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ЭКОНОМИЧЕСКИЕ ОТНОШЕНИЯ

## Последние изменения в каспийской энергетической стратегии Ирана в Каспийском регионе

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**Аннотация:** Несмотря на то, что добыча углеводородов в бассейне Каспийского моря не является приоритетом для Ирана, Тегеран придает особое значение укреплению экономического сотрудничества с прибрежными государствами. Иран, который долгое время не принимал участия в формировании региональной повестке дня, выдвигает инициативы, способные обозначить новые подходы к региональному развитию по самому широкому кругу вопросов, включая добычу и транспортировку углеводородных ресурсов. Так, к примеру, недавние события наглядно продемонстрировали, что иранские власти отчетливо осознают, что энергетическая отрасль все еще является определяющим фактором при определении экономических и внешнеполитических приоритетов для прикаспийских государств, экономика которых остается экспортно-ориентированной. В результате Иран начал подготавливать почву для совместной разработки морских месторождений Каспия и возобновления операций по нефтяным свопам. Исходя из этого, основной целью статьи является рассмотрение политики Ирана в отношении Каспийского региона, делая особый акцент на энергетической стратегии Тегерана в Каспийском бассейне, а также уделяя особое внимание как перспективам развития морских месторождений, так и энергетическому сотрудничеству с прибрежными государствами.

**Ключевые слова:** энергетическая политика, Каспийский регион, нефть и газ, иранский сектор Каспийского моря

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## Recent Developments in the Energy Strategy of Iran in the Caspian Region

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**Abstract:** Despite the fact that the production of hydrocarbons in the Caspian Sea basin is not a priority for Iran, Tehran attaches special importance to strengthening economic cooperation with the littoral states. Iran, which was out of a regional discourse for a long time, comes up with initiatives that can shape new approaches towards the regional development in a broad array of issues, including extraction and transportation of hydrocarbon resources. For instance, recent developments have shown that the Iranian authorities clearly acknowledge that the energy factor still has a prevailing influence on both the shaping and implementation of economic and foreign priorities of the Caspian states, the economy of which remains export-oriented. As a result, Iran started to prepare the ground for the joint development of the Caspian offshore deposits and resuming oil swap operations.

Therefore, the main purpose of the paper is to consider Iran's policy toward the Caspian region highlighting Tehran's energy strategy towards the Caspian basin and focusing on the exploration activities and prospects of development of offshore fields, as well as energy cooperation with littoral states.

**Keywords:** energy policy, Caspian region, oil and gas, Iranian sector of the Caspian Sea

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### INTRODUCTION

Despite the fact that the production of hydrocarbons in the Caspian Sea basin is not a priority for Iran, Tehran attaches special importance to strengthening economic cooperation with the littoral states. In fact, the recent developments in Iran's foreign policy towards the neighboring Caspian states, especially Russia, together with a gradual process of emerging from international isolation after signing of the Joint Comprehensive Plan of Action (JCPA) also known as Iran nuclear deal, indicates strong intention of Tehran to improve its

involvement in addressing regional challenges as an influential regional policymaker.

It is quite understandable that Iran, which is the second largest economy in the Middle East and North Africa region after Saudi Arabia, with an estimated gross domestic product (GDP) in 2017 of \$439.5 billion (Iran witnessed an increase in its GDP by \$20.6 billion in 2017 compared to figures in 2016 where GDP amounted to \$418.9 billion. Moreover, in 2015 Iran's GDP amounted to \$385.8 billion, which was a \$48.6 billion decrease comparing with 2014), still depends to a large extent on oil revenues. Therefore, the development of

its Caspian provinces, economy of which is characterized by the agriculture sector, is not considered as a real priority. Current statistics show that due to a significant rise in oil production and exports the Iranian economy strongly recovered in 2016-2017. For instance, following the removal of nuclear-related international sanctions, oil and gas production increased by 62%, which made it possible to increase the annual growth rate to 13.4% in 2016 compared to 1.3% in 2015 and to 4.3% in 2017 as oil production stabilizes. However, unemployment remains high and non-oil sector activity remains subdued. [1] In fact, in 2017 the number of employed persons in Iran reached an all-time high of 23.8 million out of 80.9 million of the total population. On the other hand, the unemployment in Iran remains at double-digit rates, namely, more than 12%, with extremely high youth unemployment rate, which reached an all-time high of 30.4% in 2016 [2].

