The Internal Politics of Iranian Oil: Between Market and Politics

Dan Brumberg & Ariel I. Ahram
Georgetown University
Prepared for the Baker Institute Energy Forum
Rice University
Houston, March 2, 2007
Revolutionary Political Base: 1988-present

Political: Islamic Liberalism → Islamic Conservative

Economic: Interventionists → Laissez-Faire

NIOC Alliance Partners

Traditional Merchants/Bazaaris (Rafsanjani)

Reformists (Khatami)

Islamic Populists/Usulis (Ahmedinejad)
Revolutionary Pyramid: 1989-present

Clerical Establishment (Khamenei)

Political: Islamic Liberalism → Islamic Conservative

Economic: Interventionists → Laissez-Faire

Traditional Merchants/Bazaaris

Reformists

Islamic Populists/Usulis
State-Firm Relations

• The Oil Ministry is symbiotic with NIOC, not controlling it
  – No clear institutional distinction b/w NIOC and Ministry
  – Ahmedinejad lost battle over Oil Min., but is replacing deputy ministers

• Multiple levels/levers of control allow NIOC maneuverability
  – Parliament, President, Supreme Economic Council, High Economic Council, Oil Council, Guardian Council, Expediency Council, etc.
  – Supreme Leader Khamenei is final arbiter

• NIOC’s technical skills and its off-shore subsidiaries protect it from scrutiny
  – Still no movement on new articles of incorporation
  – NIOC’s overseas subsidiary, NaftIran Co. (NICO), is outside of Iranian jurisdiction and taxes
Foreign Policy

• NIOC is an instrument in Iran’s oil diplomacy
  – Iran believes oil is a strategic asset
  – Oil will lure Europe, Russia, China, Japan, and others away from U.S.
  – Iran can’t meet its OPEC quota, so it always wants production reduction

• NIOC is Iran’s ‘bridgehead’ to Asia
  – NIOC active in building relationships with India, China, and Japan
  – Iran failed to deliver on many promises to Asia, both b/c of U.S. pressure and changes in NIOC’s domestic alliances

• Short/long-term calculus of the Iran’s nuclear program
  – Long term, NIOC favors nuclear power b/c it reduces the amount they must subsidize
  – Short term, NIOC tries to dampen threatening rhetoric b/c it scares customers
  ♥ The business community has appealed to Khamenei to restrain Ahmedinejad
Domestic Economy

- Reform or rescind Article 44?
  - Allow foreign and domestic private capital into oil sector
  - Populists object, claiming it spawns ‘oil mafia’

- Showdown for control of NIOC is showdown over privatization
  - Ahmedinejad failed to get his choice as Oil Minister, but fights to control deputies and middle managers

- Rise of the para-statal firms
  - Major domestic investors in oil: state insurance companies, banks, pension funds, Islamic Revolutionary Guard Corps., and religious foundations *(bonyad)*
  - NIOC pension fund established offshore PetroPars & PedCo.
  - Requirements for J.V.s w/ Iranian firms part of NIOC’s payback to alliance partners, esp. *bonyad*
Conclusion

• As long as oil prices are high, everyone can get something
  – But the price of domestic oil subsidies continues to harm NIOC

• NIOC is more like a para-statal firm than a government agency
  – NIOC does business with other para-statals, including the religious foundation (*bonyad*), the pension funds, and the esp. the IRGC

• Khamenei’s role is to balance the system
  – NIOC can resist pressure from Ahmedinejad, but must respond to Khamenei