

Persian Gulf;

From the Present Status to An Ideal Condition



It is not only the existence of huge oil and gas reserves in the Persian Gulf that make it one of the most vital regions to the world economy, but its importance is also due to various other reasons.

The nature of relationships that have existed amongst the littoral countries of the Persian Gulf in the recent recorded history have prevented the region from having a befittingly favorable status. As a result, the mentality about this region is so badly damaged that changing the present status into a truly favorable condition, which could easily be achieved through cordial inter-relationships among its neighbors, can

only be dreamed of.

The existing status of the Persian Gulf is the result of meddling of foreign forces, the imbalance in the policies of the countries of the region and the existing religious and ethnic differences, which have always been exploited by colonial powers.

From among eight littoral countries of the Persian Gulf, six are located in its south and Iran and Iraq are in its northern part, with Iraq having a very narrow coastal border with the bay.

Though during the 8-year long Iran-Iraq war, the six states of the southern part created 'Persian Gulf Cooperation

Council' (PGCC) and have since displayed a relatively strong alliance, they have not yet been able to put aside their rivalries/differences and arrive at a favorable level of cooperation.

Even if they could reach an ideal level of collaboration, since Iran is not a member of PGCC, all possible advantages and potentials of the region would not have been manifested. That is because Iran's Persian Gulf coastal line alone is almost equal to the total of all the others put together, it enjoys a unique geopolitical status in the region and possesses varieties of natural resources plus it has been blessed with diverse climatic conditions.

If the said countries could resolve their problems, set themselves free of trivial animosities and disparities and display real independence in their foreign policies, convergence of their actual and potential capabilities could bring enormous values and advantages to them all. Such benefits could come in all fields and industries such as tourism and fishing.

In the present analysis, however, focus is only being put on common interests in the field of energy:

- 1- There are quite a few hydrocarbon fields common to Iran and other littoral countries of the Persian Gulf. Iran and Saudi Arabia share at least three fields of 'Esfandiar', 'Forouzan' and 'Farzad'. These are respectively called 'Lolo', 'Marjan' and 'Hasbeh' in Saudi Arabia. Iran shares the reservoir of its huge gas field of 'South Pars' with Qatar's 'North Dome'. This gas field is large enough to be tapped separately by both; however it also houses an oil layer. 'Reshadat' is another field common to Iran and Qatar, where it is called 'Alkhaleej'. Iran and the United Arab Emirates (UAE) share at least four fields of 'Salman', 'Farzam', 'Nosrat' and 'Mobarak' in the Persian Gulf. 'Salman' has one gas layer as well as an oil layer and it is called 'Abolbakhoush' in the UAE. 'Farzam' is called 'Fallah' and 'Nosrat' is named 'Fateh' on the other side. 'Mobarak' is the only common field to Iran and the UAE that has been tapped by the two sides jointly. Iran and Oman share an oilfield called 'Hengam', which is called 'Western Bokhay' by Oman.

Iran and Iraq share quite a few fields too, but they are all on land and not in the Persian Gulf.

While in many parts of the world shared fields are developed and operated jointly by the countries sharing them, all common fields in the Persian Gulf (except for one) are being tapped separately by its littoral countries. For instance the North Sea field has been developed jointly by Britain and Norway, which works out cheaper for both and also increases the volume of its recovery. In contrast,



the fields of the Persian Gulf are tapped in competition, reducing the sustainability of their outputs which is easily attainable under a unified management of their reservoirs. If a shared field is developed under an integrated management, it not only reduces the costs of drilling and that of building platforms and other facilities, but could also ensure its sustainable production which would benefit all parties involved.

Perhaps a comprehensive study in this regard, to compare the cost-benefit of the present model with that of a joint effort to develop a common field, could display how beneficial the latter model would be to all the Persian Gulf neighbors. Such an attempt could well pave the way for their close cooperation and would help them realize how detrimental the continuation of the present method is to their interests and to the common fields.

