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Out of the Comfort Zone: Russia and the Nuclear Deal with Iran

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Beyond the headline-making S-300 missile deal, the international nuclear agreement with Iran poses a multifaceted strategic dilemma for Russia. Iran's potential de-isolation will necessitate a speeded-up rebranding of Russia and more policy acrobatics, among which reacting to the new dynamics in the energy market will be the most challenging. It is becoming imperative for Moscow not to close options in the Middle East: adopt softer stances, make obscure moves, and avoid camps, especially the Iran-Syria one. In the post-Soviet neighbourhood, Iran's clout, powered by a probable cycle of economic growth, is likely to increase, pushing Russia to make adjustments as well. While preoccupied by softly limiting Iran's influence, Russia might use the de-isolation of Iran to legitimise the Eurasian Economic Union, seal off the Caspian Sea from the West and keep the rising Chinese influence in Central Asia in check.

A seminal moment in global politics may be fast approaching. The final deal between Iran and the P5+1 negotiators is still some distance away but reaching it could potentially release the energy that has for decades been consumed by conflict and uncertainty, shaping politics and economics in the Middle East and globally. The deal faces internal and international opposition: for various reasons, both conservative members of the Islamic Consultative Assembly of Iran and most members of the Gulf Cooperation Council as well as Israel and a significant part of the U.S. Congress are against it. However, if the terms of the provisional deal from Lausanne are implemented, they might lift UN, EU and some U.S. sanctions on Iran at a time when another global player, Russia, is becoming more and more entrenched in the sanctions regime. What has until recently been a strategic partnership of pariah Iran and rising Russia has become a partnership of more equal players, where Iran, with close to 80 million people, is no longer a Russian hostage.

The de-isolation of Iran coalesces then into a strategic policy factor for Russia: it gives Iran more leverage globally at a time when Russia's is rapidly melting down. The Russian goals of economic and political strength are being threatened by the possibility of increased energy supplies from Iran and Central Asia to Europe.

Russian Poker Face in Negotiating the Deal

As negotiations between the P5+1 and Iran on the latter's nuclear programme have entered a decisive stage, Russia has shown little enthusiasm to facilitate consensus. Its weak interest was decried by Tehran in late 2014¹ and was once again on display during the marathon talks in Lausanne. Russia provided only lukewarm support, while the U.S. and other European powers did the main part of the diplomatic heavy lifting. Asked about the chances to reach a deal on Iran's nuclear programme, Russian Minister of Foreign Affairs Sergey Lavrov quipped ahead of the negotiations that he "is not paid to be optimistic."² After a short detour to Lausanne, the head of Russian diplomacy returned to Moscow to meet a delegation from Pacific microstate Vanuatu. At another critical juncture in the talks, the spokesperson for the Russian Foreign Ministry doubted whether the return of Russia's top diplomat to Lausanne was important.³ Russia's tactics should not come as a surprise. The final deal between the P5+1 and Iran would imperil a decade-long status-quo in Russia's relations with Tehran, one favourable to the former.

Until recently, the isolated Iran needed Russia more than the other way around. Russia constantly tried to position itself as a mediator between the West and Iran over the nuclear programme. This was not always received well in Tehran as Russia was careful that the mediation made only Lilliputian progress. In 2010, Iran even enlisted Turkey and Brazil to solve the nuclear issue, outside the P5+1 framework. However, more sanctions, partially supported by Moscow, nudged Tehran back to the sextet formula. Iran intensively courted Russia in 2013 (Russian President Vladimir Putin and Iranian President Hassan Rouhani met four times) in order to re-start talks. In 2015, if concluded, the final accord on the nuclear programme promises to slowly improve Iran's relations with Western powers, while at the same time deprive Russia of what is left of its "facilitator" role.

