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Letter From The Editor

Due to its geographic position, Greece was almost always trapped in geostrategic antagonisms, suffered economic crises and was occupied, colonized, or placed under "supervision" by superpowers.

Today, bankrupt Greece has a chance to reactivate its economy by becoming an energy hub. Combined with the TAP pipeline project supported by the EU and the USA, Turkish Stream can bring investments, promising employment opportunities and transit fees.

But the EU and especially the USA are already retaliating against Greece, for merely expressing the intention of becoming involved with this new project that will certainly enhance Europe's energy security. So far none have offered any alternatives to Greece, with the exception of some plans proposed by oligarchic interests.

Will Greece's western allies force her to again become a third world colony with a rich history, valuable only for servicing wealthy foreign visitors?

For further information please visit our website, www.eiranews.com.

Yours Sincerely,

George Hatziioannou
Editor

Can Cash-Strapped Greece Afford A Risky Energy Policy?

Greece is playing a very delicate game, both on the internal and external desks. The Government has, first, to solve the enormous financial problem by finding ways to ensure some kind of economic development and to solve the debt issue with the IMF, ECB and the European Commission without leaving the euro zone.

Second, it should use the unique circumstances to obtain the possibility to turn into an EU regional natural gas hub, probably capitalizing on sourcing from the Russian export pipeline, the Turkish Stream.

Third, all these targets should be achieved without breaking the internal political cohesion of SYRIZA ruling party and the relative social consensus in the country.

Energy, namely natural gas matters, plays an extremely important role in that Greek game. After Russia has scrapped, in December 2014, the South Stream gas pipeline project, due to arrive to Bulgaria by the Black Sea, and replaced it by the Turkish Stream which has to follow almost the same route on the seabed, turning in the last leg to Turkey instead of Bulgaria, Greece found itself to be in an advantageous geographic position. Its territory was the natural terrain for a prolongation of the pipeline within the EU. After passing Greece, the ramifications could go along various routes, but only after Greece!

So far it is not clear how the Russian gas bound to Turkey and destined to the Balkans and other EU countries will reach end users. Now the issue is discussed in the industry. But it is obvious that Greece has the chance to have many advantages from that project. Combined to the TAP pipeline project, designed to deliver gas from Azerbaijan to Greece, Albania and Southern Italy, Turkish Stream will turn Greece into a major gas hub. It means investments, high quality new jobs, transit fees. Basically, it could be one of the few big investments able to accelerate development in the hardcore economic sector.

On paper everything looks good.

Financial and political realities are another story. Where will the money for building new gas infrastructure in Greece be found, especially for the extension of Turkish Stream? Russian Gazprom is reluctant to do it because EU pro-competition regulation forbids gas producers to be simultaneously owners of gas transportation infrastructure. It is a difficult problem but it could be solved through private financing as South Stream was originally designed: gas source is established, contracts are signed, ergo, the return of investments is guaranteed.

Anyway, all possible financial and investment deals are pending on the result of the agreement between Athens and its international lenders on the next bailout program. Decisions are postponed until a solution is found, and also held hostage to possible early national elections later this year.

Political obstacles are of a different nature. There is a possibility of the EU and especially of the US retaliation if Greece gets involved in the Turkish Stream project. Bulgaria has experienced that kind of pressure and, finally, was obliged to give up. When Russia abandoned the idea of South Stream, senior officials in Washington and Brussels expressed surprise and disappointment, but it is not clear if they were really surprised and to what extent their disappointment was sincere. Anyway, the US already puts pressure on the Greek Government insisting it should not participate in the Turkish Stream project. So far, from the American side there are no alternative investment and energy proposals.

Meanwhile, the Greek Government is not only trying to secure its gas hub perspectives, but is using energy ties with Russia (and also initiatives to drop EU sanctions against Russia) in order to obtain a better bargaining position in tough negotiations with the EU. The leader in that game is the Energy Minister, Mr. Panagiotis Lafazanis, the Prime Minister, Mr. Alexis Tsipras, being more moderate. It would be indicative how far they are ready to go along with Russia, if and when an Intergovernmental Agreement on Turkish Stream prolongation is signed, and what would be the Energy Minister's next career destination.

