oil reserves that had been built up after the shocks of the Iranian revolution had exposed the need for contingency measures. Weak oil demand and a prompt increase in Saudi production partially offset lost Iranian and Iraqi oil exports and allowed the importing nations to avoid the disastrous pressures that had done so much to cause the price explosion of 1979.

Rather than seeking to restrict their oil and gas imports, Washington could more realistically expect its allies to sacrifice some of their trade and investment with Iran in order to pressurize Tehran into renouncing or at least freezing its nuclear programme. But this, too, is ambitious because Iran's energy infrastructure — the exploration, development and production of oil and gas ('upstream' contracts) as well as work in refineries and the petrochemical sectors ('downstream') — offers huge profits. Not only this but Iran is also awash with the revenue earned from the rise in the price of oil, which has helped to generate both sufficient cash to fund a hugely expensive nuclear programme as well as a domestic market for imported goods. So Washington's European allies have in recent years had more reason to ignore any such calls made by successive US administrations to restrict their trade and investments in Iran: in particular there have for some years been very strong German-Iranian commercial ties, and although Iran comes only 35th on the list of Germany's trading partners, it is an up-and-coming market with a high growth potential. Such interests doubtless play an important, probably decisive role in explaining why Germany has often been at odds with Britain and France in the negotiations with Iran over the nuclear issue, prompting some of those involved in the talks to humorously talk of the 'E2' rather than the 'E3'.

Even if any country ever did impose such trading sanctions while continuing to import Iranian oil, then Iran could clearly retaliate. In the summer of 2005, as Tehran defied international pressure by resuming parts of its uranium enrichment programme, Iranian negotiators hinted that they would respond to any bid to impose UN sanctions on their country by withholding the export of oil. Interviewed by the Khaleej Times on 1 October 2005 about possible Iranian counter-measures if such sanctions were enforced, newly elected President Mahmoud Ahmadinejad replied tersely that 'if Iran's case is sent to the Security Council, we will respond in many ways — for example by holding back on oil sales or limiting inspections of our nuclear facilities'. And in a clear warning to the EU the previous month, he also informed Iran's parliament that 'economic ties are not irrelevant to political ties' especially with 'hostile' countries that 'fail to recognize Iran's legitimate rights'.

Any such retaliation would of course greatly injure an Iranian economy whose foreign exchange earnings are highly dependent on oil exports, and most analysts are divided on the question of whether Tehran would really be willing to carry out its threats. Yet there are many countries that are far too dependent on both the importation of Iranian oil or on the price of oil whatever its origin to be willing to take that risk. So when the cost of a barrel rose sharply in the aftermath of Hurricane Katrina in 2005 and briefly reached $70, EU ministers warned that economic growth throughout Europe would be seriously imperilled. With growth in Europe already slower than expected, warned British Chancellor of the Exchequer Gordon Brown at an EU conference in Manchester in September 2005, fuel prices had made a recovery 'more fragile'.[36] Of course many of those who heard this warning wondered if oil prices were really just a convenient excuse for his own failings, but no one disputed that they made things worse. Not just that, but higher fuel prices for ordinary consumers also exact a painful political cost for a government that gets the blame for not reducing the levies that constitute much of the price at the pumps. In September 2000, for example, the British government was rocked by a blockade of fuel refineries by protestors who blamed high petrol costs on exorbitant levels of government taxation, while prices at the pump were also expected to be a big issue in the US mid-term elections in November 2006, as polls showed that a large majority of Americans disapproved of how President Bush was handling gasoline prices.[37] Such adverse consequences, political and economic, would affect every country that imports oil, no matter where it comes from: because Iran is the second largest producer of oil in OPEC, any embargo of its oil would have an impact that extended far beyond just those countries that directly imported it.

Not surprisingly, Iranian negotiators have been quick to play on such fears. So on 5 March 2003 Iran's top nuclear official warned the United States and Europe of the danger of an oil crisis if Tehran was sent before the UN Security Council over its nuclear programme, before rejecting outright their demands to halt uranium enrichment. Taking the matter to the Security Council would be 'playing with fire', claimed Hassan Row-hani, emphasizing that 'the first to suffer will be Europe and the United States themselves', and that 'this would cause problems for the regional energy market, for the European economy and even more so for the United States'. And in November the following year, as the nuclear crisis reached one of its many climaxes, a top aide to Iran's supreme leader declared that Tehran was completely unafraid of being taken to the Security Council over its nuclear programme and warned that if the UN imposed an oil embargo, world prices would go above $100 a barrel. This prompted Ali Akbar Nateq-Nuri, one of Ayatollah Ali Khamenei's closest advisers, to dismiss as 'ridiculous' some suggestions from Europe aimed at persuading Tehran to end uranium enrichment to avoid being summoned by the Security Council.[38] After Iran's referral to the Council by the IAEA in February 2006, the Iranians continued to make similarly threatening noises. On 8 March an official statement threatened 'harm and pain' in the event of confrontation over the nuclear issue, while on 14 March the new Oil Minister, Kazem Vaziri-Hamaneh, said that Tehran could revise oil supply contracts with those countries that supported the passage of UN sanctions. The Economy Minister, Davoud Danesh - Jafari, had made similar threats a few weeks before by warning that 'any possible sanctions on Iran from the West could possibly, by disturbing Iran's political and economic situation, raise oil prices beyond levels the West expects'.