Another worrying sign for Moscow is the potential for increased competition in the energy sector. Since 1992, Russia's Rosatom has been the only player building reactors and delivering nuclear fuel to Iran. But this might change as Iran emerges from isolation. Bearing in mind German and French involvement in the Iranian civil nuclear programme during the 1970's, Russian officials interpreted Western criticism of the Bushehr project as a cynical attempt to squeeze Russia out of the nuclear business to make room for its competitors in the field. As China acquires know-how (e.g., it has begun building its first third-generation nuclear reactor) and splashes around cash, Iran certainly will try to attract Chinese companies and investors to its nuclear sector. No matter whether foreign companies will show interest in Iran's nuclear sector, the anticipation of competition for dozens of new reactors to be commissioned by Tehran in the next 15 years is likely to heighten concerns in Moscow. Gazprom's strategy in Europe vividly demonstrates the aversion of Russia's state companies to competition. Last, but not least, lifting the oil embargo on Iran risks accentuating the oversupply on the market and further dampening oil prices. The 50% drop in the oil price in 2014 left the Russian budget short by more than \$100 billion. A further decline in oil prices could send more shockwaves across Russia's receding economy (down almost 2% in the first quarter of 2015). In the mid and long term, as a result of Western investments, Iranian gas might rival Russia's on the European gas market and challenge further rationales behind the Moscow-sponsored Turkish Stream gas pipeline.

These anxieties will guide Russia's two-track approach towards Iran and the talks on the nuclear deal with the P5+1. The first diplomatic track aims to thwart a change in the status-quo without openly opposing the eventual final agreement. Moscow sought to reclaim a central role in the Lausanne framework agreement, arguing that the provisional accord is based on principles laid out by President Putin. Weeks later, Russia lifted a ban on the delivery to Iran of S-300 anti-aircraft missile systems (not formally covered by the current sanctions) and asserted that an "oil-for-food" arrangement (estimated at \$20 billion), in negotiations between Russia and Iran since early 2014, is being implemented. Because the U.S. is a pivotal player for the deal to be concluded, Russia's moves aspire to deepen the discord between the U.S. and Israel on the sustainability of the security deliverables in the agreement with Iran as well as to stiffen arguments among the camp in the U.S. Congress opposing the removal of sanctions against Iran.

¹ "Upriok Irana vyzval negodovaniye v Rossii," *Vestnik Kavkaza*, 9 October 2014, www.vestnikavkaza.ru/news/Rossiya-na-peregovorakh-po-Iranu-stremilas-nayti-resheniya-priemlemye-dlya-vsekh-MID-RF.html.

² "Russia Joins World Powers for Talks on Iran's Nuclear Program," *The Moscow Times*, 30 March 2015, www.themoscowtimes.com/news/article/russia-joins-world-powers-for-talks-on-irans-nuclear-program/518204.html.

³ "Currently no Vital Need for Lavrov's Presence in Lausanne," *Interfax*, 2 April 2015, www.interfax.com/newsinf.asp?pg=7&id=583043.

The second diplomatic track, however, strives to secure a pole position for Russia in case the P5+1 seal the final deal with Iran before the deadline in June. By unilaterally removing some restrictions on Iran, Russia has broken ranks with the U.S. and EU, which insist on a gradual easing of sanctions depending on whether Iran delivers on its commitments. The abrogation of the embargo on S-300 deliveries not only reinforces Tehran's demands for a package approach (a deal in exchange for the immediate removal of sanctions), but is intended to repair Russia's reputation (the non-execution of a 2007 contract for S-300s) and win in the mid and long run more lucrative contracts for the Russian defence industry in Iran. The Iranian oil and gas sector will require substantial investments in order to boost exports. Nevertheless, even in the short term, lifting the sanctions on Iran will have a psychological impact on energy markets, pushing oil prices down. Thus, if it is not possible to prevent Iran's oil and gas flowing even in small volumes to the world market, Russia at least is trying to make the process less painful and even profitable for itself. The "oil-for-food" framework with Iran (if implemented as officials claim) apparently seeks to absorb Iran's oil and turn its energy sector towards Russian companies that have shown interest in the Iranian market (e.g., Lukoil, Rostec, Inter RAO). The Bushehr reactor saved 1.6 million tonnes of oil and 1,800 million c/m of gas in 2013.⁴ If nuclear energy is to free more Iranian oil and gas for export, Russia is determined to be the one who at least builds and supplies fuel to new reactors. In late 2014, Rosatom signed a contract to construct two new reactors in Iran, with the chance to build another six. Finally, while Russia could become involved in the exploration of Iran's gas fields, it will eagerly support alternative gas pipeline projects (e.g., the Chinese sponsored Pakistan–Iran pipeline with its 40 bcm capacity) in order to keep Iranian gas off the European market.

