International Isolation of Iran and Its Effects on Global Energy Security

by

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Abstract

Energy security can be considered as both an international and national security issue. Iran occupies a significant position in geo-economics in terms of energy. The state is not only a holder of the second largest natural gas reserves and third largest crude oil reserves in the world, but is also located in the center of Afro-Eurasia. In addition, the nation shares a cultural background with the Middle East (ME) and Central Asia. Given these characteristics, the current tensions between Iran and Western powers, and local political instabilities are causing serious issues related to world energy security. Thus, it is important to investigate the main causes and situation of Iran’s international isolation and determine how these factors relate to global energy security. In this paper, the background of the dispute between Iran and the United States (US), its trend, the current tension, and its effect both on energy security and regional security will be analyzed. This will lead to suggestions of suitable solutions for maintaining global energy security starting from these specific circumstances surrounding Iran.

*Keywords: energy security, geo-economics, international cooperation, national security*
1 INTRODUCTION

The world relies heavily on energy, as it is essential to modern human life. However, resources are limited and exist in specific regions. It has been forecasted that North America will import 75 percent of the total oil in 2020, and this figure for the European Union (EU) will be 90 percent in the year 2030. In addition, the political instability of energy producing countries, the manipulation of energy supplies and competition over energy resources, attacks on supply infrastructures as well as accidental events and natural disasters all pose a threat to global energy security. The dominant countries that rely on the supply of foreign oil also have problems with regard to energy security. Boasting more than half of the world’s known crude oil reserves; the Middle East (ME) is the key region for the international energy supply. The free flow of oil to the world markets from the ME is a vital part of the major energy safety issues.

This paper consists primarily of a literature review of research concerning energy import sources and energy security. The information presented in this paper is derived from secondary sources: available studies and reports, books, journals, dissertations in press. At the conceptual and theoretical level, we adopt Regional Security Complex Theory (RSCT) on energy security for the case study of Iran. In addition to being based on the theoretical concept of RSCT, this research attempts to apply this theory to energy security issues and the historical tensions between Iran and the United States (US) to analyze the current tensions between Iran and the Western powers regarding the nuclear issue. We apply RSCT and Rentier State Theory (RST) for the case study of Iran to support the treatment of external relations over internal troubles. Based on the research questions presented below, the following chapters investigate the grounds for the analysis and examination of Iran’s isolation as a security issue after the review of the literature.

Research Questions:

◆ Why have the Western powers isolated Iran from international society?

◆ How have they isolated Iran from the energy trade market?

◆ What other regional and national factors are weakening the national security of
2 IRAN’S NATIONAL SECURITY AFTER THE INTERNATIONAL ISOLATION

In addition to national instability, Iran has no firm status regionally or internationally, leaving the country in a situation of double isolation. In this chapter, the background of the dispute between Iran and the US, its trend, the current tension, and other factors responsible for accelerating Iran’s isolation will be analyzed.

2.1 International Isolation of Iran and Economic Sanctions

In recent years, the most contentious diplomatic issue between the US and Iran has been the latter’s nuclear activity. It has been constantly reported and exposed to the public by the IAEA, and now it has become common knowledge that Iran’s two major nuclear facilities now contain over eight thousand centrifuges and almost five tons of low enriched uranium. Iran has maintained that its nuclear program is intended for the peaceful production of new energy and not the production of weapons. Nevertheless, the tension between Iran and the US has continued to mount. To stop Iran from further nuclear development, the US has mentioned restrictions, negotiations, and military threats, and, in fact, US armed forces are positioned in countries surrounding Iran. In the tension between Iran and the US, energy is a key
issue that has taken the situation to a different level of complexity with other nuclear countries. In fact, Iran is not the only country which is under pressure from the US on the nuclear issue. North Korea has also been under constant pressure from the US, but it is a much less complicated situation compared to the relationship between Iran and the US.

