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An Oil and Gas Community: Prospects for Economic Cooperation in the Persian Gulf Region*

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Abstract: A close look at the OPEC's performance over the past 35 years, maintained by some economic trends from 1970 to 2005, such as fluctuations in the oil prices, energy efficiency and energy consumption within both developing and developed countries, suggests that, apart from the very recent upswings, oil prices were anything other than satisfactory in real terms. Furthermore, oil revenues were not able to bring about any significant economic growth in the oil-rich countries, let alone economic development and prosperity. Despite this, some oil and gas producer states are now contemplating another merger in the field, calling for the formation of a "gas cartel" on the same fashion and assumptions that OPEC popped up out of them.

Having recognized an urgent need for coordination of oil and gas policies among various players in the world market to address economic development requirements of the oil and gas producer states, at the same time a secured supply and delivery of energy to the consumer states, and more importantly, fulfill the climate security requirements of both consumers

* Views expressed in this paper are of the author, without any indication or implication for the current policy position of the Foreign Ministry of the Islamic Republic of Iran.

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and producers in the near future, this paper suggests the formation of an oil and gas community to encompass all these issues in one place.
This means that world major oil and gas consumers and producers should sit together, try to coordinate their demand and supply policies on a win-win basis. The outcome of such dialogues and negotiations could be different - based on their built up social capital- ranging from formation of a full-fledged oil and gas community to just some trade-off mechanism between "oil and gas production" and "economic development". This way, they can boost cooperation in other fields and prevent various conflicts and even confrontations in future.

Introduction

Iran is located in a region which is highly rich in oil and gas reserves. According to the 2007 estimates[1], (BP, 2007[internet]) Middle East holds more than 61.5 and 40.5 percents of world's oil and gas proven reserves respectively. Given the current rates of production, while world as a whole may have oil and gas reserves for another 40 and 65 years respectively, Middle East may stay in the market for another 80 and 220 years correspondingly.
Having this in mind, there seems that a number of questions grab our attention in this respect:
- Given the current rate of investment in the Iranian gas sector, does Iran have sufficient gas to release for the exportation to the world markets, in particular, Europe?
-Before that, does Iran enjoy a politically stable neighboring environment in order to continue producing and exporting oil and gas to the European markets?
- As an oil and gas producing country, is Iran happy with the performance of the OPEC so far?
- Focusing on the Persian Gulf per se, are the region's security dilemma, in one hand, and Iran's geopolitical features in the other, favoring establishment of our partnership with the West in the sphere of oil and gas?

-After all, is the West sufficiently willing to reach a long term oil and gas supply agreement with the energy rich countries of the Persian Gulf like Iran and Saudi Arabia? ‡

- Last but not least, are energy producer and consumer states ready to reach a compromised deal in the oil and gas sector to have more energy security in the future?

This paper tries to find out some reasonable answers for the mentioned questions from the viewpoint of an oil and gas producer country in the following order:

- Section two will points out to the lack of reciprocity in mutual expectations of the Western and the Middle Eastern states in having a serious desire to cooperate on the "energy" and "developmental needs";
- Section three explains the performance of the OPEC as an energy cartel and makes it clear that the old merging would no longer be a viable option for the future, although politically some concerned leaders may still think otherwise;
- Section four justifies the formation of an oil and gas community with the participation of all the Persian Gulf countries while favoring support by outside powers based on particular specification of region's security structure;
- Section five touches upon the West's vulnerability towards having a continued cooperation with the oil and gas producers of the Persian Gulf, having at backdrop Russian's intention and recent moves in the European energy market; and
- Section six keeping climate change at perspective, discusses the need for an oil and gas community to encompass both of "energy" and "climate" securities. The final section, section seven, gives a short summary of the paper.

‡ Specially after observing the Russian response to the US moving bilaterally to control oil and gas supply streams in the Eurasia through FTA building.

How do energy potentials of Iran and the Middle East remain promising for Europe?

Regarding the energy capabilities of Iran and the Middle East in serving continuously oil and gas to the European market, I have a mixed feeling due to a growing disagreement among scholars and policy makers in this regard. While some analysts believe that the region remains a promising source of fossil energy supply to the West for a long time, others may remain skeptical.

On the pessimistic side, some scholars are trying to encourage shifting attention from the Middle Eastern sources of supply to other sources in the world. For instance, a last year policy paper by the Hudson Institute of America for the use of the European Parliament called for the EU energy policy to shift away from the (Russian and) Middle Eastern sources of supply to countries located in the North African region. This is proposed on four grounds: The widespread threat of terrorism and war in the Middle East, possible use of energy as a political weapon, state-run energy monopoly and uncertainties coming from changing regional dynamics in and around Iraq, especially in the increased tension between Shia and Sunni Muslims. The paper recommends in the following manner:

"It should be clear that the Middle East is not a particularly promising source of oil and natural gas for Europe in the short to medium term. Of course, the EU should work towards finding solutions for the problems that continue to plague this critical region. However, this can be better accomplished if Europe is not beholden to Middle Eastern oil imports. Instead, the EU should look closer to home. The states on the south side of the Mediterranean Sea have substantial natural gas reserves. They also have well-established energy ties with the EU, having exported gas to Europe for several decades." (Baran, 2007: 19)

However, on the optimistic side, there are scholars and policy makers who do not see any problem with relying on the Middle Eastern sources of oil and gas even in the short-run and try to encourage the Western countries, including the US, to hold constructive engagement and discussions with the so-called "politically more troublesome countries of the region, such as Iran".