Iranian–Russian Marriage of Convenience

The Russian double play in the negotiations reflects the fragility of Russian–Iranian relations. They developed in the 1990s precisely when the West chose an antagonistic path with Iran. Russia has tried to fill the void ever since, but a look at the statistics corroborates that the Russian–Iranian alliance resembles a marriage of convenience rather than a genuine partnership. Russia's exports to the United Arab Emirates and Iraq are bigger than the volume of exports to Iran. Russia's exports to Israel are almost twice as high as Iran, three times as high to Egypt, and six times higher to Turkey. Imports are almost non-existent.⁵ In the other direction, Russia's imports from Iran make up only 1% of total Iranian exports (of which more than 70% go to China, India and Turkey).⁶

Russia's trade with selected countries (in thousands of U.S. dollars)

	Iran	Egypt	Iraq	Israel	Turkey	UAE
Imports	348,933	537,932	14	1,133,398	6,571,952	251,227
Exports	1,322,247	4,863,056	1,695,431	2,287,966	24,794,486	1,718,678
Total	1,671,180	5,400,988	1,695,445	3,421,364	31,366,438	1,969,905

Source: ITC, trademap.org.

The two key sectors in Russian–Iranian relations are the nuclear and arms industries. Russia will surely try to safeguard its privileged access to the Iranian market in these sectors, although spectacular steps in this regard—such as the promise to deliver the S-300s or military cooperation agreement sealed in January in Tehran by Russian Defence Minister Sergei Shoigu—should be taken with a grain of salt. The weaker the

⁴ "Nuclear Power in Iran," *World Nuclear Association*, April 2015, www.world-nuclear.org/info/Country-Profiles/Countries-G-N/Iran.

⁵ M.N. Katz, "Conflicting aims, limited means: Russia in the Middle East," *Friede Policy Brief*, no. 201, May 2015, http://friede.org/download/PB201_Russia_in_the_Middle_East.pdf.

⁶ International Trade Center, Iran, www.intracen.org/layouts/CountryTemplate.aspx?pageid=47244645034&id=47244652056.

strategic content of the relations is, the more spectacular moves Russia will make to woo Iran and cover its policy shifts. Such is the case with the “oil-for-food” deal, under which Russia supposedly supplies Iran with grain, equipment and construction materials in exchange for as much as 500,000 barrels of oil a day, although some sources estimate it at only a tenth of this number.⁷ The deal makes more sense for Iran—the third largest importer of Russian grain—than it does for Russia, which itself is the second-largest oil producer and would logistically find it difficult to use Iranian oil.

Beyond the marriage of convenience there are two important ideological similarities between the two countries, which ultimately may explain the commonalities in strategic thinking in Tehran and Moscow. The most important relates to the power of the U.S. Both Iran and Russia, as powers that want to punch above their weights regionally and globally, question the international order, in which in their opinion the U.S., or more broadly the West, dictates the rules of the game. That urge brings the two countries together and it will remain with or without the nuclear deal with the West. Furthermore, both countries fear Sunni extremism. The threat does not originate from religious considerations, even though both regimes rely on religious legitimacy: it is stronger in Iran but it is becoming more and more potent in Russia as well. Sunni extremism not only threatens the interests of both countries outside of their territories—it has managed to inflict damage on Iranian-backed governments in Iraq, Syria and Yemen—but also on domestic peace. Eventually, the greatest Russian fear may be a reignited Sunni Muslim insurgency in the North Caucasus driven by seasoned Russian fighters who have returned from the Middle East (an estimated 1,700 Russian citizens now fight for the Islamic State).

Middle East Is against the Deal but Wary of Russia

The Middle East is in flux: governments are becoming weaker, and the state system is changing, if not collapsing altogether. Prompted by new energy self-sufficiency, the United States is reassessing its doctrinal involvement, while the stronger players in the region are bracing for a showdown to secure favourable outcomes. The situation has become so fluid that interest-wise, fixating on a single regional camp no longer makes sense for external actors. Just as the U.S. has moved away from the Sunni-Arab camp,⁸ Russia also is trying to position itself outside of the usual Shia-Iranian bloc. The reportedly diminishing support for the Syrian regime (e.g., recall of Russian experts from Syria) speaks volumes.⁹ The Middle East is not an Iranian playground—it is mostly an Arab backyard with an Israeli and Iranian component. Russia then needs to balance its interests vis-à-vis all three; first and foremost by stepping out of the Iranian camp and repackaging the “imperial hard-power country” brand.

