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NIOC and the State:

Commercialization, Contestation and Consolidation in the Islamic Republic of Iran

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I. Introduction

Ever since the 1979 revolution, Iran's national oil and gas company, NIOC, has existed in a continuously negotiated relationship with the Iranian state. The nascent post-revolutionary Iranian state has also undergone significant flux in its configuration and composition during this period. The relationship that has held between NIOC – the institutional embodiment of Iran's hydrocarbon industry – and the state, while nominally one of ownership, must therefore be examined with an appreciation of this complexity. The history of NIOC cannot be written without reference to political–bureaucratic networks and their power to determine outcomes in the sector. The current period has seen a consolidation of oil sector governance under a new elite – represented by the Iran Revolutionary Guards Corps (IRGC). This research will address current trends, in the context of historic relationships which have ranged from cooperation to antagonism between elected officials, parastatal entities, and NIOC, in the period following the end of the Iran–Iraq war in 1988.

Past studies of NIOC have made only limited inroads into this area. This has been in part for reasons of methodology. Marcel (2006) and Molavi (2009) have attempted to reveal underlying truths about the intersection of politics and oil in Iran, referencing interviews with current or former officials and managers. This approach, while intuitively attractive, leans heavily on insufficiently contextualized statements. The reader is often required to accept bland, unqualified conclusions. Statements such as 'NIOC managers explained that the company must follow government directives', '[t]he Ministry of Petroleum jealously controls NIOC', or 'in an industry of such importance, there are several centers of power' (Marcel, 2006) raise more questions than they answer. Nonetheless, it is possible that well-positioned informants may reveal useful information if the researcher comes armed with background knowledge sufficient to frame relevant questions, while adopting a critical stance towards responses.

It is the intention of this study to address this gap by constructing a narrative that reveals the role of elite configurations behind oil industry outcomes in the period following the end of the Iran–Iraq war. Research for this study has been conducted exclusively through online data gathering from official and unofficial Persian-language news sources. Industry-specific, and also mainstream, news resources abound in their coverage of Iran's oil and gas sector, and several specialist Persian-language oil and gas journals have also provided useful insights. In both political and economic debate, the Persian language media offers a high degree of detailed reporting and reflects contrasting viewpoints within the scope of opinions to be found within Iran's ruling elite. Thus equipped, the task of interpreting the most recent developments in the field can be undertaken with confidence in proportion to our knowledge of the past. While lacking the benefit of hindsight, it may yet be possible to frame predictions that accommodate convincingly the historical development of the sector up to the present.

Part II begins with a discussion of oil governance prior to the 1979 revolution, when control over the sector was concentrated within NIOC under the ultimate control of the Shah. It is then possible to analyse how, following the revolution, state–NIOC relations became characterized by overlaps and contestation as the company became embedded in the post-revolutionary political framework. During the presidencies of Ali-Akbar Hashemi Rafsanjani and his successor, Mohammad Khatami, ambiguities in NIOC's political status vis-à-vis the Oil Ministry were exploited by coalitions of political and bureaucratic actors. Offshore subsidiaries, whose status as semi-private entities facilitated the pursuit of commercial objectives outside the purview of formal state control, became the instruments of this exploitation, surviving until excluded rivals mobilized to curtail the freedom with which NIOC had previously been able to cooperate with members of the elected executive. During the same period, Khatam ol-Anbia, the civil engineering arm of the IRGC, began to pursue service contracts in the oil and gas sector. We conclude this Part by analysing the appointment of the former head of Khatam, Rostam Ghasemi, as oil minister in August 2011 and the subsequent adoption of a comprehensive new oil law in March 2012. Part III proceeds to apply lessons from this analysis to questions of ownership, control, and governance in the Iranian oil sector, while Part IV outlines areas deserving further study.

II. Iran’s Oil Industry: from concession to consolidation

i) The National Iranian Oil Company

The institutional embodiment of Iran’s oil sector is the National Iranian Oil Company. NIOC became the Middle East region’s first national oil company (NOC) when it was formed as part of the nationalization drive which began in 1951 when Mohammad Mossadegh became Iran’s prime minister, riding on a wave of nationalistic sentiment. Mossadegh attempted to wrest control over Iran’s oil resources from the Anglo-Iranian Oil Company (AIOC), the sole concessionaire. After negotiations failed to produce a settlement, a jointly orchestrated Anglo-American coup d’état deposed Mossadegh and returned the Shah of Iran, Mohammad-Reza Pahlavi, to full dictatorial power. The Shah assumed control over NIOC, running the company in the manner of a personal fiefdom through a succession of appointed ministers, until he was overthrown in the 1979 revolution.

The creation of NIOC did not signal an end to foreign interest in Iran’s oil sector, but the start of a new phase. In 1954 the Shah concluded an agreement by which NIOC, as owner and administrator of Iran’s hydrocarbon resources, would enter into contractual relationships with a new consortium of international oil companies (IOCs) that included American and French companies alongside BP (formerly AIOC). The British monopoly over Iranian oil was over but, in an important respect, the status of NIOC in relation to foreign oil companies represented the limits of the nationalization effort which had begun in 1951. During its early years, NIOC exercised formal ownership of Iran’s resources but not control over them. NIOC’s rights were restricted to sovereignty over Iran’s hydrocarbon reserves while the exploration, development, and production of Iranian oil fields were the sole preserve of the consortium partners.

It was not until the 1970s that NIOC came into its own as an operator, both in governance and with regard to its capabilities. In 1973, with a higher degree of bargaining power having been afforded by the tightening of the oil market, NIOC presented the consortium with an ultimatum that offered a stark choice between handing over all management and control over Iran’s oil assets, or losing all privileged access to Iranian oil and being treated like any other oil customer.

In the same year, a law was passed that formalized these extended rights, to cover hydrocarbon operations as well as formal sovereignty over the resources themselves. The 1974 Petroleum Act and Risk Service Contracts stated that:

> … [t]he Petroleum resources and the Petroleum industry of Iran belong to the Nation. The exercise of sovereignty right of Iranian Nation over the Petroleum resources of Iran with respect to the exploration, development, production, exploitation and distribution of Petroleum throughout the country and its continental shelf is entrusted exclusively to the National Iranian Oil Company who shall act thereupon directly, or through its agents and contractors.[1]

It is important to note that the exercise of rights of ownership over Iran's oil resources was granted unequivocally to NIOC. Within this new legal framework NIOC began to exercise a far greater degree of control over the country's oil fields.

ii) NIOC under the Islamic Republic

Changes to oil sector governance in Iran since the fall of the Shah in 1979 reveal complexity and contestation under the façade of NIOC's seemingly innocuous first initial. Before 1979, NIOC was a 'national' company in the sense that it answered solely to the person of the Shah as the ultimate embodiment of the Iranian state. While it was the Shah who had the final say over matters of policy and priority, NIOC managers had full responsibility for the execution of these plans in the functional sphere. This arrangement left considerable autonomy for company managers as agents within the broad strategic remit set unilaterally by its *de facto* position.

As Pesaran (2011) notes, with the fall of the Shah in 1979, the post-revolutionary state did not destroy and replace all of the institutions that had existed in the pre-revolutionary period, but instead introduced new entities to sit alongside the pre-existing bodies of government. The power vacuum above the oil industry that had resulted from the fall of the Shah in 1979 was filled by the newly created Ministry of Petroleum. NIOC itself remained largely intact, despite the loss of numerous experienced staff through purges and resignations. In addition, the company became the parent of new subsidiary 'national' companies formed as a result of the expropriation of assets of pre-revolutionary contracting companies. These included the National Iranian Southern

[1] Reproduced from Mina (2004).