At present, an untapped offshore field called 'Arash' in Iran is shared by Saudi Arabia and Kuwait, which they call 'Aldorah'. Although no marine border has yet been established in the area, 'Arash' is almost certainly common to the three countries. When the border line has not been determined, tapping a shared field separately becomes a complicated issue. However, agreeing to tap the shared field jointly will bypass its complexity and all involved parties can benefit from it. Iran can take the lead in offering to develop 'Arash' jointly and if the proposed scheme for the purpose is found rational by the other two neighbors, it could pave the way for further cooperation among the three. Such a step would undoubtedly boost the level of cooperation in the region and would lead to much greater positive results.

2- At present, most of the countries of the southern coast of the Persian Gulf are in need of gas. Some look to Iran for the supply of their gas needs, but the prevailing political situation in the region has made such a gas deal impractical. Some of those countries need the gas for injection into their oil reservoirs, for enhancing crude oil recovery, but mostly for generating electricity. That means gas and electricity in the Persian Gulf can be seen as two interrelated issues.

A comprehensive joint survey by the regional countries can show whether sale of Iran's natural gas to those countries for generating power is more advantageous or using gas to produce electricity in Iran and selling the generated power to them is more beneficial. The outcome of such a survey could pave the way for very attractive joint investments in the region.

Cooperation between Iran and Qatar could be even much more fruitful for both. Between them, they hold over 30% of the known natural gas reserves of the world, more than that of Russia. That means they have an unmatched capacity for supplying gas to global markets both through the sea and land.

As for gas-electricity cooperation amongst the countries of the region, given that the consumption peaks of both gas and electricity in Iran are directly opposite of those in

the southern coast of the Persian Gulf, linking power grids of Iran and those of the said neighbors could bring about enormous savings and benefits to them all.

Another ideal cooperation could be worked out between Iran and Oman, which has an excess capacity for the production of Liquefied Natural Gas (LNG). However, the gas output of Oman has fallen in the past few years and since there is not enough gas to feed its LNG plant, Oman is in need of importing gas for the purpose. So if the political atmosphere improves, Iran can quickly meet the gas needs of Oman which could pave the way for further economic relationship between the two.

3- In the past few decades, enormous investments have been made in the development of oil and gas fields of the countries of the region. This has brought numerous contractors and vast facilities into the region, a trend that will continue for the foreseeable future. In a collective effort, the oil rich countries of the Persian Gulf could embark on joint investments in those areas and help one another in lessening their dependence on importing the required facilities, reducing their costs and creating job opportunities for their peoples. Besides, the biggest global oil stock exchange markets could take shape in the Persian Gulf and the regional countries could establish the largest joint tanker companies of the world and maximize their revenues and profits. Such collective efforts could also form the world's largest monetary and financial markets in the region.

4- The energy potentials of the area are not restricted to oil and gas alone. The littoral countries of the Persian Gulf are blessed with ample sunshine, which provides them with an outstanding prospective to produce (environmentally friendly) renewable energies. A collective effort to that end could convert this potential into electricity in a magnitude that could meet a great part of world's demand for power. If day comes when the conditions become conducive to the materialization of the aforesaid cooperation, the Persian Gulf region could be such a powerful and prosperous place that the world would envy.

Director

Privatization in the Russian Oil Industry

Exigency or Ideology



Russia has recently unveiled a plan to plug her budget deficit by 50% within the next three years. In order to win such an aspiration, Russia plans to multiply its oil and gas revenues. Russian government's proposals aimed at curbing budget deficit also contain segment privatization of energy companies. In addition to that, higher taxes levied on the production of oil as well as fresh taxes levied on crude oil exports are on the agenda.