For instance, on May 14th, 2007, Financial Times (Dinmore, 2007[internet]) on the need for opening up a dialogue between Iran and the US quoting Chuck Hagel, a Republican senator and a critic of the US refusal to engage with Iran, wrote:

"The Middle East would not enjoy peace and security without involving Iran".

Clearly this assessment, despite passage of a year from that date, still seems to be as fresh and genuine as one can think. On another occasion, Andris Piebalgs, the EU energy commissioner in a response to questions about the EU's dependence on Russian gas, told the reporters[2]:

"We should diversify…try to get gas from any supplier, Azerbaijan, Kazakhstan, Turkmenistan and Iraq and Iran in the future."

"Press TV", a TV channel broadcasting twenty four hours a day in English, in its welcoming remarks report from Andris Piebalgs on a deal between OMV of Austria and Iran's National Oil Company,[3] while quoting him in his response to the possibility of the US concern about the deal, reports:[4]

"US concerns of the OMV deal stem from United States legislation that clearly does not allow the US companies to invest in Iran and the United States believes that it is counterproductive."

On the possibility of a UN resolution to stand in the way of executing the OMV deal, Piebalgs responds that:

"To be fair, I'd say to the OMV no United Nations resolution prevents them from doing this".[5]

All in all, one can conclude that while in the short-run due to the mentioned uncertainties and other sources of political instability, it seems quite realistic to shift attention from the Middle Eastern sources of energy supply to other sources like North Africa, in the long-run the conclusion may differ due to the fact that countries in the region like Iran overwhelmingly are considered to remain secure and stable source of fossil fuel supplies.

OPEC's Past Performance:

Looking from the perspective of oil producing countries, it is important to realize that cooperation of producers through the formation of the OPEC was anything other than a success in boosting their economic development.

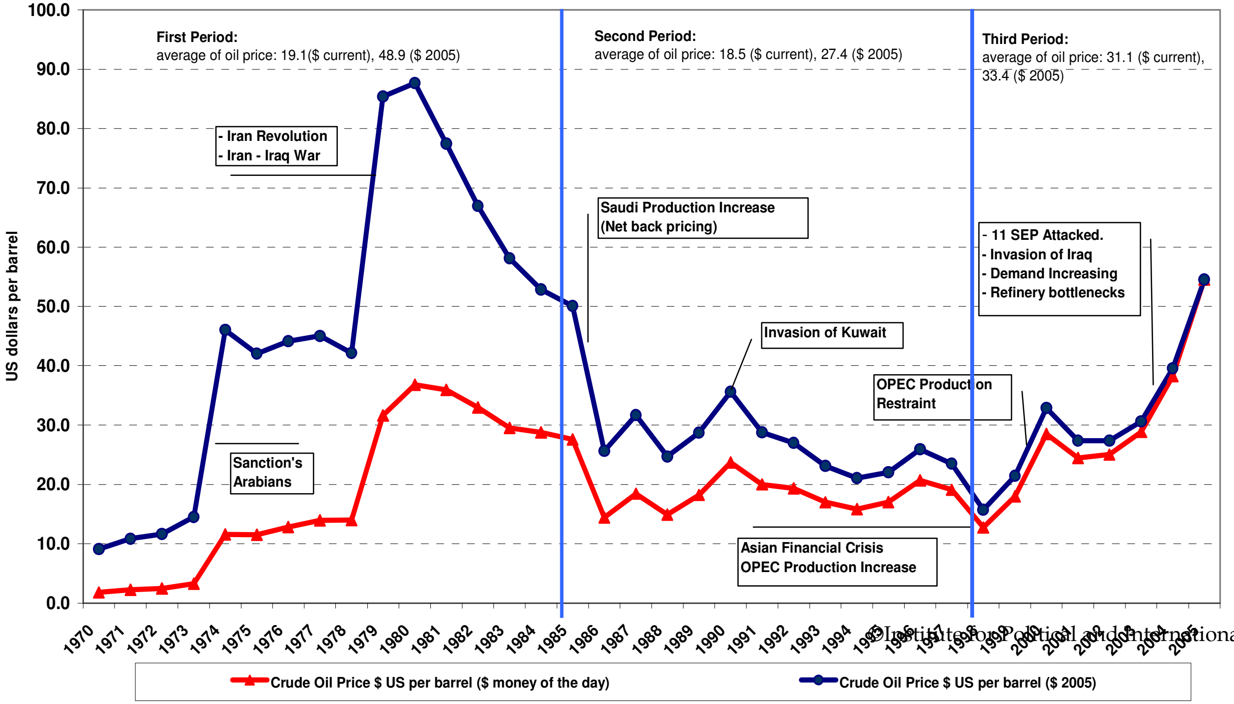
For instance, looking at oil prices during 1970 to 2005, it becomes clear that while oil prices in real terms were on rise in 1970s, thereafter they were hardly able to match the gainful times of late that decade. The question now is that whether any real or nominal gains in oil prices in the past 35 years could help OPEC's member states financially to pursue their economic development goals successfully.