Contacts with other, mainly potential natural gas suppliers as Iran or Algeria, could not be seen as a viable and secure alternative to Russia. The cooperation in that area of the two countries seems to be the mainstream of Greek energy policy. Irrespective of what political force is in the driver's seat in Athens. The alternative would be to find itself in the present position of Bulgaria, without investments, additional jobs and fees and with the perspective to buy more expensive gas to that of Gazprom.

Bulgaria's Energy Agenda. The Virtue Of Flexibility

The Bulgarian government of Boiko Borisov is gradually stepping up efforts to achieve relative energy security in the mid-term and reach a certain level of energy sustainability in the long-term. The manifold program of expanding, upgrading and diversifying the energy sector has taken shape and is now being promoted as an attractive target for local and foreign investors (although no one is queuing up at present) as well as a worthy mega-project entitled to receive proper financing from the European Regional Development Fund (ERDF).

Shunning the awkward questions of its political affiliation and loyalty, Bulgaria accelerated preparations to extend the lifespan of its two Soviet-made nuclear reactors by 30 years by hiring a consortium led by Russia's Rosatom units Rosenergoatom and Rusatom Service and including France's EDF. The consortium is commissioned to upgrade Unit 5 of the Kozloduy plant. The facility, located on the Danube River, currently produces 35% of total power generation, and, statistically, it is the cheapest source of energy on the Bulgarian market.

There seems to be not a shred of political considerations behind the decision to upgrade the Kozloduy NPP. It looks like a pragmatic move born out of the memory of street protests back in 2013 kicked off by the doubling of electricity bills which eventually toppled the first government of Boiko Borisov. No less convincing is the assumption that the authorities are apprehensive of the coming liberalisation of its electricity market scheduled for next year, which will almost inevitably push up prices for the households due the high costs of the long-term contract signed with the U.S.-owned thermal power plants in Bulgaria.

Bulgaria, still facing regular energy shortages, also places bets on tapping the offshore hydrocarbon fields in its segment of the Black Sea. Preliminary calculations, as claimed by government officials, show that price of domestically produced natural gas is expected to be 35% lower than the imported analogue.

More good news for Borisov's government came in late May: it amounts to a substantiated interest expressed by the Austrian energy major OMV to use Bulgarian pipeline network to channel gas it produces at the Neptun concessionary block in the Black Sea starting from 2016. It might compensate in part for the drying out of the revenues from tariffs generated from transiting Gazprom's gas through the territory of Bulgaria to customers in Greece and Turkey.

Sofia is keen to link-up with the network of existing and planned interconnectors. Putting together a gas pipeline linking Greece's Komotini to Bulgaria's Stara Zagora is in progress while the construction of a second pipeline, known as Interconnector Greece-Bulgaria (IGB Pipeline) may start in March 2016.

In early June, Bulgarian energy minister Bozhidar Lukarski announced plans to launch the construction of a 150 km gas interconnection with Serbia with a capacity of 1.8 bcma. His Serbian counterpart Aleksandar Antic assured that Belgrade will do its bit and finalize the works by 2018.

Bulgatransgas is pushing forward the project of a 400km Varna-Oryahovo pipeline with a huge throughput capacity of 43 bcma which makes it a major infrastructure designed for delivering large volumes of gas all across the Balkan region.

Given the limited options of sourcing gas, interconnectors with a reverse capability provide for the essential flexibility. All of these ambitions fit into the grand vision of Borisov's government to turn Bulgaria eventually into an international gas hub.

At the EU Energy Council meeting, held on 8 June in Luxembourg, Bulgaria emphasized the expediency to build natural gas interconnectors, rehabilitate and expand gas transmission networks and increase gas storage capacities along a future Vertical Corridor which will connect Greece, Bulgaria and Romania. Basically, Bulgaria counts on sourcing gas from the EU-supported Southern Gas Corridor to be filled with Azeri gas from the Caspian basin, and, partially, on the LNG terminals in Greece.

Given the still unconfirmed ability of Azerbaijan to increase its gas production, uncertainty around feeding into the pipe Iraqi and Iranian gas, capacity limitations of the TANAP pipeline, and the controversial forecasts of the final price of LNG downloaded in Greece, filling the Vertical corridor with gas remains a problem.