A cut in the budget deficit will certainly serve the interests of the Russian economy. Some analysts link recent efforts aimed at cutting budget deficit to the forthcoming presidential elections in 2012. These same analysts do not rule out the probability that the government intends to plug budget deficit utilizing oil and gas revenues, hence attracting more voters to the ballot boxes. This is the first time since 1990s when the then president Boris Yeltsin served to be Russia's president, which the Russian government plans to

sell state assets. The share of government in such transfers shall fall to 50% plus one share in which case, the government will be able to maintain its control over these economically strategic companies. These fresh proposals have not been approved by the Russian Prime Minister, Veladimir Putin to this date. Nationalization of Russian oil industry had gained ground during the early years of the present decade. Yukas Oil Company is an instance. However, approaches towards nationalization of oil industry have now changed in view of the urgency which is attached to plugging Russia's budget deficit. Deputy Finance Minister of Russia, Sergei Storchak has recently announced that the nation's GNP in 2009 has experienced a drop of 7.9%, however, Russia's GNP growth rate in 2010 is expected to rise as high as 4%.

Privatization and levying significant taxes may assist Russian officials to register a growth rate of 4% and plug budget deficit to a large degree, hence, increasing the chance of the residing elites to win the 1012 elections. In addition

to that, the likelihood does in fact exist that the idea of privatization has its roots in Russian president, Medvedev's mentality. Medvedev strongly favors foreign investment for the development of Russia's infrastructure.

Moscow plans to sell the shares of eleven majors including Russia's giant oil producing company Rosneft, Transneft oil pipeline operator and Sovcomflot shipping company.

Spokesman for Russia's finance ministry proclaimed on 29th of July 2010 that he expected to be able to prepare his proposal for the sale of minority shares of the state run oil companies by no later than September or October 2010 and present it to the government for approval.

On this basis, the Russian government is expected to sell USD16 billion worth of Rosneft Company's shares in the 2011-2013 period, a figure which constitutes 24.16% of the Company's overall shares. Although Russian government was initially expected to sell 27.1% of Transneft Company's shares, Russian ministry of economy has proposed a cut of 3% in the number of shares to be sold. The Russian government currently holds 78.1% and 75.16% of the shares of Transneft and Rosneft Companies respectively.

However, plugging budget deficit relying on share sales is expected to significantly pressurize the Russian energy industry, triggering extensive oppositions. The measure has raised Rosneft Company's protest. The latter is skeptical over timely sale of 24% of the Company's shares. Rosneft Company's financial and investment deputy manager, Mr. Peter O'Brien has advised the Russian government to revise its decision for the sale of the shares of the above mentioned companies. He holds that such a decision shall be more effective only when the nation's tax system has undergone major amendments.

Meantime, Transneft Company has come up with even more serious objections. Local analysts in Russia believe that the government plans may assist with the emergence of skepticisms over ownership of Transneft Company and serve as a threat to financing of strategic pipeline projects such as the second phases of Baltic as well as East Siberia-Pacific pipelines.

Oil and economy are closely linked in Russia and

optimizing budget revenues and developing upstream sector would be close to impossible under the residing system.

The finance minister of Russia has vigilantly heeded such objections and initiated to suspend release of the complete list of companies expected to undergo privatization for three to five years.

On the other hand, however, a good number of individuals favor privatization of oil industry in Russia. These individuals argue that the measure will serve the interests of the Russian Companies. The share value of these companies rose as soon as news concerning their transfer was released, for the likelihood exists that fresh and modern technologies and investments may find their way into these companies as a result, hence improving their performance and bring about more transparency and higher levels of efficiency. Although the likely purchasers of the shares of these companies are not known yet, it can be stated with certainty that a warmer welcome will be given to the shares of giant companies. For instance, although indebted, Rosneft Company's profits in 2009 exceeded USD6.51 billion. Injection of fresh investments into the companies that are expected to be transferred to the private sector depends mainly on the inclination and resolve of international companies, for purchase of the shares of Russian companies can facilitate implementation of huge projects in the Russian oil and gas sectors by the international oil and gas majors whose operations in Russia were restricted in the not too distant past. For instance, in 2007, the Russian government shocked the market in a bid to convince Shell Company to abandon Russia's Sakhalin-2 project.