Looking differently, I take a glance at oil consumption trends in the developing and developed countries of the world over the past 35 years and compare their responses to the price increase episodes. If developed countries' response was anything like reducing oil consumption through mostly energy saving methods, such a response has not been registered in the case of developing countries, due to the need for fulfilling as rapid as possible their developmental goals and lack of access to energy saving methods, be it financial or technical and technological. Therefore, it could be safely concluded that to the extent that developmental requirement of the oil producing states and in particular, member states of the OPEC was at stake, the cartel in real terms was more of a failure than a success story.

Looking into future, an obvious implication might be that formation of such a cartel in the oil and/or gas sector in the same fashion and environment that gave birth to the OPEC existence would be no longer a rational option. Therefore, endowed with huge proven reserves of oil and gas, the producing countries should pave a quite different path of cooperation in the future.

To start the inquiry, let's have a look at Figure (1) (Taghavi-Nejad, 2006) below, which illustrates oil prices over the time span of 1970 to 2005 in a comparable way.

Figure 1:
International Crude Oil Price Movements (1970-2005)



Using a fixed dollar value, namely the dollar value of the year 2005, it is quite evident that the oil price in 2005 (=$54.5), surpasses in nominal term any pre 2005 price, but in real term, it is less than the oil price of 1980 (=$85.4 adjusted), one year after the victory of the Islamic Revolution in Iran, by 31 dollars. Figure (1) suggests that the oil price of 2005 in real terms is more or less mimicking the 1973-74 oil (adjusted) prices, a period which coincides with the Arab oil embargo against some Western countries. The figure also suggests that while between 1970 and 2005, there has been three different phases of oil price fluctuations, first, an increase between 1970 and 1985, second, a decrease between 1986 and 1998 and third, an increase between 1999 and 2005, the average real oil price in the last phase was 15.5 dollars less than that of the first phase, using again the dollar value of 2005 as a benchmark.

Figure (2) below measures the consumption impact of oil price fluctuations during the same period. It is evident that while the world oil consumption has been reduced between 1970 and 2005, mainly due to reduction measures in oil consumption by the OECD countries, the reverse has been the case concerning the developing countries, of which a part is oil producing countries. On the contrary, oil consumption in the latter happened to be rising in the aftermath of oil crises and the years to come, due to the discussed reasons.

Figure 2: Oil consumption share as percent of world oil consumption

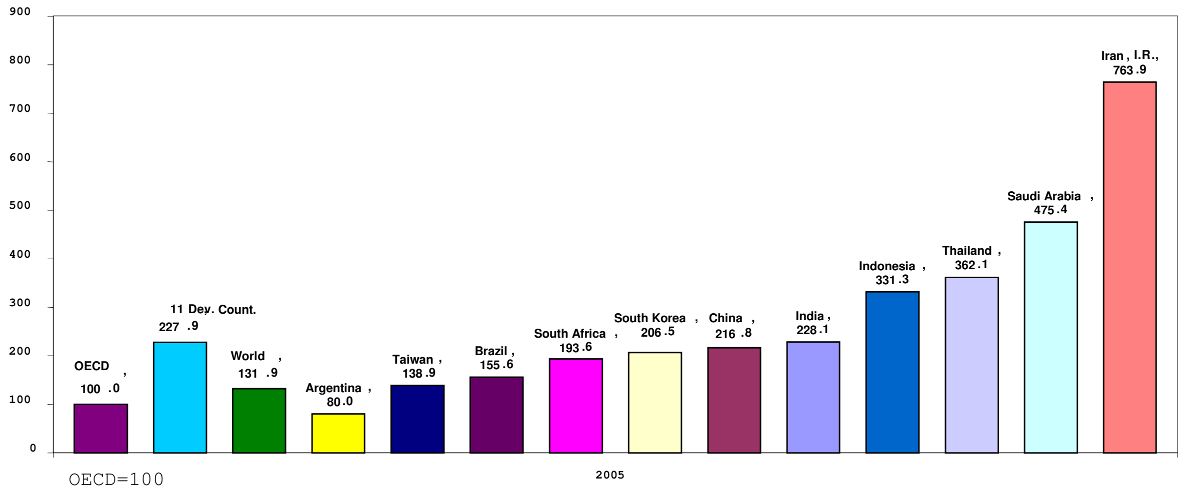
Countries	Average share			Forecast*
	1970-1985	**1986-1998**	**1999-2005**	**2025**
OECD	68/3	63/3	61/7	48/3
Developing	18/3	26/9	33/6	46/8
Others	13/4	9/8	4/7	5/0

Source: BP Statistical Review of World Energy June 2006.
 * Forecast: OPEC, OWEM 2006.

Figures (3), (4) and (5) below also give a better picture by comparing the oil consumption intensity and oil consumption per capita as a proportion of the GDP per capita in the two mentioned groups of countries. Figure (3) illustrates the oil consumption intensity within the 11 selected developing countries, (China, India, South Korea, Iran, Saudi Arabia, Indonesia, Thailand, Taiwan, Brazil, Argentina and South Africa) and between them as a group and the whole OECD countries.

