

Iran's position in Russia's foreign policy and Russian-American relations

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Over the last decade, co-operation with Iran has been an important element in Russia's foreign policy. At the same time, however, Moscow has not hesitated to put pressure on Tehran in order to make the Iranian leadership more willing to make concessions in bilateral relations. This was because – from Russia's point of view – Iran is both a tactical ally, e.g. *vis-à-vis* the United States or in the CIS area and the Middle East, and a potential rival, for instance with regard to the supplies of energy resources to Europe. Since the end of 2007, however, the two countries have been building closer relations, as a result of which Moscow has abated its pressure on Tehran (e.g. in September 2008 Moscow prevented further sanctions from being imposed on Iran) and issues that have been generating conflicts, such as the timeframe for the completion of the Bushehr nuclear power plant, are being resolved.

The new US administration has been seeking Russia's assistance in stopping Iran's nuclear programme – which may result in Iran producing nuclear weapons, and has been declaring its readiness to make concessions with regard to the missile shield question. However, the chances that the American proposal will succeed seem to be slim. Russia has taken advantage of the reduced risk that Washington might use force to promote Russian interests in Iran and most probably will continue developing closer co-operation with this country. Besides, Russia's ability to positively influence Tehran remains limited, as demonstrated by Iran's rejection of the Russian proposals to resolve the nuclear crisis, presented in 2005 and 2006. Therefore, Moscow could at best step up the isolation of the Iranian regime, but it should be expected that the Kremlin will endeavour to preserve the impression that it is in a position to support the West and the United States on the Iranian issue.

What the USA offers

Russia's relations with Iran have constantly generated conflicts in Russian-American relations since the early 1990s. Nearly all agreements between Moscow and Tehran have led to strong protests from the USA, which views Iran as the most serious challenge to its position

in the Middle East. The USA is mainly concerned about Iran building the capability to produce nuclear weapons, and this is the most important reason why Washington is seeking Russia's co-operation.

Suggestions that the USA could make the possible deployment of the missile shield in Central Europe dependent on Russia's co-operation in stopping Iran's nuclear programme were first voiced by the US side back in October 2007, in a statement by the US Defence Secretary Robert Gates. These proposals were given more publicity and have been reiterated in a similar form by the new US administration. On 13 February 2009 an anonymous official of the US State Department suggested that the USA was ready to revise the missile shield programme in return for Russia's assistance on the Iranian issue. A similar suggestion was included by President Barack Obama in his letter to the Russian leader Dmitry Medvedev in mid-February 2009, although both sides have subsequently denied the existence of a 'shield for Iran' proposal. Nevertheless, President Obama's statement in March 2009, in which he said that further development of the missile shield programme would depend on the evolution of the Iranian nuclear programme, indirectly confirmed that Washington expected Russia to co-operate on this issue.

Russia's interests *vis-à-vis* Iran

Russia's interests *vis-à-vis* Iran are multidimensional and concern spheres such as energy, regional issues (in the Caucasus and Central Asia, as well as in the Middle East), economic co-operation, pressure on the USA, etc.

Nuclear energy

Iran is currently an important and prospective customer of the Russian nuclear industry. Russia's Atomstroyexport company has been building the Bushehr nuclear power plant (first block) since 1995. Russia will also supply fuel to the plant and collect it once spent, in accordance with a 2005 agreement (this is intended as a guarantee that Iran will not use spent fuel to build a nuclear bomb). The power plant will be operated during the first year by Russian specialists, and the Russians will also train the Iranian personnel. In February 2008 Russia completed the dispatch of 82 tons of fuel for the power plant (having started in December 2007) under IAEA supervision, and finished installing most of the equipment. Moscow then announced that the trial start-up of the plant would take place in early 2009 (the tests started in February) and that the power plant would become fully operational by August 2009. The value of the contract is estimated at around US\$800 million. Russia expects to win further contracts in the Iranian nuclear market, concerning the expansion of the Bushehr plant through the construction of three more units, and the construction of other nuclear power plants (in Ahvaz).

Hydrocarbon energy

Iran holds the world's second largest reserves of natural gas after Russia (15% of global reserves) and is a major exporter of oil. For these reasons Russia is interested in both establishing a presence in the Iranian oil and gas sector, and influencing Iran's export policy (especially with regard to natural gas).

However, Russian investors have very limited options to enter the Iranian gas sector because Iranian legislation strongly restricts the presence of foreign investors. Under the constitution, Iran's oil and gas sector is owned by the state, and under the laws in force in Iran foreign companies may hold stakes in projects only during the investment phase, and subsequently have to sell their shares to an Iranian operator. Since 1997, Gazprom has participated in the implementation of the second and third phase of the South Pars

project as a member of a consortium which also included Total (40%) and Petronas (30%). In 2004, the consortium officially handed over the function of project operator to the Iranian side which should finalise the settlements with the investors during the seven-year return on investment period (by 2009). The efforts which Gazprom has been making for many years to obtain quotas for the export of Iranian gas have been unsuccessful. The unfavourable investment climate and the sanctions imposed on Iran not only hinder the influx of investments, but also make some of the companies already present in Iran withdraw from projects in this country (e.g. Western companies OMV and Shell have withdrawn from the successive phases of the South Pars project; whereas Chinese companies remain active). This has prompted Russian oil companies (Gazpromneft, LUKoil, Tatneft) to step up their activities in Iran, but so far, their presence in this country remains very limited.