IRAN AND FOREIGN INVESTMENT

There is another, less important reason why Iranian natural resources present an increasingly important challenge to American power. For not only do international governments have better reason than ever before to import Iranian supplies of oil and gas but the Tehran regime is also making greater efforts to lure international investors into its exploration, production and development. The importance of these efforts should not be exaggerated, because the Iranians are currently still almost as far from making the most of their resources as they have ever been, but they have certainly not gone unnoticed by international business.

Iran's drive to attract foreign investment is not just confined to the oil sector but is part of a much wider economic drive that was spelt out in 2004 when Mohammed Khazai, the Deputy Minister of Economy and Finance, acknowledged that the Iranian economy as a whole would need a $20 billion sum of investment over the next five years if its economy was to expand quickly enough to absorb the demands of a rapidly growing population. But the country's oil infrastructure is in particular need of such investment and the National Iranian Oil Company (NIOC) has estimated that at least $70 billion is needed over the next ten years to modernize it. The Tehran government knows that such targets will never be reached without a massive flow of capital from abroad and hopes that foreign investment will eventually make up not less than 40 per cent of the overall total: as the Deputy Petroleum Minister, Akbar Torkan, told the National Seminar on the Attraction of Foreign Investment, held in Tehran on 5 December 2004, roughly $17 billion of this overall figure was expected to come from domestic sources, $25 billion through a programme of contracting foreign companies and a further $28 billion through the international financial markets. 'We should be thinking of drawing foreign investments and [of] preparing the ground for [an] inflow of foreign capital,' as Khazai has emphasized.

There are a number of reasons why Iran's oil sector needs such vast sums. During the eight years of war with Iraq, some of the most important fields were badly damaged by overproduction, neglect or military action: several platforms on the Soroush and Nowruz fields were badly damaged by the Iraqis, while others at the Resalat and Reshadat fields were attacked and hit by US warships in the latter stages of the conflict, prompting Iran to make a bid, ultimately unsuccessful, for compensation in the International Court of Justice. Furthermore over the past 20 years Iran has been a politically isolated country that painfully lacks the technical expertise needed to develop its resources, especially when many of its most skilled workers have emigrated. The Iranian authorities have also been reluctant to invest the proceeds of oil sales back into the industry because much of this exchange is needed for other purposes, such as subsidies in the manufacturing or agricultural sectors, which are considered to be politically more pressing.

Yet such difficulties have not deterred the Iranians from entertaining high hopes for their oil industry. Wanting to increase their oil production essentially in order to generate more foreign exchange, NIOC officials hope to steady daily output of oil at 4.5 million barrels by the end of 2005 and increase production capacity to 5.4 million by 2009 and to 7 million by 2024. Although Iran has previously come close to reaching such a staggering rate of output — in 1974 its maximum daily output was a colossal 6 million barrels — such targets look unrealistic to most independent analysts. These figures look even more daunting because of the rate at which Iranian output has in recent years been levelling off, with onshore production declining at a rate of around 8 per cent per annum and offshore around 13 per cent per annum: 'this means Iran is losing 350,000 b/d of capacity each year', one leading consultancy has claimed.[39]

Some significant steps in attracting the billions of dollars it needs have been taken, however. In November 1995 Iran made new and sudden efforts to woo international investors for help in developing 11 large oil and gas offshore projects, reviving pre-revolutionary ambitions to make maximum economic use of its reserves. To this end it held a major conference in Tehran at which NIOC officials gave technical details for these projects to representatives of foreign companies. And in late 1997, two years after declaring an ambition to fully develop the country's massive oil and gas reserves, the Majlis broke new ground by announcing that foreign companies would in principle be eligible to bid for forthcoming onshore exploration and development projects, even though foreign involvement in such schemes had previously been considered by many to be a violation of Iran's 'territorial integrity'.

In May 2002 a very limited step towards attracting foreign investment was also taken when Iran's Expediency Council approved a 'Law on the Promotion and Protection of Foreign Investment', streamlining the complex procedures that were thought to be restricting the flow of capital and to give foreign investors more guarantees that they would not lose their funds. This legislation, which came into effect five months later, retains many of the features of its predecessor, which had been unchanged since it was first introduced in 1956, but also extended its scope by bringing nearly every different type of foreign investment under its wing. Its importance should not be exaggerated, however, since many of its terms are just too nebulous to give would-be investors proper reassurance .[40]

The Iranian authorities have made particular efforts to attract foreign investment in the petrochemicals that are manufactured from the natural gas supply. The first Iran Petrochemical Forum was held in April 1999, at which more than 600 potential foreign investors heard Bijan Namdar Zanganeh outline plans to attract international interest. Special economic zones would be set up, it was announced, where joint venture operations would receive extended tax holidays of up to six years as well as exemptions from import-export regulations. Kish Island, on the Gulf Straits, is one such economic haven for investors, and an increasing number of foreign businesses are avoiding their tax liabilities by registering in Kish while setting up representative offices in Tehran. In its bid 'to give assurance to potential international investors', the Iranians also hired the German investment bank Dresd-ner Kleinwort Benson to conduct a detailed study of Iran's petrochemical expansion and prepare a comprehensive report that foreign investors could use as a guide.