Figure 3

Oil consumption intensity index



Measured in terms of oil consumption per capita as a proportion of the GDP per capita in Figures (4) and (5), it is clear that while the said ratio has been less than one and stable in the case of the OECD countries, it remained to be quite high and yet increasing in the 11 selected developing countries.

Significantly the response of the OCED countries to the rising prices of 1979 was in the form of a sharp cut[6] in the level of per capita oil consumed, through huge sacrifices in the GDP per capita up to 1983. While in the case of 11 selected developing countries, such a recognizable response was not seen at all.

Figure 4
Oil consumption and GDP per capita in 11 selected developing countries

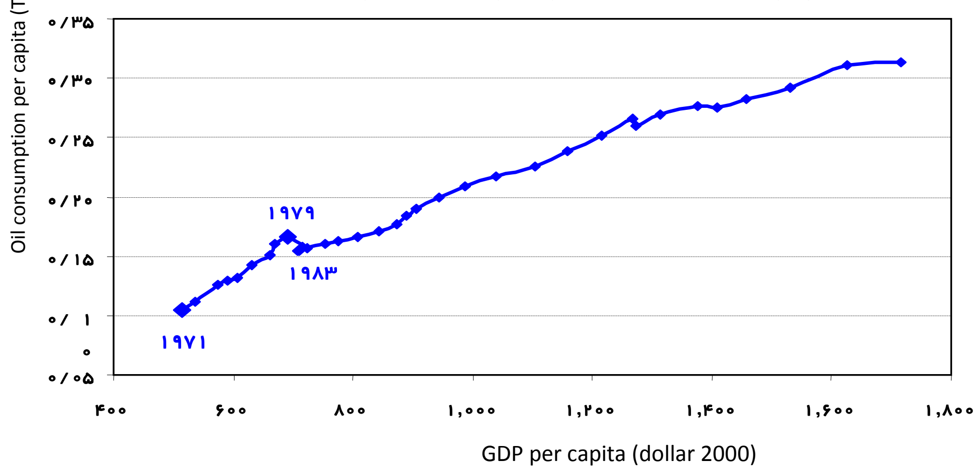
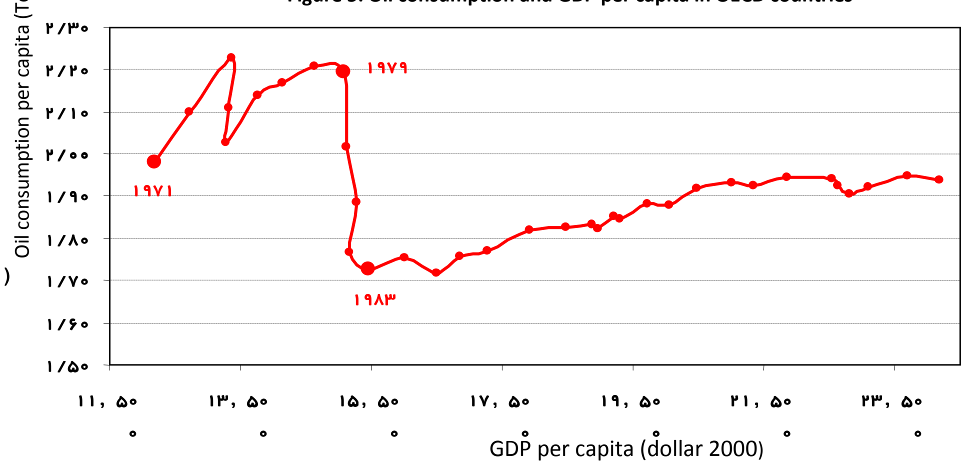


Figure 5: Oil consumption and GDP per capita in OECD countries



Source : BP Statistical Review of World Energy June 2006

In conclusion and judged by the mentioned criteria, it seems quite difficult to assume that the OPEC as a cartel in charge of organizing oil production levels and acquiring benefits for its member states has succeeded in bringing about economic prosperity for its members or for the least developed nations who had a perceived thirst for oil to fuel their developmental needs. As mentioned before, this brings us to the conclusion that if any energy cooperation is going to take shape in the future that would no longer be of the same form and shape of the OPEC.

Iran's Geopolitical Features

Through discussing geopolitical features of Iran, it becomes evident that not only Iran is resourceful in terms of huge endowments of oil and gas reserves but also it could be viewed as a prosperous candidate for an energy hub throughout the whole region due to the high size of its hydrocarbon endowments and its crossroad position in the region. Having endowed with these qualities, Iran would be naturally an influential economic power in determining the quality of any future cooperation in the field of oil and gas. In the north of Iran, there are states capable of producing oil and gas for a lengthy time horizon in future; but, they are unfortunately landlocked. In the south, there exist member states of the PGCC, while rich in fossil energy resources, however incapable of generating powerful technical and social dynamics. Iran's great educated labor force and its sufficient technical expertise comparably is a competitive edge for establishing a regional energy hub. To be more specific and confined to the elements relevant to our discussion, a brief list of some important characters of Iran's geopolitics is as following:

- Not only Iran is usually seen as a regional political power in the Persian Gulf and a sizably big country of the region, but also in terms of intra-regional trade flows, it is becoming more and more important as a trade partner. A preliminary work (Motavasseli & Biniaz, 2002) using the estimates of a Gravity Model of Bilateral Trade between Iran and its major trading partners over the period of 1990 to

1999 shows that on the average each member of the Persian Gulf Cooperation Council (PGCC), cetris paribus, has traded with Iran 21.87 times as much as any other country in the data set. Of course, part of this large estimation effect might have something to do with other factors of affinity for which dummy variables were not introduced into the model. However, even with taking out those unknown effects, one can not expect that a huge shrink happens in the magnitude of the alluded estimate.