As a result, the main priorities of the government of Hassan Rouhani reelected for a second presidential term in May 2017 encompass market-based reforms focusing on both strengthening economic ties with key trade partners and ensuring an increase in the flows of the foreign investments. It is expected that these measures would provide high economic growth rates, which will allow reducing social and economic pressures in the country. In fact, the relief of international economic sanctions allowed for the enhanced implementation of industrial and infrastructural projects within the country. In recent years, Tehran managed to fulfil a number of projects that significantly intensify the industrialization in agricultural areas, including the Caspian littoral provinces. Indeed, recently discovered oil and gas fields in the Iranian sector of the Caspian Sea has greatly increased the demand for highly developed coastal infrastructure oriented on transportation and processing of hydrocarbons. Moreover, the Caspian provinces are of signif-

icant importance to Iran's transportation strategy as parts of the International North-South Transport Corridor (INSTC) aimed to ensure a multi-mode network of ship, rail, and road routes for moving goods between India, Iran, Azerbaijan, Russia, Central Asia and Europe.

It appears that Iran, which was out of a regional discourse for a long time, comes up with initiatives that can shape new approaches towards the regional development in a broad array of issues, including hydrocarbon extraction and transportation of hydrocarbon resources. For instance, recent developments have shown that the Iranian authorities clearly acknowledge that the energy factor still has a prevailing influence on both the shaping and implementation of economic and foreign priorities of the Caspian states, the economy of which remains export-oriented. As a result, Iran started to prepare the ground for the joint development of the Caspian offshore deposits and resuming oil swap operations.

Therefore, the main purpose of the paper is to consider Iran's policy toward the Caspian region highlighting Tehran's energy strategy towards the Caspian basin and focusing on the exploration activities and prospects of development of offshore fields, as well as energy cooperation with littoral states.

#### **EXPLORATION ACTIVITIES AND DEVELOPMENT OF THE OFFSHORE FIELDS**

Being an oil export based economy, which focuses on the development of oil and gas bearing areas originating in the Persian Gulf and the Gulf of Oman, Iran pays less attention to the Caspian region, where there is still much work to be done to develop sustainable exploration and production of oil and gas. In fact, the country is a latecomer in conducting exploration activities in the Caspian region. The first offshore hydrocarbon deposit in the Iranian sector of the Caspian Sea was discovered by Khazar Exploration and Production

Co. (KEPCO) (KEPCO is a subdivision of the National Iranian Oil Company (NIOC) founded in 1998. KEPCO is an authority in exploration, development and production of oil and gas in Iran concerning the Caspian Sea and three littoral provinces of Mazandaran, Golestan and Gilan. KEPCO supervises all the contracts signed by local and international companies regarding exploration and development of hydrocarbon reserves in the area) in 2011. The Sardar-e Jangal field is located at Block 6.2, about 250 kilometers from the coastline of the Mazandaran province, 750 meters below water surface. According to initial projections of the Iranian Ministry of Petroleum, the field contains total proven reserves of around 50 trillion cubic feet of natural gas (However, recent estimates from the operator of the field, KEPCO, placed reserves at 5 trillion cubic feet) (over 1,4 trillion cubic meters), which is ten times more than those of the Shah Deniz gas field, and about 10 billion barrels of oil. In 2012, an oil layer in Sardar-e Jangal field was discovered, namely, the Sardar-e Milli deposit, which is estimated to hold two billion barrels of oil with a recovery rate of 25%, or 500 million barrels. According to then Petroleum Minister Rostam Qasemi, the field contains light crude with zero sulphur content (API 39). It is expected that drilling 24 wells in the Sardar-e-Jangal oil field would allow a daily production of 95,000 barrels, while drilling 32 wells would result in 120,000 barrels a day [3].