A possible deal with Iran is an unwanted outcome for Israel, Saudi Arabia and most of the Arab world. Interestingly, the last year has seen a flurry of Russian activity in mending ties with these Iranian foes. Russian relations with Israel are becoming more and more important for both countries and have recently been governed by a rule of taciturn acceptance of each other’s controversial actions: Israel refrained from criticising Russia for its annexation of Crimea and Russia reciprocated during “Operation Protective Edge” in Gaza. In 2009–2013, Russian imports from Israel grew 25% per year (ITC). Even after the announcement about lifting the embargo on delivery of the S300s, Israeli media were quicker to point fingers at the faulty policy of U.S. President Barack Obama rather than at Russia. Israel ostensibly objects to the backing of Syrian President Bashar al-Assad by Moscow but, in reality, the Israeli government has not yet made up its mind as to which alternative is worse: Assad or the jihadists. Ultimately, Assad in place and a moderate level of infighting between Damascus and its opponents in Syria is beneficial for both Israel and Russia. A permanent division of Syria and other post-imperial countries in the Middle East, including Iraq, seems to frighten Russia most. Such division would not bode well for the integrity of the diverse Russian territory, with its Muslim south having less and less in common with Moscow, and resembling increasingly what has

⁷ “Russia-Iran oil pact: the deal without details,” *Reuters*, 6 August 2014, www.reuters.com/article/2014/08/06/us-russia-iran-oil-idUSKBN0G6IUM20140806.

⁸ R. Marashi, “Obama is on a quest to rebalance American power in the Middle East,” *Quartz*, 13 May 2015, <http://qz.com/404600/obama-is-on-a-quest-to-rebalance-american-power-in-the-middle-east>.

⁹ E. Miller, “Russia said scaling back its support for Assad,” *The Times of Israel*, 31 May 2015, www.timesofisrael.com/report-russia-scaling-back-its-support-for-assad/?utm_source=The+Times+of+Israel+Daily+Edition&utm_campaign=b82d5a3142-2015_05_31&utm_medium=email&utm_term=0_adb46cec92-b82d5a3142-55184205.

been termed its “internal abroad.”¹⁰ After all, the Chechen capital of Grozny is only 600 miles away from the ISIS “caliphate.”

Saudi Arabia had similarly been displeased with Russian policies in Syria and its friendship with Iran. But here also a change of tone is to be seen. Moscow criticised the Saudi military operation in Yemen but—to the Saudi liking—abstained in voting on UN Security Council Resolution 2216 establishing an arms embargo on the Houthi rebels and former Yemen President Ali Abdullah Saleh’s supporters. After that, King Salman called Putin, who invited the Saudi monarch to Russia. The low oil price is a bone of contention between the two countries but Moscow must realise that Saudi oil price policy is primarily directed at Iran and keeping prices low would in the long-term hurt Saudi interests.

Moscow is making ostensible overtures towards Egypt (for example, Putin’s visit in February on top of several military and economic missions) and Jordan (a March agreement with Russia to build Jordan’s first nuclear power plant) as it desperately looks for markets and friends. And vice-versa, Arab governments, especially those in dire need of aid, arms and infrastructure, such as Libya, have recently been rushing to Moscow for talks. Not only is it expanding its array of partners in the Middle East, but in an effort to rebrand itself Russia is also trying to take up the usual American role of mediator. It did so in the Syrian crisis (April conference in Moscow) and is now eyeing a role in mediating the Israeli–Palestinian conflict beyond the quartet.¹¹ Finally, if the deal with Iran bears fruit Arab countries will most likely want to expand their nuclear capabilities,¹² in which case Russia may become a valuable partner, as has already been proven in Russian bilateral agreements with Egypt and Jordan to build their nuclear power plants. Overall then, a future deal with Iran may force a weakened Russia to further diversify its partnerships in the Middle East, mollify its positions on key conflicts (Syria, Israel–Palestine), avoid rigid camp affiliations and rebrand itself so as to expand policy options.

