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Editor-in-Chief:

I.S. Ivanov, Corresponding Member, RAS, Dr. of History

Authors:

Y.Y. Belobrov, Ph.D. in Political Science; **A.G. Volodin**, Dr. of History; **S.V. Demidenko**, Ph.D. in History; **N.I. Kozyrev**; **Y.V. Lankin**; **V.Y. Novikov**, Ph.D. in Economics; **V.I. Sazhin**, Ph.D. in History; **V.I. Yurtaev**, Dr. of History

Drafting and copy editing:

I.N. Timofeev, Ph.D. in Political Science; **T.A. Makhmutov**, Ph.D. in Political Science; **E.S. Alekseenkova**, Ph.D. in Political Science

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This working paper was prepared as part of the Russian International Affairs Council's (RIAC) project *Modern Russian–Iranian Relations*. These two nations have great potential for bilateral cooperation, but that potential has not yet been fully realized. Incipient progress in negotiations on Iran's nuclear programme and a prospective easing of the sanctions against Iran open up new possibilities for fostering and strengthening ties between Russia and Iran. This working paper analyses the current state of these two countries' trade and economic ties; potential areas of cooperation in the Caspian region, Central Asia and the Middle East; and Russia's future role in resolving the situation with Iran's nuclear programme. The authors outline several specific areas and recommendations for bilateral dialogue, as well as actions that could bring cooperation to a new and higher level.

The views and opinions of authors expressed herein do not necessarily state or reflect those of RIAC.

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**Y.Y. Belobrov, A.G. Volodin, N.I. Kozyrev, Y.V. Lankin,
V.I. Sazhin, V.I. Yurtaev (Chairman)**

NEW AGENDA IN RUSSIAN–IRANIAN RELATIONS

Introduction

Iran – simultaneously a Middle Eastern, Caucasian, Central Asian and Caspian state – occupies a crucial strategic military position in the global arena. In some way or another, all of the pain points in these regions are associated with Iran. That is why, in practice, the majority of what would seem to be purely internal problems – ethical and religious conflicts, military and economic standoffs, the refugee situation, the drug trade, terrorism, and separatism – are only resolved, or can only effectively be resolved, with the aid of the Islamic Republic of Iran.

As a supplier of hydrocarbon natural resources and a transporter of petroleum and gas products, Iran plays a significant role in the economic development of Southwest Asia and the neighbouring regions. With its developed industry, Iran is capable of maintaining combat readiness for one of the largest and best equipped armies in the region; according to various sources, the Iranian army numbers anywhere between 540,000 and 900,000 personnel.¹ These factors ensure Iran's place as an influential player in regional security. Iran enjoys relative control over the Strait of Hormuz, a strategically important transport corridor for the leading powers. Over 40 per cent of maritime global oil supplies pass through this strait.

Mutual trust, readiness for dialogue and cooperation in the name of peace and security, good neighbourliness and development have been key to Russian–Iranian relations since the two countries established diplomatic ties over 90 years ago. Today this agenda is becoming ever more relevant, with Russian–Iranian relations increasing in importance amid the rapidly evolving international situation in the Middle East.

Iran is of particular importance to Russia as a regional partner, especially in countering U.S. penetration into Central Asia, the Caucasus, the Middle East and the Persian Gulf. In Central Asia and the Caucasus, the longstanding historical rivalry between Russia and Iran for political and cultural influence has been supplanted by a general interest in counteracting attempts by 'new world leaders' to gain a foothold in these regions. One such attempt from the recent past was the incitement of the 'orange revolutions', which could

¹ For more, see: Sazhin V.I. *The Nuclear Missile Potential of the Islamic Republic of Iran*. Moscow: MSU, 2011, pp. 33–34 (in Russian).

repeat themselves at any time. In this context, it is enough to recall Iran's balanced stance (in contrast with other Muslim countries) with respect to events in Chechnya, Tajikistan and South Ossetia. Like the Russian leadership, the Iranian government is focused on the fight against international terrorism, particularly in Afghanistan. In this area, the Russian and Iranian positions are identical.

The policies adopted by Western governments have also facilitated a rapprochement between Iran and Russia, albeit indirectly. Russian and foreign researchers quite rightly point out that Russia and Iran were unwittingly driven together after the collapse of the USSR and the American government staked its claim on leadership in the new multipolar world. Russia and Iran were compelled to oppose the United States and NATO line of establishing a 'new world order', in which the *United Nations* would play a secondary role and the fate of nations would largely depend on decisions made by the new 'world leaders'. Negotiations held between Vladimir Putin and Iranian President Mahmoud Ahmadinejad in 2007 testified to the closeness of the Russian and Iranian views on this key issue. At that time, during a Caspian Sea summit in Tehran, both sides "spoke in favour of cooperation for the purpose of establishing a fairer and more democratic world order that ensures global and regional security and creates conditions for comprehensive development".² In 2014, Russian President Vladimir Putin announced the beginning of a new stage in Russian-Iranian relations.

Russia's interests in bilateral relations with Iran can be described as follows:

1) Expanded economic cooperation, particularly in the military-technical field, and increased trade

There has been a noticeable decline in trade and economic cooperation between Russia and Iran. This is primarily due to the financial and banking sanctions imposed against Iran. According to the *Federal Customs Service of Russia*, in 2012, trade between Russia and Iran slumped 37.9 per cent year-on-year to \$2.33 bn. Russian exports to Iran fell by 44.1 per cent to \$1.9 bn, while imports from Iran fell by 21.8 per cent to \$428.5 m. Iran was responsible for just 0.47 per cent of Russia's trade in 2012.³

Since 2006 (when the *United Nations* imposed its first package of sanctions against Iran), the only major projects (besides raw mate-

² Yurtaev V.I. The Features and Implementation of the Foreign Policy of the Islamic Republic of Iran (1979–2010). Moscow: PFUR, 2012. P. 244 (in Russian).

³ Information on Trade and Economic Cooperation between Russia and Iran https://www.google.ru/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&ved=0CCcQFjAA&url=http%3A%2F%2Fwww.economy.gov.ru%2Fwps%2Fwcm%2Fconnect%2F6c50d4a9-c43a-4760-aecd-c0aec04db412%2F%25D0%25A2%25D0%25AD%25D0%25A1_2013-15-18_%25D0%2598%25D1%2580%25D0%25B0%25D0%25BD-%25D0%25A0%25D0%25BE%25D1%2581%25D1%2581%25D0%25B8%25D1%258F.doc%3FMOD%25

rial supplies) implemented by Russian companies in Iran have been the construction of the *Bushehr Nuclear Power Plant* (by *Atomstroyexport*) and the electrification of a section of railroad from Tabriz to Azarshahr (an 8.85 million euro project implemented by *Russian Railways*⁴).

Against the backdrop of these sanctions, Iranian companies have shown a tendency to reorient themselves towards collaboration with Russia. However, this opportunity has not been fully exploited by both sides. If the negotiations that resumed in Geneva in 2013 result in more lenient economic sanctions, Russian business will face tough competition on the Iranian market as soon as the country opens up.

2) *Expeditious resolution to the Iranian nuclear problem and cooperation in nuclear non-proliferation*

Since 2006, Moscow has supported four *UN Security Council* resolutions aimed at compelling Iran to fulfil *UN* and *International Atomic Energy Agency (IAEA)* requirements with respect to its nuclear programme. These documents contain a wide range of sanctions against Iran. Moreover, after *UN Security Council* Resolution 1929 from June 9, 2010,⁵ Russian President Dmitry Medvedev in his decree banned deliveries of S-300PMU-1 missile systems to Iran.⁶ Moscow's position on the Iranian nuclear problem (particularly its delay in commissioning the Bushehr Nuclear Power Plant⁷) displeased Tehran. However, Iran is well aware that, as a member of the P5+1 group, which comprises representatives of the five permanent members of the *UN Security Council* plus Germany, Russia has done and is doing everything it can to prevent the *United Nations* from intensifying its sanctions against Iran and to protect Iran's right to a peaceful nuclear programme. Moscow is engaged in similar work at the *IAEA*. Russia did not support the international sanctions that were unilaterally enforced by the United States, the European Union and several other countries. In many respects, these sanctions were more sensitive (if not destructive) for Iran than the *UN* sanctions.

3DAJPERES%26CACHEID%3D6c50d4a9-c43a-4760-aecd-c0aec04db412&ei=gULeUu_WNYLa4ATmlIFQ&usg=AFQjCNFa1QlikcN5dnDsuSi11DBB2dZmPA&bvm=bv.59568121,d.bGE&cad=rjt (in Russian).

⁴ URL: <http://www.vestikavkaza.ru/news/40524.html> (in Russian).

⁵ Russian Presidential Decree No. 1154 "On measures to fulfil UN Security Council Resolution 1929 from June 9, 2010," dated September 22, 2010 / 24.10.2010 // *Rossiyskaya Gazeta*: Russian Presidential Decree URL: <http://www.rg.ru/2010/09/24/res-iran-dok.html> (in Russian).

⁶ The contract for deliveries of five S-300 divisions to Iran was signed either in December 2005 or 2007 (there is no official information). There was no official statement regarding the start of the contract.

⁷ Russia transferred the Bushehr Nuclear Power Plant to Iran for management on September 22, 2013.

The Bushehr Nuclear Power Plant has a long and complicated history. German company *Siemens* started to build it nearly 40 years ago as part of Iranian Shah Mohammad Reza Pahlavi's ambitious plan to create 20 nuclear reactors in the country. The Islamic Revolution of 1979 and subsequent Western sanctions against the Islamic Republic disrupted construction. Before the contract was broken, *Siemens* managed to erect several buildings and deliver a large amount of equipment to Iranian warehouses.

Russia continues to play an active role in resolving Iran's nuclear problem, which is entirely in its own interest; otherwise, other intermediaries might push Russia into the background. This position makes it possible to eventually achieve full compliance with UN and IAEA decisions while also maintaining the necessary level of trust on the part of Iran.

Russia's position has significantly contributed to recent progress in the negotiations on Iran's nuclear programme. Thanks to Russian efforts, the United States and the West are now giving preference to diplomatic methods of settling the Iranian problem, instead of forceful pressure. It is therefore crucial, in our opinion, that Russia stick to its line in the negotiating process on the Iranian nuclear problem. This line has already won praise from participants in the process in Iran, from the P5+1 countries, and from the international community.

3) Cooperation in Central Asian security and development amid the withdrawal of coalition troops from Afghanistan in 2014

Despite counteracting external forces, the situation in Central Asia requires multilateral economic collaboration and greater cooperative ties among the region's leading states (Russia, Iran, India and China) in energy, industry, transport and infrastructure. This is the only way to mitigate the risk of Islamic radicalism and political terrorism in the Greater Middle East. Several experts have confirmed that Iran is interested in the ideas championed by the *Customs Union of Belarus, Kazakhstan and Russia*, and the *Eurasian Economic Union*. Tehran believes that participation in these large-scale projects could have a multiplier effect by expanding Iran's presence in regional trade and intensifying the development of national industry.

4) Cooperation aimed at stabilizing the political situation in North Africa and the Persian Gulf, cooperation in resolving the Syrian crisis

There is much in common between the Russian and Iranian approaches to the events of the Arab Spring. Despite the significant 'Islamic colouring' to many opposition movements in Egypt, Libya and other North African countries, Iran does not unequivocally sup-

The Iran-Iraq War (1980-1988) threw the entire concept of creating the Bushehr Nuclear Power Plant into question. Iraqi missiles and aircraft repeatedly attacked the future Nuclear Power Plant.

Once the war ended, the Iranian leadership revisited the Shah's plan to provide the country with nuclear power. However, neither *Siemens* nor any other Western company would agree to revive the Bushehr Nuclear Power Plant project. Russia saved Iranian nuclear energy.

In August 1992, the Russian and Iranian governments signed an agreement to build a Nuclear Power Plant. Russian specialists proposed building a new Nuclear Power Plant from the ground up at the site's freely available space, instead of restoring the ruins of the 'German Bushehr'. That would take four to five years. However, Iran insisted on reviving the old Bushehr and using all of the German equipment that had been rusting away in warehouses for 20 years.

port such expressions of opposition; in fact, it is very cautious about them. Russian and Iranian interests are particularly similar with regards to the Syrian question; both countries have close ties with the incumbent Syrian leadership. Besides that, Syria is Iran's only serious ally in the region. Both Russia and Iran have actively endorsed a peaceful, political settlement to the Syrian crisis through the Geneva II negotiations.

5) Determination of the status of the Caspian Sea and cooperation in the Caspian region

Russian and Iranian positions and interests both coincide and diverge on a whole number of issues in the Caspian region. Unfortunately, at this time there are more disagreements than agreements. Nevertheless, Russia and Iran share the common goal of solving the problem in the interests of all the Caspian countries and preserving the Caspian Sea's energy and biological resources.

Russia plans to host the *Fourth Caspian Summit* in 2014, the focal point of which will be the signing of a convention on the legal status of the Caspian Sea. Of no less importance are the plan promoted by Turkmenistan to construct the *Trans-Caspian Gas Pipeline* and the preservation of Caspian ecology.⁸ Plans to create the *Caspian Economic Cooperation Organization* and the *CASFOR* regional security system will also be discussed. It should be noted, however, that at this point Caspian cooperation is only a potentiality due to the uncertain status of the Caspian Sea.

In many respects, this greatly inhibits the implementation of infrastructural projects that are part of the International *North–South Transport Corridor*, which for all intents and purposes was stalled in 2004, mostly due to Iran's position.

6) Cooperation aimed at ensuring security and development in Iraq, Afghanistan and Pakistan

Russia and Iran are both interested in preventing the spread of radical Islam and international terrorism in Afghanistan and Pakistan. It is in the interests of both countries for the situation to stabilize in Iraq, Afghanistan and Pakistan on the basis of bilateral and multilateral cooperation. Iran is becoming an increasingly important centre of power in Central Asia, especially in the format of the *Shanghai Cooperation Organization (SCO)*, where Afghanistan and Pakistan have observer status. This situation simplifies the trajectory of Russian–Iranian rapprochement and gives new impetus to joint action in settling the Afghanistan issue.

⁸ URL: <http://www.riss.ru/index.php/my-v-smi/276-sammit-kaspiyskiy-gosudarstv#.UkWVVRdL7o2k> (in Russian).

7) *Solution to problems in the Caucasus*

Russia and Iran cannot help but be alert to the involvement of several Caucasian states in the construction of a bloc system. They rightly fear rising foreign influence in a region in which they historically see themselves as natural leaders. A Russian–Iranian tandem of sorts could presumably stabilize the situation in the Caucasus, an area in which both states are equally interested.

8) *Cooperation in the fight against terrorism, drug trafficking, international crime, the refugee situation, and ethnic and religious tension*

Russian–Iranian relations are not limited to the bilateral format; they are also greatly influenced by a number of external, often decisive, factors.

Russia and Iran have garnered positive experience working together in Afghanistan, Central Asia and the Caspian Sea. In general, the two do not have any serious conflicts or complaints; nevertheless, they have yet to take any steps in the direction of closer cooperation in areas where it is possible – in Central Asia, for example. At the same time, military-technical cooperation is incapable of serving as a solid basis for bilateral ties. And as far as the energy sector is concerned, Russia and Iran are more competitors than they are partners. Therefore, Russia faces the challenge of forging a comprehensive strategy for developing bilateral relations along a variety of lines. Time for reflection is quickly running out.

1. Internal Factors in the Development of Russian–Iranian Relations

1.1. The Factor of the Iranian Nuclear Problem in Bilateral Relations

The decade-long negotiating process dedicated to the Iranian nuclear problem has reached an impasse. From time to time, these negotiations have boiled over into an acute crisis, with threats emanating from Washington and Israel that they are ready to resolve the problem militarily by forcing a regime change in Iran.

There have recently been signs of a positive shift in the stances of confronting parties Iran and the United States, which offers hope that progress will be made in the near future. This opens up a window of opportunity for a phased, mutually beneficial settlement to the Iranian nuclear problem within the next year. The Iranian leadership is aware that the traumatic sanctions imposed by the international community not only inflict substantial harm to the country's economy, but also greatly slow down the implementation

of its nuclear programme. At the same time, the United States needs Tehran's stabilizing role in the region. It is concerned about its growing vulnerability in the Greater Middle East as the coalition forces withdraw from Afghanistan. Washington also seems to have realized that force and coercion will not stop Iran's nuclear programme; on the contrary, they will only encourage Tehran to acquire nuclear weapons as soon as possible.