It is worth noting that in 2001 Tehran took the first steps to ensure the realization of the exploration activities in the Caspian Sea and the adjacent provinces of Mazandaran, Golestan and Gilan following the geological and geophysical studies prepared by the South Caspian Study Group (SCSG) (In 1999-2000, Shell, Lasmo and Veba Oil teamed up to establish the SCSG aimed to conduct studies in the Iranian sector of the Caspian Sea. 22

months the group conducted 10,000 kilometers of 2D seismic operations, reviewed data related to 26 wells drilled in Azerbaijan and Turkmenistan and compared the connection between the formations in the wells drilled in these two countries and Iran. In the end, the study discovered 86 geological structures in the Caspian Sea with 46 of them in better conditions. Eight of them were picked as priority structures for exploration and production studies). Right after the well-known military incident with BP in the Azerbaijani sector of the Caspian Sea (The survey vessel of BP, which was the exploration operator of the Alborz/Araz-Alov-Sharg block, was moved out from the contract area by the Iranian military motor boat in the summer of 2001) the Iranian Company SADRA started, under the Swiss company GVA's license, to construct a semisubmersible platform designed for drilling at the disputable Alborz block, which the Azerbaijani side calls Araz-Alov-Sharg (The drilling operation control system at the platform technically belongs to the Norwegian company Maritime Hydraulic, which held trainings for the Iranian oil workers). However, a month after the First Caspian Summit held in Ashgabat in April 2002, Baku and Tehran officially declared that exploration works at the disputed offshore hydrocarbon fields would be stopped until resolving the border issue. As a result, the platform was used to conduct drilling operations on one of the eight priority structures selected under the SCSG study.

The official ceremony of the commissioning of the Alborz platform, which was then renamed as Amir-Kabir, took place in the summer of 2009 [4]. The platform started an exploratory drilling in February 2010. In fact, it was Iran's first experience of deep water drilling. The domestically manufactured semisubmersible drilling rig operated by 120 persons, is capable of drilling wells

down to 6,000 meters, but only usable for underwater exploration works at a 1000-meter depth and cannot be used for gas or oil extraction. The platform has so far drilled two exploration wells. The first well drilled at a depth of 2,460 meters in the Caspian Sea led to the discovery of the Sardar-e Jangal field (For comparison, Russia's Yuri Korchagin oil field located at a depth of 3,500 meters, Azerbaijan's Azer-Chirag-Guneshli fields – at depths ranging from 3,500 to 4,000 meters, Kazakhstan's Kashagan oil field – at a depth of 4,700 meters, while Azerbaijan's Shah Deniz, which is the closest field to the Sardar-e Jangal, was discovered at a depth of more than 7,000 meters). In November 2014, the production tests, including pressure and temperature data recording, were carried out successfully in the second well, drilling of which finished after reaching a depth of 3,488 meters. The second well drilled 1,423 meters away from the first well was later proven to contain oil. In 2015, KEPCO spudded the third exploratory well on the Sardar-e-Jangal field in the Caspian Sea.

In order to maintain the 14,700-ton drilling rig (4,500 tons of the total weight belong to the technical equipment), which is fixed to the seabed by eight anchors weighing 20 tons each, KEPCO constructed three multipurpose auxiliary tugs named Caspian-1, Caspian-2, and Caspian-3, and established a base for the performance of oil operations in the northern Iranian city of Roudsar. KEPCO completed its drilling fleet by adding a relief and rescue vessel, two multi-purpose vessels, two pollution-removing vessels and a speed vessel.