Iran has also been reviewing and modifying some of the other rules to which international investment has previously been subjected and by which many investors feel themselves to have been unreasonably constrained. From 2003, for example, it has taken some steps to alter the workings of the 'buyback' model of contracts, established under the 1 987 Petroleum Law, that were intended to circumvent a constitutional prohibition on the granting of petroleum rights to foreign concerns.

BUYBACK CONTRACTS

A buyback contract is a fixed-term agreement under which the relevant company undertakes to finance, construct and commission all facilities not in return for a direct equity stake in the venture but for a fixed share of oil or gas production. Thus a company that contracts to spend $1 billion on developing an oil field would recoup its expenditure, together with interest and profit, from the field's output when it starts to produce oil, after the contract has been completed. At the end of the contract term, the ownership of that fixed share reverts back to the National Iranian Oil Company, which is obliged to recoup the contractors' agreed costs even if the output of the particular project is insufficient to meet them. Such deals replaced the granting of emtiaz (concessions) that allowed foreign companies not only to unilaterally explore, develop and produce oil but also to subsequently retain ownership in the concession area. These were outlawed at the time of the 1979 revolution, when they were strictly prohibited by Article 81 of the new constitution, drafted as it was by a number of 'Islamic Marxists' and 'red clerics'.

The buyback contract has been widely used since July 1995, when Total and Malaysia's Petronas signed a deal to develop the Sirri A and Sirri E gas fields and became the first foreign contractors since the Islamic revolution to fix a stake in the heart of Iran's energy sector. By 2004, as its annual report pointed out, Total had four main buyback deals in Iran that gave it 60 per cent of the production share in the Sirri A and E fields, 40 percent in South Pars, 46.8 per cent in Balal and 55 per cent in Doroud. Overall NIOC allocated Total an average production of 26,000 barrels of oil a day to recoup its upfront expenditure on these various projects, a figure that was much lower than the 2003 figure of 50,000 mainly because of the impact of higher crude prices. But the buyback arrangement has nonetheless been very unpopular with most international businesses. On the one hand, such an arrangement gives the contractor no incentive to incur extra costs, thereby improving total returns for such a project, or to maximize the life of the field in question beyond the limited time-span of the contract. The terms of these contracts are also highly inflexible and cannot be renegotiated, even though this is particularly important if new oil and gas deposits are unexpectedly discovered, unanticipated technical problems arise or the price of oil suddenly changes. All sorts of other unexpected events could crop up — dramatic regional events or important changes in capital markets — that might place the overseas contractor under such immense financial pressure that they want to pull the deal. The rigid formula of the buyback is particularly ill-suited to a project as complicated as the three-field Bangestan gas injection operation, for example, for which a great deal of field operational information is required if a detailed development plan is to be drawn up. In other countries a development plan for fields like this one would usually allow some degree of flexibility when the number of wells is assessed, whereas the Iranian model of contract only specifies a particular number, which is very time consuming and costly to renegotiate.

The buyback arrangement has other drawbacks. The relatively brief duration of the contracts — about seven years — also means that foreign contractors have little time to build up the spirit of trust and cooperation with the Iranians that their work requires if it is to be successful, and prompts them to ask how much they really have to gain when, at the end of the contract, they are obliged to transfer their up-to-date, highly valued technology into the hands of the Iranians, who currently lag far behind the outside world in technological terms. Such a sacrifice is worthwhile only if the contractor has longer to benefit from such a deal and when the technology used in the project has become more outdated. 'In buy-back you develop fields and when it is finished you say goodbye to everything,' a Total official complained to a news agency at the Iran Oil Show in April 2006 .[41] Any company that signs a buyback contract to explore a field, rather than develop its resources, also risks incurring massive costs before finding that the field is far less productive than originally expected and therefore offers no further lucrative contracts that the company would be well placed to bid for.

The Iranian government has recently made some moves to alleviate the concerns of international business. Although since 1999 NIOC officials have proclaimed their willingness to consider almost any kind of financing scheme that participants want to suggest,[42] there were few real signs that any such alternatives might be adopted until January 2004, when government officials announced modifications to the standard buyback model that included an extension of the contract term from a standard five to seven years to as much as 25 years, and would potentially allow foreign companies to continue their involvement in the field's development after its tenure was finished and ownership had reverted back to the NIOC. A few months later Kamal Daneshyar, head of the Majlis Energy Committee, announced that an ad hoc committee of Ministry of Petroleum members, industrialists and university professors would flesh out these skeleton proposals in order to encourage more oil tenders for contracts to explore 16 exploration blocks: the key feature of the revision was that whoever discovered any commercial oil or gas field would have the automatic right to develop the find, whereas under the earlier terms the licence holder would have to bid competitively to develop any commercial discovery. This announcement formed part of a wider 2005-2010 economic development plan, put forward by Iran's parliament, to lure international business into the oil and gas sectors .[43]