Oil Company (NISOC), which assumed control over the assets of the departing consortium, and the National Drilling Company (NDC), which inherited drilling rigs left behind by pre-revolutionary service providers.

In practice, the *de jure* powers of the Oil Ministry did not automatically ensure its effective authority over NIOC as an oversight body. While the revolutionary constitution provided for all major industries to be 'publicly owned and administered by the State', the Oil Law of 1979 which granted powers of oversight to the new Ministry did not result in a concomitant reduction in the powers of NIOC. In practice therefore, NIOC retained many of the powers and responsibilities that had been within its remit under the Shah. In the words of a Majles representative who has been vocal during the recent drive to change the law 'even though the Oil Ministry was established in 1979, it has never really taken shape'.[2] Valérie Marcel, in her first hand encounter with personnel from the Iranian hydrocarbon bureaucracy, described the pervasive blurring of boundaries between Ministry and NIOC:

> During my visit, I was often confused about the exact position and affiliation of the person I was interviewing. When I was due to meet a manager of NIOC, I would find him in a ministry building, and a ministry official would be working in an NIOC building. (Marcel, 2006)

Despite constitutional changes in 2006, which required that policy making responsibilities and governance functions be reassigned from state-owned industries to ministries and government departments, the Oil Ministry news service reported, as late as 2012, that 'this process has not yet occurred with respect to the NIOC which still governs itself'.[3] Within its charter, NIOC retains the responsibilities of 'ownership, sovereignty and management' in the upstream oil sector, which is to say that the company exercises oversight with regard to its own activities. One member of the newly elected ninth parliament, which in 2012 mobilized to back a new oil law, complained that 'under current conditions, true power is held by the NIOC and there is no possibility of effective oversight'.[4]

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[2] *Fars News*, 'The end of the 30 year dominance of NIOC', 15 January 2012. [Last accessed: 2 September 2012]
[3] SHANA, 'NIOC contracting rights will increase', 7 February 2012, [Last accessed: 2 September 2012]
[4] *Farda News*, 'The end of the 33 year dominance of NIOC and presidential oil rights', 2 March 2012, [Last accessed: 2 September 2012]

The perpetuation of this institutional arrangement may be explicable, considering the weak incentives for disrupting the status quo. In 1979, lawmakers insisted that the ministry's budget be withheld until a new NIOC charter be delivered for parliamentary endorsement, but neither this requirement nor the threat was ever carried through.[5] Successive oil ministers have reassured lawmakers with promises to formulate new charters for NIOC and its subsidiaries but this has been perceived by some as a perpetual delaying tactic. As one long-time industry commentator put it 'one does not call for the nightwatchman to have oneself arrested'.[6] Traversing the distinctions between commercial enterprise and public body NIOC has, in the words of Brumberg and Ahram (2007), 'captured certain properties of the state' that have granted it a degree of *de facto* autonomy. This has enabled the company to engage in business strategies that struck a balance between the institutional needs of NIOC and the economic and political ambitions of successive administrations.

iii) NIOC subsidiarization under the Rafsanjani and Khatami presidencies

Following the Iran–Iraq war, the pressing need to re-establish infrastructure and economic capacity lent weight to arguments for economic liberalization. Under the post-war reconstruction presidency of Ali-Akbar Hashemi Rafsanjani (1989–97) mercantile elites gained a greater say in political decision-making; an openness to greater private sector and even foreign involvement in the Iranian economy continued under his successor Mohammad Khatami (1997–2005).

For NIOC, the trend towards economic reform brought with it the potential for what Harik (1992) defined as 'commercial goals within the purview of the state'. In the words of Bijan Namdar Zanganeh, a key ally of Rafsanjani who was later appointed as oil minister under Khatami, this meant that 'all units of NIOC ... should operate strictly on commercial terms and should make profits'.[7] Functionally independent pseudo-private entities were spawned in order to pursue investment as well as ambitions to develop in-house capabilities. Noteworthy subsidiaries included Petropars and Petroiran Development Company (PEDCO), both established in 1997 under the aegis of the Naftiran Intertrade Company (NICO), a wholly owned subsidiary of NIOC

[5] *ISNA*, '23 years without NIOC charter', 12 March 2012, [Last accessed: 2 September 2012]
[6] Hassantash, G. 'Talisman of the NIOC charter', *Energy Economics*, 131–2, October–November 2010.
[7] *APS Review Oil Market Trends*, 'IRAN – OPEC Middle East Decision Makers', 4 December 2000, 55:23.

registered in Jersey. NICO and its subsidiaries were not subject to Iranian law, nor were their revenues taxable by the state. Both Petropars and PEDCO were nurtured as private service providers while simultaneously maintaining strong ties with their parent company. The commercial independence of these two firms enabled them to tender for domestic contracts in partnership with foreign firms. Through its foreign-registered subsidiaries, NIOC had found a means of bypassing the constitutional restrictions on foreign financing of oil projects, effectively entering into contractual arrangements with companies in which it retained complete control.

Typical of these arrangements was the 1998 deal under which NICO secured a $250 million loan from Credit Agricole Indosuez to fund the participation of Petropars in the South Pars gas project. For collateral, NICO put up Iran's share of output from the Sirri A and E project, to be lifted by BP.[8] The deal used state-owned assets to back a foreign loan enabling an offshore quasi-private company to contract with a client that ultimately was its own parent company. A far larger deal in 2000 saw NICO securing a $3 billion credit facility from Japan following a visit to the country by President Mohammad Khatami.[9] The loan, to be invested through NIOC's commercial subsidiaries, would be repaid in crude oil exports to Japan. Payments to NIOC subsidiaries working under 'buyback' contracts with NIOC, whether in cash or oil, remained wholly within the institutional framework of NIOC, providing an ever expanding capital resource within the NIOC 'family'.

Central to plans to advance the role of NIOC's commercial spinoffs was the newly discovered South Pars natural gas field. This vast offshore resource provided a wealth of greenfield investments that could be developed in isolation from the tense relations that held between NIOC central management and its more established subsidiaries – such as the NISOC and NDC – which were not used to considering external capabilities.[10] Responsibility for developing South Pars was originally given to the Petroleum Engineering and Development Company (PEDEC), a wholly owned subsidiary of NIOC established in 1994 with a unit registered in the Channel

[8] *Petroleum Intelligence Weekly*, 'Nico Gives NIOC Greater Access To Outside Finance', 11 December 2000.
[9] *Energy Compass*, 'Who's who in Iran', 25 May 2001.
[10] Petrossian, V. 'Southern boys re-shape Iran', *Upstream*, 1 May 2008.

