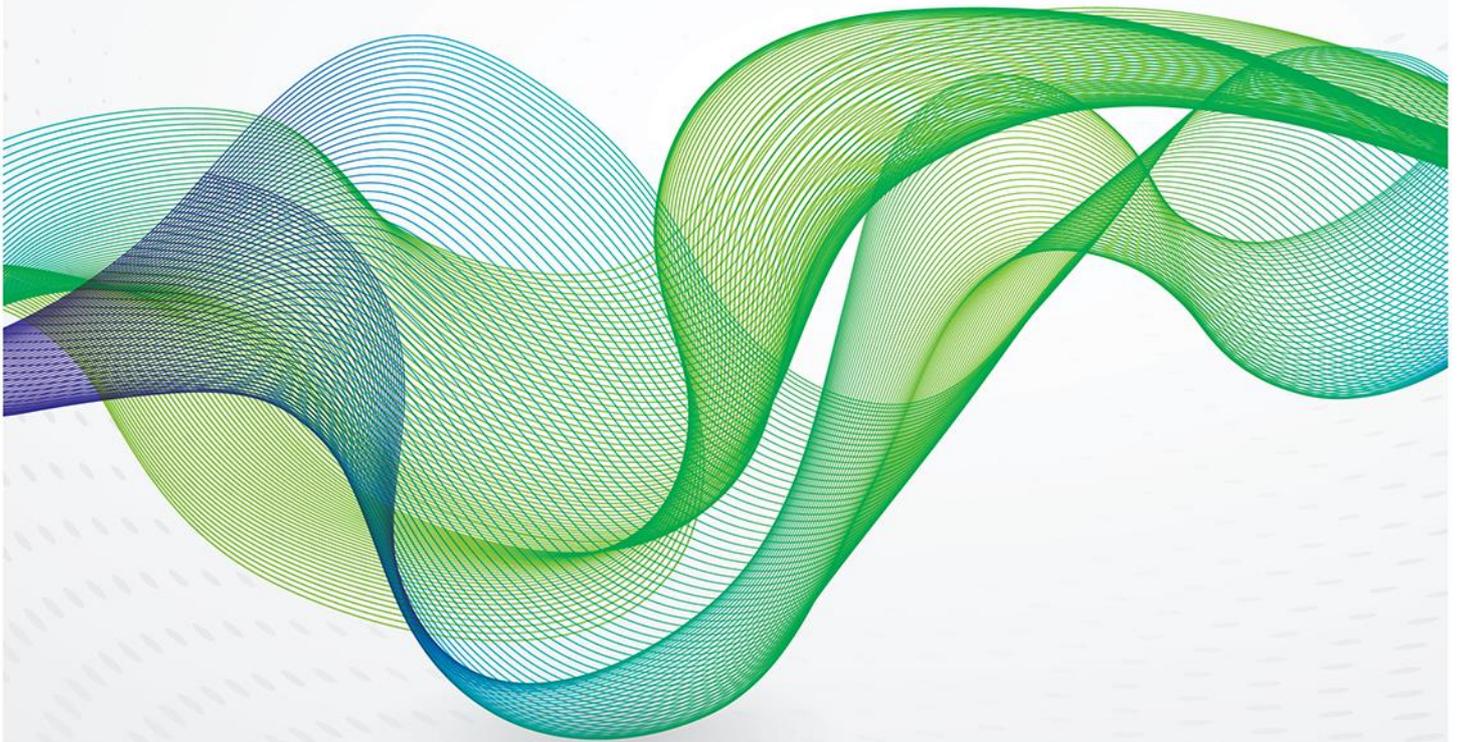




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Iranian Energy: a comeback with hurdles



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One year ago, on 16 January 2016, the Iran nuclear deal was formally implemented. Officially known as the Joint Comprehensive Plan of Action (JCPOA), the deal was concluded in July 2015 between Iran and the 'E3+3', which comprises the European states France, Germany, and Great Britain as well as the world powers China, Russia, and the United States. In essence, the JCPOA allows for the lifting of several sanctions against Iran in exchange for limitations on, and greater international inspections of, Iran's nuclear programme.¹

In the Iranian energy sector, the JCPOA was greeted with hope and expectations of a revival. Sanctions have constrained the industry for several years; amongst other effects they have forced Western companies to leave the country and reduced oil production and exports. Indeed, implementation of the JCPOA was accompanied by the lifting of energy sector-related sanctions and has encouraged several international oil companies (IOCs) to move to Iran to explore the potential for co-operation.