The tension surrounding Iran's nuclear programme has approached breaking point on several occasions, with a joint United States–Israeli military operation against Iran a distinct possibility. Supreme Leader of the Islamic Republic Ayatollah Ali Khamenei believes that the nuclear programme embodies the key ideas of the revolution: the fight for independence, the challenge to foreign countries in response to unfair pressure, the relentless drive for self-sufficiency, and the Islamic tradition of respect for science. However, under severe economic sanctions, it is of vital importance for Tehran to stabilize its economy against the backdrop of a depreciating national currency and budget deficit if it wants to implement these ideas in practice.

Recently elected Iranian President Hassan Rouhani – with Ayatollah Khamenei's approval – considers his foremost foreign policy priority to be a speedy settlement to the nuclear problem. This gives the administration of U.S. President Barack Obama its long-awaited chance to fulfil Washington's cherished plan of normalizing relations with Tehran, with the goal of consolidating its position in the region. Rouhani has voiced plans to strike an agreement with the P5+1 negotiators on the Iranian nuclear programme within three to six months.⁹ Ayatollah Khamenei has endorsed the Iranian president's efforts to solve the nuclear problem and defended the team of 'nuclear negotiators' from criticism by Iranian radicals.¹⁰ Some changes might possibly have occurred in the Iranian elite that make it more inclined to compromise. However, no one in Iran – not even the Supreme Leader – can call the plan proposed by Iran in negotiations with the P5+1 group a compromise.¹¹ Generally speaking, Tehran does not have much choice: either a political and economic catastrophe or a compromised nuclear programme. Perhaps there is a choice in the price of these compromises. Right now, all the efforts of the opposing sides (Iran and the P5+1; Iran and the *IAEA*) are concentrated on achieving an agreement at the cost of mutual concessions.

⁹ URL: <http://www.rosbalt.ru/main/2013/09/26/1180193.html>; <http://www.tvc.ru/news/show/id/17214> (in Russian).

¹⁰ Speech at a meeting with university and high school students on November 4, 2013 // Khamenei. URL: http://russian.khamenei.ir/index.php?option=com_content&task=view&id=1069 (in Russian).

¹¹ According to unofficial information, the plan proposed by the new team with President Rouhani at the head contains several compromise solutions. However, in order to avoid exciting Iranian society (especially the radicals and anyone who is against offering concessions to opponents), Iran has requested that these proposals remain confidential until a general agreement is reached.

September 27, 2013 marked the first ever telephone conversation between the presidents of the United States and Iran. After the talk, Obama said that he and his Iranian counterpart had “directed their teams to work quickly to pursue an agreement” working together with P5+1.¹²

Obviously, the White House has decided to make a serious attempt to reach a compromise agreement with Tehran on the Iranian nuclear programme. However, Israel and conservative U.S. congressmen and politicians reject the idea of a diplomatic settlement, insisting that Iran completely scrap its nuclear activity and continuing to advocate for greater pressure on the Islamic Republic. Whether Obama will be able to hold U.S. and Israeli naysayers at bay remains to be seen. At least at this stage, he is actively pursuing this line.

Tehran fully understands the difficulty of the situation in which Obama finds himself, and it is in a hurry to strike an agreement to, if not remove, then at least ease the painful economic sanctions, in exchange for certain restrictions on and greater transparency in its nuclear activity.

Both sides have begun to retreat from their hard-line stances, which has had a positive influence on the atmosphere surrounding the years-long dialogue between Iran and the P5+1, including China and Russia, on Iran’s nuclear programme. Although the three rounds of negotiations held in Geneva in October and November 2013 did not yield any breakthroughs, almost all of the delegation leaders hailed the discussions and joint draft roadmap aimed at settling the nuclear problem as extremely encouraging.

On November 24, 2013, the signing of a framework agreement was announced in Geneva. For the first time in the ten-year international dialogue on Iran’s nuclear issue, there was a glimmer of light. According to Vladimir Putin, “the Geneva agreement was reached thanks to the constructive approach taken by the leadership of the P5+1, Iran, and representatives of EU structures, and thanks to the intense work of the negotiating teams”.¹³ According to the agreement, Iran is to stop enriching uranium above 5 per cent, destroy its stockpiles of uranium enriched to 20 per cent, and take other, similar steps in the next six months.¹⁴ If the terms of the negotiating process are followed, one can expect the international sanctions to be lifted. The result will be the return of Iranian companies to Western markets and possibly even the return of the European Union and United States to the Iranian market. In this new international situation, the United States simply cannot get up from the negotiating table. Detente with Iran would allow the United States to strike an optimal foreign policy balance between national in-

¹² URL: <http://www.ekhhokavkaza.com/archive/news/20130928/3235/2759.html?id=25120526> (in Russian).

¹³ URL: http://www.iran.ru/news/analytics/91425/Zheneva_Proryv_v_novuyu_realnost (in Russian).

¹⁴ Ibid.

terests of other countries and its own commitments, without incurring even more fatal destruction in the region.¹⁵

For all the dramatic collisions in the Geneva process, one circumstance seemed to escape the view of observers and experts: Geneva was a quiet but weighty diplomatic victory for Russia. More precisely, it was a victory for the Russian approach to resolving the Iranian nuclear issue, which involves rejecting threats and constant sanctions, particularly ones that bypass the *UN Security Council*. The merits of the problem need to be considered in a pragmatic manner. During the negotiations, Moscow abandoned its now familiar role as passive observer, allowing it to uphold a balanced and strategic position based on support for Iran's legal rights. That inspires optimism.¹⁶

In turn, Iran wants Russia to adhere to its firm stance that the problems with the Iranian nuclear programme be solved exclusively through political means, while acknowledging Iran's right to pursue peaceful nuclear energy development.

1.2. How International Sanctions Affect Iran

According to the *International Monetary Fund (IMF)*, the unilateral economic sanctions against Iran caused the nation's GDP to decline by 1.9 per cent in 2012 and 1.5 per cent in 2013.¹⁷ Iran's consumer price index was 41.2 per cent in 2012 and 35 per cent in 2013.¹⁸ The value of the national currency (the rial) plummeted by over 50 per cent in 2012.¹⁹ Up to 60 per cent of the Iranian population lives below the poverty line, and social stratification is significant. The income of the richest three deciles of the population is 15–16 times higher than that of the poorest three deciles. According to the *Central Bank of the Islamic Republic of Iran*, Iran had 12.3 per cent unemployment in 2012²⁰ (unofficial data put that figure at 19–20 per cent, and among young people – about 40 per cent).²¹

Between March 2012 and March 2013, inflation in Iran was at 30.5 per cent (according to other sources, it was 41 per cent²²), although in March 2012 it reached a mere 21.5 per cent. In that same period, over 6,000 manufacturing plants (roughly 67 per cent of the total) found themselves on the brink of bankruptcy.²³

¹⁵ Ibid.

¹⁶ URL: http://www.iran.ru/news/analytics/91223/Vrunishka_Kerri (in Russian).

¹⁷ International Monetary Fund. World Economic Outlook. Transitions and Tensions. October 2013. P. 75, 158. URL: <https://www.imf.org/external/pubs/ft/weo/2013/02/pdf/text.pdf>

¹⁸ Ibid. P. 163.

¹⁹ URL: <http://lenta.ru/news/2013/03/04/banknotes> (in Russian).

²⁰ Central Bank of the Islamic Republic of Iran. Annual report 2011–2012. P. 18. URL: <http://www.cbi.ir/showitem/10605.aspx>

²¹ Kasaev E.O. Iran: The Economic Situation and Trade Relations with Russia // Middle East Institute. June 24, 2013. URL: <http://www.iimes.ru/?p=17765> (in Russian).

²² Sazhin V. Iran: Rouhani Inherits a Difficult Legacy // Rambler Internet Portal. July 16, 2013. URL: <http://news.rambler.ru/20110904/> (in Russian).

²³ Kozhanov N.A. The Socio-Economic Situation in Iran: May 2013 // Middle East Institute. July 8, 2013. URL: <http://www.iimes.ru/?p=17884> (in Russian).

The situation is exacerbated by the fact that oil production in Iran dropped from 3.8 million barrels per day (bpd) to 2.7 million bpd from January 2012 to March 2013, while exports were down from 2.4 million bpd to 1.3 million bpd. Now exports are at around 1 million bpd.²⁴ In 2013 Iran's oil revenues were expected to be limited to just \$30–\$35 bn – their lowest in ten years,²⁵ which will cause a serious budget deficit for the country. Imports of Western equipment for the oil and gas industry through official channels have been suspended. The national currency has depreciated by three times on the free market. On July 6, 2013, the *Central Bank of the Islamic Republic of Iran* devaluated the rial, resulting in a 102 per cent depreciation against the dollar.²⁶ Because of the oil sanctions, Iran is experiencing yearly a \$35–50 bn shortfall.²⁷

All this show that the unilateral economic sanctions against Iran have become more effective. Iran is completely cut off from the international banking sphere (the SWIFT²⁸ system) and insurance services, particularly in transport and logistics. The country's access to foreign investment, international technology and the international maritime shipment system has also been obstructed.

For the sake of objectivity, it must therefore be acknowledged that the sanctions have indeed worked. The Iranian leadership cannot fail to understand that the country's socio-economic situation put under question the very existence of the regime in its current form.

In this respect, it is highly likely that Ayatollah Khamenei's views on Iran's role and place within the global community have changed somewhat. It is no wonder that a new, relatively reform-minded executive authority has emerged in Iran, and that the Iranian delegation at the nuclear negotiations has been replaced and received a new chief. Clearly, none of this could have occurred without Khamenei's blessing. Some believe that the Ayatollah admonished both President Rouhani and the Foreign Affairs Minister before their September meetings at the General Assembly in New York and prior to Rouhani's telephone conversation with President Obama,²⁹ and that he approved all of Iran's new steps in resolving the nuclear problem.

Judging by the statements coming out of Tehran – and especially from President Rouhani – it seems the Iranian leadership is eager to solve the nuclear problem and thereby rid itself of the heavy burden of *UN* and Western sanctions. Iran's key objective is to free itself

²⁴ A Foreign Trade Guide for Russian Participants in Foreign Economic Activity. Iran. Russian Ministry of Economic Development. Moscow, 2013. P. 5 (in Russian).

²⁵ Clawson P. Talk Is Cheap // Foreign Affairs. New York. September 24, 2013.

²⁶ URL: <http://www.kommersant.ru/doc/2228811> (in Russian).

²⁷ Based on a price of \$95–105 per barrel in recent years.

²⁸ SWIFT (Society for Worldwide Interbank Financial Telecommunications) is an international inter-bank system for transferring information and making payments. For more, see: URL: <http://www.slovarius.ru/253929> (in Russian).

²⁹ ITAR-TASS. September 28, 2013. URL: <http://www.itar-tass.com/c11/894471.html> (in Russian).

of sanctions and transfer the ‘Iranian nuclear dossier’ from the *UN Security Council* back to the *IAEA*, in order to transfer the agency’s control measures to normal working mode.

As George Friedman has pointed out, the negotiations in the P5+1 framework are essentially between the United States and Iran, which have stood at odds for more than 30 years. In this format, the talks make it possible to use a nuclear settlement in the interests of mutual rapprochement, and the United States and Iran could possibly start moving towards a strategic alliance.³⁰ For a start, Rouhani needs to reformulate Iran’s foreign policy while taking the domestic political situation into account. To a degree, this change is already noticeable in the new Iranian president’s soft, constructive rhetoric.

1.3. The Economic Aspect of Russian–Iranian Relations

The ‘Strategic Partnership’ between Russia and Iran

During high-level bilateral consultations in the spring and summer of 1995, Russia and Iran came up with the idea of a **strategic partnership** and outlined mutual priorities in trade and economic cooperation. Those priorities included energy (particularly nuclear energy); oil and gas chains; the accompanying industries of manufacturing, transport and communications, and construction; and the joint use of resources in the Caspian Sea.

In 2007, Russian–Iranian ties were given the chance to transition to a qualitatively different form – a strategic partnership. Iran’s leadership dramatically raised the bar in the negotiating process by proposing consistent and systematic relations with Russia.³¹

The Russian–Iranian agenda contains issues related to nuclear power, energy, the oil and gas industry, metallurgy, biotechnology, medicine, the environment, space, raising efficiency in forestry and fishing, implementing large-scale transport projects, seeking out ways to solve demographic problems, and coordinating action to ensure stability and security. In 2007, Iranian specialists believed it possible to guarantee a hundredfold increase in Russian–Iranian trade to \$200 bn in 2018.³² In August–September 2013, the presidents of the two countries agreed on the need to step up trade and economic ties, which had suffered as a result of the sanctions.

³⁰ Friedman G. The U.S.–Iran Talks: Ideology and Necessity // *Geopolitical Weekly*. November 12, 2013. URL: http://www.stratfor.com/weekly/us-iran-talks-ideology-and-necessity?utm_source=feedlist&utm_medium=email&utm_campaign=20131112&utm_term=Gweekly&utm_content=readmore&elq=40b63773030c4f0296884cb7d97a853a (circulation date: 12.11.2013).

³¹ In an interview with ITAR-TASS and TV channel Russia-1 on October 11, 2007, Mahmoud Ahmadinejad voiced Iran’s readiness to establish “long-term, effective, broad relations” with Russia // *Leadership of the Islamic Republic of Iran: [official website]*. URL: <http://www.president.ir/fa> (circulation date: 12.10.2007) (in Persian).

³² *Leadership of the Islamic Republic of Iran: [official website]*. URL: <http://www.president.ir/fa> 17.10.2007 (in Persian).

Iran has major economic growth potential. It possesses the second-largest gas reserves in the world (the largest according to the *BP Statistical Review of World Energy*, June 2013) and the third-largest gas reserves. At the same time, the country has a unique demography, which will obviously serve as one of the key drivers of economic growth in the future: 70 per cent of the population is under the age of 30; only 4 per cent is over 65; and 31 per cent of students are studying engineering.³³

Tehran sees economic collaboration as a crucial guarantee and indicator of stability in political relations between countries.

On August 15, 2013, the Majles (the Islamic Consultative Assembly of Iran) approved 15 of 18 ministers nominated by the president. In light of the formation of a new government and Rouhani's assurances of a revised foreign policy, it is reasonable to consider the economic ties between Russia and Iran.

Outwardly, everything is very positive and promising. Iran's new president has emphasized the importance of Russian–Iranian relations in the country's foreign policy. "I hope", he stressed, "that the historical ties and cooperation between Iran and Russia will develop. The Russian Federation occupies a special place in Iran's foreign policy, and the new government will give priority attention to it".³⁴

Russian President Vladimir Putin has also been optimistic: "We know how much in global affairs today revolves around the Iranian nuclear problem, but here in Russia we also know something else – that for us, Iran is a kind neighbour, and you can't choose your neighbours. We had, have, and are sure to have a high level of cooperation".³⁵

However, it is no secret that Russian–Iranian economic ties and their development prospects are, for all intents and purposes, in 'sleep mode'. At this point, there are no breakthroughs in sight.

Nevertheless, Russia is extremely interested in developing trade and economic relations with Iran. For Russia, the anticipated **economic effect of exporting Russian industrial goods and services to Iran** consists of the following:

- Influence over the formation of international energy prices. Russia, Iran and Venezuela possess 32.4 per cent of the world's oil reserves and 38.6 per cent of its gas reserves (*BP Statistical Review of World Energy*, June 2013). An economic union of these three nations could impact the formation of strategically important oil prices on a par with the *OPEC* countries.

³³ URL: <http://luckycamper.net/country/iran/vse-o-irane/5883-demografia-irana> (in Russian).

³⁴ Hamshahri, 25.06.2013 (in Persian).

³⁵ REGNUM News Agency. 13.09.2013. URL: <http://www.regnum.ru/news/polit/1707429.html> (in Russian).