The biggest contribution to Iran’s international isolation is the economic sanctions led by the US. Far more than just an evaluation of whether it is adhering to international standards, the pressure on Iran to cease its nuclear activities is related to economic interests. Besides the US, countries such as Israel and some European countries agreed wholeheartedly on the negative development of the situation. Since the exposure of Iran’s low enriched uranium facility in 2002, the international community has affirmed its commitment to resolve this issue by imposing multilateral economic sanctions on Iran, and in 2010, international sanctions were implemented. However, the US has been manipulating Iran’s international isolation through these economic restrictions. Led by the US, many nations and organizations including several member states of the European Union (EU) and Asian states and the United Nations (UN) agreed on sanctions to restrict the energy sector in Iran. As an example, the US and its allies have expanded the strategy of isolating Iran internationally by placing an embargo on Iran’s export of oil. This approach was made on the basis of the assumption that while Iran poses a threat to world peace and stability, it may not be able to effectively cope with economic threats and covert threats to its national security.

Based on the data in the US Energy Information Administration (EIA), there has been decreasing in Iran’s total production of oil after the sanction from 4.2 mbd to 4.1 mbd in 2010 and exporting of oil were 2.5 mbd by the end of 2011.¹ EIA provides statistics in their country analysis brief on Iran from January to June 2011. Based on the data, the following figures show “Iran’s crude oil and condensate exports for key countries”, in detail: % of Iran's exports, total volume of crude Imported from Iran ('000 b/d), Iran as a % of total crude imported.

2.2 Other Factors Weakening the National Security of Iran

In addition to its international isolation due to the efforts of the Western powers, Iran has an unstable position and is isolated to some extent at the regional level as well. It has a history of tension with other Middle Eastern states, particularly the Arab states. Despite Iran’s strategic and geographical significance in the ME, it does not share many similarities with or rely on its neighbors due to its unique cultural characteristics that differ from those of the Arab nations. Its official name, the Islamic Republic of Iran, would suggest that it has strong religious ties with the other nations in the ME. However, there has been conflict historically due to the Sunni/Shiite sectarian divide in the Islamic world. As a major Shiite state, Iran has had contentious relations with the majority of its Sunni neighbors. Furthermore, Iran is distinguished from its Arab neighbors due to a language divide as well, as a Persian/Farsi speaking nation. In the context of the language and nationality, Iran’s policy with the neighbors located in

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2 Suzanne Ly, op.cit., p.4
Caucuses has far amity relationship, especially with Azerbaijan. Iran’s rights for energy resources in Caspian Sea are unstable. Majority of population of the countries is mostly Shiite Muslim, but its leadership is highly secular. Ethnically, Azerbaijan is Turkic, and Iran scares that they threat Iran with Iran’s Azeri Turkic population.\(^3\)

In such a situation, the lack of cultural homogeneity within the ME has been counterbalanced by the associations based on economic relations. Iran occupies the most important position in its relationship with its other oil producing neighbors. Since the Iran-Iraq war, a bipolar system of two countries, namely, Iran and Saudi Arabia, has emerged. As a naturally resource-rich country, Iran’s economic value was further emphasized and it was proclaimed a core player in the energy and economic security of the Arab countries. This manifested in the alliance of OPEC. However, due to multiple events, such as the steady weakening of OPEC, the instability of the ME, and, more recently, Iran’s economic sanctions, it appears as though the economic alliance of the Middle Eastern countries has also faded. In addition, due to the conflict between the US and the spread of terror, Iran’s isolation in the ME was settled and intensified.

The other factor that has worsened Iran’s economic isolation is the country’s unique national political system based on religion. Iran has a unique political system in which the supreme religious leader has the highest authority and all rights are concentrated with him. Although Iran had some freedom in recent history, its system of rule by the highest religious leader and according to Islamic law has created an inflexible political economy structure that has affected the energy industry and the whole national economy. Internally, efficient development could not proceed without the political economy of the structural contradictions in Iran. The political economic system led Iran to seek foreign investment as a result of the economic sanctions.

