Iranian Oil Minister Mohsen Paknejad visits offshore installations at Iran's Forouzan oil field in the Persian Gulf on October 6, 2024.
● SHANA

How feasible is it to attract and secure investment for the development of fields and refineries under the current circumstances?

NOORBAKHSH: Securing financing continues to be a major hurdle for all key projects in the country. I believe that domestic companies have the technical know-how to carry out development projects in many fields, though whether they can fully finance them is a different story. That said, there is potential to draw in investment, and I think we could make this happen through collaborations with China under the 25-year agreement or similar arrangements.

KAFSHKANAN: To build on Mr. Noorbakhsh's comments, it is still unclear how long the sanctions will stick around and at what intensity. During President Biden's administration, he at least publicly expressed a desire for greater engagement, stepping away from the maximum pressure policy against Iran. Additionally, the Russia-Ukraine conflict has thrown the global energy market into disarray, making the entire world—especially Western countries—more dependent on energy guarantees, which has led to some leniency regarding Iranian sanctions and exports. This has allowed the government to ramp up oil exports from around 300,000 to 400,000 barrels to about 1.8 million barrels. However, two factors could shake things up: first, if the Russia-Ukraine war comes to an end and sanctions against Russia are lifted; and second, with Trump back in power, conditions for Iran could turn more challenging unless we strike a deal on our disputes. Otherwise, even China might not be as willing to buy our oil as they were before.

When it comes to developing our oil fields independently, I believe we have solid technical capabilities in this area. We successfully launched Phase 11 of the South Pars gas field in 2023 using domestic expertise. However, we need to admit that technology isn't something we fully control. While we may excel in some areas, we face challenges in oil and gas, which is understandable since international energy giants have poured vast sums into research and development to acquire these technologies, with some holding exclusive rights to certain advancements. Thus, technology transfer is crucial for field development and resource extraction, and this can only happen with major international companies return to Iran.

In terms of financing, I'll just point out one thing: the amount of investment needed in the oil sector is significantly larger than what's required for electricity

If we want to keep the electricity deficit at its current level and avoid increasing shortages, how much investment is needed?

KAFSHKANAN: To tackle the crisis in the electricity sector, we plan to allocate $5 billion from the National Development Fund for power production. If we inject this amount into the electricity sector alongside other measures, we could address a significant portion of the current deficit. However, it's natural that meeting future electricity needs in the residential and industrial sectors will require further investments.

Regarding gas, just to boost pressure in the South Pars gas field alone, we need to invest $20 billion to extract gas, as we are currently facing pressure drops in some fields.

What do you believe is the root cause of the energy shortages?

KAFSHKANAN: The root causes of the gas and electricity deficits can be traced back to a bill passed in 2005 known as the Price Stabilization Motion. In my view, this plan really slowed down the nation's development engine and ultimately brought it to a halt in the following years. During the reformist government of president Mohammad Khatami, a program was proposed that aimed for an annual hike of 20% in energy carrier prices to gradually match them with real costs. This scheme was quite successful and coincided with what I consider a golden era for Iran's economy post-Revolution. The public trusted it, leading to its successful implementation. Unfortunately, though, the Price Stabilization Motion upset the supply and demand balance for electricity, leading to government intervention in setting energy carrier prices. From that point on, investment in power plant construction began to decline, and sanctions complicated matters even further. Sanctions have particularly hampered Iran's access to oil and gas technologies. You may recall that Phase 11 of South Pars was put on hold back then, and subsequently, Total and a Chinese company (Sinopec) pulled out of developing the country's oil and gas fields. Then, when the JCPOA (Iran's nuclear deal) was signed in 2015, those companies returned to Iran, but with the re-imposition of sanctions, Total exited in 2018, followed by the Chinese company in 2019.