The importance of these reforms, like those of the foreign investment laws, should not be exaggerated, however. After signing the 1997 deal to develop South Pars, a Total vice-president pointed out that the buyback system had not weighed heavily against the deal and that there were comparable drawbacks in other countries that similarly were not insuperable: 'Iran's buyback contract system is characteristic of countries reopening their upstream sectors to foreign oil companies. The scenario is the same in Iraq and Kuwait. ... These countries have a long history of oil development and their own national oil companies.' [44]

In narrowly economic terms there are in any case a great many other reforms that are much more important to international business. As one study has claimed, Iran needs above all to foster a prosperous private sector that would be more attractive to outside investors than a much less efficient state sector. This means that some radical steps need to be taken to encourage private institutions and individuals to buy shares and bonds in all major gas and oil sectors, even though, strictly speaking, Articles 44 and 45 of the constitution leave not more than 5-10 per cent of the economy open to the private sector.[45] By 2005 some initial steps had been taken in this direction, notably after October 2004, when one of Iran's constitutional watchdog bodies, the Expediency Council, overruled earlier constitutional decrees to block any bid to privatize the energy and other sectors.

All of these narrowly economic considerations are probably also less important than the wider framework of international politics. Only very few of the foreign business representatives who attended the November 1995 Tehran conference, for example, wanted their names and employers' details disclosed for fear of provoking US retaliation, whereas three years later, in July 1998, many international companies openly expressed interest in the 40 contracts — which included opportunities to develop 1 5 onshore sites — that Oil Minister Zanganeh had offered to foreign investors: China's state-owned National Petroleum Corporation, Cairn Energy in Edinburgh and Monument Oil and Gas in London all openly bid to develop the Balal offshore oil field. The difference is essentially that, after the Clinton administration backed down over Total in 1998, the threat of US sanctions no longer loomed so large, and while D'Amato was still privately warning the Canadian company Bow Valley not to make a bid, his words no longer carried the same weight as before .[46]

While most oil investors take a long-term view on their holdings, Iran is generally regarded as much more risky than other rival markets because its nuclear infrastructure might at some point be a future target for American or Israeli military attack or for UN-imposed economic sanctions. Although most Western businessmen in Iran have professed themselves to be unconcerned by newspaper reports of US strikes as long as the EU has continued negotiating over the nuclear issue,[47] commercial sensitivity to regional politics became clear on 16 February 2005 when financial markets panicked over reports of an explosion in Bushehr province which was wrongly assumed to be a foreign missile attack. Some analysts have also regarded the election as president of the conservative hardliner Mahmoud Ahmadinejad in June 2005 to be a harbinger of domestic tension and unrest. Iran has also deterred some investors in the past because it generally prefers commercial disputes to be considered by Iranian courts rather than through international arbitration. What is more, the Iranian oil sector is particularly susceptible to these pressures because of the degree to which it is closely controlled by the state and therefore highly sensitive to political tremors: since the revolution, only the oil minister, who is chosen by the premier, is eligible to be president of NIOC. Also much more important than its foreign investor law would be Iran's signing of the 1994 Energy Charter Treaty (ECT), a framework agreement intended to promote investor confidence in transnational projects. Some moves have been made towards this, and in November 2003 the ECT's Secretary General, Dr Ria Kemper, was invited to Tehran to discuss possible membership.

The combined influence of these different factors — an increasing global need for oil and gas as well as Iranian efforts to lure foreign investors — have already merged to present American global power with a new and powerful challenge. But there are of course a great many unknown factors in this picture, and chief among them is the influence of Iran's newly elected president, Mahmoud Ahmadinejad.

THE NEW IRANIAN PRESIDENT

It was said above that the hard, uncompromising line adopted by Ahmadinejad initially succeeded in alienating some of the international support that he might otherwise have found. But although he might continue to alienate this potential support, it is also possible that his harsh approach might force international governments to make a much more stark choice between 'Iran' and the 'United States' in a way that plays to Tehran's distinct advantage. Such threats could not be easily dismissed because Tehran knows that it can easily offer its highly valued contracts to other foreign contractors, notably Russian or Chinese businesses, that are more willing to sacrifice their ties, if they have any at all, with the United States.

A glance at Ahmadinejad's political manifesto and personal background does suggest an inflexible individual who may be inclined to force such a stark choice on the outside world. For when on 24 June 2005 the 49-year-old presidential candidate won the second round of voting in the electoral race by promising a pure 'Islamic government', he was well qualified to make such claims. Having served in the Revolutionary Guard during the war with Iraq, subsequently worked as a trusted regime official in a variety of positions and acted as a conservative mayor of Tehran after the municipal elections of 2003, Ahmadinejad is part of a paternalistic, xenophobic and economically interventionist tradition that contrasts sharply with the easy pragmatism that most economists think Iran needs so badly. Evidence of this inflexibility of attitude emerged within a few weeks of taking up office in August, when his economic spokesman announced a reduction of interest rates that was opposed by independent economists and which respected analysts, such as Amir Mohebian, a well-known Iranian newspaper columnist, thought would help the already bloated state sector to grow even more .[48]