In all, these are the majority shareholders who will specify administration and strategy of any given company and for that matter, Russia is expected to hold majority of shares in order to be able to specify strategies and policies of oil and gas companies. And not all bidders are expected to enjoy an equal chance for the purchase of shares. Although the details of the privatization process have not been revealed, some analysts are of the belief that certain bidders shall be provided with a green light for the purchase of shares.

Other means are as well available on the table for the

purpose of curbing budget deficit. These options include raising taxes levied on the exploitation of mineral resources and levying tax on the export of products extracted from certain fields that had already been exempted from paying tax. The Russian finance ministry has proposed a tax hike of 61% on natural gas exploitation in 2011. And to comply with the rate of inflation, this figure has been foreseen at 6% in 2012 and 5.4% in 2013. The Russian finance ministry plans to increase rate of crude oil exploitation tax for 6.5% in 2012 and 5.4% in 2013 in compliance with the inflation rate. The proposal for an increase in the rate of gas field exploitation tax was on the table for over three years. The proposal has received objection of Russia's Gazprom. The Company has reiterated that in case such a tax is levied, Gazprom will no longer be able to implement their investment projects. Russia has plans to levy fresh taxes on the exploitation of 22 oil fields in East Siberia. These fields were subject to tax holidays in 2009. The exemption was intended to promote investment and encourage development of the Russian oil fields. Russia's oil output is expected to be augmented parallel with a hike in the rate of production in this region.

At any rate, one of the Russian government's measures directed at curbing budget deficit is levying taxes on oil exports to Kazakhstan, a measure which has triggered fresh objections. Meantime, Russia and Belarus are still engaged in disputes over levying of fresh taxes on oil exports and Russians are reluctant to damage their friendly ties with Kazakhstan. Tax on exports shall be put into force only when Kazakhstan resumes export of Russian oil. Differences with Belarus last year over levying of tax on oil exports gave rise to the likely suspension of Russian oil exports to Europe. These differences still continue. Such a measure by Russia may serve as a menace to the custom alliance that resides among Russia, Belarus and Kazakhstan for some time now. The alliance may facilitate the grounds necessary for the setting up of a united export zone where tax holiday prevails.

The efforts underway for privatization of the Russian oil industry run counter to the nationalization trend which has been pursued in the Russian oil industry in recent years. These efforts come at a time when Russia's crude

Table 1- Russia's Budget Balance

	2011	2012	2013
Budget deficit- percentage of GDP	3.6	3.1	2.9
Revenues coming from privatization of state run companies- billion Rubles	298	279.1	309.4
Revenues coming from higher taxes on exploitation of mineral resources- billion rubles	200	370	500
Revenues as a result of levying tax on Kazakhstan's exports- billion rubles	46.8	48	48

Sources: 1- PIW, Moscow Squeezes Energy to Plug Budget Deficit

oil production rate has exceeded the record high of 10.07 million barrels per day. And what justifies the new measure?

- The likelihood resides that Russians are encountering investment and technological impediments insofar as maintaining and preservation of their current oil and gas production levels are concerned, therefore, they are left with no option but to open the gates of their oil and gas industries to foreign investors and allow private sector to have a share of these industries in which case, there will emerge more transparency, efficiency as well as higher output in these sectors.

- Budget deficit and economic pressures resulting from the global economic downturn are believed to have pushed the Russian officials to seek a remedy for their ailing economy. This is under circumstances when Putin is believed to be nominated as a candidate in Russia's 2012 presidential election, therefore, making revenues through privatization and higher taxes can assist with improving the economy and attract public satisfaction, hence preparing the bedrock for the victory of the existing wing ruling Russia.