- GDP growth and the modernization of domestic industry.
- Growth in non-oil exports, in accordance with the Russian government's plan to boost these exports by two-and-a-half times by 2020, and by seven-and-a-half times by 2030.
 - The creation of new high-paid jobs by 2020, in line with the Russian president's job creation programme.
 - The entry of Russian companies into the Persian Gulf, on the condition that they implement joint infrastructural projects in southern Iran. Ports in the Persian Gulf are highly optimal points from which to export Russian non-oil commodities to Asia, Africa and the Middle East.

Russian–Iranian Nuclear, Energy and Military-Technical Cooperation

Back in the 1960s–1970s, when Iran was still a faithful ally to the United States and a member of the *CENTO* military bloc, Mohammad Reza Shah Pahlavi and the Soviet leadership nevertheless took steps to develop bilateral ties. Prior to the Iranian Revolution, over 60 large facilities were built in Iran with Soviet help, among them the *Esfahan Steel Company*, a machine-building factory in Arak, the Ramin and Shahid Montazeri thermal power plants, a hydroelectric power plant on the Araks River and the trans-Iranian Gachsaran–Astara gas pipeline.

The USSR and Iran also established military cooperation. In the 15 years preceding the Iranian Revolution – from 1964 to 1979 – hundreds of Soviet military specialists worked on the ground in Iran, and over 500 Iranian officers were educated in the USSR. The USSR provided Iran with machinery for ground forces, engineering corps and artillery, including BMP-1, BTR-60 and BTR-50PK armoured personnel carriers; the ZSU-57, ZSU-23–4 V, V1 Shilka, and PZRK Strela-1M missile systems; 137-mm M-46 and 130-mm cannons; MAZ vehicles; armoured vehicle-launched bridges; mine rollers; and much more.

In Esfahan and Shiraz, the USSR helped build and open factories to repair Soviet military equipment and weaponry, featuring Soviet specialists from the original manufacturers. The enormous Babak factory complex was erected in the outskirts of Tehran to perform capital repairs of artillery equipment, armoured vehicles and other machinery, with technical assistance provided by the Soviets. This complex boasted modern workshops and laboratories, a testing ground for tracked and wheeled vehicles, and an artillery firing range. Iran became one of Russia's foremost economic and military-technical partners in the Middle East.³⁶

³⁶ Sazhin V. Which Iran is Beneficial for Russia? // *Vermiya Novostei*. Moscow, March 5, 2010. No. 37 (in Russian).

Russia and Iran signed a treaty setting the groundwork for relations and principles of cooperation in 2001.³⁷ On the basis of this treaty, Iran and Russia engaged in broad interaction in the oil and gas, electricity, space, aviation, transport, retail and banking industries, and in nuclear energy and ecology, agriculture, forestry and fishing, metallurgy and construction.³⁸

Russian companies *Gazprom*, *Sroytransgaz*, *Tatneft*, and *Tech-nopromexport*, among others, took part in joint projects with Iran. Russia, Iran and India signed agreements on the avoidance of double taxation, air transport, and the *International North-South Transport Corridor*. In 2004, a protocol was signed to synchronize the Russian, Iranian and Azerbaijani power networks, and those three countries also initiated a trilateral consortium to build the Qazvin–Rasht–Anzali–Astara railroad line (located in Iran before connecting with the Transcaucasus Railway).

The oil, gas and petrochemical industry is the backbone of the Iranian economy and the primary source of its budget. This industry has been developed on the basis of European and American equipment and technology since the 1950s; 95 per cent of the enterprises in the sector were built on technology manufactured by international giants *Lurgi*, *UOP*, *Linde*, *Kellogg*, etc. However, as Western companies can no longer officially cooperate with their Iranian partners, this leaves the market wide open for Russian enterprises and their only competitor – Chinese business.

Prior to 2012, Iranian oil, gas and petrochemical companies did not consider Russian producers as suppliers of equipment and technology. The situation changed after another package of sanctions was introduced and Western companies were prohibited from cooperating with Iran in the oil, gas, petrochemical, and related fields, including producing and supplying equipment, transporting oil and petrochemical products, and engaging in insurance and banking activities. As a result, leading Iranian companies have become interested in mutually beneficial cooperation, the joint implementation of industrial projects with Russia, equipment supply and technological solutions. A similar situation is unfolding in all of Iran's economic sectors: oil and gas, engineering, agriculture, mining, metallurgy, energy, transport and pharmaceuticals.

Prior to the sanctions, Russia and Iran had a fruitful partnership in nuclear energy³⁹ and space.⁴⁰ Unfortunately, cooperation in these industries is now at a standstill.

³⁷ URL: http://www.mid.ru/BDOMP/spd_md.nsf/0/F758C75BECC151C044257C6A003E9CD2

³⁸ URL: http://www.businesspravo.ru/Docum/DocumShow_DocumID_78300.html

³⁹ For more, see: Sarukhanyan S.P. *The Nuclear Factor in Russian–Iranian Relations*. Moscow, 2007 (in Russian).

⁴⁰ Yevseev V.V. *The Military and Political Aspects of the Iranian Nuclear Problem*. Moscow, 2010. P. 122 (in Russian).

Trade and Economic Relations

The *Iran–Russia Joint Economic Commission* works out in detail agreements reached in negotiations on collaboration in various economic sectors. The commission has brought about a substantial development of ties between the Russian Federation’s constituent entities and Iranian provinces, as well as between cities in these two countries. With time, such relations could become a significant factor in bilateral trade and economic cooperation.

Russia became the leading supplier of technology and equipment to Iran in the 1990s; it was responsible for 60 per cent of Iran’s imports of these items. Russia provided Iran with MiG-29 and Su-24MK⁴¹ fighter jets, S-200VE anti-aircraft missile systems, three Kilo-class diesel-electric submarines, and a variety of other equipment, including armoured vehicles.⁴² This cooperation has been reduced to almost zero in recent years, although new opportunities are opening up.⁴³

The sanctions imposed against the Iranian financial and banking spheres have negatively impacted trade and economic cooperation between Russia and Iran. According to the Ministry of Foreign Affairs of the Russian Federation, trade between the two countries dropped by almost 40 per cent year-on-year to \$2.33 bn in 2012, while Russian exports slumped 45 per cent to \$1.9 bn.⁴⁴ Whereas Iran invested \$2.5 m in Russia in 2012, Russia invested just \$2,800 in Iran.⁴⁵

The United States and the European Union ban on business relations with Iranian banks has complicated investment cooperation with Iran. In fact, the ban has compelled several Russian companies to reconsider their plans on the Iranian market. For example, in 2010 *Lukoil* suspended its work at the *Azar* and *Shangule* oil deposits and passed the baton to *Gazpromneft*. However, for similar reasons, *Gazpromneft* also ceased its work on the project in the second half of 2011.

Because payments cannot be made through blacklisted Iranian banks, many Russian exporters have come up against problems receiving payment for deliveries to Iran. In response, Iran and Russia have initiated talks on creating a joint bank to perform transactions in the national currency.

⁴¹ URL: <http://www.sukhoi.org/planes/military/su24mk/history>

⁴² For more, see: *Russian Military-Technical Cooperation with Foreign States: Foundations, Problems and Prospects* / Ed. N.I. Kalinina. Moscow: Institute of World Economy and International Relations of the Russian Academy of Sciences, 2010. P. 172–176 (in Russian).

⁴³ Sazhin V. *Russia and Iran Open up New Opportunities for Military-Technical Cooperation* // *Voice of Russia Radio* [website]. October 23, 2013. URL: http://rus.ru/rv/2013_10_23/RF-i-Iran-otkrili-novye-vozmozhnosti-dlja-voenno-tehnicheskogo-sotrudnichestva-5109 (in Russian).

⁴⁴ URL: http://www.iran.ru/news/economics/89844/Ushakov_Tovarooborot_Rossii_i_Irana_sokratilsya_v_2012_godu_iz_za_sankciy_ES_i_SShA_na_37_9 (in Russian).

⁴⁵ Information on trade and economic cooperation between Russia and Iran. URL: http://www.economy.gov.ru/wps/wcm/connect/6c50d4a9-c43a-4760-aecd-c0aec04db412/%D0%A2%D0%AD%D0%A1_2013-15-18_%D0%98%D1%80%D0%B0%D0%BD-%D0%A0%D0%BE%D1%81%D1%81%D0%B8%D1%8F.doc?MOD=AJPERES&CACHEID=6c50d4a9-c43a-4760-aecd-c0aec04db412 (in Russian).

Problems have also arisen in military cooperation, particularly with respect to supplies of S-300 missile systems to Iran. Iran reacted sharply by filing a lawsuit at the International Court of Justice when, because of toughened sanctions that banned weapon sales to Iran, Russian weapons deliveries were suspended.

Russian–Iranian trade is restricted to a limited range of goods. Russia exports to Iran iron, cars, equipment, transport, lumber, and pulp and paper products to Iran. It imports food, certain types of mined products, chemicals (concentrates of nonferrous metals, items made of synthetic fibres) and engineered products (Samand and Peugeot-206 cars, certain electrical products).⁴⁶

Russian–Iranian trade dynamics in 2007–2011, million dollars⁴⁷

| Year | 2007 | 2008 | 2009 | 2010 | 2011 |
|----------------|------|------|------|------|------|
| Exports | 2958 | 3335 | 2766 | 3359 | 3272 |
| Imports | 349 | 401 | 212 | 272 | 342 |
| Trade turnover | 3307 | 3736 | 2978 | 3631 | 3614 |

The *Russian–Iranian Business Council*, the *Iran–Russia Joint Economic Commission*, and the *Forum on Economic and Industrial Cooperation* are actively engaged in bilateral relations. The two countries host exchanges of delegations involving ministers of economy, department leaders and businesspeople, and they organize a variety of exhibitions. Regardless of these efforts, trade has taken a substantial blow in the last year.

As the table clearly shows, annual trade averaged \$3.1 bn from 2007 to 2011 (it fell to \$2.9 bn in crisis-hit 2009), then it declined to \$2.33 bn in 2012 – 38 per cent lower than in 2011.⁴⁸ The problem is not a lack of desire to develop bilateral ties between Moscow and Tehran, which are so clearly developing at far below their potential. The potential for trade and economic cooperation is massive, but the Iranian financial and economic crisis brought about by international sanctions has slashed demand for imports and questioned the country's export capabilities.

Today, Iran's Russian partners are in no hurry to bring investment and projects to the country. Iran has turned into a no-man's land that is unattractive for business and threatens the international reputation of those who choose to do business there. According to expert opinion, the foreign and domestic policies of former President

⁴⁶ Kasaev E.O. Iran: The Economic Situation and Trade Relations with Russia // Middle East Institute. June 24, 2013. URL: <http://www.iimes.ru/?p=17765> (in Russian).

⁴⁷ Source: IMF Direction of Trade Statistics Yearbook 2012.

⁴⁸ Ministry of Economic Development of the Russian Federation // Integrated Foreign Economic Information Portal: URL: http://www.ved.gov.ru/exportcountries/ir/ir_ru_relations/ir_ru_trade (in Russian).

Mahmoud Ahmadinejad (his tenure ended in August 2013) have had lasting consequences.

Opportunities for Russia in Iran

Russia has virtually no strong competitive capabilities on the Iranian market, and that narrows the list of goods and services that it can offer to the country (see above). Moreover, all services are rendered by state-owned companies or large businesses. Accordingly, it is only state-owned companies and these same big businesses that can serve as Russia's partners in this segment in Iran. At this point, Russian small and medium businesses are in no condition to occupy a prominent place in Iranian–Russian business collaboration.

In our analysis of the aforementioned areas of Russian-Iranian cooperation,⁴⁹ it should be noted that exports of **weapons** and **military equipment** (including spare parts and maintenance) are undoubtedly the most effective and most advantageous way for Russia to enhance its position on the Iranian market. The more so as Iran, despite its policy of economic self-sufficiency, is in dire need of modern weapons. Besides that, the Russian (Soviet) military equipment upon which the Iranian armed forces are built appears to need repair or modernization. However, business contacts on this topic can only be resumed if the sanctions envisaged by Resolution 1929 and the aforementioned Russian presidential decree are cancelled.

Nuclear energy is an area that holds promise for cooperation, and Russia is interested in this segment of the Iranian market. However, Russia is not alone; Japan has also confirmed, through the deputy press officer of its Ministry of Foreign Affairs, its willingness to work with Iran to build a Nuclear Power Plant.⁵⁰

Therefore, a competitive struggle for the Iranian market, particularly in nuclear energy, will undoubtedly flare up once the sanctions are eased or removed. However, at present, when tense negotiations are under way on Iran's nuclear problem and when the country is under harsh sanctions, it would be reckless to engage in nuclear energy projects (even if they are peaceful). Such a manoeuvre would negatively affect the talks, especially the atmosphere within the P5+1 as it negotiates with Iran.

Still, the recently signed protocol from the *Iran–Russia Joint Economic Commission's* 10th meeting opens the door for future joint work in nuclear energy. Now is the time to lay the foundations for

⁴⁹ The following information on prospective areas of Russian–Iranian trade and economic cooperation is based on materials from the Ministry of Economic Development of the Russian Federation // Integrated Foreign Economic Information Portal. URL: <http://www.ved.gov.ru/eng>

⁵⁰ "If Iran so desires, we are willing to offer Iran assistance in the construction of a nuclear power plant, if Tehran's nuclear problem is solved and the concerns associated with it are removed" // Vesti Kavkaza [website]. November 11, 2013. URL: <http://www.vestikavkaza.ru/news/YAponiya-gotova-pomoch-Iranu-v-stroitelstve-AES.html> (in Russian).

future competitive endeavours, while Iran is still under pressure from sanctions. But now is not the time to attack, figuratively speaking.

Under the banner of '**nuclear cooperation**', in addition to energy, Russia is also willing to provide Iran with isotopes and equipment for nuclear applications in medicine.

With respect to **energy**, Russian companies can participate in Iranian energy projects, such as the construction of new – and the modernization of existing – generating capacities. They can also take part in tenders for supplies of power equipment and technology, especially tools for automating production processes.

In the **oil and gas** industry, Russia should focus on developing Iranian oil and gas fields with the use of advanced, international-standard Russian technologies. Iran might seriously be interested in methods for enhancing oil recovery and rehabilitating oilfields, service contracts for well drilling and maintenance, and supplies of Russian equipment for the Iranian oil, gas and petrochemical industry.

There is much potential for joint work in the **gas** sector, where Iran is lobbying for the establishment of a gas equivalent of *OPEC*. Iran has proposed the *PEACE (Pipeline Extending from Asian Countries to Europe)* project, which would involve creating a network of gas pipelines connecting Iran, countries in the Persian Gulf and Central Asia, Turkey, Europe and India. Experts estimate that it could take two years to create this network, which would unite 70 per cent of the world's gas reserves.

At the beginning of 2012, *Gazprom* was invited to help lay the Iran–Pakistan gas pipeline, which is scheduled for implementation by the end of 2014.⁵¹ *Zarubezhneft* is already at work in Iraq, Algeria, Cuba and Vietnam, and according to a memorandum signed with *National Iranian Oil Company* in April 2013, it will also jointly develop the Khayyam section at the *Asaluyeh Gas Field* in Iran's Bushehr Province.⁵²

As Iran's first liquefied natural gas (LNG) project, *Iran LNG* is one of the most attractive investment projects, and it should cause a substantial shake-up on the Middle Eastern LNG market (Qatar is currently the undisputed leader). The project has only been half implemented, and is now stalled due to a lack of financing resulting from international sanctions and Iran's inability to import equipment.

Major bilateral projects include: plans by *OJSC Power Machines* to rebuild the *Ramin Thermal Power Plant*; deliveries of equipment to transfer gas from the *South Pars Field* by *United Engine Corporation*; deliveries of pump equipment by *HMS Group*; and the construction of underground gas storage and transport facilities by

⁵¹ URL: <http://www.voprosik.net/gazprom-idet-v-pakistan-s-iranskim-gazom> (in Russian).

⁵² URL: <http://www.pronedra.ru/gas/2013/09/13/iran-zarubezhneft> (in Russian).

Stroynovatsiya. Projects to build transport corridors through Azerbaijan and Armenia to Iran are also being considered.

Iran became the world's tenth space power on February 2, 2009. If Tehran is willing to cooperate in **space exploration** at an international level, this could become an important component of the country's participation in the process of Eurasian economic integration.

