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Iran, War and World Energy

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As the United States gears up for an attack on Iran, one thing is certain: the Bush administration will never mention oil as a reason for going to war. As in the case of Iraq, weapons of mass destruction (WMD) will be cited as the principal justification for an American assault. "We will not tolerate the construction of a nuclear weapon [by Iran]," is the way President Bush put it in a much-quoted 2003 statement. But just as the failure to discover illicit weapons in Iraq undermined the administration's use of WMD as the paramount reason for its invasion, so its claim that an attack on Iran would be justified because of its alleged nuclear potential should invite widespread skepticism. More important, any serious assessment of Iran's strategic importance to the United States should focus on its role in the global energy equation.

Before proceeding further, let me state for the record that I do not claim oil is the sole driving force behind the Bush administration's apparent determination to destroy Iranian military capabilities. No doubt there are many national security professionals in Washington who are truly worried about Iran's nuclear program, just as there were many professionals who were genuinely worried about Iraqi weapons capabilities. I respect this. But no war is ever prompted by one factor alone, and it is evident from the public record that many considerations, including oil, played a role in the administration's decision to invade Iraq. Likewise, it is reasonable to assume that many factors — again including oil — are playing a role in the decision-making now underway over a possible assault on Iran.

Just exactly how much weight the oil factor carries in the administration's decision-making is not something that we can determine with absolute assurance at this time, but given the importance energy has played in the careers and thinking of various high officials of this administration, and given Iran's immense resources, it would be ludicrous not to take the oil factor into account — and yet you can rest assured that, as relations with Iran worsen, American media reports and analysis of the situation will generally steer a course well clear of the subject (as they did in the lead-up to the invasion of Iraq).

One further caveat: When talking about oil's importance in American strategic thinking about Iran, it is important to go beyond the obvious question of Iran's potential role in satisfying our country's future energy requirements. Because Iran occupies a strategic location on the north side of the Persian Gulf, it is in a position to threaten oil fields in Saudi Arabia, Kuwait, Iraq, and the United Arab Emirates, which together possess more than half of the world's known oil reserves. Iran also sits athwart the Strait of Hormuz, the narrow waterway through which, daily, 40% of the world's oil exports pass. In addition, Iran is becoming a major supplier of oil and natural gas to China, India, and Japan, thereby giving Tehran additional clout in world affairs. It is these geopolitical dimensions of energy, as much as Iran's potential to export significant quantities of oil to the United States, that undoubtedly govern the administration's strategic calculations.

Having said this, let me proceed to an assessment of Iran's future energy potential. According to the most recent tally by Oil and Gas Journal, Iran houses the second-largest pool of untapped petroleum in the

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world, an estimated 125.8 billion barrels. Only Saudi Arabia, with an estimated 260 billion barrels, possesses more; Iraq, the third in line, has an estimated 115 billion barrels. With this much oil — about one-tenth of the world's estimated total supply — Iran is certain to play a key role in the global energy equation, no matter what else occurs.

It is not, however, just sheer quantity that matters in Iran's case; no less important is its future productive capacity. Although Saudi Arabia possesses larger reserves, it is now producing oil at close to its maximum sustainable rate (about 10 million barrels per day). It will probably be unable to raise its output significantly over the next 20 years while global demand, pushed by significantly higher consumption in the United States, China, and India, is expected to rise by 50%. Iran, on the other hand, has considerable growth potential: it is now producing about 4 million barrels per day, but is thought to be capable of boosting its output by another 3 million barrels or so. Few, if any, other countries possess this potential, so Iran's importance as a producer, already significant, is bound to grow in the years ahead.

And it is not just oil that Iran possesses in great abundance, but also natural gas. According to Oil and Gas Journal, Iran has an estimated 940 trillion cubic feet of gas, or approximately 16% of total world reserves. (Only Russia, with 1,680 trillion cubic feet, has a larger supply.) As it takes approximately 6,000 cubic feet of gas to equal the energy content of 1 barrel of oil, Iran's gas reserves represent the equivalent of about 155 billion barrels of oil. This, in turn, means that its combined hydrocarbon reserves are the equivalent of some 280 billion barrels of oil, just slightly behind Saudi Arabia's combined supply. At present, Iran is producing only a small share of its gas reserves, about 2.7 trillion cubic feet per year. This means that Iran is one of the few countries capable of supplying much larger amounts of natural gas in the future.