In some way, the recent initiative of the Slovakian Prime Minister Robert Fico resonates well with Sofia's strategy. Bratislava suggested linking the planned Eastring network of interconnectors, embracing Bulgaria, Romania, Hungary and Slovakia with the Gazprom-promoted Turkish Stream. PM Fico envisages the initial stage throughput capacity of 20 bcma to be doubled in the future. The motives of Bratislava are apparent: it is a preemptive move in view of the termination of Russian gas transit through Ukraine to Slovakia after 2019.

In theory, the ambitious plans of Borisov's government to boost domestic oil and gas production and, as a derivative, power generation, and on top of it optimize import outsourcing, could be married with similar strategies of Balkan and East European states aimed at ensuring long-term energy security.

Turkish Geopolitical Ambiguity In The Middle East

In the wobbly Middle East seized by severe political convulsions, Turkey is more and more engulfed in adverse developments. The country tries to find a way out of the present complications and tries to gain a stronger position than before the start of the present global unrest.

Times when Turkey followed the politics of "zero problems with neighbours" seem definitively gone. Now it has problems more or less with all neighbours, especially from the Middle East region. These are consequences of a previous attempt to reestablish, in some way, the Ottoman Empire based on a renewed sentiment of appurtenance to the Sunnite Muslim world.

For that purpose Turkey tried first to position itself as a champion of the Palestinian cause, especially of the Israeli blocked Gaza strip. That tiny territory was ruled by HAMAS, a local emanation of the Muslim Brotherhood movement, which originated in Egypt and applied political and social instruments for obtaining power. To some extent, the ruling Turkish Islam-oriented AKP party used democratic procedures to govern the country. By the way, the party and its leader, the President Recep Tayyip Erdoğan, is an admirer of the Iranian theocracy as a solution for conciliation of Islam and the political power.

That choice had some logical consequences. The traditionally close relationship with Israel was broken. At the beginning of the present decade, when the region was overtaken by events of the Arab Spring, Ankara was betting on the success of Muslim Brotherhood which seemed to be not only the driver of that chain of revolutions but the biggest winner. Turkey also found itself as an ally of Qatar, the main sponsor of the Brotherhood. Following in the tideway, Turkey supported the idea of a regime change in Syria, its former excellent neighbour and basically already colonized by Turkish business. The idea behind that initiative was to oust Bashar al-Assad's regime, an Iranian ally with whom they shared the appurtenance to the Shiite branch of Islam, and to create a Sunnite dominated zone.

The conflict in Syria was promoted by Sunnite monarchies, Saudi Arabia and Qatar, which were also local competitors: the first viewed the Brotherhood as an enemy, the second supported it. Both countries persuaded the US and other Western powers to support a regime change in Syria which was presented as an easy target. As a result, Syria is ruined and braced into a civil war with heavy foreign involvement on both sides.

What about Turkey? It is not seen as a Palestinian champion. Relations with Israel are as bad as possible. Ankara is a looser in the Arab Spring string of events: the Brotherhood looked more to Qatar and, finally, lost almost everywhere in the region. The war in Syria generated a wider Sunnite-Shiite conflict, including Iraq, spreading uncontrolled Muslim radicalism (the Islamic State) and strengthening the Kurdish independence movement, mainly in Iraq so far. Turkish Eastern and Southern borders are now extremely unsecure. What a Brave New Ottoman Empire!

Joining the anti-Iran camp formed by Gulf petro monarchies was balanced by the Turkish cautious approach to the Iranian nuclear program. It culminated in 2010, when the so-called Teheran Declaration was signed by Brazil, Turkey and Iran. It proposed a deal for the enriched uranium in Iran. Although it was not supported by a wider international consensus, including US, Ankara then positioned itself as an honest broker in Teheran's eyes. But by now Turkey is completely sidelined in negotiations on the Iranian nuclear program and finds itself in the camp of those fearing the renaissance of the Persian Empire. The strengthening of Iranian positions in Shiite-led Iraq, the perspective of Bagdad turning into a center of a renewed Shiite regional system made leaders in Ankara nervous.