Russia has good chances of broadening bilateral ties in **metallurgy**, geological exploration, metal ore deposit development, the construction of industrial ore processing and beneficiation facilities, and smelting – predominantly of steel and copper. Tehran has said that Russia is free to promote its goods and service on the Iranian market.

Iran has expressed particular interest in Russian **products and technologies** in the following economic sectors:

- equipment for oil and gas production; technologies to raise well flow rates; geological exploration; transportation;
- oil refining; large and small oil refineries; equipment for oil and gas production;
- chemical products and technologies; chemical equipment; engineering polymers;
- new materials; laser technologies;
- metals processing; special grades of metal; scrap metals; coke;
- power equipment;
- telecommunications; IT; instrument engineering;
- shipbuilding; ship repairs;
- transport; aircraft engineering;
- grain, barley, sunflower oil;
- timber; furniture; paper.⁵³

In their push to develop **trade, economic, and cultural** relations, Russia and Iran have started working on a permanent exhibition of Russian goods and services in Tehran. The exhibition has a strong practical focus and will be provided with widespread, constant advertising and marketing services in Iran.⁵⁴

The **iron and steel industry** could potentially offer Russian companies approximately \$1 bn worth of contracts, while the non-ferrous metal industry could offer around \$700–800 m.⁵⁵

The Iranian leadership's plans to develop the **extractive industries** will necessitate imports of special machinery for extracting and transporting ore and working in mines. The Iranian government

⁵³ Materials from the business forum Doing Business in Iran, October 21, 2013 // IRIB World Service. URL: <http://russian.ibr.ir/analitika/reportazh/item/189943> (in Russian).

⁵⁴ Permanent exhibition of Russian and CIS exporters in Iran // IRIB World Service. 03.02.2013. URL: <http://russian.ibr.ir/analitika/stati/item/165674> (in Russian).

⁵⁵ A Foreign Trade Guide for Russian Participants in Foreign Economic Activity. Iran. Ministry of Economic Development of the Russian Federation. Moscow, 2013. P. 13–14 (in Russian).

will also procure road-building equipment, excavators, graders and other machinery. All of the equipment Iran needs is manufactured by Russian machine-building companies – *Machinery & Industrial Group N.V.*, *GAZ Group*, *Uralmash-Izhora Group (OMZ)*, *UralVagonZavod* and mining equipment producers.⁵⁶

Transport in Iran is another area of potential interest to Russia. Russia could supply transport machinery, take part in shipments, and help create and modernize the transport infrastructure.

Iran may be a valuable a foreign policy partner to Russia in the south, but it does not share any common borders with it. However, it does have borders with *CIS* states – Armenia, Azerbaijan and Turkmenistan – and it lies in close proximity to the North Caucasus. Therefore, by virtue of its strategic geographical location, as well as its economic and military potential, Iran is poised to have significant sway over events in the region. Neither Iran nor Russia can go it alone in large-scale continental geo-economic projects – projects upon which the future of central-Eurasian integration depends. This is happening amid a general actualization of the geopolitical relevance of two continental powers – Russia and Iran – in the 21st century. It is entirely possible that Eurasian land routes could gain a second wind in this century.

On the one hand, all of the landlocked Caspian states have an objective interest in building as many alternative transport corridors as possible. On the other hand, the *SCO* countries (China, Russia, etc.) expect to see strengthened regional integration on their domestic markets and growth in domestic traffic in the medium term. Transport accessibility in these countries and their involvement in overall transport cooperation must be optimized if new regions and centres of potential natural resource development are to experience economic growth. Under these conditions, a proactive expansion in the geography and range of transport services should stimulate rapid economic growth on a high-tech and innovative basis in areas associated with international and regional transport corridors. In this context, it is clear why Iran is interested in international projects with both geopolitical and geo-economic content, such as the *International North-South Transport Corridor*, *PEACE* and others.

An important aspect of cooperation in transport is the activation of shipments via the *International North-South Transport Corridor*. In the railway sector, the key projects are: the construction of the Rasht–Astara railroad; the laying of the Rasht–Bandar-e Anzali, Rasht–Sari and Parsabad–Ardabil highways; and the electrification of the Tehran–Mashhad and Garmsar–Gorgan railway lines.

⁵⁶ Ibid. P. 14.

Bilateral collaboration will also expand as Russia delivers main-line and shunting locomotives, rail carriages and other railway machinery to Iran.

There are high hopes for cooperation in the use of vehicle transport. Russian companies are currently in a position to compete in a substantial segment of the market, primarily in commercial vehicles. In 2011, Iran launched a government programme to replace its outdated fleet of freight vehicles, whereby over 150,000 vehicles that are 35 years or older will be substituted out.

Market demand for buses and minibuses – particularly in connection with the state programme to arrange passenger transport with rural settlements – tops 10,000 vehicles a year. Approximately 7,000 buses of various classes have been produced in Iran. At the same time, it is worth noting that due to the complications arising with spare parts supplies from Iran's Western European partners, production has dropped by almost 40 per cent this year.⁵⁷

Therefore, Iran's commercial vehicle market is quite capacious, and Russian manufacturers – *KAMAZ* and the *GAZ Group*, for example – could potentially find a niche there.⁵⁸ Russian vehicle assembly on Iranian territory is a possibility.

Civil aviation is another sector that has potential for Russian–Iranian cooperation, although Iran tends to be oriented towards the West in this area. Iran has plans to update its aircraft inventory, is going to use liners that are less than 20 years old. Iran Air and private air carriers including *Mahan Air*, *Iran Aseman Airlines* and *Kish Air* are slated to acquire about 100 new airliners from abroad, and technical maintenance and repairs for these new aircraft must be guaranteed. The Iranians generally give preference to aircraft produced in the West, but the international economic sanctions place a serious constraint on Iran's ability to acquire, maintain and repair the vehicles. This circumstance gives Russia a major opportunity to supply passenger airliners to Iran, as well as to offer maintenance and repair services. Iran already possesses a large number of Russian Mi-8 and Mi-17 helicopters,⁵⁹ so cooperation in civil aviation is not out of the question.

Russia and Iran have confirmed their commitment to ramping up cooperation in **the peaceful use of outer space**. Orbital satellite communications infrastructure and satellite broadcasting of national television channels could be points of mutual interest, as could launching and bringing communications spacecraft and repeaters to geostationary orbit.

⁵⁷ URL: http://www.ved.gov.ru/exportcountries/ir/about_ir/eco_ir (in Russian).

⁵⁸ A Foreign Trade Guide for Russian Participants in Foreign Economic Activity. Iran. Ministry of Economic Development of the Russian Federation. Moscow, 2013. P. 15 (in Russian).

⁵⁹ Ibid. P. 16.

At its own initiative, Iran has proposed that Russia consider prospective areas of partnership aimed at deepening cooperation in **communications, telecommunications and information technology**. These possible areas include managing computer crashes, analysing malware, reacting to cyber incidents and addressing vulnerabilities in cyberspace. Russia and Iran will exchange technical knowledge, transition to open source software, create cyber security laboratories, and offer courses and specialized master classes on informatics and computer malfunctions. They will also partner up in international tenders held in Russia and Iran, assist private Russian and Iranian companies in jointly implementing projects involving information and communication technology, and enhance collaboration between *Islamic Republic of Iran Broadcasting* and Russian radio and TV broadcasting companies in accordance with the cooperation agreement from June 16, 2002.

The groundwork has also been established for collaboration in **agricultural production**, particularly imports of Russian food and fodder wheat, barley, corn, soy, soybean meal and other mixed fodder for animals, as well as poultry, sugar, crude sunflower oil and dry milk. In turn, large Russian hypermarket chains are interested in buying Iranian vegetables.

It should be acknowledged that the vast majority of these projects also lie within the circle of interests of state-owned and large companies from both countries. From Russia, that includes *Rosatom, Gazprom, Gazpromneft, Lukoil, Zarubezhneft, Tatneft, Stroytransgaz*,⁶⁰ *Russian Railways, KAMAZ* and *GAZ*. From Iran, there are the *Atomic Energy Organization of Iran (AEOI), National Iranian Oil Company (NIOC), Islamic Republic of Iran Railways (RAI), Government Trading Corporation of Iran (GTC), Iran Air*, and financial and industrial groups controlled by the Army of the Guardians of the Islamic Revolution, including the *Khatam al-Anbia* engineering corporation, *Bahman Group, National Construction Company, Defence Industries Organization, Bank Sepah, Bank Saderat*, the official *Mercedes-Benz* dealer in Iran and *Payam Air*. Foundations, particularly the *Foundation of the Oppressed and Disabled (Mostazafan Foundation of Islamic Revolution)*⁶¹, are an important financial pillar of the Army of the Guardians of the Islamic Revolution.

Economic projects are also being rolled out by Iran's industry-based ministries. Among them are the Ministry of Petroleum (the current minister is Bijan Namdar Zanganeh), the Ministry of Economic Affairs and Finance (Ali Tayebnia), the Ministry of Energy (Hamid

⁶⁰ December 15, 2011. Russian Energy Agency: URL: <http://www.rosenergo.gov.ru/upload/000016a.pdf> (in Russian).

⁶¹ Kozhanov N.A. The Army of the Guardians of the Islamic Revolution and the Iranian Economy // Middle East Institute [website] July 28, 2009. URL: <http://www.iimes.ru/?p=9063> (in Russian).

Chitchian), the Ministry of Industries and Mines (Mohammadreza Nematzadeh), the Ministry of Roads and Transportation (Abbas Ahundi), the Ministry of Communications and Information Technology (Mahmoud Vaezi), the Ministry of Agriculture (Mahmoud Hojjati) and the Ministry of Defence and Armed Forces Logistics (Hossein Dehghan).⁶²

In these conditions, small and medium Russian businesses are not yet in a position to gain a significant foothold in the financial and economic segment of big business in Iran.

Trade and Economic Ties between the Russian Regions and Iran

Trade and economic ties are proving to be more successful at the regional (cross border) level. Iran's key regional trading partners in Russia are the Astrakhan, Chelyabinsk, Yekaterinburg, Orenburg, Kemerovo and Volgograd regions, the Altai Territory, the city of Moscow and the Republic of Tatarstan. The Saratov and Rostov regions, the Krasnodar Territory, and the Chuvash Republic are expressing increasing interest in establishing and widening trade and economic relations with particular Iranian provinces.

Economic interaction is becoming more effective, as are direct contacts between representatives of regional business structures and the involvement of small and medium businesses in foreign economic activity. Of particular note is the Astrakhan Region's work in the North Caspian Iranian provinces of Gilan, Mazandaran and Golestan.⁶³

Iranian businesspeople are also active on the ground in Russia. More than 150 Iranian enterprises are currently registered and operating in the Astrakhan region. Trade turnover between the Astrakhan region and Iran reached \$233 m in 2011, with Iran responsible for 25.8 per cent of the region's foreign trade. The key items for export are lumber, metal and grain, while imports include foodstuffs, dried fruit and processed products.⁶⁴

Iranian business is willing to invest in agriculture to cultivate the vegetable products that the country needs on vacant farmland. In this way, the Astrakhan region's choice of format for collaborating with Iranian regions is proving its efficacy.⁶⁵

⁶² Cabinet // RIA Novosti. August 13, 2013. URL: <http://ria.ru/world/20130813/956022211.html#ixzz2khylYpNq> (in Russian).

⁶³ Analytical Overview of the Current State and Development Prospects of Trade and Economic Relations between the Constituent Entities of the Russian Federation and Iran // Russian Ministry of Economic Development. URL: http://www.ved.gov.ru/exportcountries/ir/ir_ru_relations/ir_ru_trade/ir_ru_trade_subjcts (in Russian).

⁶⁴ Russian-Iranian Business Council. URL: <http://www.ribc-tpprf.ru/news/astrahan-vorota-v-iran> (in Russian).

⁶⁵ Analytical Overview of the Current State and Development Prospects of Trade and Economic Relations between the Constituent Entities of the Russian Federation and Iran // Russian Ministry of Economic Development. URL: http://www.ved.gov.ru/exportcountries/ir/ir_ru_relations/ir_ru_trade/ir_ru_trade_subjcts (in Russian).

Obstacles to Economic Cooperation

In today's global context, the majority of Russian industrial products are less popular in comparison with their Western counterparts on international markets. However, given its inability to produce equipment domestically or import it from the West, Iran is ready to turn to Russia to meet its equipment needs. This gives Russia a chance like never before to enter the Iranian market and give a boost to economic growth through trade expansion into Iran. Unfortunately, Russia is not taking advantage of this opportunity. The main obstacles standing in the way of effective economic cooperation are as follows:

- Russia's participation in international sanctions;
- an incomplete picture of mutual opportunities, especially for the Russian and Iranian private sectors;
- bureaucracy and weak corporate structures;
- the premium that companies and nations place on cooperation with Europe and the West (as the preferred option);
- the lack of systematic interaction between banking and insurance structures;
- the lack of fundamental agreements ensuring financial and insurance activity;
- the extremely low level of humanitarian ties;
- the low level of tourist exchanges.

One of the most important factors currently influencing the dynamic of Russian–Iranian relations is the sanctions imposed by the *UN Security Council* and unilaterally by the United States, the European Union and a number of other countries.

In most cases, the sanctions against Iran do not directly affect Russia's interests in that country, with the exception of the measures implemented as part of Resolution 1929 that restrict military-technical cooperation with Iran, and the banking sanctions that complicate financial settlements with the country. However, the sanctions objectively create an atmosphere in Iran that is not conducive to business development. Russian companies, especially those associated with international business and therefore affected by the international (primarily American) sanctions, are naturally not willing to scrap their beneficial ties with Western partners in exchange for an unclear future in Iran. *Lukoil*, which has a large business in the United States, has opted out of fostering business ties with Iran, despite promising developments in the oil sector. Additionally, many companies in Russia – even those without operations on the global market – are afraid of spoiling their image by association with Iran.

Russia's 'cool' approach to business in Iran can also be attributed to the latter's complex legal system. Iranian laws and various

bylaws – for example, the 2002 Foreign Investment Promotion and Protection Act – place substantial limits on foreign businesspeople. While changes made to the law in 2008 eased up several restrictions on the forms of foreign capital participation, the maximum share of foreign participation in joint ventures and the timeframes for profit repatriation, the Iranian investment system continues to run in buy-back form, which does not allow foreign capital to freely dispose of income.⁶⁶

In 2012, the Iranian government took measures to save money by temporarily suspending the registration of import transactions. As a result of these measures imports of several goods, including vehicles and computers, were restricted. In total, the list of banned imports contained 75 items, ranging from wristwatches, household appliances and mobile phones to coffee and toilet paper. However, the ban did not apply to imports of individual parts needed to manufacture products on the list.⁶⁷

It is not particularly easy to do business in Iran. According to the *World Bank*, Iran's *Protecting Investors rank* was 147 in 2013. For comparison, New Zealand was ranked number 1, the United States number 6, Russia number 115 and Afghanistan number 189. According to the *Investor Protection Index*, Iran scored 3.7, compared to 9.7 for New Zealand, 8.3 for the United States, 4.7 for Russia, and 1.0 for Afghanistan.⁶⁸ Another obstacle to doing business is the opaqueness of the Iranian government and society, and particularly business. Difficulties in obtaining information complicate the process of garnering a proper understanding of the situation in any particular business area.

Iran's bureaucratized decision-making also stands in the way of doing business. Governmental authority is founded on the concept of *velayat-e faqih* – continuity in the rule of the Imams, which is one of the cornerstones of Shi'ism. Imam Khomeini elaborated the theoretical foundations of this rule and enshrined it in Iran's constitution.⁶⁹ *Velayat-e faqih* is a type of socio-political order in which a leading Islamic jurist (*faqih*) manages the affairs of the *Ummah* (the community in Islam). In the Iranian constitution, only the 'just *faqih*' has the right to occupy the highest government post and take its title – *rahbar* (Supreme Leader). In modern Iran, he has full powers – spiritual, administrative, political and military. The Iranian *rahbar* (as

⁶⁶ Analytical review of the status and prospects of trade and economic relations of the Russian Federation with Iran. URL: http://www.ved.gov.ru/exportcountries/ir/ir_ru_relations/ir_ru_trade/ir_ru_trade_subj-ects (in Russian).

