

The Internal Politics of Iranian Oil: Between Market and Politics

Dan Brumberg & Ariel I. Ahram

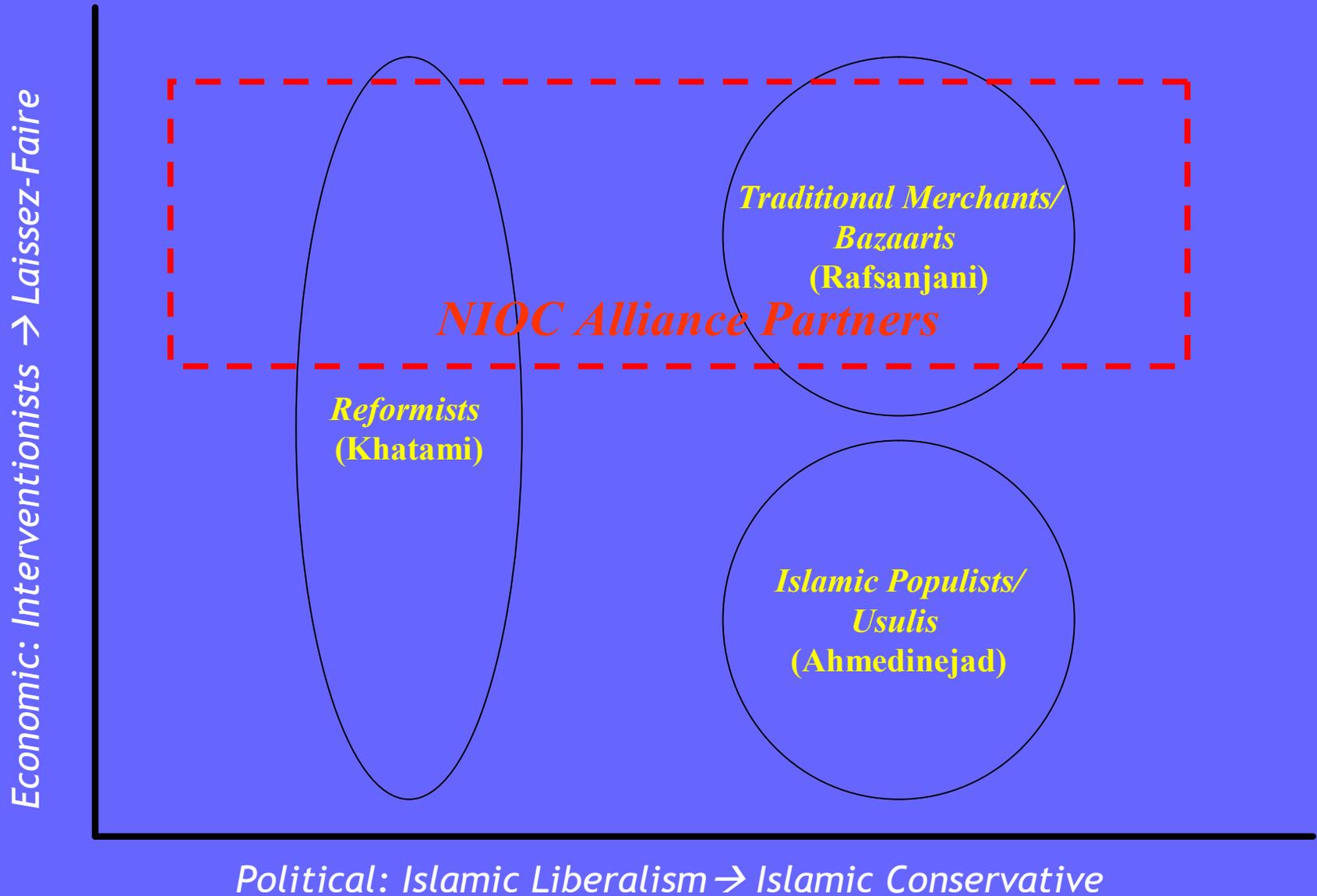
Georgetown University

Prepared for the Baker Institute Energy Forum