Against this backdrop, it is worth examining the merits of the JCPOA for the Iranian energy sector up to this point – a year since the beginning of its implementation. It is argued in the following that the Iranian government has been trying to strike a balance between various competing power centres at home, while attempting to hedge risks at the international stage. On the ground, however, actual progress has been rather modest so far. Iran has increased its oil production to the pre-sanctions level but is still waiting to see an expansion of its productive capacity.² In the meantime, uncertainty with regard to the outlook of Iran's energy sector has increased, as the future course of US policy – incoming President Donald Trump has been an outspoken critic of the JCPOA – remains unclear.

The state of affairs: back to the pre-sanctions position

Before the implementation of the JCPOA in January 2016, a complex set of sanctions was in place against Iran, adopted by the European Union (EU), the United Nations (UN), and the United States (US). Amongst others, sanctions forced European IOCs to leave Iran, limited the international sale of Iranian oil, prevented American and European investments in the Iranian energy sector, excluded Iran from the SWIFT banking network, and effectively forced major European banks and insurance companies to stop dealing with the country.³ Iran's energy sector was hit hard by these sanctions. Oil production was reduced to 2.7 million barrels per day (mb/d) in 2013, down from 3.7 mb/d in 2011. Oil exports declined from 2.6 to 1.3 mb/d.⁴ While Iran was able to continue expanding its natural gas production, sanctions prevented access to the latest LNG technology.

In response to sanctions, Iran has introduced a number of counter policies, under the umbrella of what was partly labelled the 'resistance economy'. These have been aiming at the expansion of domestic capabilities and greater autarky from international business and trade which, in light of the sanctions, were perceived as the country's Achilles heel.⁵ In the Iranian energy sector, companies – especially those affiliated with the Islamic Revolutionary Guard Corps (IRGC), an entity subject to EU and US sanctions both before and after the JCPOA – sought to fill the gap left behind by the withdrawal of European IOCs. Although lacking energy industry experience when beginning to move into the sector in the 2010s (under then President Mahmoud Ahmadinejad), the IRGC managed to somehow keep maturing oil fields in production and the gas industry growing (although their performance continued to be rather poor by industry standards). Nevertheless, neither the IRGC nor the National Iranian Oil Company (NIOC), which is officially in charge of the industry, could make up for the loss of co-operation with Western partners. Despite some progress, Iran was unable to stop the decline of its energy industry under sanctions.

¹ Samore, Gary: *The Iran Nuclear Deal: A Definitive Guide*, Belfer Center for Science and International Affairs, Harvard University, Cambridge, MA, 2015.

² Production remains below the officially stated capacity of 4.0 mb/d. Iran's intention is to increase its production capacity to 4.7 mb/d by 2020.

³ International Crisis Group: 'Spider Web: The Making and Unmaking of Iran Sanctions', 2013.

⁴ U.S. Energy Information Administration: 'Iran Country Analysis Brief', Washington, DC, 2015.

⁵ *Guardian*: 'Deciphering the Iranian leader's call for a "resistance economy"', 19 April 2016.