⁶⁷ A Foreign Trade Guide for Russian Participants in Foreign Economic Activity. Iran. Ministry of Economic Development of the Russian Federation. Moscow: 2013. P. 22 (in Russian).

⁶⁸ Doing Business // World Bank. URL: <http://www.doingbusiness.org/data/exploreconomies/iran>

⁶⁹ Sazhin V.I. Iranian President Ahmadinejad – Portrait in the Political Interior // Middle East Institute. June 6, 2007. URL: <http://www.iimes.ru/?p=5843> (in Russian).

the ‘just *faqih*’) is the holder of the *velayat-e* (power) and acts as the spiritual leader of the Iranian Shi’ites. At the same time, he is the political leader of the government and the Commander in Head of the Armed Forces.⁷⁰

Such a management structure implies a multilayer bureaucratic system, which often makes the overwhelming majority of bureaucracy (especially at the lower and middle levels) practically non-functional. This generates corruption.

Corruption (with all its differences from the Western models) certainly complicates the establishment and development of Russian–Iranian business relations.⁷¹ Iran has acknowledged the presence of corruption, but it encounters no appreciable resistance from either society or the authorities. However, in January 2013, Speaker of the Parliament of Iran Ali Larijani recognized the country’s need for a special organization to fight economic corruption. “Major instances of economic corruption are often connected with some authorities”, Larijani said.⁷²

Private business aspirations in Iran are frustrated by Russia’s ignorance of how corruption works there, as well as the particularities of Iranian Shi’ite reality, which is governed by Sharia law. The main issue is a lack of understanding of the Iranian mentality and the specificity of Iranian life, both of which are shaped by strict Sharia rules. It is important to understand the relations between men and women, Iranians and foreigners.

Iranian Shi’ites often follow the principle of *taqiyya* (caution) when communicating with outsiders. This allows a Shia Muslim to – in case of danger, including threats to business interests – conceal his or her true belief and even claim to be a Sunni. *Taqiyya* can also apply to political views and motives.⁷³ *Taqiyya* serves as the moral basis for deception during negotiations and in business relations as a whole.⁷⁴ For this reason, in order to do business in Iran, one must first thoroughly study and explore the country’s many laws, rules

⁷⁰ Yurtaev V.I. The Features and Implementation of the Foreign Policy of the Islamic Republic of Iran (1979–2010). Moscow: PFUR, 2012. P. 62–66.

⁷¹ In the 2012 Corruption Perceptions Index (CPI), Iran and Russia scored 28 points each and shared (together with Comoros, Honduras and Kazakhstan) 133rd position out of 176. The CPI for 2012 ranks 176 countries on a scale of 0 to 100, with 0 meaning the highest level of corruption perception, and 100 meaning the lowest // Transparency International Russia. December 5, 2012. URL: <http://www.transparency.org.ru/indeks-vospriiatia-korruptcii/rossia-v-indekse-vospriiatia-korruptcii-2012-novaya-tochka-otscheta> (in Russian).

⁷² Iran needs an organization to fight corruption – Speaker of the Iranian Parliament // Vesti Kavkaza. January 7, 2013. URL: <http://www.vestikavkaza.ru/news/Iranu-trebuetsya-organizatsiya-po-borbe-s-korruptsiei-spiker-parlamenta-IRI.html> (in Russian).

⁷³ Ignatenko A. War of the Deceivers // NG-Religii. May 19, 2010. URL: http://www.ng.ru/ng_religii/2010-05-19/6_cheaters.html (in Russian).

⁷⁴ In the Quran, Allah is referred to as the ‘greatest deceiver of all’: “But they were deceptive, and Allah was deceptive, for Allah is the best of deceivers” (3:47); “the greatest of the plotters”. “And [remember, O Muhammad], when those who disbelieved plotted against you to restrain you or kill you or evict you. But they plan, and Allah plans. And Allah is the best of planners.” (8:30) “My scheme is strong.” (7:182) “Indeed, my plan is firm.” (68:45) “Surely they will make a scheme. And I too will make a scheme.” (86:15–16). “The

and norms. While they may not seem alien to non-Iranians, these norms can in any case seem strange and unclear.⁷⁵

There are other elements in Iranian society that complicate Russian–Iranian cooperation. Despite the potent anti-West propaganda in Iran, pro-Western sentiment is on the rise. Iran generally has a neutral stance towards Russia, although Russia’s image was tarnished during Ahmadinejad’s rule (2005–2013). Iranian dissidents and critics of the Ayatollah’s regime have accused Moscow of supporting Ahmadinejad and of being unwilling to pressure the regime to undergo liberalization.⁷⁶

On the other side of the political spectrum, defenders of the Iranian regime accuse Russia of aiding and abetting ‘American imperialism’ and ‘global Zionism’ and their anti-Iranian activity, as well as of colluding with the West to undermine Iran. Moscow’s decision not to provide Iran with ZRK S-300s and to leave the Bushehr Nuclear Power Plant unfinished resulted in sharper anti-Russian rhetoric in Tehran.⁷⁷ However, Iran insisted at one time that Moscow had committed to finishing the Nuclear Power Plant in 52 months instead of the required 69.⁷⁸

Iran’s generally unfavourable domestic atmosphere is not conducive to deeper trade and economic ties with Russia, especially since Iranian large and medium businesses are oriented towards the West, while small businesses are focused on the domestic market, or the traditional markets of Turkey, Afghanistan and other neighbouring countries. However, as mentioned above, the potential is there for Russia to develop business in Iran, especially at the regional level.

Iranian businesspeople have a poor understanding of the situation in Russia, particularly with regard to the particularities of Russian corruption and the rules of doing business in Russia.

It is clear that most of the negative factors impacting the development of Russian business in Iran are objective. They include Iran’s governmental, political and ideological structure; Islamic foreign and domestic policy; the national psychology; and Iran’s national manners and customs. Russia must foster an understanding of Iranian

hypocrites try to deceive Allah but He, in fact, deceives them.” (4:141) “All plotting is Allah’s.” (13:42) For more, see: Ignatenko A. War of the Schemers // HG-Religii. May 19, 2010. URL: http://www.ng.ru/ng_religii/2010-05-19/6_cheaters.html (in Russian).

⁷⁵ For example, it is unacceptable to even hint at or mention alcohol during negotiations.

⁷⁶ Dunaeva E.V. Russian–Iranian Relations: The View from Tehran / Middle Eastern Institute. April 29, 2010. URL: <http://www.iimes.ru/?p=10554> (in Russian); Interview with residents of Tehran conducted by V.I. Sazhin from June 5 to 15, 2009 (in Russian).

⁷⁷ Dunaeva Elena. Russo–Iranian Political Relations in the First Decade of the Twenty-First Century // Iranian Studies. Special Issue: Power Interplay between Iran and Russia from the Mid-Seventeenth to the Early Twenty-First Century. Volume 46, Issue 3, 2013; Dunaeva E.V. Russian–Iranian Relations at a Modern Stage / Iran under Ahmadinejad. Moscow, 2013. P. 91, 102 (in Russian). Interview with residents of Tehran conducted by V. Sazhin from June 5 to 15, 2009.

⁷⁸ Vremya Novostei. URL: <http://www.vremya.ru/print/7400.html> (in Russian).

cultural and religious norms and use this knowledge in business negotiations and relations with the Iranian business community.

The Competitive Struggle for Iran

If new President Hassan Rouhani solves Tehran's central issue of the nuclear problem, it will no doubt serve as a green light for many foreign companies, firms and businesspeople to come to Iran. It is important for Russia to be at the forefront, while keeping in mind the laws on competition and the free market. Obviously, the competitive struggle between Russia, the European Union, Japan, China and certainly the United States will escalate in Iran after the sanctions are softened or cancelled. How can Russia win (or at least not be the loser) in the fight for Iran?

Russia currently lacks the material and financial means to undertake a competitive struggle on the Iranian market on an equal footing with its powerful rivals. Therefore, it needs to take advantage of the current blockade situation in and around Iran. After all, this situation could change to Moscow's detriment at any time.

The rise of what experts refer to as the 'liberal reformers' in the Iranian government sets the stage for an increase in pro-American and generally pro-Western sentiment in the country. This happened under President Khatami, and it is now happening under President Rouhani. A substantial portion of the Iranian population is traditionally oriented towards the West. According to a poll conducted in September–October 2013, around 80–90 per cent of Iranians consider it necessary to restore relations with the United States.⁷⁹

European observers pointed out heightened activity on the part of American companies (*General Motors, Boeing, etc.*) in Iran prior to the onset of the 'thaw' on the diplomatic front. They sent their emissaries there and affirmed that Ayatollah Khamenei had given the go-ahead for direct contacts with representatives of the Great Satan (as the United States is derogatorily called in Iran). According to those affirmations, a group of high-ranking officials from the Army of the Guardians of the Islamic Revolution was instructed to make a list of prospective American companies with which to cooperate.⁸⁰

The tendency towards a U.S.–Iranian rapprochement, marked by Obama's and Rouhani's efforts, could possibly lead to a gradual restoration in the entire complex of relations between the United States and Iran in the foreseeable future. That is an inconvenient situation for Moscow, to put it mildly.

⁷⁹ See: URL: <http://www.rosbalt.ru/main/2013/10/31/1194516.html> (in Russian).

⁸⁰ Diplomats redraw their Iran plans // Armenia Today. URL: http://www.armtoday.info/default.asp?Lang=_Ru&NewsID=97744&SectionID=-1&PagePosition=1&search=%D0%BD%D0%B5%D1%84%D1%82%D1%8C&mode=allwords (circulation date: 05.10.2013) (in Russian).

2. External Factors in the Development of Russian–Iranian Relations

2.1. The Influence of the Arab Spring and the Syrian Crisis on Russian–Iranian Relations

As has already been mentioned, Russia and Iran largely share an approach to the events of the Arab Spring in the Middle East. The Iranian government did not support the opposition movements in Egypt, Libya or Tunisia mostly because they were driven by external forces that were antagonistic to Iran. Indeed, the Islamist opposition was mostly represented by Sunnis hostile to Shi'ite's Iran. Russia and Iran are especially close in their stance towards Syria, both actively supporting a peaceful, political resolution of the conflict.

Western support for the Arab awakening was perceived by Russia and Iran as an attempt to weaken their influence in the region. From the beginning of the Arab Spring, Iran's political leadership assumed that the events were orchestrated (if they were orchestrated at all) in a bid to 'reshape' the geopolitical map of the Arab Middle East towards a drastic weakening of Iran's role in the region. Simultaneously, they also served to definitively oust Russia from the Eastern Mediterranean and complicate hydrocarbon supplies from Russia (or with Russia's help) to Western European markets to the greatest extent possible.

Iran's authorities clearly understood the long-term goals of the West's policies: to oust Russia from the Arab Middle East; to demonstrate the geopolitical 'insolvency' of Russia, both inside and outside the region; to weaken Iran with the prospect of a drastic transformation of its political system; and to restore Western dominance in the region from Casablanca to Islamabad. In this context, the Islamic Republic of Iran moved to a rapprochement with Russia, regardless of the fact that the relations of the two countries have been historically overshadowed by a backlog of outstanding issues: the approach to the sanctions regime against Iran, sluggish bilateral foreign economic ties, tensions in military and defence cooperation and nuclear issues.

Russia and Iran were also unanimous in their concerns about the unfolding situation. This brought the positions of the two governments closer as far as the assessment of the situation, the methods of restoring public order in the Eastern Mediterranean, and the understanding of the need to respect the unity and territorial integrity of all states in the region were concerned. As the lack of a long-term strategy of the United States and the West in the region became obvious, Iran, without making any evident military moves, gradually emerged as the new regional leader. The escalating domestic prob-

lems in Egypt, Turkey and Saudi Arabia prompted Russia to take a closer interest in Iran. The following circumstances served as driving factors that precipitated Iran's rise to regional prominence:

a) the failed operation by the United States and Great Britain in Iraq, which demonstrably strengthened Tehran's position in the region;

b) political revolution in Egypt, which caused the country to temporarily surrender its status as the Arab world leader and undermined the position of Saudi Arabia following Hosni Mubarak's resignation;

c) the Syrian crisis which, among other things, brought the functional weakness of Iran's major opponents – Turkey and Saudi Arabia – into the spotlight;

d) the adamant stance maintained by two of the *UN Security Council's* permanent members – Russia and China – which effectively worked to block the attempts of the West to recover its geopolitical hegemony in the region, and simultaneously gave Iran an opportunity to indirectly weaken the positions of its traditional rivals in the Middle East and Eastern Mediterranean;

e) the absence of a clearly defined position on Syria in general and Bashar Assad's regime, demonstrated in particular by the highest-standing political elites in Israel, who were wary of escalating the internal conflict to extreme levels – a move that could mean involving Israel's peaceful population in the hostilities.

In general, by saving Syria from a military intervention, Russia and Iran de-facto became strategic allies in the region. The strategic partnership of the two countries seems natural, but the bilateral relations demonstrate deficit of mutual trust, and cooperation is increasingly constrained by limitations associated with the international sanctions against Iran. The leaders of the two countries are faced with the choice of either maintaining parallel positions on key international security issues in the region, or creating a joint long-term platform for comprehensive strategic interaction.

In September 2013, President of the Islamic Republic of Iran Hassan Rouhani suggested to President Vladimir Putin to hold more active “consultations between our countries on regional matters, especially given the sensitive situation in the Middle East”.⁸¹

2.2. Afghanistan, Pakistan and ‘the 2014 factor’: The Influence on Russian–Iranian Relations

The planned withdrawal of troops from Afghanistan in 2014 may become a driving factor for the popularity of radical Islamist movements – not only in Afghanistan itself, but also in Pakistan, which

⁸¹ URL: <http://www.newsru.com/world/13sep2013/ruhani.html> (in Russian). to President Vladimir Putin

Washington still views as the key element of reconciliation in Afghanistan.

Will the Taliban be able to overcome *Afghan National Security Forces (ANSF)* and seize the nation's key centres, specifically, Kabul and Kandahar? Probably not. Meanwhile, the *ANSF* are equally unlikely to oust the Taliban from the country's eastern, southern and south-eastern provinces, where it commands the strongest positions. In such a situation, a political compromise between the parties appears to be inevitable.

Specifically, the compromise is set to embrace the Taliban's legalization as a political party or a movement well positioned to build up its influence. This hardly justifies the human and financial costs borne by the West, which tend to increase further given continued support for the current regime in Kabul. For the United States, such a compromise would mean failure of traditional democratic values. The decision echoes the 'Vietnam Syndrome' of the Nixon administration. Now, the United States is facing a dual task:

1) to put an end to any anti-Western terrorist activity emanating from Afghanistan;

2) to prevent the country from descending into chaos that will inevitably ensue after 2014 so that it does not spill over to Pakistan, the domestic stability of which is of great concern to Russia, Iran, Central Asian nations and a very important strategic ally of the United States – Saudi Arabia.

At this point, Pakistan is locked in a struggle against radical political Islamists to little effect. It has to be made clear that a breakdown of Pakistan as a state will inevitably result in the 'nuclearization' of Al-Qaeda and related groups. It appears that it is beyond the powers of the United States to prevent such a downfall. The U.S. political establishment understands that increased instability in Afghanistan poses a real threat to the civilian government of Pakistan and an immediate danger for U.S. interests in the entire Middle East region.

The United States cannot hope to muster the support of Pakistan in negotiating a settlement for Afghanistan. With a total population of 193–195 million people, much of Pakistan's territory is beyond the control of the central government. Neither the authorities, nor society have a clear understanding of the strategy and tactics of the war on terror in the country. Non-involvement of the army in the recent parliamentary elections suggests that the military elite lacks ideas, resources and capabilities.

Since October 2009, armed groups have regularly been invading Iran from Pakistan. Therefore, regional security issues stemming from the situation in Afghanistan and Pakistan call for cooperation, both in preventive diplomacy and in the military and technical

sphere. Apart from bilateral efforts, the situation requires multilateral cooperation in this vast region involving not only Russia and Iran, but also China and India. Interaction should be encouraged in the energy sector, and in industrial and transport infrastructure, and cooperation ties should be restored. This is the only way to protect Greater Central Asia against the threat of Islamist radicalism and political terrorism. It would seem that the region's nations (and not just Russia and Iran) should take multilateral efforts using following political maxim: "Peace through joint development and the strengthening of cooperation ties in various spheres."