- One factor why Russian government monopolized ownership of Yukas Company was beyond-the-limit interference by the manager of the Company, Mikhail Khodorkovski in the political currents and trends in Russia. The government, of course, accused him of tax fraud. Meantime, the Russian ruling party may assume that political stability in the country is to the extent that prevents the private sector from posing a threat. At any rate, however, the government will keep on holding majority of shares in the privatized companies.

Turkmenistan, Afghanistan sign agreement on TAPI gas pipeline



Turkmenistan and Afghanistan have signed an agreement on construction of the Trans-Afghanistan (TAPI) gas pipeline for the transfer of Turkmen gas to Pakistan and India, local media said on Tuesday.

The TAPI project, first put forward in 1995, was promoted by the country's late leader, Saparmurat Niyazov, in the early 2000s.

It secured strong support from Washington after a U.S.-led offensive ended the Taliban's five-year rule over

Afghanistan in 2001.

The Turkmen delegation is expected to visit Pakistan and India to sign agreements with the two countries in the near future.

Local media said earlier that Turkmen President Kurbanguly Berdymukhamedov and his Afghan counterpart Hamid Karzai have agreed to discuss the project at the 65th United Nations General Assembly in New York in September.

Dramatic changes in NIOC board

On Monday, Iran's domestic news agencies released a news item on changes which would occur in the board members of National Iranian oil Co. (NIOC).

Based on the news released, the members of the new main board of NIOC would be as follows:

- Iran oil minister Masoud MirKazemi, chairman of the board
- NIOC's managing director Ahmad Ghalebani, vice chairman of the board
- Managing director of National Iranian Oil Refining and Distribution Co. (NIORDC) AliReza Zeighami
- Managing director of Iranian Central Oil Fields Co. (ICOFC) Mehdi Fakour
- Legal affairs manager for NIOC Payam Bathai
- Managing director of National Iranian Gas Company (NIGC) Javad Oji would likely be another board member of NIOC.

Abdol Mohammad Delparish, director of corporate planning Dept. of NIOC, and Mohammad Ali Emadi, head of NIOC's Research & Development Dept. are also listed as reserve members on the board of directors.

Despite previous customary procedure, heads of National Iranian South Oil Co. (NISOC), human resource and financial affairs of NIOC have not been placed on the list.

Presence of Zeighami and Oji, who are the managing director of NIORDC and NIGC at NIOC board, and absence of managing director of NISOC, which produces 80% of Iran crude oil, and its replacement with managing director of ICOFC can be questionable.

It is said that the oil ministry is currently working on a plan to merge NIOC board with oil ministry's deputies' council.

New likely changes in Iran's PGSOC



Having made 35% physical headway, the project to construct Persian Gulf Star Condensate Refinery (PGSCR) in Bandar Abbas is facing financial and managerial challenges.

Over the past 10 months, the project has only made 7% progress. It is said that because of the slow pace of the project, Mohammad Esmaeel Karachian the managing director of Persian Gulf Star Oil Co. (PGSOC), the company who runs the project along with some board members are supposed to be laid off and replaced by new faces.

Due to its high percentage of gasoline production, construction of PGSC Refinery is not only among the priority projects of National Iranian

Oil Refining and Distribution Co. (NIORDC), but it also is of great importance to the Iran's parliament so that it has been placed on the priority list of Iran's fifth 'Five-Year Development Plan'. Despite all these priorities though, the project is almost at a halt, suffering from lack of financial resources.

The refinery is designed to be fed with 360,000 bpd of the condensate outputs of Iran's South Pars gas field and produce, among other products, 35 Mln l/d of gasoline and 13 Mln l/d of gas oil.

The first train of the refinery with the capacity of 120,000 bpd of condensate feed is planned to come on stream by early 2012.

Iran's Esfandiar to be financed by 'Energy Fund'



Managing director of Iranian Offshore Oil Co. (IOOC) Mahmoud Zirakchian Zadeh revealed that €400 Mln has been allocated to Esfandiar shared oilfield development project from Iran's 'Energy Funds'.