Islands enabling foreign operations.[11] In 1998, responsibilities were passed to Pars Oil and Gas Company (POGC), registered in the Virgin Islands. The South Pars project made POGC a powerful and profitable empire, which was held firmly within the NIOC family thanks to a controlling stake held by the NIOC Pension Fund, a parastatal investment fund controlled by NIOC management. The NIOC Pension Fund also held a controlling stake in Petropars, which was contracted to operate several stages of the South Pars project. International observers remained confused about the status of Petropars which '[a]t times, ... acts like a private company, although it is controlled by the government', as well as that of other entities which were little more than 'shadow subsidiaries without any real staff or capabilities'.[12]

The degree to which NIOC pursued ambitions outside the restrictive framework of the state during this period led Mahdavi (2011) to identify this period as a golden age during which NIOC enjoyed a large degree of autonomy from political influence. Seen from this perspective, the subsequent breakdown in these arrangements during the second Khatami administration (2001–5) and under President Mahmoud Ahmadinejad are viewed as the result of the *intrusion* of politics into commercial arrangements. However, to adopt such a perspective is to ignore the necessity of political involvement to safeguard NIOC's supposed independence. In truth, NIOC was never really autonomous but was always reliant on political backers. NIOC could only pursue its strategy of cultivating subsidiaries while the informal ties that bound it to its political backers held sufficiently firmly to resist the challenge of rival suitors. Allies of political leaders were often given important management or board posts in NIOC spinoff firms – this smoothed their ability to explore the potential of grey areas in the legal and constitutional environment within which they operated. Such political–bureaucratic coalitions necessarily generated relations of *exclusion*. Petropars in particular came under severe criticism for its appointment of political rather than technical figures to senior positions. Allegations of corruption hounded the Petropars chairman, Behzad Nabavi, a close ally of President Khatami, eventually forcing him to resign in 2001. The role of Mehdi Hashemi Rafsanjani (son of the former president) who was head of the Iranian Fuel Consumption Optimizing Organization (IFCOO), a subsidiary of NIOC, was revealed in the trial of Statoil executives who were found to have paid him bribes in 2002

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[11] *APS Review Oil Market Trends*, 'IRAN – Part 2 – The Oil & Gas Fields & NIOC Restructured', 2 April 2001, 56:14.

[12] *Energy Compass*, 'Who's who in Iran', 25 May 2001.

and 2003 through UK-registered intermediary companies that he owned, in order to secure contracts.[13] Under mounting pressure, Oil Minister Zanganeh eventually brought Petropars entirely under government purview by arranging for NICO to purchase shares held by the NIOC Pension Fund. In this way, the company was effectively 're-nationalized'.

Elite rivalry was again evident over the project to claim associated gas from the Salman oil field. Responsibilities for development were granted to PEDCO in 1998. In 2001, the company signed a deal with UAE-based Crescent Petroleum who contracted to purchase gas from the Salman field for resale to power generation interests in Sharjah. While the reformist backers of the plan held the political ascendancy, details of the contract remained outside the public eye. Following the election of President Ahmadinejad in 2005, backers of the deal lost their political cover. Allies of the new president brought to light the terms of the deal and attacked it on the grounds that unprocessed gas was to be sold cheaply. Populist rhetoric was not spared in attacks which equated unearned potential profits with the opportunity to 'create 2 million jobs, build 20,000 kilometres of highways and purchase homes for 1 million teachers'.[14] Crescent Petroleum was portrayed as an opportunistic and unnecessary intermediary.

However, by the time the original Crescent contract had become hopelessly bogged down, a new set of allegations – surrounding the president's allies – had arisen. A newspaper widely considered to be a mouthpiece of Iran's Supreme Leader revealed that the officials who had been central to exposing the original deal had themselves held secret talks with Crescent, possibly also taking bribes.[15] Accusations from this quarter were enough to stall the negotiations indefinitely. Having initially confounded their predecessors, Ahmadinejad and his allies thus found themselves stymied by rivals. Once again, the role of political contestation is seen to be primary rather than peripheral.

[13] Deferred Prosecution Agreement and Statement of Facts, US v. Statoil, ASA, no. 1:06-cv-00960-RJH-1 (S.D.N.Y. Oct. 11, 2006) US Securities and Exchange Commission, In the Matter of Statoil ASA, Administrative Proceeding File No. 3-12453 Cease-and-Desist Order, 13 Oct. 2006. Available at www.sec.gov/litigation/admin/2006/34-54599.pdf.

[14] *Hamvatan Salam*, 'Iran's $21 billion losses from Crescent deal', 30 January 2006. [Last accessed: 2 September 2012]

[15] *Radio Farda*, 'Keyhan accuses: Rahimi and Torkan likely to have taken bribes', 9 September 2009. [Last accessed: 2 September 2012]

PEDCO was again at the centre of a contested decision when it was singled out as a target for privatization in 2007. The successful bidder was a private firm, Dana Energy, headed by the former CEO of PEDCO, Mostafa Khoei. Khoei had led PEDCO's drive to commercialize and engage in international partnerships throughout the Khatami presidency but was dismissed in 2007 and replaced by Ali Beheshtian, a former senior manager at NISOC – which viewed NIOC's offshore spinoffs as a threat to market power in the contracting sector. Khoei's presence suggests that the prospective purchasers were tied in with networks instrumental in the creation and nurturing of PEDCO prior to their having been usurped.

In late 2007 the PEDCO sale was approved by the Iran Privatization Organization (IPO) and Dana paid 20 per cent of the $110 million asking price as a deposit. However, by early 2008, PEDCO managers had expressed their opposition to the sale and personally requested President Ahmadinejad put the deal on hold. In 2009, an official close to former President Rafsanjani accused former Oil Minister Gholam Hossein Nozari of blocking the deal 'for his own reasons'.[16] By 2010 it had become clear that asset stripping had changed the financial position of PEDCO and as a result Dana demanded a renegotiation of the sale price. Negotiations dragged into 2011 when Masoud Mir Kazemi, probably Ahmadinejad's most compliant oil minister, demanded that PEDCO pay back some $20 billion of debts to NIOC before privatization.[17] PEDCO was then added to a list of companies to be privatized in 2014. By mid-2011, Dana had withdrawn its offer, demanding the return of its deposit. Having been stripped of its most important contracts, PEDCO appeared to have been wound down completely, its offices in Tehran apparently inactive.[18]

The rise and fall of PEDCO and Petropars, and the controversy surrounding the Crescent gas deal, are illustrative of the inherently political nature of NIOC's commercial activities. It was not freedom from political interference that enabled the establishment of foreign-registered subsidiaries, but a favourable confluence of political and commercial interests. However, the challenges to these compacts do not offer evidence, as some have argued, for the strong assertion

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[16] *Aftab News*, 'Torkan: Oil Minister blocked Petroiran transfer', 6 February 2009, [Last accessed: 2 September 2012]

[17] *Iran Oil & Gas Network*, 'Oil Ministry not for PetroIran privatization til 2014', 18 January 2011. [Last accessed: 2 September 2012]

[18] *Upstream*, 'PetroIran may fade on failing privatization plan', 3 October 2011.

that President Ahmadinejad 'has tightened his grip over the oil sector' (Mahdavi, 2011). The controversy over the Crescent gas deal, as well as the successful resistance mounted against efforts to install favoured candidates as oil minister, illustrate that the clique surrounding the current president was never able to establish unchallenged authority over oil sector decision making. Nor is it useful to understand the erosion of the Rafsanjani–Khatami era commercialization project as a return by NIOC to a 'pre-revolutionary strategy of complete compliance with the state'. The fundamental relationship between NIOC and the state did not change until the reforms of the Oil Ministry's role which were passed in 2012. The shifts in the intervening period are better understood as being the continuation of a trend towards oil sector development by quasi-state players, with the progressive rise in importance of a new set of domestic contractors, most notably companies associated with the IRGC.