Within weeks of becoming prime minister, Ahma-dinejad had also given the outside world a clue that he would take the hardline, uncompromising stance towards international investors that may in future force them to make a stark choice between Washington and Tehran. In a clear warning to the EU, he told the Iranian parliament in August that 'economic ties are not irrelevant to political ties' especially with 'hostile' countries that 'fail to recognize Iran's legitimate rights'. Industry observers also believed that Ahmadinejad was unhappy about some of the links forged with Western companies under the previous government, led by the much more moderate Mohammad Khatami, and the new president confirmed this hardline attitude by cancelling a drilling contract struck with Kish Oriental, which is linked to the giant US firm Halliburton, after an Iranian court accepted charges that Kish Oriental officials had bribed Iranian workers.

The net result of all these different pressures — some that are internal to Iran, others either a consequence of American perceptions of Iran or else born of a sharply increasing global demand for oil — is the creation of a new challenge to American power. On the one hand, Washington is trying to pull its allies, non-aligned countries and rivals away from Tehran, while on the other their growing energy needs are pushing these countries towards it.

Of course this statement is one that requires some careful elucidation. What kind of 'power', in any case, is it that is now in real danger of being eroded?

US 'POWER'

'Power', as one leading American writer on international affairs, Joseph Nye, has defined it, is 'the ability to effect the outcomes you want, and if necessary, to change the behaviour of others to make this happen'.[49] This 'ability' can, of course, manifest itself in different ways, and it is clear that Iran is not currently posing any challenge to America's 'soft power' which Nye identifies when he writes that 'a country may obtain the outcomes it wants in world politics because other countries want to follow it, admiring its values, emulating its example, aspiring to its level of prosperity and openness '.[50] Other than in the Shi-ite areas of Iraq, there are few places in the world where people are clamouring for the strict Islamic values that were championed by the Islamic revolution in 1979 and which have since been resurrected, symbolically at least, by Mahmoud Ahmadinejad. By contrast there are many young people inside Iran who consciously emulate the fashions and manners, and admire the perceived lifestyle and values, that are held by many ordinary Americans: 'if the Americans opened a visa office in Tehran then there would be a queue ten miles long outside,' one Iran-based European diplomat once told me, 'and that in itself would be enough to bring the regime crashing down'.

Iran instead poses a challenge to America's 'hard power', which Nye defines as a country's ability to offer rewards and make threats. This type of power was traditionally always measured by a country's capacity to make war on its enemies, a capacity that was in turn dependent on factors such as its population, territory, natural resources, economic strength, military force and political stability. In the contemporary world, however, he argues that 'economic power has become more important than in the past, both because of the relative increase in the costliness of force and because economic objectives loom large in the values of post-industrial societies'. 'Hard power'

In every respect, the United States exerts considerable 'hard power' over other nations, giving them very strong reasons to follow its lead. It has, after all, a vast economic strength that flexes its muscle over other countries in a number of ways, not least because it generates resources that enable Washington to grant huge subsidies or loans, with political strings typically attached, if it so chooses. When economies like those of Indonesia, Brazil and Malaysia have approached a point of collapse, it is the United States above all that has played a fundamental role in rescuing them, often making emergency loans conditional on the implementation of domestic programmes of privatization and deregulation. It was the promise of economic aid to Serbia's devastated economy, for example, that in 2000 persuaded the government in Belgrade to change course and hand its leader, Slobodan Miloševi, over to The Hague tribunal, while the leaders of Pakistan currently have to weigh the $700 million of aid they receive from the United States with the value of their trade with Tehran. The promise of material aid may not always prove irresistible — in March 2003 Washington's promise of a $15 billion aid package in return for support for the Iraq war could not tempt the Ankara parliament to allow the deployment on Turkish soil of 62,000 US troops and 250 planes[51] — but it is for most parties a very alluring one.

Of course the economic and financial benefits offered by Washington cannot just be weighed in narrow terms of aid and subsidy. This is partly because America's foreign aid budget is no longer as voluminous as it once was. While in 1948, for example, this budget amounted to around 6 per cent of its GDP, the figure today stands at only 0.17 per cent, or less than $1 7 billion. Even this figure is misleading because, taking aside military assistance and the $3 billion spent each year on supporting Israel, the real figure is much closer to an annual $8 billion.[52] In any event the benefits bestowed by such foreign aid are probably insignificant compared with those offered by trade with and investment from a country whose GDP in 2004 was measured at $10 trillion, making up nearly 30 per cent of the global economy. For any political enmity with Washington means the possible imposition of economic sanctions that can disrupt the flow of capital into and out of the United States, with perhaps disastrous consequences for the particular business or country involved.

The crucial importance of American trade and investment to other countries is well measured by its role as an inducement in alleviating mistrust and tension in global hotspots. In 1994, for example, North Korea agreed to halt its defiant bid to develop nuclear weapons in return for an American promise not only to arrange the supply of huge quantities of oil but also to bring down trade and investment barriers and restore 'the full normalization of political and economic relations' between the two countries. These relations had not been restored by 2001, however, as suspicions grew that Pyongyang had resumed its nuclear programme, but in September 2005 similar promises of economic ties between North Korea and the United States helped to broker a new agreement.