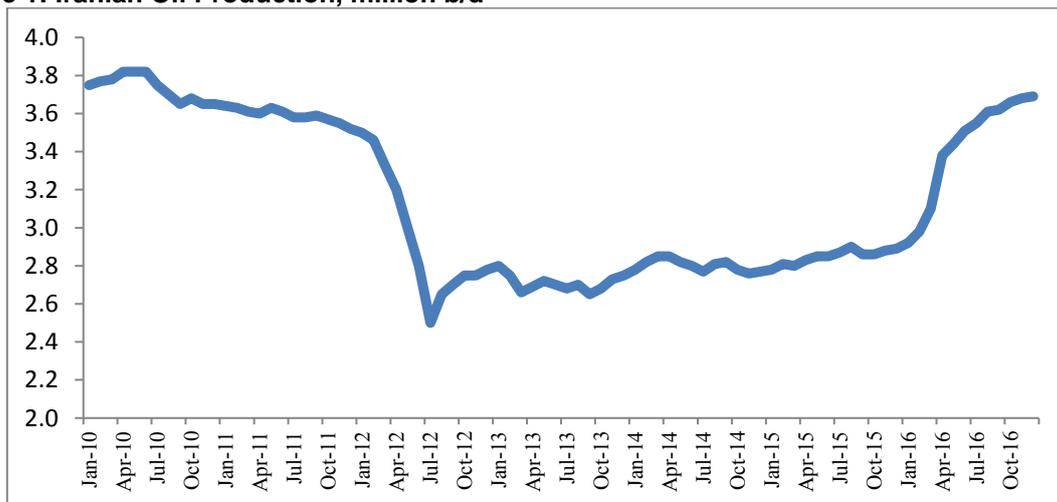
The implementation of the JCPOA in January 2016 has led, amongst other outcomes, to the lifting of several sanctions and the release of frozen assets. The EU (whose energy and finance sanctions were particularly painful for Iran) and the UN both terminated sanctions. The US government lifted nuclear nonproliferation-related secondary sanctions (targeting non-US individuals outside US jurisdiction) by issuing so-called presidential waivers; sanctions remain adopted but are not enforced. US primary sanctions, on the grounds of alleged human rights violations and the support of terrorism, however, continue to be implemented (US nationals and businesses are still prevented from engaging in the Iranian energy sector).

Many constraints on Iran’s energy sector have now gone as a result of JCPOA implementation. There are no longer any restrictions on exports, investments in the energy sector are possible again, and European IOCs are allowed back into the country. Under European law, banks and insurance companies are also permitted to facilitate business and trade with Iran again. However, several contentious issues remain unresolved. These include: a ‘snapback’ of sanctions (if Iran is perceived as violating the nuclear deal), the extraterritorial application of US laws (in the past, US courts convicted European banks of Iran-related dealings and subjected them to fines of more than \$13 billion), as well as potential new sanctions (the US Congress has already seen several initiatives to this end⁶). But, by and large, the JCPOA has opened the door to international co-operation.

The implementation of the JCPOA has attracted the interest of IOCs from around the world. Throughout 2016, a number of companies moved to Iran, signing several memoranda of understanding (MoUs). These include, American-Dutch Schlumberger, British-Dutch Shell, Chinese CNPC, French Total, German Wintershall, Italian Saipem, Japanese Inpex, Norwegian DNO, and Russian Gazprom. Up to now, however, no contracts have been inked. The MoUs largely comprise field studies as preparatory steps. Only one consortium, comprising NIOC, Total, and CNPC, has signed a ‘heads of agreement’; this represents a step forward towards contract finalization. In all cases, though, final investment decisions and legally binding contracts remain to be concluded (see Table 1). As a result, Iran is still waiting to see international investment and technology coming to the country. Effectively, the JCPOA has not yet led to an expansion of capabilities in the Iranian energy sector.

The progress Iran has seen so far is, more or less, a return to its pre-sanctions position. Sanctions-inflicted harm has been undone and oil production and exports are back in the range of pre-sanctions levels (see Figure 1).

Figure 1: Iranian Oil Production, million b/d



Source: MEES

⁶ These include, for example, the ‘Iran Ballistic Missile Sanctions Act of 2016’ (March 2016) and the ‘Countering Iranian Threats Act of 2016’ (July 2016).

Table 1: Upstream Contracts Awarded, MOUs for Study, and Heads of Agreement (2016)

Operator	Partners	Field	Date	Type
Lukoil	None	Ab Teymour / Mansouri	24-Jan	MoU for study
Total	None	South Azadegan	24-Mar	MoU for study
Wintershall	None	Four fields in western Iran	12-Apr	MoU for study
OMV	None	Zagros area	04-May	MoU for study
Zarubezhneft	None	Aban / Paydar Gharb	13-Jul	MoU for study
Persia Oil and Gas	None	North Yaran Phase 2	04-Oct	IPC*
Persia Oil and Gas	None	Koupal EOR	04-Oct	IPC
Persia Oil and Gas	None	Maran EOR	04-Oct	IPC
Tatneft	None	Dehloran	08-Oct	MoU for study
PGNiG	None	Sumar	06-Nov	MoU for study
Total (50%)	CNPC (30%), Petropars (19.5%)	South Pars Phase 11	08-Nov	Heads of Agreement
DNO	None	Changuleh	16-Nov	MoU for study
Pergas consortium	None	Shadegan / Rag-e Sefid	23-Nov	MoU for study
Schlumberger	None	Shadegan / Rag-e Sefid / Parsi	27-Nov	MoU for study
PTTEP	None	Changuleh / Balal / Dalamperi	06-Dec	MoU for study
Shell	None	South Azadegan/Yadavaran/Kish Gas	07-Dec	MoU for study
Gazprom Neft	None	Changuleh / Cheshmeh Khosh	13-Dec	MoU for study
Petronas	None	South Azadegan / Cheshmeh Khosh	22-Dec	Mou for study