Nevertheless, even by as late as mid-2005, just weeks before Mahmoud Ahmadinejad denied Rafsanjani a third term as president, quasi-state players with rival political affiliations had not been able to break into the upstream sector. In May 2005, Oil Minister Bijan Namdar Zanganeh, a close Rafsanjani ally, cancelled a contract for development of South Pars phases 15 and 16 which had previously been awarded to a joint venture between Norway's Aker Kvaerner and the Iranian companies SADRA and Khatam ol-Anbia, both affiliated to the IRGC. Earlier in his term, Zanganeh had also strongly resisted attempts by MJF to penetrate the upstream petroleum sector, turning down their bid to develop two phases of the South Pars gas field.[19] The political–bureaucratic coalition that controlled the oil sector at that time was still largely able to repulse encroachment by competitors.

iv) The rise of the IRGC in the Iranian Oil Sector

In an October 2004 joint declaration with representatives of the EU3 (Great Britain, France, and Germany), Iran's negotiators agreed to suspend the enrichment of uranium as a confidence-building measure aimed at avoiding referral of the nuclear file to the United Nations Security Council. The gesture did not, however, facilitate further progress in talks. The absence of reciprocal concessions and the prospect of further sanctions undermined the argument for additional concessions on the nuclear file as a means of smoothing the way for international

[19] *APS Review Oil Market Trends*, 'IRAN – Profile – Bijan Namdar Zanganeh', 16 April 2001, 56:16.

business partnerships, and gave credence to the harder stance of President Khatami's opponents. Shifts in the international situation coincided with an intensification of efforts by Khatam ol-Anbia to assert itself in its bids for South Pars and other oil and gas development projects.

Within weeks of Zanganeh's cancellation of the Khatam ol-Anbia contract for South Pars phases 15 and 16 Cyrus Nasseri, a senior member of President Khatami's nuclear negotiating team, was arrested in connection with allegations of illegal payments to POGC in order to secure contracts.[20] Nasseri, a diplomat, also served as deputy chairman of Oriental Oil Kish, a company with ties to Halliburton Products and Services, a Cayman Islands-registered subsidiary of the Dallas-based oil industry service company Halliburton. Information presented to Iran's judiciary by the IRGC-affiliated Fars News Agency implicated Nasseri in funnelling millions of dollars in profits from South Pars development projects and also in accepting $1 million from Halliburton, in exchange for information on Iran's nuclear programme. The accusations were enough to prompt POGC to strip Oriental of its contract to develop phases 9 and 10 of the South Pars field, a contract granted to the company during the last months of Zanganeh's tenure. Oriental was acquitted of wrongdoing around a year later but political pressure and the loss of contracts forced the company to accept the sale of its assets to Khatam ol-Anbia at a knock-down price. Within days of the announcement of the sale, Khatam, newly in possession of offshore jackup rigs previously owned by Oriental, was awarded the contract to develop phases 15 and 16 of the South Pars gas field as part of a wholly domestic consortium. On announcing the contract, officials stated that it was now the policy of the Oil Ministry to promote the involvement of domestic contractors over foreign oil companies.[21]

The South Pars phases 15 and 16 development contract opened the floodgates. By May 2012, the portfolio of oil and gas contracts awarded to Khatam ol-Anbia had swelled to 51 separate projects in both the upstream and downstream sectors.[22] These included major natural gas pipelines intended for exports to Europe and India, a pipeline and refinery to supply gas to Iraq, gas field drilling and processing as part of Iran's nascent LNG project, and phases 22 to 24 of the

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[20] Haeri, S. 'Cyrus Nasseri Arrested', *Iran Press Service*, July 2005. Last accessed 23 March 2013.
[21] *Iran Economics*, 'Trusting the base', 26 August 2006. [Last accessed: 2 September 2012]
[22] *Etemaad Newspaper*, '51 contracts sealed between Oil Ministry and Khatam', 23 May 2012. [Last accessed: 17 April 2013]

South Pars project following the cancellation of a contract with Turkey's state-owned oil company. Officials have justified the award of no-bid contracts to Khatam ol-Anbia on the basis that 'special political circumstances of the country' necessitated prioritizing domestic contractors.[23] Khatam ol-Anbia has also recently broken into the upstream oil sector through 'Khatam ol-Osea', a consortium in which the company plays a major role. In 2010, Khatam ol-Osea was awarded a no-bid contract worth $5 billion to develop South Pars phases 13 and 14 after the original contracts with Shell and Repsol were cancelled. A year later, Khatam ol-Osea signed an agreement with NDC requiring that the NIOC subsidiary transfer knowledge and expertise to Khatam ol-Osea in an effort to fast track the IRGC-led consortium's drilling capabilities.[24] Within months of this agreement, Khatam ol-Osea was awarded four onshore oil field drilling contracts worth around $4 billion.[25] The award of no-bid oil and gas contracts to Khatam ol-Anbia straddles the period both before and after the appointment of the former head of the company, Rostam Ghasemi, as oil minister in August 2011. Though the trend was well-established before his appointment, the acceleration of the process prompted an important reformist newspaper to comment that Ghasemi seemed to have been appointed expressly 'for the purpose of giving over oil projects to domestic capabilities'.[26]

v) Iran's new oil law: from contestation to consolidation

Under the Rafsanjani and Khatami presidencies, Oil Ministry officials had no incentive to clarify the ambiguous relationship with NIOC. Gholam Reza Aghazadeh (serving as oil minister 1985–97) and Bijan Namdar Zanganeh (1997–2005) were strongly associated with the broader drive towards economic liberalization and greater openness towards foreign involvement, and both manipulated this institutional grey area to situate oil sector activities within these efforts. President Ahmadinejad, by dismissing Zanganeh, was successful in disrupting the supremacy of the previously dominant elite but he was unable to establish his own hold on the ministry, with parliament repeatedly rejecting nominations for the post. The oil ministers Kazem Vaziri Hamaneh (2005–7) and Gholam Hossein Nozari (2007–9) were not members of Ahmadinejad's

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[23] *Mehr News*, 'Details of Khatam ol-Anbia's $10 billion worth of oil projects', 24 May 2010. [Last accessed: 2 September 2012]
[24] *Pana News*, 'Khatam ol-Osea enters drilling industry', 4 February 2011. [Last accessed: 2 September 2012]
[25] *Fars News*, 'Khatam ol-Osea win 4 oil field development projects', 5 August 2012. [Last accessed: 2 September 2012]
[26] *Etemaad Newspaper*, *Ibid.* [Last accessed: 2 September 2012]

inner circle but were oil industry insiders having strong affiliations with NISOC. While unsympathetic to industry upstarts such as Petroiran and Petropars, they were also often at odds with the president and each kept his post as oil minister for a relatively short period. As already noted Masoud Mir Kazemi (2009–11) was perhaps the most compliant of Ahmadinejad's oil ministers, but he departed amid acrimony. Ahmadinejad appointed himself briefly as caretaker oil minister in 2011, after nominations from his personal coterie were once again rejected. A ruling from the Guardian Council was required to wrest the position away from him. During this period of disarray, no attempts were made to resolve the long-standing ambiguity of authority over the oil sector.