What all this means is that Iran will play a critical role in the world's future energy equation. This is especially true because the global demand for natural gas is growing faster than that for any other source of energy, including oil. While the world currently consumes more oil than gas, the supply of petroleum is expected to contract in the not-too-distant future as global production approaches its peak sustainable level — perhaps as soon as 2010 — and then begins a gradual but irreversible decline. The production of natural gas, on the other hand, is not likely to peak until several decades from now, and so is expected to take up much of the slack when oil supplies become less abundant. Natural gas is also considered a more attractive fuel than oil in many applications, especially because when consumed it releases less carbon dioxide (a major contributor to the greenhouse effect).

No doubt the major U.S. energy companies would love to be working with Iran today in developing these vast oil and gas supplies. At present, however, they are prohibited from doing so by Executive Order (EO) 12959, signed by President Clinton in 1995 and renewed by President Bush in March 2004. The United States has also threatened to punish foreign firms that do business in Iran (under the Iran-Libya Sanctions Act of 1996), but this has not deterred many large companies from seeking access to Iran's reserves. China, which will need vast amounts of additional oil and gas to fuel its red-hot economy, is paying particular attention to Iran. According to the Department of Energy (DoE), Iran supplied 14% of China's oil imports in 2003, and is expected to provide an even larger share in the future. China is also expected to rely on Iran for a large share of its liquid natural gas (LNG) imports. In October 2004, Iran signed a $100 billion, 25-year contract with Sinopec, a major Chinese energy firm, for joint development of one of its major gas fields and the subsequent delivery of LNG to China. If this deal is fully consummated, it will constitute one of China's biggest overseas investments and represent a major strategic linkage between the two countries.

India is also keen to obtain oil and gas from Iran. In January, the Gas Authority of India Ltd. (GAIL)

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signed a 30-year deal with the National Iranian Gas Export Corp. for the transfer of as much as 7.5 million tons of LNG to India per year. The deal, worth an estimated $50 billion, will also entail Indian involvement in the development of Iranian gas fields. Even more noteworthy, Indian and Pakistani officials are discussing the construction of a $3 billion natural gas pipeline from Iran to India via Pakistan ¬ an extraordinary step for two long-term adversaries. If completed, the pipeline would provide both countries with a substantial supply of gas and allow Pakistan to reap $200-$500 million per year in transit fees. "The gas pipeline is a win-win proposition for Iran, India, and Pakistan," Pakistani Prime Minister Shaukat Aziz declared in January.

Despite the pipeline's obvious attractiveness as an incentive for reconciliation between India and Pakistan — nuclear powers that have fought three wars over Kashmir since 1947 and remain deadlocked over the future status of that troubled territory — the project was condemned by Secretary of State Condoleezza Rice during a recent trip to India. "We have communicated to the Indian government our concerns about the gas pipeline cooperation between Iran and India," she said on March 16 after meeting with Indian Foreign Minister Natwar Singh in New Delhi. The administration has, in fact, proved unwilling to back any project that offers an economic benefit to Iran. This has not, however, deterred India from proceeding with the pipeline.

Japan has also broken ranks with Washington on the issue of energy ties with Iran. In early 2003, a consortium of three Japanese companies acquired a 20% stake in the development of the Soroush-Nowruz offshore field in the Persian Gulf, a reservoir thought to hold 1 billion barrels of oil. One year later, the Iranian Offshore Oil Company awarded a $1.26 billion contract to Japan's JGC Corporation for the recovery of natural gas and natural gas liquids from Soroush-Nowruz and other offshore fields.

When considering Iran's role in the global energy equation, therefore, Bush administration officials have two key strategic aims: a desire to open up Iranian oil and gas fields to exploitation by American firms, and concern over Iran's growing ties to America's competitors in the global energy market. Under U.S. law, the first of these aims can only be achieved after the President lifts EO 12959, and this is not likely to occur as long as Iran is controlled by anti-American mullahs and refuses to abandon its uranium enrichment activities with potential bomb-making applications. Likewise, the ban on U.S. involvement in Iranian energy production and export gives Tehran no choice but to pursue ties with other consuming nations. From the Bush administration's point of view, there is only one obvious and immediate way to alter this unappetizing landscape — by inducing "regime change" in Iran and replacing the existing leadership with one far friendlier to U.S. strategic interests.