Source: *Energy Aspects*⁷

* Iran Petroleum Contract (see below)

The domestic power play: striking a balance

The take-off of Iranian energy is hampered by complex politics, as well as low oil prices and ample supply in international energy. This is the case both domestically and internationally.

The implementation of the JCPOA occurs against the backdrop of intensive political struggle inside Iran. Various factions compete over power, as well as over the future course of the country. Somewhat simplified, there are two larger groups. On the one hand, President Hassan Rohani and his rather moderate government aim at the political and economic re-integration of Iran into the international community. The administration is convinced that isolation and a confrontational stance towards international powers, which triggered sanctions during the Ahmadinejad presidency, neither protects the Islamic Republic nor lets it grasp its economic potential. In the 2013 presidential elections, Rohani won on a ticket promising both a nuclear deal as well as economic recovery. On the other hand there are more conservative actors, who are close to Supreme Leader Ayatollah Ali Khamenei and the IRGC. Arguing that international powers, in particular the US, are inherently hostile to the Islamic Republic, this group perceives international co-operation as leading to vulnerability.

⁷ *Energy Aspects: Middle East and Africa Quarterly*, December issue, 2016.



Accordingly, the 'resistance economy' ought to be expanded and international co-operation should be limited to the absolute necessary minimum.

In a sense, the struggle between the two camps is also a reflection of different benefits from sanctions and from sanctions-relief, respectively, for each side. The Rohani administration is challenged to show the Iranian people that the JCPOA is advantageous for the country. In other words, the position of the government can be expected to strengthen the more the economy grows following sanctions relief. The conservatives, and especially IRGC-affiliated entities, however, have substantially benefited from sanctions. In the absence of competition from abroad, their economic – and subsequently also political – position has improved. This group can only be expected to approve JCPOA-facilitated international economic co-operation if this does not erode its economic position.

As Iran's political system is constraining the authority of the government (there is theologically legitimized oversight of republican-style institutions), the power struggle between the two groups is essentially affecting all policy fields – especially the energy sector. Here, it is further enhanced by rivalries for control over the industry as well as by competing economic interests.

Traditionally, NIOC and its subsidiaries were in charge of running the Iranian energy industry. NIOC is controlled by the Ministry of Petroleum and thus by the government. During the Ahmadinejad presidency, however, the IRGC entered the energy sector. In 2011, President Ahmadinejad (himself a former IRGC member) even appointed Rostam Ghasemi (the head of Khatam-al Anbiya, the IRGC's business conglomerate) as petroleum minister. Courted by the government, the IRGC sought to replace the void left behind by Western IOCs leaving the country.

By 2013, when President Rohani assumed office, the IRGC had established a strong foothold in the energy industry. Rohani replaced Ghasemi with the experienced and technocrat-minded Bijan Zanganeh, who had already served as minister of petroleum (1997–2005) and minister of energy (1988–97). But the presence of IRGC-affiliated businesses was not easily undone. While trying to tame the IRGC – efforts included the use of public pledges to act against corruption in what appeared to be a reference to the guards⁸ – the Rohani administration still had to find a modus vivendi. Some form of consensus, especially in order to realize a new petroleum law, the Iran Petroleum Contract (IPC), was indispensable. Through the IPC, the Rohani administration is seeking to offer more attractive terms to IOCs, which have frequently complained about the commercial unattractiveness of the existing buyback scheme. The IPC draft, however, required approval by the Parliament⁹ and therefore also by the – de facto Supreme Leader-controlled – Guardian Council. Thus, President Rohani and Petroleum Minister Zanganeh had to strike a balance. Both in terms of policy as well as business benefits, the interests of the conservative camp and the IRGC needed to be accommodated.