NOORBAKHSH: Regarding the Price Stabilization Motion mentioned earlier, I must say that this initiative fostered a misguided consumption pattern for energy in the country. Essentially, when we set prices artificially, it sends the wrong signals to consumers. For instance, when someone is buying a house, energy costs are often the last thing on their minds. Similarly, when purchasing a car, they may disregard its fuel usage because gasoline prices in our country are very low. On the other side, regulated fuel prices hinder efforts to optimize fuel consumption, as cutting vehicle fuel consumption requires investment from car makers, which raises production costs. Consumers are often unwilling to pay more for vehicles that consume less fuel. Therefore, until fuel prices are adjusted, we won't see satisfactory results in this area. Of course, any price adjustments should be handled carefully; they shouldn't suddenly double or triple prices. This process should unfold gradually or through other methods to avoid putting undue pressure on vulnerable groups.

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Trump will soon take office, and evidence suggests he may intend to ratchet up pressure on Iran, with one of America's key tools being the prevention of Iranian oil sales. In your opinion, how successful do you think Trump's approach could be?

NOORBAKHSH: Looking at the people around Mr. Trump, I believe he will likely dive back into the maximum pressure strategy, especially in the first nine months, before the snapback deadline set out in the JCPOA. Various assessments suggest that our oil exports could drop by between 200,000 and 600,000 bpd during this period.

However, the current scenario is different from when Trump first rolled out his maximum pressure policy. Back then, most of Iranian barrels went to countries that were US allies, like India, European nations and East Asian countries. These countries quickly swapped out Iranian oil for alternatives, including American crude, after receiving temporary exemptions, which led Iran's oil exports to take a nosedive, even falling below 200,000 bpd in 2020—a situation worsened by the COVID-19 pandemic.

Now, the feasibility of cranking up maximum pressure depends on two main factors: the mechanism of sanctions and the political landscape. The sanctions mechanism has three critical elements: first, how the US plans to cut off Iran's financial transactions; second, the targeting of tankers carrying Iranian oil; and third, the ways to discourage buyers from purchasing Iranian oil.

One major hurdle in curbing Iran's oil exports is the issue of tankers. The US will probably focus on sanctioning tankers carrying Iranian oil first. During President Biden's time in office, there were precedents for sanctioning oil tankers and Iran tried to replace these vessels with others. If the US ramps up sanctions on tankers this time, Iranian oil exports could run into serious trouble, as finding replacements takes time.

On the political front, it is important to note that most of our oil exports are currently headed to China. I believe that, despite US pushback, China is likely to keep buying oil from Iran—not just to support Iran, but also because China typically maintains a diversified quota for its oil imports. China sees importing oil from Iran as a way to strengthen its energy security.

I think China will keep backing Iranian oil shipments. By speeding up the process of replacing targeted tankers, Iran can hold its export levels steady. Regardless, Iran needs to tough it out in the face of the incoming Trump administration, as showing any signs of weakness could undermine its bargaining position in potential negotiations and deals.

What are possible solutions to the energy crisis? President Pezeshkian recently apologized for the deficits in the residential sector, which was noteworthy, and promised that these issues wouldn't come up again next year. How feasible is it to tackle these deficits?

KAFSHKANAN: In my opinion, the government can only reduce the severity of the energy crisis; keeping next year's peak consumption deficit at current levels seems pretty unlikely. This year, the Energy Ministry's plan to tackle the electricity shortfall was to split a 5,000-megawatt deficit between the industrial and residential sectors—3,000 MW for industry and 2,000 MW for households. However, in recent days, actual shortages have exceeded 5,000 MW.

I believe the government's plans to address deficits are more focused on strategies laid out in the Seventh

The Iranian-flagged Very Large Crude Carrier (VLCC), MT Arman 114 (L), and the Cameroon-flagged MT S Tinos are seen as they were spotted conducting an allegedly ship-to-ship oil transfer without a permit, according to Indonesia's Maritime Security Agency (Bakamla), near Indonesia's North Natuna Sea, Indonesia, on July 7, 2023, in this handout picture released on July 11, 2023.
● REUTERS