Welcoming Iran: South Caucasus and Central Asia

Settlement of the Iranian nuclear programme will spill over into the post-Soviet neighbourhood. Hardly anyone in its proximity would profit from military conflict in Iran. Thus, a reduction of the chances of a regional war is a welcoming development for Iran’s neighbours in South Caucasus and Central Asia. Once free of the harshest sanctions, Iran’s economic clout might grow in the region. Champions of the balancing game, the political regimes in the Caspian area will be more likely to enrol a de-isolated Iran into their multi-vectored strategies of navigating between the West, Russia and China. While Russia will try to some extent to limit Iran’s regional influence, it might use Tehran to seal the region off from the West, bolster the Eurasian Economic Union (EEU) project and keep in check Chinese growing influence.

As the borders with its two neighbours are closed (Turkey and Azerbaijan), the landlocked Armenia heavily relies on Iran for commercial transit (approximately 20–30%). Violent conflict in Iran thus would endanger Armenia’s economy. The sanctions regime against Iran substantially narrowed cooperation opportunities for Armenia with Tehran. Coerced to join the EEU in 2014, Armenia desperately seeks to diversify its economic options. Besides efforts to attract U.S. investments (e.g., a bilateral trade and investment agreement signed in May 2015) and find a new formula for cooperation with the EU, Yerevan is likely to exploit the momentum to inject new life into or expand existing projects with Iran (e.g., railway to Iran connecting Armenia with the Persian Gulf and Caspian Sea, the Meghri hydropower plant on the Araks River, wind farms, an oil pipeline). Yerevan will be among the most enthusiastic EEU members to advocate for an advanced trade agreement with Iran. Russia’s answer might have multiple parts. With Armenia’s railways under a concession agreement with Russian RZhD for 30 years, the Kremlin may stonewall the railway project to Iran. With its still-solid control over Armenia’s gas imports and distribution network, Moscow might in the future strategically let Armenia import more gas from Iran via an underused pipeline (with a capacity of 2.3 bcm) as part of a wider policy to channel Iran’s gas exports away from Europe.

¹⁰ A. Malashenko, “The North Caucasus: Russia’s Internal Abroad,” *Carnegie Moscow Center Briefing*, vol. 13, iss. 3, November 2011, http://carnegieendowment.org/files/MalashenkoBriefing_November2011_ENG_web.pdf.

¹¹ Z. Magen, S. Fainberg, I. Shklarsky, “Toward a New Russian Initiative on the Israeli–Palestinian Issue?,” *INSS Insight*, no. 684, 14 April 2015, www.inss.org.il/index.aspx?id=4538&articleid=9236.

¹² D.E. Sanger, “Saudi Arabia Promises to Match Iran in Nuclear Capability,” *The New York Times*, 13 May 2015, www.nytimes.com/2015/05/14/world/middleeast/saudi-arabia-promises-to-match-iran-in-nuclear-capability.html?_r=0.

While Armenia is likely to show more interest in Iran, Tehran probably will look increasingly to Azerbaijan. Previously, suspicions ran high in Tehran that Azerbaijan might serve as a U.S. launch pad for military strikes and support separatist claims in northern Iran, populated by an Azerbaijani minority. Equally, Baku has shown anxiety about what it has perceived as Iran's attempts to fuel separatism among the Talysh minority living in southern Azerbaijan, along the Iranian border. The election of Rouhani, Azerbaijan's souring relations with the U.S. over the former's human rights record, and an eventual deal in the nuclear dossier are setting the stage for much closer cooperation between Baku and Tehran. Two high-level bilateral visits in 2014, followed by ministerial contacts, significantly contributed to a political and economic thaw. Putting aside disputes over the division of national sectors of the Caspian Sea, Iran initiated a joint defence commission to foster bilateral military-technical cooperation with Azerbaijan. Apparently, Iran intends to open new opportunities for its defence industry. Given Azerbaijan's massive military expenditures (projected at \$4.8 billion in 2015), its defence modernisation plans are very attractive to Tehran. If this cooperation results in arms deliveries from Iran to Azerbaijan it would encroach on Russian interests. Up to 2014 Russia had sold Azerbaijan weapons amounting to \$4 billion. In the energy sector, Tehran, as part of its strategy to reach the EU market, eyes buying from SOCAR (Azerbaijan) a stake in the Trans-Anatolian pipeline (TANAP) and attempts to lure the country into investing in its oil and gas sector. If this trend gains pace, the trilateral format of Turkey–Iran–Azerbaijan, previously used often by Ankara to defuse tensions between Baku and Tehran, could turn into a functional mechanism for tangible deliverables in economic policy and politics. This risks further undermining Russia's interests in the energy sector. To mollify Russia, Iran has expressed readiness to participate in implementation of the Turkish Stream gas pipeline project.