Also more important than Washington's foreign aid budget is its strong influence over international financial bodies, most notably the World Bank and the International Monetary Fund. To a large degree this influence is a consequence of American economic power: the US contributes more than any other country to the IMF, which receives 17.5 per cent of its funding from Washington, while by a long-standing, informal agreement the president of the World Bank is an American national, who is nominated by the Bank's US executive director. The importance of American influence on these bodies became clear during the Suez crisis in November 1956, for example, when the Eisenhower administration effectively imposed economic sanctions on Britain by using its influence in the IMF to block London's desperate request for economic assistance. Other international bodies and organizations over which, despite all their boasts of independence from outside pressure, the US exerts a strong influence are the United Nations and OPEC. In March 1999 OPEC's decision to raise production quotas perhaps partly reflected a strong American bid to influence its decisions: on 11 April, after he had made several high-profile visits to oil ministers of key OPEC countries before their conference in Vienna, and subsequently made repeated phone calls during their quota negotiations, US Energy Secretary Bill Richardson had claimed that 'the administration's diplomatic efforts should result in an immediate production increase of 1.8 million barrels per day '.[53]

Washington also has a strong influence over the United Nations, and India's ambition to gain a permanent seat in the United Nations Security Council helps explain its recent efforts to establish new ties with the United States. Washington had reportedly already sought to persuade New Delhi to deploy Indian troops to Iraq in return for this representation on the Security Council.[54]

A country's wealth is also both a symptom and a cause of its technological advances, since it is able to fund research into developments that, when discovered, also yield a competitive edge and help to sustain its economic pre-eminence. One country that has a clear head start in developing new areas of information technology, for example, can also establish itself in a global marketplace more quickly than its competitors, whose late arrival can be extremely difficult to recoup. So a government that sacrifices its ties with Washington can also risk falling behind with the rapid pace of technological advance that the United States has often set. When, in the winter of 2004, US Congress sought to deter the EU from lifting a proposed arms embargo on China, some members proposed placing restrictions on the transfer of US technology to their European allies, as well as other limitations and constraints '.[55] As one Congressman put it, 'in the mad dash to secure lucrative Chinese contracts, more thoughtful Europeans might want to assess the potential damage to transatlantic defence cooperation'. Such threats helped to ensure that by March 2005 the EU had abandoned any such plans.

Technological advances also yield a clear advantage on the battlefield, and any country that falls behind technologically can catch up, if at all, only at very great cost. In the post-war period, for example, France struggled to develop its own nuclear deterrent while Britain, enjoying close ties with Washington from 1957, shared US technical information on the production of nuclear bombs and bought the Polaris missile at a special knock-down price. Today the US-led campaigns in Kosovo, Iraq and Afghanistan have illustrated the importance of keeping pace with such advances, having demonstrated the might and sophistication of American military power, with its dependency on computers, satellites and 'smart' weapons, as well as its limitations and vulnerabilities. Of particular importance in this regard is America's contemporary role as a pivot on which the traffic of global communications rests: around 75 per cent of global internet traffic is today switched through the United States and handled at some point by US carriers, a legacy of the origins of the internet, which began as the internal network of the Defense Department's Advanced Research Projects Agency (ARPA) .[56] The security of many countries in this regard is to some degree dependent on the United States, despite unsuccessful efforts by the Iranian government in November 2005 to transfer control of the internet into the hands of an independent UN body.

The importance of military technology in buying political support emerged in the summer of 2005 when Washington used its nuclear know-how as a bargaining chip to win favour in New Delhi (see Chapter 3). Although a political row ensued in Washington and elsewhere, the Bush administration offered the Indian government sensitive nuclear technology and highly sophisticated nuclear-capable weapons systems that would allow New Delhi to deter any possible Chinese military attacks comparable to those that were launched on India's northern borders during the Sino-Indian war of 1962. It is from just such military as well as civilian technology that any US ally risks being alienated if it refuses to toe the Washington line. This was the price that France risked paying when in the run-up to the Iraq war in 2003 its government refused to support frantic British and American attempts to secure a second United Nations resolution against Iraq, as President Jacques Chirac announced that France would vote no, 'whatever the circumstances, because we do not think war is necessary to achieve the goal we've established' and because waging war without UN backing would set a 'dangerous' precedent.

American military strength is of course an issue not just of sophistication but of the sheer numbers that the country can afford to maintain, and it was this capacity to sustain a protracted war effort that Eisenhower had in mind when he once remarked that 'the foundation of military strength is economic strength ... a bankrupt America is more the Soviet goal than an America conquered on the field of battle '.[57] It is because of the size of the US military that, since the time of its entry into the Second World War in 1942, no country in the world, other than the neutral, could be indifferent to American influence. Even after the demise of the Soviet Union in the early 1990s, and with it the end of a perceived threat of Soviet expansion, no government could afford either to provoke America's enmity or to overlook the military and political benefits that it might reap from an alliance with a country that in 2004 spent $437 billion, or roughly half of all military spending around the world, and which had proportionately spent even more during the Cold War.