The Iranian authorities strongly insist that Sardar-e-Jangal is the only indisputable oil and gas field discovered by KEPCO in the Caspian Sea. However, since the Sardar-e-Jangal field is located approximately 180 kilometers to the north-west from Astar and 194 kilometers to the south-west from



Figure 1. Iran's Sardar-e Jangal gas and oil field  
Source: IranOilGas

the Azerbaijani Oil Rocks field (Fig. 1), it appears that this gas and oil deposit is situated to the north from the Astar-Hasangulu line, which was accepted as the boundary line separating the former Soviet Union and Iran [5]. In fact, according to the Azerbaijani authorities, areas to the north from the Astar-Hasangulu line are under the jurisdiction of Baku as they are located in the Azerbaijani sector of the Caspian Sea. Under these circumstances, the Sardar-e-Jangal field might legally belong fully to Azerbaijan or be subject to shared ownership. However, the Ministry of Foreign Affairs of Azerbaijan and the Azeri state-owned oil company SOCAR does not rush to claim rights to the offshore deposit. Indeed, despite the fact that according to a modified median line division method of the Caspian seabed, which was adopted by Azerbaijan, Russia, Kazakhstan and, partially, Turkmenistan, this block is located in the Azerbaijani sector, there is still a possibility that after the completion of the geological exploration of the field it may gain a cross-border status just like the Iranian South Pars field in the Persian Gulf.

**ENERGY COOPERATION WITH LITTORAL STATES**

Three-fourths of Iran's reserves lie within its national borders, but the country shares 28 oil and gas fields with the neighboring countries. These joint fields contain 20% of Iran's oil reserves and 30% of its natural gas [6]. In fact, the volume of production of Iran's neighbors from the joint oil and gas fields is currently nine times higher than that of Tehran. Therefore, there is a possibility that Iran would consider the option of jointly developing disputable Caspian oil and gas fields. For instance, speaking at the meeting with Azerbaijani President Ilham Aliyev held on the sidelines of the Iran-Russia-Azerbaijan summit in Tehran on November 1, 2017, Iranian President Hassan Rouhani stated that Iran was ready to cooperate with Azerbaijan in various industrial sectors including oil and gas swap and exploration activities in the Caspian Sea region. Moreover, on September 28, 2017, at the invitation of Rovnag Abdullayev, head of Azerbaijan's SOCAR, a delegation from KEPCO headed by Mohsen Delaviz, the company's managing director, held talks in Baku on the issue of joint exploration and development of Caspian Sea oil and gas fields. In fact, the parties already signed a memorandum of understanding (MoU) on cooperation in the oil and gas industry in 2016 (The document was signed between the NIOC and SOCAR during the visit of President Ilham Aliyev to Tehran in February 2016). It is worth mentioning that Iran considers both Azerbaijan and Russia as energy partners in offshore oil exploration in the Caspian basin. For instance, on October 3, 2017, the Russian oil company Lukoil signed two preliminary agreements with the NOIC to study the Caspian Sea's oil and gas potential (The agreements were signed in Moscow during the 19th ministerial meeting of the Gas Exporting Countries Forum). The agreement for a geological survey in the Caspian Sea coupled

with a MoU signed between Lukoil and KEPCO paved the way for Russia's second-largest oil producer to further cement its position in Iran's petroleum market. Thus, it would be the first time for Iran and Russia to cooperate over an energy-related project in the Caspian Sea.

However, while recognizing the significance of energy talks between Iran and other littoral states, it is important to note that recently signed agreements mainly demonstrate Iran's desire, not full readiness, to launch energy cooperation in the Caspian Sea in the near future. It is obvious that Tehran has not yet made a groundbreaking move that could contribute to joint exploration activities in the region. Nevertheless, due to the fact that oil and gas development in the Caspian Sea is totally different from that in the Persian Gulf, there is a need for attracting international oil companies possessing modern deep water drilling technologies as operators of Caspian energy projects. Since Iran's capacity for further development of Caspian Sea resources is rather limited, in 2015, KEPCO introduced four energy projects (Two out of four are exploration projects, while the remaining two focus on production and development of the fields) in the Caspian basin to potential investors, namely, Blocks 24, 26 and 29 (Block 24 and 29 are located 130-135 kilometers to the north from the Nowshahr port at a depth of 600-800 meters, while Block 26 is situated 100 kilometers to the north-east from the Anzali port at a depth of 850-900 meters), as well as the Sardar-e Jangal oil field, under Iran's new model of oil contracts known as an integrated petroleum contract (IPC). In the following two years, Norway's Offshore Resource Group (ORG) signed a MoU with KEPCO to study the development of all four projects (The agreement was signed by Jostein Kaare Kjerstad, ORG's executive director, and Mohsen Delaviz, KEPCO's managing director, in Tehran on November 1, 2017). Thus, Iran managed to find an international energy

company possessing special equipment and experience to extract oil and gas from deep waters. It is probable that ORG's exploration activity would be conducted by means of the second semisubmersible drilling platform, the construction of which is provided for in the agreement signed by KEPCO in 2013.