This brings us to the conclusion that looking from the window of intra-trade in the Persian Gulf region, Iran is already a natural part of the region's intra-trade flows. Therefore, it would be rational if one looks for a suitable legal and institutional framework in order to give this hidden reality a chance in terms of ultimately initiating an economic integration process aimed at common institutional building.

- Apart from intra-trade flows, the financial aspect is of high importance. Capital flight between Iran and some of the PGCC members, namely the UAE, estimates the residency of around 300 billion US dollars of Iranian private capital in the region. This figure leaves less doubt that Iran is an intrinsic part of any trade and financial reality of the Persian Gulf region. Observations of this sort may imply that for the economic betterment of the whole Persian Gulf region, it is necessary to formalize these hidden realities, as mentioned shortly, and focus on exploring ways and means to speed up the process of integration between Iran and the rest of the region. Moving along this line may result in having a gradually more moderate and economically considerate Iran over time which is instrumental in paving the way to further improvements of quality life throughout the region as well as in the world.
- Iran is located at the region's crossroad, where in the north; it is bordered with the landlocked countries of the Caucasus and Central Asia and in the south and southwest with the very small or medium-sized Persian Gulf states, both of which, rich in hydrocarbon sources of energy and ambitious to reach out to the world's hydrocarbon energy markets.
- Iran is not only sizable and trustworthy in terms of engineering and technical capabilities but also is capable of generating

a dynamically powerful pool of skilled labor force due to its big youth population. Furthermore, Iran is rich in history, culture and civilization, and seems to be highly socially and politically stable, while this is hardly the case with regards to other countries of the Persian Gulf region.

- Not only Iran's southern neighbors have been immensely troubled with the emergence of terrorist organizations and their projecting threats into the future, but also its northern neighbors seem to suffer from various internal and intra-regional conflicts and social unrests. Simultaneously, to the west of Iran is located the bloody Iraq, which is on the verge of sliding into an internal war and where on daily basis terror is taking large casualties. To the east, is located Afghanistan where partially and at least in some southern provinces, fighters and supporters of Taliban, associates of a well-known international terrorist organization- Al-Qaida have the upper hand. Therefore, it is safe to say that Iran is located at the crossroad of conflict sub-regions and areas. Jeffrey Frankel (Frankel et al. 1997) had dubbed a decade ago this region "a left-over" from all the viable economic groupings of the world, which in itself calls for immediate reconstruction efforts.

These favorably unique features, among other interesting domestic and regional advantage edges, make Iran a prosperous candidate for the establishment of a regional energy hub into which oil and gas flow through pipeline networks from its southern and northern neighbors, then with some processing and intermediary works, these energy sources in the form processed and final products flowed out through pipeline or shipping routes to the regional and world markets. Building physical infrastructures and processing facilities for this purpose could not be materialized without political leverage and financial help received from big oil and gas consumer states of the world, especially the Western countries.

Security Structure of the Persian Gulf and Integration Efforts

In this section, I will briefly sketch the security aspect of the picture I have in mind of the Persian Gulf region to make it even more clear that why I believe economic integration efforts should be immediately exercised in the region- upon them oil and gas community is of high priority- and why the support and help from great powers of the world, on a win-win basis, is of crucial importance in this regard.

Keohane (Keohane, 1969) and Mares (Mares, 1998) made it clear that regional security, more than anything else, is being influenced by the "security structure" and "security institutions" in a region. Having said this, one can safely say that Iran is part of a geographical region which is structurally and in terms of regional distribution of power susceptible to inherent insecurity and high probability of reoccurrence of regional wars. Therefore, before initiating any plan of action to pursue the collective prosperity and economic well-being of the Persian Gulf region, enough care should be given to this security structural problem and its remedies.

As Mansfield (Mansfield, 1994) put it in his book titled: "Power, Trade and War", there is a U-shape relationship between the degree of concentration of power in a region and the probability of occurrence of war out there. To apply this theory to the Persian Gulf region, it should be pointed out that this region has few countries of either small or medium size and in any likelihood there is no sign of a relatively big regional power, capturing at least, as a fair criterion, one third of the total GDP of the whole region, so that it can influence other states politically and economically and hence, shapes the security arrangements of the whole region. In other words, while the number of small or very small countries of the region like Bahrain, United Arab Emirates, Kuwait, Oman and Qatar is not sufficiently big to pave the way to the establishment of stable and peaceful coalitions to persuade the relatively bigger states refrain from acting provocatively and unfriendly towards their neighbors, there exists few other medium size states like Iran, Iraq, Saudi Arabia, (Turkey, Afghanistan and Pakistan) of which some (like Iraq in Saddam era) have had an economic incentive and political temptation to act aggressively and try to dominate the entire region through non-peaceful means or invade their smaller or weaker neighbors. This has been the case in the past in the Persian Gulf region, as we witnessed invasion of Iran and later Kuwait by Iraq in 1980s and early 1990s.