In some respects this is less true today than before. In raw material terms, the US military has looked much more vulnerable and overstretched ever since the invasion of Iraq re-exposed its susceptibility to protracted guerrilla war and made any large-scale intervention in the world both militarily impossible and politically unacceptable to an American public that has had to bear large and mounting casualties. Moreover since 2001 any close alliance with the United States has also brought new dangers and risks by making the other party a target for Al Qaeda terrorists: the perpetrators of the Madrid train bombings of 2004 and the London tube bombings in July 2005, for example, claimed to be 'retaliating' for their governments' support of the American invasion of Iraq. Finally some countries are now able to look away from Washington and turn instead towards rival defensive and political blocs that have emerged since the end of the Cold War, the most obvious example being the member states of the European Union, which have gradually forged a common defence policy over the past decade.

So in what ways, then, is America's 'power', as defined in all these different ways, now being eroded by the Iranian challenge?

HOW AMERICAN POWER IS BEING UNDERMINED

American power is already being undermined, or could perhaps one day be challenged, by the influence of Iranian oil in a number of different ways that lie outside the scope of this book. So although earlier on in this chapter the point was made that the global dependency on oil puts out of the question any suggestion of enforcing meaningful economic sanctions on Iran, this limits not just American power over Iran but that of any other country that wants to change the behaviour of any oil-producing state. Moreover while any UN resolution against Iran would in all likelihood be vetoed by China — and perhaps too by Russia — which is increasingly dependent on Iranian oil, this is clearly a reflection not of any Iranian challenge but of the weaknesses of the voting system in the UN Security Council, whose perceived inequities the Bush administration has made efforts to reform: Beijing and Moscow had, after all, also vetoed American moves to sanction North Korea in early 2003 after the Pyongyang regime expelled international weapons inspectors and broke out of the Nuclear Non-Proliferation Treaty.

Other possible Iranian challenges to Washington's pre-eminence are too speculative to lie within this book's ambit. When in July 2005 the head of the board of directors of the Stock Exchange Council in Iran, Haidar Mo-stakhdemin Hosseini, said that the council had agreed in principle to establish a new oil exchange on Kish Island that would be the first of its kind in the Middle East, eyebrows were quickly raised. Because this new body would deal only in euros, it seemed quite possible that it might eventually start to challenge the market dominance of the world's two existing financial exchanges — London's International Petroleum Exchange and New York's Mercantile Exchange — which are both owned by US companies. Some experts reckoned that if vast quantities of oil sales were ever traded in euros, then global demand for dollars would wane, creating big trouble for a heavily indebted American economy that greatly depends on such a demand. 'At this point it's really to poke their finger in the eye of the US,' an analyst at Columbia University told one American newspaper, 'and certainly part of their idea is to weaken American economic hegemony.'[58] But most analysts are agreed that such a scenario would present only a very long-term threat and presents no short or even intermediate-term challenge to American interests, even if the exchange, which was licensed in May 2006, soon opens. By contrast, Washington's international influence is already being challenged by the impact of Iranian oil in three other ways.

On the one hand, Washington's strategic rivals, notably China, are being economically fuelled by Iranian resources, which are therefore augmenting the challenge to US interests posed by these countries. What is more, within Iran the foreign exchange earnings of oil and gas exports are buttressing the Iranian regime, a chief US rival and enemy in the Middle East, thus allowing it to pursue a nuclear programme, one that is widely deemed to hide a covert weapons programme, and to buy off its political enemies.

NOTES

INTRODUCTION

[1] Edward Gibbon, The Decline and Fall of the Roman Empire (London and New York: Penguin, 1978), chapter VIII, p 260.

[2] Speech to Baltic and Black Sea leaders in Vilnius, the Lithuanian capital, 4 May 2006.

[3] See generally Michael Klare, Blood and Oil: How America's Thirst for Petrol is Killing Us (London: Hamish Hamilton, 2005).

[4] Such as Evo Morales' movement in Bolivia. Chavez has also blocked US-led political initiatives. In November 2005, for example, he was a leading light in the effort to block the US-led proposal to restart talks on the Free Trade Area of the Americas (FTAA).

[5] 'IEA warns of 50% oil price rise by 2030', Financial Times, 2 November 2005.

CHAPTER 1. Why Iran's Natural Resources Matter

[1] Persia was officially renamed Iran in 1935.

[2] Michael B. Stoff, Oil, War and American Security: The Search for a National Policy on Foreign Oil 1941-1947 (New Haven: Yale University Press, 1980) pp. 48-51, 58-9.

[3] India is formally a member of the Non-Aligned Movement. See Chapter 3.

[4] 'Iran's zealot in chief does Bush a favour', Sunday Times, 30 October 2005. Ahmadinejad had made a speech a few days before calling for the annihilation of the Jewish state.

[5] 'Proven reserves' include only those reserves that can be exploited with currently available technology at conservatively projected prices. 'Recoverable reserves', meanwhile, are not necessarily 'proven', but are expected to meet that standard in the foreseeable future. What is and is not 'recoverable' is always inherently uncertain but all the more so in Iran, which has suffered from the effects of international sanctions and where the extent of 'recoverability' is therefore even more unclear.