Therefore, adding to the problems created by the economic sanctions, the strict and limited regulations of foreign investment based on Islamic law create a closed and uncomfortable environment for the development of energy industry in Iran. For example, the “Buyback” contract enforced since 1990 by the Iranian government is one of barriers to foreign investors. According to the Iranian Constitution, Article 44,

the upstream sector of private ownership is prohibited. In this respect, the basic content of the Buyback agreement states that participation in nuclear exploration and development should be conducted through a wholly owned subsidiary of the state-owned company. It is closer to a service agreement for implementing development works, rather than a form of pursuing its own interests.⁴ Therefore, Iran struggles with constant deficiency in its production capacity, and restrictive contractual terms and economic sanctions have obstructed the essential investment to prevent its downfall. Since many of Iran’s investments in the energy sector are old, production has declined, contributing to an even larger decrease in revenues.⁵ There are rare upstream crude projects, and those that are proceeding have declined due to the loss of funding, expertise, and technology in the wake of the numerous sanctions imposed on Iran.⁶

### 2.3 Strong Relationship between Iran’s Energy Security and its National Security

The global coalition that is implementing harsh sanctions on Iran has increased in power and size, exerting a negative influence on Iran’s economy. In particular, upstream investment in oil and natural gas projects have been tremendously affected. This has prompted a number of international energy companies to pull out of upstream projects in Iran. The sanctions have also impeded the import of refined products, prompting efforts to boost domestic production and curb the rising demand in Iran.⁷ This has particularly decelerated the trade flows of the energy sector.

Energy is generally considered to be the most important material factor in establishing the political power of a nation in international politics. The common concept of security in international relations starts with political security, but energy security as a type of economic security should be taken into greater account. Economically, there are many problems associated with Iran’s energy sector. In the national context, the

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⁷ Ibid.
energy issue is directly related to the national power of the Iranian nation in everyday life and in its national security. Therefore, it could not be said that a nation with self-sufficient energy in times of peace has high energy sufficiency. Energy supply and demand determine Iran’s national security as well as the stability of its political and economic status. Any change in the energy trade could affect the economy.

As a rentier state, Iran’s economy is highly dependent on the energy sector, and Iran’s energy related income is of great significance; however, this has made Iran too fragile in this situation of sanctions. In any state, the level of dependency on oil and gas import or export is linked to energy and national security. Considering that Iran is a rentier state, its economic security is directly related to its national security.

Rentier states obtain the majority of their revenue from oil exports, and as producers, they require buyers to import their product. Iran has the highest rate of economic reliance on natural resources as compared to the other members of OPEC. On December 19, 2011, the New York Times reported the following: “The sale of oil—about 2.3 million barrels are exported every day—accounts for more than 50 percent of Iran’s national budget. Current estimates point to Iran losing $133 million a day due to oil sanctions. This is all the more significant when realized that oil accounts for one half of Iran’s government revenues”. See the Figure: Non-Oil Sector Activity Remains Robust.

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8 Mostafa Moshiri Tabrizi and Davod Kiany, op. cit., p. 748
Figure 2. Non-Oil Sector Activity Remains Robust (Real GDP Non-growth; percent)

Source: National authorities and IMF staff estimates.

3 IRAN’S NATIONAL SECURITY AND GLOBAL ENERGY SECURITY COMPLEX

3.1 Concept of RSCT and Energy Security

In the 2003 book Regions and Powers: The Structure of International Security, Barry Buzan and Ole Waever developed a theory of regional security to RSCT. In geographically shaped regions, how security is clustered is explained by the concept of regional security complexes. In his 2007 work “Energy Security and the Regional Security Complex Theory,” Mikko Palonkorpi took the first step forward in offering some basic definitions of RSCT and then attempted to show the application of RSCT.
and securitization to energy security issues.\(^\text{12}\) By using this theory, the effect of regional instability between Iran and the US on global energy security issues can be partly explained. The relationship between energy and security has been one of the most important issues shaping national, regional, and international relations.