This brings us to the conclusion that Persian Gulf region has been intrinsically and in itself weak to secure stability and peace. To cure this situation, a solution would be departure from all military and security-oriented means towards confidence building measures of more of an economic nature in such a way that mutual trust building would be gradually a possible option. However, the political sensitivity in the region due to the extra-regional presence in the region and the historical lack of mutual trust is high so that moving along the confidence building measures can pay off working peace and security in the region at the end.

A nomination for such an approach through economic integration efforts could be formation of a cooperative organization around the issue of oil and gas, like "An Oil and Gas Community" with the participation of big consumer states of the world, or alternatively, a sort of "Centralized Monetary Union"[7] with integration in the oil and gas sector at the top of its priorities.

The Great Powers Interplay: Russian Response to the FTA Building Measures of the US

It seems that the formation of the European Monetary Union (EMU) was a move in response to the difficulties European countries were encountered with from globalization forces, i.e. an unfolding process that has earlier been initiated and strengthened by the United States. Therefore, while the European countries were interested in reaping the benefits of integrating markets, which is a basic function of globalization, at the same time, they had envisaged ways to contain its main destructive consequences.

More specifically, globalization could be seen (Scharpf, 1999) as a framework for integration of national markets for goods, services and capital. Then, if market integration is supposed to pave the way for liberalization of national capital markets, clearly its fruits could not be harvested without sacrificing some degree of domestic autonomy.

This is because a liberalized capital market weakens state control over exchange rate and complicates the task of monetary policy coordination.

It was indeed the recognition of this threat posed by capital market integration to the European Monetary System that formed an important factor in the political drive for monetary union during the late 1980s. A testimony to this is a report prepared by Tommaso Padoa-Schioppa (Padoa-Schioppa, 1987) for the European Commission. In introduction to this report, the following phrase has been written:

"The success obtained by persuading the community that efficient allocation of resources and price stability come first is what today makes it necessary to verify the overall consistency of the Community's design for years to come". Erik Jones (Jones, 2001) saw this quotation in the direction of the formation of the EMU. He explains that "Padoa-Schioppa's report did not itself call for the creation of EMU. However, it was clear in asserting that if the objective is "to successfully implement, and benefit from full economic financial integration," then "monetary union is the first-best solution".

Having settled this, it is noteworthy that the US response to the formation of the EMU rather than duplicating the same effort through formation of new alliances like establishing a dollar zone vis-à-vis Euro zone, was utilization of the concept of "free trade area" through engagement in a number of bilateral free trade[8] agreements with favored allies. The most noticeable of them are: Australia, Bahrain, Chile, Israel, Jordan, Malaysia, Morocco, Oman, Republic of Korea, South Africa, Singapore, Thailand and United Arab Emirates.

All in all, some may assert that the US move could have been justified in promoting free trade regimes and enhancing globalization and multilateralism efforts through "free trade area" corridor. Under such assumption, promotion of this kind of regionalism by one of the biggest and economically efficient countries of the world could not be seen as something intended from the outset to help anti-global forces or anti-multilateralism. On the other hand, a slim chance of future entitlement to bilateral free trade agreement with the US for the beneficiary candidates may prove to be productive in improving their overall economic performance to join the globalization forces.

However, the great powers' interplay did not stop here, as in the third round this nearly desirable US move was duplicated by the Russian government, but this time, only in the field of oil and gas. As registered by anecdotal evidence, this Russian response to the US FTA building move, was basically pursued in the court of old friends of the Central Asia and Caucasus.

This politically motivated approach had, perhaps, in mind to strengthen the Russian already tarnished global image through gaining political and economic powers via mainly monitoring and gripping on the transportation networks of energy sources in the mentioned region and hence monopolizing the supply of oil and gas to the Eurasia, so that an advantage edge could be built up at the expense of the supply of oil and gas running out of the Central Asian and Caucasian economies.

That is, one can imagine that the Russian response to the globalization efforts of the time and to the move adopted by the US in signing bilateral FTA agreements, has been choice of the same approach but exceptionally and lonely in the field of oil and gas, where Russians can maximize oil and gas revenue streams in a monopolistic manner, the ultimate result of which would be politically weaponizing energy to secure other political, economic and security objectives.

An announcement by the three presidents from Russia, Turkmenistan and Kazakhstan over reaching an agreement to build a pipeline running from Turkmenistan through Kazakhstan and into Russia's network of pipelines to Europe could be a testimony to what was earlier alluded to. These presidents have also indicated that, with Uzbekistan, they would revamp the entire Soviet-built pipeline network that carries Central Asian gas to Russia. Needless to say that Turkmenistan is the second largest gas producer of the Central Asia after Russia.

Clearly the importance of this deal in highlighting the Russia's role as a major supplier of oil and gas to Europe caused Western fears strengthened further that Moscow could use its energy clout for political purposes. One should have in mind that the Central Asian energy resources are so attractive and promising that the current "competition among Russia, the West and China to have an influence over it" has been dubbed a new "Great Game," after the imperial rivalry of 19th century of Britain and Russia in the region." (Vershinin, 2007[internet])

But after all, why should Russia proceed in this way? The answer may have something to do with the psychological injuries that Russian people suffered from in the aftermath of the collapse of the former Soviet bloc. It seems that a high political priority for the Russian administration thereafter was searching for ways and means to gradually reverse the process of social, political and economic deterioration and prepare the grounds for, ultimately, regaining the lost superpower image and status throughout the world.