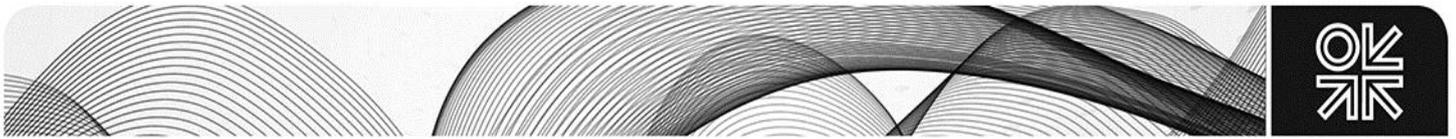
The IPC framework legislation, which found parliamentary approval in September 2016, reflects the attempt to do so. On the one hand, the IPC seeks to offer attractive terms to IOCs. In contrast to the buyback scheme, the IPC allows for the booking of reserves. Remuneration is more flexible and is possible not only in cash but also through physical barrels. On the other hand, the IPC takes into account concerns of the conservatives (as well as the strict Iranian constitution). Foreign ownership of reserves is still not allowed. In order to boost domestic capacity building, IOCs must partner with an Iranian company. This, moreover, also ensures that Iranian businesses (and their stakeholders) are directly involved in the development of Iranian oil and natural gas. As such, the IPC seeks to reconcile the somewhat conflicting 'international co-operation' and 'resistance economy' agendas.

However, beyond the IPC framework legislation, thus far no final contracts have been concluded. Senior conservatives are accusing the government of harming the 'resistance economy'.¹⁰ Tensions over the matter remain high, as each side jockeys for influence. As of January 2017 it appears as if, rather than following a single comprehensive approach, the terms will be negotiated separately, case

⁸ Karami, Arash: 'Rouhani criticizes consolidation of power in government', *Al-Monitor*, 2014.

⁹ In mid-2016, there was a debate in Iran whether the IPC would actually require parliamentary approval. Eventually, the IPC was presented to the parliament.

¹⁰ E.g. Mohsen Rezaee, Secretary General of the Expediency Discernment Council, see *Mashregh News*: 'Rezaee: oil contracts are against the resistance economy and very dangerous' (in Farsi), 22 August 2016.



by case. In other words, President Rohani's attempt to strike a balance continues as the government seeks to reconcile seemingly diverging interests.

Beyond legislation, the Rohani administration is also reaching out to the conservatives in terms of business. Speaking to an audience of IRGC members, Petroleum Minister Zanganeh suggested that the IRGC's business holding, Khatam-al Anbiya, could have an 'important position' as part of the IPC. Next to detailing how the IRGC could be involved, the minister declared that more than half of the new oil contracts would be awarded to Iranian companies.¹¹

The government's outreach to the conservatives and the IRGC has already translated into action. It was not an IOC that was awarded the first oil contract after the introduction of the IPC framework legislation, but a company affiliated with the conservatives – the Persia Oil and Gas Industry Development Company (POGIDC). In October 2016, NIOC signed a deal with POGIDC on the development of four oil fields. POGIDC is a subsidiary of Setade Ejraye Farmane Emam, a business holding overseen by Supreme Leader Khamenei.

Earlier, in July 2016, the Ministry of Petroleum published a list of local companies eligible to apply for international co-operation under the IPC. Among the eight companies that received clearance from the government, three have direct links to conservatives and/or the IRGC (in addition to Khatam-al Anbiya and POGIDC, the Industrial Development and Renovation Organisation is also included).¹² By getting the conservatives on board, it appears that the Rohani administration has succeeded in paving the way for the IPC to move forward. Importantly in this context, the IPC framework legislation stipulates that the Ministry of Petroleum will need to approve the credentials of both domestic companies and IOCs willing to engage in Iran. Thereby, the government will effectively (continue to) be the gatekeeper of the Iranian energy industry. While striking a balance to accommodate the interests of the conservatives and the IRGC, the government remains in control.

International co-operation: hedging the bets

This is also the case when it comes to international co-operation. Not dissimilar from the domestic situation, the Rohani government seeks to balance multiple interests. While pondering political and economic opportunities and risks, Iran is trying to diversify its commitments.