The appointment of Rostam Ghasemi as oil minister in August 2011 and the subsequent flurry of developments in oil sector decisions marked an end to this period of disruption. Within days of his appointment, Ghasemi expressed hope that a new Oil Law would eradicate 'problems of authority'[27] in the oil industry. Over the coming months, senior ministry officials would argue for a revision of the pre-revolutionary structure of the NIOC that had reflected the centralization of oil industry decision making and management under the Shah. It was now time for a clear separation of the responsibilities of ownership and management which had, until then, been combined within NIOC operations. In effect, a final distinction would be drawn between ownership and control, and this would be embodied in a newly empowered Oil Ministry determining the future role of a subservient NIOC.

Significantly, the new Oil Law also curtails the influence of the president within the oil sector. Instead of the president, it would now be the oil minister who would chair the NIOC General Assembly and the influential committee of MPs from oil-producing regions. The oil minister would also now sit on the Supreme Economic Council (SEC), a body whose agreement is essential for large-scale state investment projects and for foreign involvement in the Iranian economy. Importantly, the minister and not the president would now appoint the NIOC managing director, removing one more lever of direct presidential influence. Inevitably, these proposals were not submitted by the executive but by parliamentarians themselves. Complaining

[27] *IRNA*, 'Oil Minister: Necessary to form large oil consortiums', 26 August 2011. [Last accessed: 2 September 2012]

of foot-dragging by the executive, MPs put forward the 'Powers and Responsibilities of the Oil Ministry Bill' in March 2012. Voting was delayed until after parliamentary elections which saw losses for the supporters of President Ahmadinejad and a swing toward candidates more loyal to the Supreme Leader. As a result, the bill passed with a clear majority.

Of greatest importance for the current discussion was the dramatic increase in the power of the Oil Ministry, given by this bill, to issue contracts and access funds for the benefit of domestic contractors and, above all, for Khatam ol-Anbia. Domestic contractors 'are not behind the Koreans or Chinese technically' Ghasemi told reporters soon after his appointment, 'the main problem is the manner of attracting financial resources.'[28] According to Ghasemi, domestic contractors were, at the time, paid only 10 per cent of the value of contracts in advance. This would be increased to 60–70 per cent. The favourable implications of the new Oil Law for the IRGC were anticipated months before the law was passed. At the very beginning of Ghasemi's tenure, IRGC head Mohammad-Ali Jafari expressed hope that the lack of finance that had so far inhibited Khatam ol-Anbia in its pursuit of large oil projects would be resolved.[29] Financing had proven to be a major bottleneck restricting the ability of Khatam ol-Anbia to complete South Pars phases 15 and 16. In 2009, after severe cost overruns and delays, the government, with the express approval of President Ahmadinejad, provided Khatam ol-Anbia with $1 billion from Iran's foreign currency reserves to help complete the project. At the time Ghasemi, in his capacity as head of the company, complained that problems were largely due to delayed payments by NIOC and that Khatam had been forced to spend $500 million of its own reserves.[30] The implication was that NIOC had been unwilling or unable to pay for the services of the IRGC affiliate. In 2010, after a request for a further $1 billion from the fund was rejected, Khatam withdrew from the projects, leaving them only 50 per cent complete.[31] It remains unclear whether a lack of funds was the direct cause of the withdrawal. It is possible that the IRGC was financially stretched following its purchase of Iran's mobile telephone company in 2009. Nevertheless, Khatam ol-Anbia may have retained an interest in the project through ISOICO, a sister-company to SADRA in which Khatam had purchased a controlling stake in 2009.

[28] *IRNA*, *Ibid.*
[29] *BBC Persian*, 'IRGC withdraws from South Pars Projects', 7 August 2011. [Last accessed: 18 July 2012]
[30] *Jam-e Jam Online*, 'South Pars Phases 15 & 16 face delays', 19 December 2009. [Last accessed: 28 August 2012]
[31] *BBC Persian*, 'IRGC withdraws from South Pars Projects', 15 July, 2010. [Last accessed: 20 August, 2012]

Whatever the truth of the matter, project financing, especially from domestic sources, became a major imperative for the new Oil Ministry administration.

The oil minister was also formally empowered by the 2012 Oil Ministry Bill to grant no-bid contracts in upstream development and, crucially, also enabled to revise contractual terms that had long been an obstacle to the involvement of the private sector. Constitutional restrictions prohibiting the private ownership of oil reserves required an innovation in oil project contracting that has remained peculiar to Iran. The 'buyback' contract is a form of service agreement under which the contracting firm is fully responsible for the investment, construction, and planning of the project which, on completion, is transferred to NIOC. The new owner then remunerates the contractor with an agreed proportion of revenue from the field. IOCs have found the buyback contract unattractive, primarily because it prevents the 'booking' of reserves but also because of the exposure to risk of production decline after the IOC has completed its work and departed the project (Groenendaal and Mazraati, 2005; Shiravi and Ebrahimi, 2006). Buyback contracts were similarly unattractive for domestic private investors, who might also reasonably have worried about delayed payment by a cash-strapped NIOC. A possible relaxing of these restrictions was signalled prior to the acceptance of the new Oil Law. At a ceremony to mark the signing of a contract between NIOC and the Persia Energy Company for the development of the small Yaran oil field in southern Iran, the head of NIOC suggested that while 'oil fields are national property and therefore cannot be transferred [to the private sector] … it is possible to transfer [ownership of] production.'[32] One outspoken domestic oil watcher described this statement as heralding the introduction of production sharing agreements by the back door.[33]

Revised contractual terms will likely work against entrenched interests within NIOC. In the past, poor contractual terms served as a barrier to entry for smaller, private firms thus guaranteeing a favourable playing field for NIOC subsidiaries. The new contractual and governance regime under an empowered and highly motivated Oil Ministry is likely to signal an end to these privileges. Not incidentally, the Persia Energy Company, while ostensibly a private company, is

[32] *SHANA*, 'Deputy Oil Minister: Oil field production can be transferred to private sector', 25 November 2011. [Last accessed: 6 August 2012].
[33] *Shargh Newspaper*, 'Nozari signs Yaran contract in the presence of Ghasemi', 30 November 2011. [Last accessed 20 July 2012].

in reality a subsidiary of the Tadbir Energy Group. Tadbir, which is headed by former Oil Minister Gholam Hossein Nozari, is in turn controlled by the Imam's Executive Committee, a vast holding company answerable to the office of the Supreme Leader with assets said to be worth around $50 billion.[34] In May 2012, Tadbir was awarded the contract for the large Mansouri oil field, suggesting that the company will continue to expand as a domestic contender to share the indulgence of the new Oil Ministry, along with Khatam ol-Anbia.

III. Implications

The preceding discussion has described how political, bureaucratic, and commercial coalitions have gained and lost the power to establish and defend claims over the rent-generating opportunities offered by Iran's hydrocarbon reserves. While the Oil Ministry was under the control of the Rafsanjani allies Gholam Reza Aghazadeh (1985–97) and Bijan Namdar Zanganeh (1997–2005), NIOC was the commercial partner of economic liberalizers. Government officials and other figures connected with the presidency joined in coalitions with NIOC to form and develop parastatal entities to pursue mutually beneficial objectives within the oil sector. Political sponsorship from the elected executive enabled elements within the state oil company to use the special dispensation granted to these quasi-private subsidiaries to enhance and to guard their institutional interests. Affiliated political figures were positioned in the firms themselves or at bottlenecks within the institutional framework of oil industry decision making, ensuring maximum autonomy with minimum external oversight. The period of instability that followed the breakdown of these arrangements, which began before the election of President Mahmoud Ahmadinejad and which continued until 2011, can, in retrospect, be seen as one of transition, paving the way for the rise of a new elite, led by the IRGC.