According to the Mehr news agency, Zirakchain Zadeh added: "Once its financial resources are secured, we start issuing tenders to select contractors for this project."

Last October, the IOOC's head of financial affairs had claimed that the Qatar National Bank (QNB) would make a €400 Mln investment in the said project, which was immediately rejected by the Bank.

Esfandiar development project has been on NIOC agenda since 1999.

The project once awarded to PetroIran in 2002, however; due to lack of progress in the field's development, IOOC decided to retender the project in late 2007 and ultimately signed an MoU with an unnamed Malaysian firm in Sep 2008.

Esfandiar is an extension of the Lulu oilfield in the Saudi -Kwait Neutral Zone in the Persian Gulf. This shared reservoir was discovered by British IPEC Company in 1967. The reservoir houses 532 Mln bbls of oil-in-place with an API of 30°.

The production volume of the first phase of the development of oilfield is expected to be 10,000 bpd, while in the second phase, it has been planned to be doubled.

Iran 'oil & gas law' draft at parliamentary board

Petroiran Development Company (PEDCO) says it has not signed contract for the supply of a new-build floating production, storage and offloading unit (FPSO) for its Pars Oil Layer project.

"We have not finalized any decision concerning (an) FPSO up to now," a PEDCO spokesman told Upstream.

"We deny any suggestion and any estimation about (the) value of this deal. The accuracy of any figure is strongly denied," the spokesman added.

An Upstream report said last week

that the state-owned company was "targeting a \$350 million contract award" to China's Cosco Shipyard for an FPSO to be used at the South Pars Oil Layer project.

It quoted both a source as saying that the contract had been finalized and a denial by Cosco itself that it had signed a contract.

Energy companies hoping for work in Iran are under growing pressure from the US and the European Union not to go against sanctions imposed on oil and gas projects and designed to pressure Iran into modifying its nuclear program.

Forouzan offshore installations at 12% headway



Being carried out by Iranian Offshore Engineering & Construction Co. (IOEC), development project of offshore installations of Forouzan oilfield has made about 12% physical headway.

According to the PR office of Iranian Offshore Oil Co. (IOOC), the fabrication of the relevant jackets has been already started at IOEC's Khoramshahr yard and that of the

topsides is supposed to start by the end of 2010.

Based on this report, pipe laying operation of the project is supposed to be started in November 2010. In order to install the project's 24" pipeline, IOEC will exploit 'Abouzar-1200' pipe-laying barge.

Presently, the relevant pipe coating is being operated in Mahshahr Pipe Protection Co. (MPPC).

Iran's Bank Saderat gets nod to invest \$ 700 Mln in gas



During their last meeting a week ago, Iran's president's taskforce in oil affairs gave green light to Bank Saderat of Iran (BSI) to invest over \$ 700 Mln in Bid Boland II' gas refinery project as well as 'Ethane Recovery Plant' of Parsian gas refinery.

Stating the above, deputy oil minister for planning and supervision over hydrocarbon resources Mohsen Khojasteh Mehr referred to the other ratifications by the meeting and

clarified: "BSI and its partners are allowed to invest up to \$ 442 Mln in Bid Boland II gas refinery project and \$ 277.4 Mln in 'Ethane Recovery Plant' of Parsian gas refinery," reported the news agency of Iran oil ministry.

Khojasteh Mehr also talked of replacing Isomax reactor of Shiraz oil refinery and reinforcement project of Shiraz petrochemical complex as two other approved issues in the meeting.

EU Iran Sanctions “Most Far-Reaching Ever Agreed”

European Union diplomats on Thursday agreed to a fresh package of sanctions against Iran going well beyond those imposed by the UN Security Council in early June.

The measures, also going further than what had been expected following the decision to extend EU sanctions taken by EU leaders in the same month, target the country's energy industry as well as its transport, banking and insurance sectors and will hurt not only Iranian firms, but European companies as well.