Iran's energy industry is in dire need of investment. The blow from sanctions during recent years was preceded by, arguably, decades of under investment due to rather unattractive fiscal terms under the buyback scheme. Petroleum Minister Zanganeh has suggested that Iran's energy industry requires investments of \$100 billion and more.¹³

The implementation of the JCPOA in January 2016 has opened the door for international co-operation in Iran's energy sector, as discussed above. In parallel to concluding and implementing the JCPOA, Iranian officials have invited international businesses to the country. Since the JCPOA was agreed in July 2015, Tehran has been frequented by multiple high-ranking political and business delegations. From Europe (amongst others) the EU's Foreign Affairs Representative Federica Mogherini, France's Foreign and Agriculture Ministers Laurent Fabius and Stephane Le Foll, Germany's Foreign and Economy Ministers Frank-Walter Steinmeier and Sigmar Gabriel, Italy's then Prime Minister Matteo Renzi, and the UK's Foreign Secretary Philip Hammond have all visited Iran. The warming of political relations has already translated into the signing of several contracts; these include high profile deals with Airbus, Boeing, Peugeot–Citroen, Renault, and Siemens.

The Iranian energy sector has also attracted worldwide attention. Teheran has received dozens of IOCs, expressing interest and exploring opportunities. This has resulted in the signing of several preliminary agreements (see Table 1). However, unlike the situation in other branches of the economy, no contracts have yet been concluded in the Iranian energy sector. Against this backdrop,

¹¹ *Fars News*: 'Necessity of the presence of the headquarters [short version of Khatam al-Anbiya's full name in Farsi] in new oil contracts' (in Farsi), 12 December 2016.

¹² *Upstream*: 'Iran reveals locals listed for foreign partnerships', 8 July 2016.

¹³ IRNA: 'Zanganeh: \$100bn investment in upstream oil industry needed', 4 October 2016.

Iran seeks to finalize contracts with IOCs, aiming to bring investment and technology to the country. In doing so, the government seeks to realize several objectives.

Generally, Tehran's approach to international co-operation appears to be driven by the desire to diversify engagements: Iran is hedging its bets. Rather than focusing on co-operation with European IOCs, which are now allowed back to the country and offer the latest technology, Tehran is in talks with companies from both the East and the West. A list recently released by NIOC details the IOCs allowed to bid for oil and natural gas projects under the IPC in the upcoming first tender. While European IOCs (including some majors) are featured, more than half the companies are from Asia and Russia (see Table 2).

Table 2: IOCs certified to bid at Iran's upcoming oil and natural gas tender

CNOOC (China)	Lukoil (Russia)	Posco Daewoo (South Korea)
CNPC (China)	Maersk (Denmark)	PTTEP (Thailand)
CNPW (China)	Mitsubishi (Japan)	Schlumberger (Netherlands/US)
DNO (Norway)	OMV (Austria)	Shell (Netherlands/UK)
Eni (Italy)	ONGC Videsh (India)	Sinopec (China)
Gazprom (Russia)	Perenco (France/UK)	Total (France)
Inpex (Japan)	Pertamina (Indonesia)	Wintershall (Germany)
ITOCHU (Japan)	PGNiG (Poland)	
Korea Gas Corporation (South Korea)	Plus Petrol (Argentina)	

Source: NIOC¹⁴

In this way, Iran is apparently trying to establish a diversified position in light of complex international politics. Experience shows that EU sanctions inflicted harm on Iran's energy sector in the early 2010s. At the time, Chinese companies in particular, remained in Iran. Although complaints about their rather poor performance can be widely heard in Iran, Asian companies nevertheless have contributed to keeping the Iranian energy industry going. By inviting them into the energy sector (and to other branches of the economy), Iran is partly honouring these countries' loyalty during the sanctions years. During a visit to Beijing in April 2015, three months before the JCPOA was agreed, Petroleum Minister Zanganeh declared that China 'has been greatly cooperating with the Islamic Republic under conditions of sanctions and we are willing for that cooperation to continue when sanctions are removed'.¹⁵