[6] An analyst for Barclays Capital quoted in 'How much oil do we really have', BBC News, 1 5 July 2005.

[7] Such as the Oil and Gas Journal, which quotes this upward figure in its Worldwide Report of 20 December 2004.

[8] FACTS Inc., 'Iranian Oil Industry: A Status Report', November 2003.

[9] See also Chapter 2, pp. 59-61.

[10] 'Iran's Gas Industry and Export Projects', 2005.

[11] Author's correspondence with Professor Stern, November 2005.

[12] These Executive Orders were pursuant to the International Security and Development Cooperation Act and the International Emergency Economic Powers Act.

[13] On 17 March 2000 Secretary of State Madeleine Albright announced that sanctions against Iran would be eased to allow these products to be imported. The change was implemented through amendments to the Iranian Transactions Regulations.

[14] Middle Eastern Economic Survey, 25 February 2002.

[15] Petroleum Economist, vol. 67, no. 2 (February 2000), p. 26.

[16] Meeting of the National Security Council, 4 March 1953.

[17] See Stephen Kinzer's account of the 1953 coup in All the Shah's Men: An American Coup and the Roots of Middle East Terror (New York: John Wiley, 2003).

[18] William E. Griffith, 'Iran's foreign policy in the Pahlavi era', in George Lenczowski (ed), Iran under the Pahlavis (Stanford, California: Hoover Institution Press, 1978) p 375.

[19] This was introduced into the House of Representatives as legislation number H.R. 282 and into the Senate as S.333.

[20] Middle Eastern Economic Survey, 7 February 2005 and 22 December 2003.

[21] See Chapter 2, pp 57-8.

[22] 'Iran's nuclear threat', Time, 8 March 2003.

[23] On 2 August 2005 the National Intelligence Estimate projected that Iran was about a decade away from manufacturing HEU. On 6 September 2005 Gary Samore of the IISS published a report, Iran's Strategic Weapons Programme: A Net Assessment, arguing that Iran was still 'at least several years' from reaching the nuclear threshold.

[24] Quoted at the 'Investing in Iran' conference in London, 24-25 October 2001.

[25] See Chapter 2, pp 57-8.

[26] On 22 October 2005 IRNA quoted an analyst for the US-based Jamestown Foundation, Mahan Abedin, as saying that the UK was using its allegations of Iranian involvement in southern Iraq as a 'smokescreen' for its plight in Basra.

[27] 'President Bush renews anti-Iranian sanctions', Iran Press Service, Washington DC, 14 March 2003.

[28] See Michael Klare's book, Blood and Oil.

[29] Cited in Doris Leblond, 'IEA: $16 trillion in energy investment needed by 2030', Oil and Gas Journal, 20 November 2003, p 37.

[30] Klare, Blood and Oil, p 80.

[31] 'IEA warns of 50% oil price rise by 2030', Financial Times, 2 November 2005.

[32] US Department of Energy (USDOE), International Energy Outlook 2003.

[33] USDOE, International Energy Outlook 2001.

[34] USDOE, International Energy Outlook 2003.

[35] New York Times, 17 May 2001.

[36] 'Oil prices may slow EU growth', BBC News, 10 September 2005.

[37]An ABC/Washington Post poll, 6-9 April 2006, showed that 74 per cent of Americans were unhappy on this score.

[38] 'Tehran warns of $100 barrel', The Age, 2 November 2004.

[39] FACTS Inc., 'Iran's Oil Industry: Year End Update', April 2005.

[40] Oil and Gas Journal, 1 November 2004.

[41] IRNA, 21 April 2006.

[42] Oil and Gas Journal, 24 May 1999.

43. Ibid., 12 July 2004.

44. Ibid., 5 April 1999.

[45] Ibid., 14 February 2000.

[46] Ibid., 4 August 1997.

[47] Middle Eastern Economic Survey, 24 January 2005. This was a survey of representatives of Western international oil companies and banks in Iran and was taken shortly after The New Yorker published Seymour Hersch's article claiming that US forces were already inside Iran, preparing for possible military strikes.

[48] 'New man in Iran', New York Review of Books, 11 August 2005.

[49] Joseph S. Nye, The Paradox of American Power (Oxford: Oxford University Press, 2002) p 4.

[50] Ibid., p 8.

[51] 'Turkey upsets US military plans', BBC News, 1 March 2003.

[52] Curt Tarnoff and Larry Nowels, 'Foreign Aid: An Introductory Overview of US Programs and Policy', Congressional Research Service Report, updated 6 April 2001, p 23.

[53] Oil and Gas Journal, 24 April 2000.

[54] See generally Chapter 3, pp 111-22.

[55] 'Bush warns of China arms sales', Washington Times, 23 February 2005.

[56] Associated Press, 'Policing the Net', CBS News, 22 November 2001.

[57] Quoted in Fred Kaplan, The Wizards of Armageddon (New York: Simon and Schuster, 1983), p 176.

[58] 'Iran's oil gambit and potential affront to the US', Christian Science Monitor, 30 August 2005.

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