It appears that despite the fact that the groundwork has been laid by Tehran for the IPC-based development of the Sardar-e Jangal oilfield the commercial production of oil and gas there is still a matter of the distant future. According to Iranian Petroleum Minister Bijan Zangeneh, oil production in the Caspian Sea is not a priority for Iran. Such an approach of the Petroleum Ministry is entirely appropriate, given that Iran lacks cost-efficient technologies of deep water drilling. As Zangeneh has rightly pointed out, extraction of oil and gas from the Caspian deposits requires high technology and large-scale investment, therefore, it is on the agenda, but in the long-run perspective.

It could be concluded that a key goal of Iran's energy strategy in the region is mainly to conduct exploration activities. In fact, Iran still does not have the necessary infrastructure

to commence the commercial oil and gas production. KEPCO has neither a pipeline nor a floating production storage and offloading vessel in the Caspian Sea to carry oil from the fields to the shore. Moreover, the fact that the ORG agreed to carry out exploration research does not guarantee that the European energy company will agree to operate at the disputable field, unless Tehran and Baku reach an agreement on the issue. As a result, as of today the development of the Caspian fields is largely motivated by geopolitical rather than economic considerations. However, it is no doubt that the development of the Sardar-e Jangal and Sardar-e Milli fields could open a new chapter in hydrocarbon production in the Caspian Sea.

#### OIL SWAPS

Bordering the Persian Gulf and Gulf of Oman in the south, Iran could be a transit route for moving energy from the Caspian Sea, which has no direct access to the international waters and the world markets. In fact, oil and gas swap operations started in 2000 enabled Iran to hold a position of one of the leading

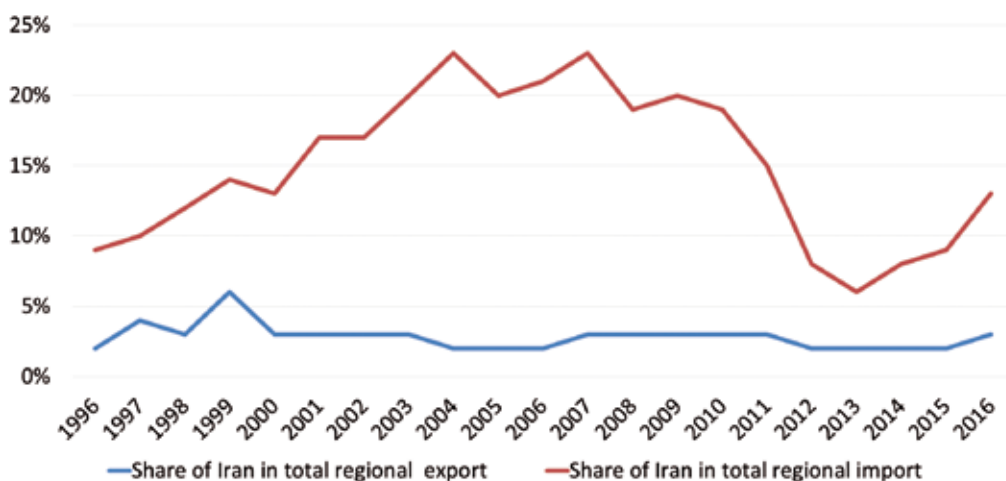


Figure 2. Share of Iran in total regional export/import

Sources: UNCOMTRADE, International Monetary Fund, 2015

importers in the Caspian region. Until 2010, the oil swap operations represented the lion's share of Iran's mutual trade with the regional countries, which resulted in a constant increase of Iran's share in the total regional import from 9% in 1996 to its highest rate of 23% in 2004. The average share of Iran in regional import has remained stable totaling 21% from 2003 to 2010. However, after 2010 when the former President Mahmoud Ahmadinejad decided to halt swap operations, Iran's share in the total regional import averaged 11% from 2011 until 2016, reaching a record low of 6% in 2013 (Fig. 2). As a result, the Iranian side is oriented at resuming oil swaps with the Caspian Five.

