Iran is in transition. But where is it heading? Is the Islamic regime becoming more entrenched or can the country ever revert to a more secular, even pro-American administration, as existed under the Shah of Iran?

Such questions have been asked regularly since the 1979 Islamic revolution. What makes them so important today is the issue of Iran's assumed nuclear weapon's program. (There is little doubt it has such a program – and there is regular visual proof that it has the missiles capable of actually delivering atomic warheads.)

The conventional wisdom is that once the Islamic regime acquires nuclear weapons, its grip on power will become reinforced. But that judgment is too meek. If the radical Islamic regime in Tehran acquires a nuclear weapon's arsenal, it entirely changes the regional balance of power. U.S. influence would be diminished. Israel would feel under mortal threat, as would leaders of the Arab states in the Persian Gulf. Militant Islam, particularly co-religionists of Iran's predominant Shia sect, would receive a powerful boost, affecting not only the entire Middle East but also everywhere there is a significant Shia Muslim community.

It is simply not in the interest of much of the world for Iran to obtain nuclear weapons.

Optimists would claim there is an alternative. If sanctions and international diplomacy succeed in delaying that day, perhaps the Islamic regime, generally seen as administratively and economically incompetent, will lose its grip on power. Sadly, Iran's determination to reach the status of a nuclear weapon's state is probably as strong as it ever was, and there is no sign of a viable alternative to the current leadership emerging, or being allowed to emerge.

The prism through which the discussion is currently seen is the question of a U.S. or Israeli military strike on Iran to stop it going nuclear. Could it succeed? Would it succeed? And how would Iran respond? In June 2006, Iran's Supreme Leader Ali Khamenei said: "If the Americans make a wrong move towards Iran, the shipment of energy will definitely face danger, and the Americans would not be able to protect energy supply in the region."

Khamenei's comment is worth focusing on. Iran dominates the Persian Gulf from which about

40% of the world's internationally traded oil comes, most of it passing through the strategic Strait of Hormuz. There is an ambiguity in the comment. Is Iran threatening the exports of other countries? Or would it merely stop indefinitely its own exports, an act, in a tight market, which would have a tremendous impact anyway?

Iran is hugely significant, in its own right, in terms of the world's energy. It has the world's third-largest proven oil reserves, and the world's second-largest natural gas reserves. As one of the founding members of the OPEC cartel, it has been a significant player in energy politics for the last 50 years. Although Iran's current production of around 4.2 million barrels of oil per day is less than the 6 million barrels a day it achieved before the 1979 revolution (and actual exports are much less), it still claims, with justification, a key role.

Potential ambiguity aside, Iran's rhetoric often runs away with itself: threats made are not followed through (as when the US navy mistakenly shot down an Iranian airliner in 1988 prompting the threat from Tehran to close the Strait of Hormuz – it didn't.) Other times, there is action without warning (as when Iran started to mine the waters of the Persian Gulf during the 1980-88 Iran-Iraq war.) This is not to trivialize the regular threats of Iranian leaders against the State of Israel, even though there are some, mainly academics or some Iranian expatriates, who, unconvincingly, claim that these comments have been mistranslated and therefore misunderstood.

But, independent of what Iran actually does, the rest of the world seems certain that any attack on Iran and/or its nuclear facilities would jeopardize the flow of oil from the Persian Gulf. The oil markets regularly spike when politicians make apparently threatening comments. Given that the region provides the largest portion of the world's oil, the implications for international energy security would be huge. Name a price - $150 per barrel, $250 per barrel? Suggest a consequence – worldwide recession, new rules on driving cars? Few suggestions can be dismissed as being unworthy of consideration.

To avoid hysteria, or at least minimize it, it is worth running through some possible scenarios involving Iran and future global security :

Scenario 1: Iran successfully becomes a nuclear weapon's state. Without actually testing an atomic bomb, any claim of this new status might be considered a bluff. But Iran would hope the Islamic Republic becomes inviolable and Iran achieves recognition as the major state in the region. Having failed in terms of a policy of prevention, the U.S. and Israel would have to shift to a policy of deterrence. Lacking the necessary military strength, Europe would choose accommodation.

Scenario 2: Israel or the U.S. were to launch an attack on Iranian nuclear facilities. If the attack is deemed successful, in that the nuclear program is set back by several years (which might be hard to prove), then Iran is possibly chastened. Equally, it could be enraged, ordering retaliation across the region and perhaps the world. Or, it could stand by as its surrogates (Hizballah and others) reacting violently but apparently spontaneously.

An unsuccessful attack is harder to define – Iran might claim to have secret, undamaged duplicate facilities. The risk of violent reactions remains high, as does the likelihood that Tehran would re-double its efforts, judging that being an actual nuclear weapon's state would give it ultimate protection from attack.

Action, as well as inaction, has unpalatable consequences:

The nightmare: In the event of an attack by the U.S. or Israel, Iranian retaliation against oil tankers in the Persian Gulf, U.S. targets in the region (ships, bases, embassies etc), or oil and power infrastructure of Washington's Gulf Arab allies, is also possible, although it would probably provoke an overwhelming U.S. response. The U.S. Navy has spent the last 20 years training for a repeat of its clashes with Iranian naval units at the end of the 1980-88 Iran-Iraq war.

There might be several days of apparent confusion but there is little doubt that U.S. forces would emerge victorious. During this time, oil flows would be halted, not only from Iran but also from other Persian Gulf states. Most of this oil goes towards Asia with Japan as the single largest customer. But other countries would be hit and, given the scope of the international trade in oil, supplies to the rest of the world would be affected, as would prices. In particular China and India could be badly hit as they lack strategic reserves or partnerships with other countries unlike for example OECD countries where supply-shortage co-operation is already agreed in advance through the International Energy Agency (the energy branch of the OECD).

Gulf exports would likely resume quickly, depending, of course, on the damage to infrastructure. But any military victory could have negative longer-term consequences. There could be a surge in resentment towards the United States, and the position of U.S. forces in Iraq and Afghanistan will be put in further jeopardy. It is small wonder that the U.S. military leadership has reportedly urged further diplomacy with Iran rather than military confrontation. And there has been similar advice given against any Israeli military action.

The dream: If diplomacy were to succeed and Tehran gave up its nuclear weapons ambitions, there would still be concern about its support for groups like Hizballah and the contempt it shows to Arab neighbors like Saudi Arabia (a rival for the leadership of Islam), Bahrain (territory once claimed by Tehran), and the United Arab Emirates (with which Iran has a long-running dispute about ownership of three small islands in the Gulf).

Iran’s huge oil and gas reserves mean that it is an attractive commercial partner of rapidly-expanding countries like China and India. And Europe, worried about its dependence on Russian gas, sees Iran as a potentially important participant in the giant Nabucco gas pipeline, which would also bring natural gas from the Caucasus and Central Asia.

The reality: The nightmare outcome is all too likely and the dream outcome is far too fanciful. Rays of hope are few and far between. A successful Israeli raid like that of the September 2007 action against a clandestine nuclear facility in Syria seems implausible. The necessary international unity for effective diplomacy appears elusive. Current demand forecasts for oil and gas means that Iran will be an attractive partner for many countries out of necessity. The flow of revenues will enable the mullahs to stay pre-eminent. Doubts about American perseverance will mean that Gulf Arab allies of Washington will also seek local understandings with Tehran.

The case of Iran is a reminder that a real or potential lack of energy security (defined as dependable supplies at reasonable prices) will remain an international concern. In part, it reflects growing demand caused by increasing economic prosperity in the world. But it also demonstrates a confrontational style of nationalism with possible dire consequences, which, worryingly, seems to be on the rise.

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