The inclusion of China and Russia, however, is more than a mere expression of gratitude. In both cases, energy companies are state-owned or closely linked to the state. By bringing in Chinese and Russian companies, Iran is also deepening relations with the countries' governments. In a broader sense, the energy sector is thereby included in what can be described as a more fundamental deepening of Tehran's political and economic relations with Beijing and Moscow – a major trend in recent years. This helps Iran to protect itself against a one-sided dependency on Europeans in particular, and the West in general. As of today, the EU and key member states are fully endorsing the JCPOA, considering it to be a rare example of successful European diplomacy. With the Trump administration about to take over in Washington, however, the future of Iran–US relations is unknown. Even if Europe continues supporting the JCPOA there could still be consequences for EU–Iran business relations, especially in light of possibly increased extraterritorial application of US laws. There is also the possibility of new US sanctions or, in the worst case, a withdrawal of the US from the JCPOA. Should Iran and European IOCs co-operate, there would certainly be problems in the event of worsening Iran–US relations. In any such scenario, co-operation with China and Russia, which would be affected less, could somehow act as a buffer for Iran.

¹⁴ NIOC: 'List of Qualified Applicants', National Iranian Oil Company, Tehran, 2016.

¹⁵ PressTV: 'Iran, China to increase energy cooperation when sanctions removed: Zanganeh', 10 April 2015.

In short, it seems that Tehran is not only considering business variables in the narrow sense of the term, but is also including geopolitical reasoning in its calculations. As such, European IOCs are welcomed, albeit not at the expense of recently deepened ties with Asia, China, and Russia, in particular.

In terms of concrete goals, in the short term Iran is keen to achieve symbolic successes in international energy. President Rohani, who is seeking re-election in May 2017, will need to present the Iranian people with some benefits from the JCPOA. Hardliners have accused the government of surrendering nuclear rights without adequate compensation. After delivering on the promise of negotiating a nuclear deal, Rohani will now need to fulfil his second 2013 campaign promise: economic recovery. While the country is back on the path of growth, and inflation has been somewhat controlled, most Iranians are still waiting to see their personal situation improve. Lasting and comprehensive progress will certainly require more time, as the country has only just begun to recover from sanctions: symbolic achievements are of great significance if the government is to expand international business ties.

In the energy sector, to this end, Iran has quickly sought to re-establish its pre-sanctions position. By ramping up production, market shares were prioritized over revenue considerations. While Iran's government budget was suffering from low oil prices, it does not appear plausible that the defining motivation was to increase oil income in the short term. Compared with other oil producers, Iran is in a somewhat better position to endure low oil prices due to: a smaller share of oil revenue in the government budget and GDP, a positive non-oil trade balance, and (growing) economic activity outside the energy sector, as well as access to billions of (previously blocked) US dollars in international banks, as part of JCPOA implementation.¹⁶

Similar to the move back to its pre-sanctions position, Iran's OPEC policy is also of great symbolic importance. The November 2016 OPEC deal exempted Iran from production cuts and acknowledged pre-sanctions output levels as Iran's reference production. OPEC thereby implicitly confirmed Iran's claim that the lower production under sanctions was not normal or, in the Iranians' words, 'unjust'. As a result, Iran is allowed to slightly increase production while major rival Saudi Arabia, non-OPEC producer Russia, and others are cutting output. In Iran, this was celebrated as a major victory for the Iranian OPEC delegation led by Petroleum Minister Zanganeh. Media outlets even went so far as to enthusiastically celebrate the OPEC deal as an 'oil JCPOA'.¹⁷

For Iran's government, eager to show to the public that the JCPOA is advantageous for Iran, this outcome of the OPEC deal is important regardless of its economic merits. The country has successfully re-established its pre-sanctions position and was able to negotiate an exemption from OPEC, despite months of opposition to this in Riyadh. Thereby, not without grounds, Iran has demonstrated that it is back in the business of global energy.

This message is significant for Iran in order to achieve its more long-term objectives. To utilize the full potential of its energy riches, Tehran will need to attract international investment and technology. Otherwise, the Iranian energy sector will remain underdeveloped as the country holds the world's largest combined reserves of oil and natural gas (13 per cent of global total) but only accounts for some 4.7 per cent of worldwide production.¹⁸

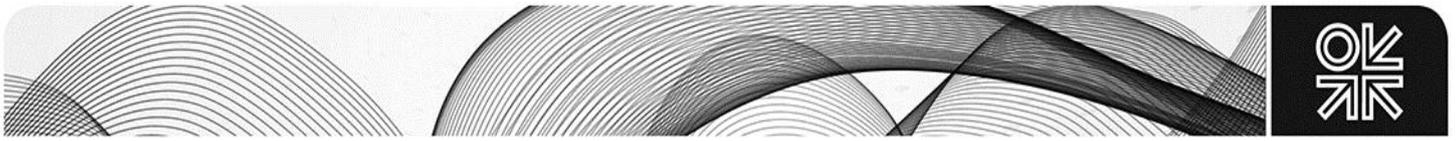
A comeback with hurdles: the way forward