According to reports, Iran swapped more than 254 million barrels of oil from 2000 to 2010 generating \$880 million in revenues. Under the agreement, Iran received crude oil from the Caspian states in Neka Oil Terminal where facilities with infrastructure relevant for oil swap and loading procedure are located (Neka Oil Terminal was built in 2003 in order to handle oil imports under swap agreements with the Caspian states). The Iran's northern refineries processed oil swapped with further distribution of the oil products across the Caspian provinces. Meanwhile, Iran delivered an equivalent volume of crude oil in its Persian Gulf terminals to the credit of its Caspian neighbors. The operations were conducted by the Naftiran Intertrade Company (NICO), which is a Swiss-based subsidiary of the NIOC that handles swap operations on behalf of the parent company. The parties considered the oil swaps as a win-win deal given that the Iranian side did not have to pay for transportation of the crude oil across the country from its southern fields, while the Caspian states did not face the cost of transporting their hydrocarbons to a coastal terminal. However, in 2010 the Iranian government declared its intention to increase the fee that Iran charges its northern neighbors for its service from \$1 to \$5-\$6 for each barrel

of oil swapped. Unfortunately, the higher fee Iran wanted to charge made the swap operations unprofitable [7]. Moreover, the situation had been worsened by the inclusion of the NICO in the U.S. blacklist, which meant that direct trade, even by non-US companies, with NICO would lead to penalties.

Nevertheless, since 2012 Iran tried to revive the swap deals by preparing proposals to its Caspian neighbors on the resumption of oil swap operations. For instance, in 2016, Mahmoud Astaneh, Board Member of NICO, stated that Iran is fully ready for a daily swap of around 300,000 barrels of oil at Neka Oil Terminal as all required domestic preparations are completed and necessary negotiations with foreign counterparts are underway. As a result, in August 2017, oil and gas explorer Dragon Oil shipped a cargo of oil produced from an offshore development in Turkmenistan to Iran. The Russian-flagged oil tanker discharged around 6,000 tons of crude oil at the terminal in the Caspian port of Neka. Moreover, in November 2017, Iran's Oil Minister Bijan Namdar Zanganeh reported that Iran and Russia's Energy Ministry have signed a contract for the supply of Iranian oil to global markets through the Russian ministry's body Promsyeimport. The first tanker was already sent in mid-November under the agreement. It is planned that in 2018, Russia will purchase from Iran about 5 million tons of oil contributing to the resumption of swap operations (Jalilov O. Iran, Russia Sign deal on sale of Iranian oil to global markets. 2017 Retrieved from <https://caspiannews.com/news-detail/iran-russia-sign-deal-on-sale-of-iranian-oil-to-global-markets-2017-11-30-41/>).

In December 2017, Pirouz Mousavi, Managing Director of the Iranian Oil Terminals Company (IOTC), reported that the IOTC handled 1.8 million barrels of crude oil since swap operations were resumed in August 2017. The swapped oil was shipped from



Turkmenistan to refineries in Tabriz and Tehran in more than 36 cargoes, while the equivalent amount was delivered to buyers on Kharg Island (Data on Iranian crude oil swaps with Caspian states revealed. Iran Daily. 2017. Retrieved from <http://www.iran-daily.com/News/206051.html?catid=3&title=Data-on-Iranian-crude-oil-swaps-with-Caspian-states-revealed>). In fact, there is a possibility to increase oil swap capacity between Iran and Caspian states in the medium term given that Neka Oil Terminal currently receives only around 50,000 barrels of oil per day.