It seems that along with the appropriate domestic measures, at least two external factors, or so to speak, international mishaps emboldened Russian administration to think that it was the right time to strengthen efforts to pursue this high agenda. Of which one was the New York terrorist attack on the World Trade Center. The September 11th terrorist attack tarnished the power and security image of the United States in the eyes of people of the world, including Russians, in that America as the wealthiest destination of the world's most talented migrants was no longer a safe heaven with respect to wealth and economic prosperity. The symmetrical image created out of this mishap on the Russian side, as the old major competitor of the US, was that perhaps Russia had not been doing the job that much bad or may do it better now. Indeed this mishap might have worked like a relief factor in calming down the injured memories of the Russians who were, a decade ago, desperately witnessing the collapse of their superpower status. In other word, one can assert that the September 11th attack was the end of an era of Russians' frustration and the resumption period of reversed expectations in terms of hoping for further social, political and economic flourishing and prosperity.

The second cause for the Russian government's move in pursuing measures to revamp its superpower image may have something to do with the US failure in Iraq, where it failed to bringing security and peace back to Iraq after invasion of March 2003. Prior to this occasion, the US administration refused to take a politically coordinated stance in the context of a multilateral effort to face the Iraq issue and instead engaged in a unilateral way to invade Iraq and topple Saddam Hussein. The clear hope was that it could bring peace, democracy and prosperity back to the Iraqi people. However, not only US failed to do so but it largely further damaged and tarnished its credibility and image as the world's self-proclaimed honest broker and police.

This clumsy situation seems to have emboldened again the Russian government in thinking that now there were sufficient unfilled opportunities and niches to fill out and misuse, hereby regaining the lost superpower image. A strategic move in this regard was, perhaps, entering the hot venue of supplying oil and gas of Central Asia and Caucasus to Europe by exerting political leverage. This move, if left unchecked, will be seen as something tending to strengthen the strategic position of the Russians in the oil and gas market through pushing other suppliers elsewhere to act under the Russian hegemonic banner in that sector. Gaining control over supply of nuclear energy and fuel would probably constitute the next strategic move down the Russian list of political priorities in the direction of the mentioned hegemony.

What is really unwanted or intentionally ignored by the Russian moves in capturing regional control over flows of oil and gas to the world markets through bilateral deals, is the capability of oil and gas to be used as a developmental tool or regional confidence building instrument to create peace, stability and economic prosperity.

In other words, while Eurasia and the Middle East regions are considered to be inherently unstable regions, stricken by few internal and/or external conflicts and misfortunes and while oil and gas may be used as a political leverage to resolve current conflicts and prevent future ones, the Russian moves, for sure, does not leave any maneuver space for energy abundant countries to play their significant roles in this regard.

Putting Climate Change and Climate Security at Perspective:

My last argument here in favor of establishing an oil and gas community has something to do with the "climate change" and hence concerns growing around the "climate security" issue. It is highly evident that global concern about climate change is rising, the cost of which, if left uncontrolled, will amount to losses of world's annual gross domestic product (GDP) equal to 3 percent in 2030. This figure is according to the recent findings on climate change (Fiona & Wagner, 2007[internet]) which is articulated by the most leading scientists of the field.

Also a striking finding of the UN Intergovernmental Panel on Climate Change (IPCC)[9] has been the prediction of the "feedback effect" incident caused by the carbon dioxide galloping in the atmosphere above certain levels (i.e. about 535 to 590 parts per million CO_2) until 2030. Under this scenario, the world's temperature will probably rise by more than 3°C above pre-industrial levels, which may pave the way to the emergence of a feedback effect, amplifying temperature, and runaway climate change. This might bring sever climatic problems such as more violent storms, desertification and a sharp reduction in agricultural productivity.

The key findings of the mentioned report have been agreed by more than 150 governments and are going to provide the framework of ongoing delicate discussions in future. The report suggests that to cover the costs of climate change prevention, a total of 20000 billion US dollars must be spent on the world's energy infrastructures by 2030, which is equivalent to shaving growth in the world's GDP by 0.12 percent a year.

So, if the cost of inaction in future is going to fall more heavily on the world's weakest shoulders with only the least responsibility, obviously climate change will be a central issue of justice and morality in the world politics for the near future. It will require a collective will and action by not only the world's hydrocarbon energy consumers but also by its producers. This may suggest a new direction in the oil and gas cooperation and a new strategy in tackling the issue in a sustainable way.

In other words, while both fossil energy consumers and producers have traditionally kept a close eye on energy security as a two-way street, where consumers are looking for the security of supplies and producers for the security of deliveries and demand, now with the recent findings on climate change, it seems more conceivable to assume that both consumers and producers are rather faced with a twin challenge of "energy security" and "climate security", a problem that needs to be tackled as immediate as possible. That is, any plan of action for the initiation of a sustainable oil and gas cooperation must, firstly, reinforce confidence building measures and create mutual trust between both sides, consumers and producers, and secondly address simultaneously "energy security" and "climate security" in one place, i.e. in a joint policy framework.

