

---

## **Russia and Iran to establish a joint venture in oil and gas production.**

Source: Vzglyad, 15/6/2006 Agency WPS  
The Russian Oil and Gas Report (Russia) 19/6/2006

---

Presidents of Russia and Iran Vladimir Putin and Mahmud Ahmadinezhad reached an agreement on establishment of a joint venture in the oil and gas sector. Analysts consider economic expedience of the project disputable.

At his meeting with Ahmadinezhad Putin said, "Our companies are negotiating on pooling of efforts in the oil and gas sector including establishment of a joint venture. We will support these initiatives of our Iranian partners." The President of Iran is prepared for broadening of economic cooperation with Russia. Ahmadinezhad remarked, "As to the energy sector, if we cooperate efficiently we will be able to receive much bigger results, for example, in gas industry. We can cooperate closely both from the standpoint of gas pricing and from the standpoint of determination of the main transportation flows."

Leaders of the two countries do not disclose the details of negotiations on establishment of an oil and gas joint venture.

Analysts presume that cooperation between Russia and Iran can be promising in transportation. Andrei Zorin, leading analyst of investment company Barrels, comments, "Iran has a problem with gas pipelines and Russia can help Iran in this aspect. Iran has very big gas reserves and Russia has possibilities for gas delivery."

Iran owns 16% of global natural gas reserves. The main fields are located on the seabed of the Persian Gulf and in the northeast of the country. By 2010, Iran plans to increase annual output to 290 billion cubic meters a year. Full-scale gas export will begin by the same time. For increase of supplies Iran may try to restore the gas pipelines chain IGAT: IGAT-1 with capacity of 9.6 billion cubic meters a year built in 1970 for gas export to Armenia and Azerbaijan and IGAT-2 with capacity of 27 billion cubic meters a year construction of which has not been accomplished because of the Islamic revolution of 1979 in Iran.

Both pipelines require reengineering. Their putting into operation may enable Iran to supply gas to Europe via Ukraine. Extension of the existing gas pipeline from Iran to Turkey to Greece is considered as an alternative option.

Oil reserves of Iran are very big too. In 2005, the country had proven reserves of 132 billion barrels (about 10% of global reserves). In 2005, Iran produced 4.2 million barrels per day and exported about 2.7 million barrels of this quantity. In 2005, Iran was the fourth largest oil exporter of the world.

Iranian constitution prohibits sale of shares of national oil producing enterprises to foreign companies or granting of oil production concessions to foreigners. Oil fields in the country are being developed by Iranian National Oil Company. However, at the end of the 1990s some foreign investors came to Iranian oil industry.

These are French companies Total and Elf Aquitaine, Malaysian Petronas, Italian Eni and Chinese CNPC that receive a part of produced oil under "compensation contracts" and after expiry of a contract hand the fields over to the Iranian state-run company.

Zorin presumes that with assistance of Russian companies Iran can develop the Iran-Armenia gas pipeline. The expert explains, "Russia has enough gas of its own, that is why the countries can negotiate on re-export to Europe. Russia is not admitted to European markets eagerly. Along with this, the country has a possibility to establish interaction with Iran in setting of sufficiently high gas prices. Now the end buyers in Europe receive gas fivefold more expensive in comparison to the price at which gas is sold by Gazprom."

Economic cooperation between Russia and Iran may trigger critique of Moscow on the part of the US. The Administration of George Bush does not wish to compromise with Ahmadinezhad. America insists on stopping of the Iranian nuclear program. According to unofficial information, the US Administration is considering a possibility of military resolving of the conflict with the regime of Ahmadinezhad.

Operations in Iran will be connected with certain risks for Russian companies. Alexander Razuvaev, director of the analytical department of financial company Megatrustoil, comments, "It is necessary to pay the due to the policy of President Putin. Russia has its own interests and it is necessary to defend them. From this standpoint it is useful to play on the contradictions between the West and Iran."

Zorin presumes, "Iranian gas fields are at the stage of development and it is in the interests of Russia to participate in Iranian gas projects. Conversations of Americans about human rights and Iranian nuclear program represent only a pretext for establishment of control over oil and gas of this country in case of war. That is why Russian expansion is necessary. Of course, the US will be discontent. It is possible that Russia will be reproached like in case of the nuclear program of Iran."

According to experts, not only state-run companies but also large private corporations will be able to implement Russian foreign policy in the Middle East.

Zorin says, "Many companies, first of all, Gazprom and LUKoil and possibly Rosneft are interested in such cooperation." Razuvaev says, "Of course, if a political decision is made Gazprom will be the company that starts cooperation with Iran. If this is oil industry, this will possibly be Rosneft. In the past, Tatneft tried to enter Iran. It is possible to understand them because they have a poor resource base."

Analysts are convinced that decision to broaden cooperation with Iran in the oil and gas sector is dictated by political reasons.

Razuvaev concludes, "From the standpoint of business, Iranian President is such a partner that it is better not to have because reputation risks are high. Probability of beginning of a war against Iran is high now. If the US wins the new authorities will invalidate the contracts signed by the government of Ahmadinezhad."

---