In Part III, lessons from the foregoing analysis will be brought to bear on questions that shape our understanding of ownership, control, and governance in the Iranian oil sector. Section (i) will address limitations inherent in the prioritization of rent distribution as a framework within which to understand Iran's oil sector and will emphasize the importance of addressing the

[34] *Towlid News*, '50 trillion toman assets and property of the Imam's Executive Committee', 7 March 2012. [Last accessed: 6 August 2012]

technological, financial, and governance requirements of the hydrocarbon sector. Section (ii) will examine the problems underlying our understanding of 'state ownership' in the Iranian setting, in light of parastatal activity in the sector. In section (iii) specific attention will be given to the ascent of the IRGC and in section (iv) conclusions will be drawn concerning prospects for NIOC. Section (v) will address the question of how best to understand the effects of economic sanctions on the areas salient to this research.

i) Revisiting the rentier state

A dominant narrative in the economist's understanding of mineral abundance in developing countries posits the 'resource curse' as a malaise resulting in poorer than expected economic performance. States with abundant natural resources have been found to underperform states that are 'resource-poor' in a large number of studies (Auty, 1993; Gelb, 1988; Sachs and Warner, 1995a, 1995b, 1997). Some writers have gone so far as to doubt that resource riches should be considered a form of wealth at all (Heal, 2007). Political economists add another layer to this understanding of resource-rich nations. The question is asked why there is political intransigence to breaking free from economic dependence on natural resources. The answer is that resource windfalls bring about a debilitating affliction, not only of the economies of resource-rich states but also their governments. Large inflows of rents result in the acquiescence of a political system and society to a 'rentier mentality' and the adoption of 'rentier ethics' (Beblawi, 1990).

Without pretending to offer a comprehensive review of studies in this field, it is proposed that the key limitation (relevant to this study) on appealing to the properties of the 'rentier state' resides in the type of conclusions that such an approach would encourage us to draw, and the way in which those conclusions could act as blinkers to narrow our understanding of causation. The arguments turn on an implicit comparison of an actual state of affairs with a counterfactual, namely, that resource-rich nations *should have been better* at translating natural resource windfalls into the levels of prosperity *expected by economists*. This strand within economics is therefore open to the accusation that it has too hastily integrated the role of resources into economic performance and consequently rushed to promote its own solutions as a necessary counterbalance. Indeed, the identification of this economic malaise has been hotly pursued by debates on the relative merits of prescriptions aiming to cure it. Most remedies centre around the depoliticization of decision making surrounding revenue flows through the establishment of a secure institutional environment and fiscal regime (Collier and Venables, 2011) or on rule-bound contributions to natural resource funds (Humphreys and Sandhu, 2007).

In the case of Iran, the rentier model has been applied to both the pre-revolutionary (Skocpol, 1982; Shambayati, 1994) and the post-revolutionary periods (Karshenas and Hakimian, 2005; Karshenas and Malik, 2012). In the most recent of these studies, Karshenas and Malik (2012) identify rent distribution as perpetuating a political dispensation towards dependence on oil revenues and 'distortions' that steer the country away from economic norms and towards the 'adverse effects of oil specialization' synonymous with the resource curse. Underlying this malaise is an 'embedded factionalism' within which rival coalitions engage in 'conflicts over the distribution of resources'. In the manner of a corrupting influence, oil money is understood to be a source of freely flowing benefits over which competing players then vie with each other for access. *It is the rents themselves that are posited as a causal factor*. Generated somehow *ex nihilo*, they proceed to accrue irresistibly to those entities in a position to capture them. The implications of this approach cascade through our understanding of the politics attendant to resource-rich economies. Political players become nothing but 'convenient means for channelling rents to various interest groups', conduits through which the lifeblood of the economy flows; in essence, they become institutionally *hollow*. Political contestation becomes primarily a competition to claim these rents and the resulting 'factionalism' is subsequently equated with an intrinsic instability and perniciousness. The oil sector becomes nothing more than a black box; a rent-generating machine that feeds the political elite and subsidizes its lack of representativeness.

Contrary to commonly accepted interpretations of 'rentier' dynamics, it is the politics of rent *generation* and not the economics of rent *distribution* that must be given conceptual priority in order to better understand the importance of the oil sector in the political economy of resource-rich states. Focusing on rent distribution has us arriving 'late' in the dynamic processes that link oil with economic, political, and foreign policy behaviour. Limited in scope to the problem of oil *money*, rentier characterizations fail to accommodate how '[t]he carbon itself must be transformed, beginning with the work done by those who bring it out of the ground' (Mitchell, 2011). Oil does not simply rise up out of the ground and sell itself on international markets. On the contrary, rent generation begins prior even to the wellhead, in the realm of the technological, financial, and governance requirements of the hydrocarbon sector. As Karl (1997) writes, rent 'rewards the control of production', control that requires the manipulation of 'social, political, and legal privilege'. These manipulations, effected by coalitions of political, bureaucratic, and commercial actors, inhabit a realm that rentier characterizations fail to address, due to their exclusive focus on rent distribution, the concluding part of the process. Politics does not follow the rents but initially determines how and by whom they will be generated.

ii) Reimagining state ownership in the Iranian hydrocarbon sector

The foregoing account of state–NIOC relations provides strong reasons to reconsider any simple understanding of the nature of state ownership in the Iranian hydrocarbon sector. Close examination of the contestation between rival elites over rent-generating opportunities in the Iranian oil sector reveals a complex realm of political–bureaucratic coalitions and contestations between rival elites that must inform not only our analysis of oil sector governance in the Islamic Republic but also our understanding of the Iranian state itself. Scholars of post-revolutionary Iran are faced with the conundrum of a ruling elite riven with divisions that yet maintains resilience and coherence in the face of domestic and international pressures. Authority is dispersed and contentious and yet 'the state' persists, rendering highly questionable the applicability of the reified Weberian conception of the state as 'a compulsory association which organizes domination' (Weber, 1965).

A more appropriate explanatory model is Migdal's (2001) 'state-in-society' approach which acknowledges that the state is a potentially 'contradictory' entity that can act 'against itself'. Though every nation has an 'image' that outsiders identify and insiders present as the 'corporate, unified dimension of the state – its wholeness' there is another level of analysis that 'dismantles this wholeness in favor of examining the reinforcing and contradictory practices and alliances of its disparate parts' Migdal (2001, 22). Such an approach provides a conception of the state that accommodates the contradictions and coalitions that we have witnessed in our account of the history of NIOC and its place within Iran's post-revolutionary political arrangements. As Keshavarzian (2005) writes, 'elite cleavages' within the Islamic Republic 'should not be taken as an indication of regime incapacity or weakness'. On the contrary, the Islamic Republic of Iran has proved able to act in a coherent and unified manner while the rival networks of power and influence that constitute it have engaged one another in existential battles for dominance and survival. As we have seen, the contestation to assert control over rent-generating opportunities provided by Iran's oil industry is one arena in which these battles have been fought. The developmental trajectory of the Iranian oil industry, as embedded within the nation's broader political development, has bequeathed a complex and fluid set of institutions, interests, and tensions which must be understood as part of any attempt to examine the economic and political role of oil in the Iranian setting. Close scrutiny of the engagements and antagonisms that interweave both Iran's oil sector and its ruling elite enables the scholar to draw back the veil covering the processes by which accumulations of political power at times compete and at others coalesce in order to mobilize resources and assets and, thereby, direct its rent-generating potential.