The concept of overlay\(^\text{13}\) occurs as one of the structural options available for the security complex: “when the interests of external great powers transcend mere penetration, and come to dominate a region so heavily that the local dynamics of security interdependence virtually cease to operate.”\(^\text{14}\) The overlaid states are in an unbalanced situation. To apply this theory to Iran’s case, the dominance of economic sanctions by external powers caused a decline in Iran’s national security and ceased Iran’s local dynamics of energy security interdependence on consuming countries.

There is a strong relationship between the diversification of national security and energy security. National security determines accessibility and availability in the energy trade market. The major consumers are looking for stable sources of energy, while the major suppliers are looking for stable markets. However, if there is a lack of national security cooperation between a country and its neighbors, an alliance among them would not be expected. It would be applied to both producing and consuming actors. It is essential to build a stable and secure state and international community to ensure a secure energy supplying environment. Any political insecurity and competition to assume the dominant position in the region from external super powers will exacerbate the unbalanced security. In the case of Iran, it has been internationally isolated through the imposition of different types of sanctions since 1979. The current tensions between Iran and the Western powers and local political instabilities have caused severe issues concerning world energy security. Iran had to make a self-sufficient base for national defense; therefore, it has constantly influenced global energy security. The political and economic instability conceived the global dimension to secure energy resources.


\(^{13}\) Buzan, Barry, op. cit., pp. 215-220.

3.2 New International Cooperation for Energy Security

Despite the disadvantages and unbalanced situation, Iran started seeking new geo-economic complexes, and it is changing global energy security. The state not only contains the second largest natural gas reserves and third largest crude oil reserves in the world, but also is located at the center of Afro-Eurasia. Iran actively uses its natural resources and geographical advantage and government-led economic system as a significant strategic advantage. Iran has tried to escape its unstable isolated situation through the market needs of the countries that are closer to it geo-economically rather than geographically; in other words, it has sought to establish a market for major energy consumers. Iran thus found the necessity to construct balanced security between states for a secure energy supply.

In what follows, the arguments for and against isolating Iran are discussed and how the behavior of the major consuming countries has been influenced is considered. New international cooperation for energy security can be explained by the relationship between Iran and other nations based on the categorization by the Three Worlds Theory (TWT). The TWT\textsuperscript{15} is different from the Western theory of the Three Worlds or Third World. Mao Zedong advanced and utilized it in the real world. For instance, China and India belong commonly to the second and third worlds, respectively, in the Western theory. However, China and India are both categorized as part of the Third Non-Aligned World in Mao’s theory. To compare the map with the ‘Index of Economic Freedom’\textsuperscript{16} which is presented in 2009, it is not difficult to see that the two maps highly have in common.

\textsuperscript{15} “With the end of conventional European imperialism, there were three groups of states, or three worlds; the industrial, developed, capitalist world; the socialist world of Eastern Europe and China; and the third world of newly liberated and under-developed states. The theory, which with the abdication of communist despotisms in Eastern Europe became out of date, was more generally criticized for over-simplification; and for being applicable only to states, not to peoples or to political movements.” Jennifer Bothamley, (2004). In: (ed), Dictionary of Theories. 1st ed. New York, USA: Barnes & Noble Books. p.524

\textsuperscript{16} “Economic freedom is the key to greater opportunity and an improved quality of life. It's the freedom to choose how to produce, sell, and use your own resources, while respecting others' rights to do the same. While a simple concept, economic freedom is an engine that drives prosperity in the world and is the difference between why some societies thrive while others do not.” (2011). e.g. Training and certification. [ONLINE] Available at: http://www.economicfreedom.org/about/what-is-economic-freedom/. [Last Accessed 27 August 2012]
Figure 3. World Map in Mao’s Three Worlds Theory

First World
The United States and its allies.

Second World
The Soviet Union, China, and their allies.

Third World
Neutral and non-aligned countries.