Iran has been growing in significance as an important centre of power in Central Asia, and also an increasingly active participant of the *Shanghai Cooperation Organization*, where it is represented as an observer nation along with Afghanistan and Pakistan. A possible future accession to the *SCO* as a full member could foster further rapprochement between Russia and Iran and open up new prospects of joint actions in the settlement of the Afghan issue.

Heroin brought in from Afghanistan kills thousands of Russians every year. A number of terrorist organizations operating in the North Caucasus have their militants trained in Afghan camps. The Russian Federation is certainly interested in installing a strong government in Afghanistan. If history is anything to go by, close cooperation between Russia and Iran – a nation close to Afghanistan geographically, religiously, culturally and linguistically – appears to be a more reasonable way to resolve sensitive issues.

2.3. Prospects for Russian–Iranian Cooperation in the Caspian Sea

We should also mention the Caspian Sea, where the positions and interests of Russia and Iran both converge and diverge on a whole number of issues. Admittedly, there are more differences than there are common approaches on the matter for the time being. Basically, the converging views are limited to the parties' consent to abide by the main provisions of the Soviet–Iranian accords of 1921 and 1940. Specifically, the provisions stipulate for joint control over the Caspian Sea and freedom to navigate it for all riparian states, as well as for preventing armed third parties from establishing their presence in the Caspian Sea region. The parties also agree that divisions of any nature of the Caspian Sea territorial waters or seabed resources must be minimal and should not infringe upon the rights and sovereignty of the riparian states.

Meanwhile, Russia and Iran are split on specific issues of the legal status of the Caspian Sea, and the distribution of its seabed and territorial waters. Specifically, Iran disputes the legitimacy of the agreements between Russia, Azerbaijan and Kazakhstan on the delimita-

tion of the Caspian seabed based on the median line principle, which would put its claim at less than 20 per cent. In turn, Iran suggests dividing the sea into national zones under the sovereignty of the respective states, and ensuring freedom of navigation and consistent fishing regulations. Russia opposes the division of the Caspian Sea into national zones, territorial waters and fishing areas, arguing that the 1982 *United Nations Convention on the Law of the Sea* does not apply to the Caspian Sea, which is a unique marine body of water. Nevertheless, despite the differences, Russia and Iran share the urge to resolve the issue in the best interests of all riparian states, while preserving energy and biological resources of the Caspian Sea.

2.4. China's Regional Policy as an External Factor

There are several serious reasons fuelling China's interest in the developments in the Eastern Mediterranean and the Middle East.

Firstly, the region is China's main oil and gas provider, hence Beijing's interest in making the energy supply route from the Persian Gulf as safe as possible. The Chinese government has been taking preventive measures to avoid transit via the precarious Strait of Malacca route. The measures include building transport and energy infrastructures in Pakistan, Bangladesh and Sri Lanka.

Secondly, in the past 20 years China has evolved into Iran's second largest trade partner.⁸² The share of oil supplies from the Middle East, and from Iran in particular, has been rising consistently in Chinese imports. Therefore, China is highly interested in the region's stability, which is reflected in its foreign policy strategy. In the 2000s, Iran began extending the rights to develop its oil reserves to China and India and encouraging investment in its oil industry. On the Iranian market, Chinese companies are mainly engaged in oil and gas production; oil refining; the power sector; the construction of subways, dams and cement plants; the metal industry; and shipbuilding. Clearly, China has emerged as an important partner for the Iranian economy, the main importer of its energy resources and a key investor in projects and infrastructure facilities.

In addition, China and Iran hold similar views on the structure of contemporary international relations and key global development issues. China shares Iran's aversion to any manifestations of hegemonism and power politics, and both are convinced of the need to maintain a multipolar world order, territorial integrity and sovereignty of particular states.

China has taken a very consistent stance on the Iranian nuclear issue: while Iran's development of a nuclear weapon is unaccepta-

⁸² URL: http://www.pircenter.org/kosdata/page_doc/p1893_1.pdf (in Russian).

ble, sanctions and stand-offs will hardly bring any positive results. Therefore, the only way to resolve the nuclear issue is at the negotiating table, which brings China and Russia close on the matter.

In the 1990s, China officially supported the development of Iran's nuclear power industry. Later on, it was pressured by the United States to back off on comprehensive cooperation with Iran in this sphere. Nevertheless, should Iran succeed in asserting its right to the peaceful atom, cooperation with China may be resumed. In this event, Russia will be up against China in competing for the right to cooperate with Iran in the nuclear power industry.

From Iran's perspective, further development of ties with China means additional support from one of the leaders of the contemporary world order, and also economy-wise, a prospect of raising large-scale investment. In view of the imminent easing of international sanctions, the matter of investment gains particular importance. Meanwhile, as far as Russian business is concerned, China will no doubt become one its main competitors for the Iranian market as soon as the Islamic Republic of Iran 'opens up'.

Third, without declaring it explicitly, the Chinese authorities are indeed interested in stronger and more diversified positions in the Middle East. Beijing understands quite clearly that Syria will recover sooner or later, and China could be in a position to claim natural leadership of the region. Having essentially emerged as the world's only 'economic superpower', China wields not only sufficient physical resources, but also the hands-on experience and skilled labour required to implement such large-scale projects. In this context, assistance from and partnership with Syria's chief ally, Iran, could tip the scales in China's favour.

Fourth, while developing relations with other nations in the region, China is making a point of staying as politically correct as possible towards Iran, Saudi Arabia and smaller Persian Gulf nations. This desire to avoid extreme decisions (a characteristic feature of all Chinese diplomacy in the region), maintain good relations with all states (without taking sides) is officially described in Beijing as 'diversification' of foreign economic and political ties. Obviously, the policy has already benefited China politically.

Therefore, the Chinese factor is currently gaining significance in the region. While China is acting in concert with Russia in helping to ease the sanctions regime and avoid resolving the Iranian nuclear issue by force, it certainly possesses more powerful economic resources compared to Russia, which puts it in a position to claim a considerable part of the Iranian market as soon as international sanctions are lifted. Therefore, there is little chance of avoiding competition between Russia and China on the Iranian market.

Recommendations

The main question regarding the development of bilateral Russian–Iranian relations is the extent and the level of rapprochement between the two countries. Given the positive aspects mentioned above, it is also necessary to highlight the possible ramifications of transforming the natural and necessary partnership between Russia and Iran into a strategic alliance. This aspect has already been addressed by some political figures and scientists both in Tehran and Moscow.⁸³ However, how far can and should rapprochement go between Russia and Islamist Iran without affecting Russia’s interests? How do we act to keep Russia in dialogue with western Eurasian states while maintaining intense partnership with the Islamic Republic of Iran – a partnership that is, no doubt, mutually rewarding?

1. In all likelihood, a pragmatic approach needs to be taken with regard to relations with Iran. And this approach should be based on a self-reliant, independent policy on the Iranian agenda, and the development of mutually beneficial trade, economic, scientific, military-technical and cultural ties.

2. At the same time, however, concerns linked to Iran’s current military doctrine should be duly considered. The doctrine declares the unity of religion, ideology and politics, as well as the imperative for an Islamic regime to “export the ideas of Islamic revolution”⁸⁴ to other countries and provide support to Islamic movements all over the world. According to Imam Khomeini’s teachings, religion, ideology and politics are one. In this context, purely Shia beliefs naturally translate into political views. Therefore, when establishing the ties that Russian needs with Shi’ite-majority Iran, the religious, moral, ethical and psychological aspects should be kept in mind. Ideology-driven Shi’ite policies may well serve Tehran as a tool for using Russia’s interest in Iran to achieve goals incongruous with Russia’s national interests.

3. Proceeding from this, it would be reasonable to define Russian–Iranian relations in the short-term as a ‘cautious partnership’. Greater confidence indispensable for a strategic partnership and profound alliance between the countries can only be built by mutual effort.

4. When a compromise is reached, and sanctions against Iran are lifted or at least eased, Russia needs to restore its somewhat shattered trade and economic ties with the country, and do everything to make sure they continue to develop. Russia is facing certain limitations regarding its competitive opportunities on the Iranian mar-

⁸³ Dunaeva E.V. Iran and Russia in contemporary geopolitics // *Oriens*. No. 4. Moscow, 2012. P. 75–76 (in Russian).

⁸⁴ Sazhin V.I. The Nuclear missile potential of the Islamic Republic of Iran. Current state and prospects. Moscow, 2011. P. 17–19 (in Russian).

ket, with the exception of weapons and military equipment, equipment for the nuclear, oil and power generation industries, railway projects and space exploration. It is precisely these spheres that should become the focus of all diplomatic, organizational and communication efforts in the next few (one to four) years.

It would also be reasonable to draw on the experience of Russia's large-scale cooperation programmes with China and India, which have already yielded positive results, and work out a similar large-scale programme of trade and economic cooperation with Iran. To this effect, the following steps need to be taken:

a) Draw up an inventory of memorandums, declarations and treaties signed in the past few years and pending implementation in order to step up action on the most promising ones.⁸⁵ The agreements include the Protocol of the Ninth session of the *Iran–Russia Joint Economic Commission* signed on February 12, 2013 by head of the Russian contingency of the commission Minister of Energy of the Russian Federation Alexander Novak and head of the Iranian contingency Minister of Foreign Affairs of the Islamic Republic of Iran Ali Ahbar Salehi. The documents give effect to agreements reached by the parties to foster and intensify cooperation on energy, the peaceful atom, finance, banking and insurance, manufacturing, standardization and metrology, trade and customs, transportation, space, telecommunications, agriculture and water management, environment, education, science and technology, healthcare, social welfare, and tourism, as well as partnerships between various regions of the two countries.

b) Within one year, draft and sign documents that set forth a legal framework to enable prompt implementation of the projects already approved as soon as the sanctions are eased or lifted (where such projects are prohibited by the sanctions regime).

c) Establish, as soon as possible, reliable ties at all levels (or create conditions for their prompt establishment once the sanctions

⁸⁵ The Russian–Iranian energy cooperation roadmap was adopted in July 2010 in a bid to outline further cooperation of bilateral Russian–Iranian ties and areas of joint investment for the next 30 years. It provides for the exchange of technical know-how and technology, as well as for sharing experience in such spheres as oil and gas production, hydrocarbon processing, offshore prospecting and research at oil and gas wells, etc.

- Protocol of the Iran–Russia Joint Economic Commission, November 2009;
- Memorandum of Intentions to Develop Long-Term Trade, Economic, Industrial, Research and Technical Cooperation of the Iran–Russia Joint Economic Commission, December 2007;
- Agreement on Cooperation in the Tourism Sector, December 2007;
- Treaty on Foundations of Relations and Principles of Cooperation between the Russian Federation and the Islamic Republic of Iran, March 2001;
- Agreement on Cooperation in Science and Technology, September 1999;
- Agreement on Trade and Economic Cooperation, April 2007;
- Agreement on Cooperation in the Fishing Industry, May 1996;
- Agreement on Cooperation in the Construction of a Nuclear Power Plant in Iran, August 1992;
- Protocol on Amendments to the Agreement on Cooperation in the Construction of a Nuclear Power Plant in Iran, dated August 25, 1992;
- Agreement on International Road Transport, August 1992.

are lifted) with Iranian governmental organizations and major companies mentioned above.

d) Intensify and broaden the efforts of shaping Russia's image in Iran (including on the state level) to offset the negative sentiment of a part of Iran's expert community and public towards Russia in order to create a favourable environment for the development of political and economic ties in the future.

e) Proactive trade and economic expansion (including brand-driven advertising campaigns) into the Iranian market is required in the short term, one that offers goods that the United States and Western Europe have not **yet** been able to supply for political reasons, or will not be able **to offer in time** before the sanctions are lifted. New logistic routes need to be considered in view of the opportunities opening up with the formation of the *BRICS* (Brazil, Russia, India, China and South Africa) and renewal of trade ties with western countries.

f) Within one year, create a powerful impetus to foster closer ties between Russia's constituent entities and Iran's *ostans* (provinces). The contacts are already being successfully promoted in a number of regions and, most importantly, involve small and medium-sized businesses of on both sides. The Astrakhan Region has already been cited as an example.

g) Authorize one of Russia's state-owned banks with an authorized capital of no less than \$5 bn to handle direct payments and issue letters of credit under existing projects and projects conditional upon direct payments. At this point, no major Russian banks work with Iran.

h) Create an independent entity bringing together professional experts on Iran, engineers and commercial managers. Such an organization, working in conjunction with the *Trade Mission of the Russian Federation in Iran and the Chamber of Commerce and Industry of the Russian Federation*, and boasting higher mobility compared to public institutions, will be well positioned to conduct marketing operations, negotiate with potential customers in Iran and contact Russian manufacturers directly, while providing full-scale project maintenance and ensuring project confidentiality.

i) Establish a group of international professional traders to handle, in cooperation with the abovementioned organization, bartering, oil, gas and petroleum product supplies as security for extended loans and swap deals with entities in the Asia Pacific. The *National Iranian Oil Company* is prepared to launch such operations immediately provided that Russia can be represented by an organization with the required competencies. For instance, China made a commitment to deliver engineering goods, including subway rolling stock, to Iran as payment for the oil it imported in the 3rd quarter of 2013.

j) Authorize *Eximbank of Russia* to finance exports of manufacturing products and turnkey industrial projects carried out by Russian companies in Iran. At this point, the only advantage of the Chinese competitors is the fact that the Chinese government finances 70 per cent of projects implemented by Chinese companies in Iran through the *Export-Import Bank of China*.

k) Expedite the implementation of the project for a second reactor unit of the Bushehr Nuclear Power Plant, encourage large Russian companies to return to the Iranian market.

Russian–Iranian economic relations will not move to the next level unless the full range of the above measures is implemented in a concerted effort by Russia and Iran. This is not merely a question of stability of trade and economic relations, since a high level of financial, economic and commercial ties engenders confidence, helps bridge political differences and facilitates mutual understanding in spite of ideological barriers.

5. In the medium term, it would be advisable to expand cooperation with Tehran within the framework of the *SCO*. The move would not only serve Iran's interests in terms of security and the economic benefit it would reap from joining a regional cooperation association, but it also accords with the interests of the *SCO* itself given Iran's role, influence, economic and potential, especially in the sphere of energy, and its advantageous strategic and geographical location.

6. The possible future accession of Iran to the *Customs Union of Belarus, Kazakhstan and Russia* should not be ruled out. Iran, following in India's steps, has showed interest in the union. The possible accession could help expand the limits of this important regional structure.

7. In the short term (one year), it is necessary to prepare and hold a specialized roundtable meeting on the areas of partnership between Russia and Iran to be attended by representatives of the two governments (Ministries of Foreign Affairs and other key ministries, members of the business and expert communities) in a bid to develop a new agenda for the development of bilateral relations.

The above discussion clearly shows the diversity of the tasks Russia is facing in Iran. However, the solutions should not be limited to the steady advancement of ties with the current Iranian regime. It is highly advisable that the expansion of relations between Russia and Iran be coupled with efforts to preclude Iran from switching to cooperation with the West, which would be detrimental for Russia. At the same time, it is necessary to prevent any kind of situation that would force Iran to realize its potential as a 'threshold nuclear state', which it has effectively become.

Meanwhile, diplomatic efforts alone are not enough to overcome a crisis in bilateral relations. To bring Russian–Iranian relations to a systemic level, the entire array of political, economic and cultural instruments must be used. It appears that the main objective is to prevent the possible restoration of Iran’s relations with the United States and the West from damaging Russian–Iranian relations and cooperation. Naturally, much will depend on whether the normalization of relations with western countries will be sufficient to satisfy Iran’s developmental needs as the region’s largest power. However, under any scenario, Russia and Iran should be guided by the imperative need to maintain at least the existing level of cooperation, with its further improvement as the ultimate goal.

It is quite obvious that inaction on the ‘Iranian front’ will cause Russia to lose the competitive struggle for Iran to Western Europe and the United States, and eventually be ousted from this important regional power. As a result, Russia will fall out from political and economic processes in the Middle East and lose its influence in the region.