The reason for such a proposal is twofold: Firstly, nowadays the serious reading of the new research on climate change has resulted in rising public awareness toward the issue even faster than the global average temperature. Therefore, oil and gas producing countries gradually realize that unchecked competition and behavior in energy consumption leads to the further greenhouse gas emissions and worsening of the oil and gas market condition.

Secondly, the previous economic consequences of establishing an oil cartel, was seen to be to some extent disappointing because of the sharp oil price fluctuations in one hand, and the failure to fulfill overall economic well-being and development goals of the energy suppliers, in the other. Therefore, with increase in the relative importance of gas market in the coming decades, it is feasible for the producer states to avoid repeating their past oil policies and, instead, focus with the help of the North states, on the gas market as a vehicle for further boosting economic growth and development.

This will be possible only if a constructive bargaining process between energy producers and energy consumers is to be designed. In this case, both sides should be ready to shoulder the costs and rewards of producing and consuming oil and gas on a fair basis and to pave the way in preventing future climate disorders.

Undoubtedly, going along this proposed line will require substantial investment funds on research, development and demonstration (RD&D) to revolutionize ways of energy production and consumption and create a truly sustainable circle of "energy, environment and development".

Norway[10], as a major energy producer, has fared considerably well along this proposed line by embarking on a major new research, development and demonstration project, the purpose of which is to build the world's largest full-scale CO2 capture and storage facility. This plan is in connection with combined gas-fired heat and power plant at Mongstad on the west coast and will become operational by 2014 as a cooperative venture between the Norwegian Government and the oil and gas company Static.

Concluding Remarks:

1. Disappointments over the drawn results from the past performance of the OPEC as an oil cartel along with the future problems attached to both demand and supply security of energy and the dominant climate change concern, seem gradually gain momentum and provide a vehicle for designation of a different oil and gas cooperation scheme;
2. The integrated nature of Iranian bilateral trade in goods and financial services with the Persian Gulf oil and gas producers along with Iran's unique geopolitical features, call for the Iranian territory as the most suitable candidate for establishment of a regional energy hub;
3. The historical unstable security structure and power distribution in the Persian Gulf region call for utilization of oil and gas as a conflict resolution and conflict prevention tool in this region;
4. The Russian response to the US move in the face of formation of the EMU, if left unchecked, in using "bilateral agreement framework" to monopolize the supply of oil and gas in Eurasia, will remove the chance of energy to be taking the role of an instrument for conflict prevention and conflict resolution in the Eurasia;
5. The progressive pattern of cost of climate security in future and hence the necessity to act in a timely manner to prevent the undesirable consequences of climate change, a common concern to

both consumers and producers of the fossil energies, together with the necessity to target “energy security”, will make the emergence of a newly designed alliance in the oil and gas sector vital. The new alliance should comprise both energy consumers and energy producers and manage a twin subject, i.e., “climate security” and “energy security” at once and under the banner of an umbrella agreement;

6. The major problem, as far as the establishment of a new oil and gas community or union is concerned, is the feasibility of such a plan with regards to following:

- Provision of sufficient investment funds to target such ambitious goals;
- Self-commitment of both consumer and producer states to build a joint venture in oil and gas sector, while hands are tied up at the back preventing future defeats and revenges on each other.

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Notes:

[1] Statistical Review of World Energy of 2007, BP, at: http://www.bp.com/productlanding.do?categoryId=6848&contentId=7033471.
[2] *EU should diversify gas suppliers:* EU Commissioner, at: http://www.eubusiness.com/Energy/eu-gas.09.
[3]This deal took place on April 21, 2007 between OMV, a leading oil and gas group in Central Europe, and Iran's National Iranian Oil Company. The deal includes the development of some sectors of Iran's gas fields, a gas liquefaction plant and purchasing contracts for liquefied natural gas and is worth $30 billion over the next 25 years.
[4]This concern showed up in the words of the US State Department spokesman, Sean McCormack,
[5] *OMV satisfied with Iran gas talks* - 14/05/2007 – Press TV, at: http://www.uni-graz.at/yvonne.schmidt/NAHOST.html#OMV_satisfied_with_Iran_gas_talks_-_14052007. Also look at: http://www.eubusiness.com/Energy/eu-gas.09.

[6] It led to a sharp reduction of about 7.5 million barrels of oil consumption per day in the whole group.
[7] A discussion on this matter has been suggested in the following article: Biniaz Ali and Mahmoud Motavaseli, *A Necessity for Monetary Regionalism in the Group 6+1*, Siyasat-e Khareji Quarterly (In Persian), Spring 2002.
[8] For a complete discussion refer to the website of the Office of the United States Trade Representative at: http://www.ustr.gov/Trade_Agreements/Bilateral/Section_Index.html.
[9] Intergovernmental Panel on Climate Change 4th Assessment Report, Working Group III on '*Mitigation of Climate Change'* Bangkok, May 4, 2007 would be consulted at: http://www.greenpeace.org/international/press/reports.
[10] Gahr Store Jonas, *Norway's Perspective on Energy Security*, Speech delivered by the Norwegian Foreign Minister in a meeting called: Breakfast with US House of Representatives, Friends of Norway Caucus in Capitol Hill, Washington D.C. on February 28, 2007.