The second factor defining Russia's interests is the fact that in the medium to long term, Iran may become Russia's strongest competitor in the European gas market. Although the export of Iranian gas to Europe is impeded by a number of obstacles (in 2007, Iran was a net importer of gas and it experiences serious gas shortages in the northern part of the country since the fields are located in the south, and in addition, due to the US sanctions, Western states and companies are not showing as much interest as they would otherwise). Nevertheless, in the longer term these obstacles can be overcome. Iran could become connected to the European transmission networks via Turkey, and its reserves will not become depleted as soon as, for example, the gas reserves of the North African countries. Furthermore, Iran is being considered as a potential gas supplier for the Nabucco gas pipeline which, in Russia's view, offers the most realistic possibility to launch gas supplies from the Caspian region to Europe while bypassing the Russian Federation. For this reason, Russia remains interested in exercising an influence over the directions of Iran's exports and focussing Tehran's attention on Southern Asia by, for instance, promoting the Iran-Pakistan-India pipeline.

To date, however, Gazprom's activity has been limited to memorandums and preliminary co-operation agreements. These documents do not lay down specific arrangements, but they

do identify those directions of co-operation which could facilitate Gazprom's access to Iran's gas potential or defer the prospect of Iran launching the export of gas to Europe, i.e. Gazprom's participation in extraction and transport projects in Iran, the creation

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of companies jointly by Gazprom and Iranian businesses, swap operations and the Russian monopoly's involvement in the construction of the Iran-Pakistan-India gas pipeline.

The Gas Exporting Countries Forum (GECF) created in 2001 remains the second area of Russia's co-operation with Iran. Since 2007, its member states have been seeking to transform the GECF into a more institutionalised form of co-operation. Moscow's main objectives in this respect concern a systemic imposition of higher gas prices and a division of export markets.

Military co-operation

Iran remains an important customer for the Russian armaments industry (it features among the top five countries in Rosoboronexport's ranking together with China, India, Venezuela and Algeria). The military equipment delivered to Iran so far includes 29 Tor-M1 air defence systems (the contract worth more than US\$1 billion was signed in December 2005 and implemented in late 2006); MiG-29 and Su-25 aircraft; Mi-171 helicopters; and air radars. The Russians are also involved in modernising Iran's military equipment (including the Su-24 and MiG-29 aircraft). In November 2005, the Russians launched the first Iranian satellite. Iran has also expressed interest in purchasing patrol boats and tanks. In addition,

Russia is assisting Iran in modernising the Soviet-made military equipment bought from China. Currently Tehran is making efforts to purchase S-300 missile systems from Russia – the relevant contract has most probably been signed, but Russia has so far been delaying the supply due to concerns about its relations with the USA and Israel.

Regional co-operation

Russia treats co-operation with Iran as one of the measures to stabilise the situation in the Caucasus and Central Asia (in the 1990s, Tehran's assistance contributed to ending the civil war in Tajikistan).

Moscow is interested in developing closer co-operation within the Russia-Iran-Armenia triangle (which would limit Azerbaijan's options) and in creating the North-South transport corridor. Moscow has approved the construction of the Iran-Armenia gas pipeline in order to, *inter alia*, limit transit via Georgia, and has at the same time imposed a very narrow

limit on the pipeline's capacity, to prevent it from being used to export Iranian gas further. In addition, Gazprom has a 75 per cent stake in the Armenian ArmRosGas. Iran may also assist Russia in controlling the influence of Islamic fundamentalism in the region. At the same time, however, there exists the potential for rivalry between

the two states. Iran's ambitions to play a more important role were visible in the proposal for a division of influence in the region between Moscow and Tehran, presented in January 2007 by Ayatollah Ali Khamenei.

In the Caspian Sea region, Russian-Iranian relations remain a mixture of co-operation and rivalry. Russia and Iran disagree on the principle according to which the Caspian Sea should be divided (Russia advocates national sectors of varied sizes, while Iran opts for 20 percent sectors for each country). At the same time, however, both states are determined to limit the influence of Western states in the region (including military presence and the presence in the energy sector—they have been opposing the construction of sea-bottom pipelines connecting Kazakhstan and Turkmenistan with Azerbaijan).

Iran also remains an important element in Russia's Middle East policy. Moscow views Tehran as a potential intermediary in talks with Hamas or Hezbollah, and acknowledges the role Iran has to play in solving the Afghan conflict. Finally, everything that strengthens Iran undermines the USA's position in the region.

The global dimension

Russia also treats Iran as an instrument to pressure the United States – it demonstrates its ability to adversely affect the USA's interests, either by developing closer bilateral co-operation with Iran (e.g. with arms supplies, which Washington has consistently tried to discourage,

or by backing Iran in connection with the nuclear crisis in international organisations such as the International Atomic Energy Agency or the UN Security Council.