Scenarios

We should perhaps start looking now at scenarios that are based on status and technology-driven cooperation, rather than geopolitical projects – that is, scenarios that rely on an effective dialogue with the outer world in the context of regional integration – a determining factor of global development in the 21st century.

Strategic Scenario No. 1. Dialogue and constructive conflict-free partnership

Russia–Iran relations continue and deepen in the face of increasing uncertainty and unpredictability in the globalizing world. There is joint participation in the implementation of high-profile Eurasian technology, infrastructure and commercial projects. A broad programme of trade and economic cooperation between Russia and Iran. Gradual progression toward a trust-based privileged partnership. Common interests in the sphere of security in the Greater Middle East. Cooperation within the framework of the *SCO*, the *Eurasian Union* and other organizations.

Strategic Scenario No. 2. Promoting Russia’s interests by developing relations with Iran

Russia and Iran establish a pragmatic partnership based on common trade and economic interests. However, policies based on dissimilar values preclude further rapprochement. Russia builds the *Eurasian Union*, Iran builds the *Pax Islamica* in Southwest Asia.

Once the structures are in place, the parties reach the limit of friendly cooperation, and competition – even the threat of confrontation – arises.

Strategic Scenario No. 3. Maintaining the status quo in Russian–Iranian relations

The nature of the relations and the scope of key outstanding issues remains virtually unchanged. Cooperation on a case-by-case basis. A cautious partnership. Possible outcomes: growing problems of a military-political and civilizational nature. Withdrawal of Russia from the South.

Inaction on the 'Iranian front' leads to a failure in the competitive struggle with Western Europe and the United States for Iran, the ousting of Russia from Iran, and consequently from the Middle East altogether.

Strategic Scenario No. 4. Cold war

Russia and Iran fail to find any common ground. U.S. involvement and the ensuing establishment of a new regional stability and international cooperation system. The Caspian region is exposed to power politics around the implementation of projects related to energy supply from the region and the construction of trans-Eurasian trunk lines. A drastic decline in the level of cooperation. Cautious neighbour relations. Forced partnership.

V.Y. Novikov

THE SITUATION SURROUNDING THE IRANIAN NUCLEAR PROGRAMME AND THE PROSPECTS FOR RESOLUTION

For the purposes of a more accurate analysis of the prospects for resolving the situation around Iran's nuclear programme, it is first necessary to examine its origins. In doing so, we have to consider two factors:

First. The current state of the nuclear programme of the Islamic Republic of Iran stems from the implementation of a programme adopted in the 1970s, under the shah's rule.

Second. Up until now, Iranian scientists and engineers trained (for the most part) abroad before the Islamic Revolution have been making considerable contributions to the implementation of the programme.

The Iranian Nuclear Programme under Mohammed Reza Shah Pahlavi

It should be stressed that, since the launch of the nuclear programme, Iran's leadership has been trying to achieve maximum self-sufficiency in the nuclear sphere by importing the relevant technology. Initially, the goal was not to develop nuclear weapons, because there was no direct external threat to the shah's regime. Nevertheless, after India tested its 'peaceful nuclear explosive device' in 1974, the country's leadership became seriously concerned with the scientific and technical prerequisites for developing a nuclear weapon, which implied that Iran possessed uranium enrichment and spent nuclear fuel (SNF) reprocessing technology. Iran put considerable effort into acquiring the necessary technology, including training the required personnel abroad, importing technologies, buying into the France-based uranium enrichment enterprise *Eurodif*, and participating in research and development projects run by leading nuclear states.

To make the case for nuclear facilities, Iran adopted a large-scale nuclear programme envisaging the construction of 20 nuclear power units: initially with the help of foreign suppliers, but with the share of equipment produced by Iranian companies set to increase gradually. Furthermore, Iran's leadership expected that the development of nuclear power engineering would help boost the overall technological level of the country.

Meanwhile, as early as the second half of the 1970s, Iranian specialists concluded (although the opinion was never officially announced) that for a number of reasons the approved nuclear programme was impossible to implement in full, and Iran scaled down the number of nuclear power plants. It should be noted, however, that the reductions did not affect any plans for sensitive nuclear facilities, i.e. the so-called 'concept of full fuel cycle energy' survived in the adjusted nuclear programme of Iran. It is hardly a coincidence that in 1976, the budget of the *Atomic Energy Organization of Iran* went up from \$31 m to \$1 bn.⁸⁶ Recently declassified U.S. documents indicate that highest-ranking U.S. officials were seriously concerned with Iran's intention to become a nuclear state.⁸⁷

According to available information, the Iranian government was at the time striving to obtain the engineering capacity and production facilities that would allow it to develop a nuclear explosive device within 18 months in case of a threatening military strategic situation.

The Iranian Nuclear Programme after the Islamic Revolution

Immediately after the Islamic Revolution of Iran, the new leadership all but halted the implementation of the nuclear programme, prompting most nuclear specialists to leave the country. The war with Iraq (which, incidentally, was conducting a nuclear programme of its own at an accelerated pace) waged for almost a decade. This, coupled with Iraq's defeat in Operation Desert Storm, served as the main factor that made Iran reconsider its nuclear policies. As a result, the focus shifted again to obtaining sensitive nuclear technology, which was accompanied by secret acquisitions of uranium enrichment technology and the retrieval of nuclear specialists from abroad. The nuclear tests conducted by India and Pakistan in 1998 served as yet another argument for obtaining the relevant research and technology infrastructure.

Iran's Secret Nuclear Programme and Attempts to Resolve the Crisis

It is precisely these factors that had a decisive impact on the implementation of a secret programme to acquire the scientific and technological prerequisites for the development of nuclear weapons (carried out up until 2003 at the very least). Once the international

⁸⁶ Rowberry A. Sixty Years of 'Atom for Peace' and Iran's Nuclear Program. URL: <http://www.brookings.edu/blogs/up-front/posts/2013/12/18-sixty-years-atoms-peace-iran-nuclear-program-rowberry>

⁸⁷ U.S.—Iran Nuclear Negotiations in 1970s Featured Shah's Nationalism and U.S. Weapons Worries. Ed. W. Burr. January 15, 2009. URL: <http://www.webcache.googleusercontent.com/search?q=cache:G9CgH9FI7AoJ:www2.gwu.edu/~nsarchiv/nukevault/ebb268/+&cd=1&hl=ru&ct=clnk&gl=ru>

community was alerted to the programme and received evidence of the existence of a nuclear black market created by the brains behind the Pakistani nuclear bomb, Abdul Qadeer Khan,⁸⁸ the situation around Iran's nuclear programme became one of the main determinants of global politics.

It should be noted that, up until Mahmoud Ahmadinejad's victory in presidential elections, resolution of the resulting crisis was still a possibility. Throughout 2004, for example, Iran was involved in intense negotiations with the European 'troika' (Great Britain, France and Germany) that was urging Tehran to suspend its uranium enrichment activities at a nuclear facility in Natanz and the production of uranium hexafluoride in Esfahan. These efforts eventually resulted in Iran's agreement to 'voluntarily' declare a ban on uranium enrichment in exchange for a package deal including (among other things) the settlement of the Iranian nuclear profile issue with the *IAEA*. Official representatives of Iran, however, stressed that the moratorium that was expected to be imposed in late November was conditional upon the performance of the obligations assumed by the European Union under agreements reached on Iranian nuclear programmes.

Yet, according to Tehran, the European 'troika' continued to place more demands on Iran, thus violating the treaties. The Iranian leadership nevertheless hoped to resolve the situation up until mid-2005 and observed the moratorium. More specifically, this position was favoured by President of the Islamic Republic of Iran Mohammed Khatami.

At the same time, the majority of the Iranian parliament (200 out of 290 MPs), dissatisfied with the negotiation process and opposed to the continuation of the ban, addressed Khatami in a letter stating their disagreement with the decision to extend the moratorium and requesting that uranium enrichment be resumed and the development of peaceful nuclear technology be continued.

Most experts tend to regard August 2005 as the turning point in the development of the situation surrounding the Iranian nuclear programme. Specifically, on August 4, 2005, Secretary of the Supreme National Security Council of the Islamic Republic of Iran Hassan Rouhani announced during Iranian–EU talks that Iran was interested in resuming uranium enrichment. Tehran notified the *IAEA* of its readiness to resume the production of uranium hexafluoride in Esfahan in an official letter stressing that the resumption of work at the Esfahan nuclear facility could not be considered a violation of the moratorium, since the centre did not conduct any actual uranium enrichment. Up until the last moment, Tehran hoped that the Euro-

⁸⁸ Rowberry A. Sixty Years of 'Atoms for Peace' and Iran's Nuclear Program. URL: <http://www.brookings.edu/blogs/up-front/posts/2013/12/18-sixty-years-atoms-peace-iran-nuclear-program-rowberry>

pean 'troika' would come up with an 'acceptable' proposal on the situation within a short timeframe, without going to such extremes as convening an extraordinary session of the *IAEA* Board of Governors, with the 'Iranian nuclear profile' to be further submitted to the *UN Security Council*. This view is indirectly confirmed in a statement by Hassan Rouhani condemning such actions as unacceptable threats to Iran on the part of the European Union, contradicting the agreements reached earlier in Paris and Geneva.⁸⁹

It is worth noting that, up until the end of October 2006, Iran did not rule out the possibility of a moratorium on uranium enrichment. The Islamic Republic's officials stressed, however, that a moratorium could only come about as the result of negotiations; the West, on the other hand, demanded that the ban be imposed as a prerequisite for the talks, which Iran found inadmissible.

However, it appears at that time Iranian spiritual and secular leaders had decided to step up efforts to acquire the scientific and technological means necessary to develop nuclear weapons. They used the revived nuclear programme adopted during the shah's rule and Iran's 'right to the peaceful atom' as a cover. Tehran started rapidly setting up facilities to enrich uranium (beginning with Natanz) and produce uranium hexafluoride (UF₆) in Esfahan, as well as build the heavy water research reactor IR-40 with hot cells for the separation of plutonium from spent nuclear fuel (in Arak).

It placed a special emphasis on expanding the uranium enrichment capacity of the Natanz facility both by installing more centrifuges, and by designing and building new and more productive ones. Simultaneously, Tehran made attempts (none too successful) to speed up the construction of the reactor in Arak which, once up and running, would be able to produce weapons-grade plutonium.

For nearly a decade now, the efforts of the international community to resolve the crisis – through bilateral and P5+1 talks – have been thwarted. All of the multiple *UN Security Council* resolutions and multilateral or unilateral sanctions imposed on the country have failed to produce the desired effect. Furthermore, in 2009 a second uranium enrichment plant was completed in Fordow, located deep underground. This fact is seen by most (generally western) experts as proof of Iran's intentions to reduce the exposure of its key nuclear facility – capable of producing weapons-grade uranium – to possible air strikes. Later, as Iran started to enrich uranium to 20 per cent at its Fordow site, many experts viewed it as a 'confirmation' of Iran's nuclear aspirations.

⁸⁹ Iran will not violate temporary moratorium on uranium enrichment. URL: http://www.iran.ru/news/politics/32188/iran_ne_budet_narushat_vremenny_moratoriy_na_obogashchenie_urana (in Russian).

Sanctions as a Way to Resolve the Crisis

The United States-led West opted for a strategy of escalating sanctions imposed both under *UN Security Council* resolutions, and unilaterally and multilaterally (the European Union) as the main pressure tool. Experts are still split on whether the sanctions were truly an efficient mechanism of slowing down the Iranian nuclear programme. If we consider the fact that over the past few years the Islamic Republic of Iran has managed to significantly increase in the number and quality of its centrifuges, mastered heavy water production technology, improved the purity of uranium hexafluoride (the uranium compound used in the enrichment process), and made considerable progress in the construction of the IR-40 reactor, we can conclude that the actual effectiveness of the sanctions is very low. However, admittedly, they have made a considerable dent in the country's economy and aggravated social tensions. Furthermore, the likelihood of escalating the Iranian nuclear issue to a settlement by force has also increased.

Changes to Iran's Nuclear Policy and the Achievements of the Geneva Agreements

In this context, the decision of Iran's spiritual leadership to alleviate the tensions in a meaningful way appears to be quite reasonable. Hence the victory in the June 2013 presidential elections of the 'liberal pragmatist' Rouhani, who announced his intentions to reconsider Iran's nuclear programme seems quite reasonable.

Undoubtedly, this development was also consistent with the interests of the Barack Obama administration, as the normalization of relations with Tehran would reinforce U.S. positions in the region and possibly even boost democratic representation in the U.S. Congress following mid-term elections in November 2014.

Inevitably, the two rounds of negotiations with Iran in the P5+1 format held in Geneva in October and November 2013 were a resounding success, resulting in a draft joint roadmap.⁹⁰

It appears advisable to further examine the Geneva agreements for a more accurate assessment of the settlement prospects.

The agreements are based on the underlying principle that "nothing is resolved until all outstanding issues are settled", and a comprehensive solution to the Iranian nuclear problem is expressly conditional upon Tehran's compliance with all of its international commitments, pursuant to the *Non-Proliferation Treaty (NPT)* and under absolute

⁹⁰ Joint Plan of Action. Geneva, November 24, 2013. URL: <http://www.edition.cnn.com/2013/11/24/world/meast/iran-deal-text>

control of the *IAEA* certifying the exclusively peaceful nature of Iran's nuclear programme. The documents also stress that tensions will be eased on a 'step-by-step' basis, which will **eventually** result in the lifting of all sanctions against Iran – those imposed by the *UN Security Council*, as well as those imposed unilaterally and multilaterally.

In this context, the 'first step' – the first six months during which the parties (and primarily Iran) are expected to take certain actions – appears to be of particular importance.

Specifically, Iran undertakes:

- To retain half of its existing uranium enriched to 20 per cent as uranium oxide to be further used as fuel for its Tehran Research Reactor (TRR). The remaining half of the uranium (UF₆) needs to be diluted to no more than 5 per cent content.

- To refrain from enriching uranium to more than 5 per cent for the duration of the agreement period.

- To refrain for the duration of the agreement period from putting into operation the new centrifuges at the Natanz facility not previously used for UF₆ enrichment. Iran also pledges not to install any additional centrifuges at the site. It can, however, replace some of them with the new ones (of the same type) without increasing their overall quantity.

- To refrain from enriching uranium to more than 5 per cent at the four cascades that already exist at the Fordow facility, which will leave the plant's current capacity unchanged. Iran is also under obligation not to load UF₆ into other centrifuges of the remaining 12 cascades already in place, but not previously used for uranium enrichment. Furthermore, Iran has no right to alter the configuration of the cascades, but is entitled to replace some of the centrifuges with new ones of the same type without altering their overall quantity.

- Not to commission the reactor in Arak for the duration of the six-month period and not to supply fuel or heavy water to the site; not to conduct any additional fuel tests for IR-40; not to produce additional fuel; and not to install the remaining components of the reactor.

- Once the new line to convert uranium enriched to 5 per cent to uranium dioxide (DO₂) is in place, to start conversion of the existing uranium enriched to 5 per cent into the oxide and present information about the facility to the *IAEA*.

- Not to build new uranium enrichment sites.

- Not to conduct spent nuclear fuel regeneration or construct facilities designed to perform such regeneration.

Iran is entitled to continue its research and development practices under *IAEA* safeguards, including uranium enrichment projects not designed for uranium accumulation. It should be noted that Tehran also reserves the right to continue designing new centrifuges.

In the first six months, the system of monitoring Iran's nuclear activities will also be improved. Specifically, it provides for the following measures:

1. Iran undertakes to provide the *IAEA* with specific information about: plans to establish the relevant facilities; every structure at the nuclear sites that already exist; a description of the nature and scale of operations at each site; and information on uranium mines and the sources of the existing materials. The information is to be provided to the *IAEA* within three months.

2. Providing the *IAEA* with the latest data on the Arak reactor.

3. Steps (as approved by the *IAEA*) to be implemented with regard to safety measures at the IR-40 reactor.

4. Granting daily access to *IAEA* inspectors to the Natanz and Fordow nuclear facilities, including the possibility of unannounced inspections in case of urgent alerts.

5. Granting access to *IAEA* experts to monitor the replacement of faulty centrifuges, as well as access to sites involved in the production and storage of centrifuge rotors, uranium mines and uranium concentrate production facilities.