At the end of March 2015, Mr. Erdoğan in an interview to a French TV channel, France 24, said that he would not tolerate Teheran's hegemonic ambitions. Iran is fighting IS only in order to take its place in the zone, he stressed. The Turkish Prime Minister, Ahmet Davutoğlu, repeated the accusations while visiting Pakistan where he finalized the creation of a Sunnite alliance, including also Saudi Arabia.

The move generated a crisis between Turkey and Iran. In April, Mr. Erdoğan's scheduled visit to Teheran almost revoked but finally was reduced to just one day. Both sides tried to correct the damage but contradictions came into the open.

The divergences are also rooted in the Lausanne negotiations on Teheran's nuclear program and the perspective of a normalization of relations between the USA and Iran leading to an end of the US-sponsored international isolation of the latter. That scenario is not welcomed by Gulf monarchies and also by Turkey; they fear a strong regional economic competitor which is Iran, a hydrocarbon exporter and a big future player in the global oil and gas trade. Some projections suppose that a sanctions-free Iran could accelerate to a 5% GDP growth in 2016, and a 7-8% growth by the end of 2017. As a result, in some 10 years Iran could join the top-10 world's largest economies pushing out Turkey.

Nevertheless, Mr. Erdoğan does not want to play only the anti-Iranian card and prefers to display caution. Revealing his inner-deep thoughts on the Yemeni crisis, where Saudi Arabia is fighting the supposed Iranian proxies, the Houthis, Turkey declared its participation in the Sunnite coalition against them but does not play any active role. Ankara keeps in mind the importance of a possible economic interaction in the future (some see the trade between Turkey and Iran reaching $90 billion in years to come) and the influence of some Shiite sects in the country, like the Alevi. Iran has also a geopolitical dimension for Turkey being a gateway to Central Asia, another key region for Ankara.

The country has also to cultivate the relationship with Saudi Arabia, harmed by the Arab Spring and by Turkish sympathy to the Muslim Brotherhood. Turkey is forced to handle carefully the Saudis at least for 3 reasons.

First, the economic crisis, the fall of the Turkish lira and the risk of a stronger US dollar turn Saudi investments into a critical economic factor.

Second, Turkey relies on Saudi mediation to normalize relations with Egypt, harmed by Turkish support of the previous Brotherhood's regime.

Third, a common approach to the Iranian challenge could facilitate a normalization of relations with Israel and especially with the US.

Generally speaking, Turkey cannot afford an anti-Saudi or an anti-Iranian policy. Ankara has some years of smooth political development ahead (the next, after June 2015, elections are scheduled for 2019), but Teheran has to face, sooner or later, a delicate problem of the choice of a new Supreme Leader, the incumbent, ayatollah Ali Khamenei is aged and not in good health. The grand game promises to be hard to win, or to lose.

Oil Prices: Fluctuations, Convulsions, Evolution

Whoever makes the correct forecast for oil prices' futures could, for sure, receive the Nobel Prize in Economic Sciences. In the present situation we have contradictory conclusions on the evolution of the vital figure, providing a wide spread of opinions: from going down to $40 to going up to $70-80 and even more. These changes are directly influencing global geopolitical games, to some extent shaping the world order.

Every economy analyst produces sound reasons and logic for the ongoing oil price volatility. Anyway, no forecast provides answers to all questions.

EIRA believes that now the main driver for oil price changes is not offer/demand or other fundamentals (it is still very important although secondary), but financial considerations (see "Oil Prices In 2015 - Watch For QE And USD" EIRA, Volume 3, Issue 1,January 2015).

To put it simple, the reasoning is the following. Oil is still a commodity and is used as a basic fuel. But it has turned to be a major financial instrument thanks to its market liquidity and availability worldwide.

In that dimension oil is equal to the US dollar and that couple is strictly linked to each other. It may be easily observed, in recent years, when one goes up, the other goes down and vice versa. They are both perceived by the market as the best hedging instruments for investor's assets. Huge amounts of money are transferred globally from oil to dollar or from dollar to oil, depending on changes in the financial policies.

The present big changes of oil prices and its timing could be explained only in that way, with economic fundamentals being a supplementary driver simply accentuating one of the trends.