### ELECTRICITY

Nowadays, Iran's electricity industry ranks 14th in the world and first in the Middle East in terms of power generation. In June 2017, the country's overall nominal capacity has reached 76,947 megawatts (MW). Iran is now exporting around 12 billion kilowatt-hours of electricity to its neighbors each year, while imports stand at an annual level of 4 billion kilowatt-hours. Iran imports 1.2% of its electricity consumption in order to keep the seasonal balance. For instance, Iran experiences peak consumption in the summer, while in Azerbaijan, Russia and Georgia electricity is consumed most in the winter. Under these conditions, it is understandable that Tehran seeks opportunities to swap electricity in order to avoid costs related to the construction of new power plants.

In fact, Iran views the South Caucasus as a potential area for energy trade and transportation [8]. In order to meet Nakhchivan's energy demand, Azerbaijan started to buy electricity from Iran in late 1994. Before the construction of the 220-kilowatt Astar (Azerbaijan) – Astar (Iran) transmission line in 2003, over 60% of Nakhichevan's electricity supply came from Iran via the 132-kilowatt Imishly-Parsabad power line, as well as two related 154-kilowatt transmission lines. In order to enable Iran to

increase electricity supplies to Azerbaijan's exclave, in 2006 the parties agreed to a mutual exchange of electricity during alternating peak consumption seasons. According to the agreement, Azerbaijan was supposed to transfer power to Iran during the summer, providing electricity to the Iranian cities of Astar and Talesh, and receive power from Iran through the same line during winter. As part of the project, Azerbaijan and Iran signed an agreement on the construction of a new high-voltage 330-kilowatt power line connected to the main Azerbaijani grid parallel to the existing 132-kilowatt Imishli-Parsabad line. However, due to the international sanctions against Iran, the joint project has been suspended until 2016. In December 2016, the 330-kilowatt Mugan (former Imishli-Parsabad 2) power line was put into operation, and the framework agreement was signed on the sale of electricity. In addition, in February 2016, the two neighbors concluded an agreement envisaging the construction and operation of new hydro plants at the Khoda Afarin and Qiz Qalasi dams and hydroelectric complexes on the Araz River. The hydroelectric power plants and hydroelectric complexes will be used by Baku and Tehran on equal terms. The construction of the hydropower plants will be implemented near the Araz River borderline in the Iranian town Marazad and the Azerbaijani city of Ordubad.

On the sidelines of the Trilateral Summit of the presidents of Azerbaijan, Iran and Russia held in Tehran on November 1, 2017, Ilham Aliyev, Hassan Rouhani and Vladimir Putin agreed on enhancing cooperation in the oil and gas industry and electricity trade. In a joint statement issued following the talks, the parties have expressed interest in supporting the implementation of the agreements on electricity trade, as well as the project to connect the electricity grids of the three countries. Therefore, it can be easily seen that Iran intends to create a regional electric power market with

its partners in the region. On June 6, 2013, the parties signed an agreement on measures aimed to ensure parallel operation of their energy systems confirming their intentions to establish common policies for modernization and development of the energy system. Moreover, Russian officials confirmed their intentions to revitalize the project of establishing energy networks of Azerbaijan, Russia and Iran. Actually, the initial agreement was inked in Tehran in December 2004. The parties even formed a tripartite committee responsible for solving technical issues on the way of ensuring the parallel operation of energy systems. Nevertheless, reaching of the Joint Comprehensive Plan of Action, which has ensured the suspension of the nuclear program of Iran and the lifting of the sanctions, provided Azerbaijan, Russia and Iran with an opportunity to resume the process of interconnection of energy systems.