That the Bush administration seeks to foster regime change in Iran is not in any doubt. The very fact that Iran was included with Saddam's Iraq and Kim Jong Il's North Korea in the "Axis of Evil" in the President's 2002 State of the Union Address was an unmistakable indicator of this. Bush let his feelings be known again in June 2003, at a time when there were anti-government protests by students in Tehran. "This is the beginning of people expressing themselves toward a free Iran, which I think is positive," he declared. In a more significant indication of White House attitudes on the subject, the Department of Defense has failed to fully disarm the People's Mujaheddin of Iran (or Mujaheddin-e Khalq, MEK), an anti-government militia now based in Iraq that has conducted terrorist actions in Iran and is listed on the State Department's roster of terrorist organizations. In 2003, the Washington Post reported that some senior administration figures would like to use the MEK as a proxy force in Iran, in the same manner that the Northern Alliance was employed against the Taliban in Afghanistan.

The Iranian leadership is well aware that it faces a serious threat from the Bush administration and is no doubt taking whatever steps it can to prevent such

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an attack. Here, too, oil is a major factor in both Tehran's and Washington's calculations. To deter a possible American assault, Iran has threatened to close the Strait of Hormuz and otherwise obstruct oil shipping in the Persian Gulf area. "An attack on Iran will be tantamount to endangering Saudi Arabia, Kuwait, and, in a word, the entire Middle East oil," Iranian Expediency Council secretary Mohsen Rezai said on March 1st.

Such threats are taken very seriously by the U.S. Department of Defense. "We judge Iran can briefly close the Strait of Hormuz, relying on a layered strategy using predominantly naval, air, and some ground forces," Vice Admiral Lowell E. Jacoby, the director of the Defense Intelligence Agency, testified before the Senate Intelligence Committee on February 16th.

Planning for such attacks is, beyond doubt, a major priority for top Pentagon officials. In January, veteran investigative reporter Seymour Hersh reported in the New Yorker magazine that the Department of Defense was conducting covert reconnaissance raids into Iran, supposedly to identify hidden Iranian nuclear and missile facilities that could be struck in future air and missile attacks. "I was repeatedly told that the next strategic target was Iran," Hersh said of his interviews with senior military personnel. Shortly thereafter, the Washington Post revealed that the Pentagon was flying surveillance drones over Iran to verify the location of weapons sites and to test Iranian air defenses. As noted by the Post, "Aerial espionage [of this sort] is standard in military preparations for an eventual air attack." There have also been reports of talks between U.S. and Israeli officials about a possible Israeli strike on Iranian weapons facilities, presumably with behind-the-scenes assistance from the United States.

In reality, much of Washington's concern about Iran's pursuit of WMD and ballistic missiles is sparked by fears for the safety of Saudi Arabia, Kuwait, Iraq, other Persian Gulf oil producers, and Israel rather than by fears of a direct Iranian assault on the United States. "Tehran has the only military in the region that can threaten its neighbors and Gulf security," Jacoby declared in his February testimony. "Its expanding ballistic missile inventory presents a potential threat to states in the region." It is this regional threat that American leaders are most determined to eliminate.

In this sense, more than any other, the current planning for an attack on Iran is fundamentally driven by concern over the safety of U.S. energy supplies, as was the 2003 U.S. invasion of Iraq. In the most telling expression of White House motives for going to war against Iraq, Vice President Dick Cheney (in an August 2002 address to the Veterans of Foreign Wars) described the threat from Iraq as follows: "Should all [of Hussein's WMD] ambitions be realized, the implications would be enormous for the Middle East and the United States…. Armed with an arsenal of these weapons of terror and a seat atop 10 percent of the world's oil reserves, Saddam Hussein could then be expected to seek domination of the entire Middle East, take control of a great portion of the world's energy supplies, [and] directly threaten America's friends throughout the region." This was, of course, unthinkable to Bush's inner circle. And all one need do is substitute the words "Iranian mullahs" for Saddam Hussein, and you have a perfect expression of the Bush administration case for making war on Iran.

So, even while publicly focusing on Iran's weapons of mass destruction, key administration figures are certainly thinking in geopolitical terms about Iran's role in the global energy equation and its capacity to obstruct the global flow of petroleum. As was the case with Iraq, the White House is determined to eliminate this threat once and for all. And so, while oil may not be the administration's sole reason for going to war with Iran, it is an essential factor in the overall strategic calculation that makes war likely.

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