Oil started to go down in September 2014 when there were no changes on the demand side, which appeared only in January 2015. What happened in September 2014? The US Federal Reserve stopped the program of Quantitative Easing (QE), to put it in other words, stopped the process of printing money. Combined with the expectations of an interest rate increase in the US the change of the American financial policy sent a signal to investors that US dollars would be a more attractive hedging asset than oil. Traders remember 15 October of 2014, when the price of US Treasury bonds jumped by 40 basis points. Statistically, it could happen every 3 billion years!

Some months later, the drop of demand for oil and a constant high oil production enhanced that trend.

At certain points oil prices stopped the decline and rebounded but never reached previous heights. Now the spread seems to be stabilized. The volatility is still there, although limited to a certain corridor.

That evolution also may be explained by financial factors. Changes of US Federal Reserve System's rate policy are postponed, if possible, in the global context of devaluations (euro, yen, etc.): the US could not be interested, at present stage, to strengthen the dollar for the reason of preserving competitiveness of its export goods and services. If so, oil prices can go up further to some extent without reaching last year highs, stopped by fundamentals in that impetus.

QE policy of other central banks, e.g. in the Eurozone, Japan and some other, mainly European countries, also influences oil prices but to a far lower extent. Some analysts recognize that the European Central Bank move to start a QE program could be responsible for 9% oil price changes in that period. It is much less than the oil price volatility due to FED's decisions.

To compare: Brent lost 50% of its value in the second half of 2014, with QE halted in the US, but then regained 22%.

Looking at the possible pricing evolution, EIRA invites you to consider another important monetary factor.

The oil industry is approaching new pricing realities in a complicated financial situation. At the time of high oil prices, the oil sector has not only increased production, heavily invested but also borrowed on a large scale. Now the global debt of oil and gas industry is about $2.5 trillion, with obligations standing at $1.4 trillion (15% annual growth from 2006), and the rest being bank debt.

Presently, the US oil sector contracted 40% of the industrial syndicated borrowing.

Oil majors are not part of that trend. They are simply reducing their investment programs.

The biggest share of the industry's debt belongs to small companies, especially those producing oil and gas from unconventional sources (bituminous sands, shale deposits, etc.). These latest months they were obliged to drastically reduce investments which are vital for their output. It translated into a 0.6 percentage point's loss in the US GDP in T1 2015. The halt of drilling seems to be dramatically similar to those in 1986 and 2008.

Dropping oil prices have put these companies in a delicate financial position, with less liquidity. They have to deal with a lower cash flow to cover their debt service. If they increase production, it would stimulate further price decrease and a worse financial situation. US banks are now more cautious with lending money to such companies.

The most possible scenario seems to be that of the current oil prices, in any case being lower than those of 2014, would cut oil production in the US but without producing a fatal crash. If oil prices stabilize at $70-80, investments will no more decrease and the growing purchase power will enhance internal demand.

However, the volatility in the energy sector, irrespectively of its reason, influences the global economy in a destabilizing way and brings more risks of a systemic financial crisis.

Iranian LNG Will Hardly Reach European Shores

The repercussions of the priorities' shift within US foreign policy, namely the placement of bets on new mightier champions in the wider Middle East (Turkey and Iran), are felt all across the region. It spells strong turbulence ahead.

Saudi Arabia and the Gulf petro-monarchies are shivering with apprehension of being fully abandoned and forced to procure their own security guarantees. Israel is indignant and feels betrayed. Egypt is thoroughly disillusioned in the aftermath of the US flirting with the Muslim Brothers and ex-president Morsi.

The previous balance of power is inexorably crumbling. Amid the multiplying rubbles, Iran seems to be towering, like a gladiator over the would-be castrates. Why? Iran has good reasons to count on international sanctions to be repealed after the final agreement is signed by the end of June wrapping up Vienna nuclear talks between Iran and P5+1. In anticipation of the "de-sanctioning", leaders in Teheran are mapping an ambitious program of storming back into global energy markets.

Does Iran have enough "firepower" to break into the exclusive club of energy purveyors? The answer is somewhat ambiguous, split between "yes" and "no".