The implementation of the JCPOA in January 2016 has opened the door for Iran to return to international energy markets. President Rohani is trying to seize this opportunity. At home, a new petroleum law was introduced. In parallel, the government seeks to strike a balance in an attempt to secure the support of the more conservative elements of the Islamic Republic. Internationally, Tehran

¹⁶ Jalilvand, David Ramin: '5 reasons Iran will be able to wait out low oil prices', *Al-Monitor*, 2016.

¹⁷ 'Barjame nafti' – in reference to the Iranian acronym for the JCPOA. See *Khabar Online*: 'Oil diplomacy realised oil Barjam', (in Farsi), 1 December 2016.

¹⁸ Figures for 2015, see BP: *BP Statistical Review of World Energy June 2016*, London, 2016.



is hedging its bets. Aiming at the diversification of engagements, Iran is trying to reduce potential damage in the event of new troubles in its relations with the West.

While doing so, by reaching out to IOCs, Iran's energy policy seeks to realize several objectives. International co-operation will help to maintain output at oil fields already in production. Many of Iran's oil fields are mature and require enhanced recovery techniques.¹⁹ Furthermore, Iran is keen to ramp up production at shared oil and natural gas fields. In many cases, neighbouring countries are producing at faster rates thanks to IOC support. At the same time, international co-operation should also contribute to the transfer of technology and domestic capacity building, both in upstream and downstream. These changes are accompanied by the continuation of the increased domestic use of energy. While trying to expand domestic wealth creation (in other words economic growth) as well as reducing dependence on international markets and politics, Iran will especially encourage domestic consumption of natural gas. It is hoped that once domestic consumption is reined in, Iran can also be expected to attempt to achieve the completion of LNG export terminals, with IOC support.

The comeback of Iran to international energy, however, faces hurdles: political and economic uncertainty is looming.

Domestically, the final design of the IPC remains unclear until the first contracts with IOCs are eventually signed. Only then will it become clear whether and how the Rohani government's attempt at striking a balance will succeed. In this context, the involvement of the IRGC, which appears to be a necessity for domestic political reasons, is raising concerns internationally. In order not to violate EU and US sanctions, the government will need to find some modus operandi which allows the IRGC to have their share in the energy sector without affecting the engagements of IOCs. In other words, the presence of IOCs and the IRGC will need to be clearly separated – while both engage in the Iranian energy sector.

Finally, incoming US President Donald Trump is casting a shadow over Iran's energy sector as part of a broader uncertainty regarding the future of Iran–US relations and the implementation of the JCPOA.²⁰ Both before and after the US presidential elections, the current President-elect Trump has expressed his disapproval of the JCPOA in strong terms. At this point, the actual course of future US policy towards Iran is unclear and it would be premature to conclude that a fundamental re-orientation will happen. Nevertheless, uncertainty has significantly increased with regard to the future of the JCPOA, with potential consequences for Europeans and others engaged in Iran's energy sector.

Navigating the complex domestic and international politics which define the framework for Iran's energy sector and the scope of possible international co-operation, the government of President Rohani can be expected to keep its current approach. Despite uncertainty over several aspects, Rohani and Petroleum Minister Zanganeh are fostering Iran's comeback to global energy. While doing so, they will continue trying to strike a balance at home, while hedging Iran's bets internationally.

In Iran, meanwhile, with upcoming presidential elections in May, it remains to be seen if Rohani is allowed to retain his office and to maintain his approach. Concluding contracts with IOCs, as proof of the JCPOA's benefits, would certainly help to this end.

¹⁹ To illustrate this point: in 2011, according to official data, Iran re-injected some 31 bcm into maturing oil fields. See OPEC: 'Annual Statistical Bulletin', Organization of the Petroleum Exporting Countries, Vienna, 2016.

²⁰ ICG: 'President Trump and the Art of the Iran Nuclear Deal', International Crisis Group, Brussels, 2016.