In fact, Tehran is also interested to create conditions for effective parallel activities of the power grids of Iran, Georgia, Armenia and Russia. At the moment, a coordination group at the level of deputy ministers of the four countries is actively working to launch the projects. It is expected that by late 2019 the 1000 MW North-South Energy Corridor will operate at full capacity. Indeed, in December 2015, the Energy Ministers of Armenia, Georgia, and Iran, namely, Yervand Zakharyan Kakha Kaladze and Hamid Chitchian, respectively, as well as Chief Executive of the Rosseti, which manages Russia's power distribution grids, Oleg Budargin signed a memorandum on cooperation in the energy sphere. Under the document, the parties agreed to cooperate in studying technical and legal framework for the possible synchronous operation of the four countries' electricity grids. Currently, it is technically possible to synchronize the Armenian and Iranian grids, on the one hand, and the Georgian and Russian grids, on the other [9]. As a result,

in order to allow the single synchronization of all four countries' electricity grids, there is a need to construct 400- kilowatt Iran-Armenia and Armenia-Georgia power transmission lines (Electricity exchange capacity between Armenia and Georgia will reach 350 MW, with a further planned increase to 700 MW by 2021; exchange capacity between Armenia and Iran will reach 1200 MW).

It should be noted that Iran's SUNIR company has already received the official permit to build a 400-kilowatt Iran-Armenia power transmission line, the memorandum on construction of which was signed between Armenia and Iran in May 2006. In fact, the construction was repeatedly postponed due to a number of reasons, including Western sanctions against Iran. However, in August 2015 Ali Salehabadi, Managing Director of the Export Development Bank of Iran (EDBI) (According to the agreement, the EDBI will provide 77% of the construction cost of the project, with the remaining 23% will be provided by the general contractor, namely, SUNIR. The total cost of the project is €107.9 million), and Aram Ananian, Managing Director of Armenia's High Voltage Electricity Network, signed the agreement on the construction of the third power line between the two countries. The project of the 400- kilowatt Meghri-Hrazdan power transmission line with the total length of 279 kilometers also includes construction of a 440-kilowatt substation 10 kilometers away from the Hrazdan Thermal Power Plant (Avanesov A. Iran-Armenia 400 kWt high-voltage line construction will finish on September 1 2018. 2017. Retrieved from [http://finport.am/full\\_news.php?id=29486&lang=3](http://finport.am/full_news.php?id=29486&lang=3)).

It could be concluded that most of Iran's electricity trade with its partners is on an exchange basis, which makes it possible to synchronize the power grids of the regional countries. It appears that the parties will continue efforts to ensure parallel operation of their

energy systems confirming their intentions to establish common policies for the modernization and development of these systems. Moreover, the projected Armenia-Iran and Armenia-Georgia power transmission lines are to be commissioned in 2019 will enable electricity transits and seasonal mutual supplies and exchanges between Iran and the countries of the Caspian-Caucasus region.

### CONCLUSIONS

Although Tehran has not yet developed a clear framework for cooperation with the Caspian littoral states there is no doubt that Iran is in the process of establishing the Caspian direction of its economic strategy. Indeed, Tehran's current program of action is geared towards improving the lives of the Iranian citizens through economic policies and measures focusing on the enhancement of the welfare of the population and full-scale revitalization of the national economy. As a result, the ongoing and completed projects aimed at the socio-economic development of the Caspian littoral provinces are the constituent components of the long-term national development strategy that is intended to ensure economic growth.

In fact, the economic importance of the Caspian region for Iran will definitely increase if the country starts offshore oil production in the Caspian Sea. This would entail a greater focus

on the development of the Caspian ports facilities and railway infrastructure. Otherwise, it is highly unlikely that Tehran will prioritize the northern ports' capacity enlargement over the southern ports' development since Iran still has a developing oil export based economy, which is demanding for direct access to international sea communication originating from the Persian Gulf and Gulf of Oman. Therefore, addressing the issue of the disputed oil and gas fields would be in the best interests of Tehran, which would positively influence the development of friendly relations with Azerbaijan.

As a result, it could be concluded that Iran is still in the early stages of institutionalizing its relationships with the Caspian Five. Tehran is trying to determine the best options for ensuring its national interests in the Caspian basin and building trustworthy environment for bilateral cooperation with the littoral states. Stressing the region's role as a bridge between the Middle East and Europe, the Iranian authorities identify the necessity to realize its full economic potential. However, given that Iran has not yet developed a detailed strategy towards the region implementing mainly a number of separate projects rather than as a coordinated development program, it is becoming obvious that Tehran will continue building on its comparative advantages in future priority-setting.

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