

Iran – Russia energy axis?

The world will soon complete almost a decade with unprecedented growth relatively well distributed across it. But this process has been associated with an impressive wealth transfer from energy lacking areas to those that have a surplus. It so happens that an energy supply problem has been gradually evolving into a foreign policy one that will not go away easily, unless the energy cartel is broken up.

Some figures from BP Statistical Review (2005) are useful to make this picture clear:

- World primary energy consumption – also proxy for production - amounted to 10.537 million tones oil equivalent, distributed among oil (36%), natural gas (24%), coal (28%), nuclear energy (6%) and hydroelectricity (6%), approximately. US explained 22% of global consumption and the EU 16%.
- World oil production of over 81 mm bbl/day had 31% of it produced in the Middle East and 12% in Russia, while 62% of world proved reserves were located in the Middle East (Iran, Iraq and Saudi Arabia with 12%, 10% and 22%, respectively).
- World natural gas production of 2.763 billion cubic meters had 19% of it produced in the US, 11% in the Middle East and 22% in Russia, while 27% and 40% of world proved reserves were located in the last two areas (Iran with 15% alone). US reserves accounted only for 3% of total natural gas reserves.

In other words, today 60% of world energy production is based on oil and natural gas, and over 60% of its reserves is mainly based in the Middle East and Russia. Under these circumstances, the consolidation of an energy cartel is obvious, with an implicit or explicit collusion among major producers, looking for its long term profitability dependant upon an average energy price over competitive levels. Needless to say, this energy case offers more than enough reasons to simultaneously have a convergence in other interests among these colluding actors, being geopolitics a natural one.

Just to have an idea of this economic power, using the average oil price of US\$ 54 per barrel that prevailed in 2005 world oil energy consumption gets valued at US\$ 1.641 billion, or 3,8% of world GDP. Moreover, world total energy consumption amounted approximately to US\$ 4.558 billion, or 10,6% of world GDP, valuing the other energy sources at oil equivalent figures. To put these numbers into perspective, from 1970 to 2005 the average price for a barrel of oil was US\$ 30,5, in 2005 dollars; in 1998 it averaged US\$ 16,8 .

The resulting geopolitical issue for the world lies in the fact that inside this same energy cartel two important actors, namely Iran and Russia, yearn for a more aggressive foreign policy deeply distrustful of western values. Both countries are not relevant from the point of view of population (Russia, 142 mm and going down; Iran, 69 mm inhabitants) out of 6.500 mm people in the world, or aggregate GDP (Russia, US\$ 740 billion; Iran, US\$ 181 billion), amounting to near 2% of world GDP. But their energy momentum is giving them a disproportionate economic and geopolitical influence that would not exist if this energy cartel were broken up. What's more, it would be naïve to expect from

Russia a sensible restraint towards Iranian nuclear policies once you take into account their common long term energy relationship. And coincidentally, it does not help the case having the US, EU, Japan, China and India (close to 70% of world GDP) poorly endowed with domestic energy sources.

At present conditions, new supply of energy will certainly come into the world market, pushing down prices (back to referential price of US\$ 20 a barrel of oil?) but the energy cartel will always exist under these economic structural conditions. The most effective long term price for peace – besides an energy discovery tantamount to combustion revolution at the end of XIX century - lies in an energy consumption tax agreed upon all energy lacking countries, no matter its source. There is no way around to a problem that will not be solved with romantic wind mills. This economic juncture requires a much more massive and collective energy proposal, where prices need to recover their scarcity signaling quality. And in this particular case, there is a world peace externality that needs to be taken into account, with corrective measures that could also be presented to the public as green taxes.

However, a world tax on energy consumption will weaken, but not nullify, Iranian and Russian ambitions. The rest of the answer will necessarily rest on hard power. There is no way around here too. When confronting future stability and development policies in the Middle East, Russia would better be seen as part of the problem, not part of the solution. In this wider sense, countries like Turkey, China and Israel should be much more reliable Middle East peace partners in the long term, whereas the EU, even under energy constraints, would not: it lacks willingness.

Manuel Cruzat Valdes

Santiago, Chile

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