Equally relevant to the Iranian case is Migdal's second challenge to the 'wholeness' of the state; a challenge that calls into question our understanding of what constitutes the state in relation to what we understand as lying outside it. This distinction may be largely unproblematic in the realm of geopolitical relations where boundaries are defined by national borders. However, such clear-cut boundaries may not exist *within* a country's borders where actors can complicate any attempt to draw a clear distinction between 'state' and 'non-state'. Maloney identifies:

> … an important and by no means isolated consequence of the [Iranian] revolution: the diminution and accretion of non-state actors [that are] neither wholly of the state, nor wholly distinct from it. (Maloney, 2000)

Foremost among these actors are the powerful revolutionary institutions that have become the persistent legacy of the reinvention of the Iranian state since the collapse of the Pahlavi monarchy. In the handful of studies that have addressed these entities directly, they have been variously described as: parastatal (Maloney, 2000; Nomani and Behdad, 2006; Ehteshami and Zweiri, 2007); quasi-public (Esfahani and Taheripour, 2002); semi-state (Green, Wehrey, and Wolf Jr., 2009); and even 'quasi-independent' (Chubin and Green, 1998). Such attributions illustrate their slippery formal status. These 'revolutionary' bodies straddle the boundary between state and non-state in the pursuit of both political and economic advantage, sometimes taking on state-like powers while simultaneously expanding their economic interests into the private sector. An appreciation of how these entities blur the boundaries between the state and the private sector can aid our insight into the balance of power which shifts between the political and economic spheres that are themselves evolving, competing, and coalescing to determine access to and control over resources, assets, and rent-generating opportunities. Tracking developments in the relationship between NIOC and the political claimants that encircle it, especially in relation to ownership, financing, and governance, positions the oil sector at the centre of an economically driven state–society complex that ultimately serves the pragmatic purpose of balancing the power, interests, and responsibilities of which the Islamic Republic is composed.

iii) Reading the rise of the IRGC

Chief among the parastatal bodies that receive attention in this regard is the IRGC, a military body with a loosely defined constitutional role that has, since the end of the Iran–Iraq war, increasingly worked to supplement its military responsibilities with political and economic influence. Where scholarly attention has been paid to parastatal entities in Iran, it has focused almost exclusively on the rise of the IRGC as an economic player. Some scholars have argued that its ascent represents 'a major obstacle to democratization and economic privatization' (Khalaji, 2007). Others have warned that it may be 'too late for the civilian leadership to free itself from the IRGC's claws' (Alfoneh, 2012). Even more alarming are characterizations that raise the possibility that the increasing economic power of the IRGC may serve to enhance Iran's 'military might' (Wiig, 2009). Observers have often pointed to the forceful ejection by the IRGC in 2004 of a Turkish–Austrian consortium that had been granted the management of Imam Khomeini International Airport as an example of the danger implicit in the rise of a military organization leveraging its ability to mobilize instruments of force in order to assert its economic claims.

Whilst no doubt singular and dramatic, the case of Imam Khomeini International Airport does not represent the 'militarization' of Iran's economic sphere. It is certainly true that the IRGC has the ability to mobilize military force in a manner unlike any other entity active in the Iranian political scene. Nevertheless, it would be incorrect to imply that the IRGC has established its position in the oil industry, or in the wider economic arena, purely by the threat of force. From the perspective of the IRGC, the increased practical role of Khatam ol-Anbia as an upstream player was a natural step forward, following its central role in the reconstruction of Iran's shattered infrastructure following the end of the Iran–Iraq War. As we have seen from the foregoing analysis, the involvement of IRGC-affiliates in upstream projects was initially resisted by the established political–bureaucratic coalition that dominated oil sector governance under the Rafsanjani and Khatami presidencies. As the incumbent governance regime began to weaken, the assertiveness of the IRGC in competition for upstream contracts began to pay off. The seeds of this process had already been sown before the presidential election of 2005. The trend became entrenched as the new president worked increasingly hard to disrupt the elite configurations that he viewed as competitors. The threat of military force played no explicit role in this process.

On the contrary, in seeking to push the boundaries of its economic clout, the IRGC has sought to take control of political levers rather than assert its military power in any direct or obvious manner. Foremost among these developments has been the accession of the IRGC to the stewardship of Iran's Oil Ministry, represented by the appointment of Rostam Ghasemi as oil minister in August 2011. Ghasemi's appointment was followed in 2012 by legislation that granted the ministry new powers to issue contracts and, importantly, a degree of separation from the elected executive in matters of strategic decision making and the appointment of top oil officials. The speed with which this legislation followed Ghasemi's appointment must be contrasted with the failure of Presidents Rafsanjani and Khatami to pass similar legislation despite it being a stated aim of both administrations. Given that loose governance and the permeable institutional boundaries between the Oil Ministry and political actors were enabling factors in the parastatalization of the oil industry under both presidents, it is perhaps not surprising that neither administration sought to push through legislation to close off such possibilities. It is significant that legislation to close off ambiguities in sectoral governance was endorsed immediately following the accession to the stewardship of the Oil Ministry of a body furnished with sufficient autonomy to stand independently from the executive branch.

iv) The future of NIOC

Notwithstanding the rise of the IRGC to the apex of oil sector governance, at the heart of the Iranian oil sector remains the vast but poorly integrated NIOC empire which, while nominally a 'state-owned enterprise', has existed in a negotiated relationship with external political actors throughout the post-revolutionary period. Political claimants from outside NIOC have captured certain rights to the rent-generating opportunities that fall within the company's purview, while also taking on the responsibilities entailed by these opportunities which cannot be fulfilled by NIOC alone. These arrangements have prompted some to characterize NIOC as in some sense compromised by its dealings with external political forces. When Mahdavi (2011) states that 'the root cause of NIOC's troubles is its lack of autonomy from the government' he is appealing to an implicit comparison with a counterfactual ideal situation in which commercial freedom and de-politicization of the oil industry are somehow maintained. The relationship between NIOC and the Iranian state, Mahdavi laments, has 'strained NIOC's ability to perform at its optimal level'. The involvement of political actors is considered an *intrusion* that limits the autonomy of the national oil company to pursue aims befitting a commercially driven company in full command of the development of nationalized natural resources.

Even in theory, it is hard to imagine how natural resource development on a large scale could be achieved in a political vacuum. Any stable notion of ownership rights must, after all, lean finally against some redoubt of established power. Certainly in the case of Iran, oil development has always been carried out within a matrix of political interests and forces, whether underwritten by the influence of foreign nations under concessionary arrangements, under the unambiguous dictatorial rule of the Shah, or under looser arrangements with political elites in the post-revolutionary period. Brumberg and Ahram (2007) provide arguably the only study to date that addresses the manner in which NIOC has been able to 'exploit ambiguities in the Iranian political system to forward its own institutional agenda'. These ambiguities provide a weakly institutionalized arena within which political figures collude with bureaucrats to form 'a belt of semi-private firms that maintain close ties to the ruling elite'. As these scholars rightly point out, this aspect of Iran's economic reform trajectory requires further discussion and investigation.