The Iranian nuclear crisis broke out when the existence of an Iranian nuclear programme conducted beyond the supervision of the International Atomic Energy Agency (IAEA) was revealed in 2003. Western states then took a number of measures (ranging from the USA's demonstrative establishment of military presence in the Persian Gulf and political pressure, to diplomatic proposals

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extended by France, Germany and the United Kingdom) in order to persuade Tehran to give up the efforts to produce nuclear fuel on its own. Although Russia has repeatedly declared that it would not be in its interest if Iran produced an atomic bomb, Moscow's behaviour implies that Russia would be able to accept such a scenario.

Evolution of Russia's policy on Iran

At the onset of Vladimir Putin's rule Russia intensified its policy on Iran: its withdrawal, in 2000, from the then undisclosed 1995 US-Russia agreement committing Russia not to conclude any new armaments contracts with Iran was a symbolic manifestation of this new approach. In 2003, when the Iranian nuclear crisis broke out, Russia's policy took a new turn. Moscow became involved in solving the crisis and started delaying the implementation of agreements concluded with Iran, concerning both the trade of arms and the construction of the Bushehr nuclear power plant. Moscow endeavoured to position itself as an intermediary and, on the one hand, strove to prevent the use of force by Washington, and on the other, came up with its own proposals to solve the crisis (which concerned the creation of an international uranium enrichment centre in the Russian Federation's territory to supply Iran with nuclear fuel while at the same time preventing the development of Iran's own fuel cycle). When Iran rejected Moscow's offer, Russia decided to start limited co-operation with the West in pressuring Tehran: first it accepted the transfer of the Iranian dossier from the IAEA to the UN Security Council (2006), and then (2006-2008) permitted the UN Security Council to adopt three resolutions imposing sanctions on Iran (the resolutions concerned restrictions on the sale, to Iran, of technologies that might be used in the nuclear programme; the freezing of financial assets of certain Iranian organisations, and an entry ban for certain persons). The crisis surrounding Iran's nuclear ambitions remained at the centre of Russia's policy.

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use force against Iran had decreased (the 2007 US intelligence community report had stated that Iran had not been conducting any military nuclear programme since 2003). In December 2007, Russia started sending nuclear fuel to the Bushehr power plant (even though several months

before it had alleged that Iran had outstanding payments), and the timeframe for putting the plant into operation was agreed upon. The warships of Russia's Caspian Flotilla entered an Iranian port for the first time since 1979.

The new phase in Russia's relations with Iran was characterised by a substantial relaxation of the pressure Moscow had been exerting on Tehran, the most recent manifestation of which had been Moscow's support for the third UN SC resolution imposing sanctions on Iran in March 2008. At that time, Russia and Iran started building ever closer relations. In September 2008, Moscow prevented further sanctions from being imposed on Iran. Moreover, in December 2008 the Russian authorities were much less determined than one year before to deny the reports about the possible sale of S-300 systems to Iran. The rhetoric of Russian official documents had also changed: previously, they would emphasise that co-operation with Iran depended on the developments surrounding the nuclear programme, while now the summary of Russia's policy in 2008, published by the Russian Ministry for Foreign Affairs in March 2009, mentioned no problems in the relations with Iran, relations which, in addition, were referred to as 'a priority' for Russia. Furthermore, on several occa-

sions Russian politicians including President Medvedev and Foreign Minister Lavrov objected to combining the Iran and missile shield issues, as suggested by the United States.

Russia's ability to assist the USA and its limitations

Russia does have some ability to exert pressure on Iran that could considerably complicate the country's situation. It consists, in the first place, in the capacity to more fully support the measures of the UN Security Council (including more numerous and stricter sanctions) and the IAEA, and thus to increase Tehran's political isolation. Moscow could also persuade the Shanghai Co-operation Organisation to limit the political support it has been extending to Iran (which holds observer status in the Organisation). Russia is also an important source of sensitive nuclear and military technologies for Iran - suspending the sale of these would be a serious blow for the Iranian regime. At the same time, though, the limits of Russia's capability are clearly visible. So far, Moscow has been unable to push through its

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own proposals to solve the Iranian crisis (uranium enrichment on Russian territory) or to persuade Tehran to make a goodwill gesture to the international community (e.g. by suspending uranium enrichment). The changes observed in Russia's policy on Tehran since the end of 2007 call into doubt Russia's political readiness to put pressure on Iran and start working with

the United States towards solving the nuclear crisis. Russia has taken advantage of the fact that the threat of a US intervention has disappeared to develop closer co-operation with Iran, and has objected to further sanctions, believing the existing ones to be sufficient.

It should be expected that Russia will continue to underline its usefulness as an intermediary between the West and Iran, while at the same time demonstrating its capacity to harm the USA's interests. However, given the extent of Russia's interests with regard to Tehran (which are certainly not limited to the instrumental use of the Iran issue as a bargaining card in the relations with the USA) and the fact that tension between Iran and the West helps to promote these interests, it is doubtful that Moscow will actually take any concrete steps to support the USA's efforts aimed at limiting Iran's nuclear ambitions.



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