There is an unequivocal base for a "yes" answer, supported by the statistics (2014) of proven crude oil reserves of 157,800 million barrels and proven natural gas reserves of 34,020 billion cubic meters (18 percent of the world's total) which places Iran on the top, ahead of Russia and Qatar. The state-owned and state-run National Iranian Oil Company (NIOC) has a monopoly on all upstream and downstream oil and gas activities, and it is ranked as the world's fourth biggest oil company by reserves and second in terms of production.

The "no" answer sits firmly on the devastating effect of international sanctions. The frozen investments of Western IOCs, halting also the transfer of technical expertise and project management skills, were a severe setback for Iran, crippling its otherwise unhindered rise to energy self-sufficiency with extras earmarked for exports and generating stable flows of hard currency revenues.

Sanctions have cut crude oil production to around 1 million barrels per day (b\d), admitted Iran's Minister of Petroleum Bijan Namdar Zangeneh on his recent visit to Germany. Absence of proper cooperation with Western energy majors, possessing the crucial high-tech hardware and software in prospecting and production of oil and gas, pushed Iran to the roadside and prevented dynamic and sustainable development of hydrocarbon riches.

Today, not so much seeing but sensing the light at the end of the tunnel, Teheran wants to kick off an accelerated growth of its energy sector. Minister Zangeneh specifically stated that Teheran expects all financial and energy sector related sanctions to be lifted right after the Vienna accord, and it would serve to revitalize oil and gas production and exports. Iran openly postulates its goal to become one of the major energy providers on the global markets, Minister Zangeneh revealed. The planned resurrection and upgrade of the energy sector will be backed up by investments of $180 bn in the time span from now till 2022.

The Vienna nuclear accord is regarded in Teheran as a *fait accomplit,* otherwise its emissaries would not be roving the world in search of lucrative deals for the supply of hydrocarbons. Recently, Iranian Foreign Minister M.J. Zerif and second Minister of Energy A.H. Zamaninia visited Athens to hold talks with Greek F.M. Nikos Kotzias, Energy Minister Panayiotis Lafazanis and Prime Minister Alexis Tsipras. Media reported that Greek tankers could be commissioned to ship Iranian oil to Europe, and the prospect of putting on stream a second LNG terminal in Greece was mentioned in a clear reference to future Iranian LNG exports.

In late May, Iran announced it had inaugurated a new phase of gigantic South Pars gas field, adding some 14 million cubic meters per day (mcm/d) to its total. In 2014, gas production went up by 100 mcm/d to reach 660 mcm/d. Iranian state planners are confident that by 2019 South Pars alone would be able to produce 720 mcm/d and thus building up a formidable portfolio to source from, both for domestic consumption and overseas deliveries.

For quite a time, Iranian officials kept repeating a soothing mantra that their country is in position to serve as a reliable and steady source of natural gas for Europe. It was like honey for the ears of the European Commission which is relentlessly pursuing a long-term goal of diversifying sources of imported energy (remember Nabucco?!) in order not to rely that much on Gazprom's pipeline gas.

Experts are dead certain that Iranian gas will eventually flow to Europe through the network of pipelines known as Southern Corridor, namely TANAP and probably TAP as its natural extension. This is the most likely scenario. In early June, Azizollah Ramezani, National Iranian Gas Company (NIGC) Director for International Affairs, said that it was a possibility that Iranian gas would flow along the Russia-developed "Turkish Stream" natural gas pipeline to Europe. Yet, he admitted that no negotiations are currently underway.

Earlier, Minister of Petroleum Zangeneh played down excessive expectations of the Europeans explaining in his statement at the Energy Security Summit 2015 that Tehran will not shy away from constructing pipelines but this is not its "priority". Iran would prefer to supply Europe with its LNG, having prioritized this segment of gas industry a long time ago.

Originally, Iran discovered the "secret charm" of LNG back in 2001. At that time, National Iranian Gas started to test the waters and designed the launching of a plethora of projects with impressive production capacities: Persian LNG — 16.2 million tonnes per annum (tpa), Pars LNG — 10 million tpa, Iran LNG — 10.8 million tpa, North Pars LNG — 20 million tpa, Golshan LNG — 10 million tpa, and a couple more LNG plants with a capacity of 3 million tpa each. The grand vision stipulated putting on stream these plants by 2015 with a total production capacity of 70 million tpa. As a matter of comparison: Qatar, world's leader in LNG production, is generating 77 million tpa.