Under Rafsanjani and Khatami, elements within NIOC acquiesced to negotiated bargains with political forces in a quid pro quo arrangement that underwrote the pursuit of commercial objectives through parastatal subsidiaries. The benefit to NIOC was access to sources of foreign investment and joint ventures with international oil companies. The fruits of these arrangements were embodied by the rise of Petropars and PEDCO as capable upstream competitors. That these bargains eventually fell prey to rival interests suggests, contrary to Mahdavi, that political interference is not itself the cause of suboptimal outcomes in the oil sector; it is rather the absence of a single overwhelming political force that could guarantee continuity that has prevented progress along a consistent long-term trajectory. The post-revolutionary history of Iran's oil sector has shown that the stability of any one strategy aimed at developing hydrocarbon resources has been contingent on political power sufficient to fend off rival claims and safeguard the continued dominance of incumbents. It was a combination of international sanctions and rivalries at home that undermined the commercializing projects of connected elites under the Rafsanjani and Khatami administrations, following notable success in attracting foreign investment in both upstream and downstream projects. Subsequent attempts by President Ahmadinejad to assert himself in the oil sector through ministerial appointments and direct deal-making were hamstrung by political rivals in opposing camps within the conservative establishment.

It is the IRGC that now carries the aspirations of Iran's oil sector on its shoulders. The appointment of Rostam Ghasemi as oil minister, coupled with a vastly expanded upstream role for the company he once ran, heralds an uncertain future for NIOC. The Oil Ministry, while ostensibly an executive body, is now controlled by a power centre with its own institutional interests that are no longer compatible with a relatively autonomous NIOC. Whereas in the past, political backers have ensured the automatic compliance of the Oil Ministry, thus guaranteeing NIOC direct access to allies in central government, the newly empowered ministry, detached from the elected executive and with strong ties to an ambitious upstream rival, will likely have no automatic sympathy for the institutional concerns of the national oil company. The rise of Khatam ol-Anbia as a favoured upstream contractor is likely to signal a downgrading of the status of the state oil company and an erosion of its ability to keep contracts and control within the NIOC 'family'.

v) Whither sanctions? – opportunities for further study

It has not been the aim of this study to address specifically the effects of sanctions imposed by the USA and its allies on the Iranian oil sector, much less their effects on the wider Iranian economy. Nevertheless, it has been noted that sanctions have played an important role in discouraging foreign partnerships and, as a consequence, have contributed to the demise of the internationally oriented commercialization project of the Rafsanjani and Khatami presidencies. In subsequent years, hopes that Chinese state-owned oil companies would replace international majors have also faded. While the Chinese government has consistently rejected the legitimacy of international sanctions against Iran, it is hard to imagine that diplomatic pressure did not play at least some role in the shift in China's balance of interests that has resulted in a slow phasing-out of promised support for Iranian oil and gas projects. With the removal of executive influence having made way for the ascent of an elite that has internalized Iran's international isolation, it appears that oil industry decision making will now take place within a domestically contained governing compact endorsed by the Supreme Leader.

The policies of Iran's international opponents have been effective in forcing the regime to seek home-grown solutions to sectoral challenges. This has been apparent in public statements at the highest level. In what is an annual tradition, Ayatollah Khamenei named the current Iranian year (2012–13) 'the year of domestic production and the support of Iranian investment and labour' and, more recently, called for an 'economy of resistance'.[35] Here, Khamenei is of one voice with the IRGC which has, with alacrity, broadened its role from the defence of Iran's borders and internal security to encompass economic interests. While still head of Khatam ol-Anbia, Rostam Ghasemi stated that 'Khatam ol-Anbia must be strengthened so that it can take the place of foreign companies'.[36] In the words of the current head of the IRGC, in developing its role as contractor of choice in both oil and non-oil engineering projects, Khatam ol-Anbia is 'helping the government resist sanctions'.[37]

As oil minister, Ghasemi will no doubt continue to indulge Khatam with both the opportunities

[35] *AFP*, 'Iran leader calls for 'economy of resistance', 23 August 2012.
[36] *Tabnak*, 'Jafari describes IRGC economic activities', 7 August 2011. [Last accessed: 3 September 2012]
[37] Tabnak, *Ibid.*

and the finance to grow in size and capability, under the banner of strengthening Iran's resolve in the face of international isolation. Anticipated changes in the contractual framework for upstream projects (long considered necessary to encourage greater participation of foreign companies in the Iranian oil sector) will now likely ensure a flow of kickbacks to IRGC-affiliated service companies, foremost among which will be Khatam ol-Anbia and Khatam ol-Osea. Furthermore, Oil Ministry-backed initiatives such as bank-led energy funds and public sale of oil futures and participation bonds will, to the extent that they are successful, aid in the flow of domestically generated investment capital to projects led by these companies.

The influence of sanctions can also be observed in current debates on economic policy. The sudden drop in revenues following the EU's imposition of a ban on Iranian crude imports in July 2012 has been a catalyst for a new openness in the discourse within the Iranian political elite regarding the effects of sanctions and the policy adjustments that they necessitate. Blanket assertions that Iran is impervious to ill effects caused by international restrictions have, over the course of a few short months, given way to an open acknowledgement of unprecedented difficulties necessitating immediate action, particularly with regard to the role of the government in the Iranian economy and the role of oil revenues in the government purse. The newly autonomous Oil Ministry has emerged as an important voice in these debates, lending its weight to a shift in the political discourse away from the implicit understanding that oil revenues must be a driver for the economy, towards recognition of the industry as a locus of demands and interests of its own. As exports decline, allies of the Oil Ministry in Iran's Majles have lobbied for a higher proportion of revenues to be earmarked for reinvestment and for an end to the implicit subsidy provided by NIOC to domestic refineries. In addition, the Oil Ministry has added its weight to the drive to phase out subsidies on domestic energy use and in debates on the size of the forthcoming Iranian budget bill for 2013/14 that will likely set a precedent for the future fiscal give-and-take between the oil sector and the government.[38]

[38] 'Understanding Iran Under Sanctions: Oil and the National Budget', William Yong and Alireza Hajihosseini, Oxford Energy Comment, January 2013, OIES.

IV. Avenues for Further Research

Where it has been the primary concern of this study to track political and bureaucratic arrangements that have driven development in the Iranian oil sector, reference has been made to a range of factors that have been given subsidiary causal roles in the narrative. It is open to future scholarship to bring factors given peripheral treatment in this study into closer focus. These factors include international sanctions and the economic issues that have arisen in their wake. Rather than confining research to the hunt for measurable effects of sanctions on the Iranian economy, or for a point at which they will 'bite', it will be more instructive to observe how Iran's ruling elite has configured and reconfigured around levers of economic power as the policies of foreign nations have grown increasingly repressive. Close attention must also be paid to current debates on the role of oil revenues in the government budget. It will be interesting, over the coming months, to observe the extent to which Iran's elected bodies are successful in carrying through reforms determining the degree to which the government budget will continue to rely on oil revenues. Progress in this area will be a major determinant of the future ability of the oil sector to fund its own investment needs by drawing on export revenues. Subsidy reform is perhaps of even greater importance since its success will entail steps toward establishing Iran's oil and gas sector on a commercial footing within the domestic economy.

Lastly, it is proposed that further scholarly attention be given to the rise of the economic role of the IRGC, not in the sense of the narrow question of military involvement in the economy, but as part of the far broader adoption of state-like powers and responsibilities by non-state or parastatal entities. The oil sector is only one area within Iran's political economy in which this has become a notable trend.

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