The tough new EU regime will bring an end to new European investment in oil and gas in the country, homing

in on Iran's bread-winning energy sector, and slap harsh restrictions on shipping, air freight, insurance and banking.

The EU sanctions will block export to Iran of 'dual-use' items, those that have no explicit nuclear or missile-related purpose, but could be used in such processes. Products that could also be used in the manufacture of biological and chemical weapons will be banned as well, although exceptions for humanitarian and medical use will be put in place.

European firms will no longer be able to sell equipment for use in oil and gas exploration, refining and the production of liquified natural gas.



Banks will not be able to establish new "banking relations" with Iranian financial institutions, and Iranian banks for their part will not be able to set up any new branches here in Europe. Insurance contracts for more than two years are to end, and those under two years are discouraged.

"Enhanced vigilance" will be imposed on Iranian banks operating in Europe and insurance and re-insurance companies will not longer be able offer their services to government bodies. Cash transfers of €10,000 and above will require notification of domestic authorities and transfers of €40,000 and above will require prior authorization. Trade supports, including export credit guarantees, will be proscribed.

Ships at port in the EU suspected of transporting forbidden items will be inspected, as will those at sea, but pending permission of the nation the boat is registered in. Air cargo flights to EU airports will also be prohibited.

Some 40 top officials will be added to an existing travel ban and an asset freeze will be broadened substantially.

Ambassadors from the 27 EU member states signed off on the package on last Thursday, but foreign ministers must yet give the green light to the move. As soon as they do so, many of the measures will immediately go into effect. Others require national executive or legislative decisions, but diplomats expect the full package to be implemented no later than September.

It is understood that a number of EU firms will be significantly affected by the measures. The full list of firms will only be known upon publication in the EU's 'Official Journal' on Tuesday.

There are however exemptions for prior business commitments. "The EU has non-retroactivity requirements, so it is very difficult to stop these pre-existing contracts," said another EU diplomat.

Europe's measures, which must be signed off by finance ministers on Monday and then implemented by EU member states in the coming weeks, are aimed at matching Washington's level of restrictions.

"The US does not really do any business at all with Iran,

so they need to get their high-level technology from us," said a diplomat. "They can of course get low-level tech from China, but it is much less effective for developing their oil and gas sectors."

The EU's additional measures go further than had been originally expected.

Last month it was still expected that the new European restrictions would be somewhat limited, targeting just a small number of Iranian firms thought to be linked to the nuclear program, and no significant sanctions were envisaged for the energy sector. Some diplomats had expected the package, strongly backed by the UK, to get a rough ride from other EU states.

Sweden's foreign minister, Carl Bildt, in particular, had strongly argued that sanctions would not work, although Swedish industry is not as heavily exposed as that of other EU member states. France's Total had partnered with Behran Oil, an Iranian lubricant and kerosene to supply Iran's severe lubricant shortage, while Italy's Eni, until April had operated the Darkhovin oilfield and Edison, an Italian energy company, had an exploration contract with the National Iranian Oil Company in the Dayyer area.

Greece, Cyprus and Malta, also were reportedly initially not enthusiastic at further sanctions.

But UK interests were also in play. Until June, Shell, an Anglo-Dutch firm, alongside Spain's Repsol had been in talks with Iran to develop the South Pars region, home to the richest gas field in the world.

However, these concerns were largely dealt with by foreign ministers and EU leaders the same month.

Sweden, the lead opponent of the new strategy was won over under the proviso that the new move is expressly intended to bring Iran back to the negotiating table. Sweden furthermore is home to a significant Iranian expatriate community and the relatively high level of bank transfer restrictions were agreed largely to assuage Stockholm's concerns that the measures might harm family remittances.

"In the end, however, all states realized now was the moment to apply further measures and swallowed the costs to economic interests," said another diplomat.