The Iranian apparent ambition to match its regional rival had a rough landing. LNG is a high-tech-based segment of gas industry, and sanctions deprived of oxygen the program of development. Nevertheless, Teheran found some plausible alternatives and kept going forward but at a slower pace. The head of National Iranian Gas Export had claimed on May 6 that the construction of the LNG plants has been carried out and completed by 35%, IRNA news agency reported.

It is yet another proof that Teheran strategists know well which side of the spoon is used to gulp the broth. In the next decade, according to forecasts by Alliance Bernstein analysts, there might be a crunch on the LNG market if this segment does not show growth of 90 million tonnes plus each year until 2020.

There is also a political overtone in the shift of accents in Iran's energy strategy. It has never been a best kept secret that given Iran viewed its neighbour Turkey with a bit of suspicion, cooperating only on a case-by-case basis (the aborted trilateral deal to dispose of Iranian nuclear waste, gas supply contracts, suppressing Kurd's militant on both sides of the border, etc).

Today, Iran has been pitted against Turkey due to its support and sponsorship of Syrian opposition forces fighting to topple the government of Bashar Assad, also leader of the Shiite-rooted Alawite community. The decision in early may of Turkish President Recep Tayyip Erdoğan to enter into an alliance with Saudi Arabia, the arch-rival of Iran and leader of the Sunni nations' axis, might come as insurmountable roadblock for any link-up of Iranian oil and gas with TANAP, the pipeline running across Turkey to Europe.

Moreover, Minister Zangeneh's clarification that Iran puts emphasis on LNG, termed "flexible pipeline", is sort of a cold shower for the European Commission. The "flexibility" amounts to the freedom of the seller to choose the destination of the LNG tankers if the "price is not right". This is a totally different mode of business compared to deliveries along a pipeline which bonds the two sides, the supplier and the buyer, for a long haul (to ensure the investments into the costly infrastructure are returned).

LNG provides the producer/seller the option of seeking arbitrage, the best price available on the markets, be it either Europe or Asia. Recently, Latin America has acquired an appetite for liquefied natural gas and starts to compete even with the premium Asian markets. As a matter of fact, it came to pass that a senior-level delegation from the National Iranian Oil Co. would go visit Japan "very soon" to make offers regarding its crude oil. Japan is also the single largest consumer of LNG in the world, and the moment Iran fills in export portfolio, there would be another pricey commodity for sale. But Europe would hardly be the preferred destination for Iranian LNG given its reluctance to pay Asian prices.

The emergence of Iran as a high status energy provider seems to be a matter of time. What is even more assured is that the underestimated heirs of the Persian Empire never engage in a foreign policy game without uncertain benefits.

ISOC Stands For Islamic State Oil Company

The humiliating defeat of the American-trained Iraqi army in Ramadi (Anbar province) and the no less spectacular retreat of the Syrian armed forces from Palmyra (epitome of the ancient civilization) mark a watershed in the attempts of the international coalition to repeal the so far unstoppable advancement of the Islamic State (IS, former ISIL).

The deceitful verdict pronounced on 15 May by the US military spokesmen that "the strategy to defeat ISIL is working" was a typical exercise in wishful thinking. On the contrary, the strategy was an epic fail, and if not revised in due hurry, the repercussions of the further institutionalization of IS would be dramatic for all the region, spelling doom for the boundaries drawn by Sykes and Picot in 1916.

Recent territorial gains prove beyond any shadow of doubt that IS is not a bunch of amateur street fighters. After the coalition launched its air bombing campaign last August, the IS strategist changed tactics and resorted to classical guerilla warfare. They no longer marched in columns in broad daylight, but started operating in small combat units, mostly in civilian dresses, mixing by day with the crowd, and striking at night. Thus they avoided being targeted from the air, and the coalition lost its only competitive advantage since it does not have its own troops on the ground. On top of that, IS delegated more power to field commanders who now have enough autonomy, and in this way neutralized the risk of a pin-pointed attack on central head-quarters which, otherwise, would have rendered IS ungovernable.