Unlike Armenia or Azerbaijan, Georgia lacks a direct terrestrial link with Iran. Nevertheless, the Georgian government welcomed the tentative agreement of the P5+1 with Iran and probably will look for business opportunities resulting from its free trade deal with the EU.

In Central Asia, Iran primarily will seek to elevate further relations with Turkmenistan and Tajikistan, where it has security and economic stakes. Russia and Iran share an interest in preventing construction of the Trans-Caspian gas pipeline, linking Turkmenistan and Azerbaijan directly. However, if Russia wants to block Turkmen gas reaching Europe, Iran seeks to secure gas imports from Turkmenistan (via two existing pipelines) for domestic consumption (northern regions) and probably as well as for re-exports until its own production recovers. As Russia drastically slashed Turkmen gas imports from 19.6 bcm in 2012 to a forecasted 4 bcm in 2015,¹³ Iran can easily tap into surplus gas in Turkmenistan. Nevertheless, gas transmission infrastructure on Iranian territory will need investment to bolster absorption and exports of Turkmen gas. Over the last decade, Tehran has invested in strategic sectors of the Tajik economy (e.g., electricity generation, road infrastructure) and in 2014 became the third-largest destination for Tajik exports.¹⁴ Free of sanctions constrains, Iran is posed to increase its footprint in Tajikistan. Both Russia and Iran are likely to cooperate in the security field to prevent the spread of security threats from Afghanistan to Tajikistan and Turkmenistan.

Other post-Soviet states in Central Asia might welcome more engagement with Iran to balance Russia and China in regional forums. Moscow also could be interested to offer Iran (once UN sanctions are lifted) membership in the Shanghai Cooperation Organisation (SCO) to dilute Chinese influence in this organisation. In turn, to consolidate Russian-led organisation of the region, the Kremlin will renew a push to conclude a trade pact between the EEU and Iran. With the two most powerful navies in the Caspian Sea, Moscow and Tehran will also work together to deny extra-regional military presence in the waters.

Russia Out of Its Comfort Zone

Overall, the potential de-isolation of Iran after the nuclear deal with the P5+1 will reverberate across the Middle East and Eurasia, forcing regional powers to adjust to the rapidly evolving environment. Russia is among a few regional players that will have to adapt the most. First, Russia, which is feeling the heat of sanctions, will have to fine-tune its policy towards Iran as it gradually shakes off international sanctions and

¹³ I. Shaban, "Milestone Year for Turkmen Gas Export to China?," *Natural Gas Europe*, 10 February 2015, www.naturalgaseurope.com/milestone-year-in-turkmen-gas-export-to-china.

¹⁴ EU Commission DG Trade, "European Union Trade in Goods with Tajikistan," 10 April 2015, http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113453.pdf.

probably recovers economic vigour. There are already signs that Russia is anticipating a less asymmetric relationship with Iran and thus is approximating its approach. Second, as Iran promises to become a more elusive partner, Russia may want to further diversify its partnerships in the Middle East, expand and deepen relations with Iran-wary Arab countries and Israel without losing Iran completely. Third, Russia will have to factor in the probability of growing Iranian influence into its policy towards the post-Soviet states. Russia will try to combine invitations to involve Iran in regional balancing and, at the same time, silently limit Iran's clout in the post-Soviet states in case it encroaches on Russia's strategic interests. As the EU has initiated review of its European Neighbourhood Policy and made headways towards an Energy Union, the regional ramifications of a nuclear deal with Iran should be carefully monitored. This should allow the EU to timely speculate on positive developments in the energy sector and to pre-empt any potential negative fallout in its increasingly unstable neighbourhood.