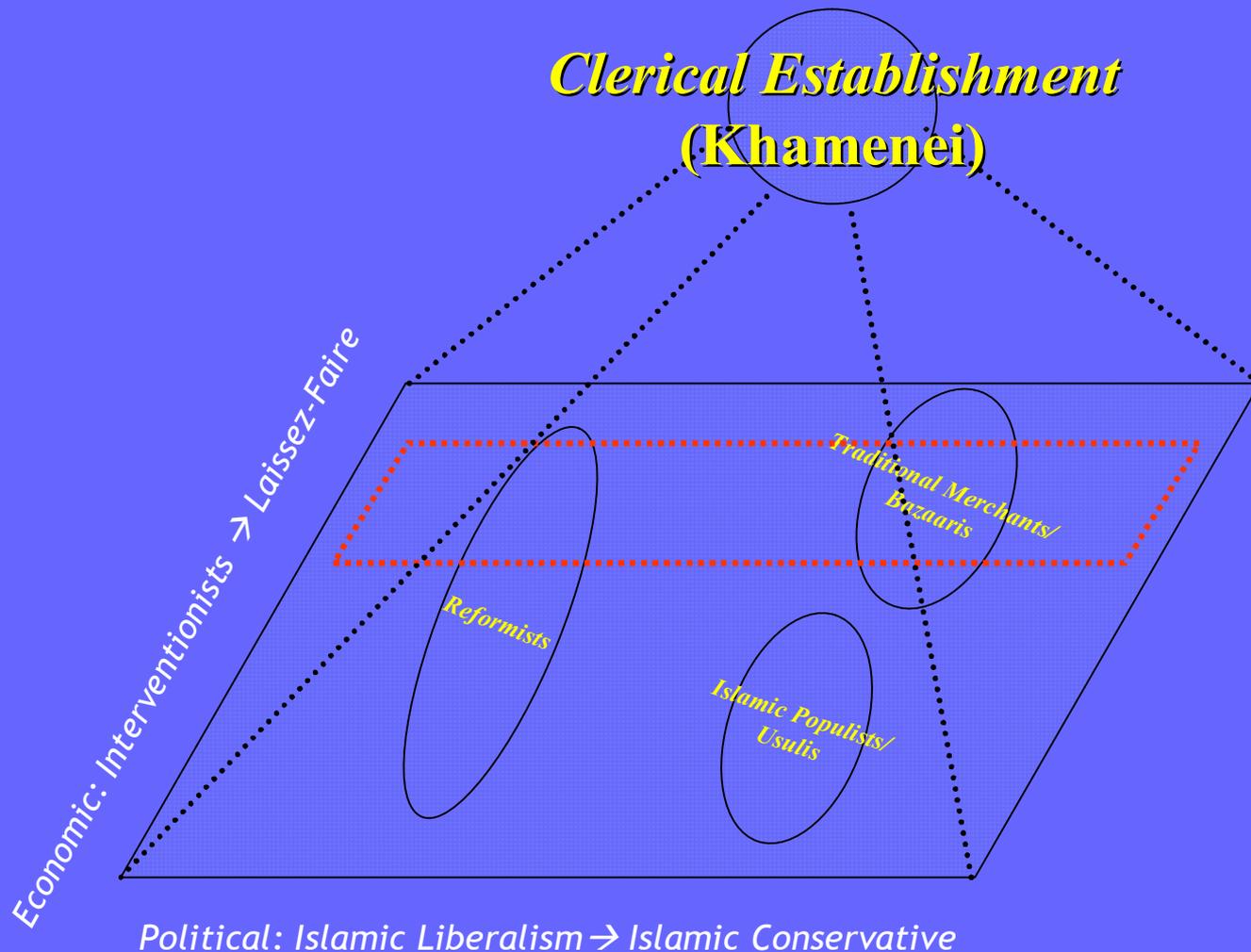
Rice University

Houston, March 2, 2007

Revolutionary Political Base: 1988-present



Revolutionary Pyramid: 1989-present



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