The new sophisticated military tactics are supported with a smart, albeit hideous mode of governance, which enables IS to function like a true state. This serves as yet another proof that IS was thoroughly underestimated and precious time was lost.

The IS militants have established either full or partial control over the following provinces in Syria: Homs, al-Raqqa, Deir ez-Zor, Al Hasakah, Hama, Aleppo, Damascus, Reef, Daraa, and Suwaida. Basically, half of the Syrian territory has fallen under the yoke of the religious extremists who are steadily building the new Caliphate and have already assumed most of the properties of a state entity.

The four-year civil war in Syria has taken its tragic toll, now exacerbated by the emergence of an unbending and rigorous in its ideology "third party", IS which was born out of wedlock involuntarily parented by "old school" Islamists nurtured by Qatar and Saudi Arabia bent on overthrowing the regime of Bashar Assad.

Since the Alawites, the religious Shia sect that President Assad belongs to, numbers some 2 million, or 10-12% out of the total population; it does not have enough manpower to sustain a prolonged conflict. Besides, statistics show that in some villages of the Alawite community one out of every three males of conscript age was killed in the battlefront. Coupled with the disruption of revenue flows which depleted the state budget, it produced a suffocating effect on the ability of the regime to continue fighting back both the paramilitary formations of the opposition, armed and financed by the Gulf petro-monarchies, and the IS.

The expert community predicts that time is running out for Damascus and that Assad's regime would inevitably fall in a matter of four to six months. As a consequence, Syria will be further partitioned, split into sectors controlled by the Alawites, local Kurds, maybe with small enclaves of Druses and Christians, and, with the largest chunk of its land administered by IS, where, coincidentally, most of the oil and gas wells are located.

This is no small spoils of war. It adds up to the vast property and looted treasures that IS made in neighbouring Iraq. Rand Corporation experts have summed up the estimated major revenue sources of IS in Iraq alone, using data for 2014. They singled out four sources of the IS unearned income: Ransom through kidnapping brought \$20 mil., smuggling of oil netted some \$100 mil., money stolen from state-owned banks amounted to \$500 mil., and extortion and taxation of people in the IS controlled areas generated some

600 mil. The estimated IS assets after the fall of Mosul in June 2014 totaled $875 mil.

Yet, the most promising assets are oil and gas fields, and the already established routes of smuggling these commodities to the global markets. It has not been the best-kept secret that Turkey conspired wi$th IS leaders to buy cheap their oil and deliver it to sea terminals for further shipment to customers outside the region.

In view of the most likely break-up of Syria, the lucrative trade might be challenged by an emerging factor: rapprochement of Kurds in Iraq and Syria. After the conspicuously reserved position taken by Ankara during the siege of Kobane, Iraqi Kurds and their brethren in Syria view Turkey as a collaborator of IS. It spurs their indignation, and blows the wind into the sails of the new local actor coming to the forefront: People's Protection Units (YPG), a militia with unhidden links to the anti-Turkish Kurdistan People's Party (PKK).

It is all too probable that crumbling Syria would give birth to well armed and pungently nationalistic fully independent Kurdish state with territorial claims spreading out to Syria and potentially to Turkey as well.

Moreover, the unexpected concordat signed in early May between Turkey and Saudi Arabia, thus siding with the axis of Sunni states, has alienated Iran. Despite being a secular state by Constitution, Turkey has de facto joined Iran's archrivals from the Sunni alliance, pitting itself against the rising regional superpower.

The demise of Assad regime in Syria might be in the interests of the Gulf oil and gas rich monarchies, since it buries once and for all the project of a Shia gas pipeline which was envisaged as going from Iran through Iraq to the Mediterranean coast of Syria. Yet, the partitioning of Syria does not give comfort for neither side given that the IS Caliphate is already in business for itself and would not tolerate any meddling in its affairs.

During the romantic period of the "Zero problems with neighbours" policy pursued by Prime Minister Recep Tayyip Erdoğan and his Foreign Minister Ahmet Davutoglu, Syria was almost completely domesticated by Turkish business. Now, Syria would become a no man's land, with the exception of the IS militants.

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