Figure 4. World Map in Index of Economic Freedom

Source: The 2009 Index of Economic Freedom


However, after 2010, the structure and boundaries of this complex have changed significantly since the isolation of Iran. Energy complex countries connected to form a new geographic perspective in the issue of energy dependence. For example, regardless of the geographical distance on the actual map, the high energy dependency countries have a close proximity in the energy complex, where the closer the exporter and importer are to each other, the more safe and secure energy they are. And the farther they are from each other, the more dangerous their energy security situation is in the complex.  

What follows is an examination of Iran and some other nations in the region that are significant in the concept of regional security complexes. With the EU member states agreement to impose economic sanctions on Iran, Iran’s major energy trading partners gradually moved to China, South Korea, India, and other developing countries in Asia. Moreover, Russia and other developing countries want to establish energy relationships with Iran, and Iran has tried to form and strengthen its energy and economic exchanges with Russia, the other countries in the Second World, most of the producer countries, and the important future consuming countries. These non-super power countries are Anti-American countries that all want to form alliances with Iran. According to the figure 1. above the inter-dependency is relatively high in the Iranian and European energy markets. The potential for threats on limited energy customers or energy markets exists, due to the over-dependency of the energy producers. Therefore, the approach from both the points of view of the energy importing and exporting countries is necessary in regional energy security.  

In the demand/supply axis at the international and regional levels, these three regions are supply and demand super powers. China and Russia are the countries with the potential capabilities to challenge the US hegemonic international order. China, through economic cooperation, has attempted to change the payment method for crude oil trading, which could weaken the influence of the dollar as a standard currency. It also represents a challenge to the hegemony of the US in the international order on other dimensions besides the nuclear issue.

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20 Mikko Palonkorpi, op. cit., p. 3

21 Mikko Palonkorpi, op. cit., p. 2
Furthermore, the main oil producing countries in the Middle East and the mass-consuming countries, such as China and India, have state-led economies. These countries prefer a government-led economic system to a free-market economic system; at the same time, they want a stable supply-demand system with each other.

Energy security has exposed a fear about instability due to geopolitical factors and external powers. With the focus on the theory of the balance of forces and fears, a new balance of power would be created with the formation of system of forces to deter the US. Eventually, countries with limited or no energy resources will reform their foreign and strategic policies. Pro-American countries such as those in Europe as well as Japan, have taken advantage of their free economic systems to trade with Iran. Private multinational corporations have access to energy markets that are separate from those of governments. They are understandably free from government policy because they can change their nationality or have multiple nationalities. They are against the possibility of economic sanctions and military action on the part of the US. They feel anxiety over the unilateralism of the US and are greatly influenced by diplomatic security and energy cooperation with Iran.22

4 CONCLUSIONS

The US has a long-term interest in certainty and power in the Persian Gulf and Eurasia regions. To succeed to this point, economic and military powers are the two great axes that maintain the global hegemony of the US. Economic and military tension between Iran’s Islamic regime and the US deepen and worsen by the sanction which caused to constant geopolitical instability and unbalance in global energy markets. At the same time, from the perspective of the economy as an absolute priority of all countries, the US-led economic isolation of Iran cannot be agreed on in the long term, because accessibility and availability in energy and national security are deeply related to each other.

There is an old saying, “the pen is mightier than the sword.” Before the Cold War era, a weapon was associated with armed war. In the modern era, economic ability is the greatest weapon. Real world hegemony can be realized by the country with the greatest economic advantage. Iran has been dealt with the isolation with its own advantage of effectiveness, which is stronger than both the sword and the pen, in global energy security. As well as, international society started to change their policy in a positive way to Iran for their interest and security in energy. The isolation of Iran affects and changes global energy security and, even more so, the hegemony of the world. Therefore, in order to convert unstable energy security to balanced energy security, international cooperation among all parties is essential.
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Figure 1. Iran’s Crude Oil and Condensate Exports for Key Countries

Figure 2. Non-Oil Sector Activity Remains Robust (Real GDP Non-growth; percent)

Figure 3. World Map in Mao’s Three Worlds Theory

Figure 4. World Map in Index of Economic Freedom