In return, the P5+1 group and the European Union will take the following steps:

- defer any further restrictions on Tehran's crude oil exports, which would enable Iran's current customers to purchase their standard amounts of oil;

- return the funds paid for the oil already supplied by unfreezing Iran's foreign bank accounts;

- Suspend U.S. and the EU sanctions in the following areas:

1. transportation and insurance of the said Iranian oil imports;

2. petrochemical exports from Iran and related services;

3. licenses to supply and assemble spare parts for Iran's civil aviation and related services (with U.S. and European suppliers entitled to inspect the ultimate use of the goods supplied).

Furthermore, the *UN Security Council*, the European Union, the U.S. Administration and U.S. Congress will not impose any new sanctions on Iran's nuclear programme.

The agreement also stipulates for the creation of special financial instruments to allow Tehran to use its frozen foreign assets for humanitarian purposes in the interests of its population, specifically for food and healthcare, including medical expenses incurred by Iranians abroad. A number of banks will be designated by the parties to carry out related transactions. Specifically, the transactions include Iran's contributions to the *UN* and direct tuition payments for Iranian students studying abroad up to a specified amount for a period of six months (approximately \$400 m). Additionally, the limit on trade

transactions with the European Union (not subject to sanctions) is to be increased to an agreed amount.

At the moment, there is no complete list of items to be included in an agreement on the comprehensive solution of the Iranian nuclear issue; however, the parties have agreed to finalize the document within one year of the adoption of the Joint Plan of Action.⁹¹

A number of clauses of the agreement that has already been signed are worth a special mention:

- Iran is entitled to a uranium enrichment programme consistent with **agreed** parameters and based on the **practical need** for nuclear fuel for future reactors.
- Iran **cannot** conduct spent nuclear fuel regeneration operations (IR-40 reactor) or build facilities designed for this purpose.
- The agreement stipulates for new comprehensive nuclear activities monitoring measures, which implies ratification and implementation of the Additional Protocol.
- Furthermore, the agreement also provides for international cooperation on the peaceful use of nuclear energy, including the supply of modern light water power and research reactors and related equipment, as well nuclear fuel supplies and concerted research and development efforts.

Considering the above points, we can conclude that the new agreement is consistent with Iran's interests. It acknowledges Tehran's right to peaceful nuclear energy. Iran will continue (albeit on a somewhat smaller scale) its uranium enrichment programme. Tehran will also have the opportunity to continue developing new and more efficient centrifuges, although launching them into serial production or installing them is subject to further negotiations.

It should be noted that Iran's foregoing the accumulation of uranium enriched to 20 per cent does not really affect its ability to start producing weapons-grade uranium (if the need arises). The existing reserves of weapons-grade uranium are sufficient to fuel the research reactor in Tehran. Similarly, the suspended construction of the heavy water reactor at Arak does not mean that Tehran has given up completely on having a potential weapons-grade plutonium production facility. When the six-month period expires, the Iranian government can easily revert to its intention to launch the site, albeit "under strict surveillance of the IAEA".

The requirement to comply with the comprehensive IAEA safeguards appears to be a relative drawback of the agreement for Iran. However, our view is that Iran currently sees no need to expand its nuclear capacity at an accelerated pace, and this would inevitably heighten tensions. Conversely, Tehran is quite satisfied with retain-

⁹¹ Joint Plan of Action. Geneva, November 24, 2013. URL: <http://edition.cnn.com/2013/11/24/world/meast/iran-deal-text>

ing the scientific and technological prerequisites for the creation of nuclear weapons, coupled with the possibility of strengthening that potential in the future.

It should be noted that Tehran's agreement to the intrusive *IAEA* inspection regime remains a serious outstanding issue that will largely determine the future of the agreement. Specifically, in its report dated November 14, 2013, the *IAEA* noted that its negotiations with Iran on the matter had failed to yield any palpable results.⁹²

Meanwhile, the parties signed an agreement in November stipulating a new approach to negotiations.⁹³ Specifically, immediately after the Geneva agreements, Iran and the *IAEA* agreed to switch into a considerably more transparent mode of cooperation, whereby Iran pledged to disclose important information on a number of its nuclear sites to the *IAEA* within three months. Still, this does not mean that Tehran will disclose to the *IAEA* exhaustive information regarding its past activities in the area of the military application of its nuclear power in the immediate future.⁹⁴

It appears that immediate access to a number of sites and specialists who were involved in such activities would be especially hard to obtain from Iran.

According to experts (primarily Russian), at this point, Iran is not in a position to accumulate the required amount of weapons-grade materials and develop a nuclear explosive device using such materials within a period of 18 months.

It is hard to say in full confidence if the agreement will be implemented within the proposed timeframe. Israel, Saudi Arabia and some other Arab nations in the region could, with a negative attitude, make it very difficult. Considering the influence of the Israel and Saudi Arabia lobby in U.S. Congress, some U.S. legislators can rightly be expected to strongly resist the plans of the Obama administration to ease tensions, right up to imposing new anti-Iran sanctions. In this context, the results of the November 2014 mid-term Congress elections could be symptomatic.

Equally indicative is the perception of the agreements in Iran itself. Specifically, international law expert Bahman Aghai Diba described the agreements as not quite legally sound.⁹⁵ With their intended sta-

⁹² Implementation of the NPT Safeguards Agreement and relevant provisions of Security Council resolutions in the Islamic Republic of Iran. Report by Director General // *IAEA* Board of Governors. 14 November 2013. URL: http://www.isis-online.org/uploads/isis-reports/documents/IAEA_Iran_Safeguards_Report_14Nov2013.pdf

⁹³ *IAEA*, Iran Sign Joint Statement on Framework for Cooperation URL: <http://www.iaea.org/news-center/pressreleases/2013/prn201321.html>

⁹⁴ Blaise Misztal. Accommodation by Any Other Name: Iran's 'Framework for Cooperation' with the *IAEA* // Bipartisan Policy center. Tuesday, November 19, 2013. URL: <http://www.bipartisanpolicy.org/blog/2013/11/19/accommodation-any-other-name-iran%E2%80%99s-%E2%80%9Cframework-cooperation%E2%80%9D-iaea>

⁹⁵ Bahman Aghai Diba holds a Ph.D. in international law. With 14 years of experience at the Ministry of Foreign Affairs of the Islamic Republic of Iran, he has written several books and a variety of papers on Iran.

tus as international agreements, they are subject to approval by the Iranian parliament.⁹⁶ At a certain point, this could impede the implementation of the agreements in full. In fact, the author alludes to the fact that conservative forces in the parliament (at the instructions of the country's spiritual leadership) will point out to Rouhani the incompatibility of his nuclear policy with the national interests of the Islamic Republic of Iran. The chances of this happening should not be ignored.

Furthermore, it should also be taken into account that the United States is highly unlikely to forgo the most stringent sanctions (primarily the ban on some financial transactions) in the next six months. According to some estimates, Iran stands to benefit from compliance with the agreements to the tune of \$6–7 bn, with some \$4.2 bn in previously frozen oil revenue in foreign banks.⁹⁷ Presumably, this will fall short of Iran's actual needs, forcing Tehran to agree to further reductions to its nuclear programme. With the most 'crippling' sanctions remaining in place, Iran's leadership can hardly be expected to continue its pragmatic policy of rapprochement with the West, above all in the nuclear sphere.

Prospects for Cooperation with Russia and the West on the Peaceful Use of Nuclear Energy

When assessing the prospects for Iran's cooperation with Russia and the West on peaceful uses of nuclear energy, it is important to take into account Iran's real potential and need for the further development of nuclear power. The scale of its peaceful nuclear programme will determine the agreed limits of its uranium enrichment capacity.

According to experts, the number of possible nuclear reactors in Iran is limited by the following factors:

- limited fresh water resources;
- the high seismicity of most of the country's territory;
- limited uranium reserves;
- underdeveloped transport infrastructure that hinders the transportation of bulky and heavy reactor vessels (tens of tonnes).

We also have to take into account the obsolete network of high-voltage power transmission lines – often prone to significant power outages – which requires massive capital investments in drastic modernization.

On the strength of the above, experts have named two or three sites for possible construction of nuclear power plants, which limits Iran's potential to 8–10 reactors. This will be the main constraint on

⁹⁶ Diba Bahman Aghai. What is the Iran-5+1 'Accord'? URL: <http://www.payvand.com/news/13/nov/1244.html>

⁹⁷ Geneva: Breakthrough to a New Reality. URL: http://www.iran.ru/news/analytics/91425/Zheneva_Proryv_v_novuyu_realnost (in Russian).

Iran's uranium enrichment capacity, and it will be the subject of future negotiations concerning permitted activities in this sector.

We must also take into account the fact that the explored and proven uranium deposits in the country fall far short of the amount needed to provide the abovementioned number of nuclear reactors with fuel, while the import of uranium ore from abroad may only become possible after a final solution to the Iran nuclear problem is worked out, something that will not happen any time soon and will require difficult negotiations.

As regards the short-term prospects for Russian cooperation with Iran in the peaceful use of nuclear energy, it must be admitted that such cooperation cannot be pursued on a large scale unless the crippling sanctions (especially those involving financial transactions) are lifted. Even if Teheran has the necessary amount of hard currency, it is problematical that payments could be delivered to suppliers 'in suitcases'.

The building of nuclear plants and the supply of components would involve the firms of various countries (subcontractors), for which the legal transparency of services rendered is very important and in most cases crucial. This is another fact that must be taken into account.

What is more, the final settlement of the situation around Iran's nuclear programme can only be achieved in the process of prolonged and arduous negotiations. And even then there are no guarantees.

In our opinion, Russia cannot expect, after the final settlement of the situation around Iran's nuclear programme, to easily become the main supplier of equipment for Iran's nuclear power industry. Russian producers will almost inevitably face tough competition on the Iranian market from French, South Korean, Japanese and U.S. companies. Competition will probably be unfair, with the governments of the abovementioned countries exerting political and economic pressure.

To sum up, it can be said that the Geneva agreements are in compliance with Russia's national interests and offer some opportunities for stronger cooperation between Iran and Russia, while strengthening Russia's position in the region. However, if these opportunities are to be put into practice, a long-term strategy of interaction with Iran on a whole range of interstate relations must be developed and implemented with due account of the national interests of Russia, the unique features of the Iranian way of thinking, and the development of the military-political and strategic situation at the regional and global levels.

IRAN'S REGIONAL POLICY AND RUSSIAN INTERESTS

Iran has in recent years weakened a number of regional policy positions. Teheran's retreat has contrasted with the growing influence of the Islamic Republic's main opponent, Saudi Arabia, which has emerged as the de facto leader of the Arab world as a result of the large-scale crisis known as the Arab Spring. Riyadh has established its influence over the new leadership of Egypt (having provided the country with \$5 bn in aid), Jordan (in which the Saudis have invested heavily) and the most powerful families in Yemen. Saudi influence is growing in Libya, Tunisia and Lebanon. Iran has displayed little political activity in Iraq, Lebanon and Central Asia. It has not carried out any actions in the Caucasus. The main reason for this state of affairs is that, after the change of leader in the summer of 2013, Iran's main diplomatic efforts have been aimed at achieving a breakthrough at the global level. And the main task there has been to achieve the lifting or easing of international sanctions that are causing serious damage to the country's economy (up to \$5 bn dollars a month⁹⁸), not to mention the total absence of investments that caused the *National Iranian Gas Company* to declare bankruptcy in the autumn of 2013.⁹⁹

The situation in Syria is seriously undermining Iran's position: for two years, Teheran's main ally in the Middle East has been struggling for survival. Syria has been Iran's main regional policy concern in recent years.

Teheran supports the Bashar Assad regime in every possible area – diplomatic, military-political and financial. Thus, in May 2013 the Iranian authorities tried to form a pro-Assad regional bloc as a counterweight to the *Group of Friends of the Syrian People* backed by Riyadh and Doha. The *Conference of the Group of Friends of the Syrian People* opened in Teheran on 29 May, 2013, but had no serious international resonance.¹⁰⁰ Iran also made attempts to prevent the United States and its allies from using force against Damascus. During the Syrian crisis in September 2013, the Iranian authorities organized a series of international consultations to raise global awareness of the dire consequences of strikes on Syria for the entire Middle East. Top Iranian leaders (rahbar Ali Khamenei,

⁹⁸ INTERFAX International News feed, January 16, 2012, 18:16 (in Russian).

⁹⁹ Iran State Gas Company Faces Collapse, Hit by Sanctions // The Wall Street Journal. 18 November 2013. URL: <http://www.online.wsj.com/news/articles/SB10001424052702303755504579206103448476892>

¹⁰⁰ INTERFAX International News feed, May 27, 2013, 22:25 (in Russian).

President Hassan Rouhani and Foreign Minister Mohammad Javad Zarif) made official statements maintaining that the chemical attack in Eastern Guta was a provocation by the anti-Damascus forces.¹⁰¹

Until the spring of 2013, Iran had sought to persuade Damascus to enter into negotiations with the *National Coalition for Syrian Revolutionary and Opposition Forces (NCSROF)*, whose leader at the time, Moaz al-Khatib, was inclined to engage in a dialogue with the authorities.¹⁰² However, with the change of *NCSROF* leadership that put the pro-Saudi Ahmad Jarba at its head, Iran's peace-making efforts petered out. It may be that the reshuffle of *NCSROF* leadership had been prompted by the growing Iranian influence on that organization, which today is identified exclusively with the policy emanating from Riyadh.

Iran regularly delivers military aid to Damascus, although it does not admit it officially – arguing that the Syrian authorities have enough strength to deal with the insurgents. The United States has repeatedly voiced its concern over Teheran's growing military assistance to the Assad regime, and reports surfaced from the Syrian rebels that they had destroyed Iranian planes with weapons and Army of the Guardians of the Islamic Revolution officers on board (the death of Army of the Guardians of the Islamic Revolution commander Hessem Khoshnevis in Syria was confirmed by the Iranian authorities¹⁰³). The *Foreign Trade Organization* announced a tender to purchase food using a loan from Iran (including 150,000 tonnes of sugar; 50,000 tonnes of rice; and 25,000 tonnes of flour).¹⁰⁴

On the whole, Iran has been coping with the task of shoring up the Assad regime. However, it would be a mistake to think that the Syrian leader has been able to stay in power solely thanks to the aid provided by Iran and Hezbollah in Lebanon. In its fight against the opposition Damascus relies heavily on its internal reserves, and the regime's stability is maintained by the alliance between the Alawite military elite and the Sunni business community.

Iran's relations with the leading Arab states – Saudi Arabia and Qatar – should be viewed through the prism of the Syrian conflict.

Relations between Iran and **Saudi Arabia** are tense. Some analysts believe that Teheran and Riyadh are engaged in a latent war for control over the entire sub region. The underlying cause of the confrontation is religious (the stand-off between the Sunnis and

¹⁰¹ INTERFAX International News feed, August 22, 2013, 9:49 (in Russian).

¹⁰² INTERFAX International News feed, February 13, 2013, 13:50 (in Russian).

¹⁰³ INTERFAX International News feed, February 14, 2013, 21:59 (in Russian).

¹⁰⁴ Syria to Buy Sugar, Rice and Flour via Tender on a Loan from Iran // Zerno On-Line. December 13, 2013. URL: <http://www.zol.ru/n/18B7A#> (in Russian).

Shi'ites). First there is the conflict in Syria, in which the Saudis support the opposition and are considering plans to supply it with the latest weapons.¹⁰⁵ Then they are obstructing Iran's participation in the Geneva II Conference on Syria.¹⁰⁶ And then the interests of the Iranian Ayatollahs and Saudi Wahhabites clashed in Bahrain. The ruling Sunni elite of the small state of Bahrain, whose population is 70 per cent Shia, constantly accuses Iran of supporting the local opposition united around the organizations Al-Wefaq and Hezbollah-Bahrain.¹⁰⁷ Over the past year, the members of the *Cooperation Council for the Arab States of the Gulf* (created and actively supported by Saudi Arabia) have issued several statements demanding that Iran stop interfering in Bahrain's affairs.¹⁰⁸

In Lebanon, Iran supports the *March 8 Alliance* led by Hezbollah, while Riyadh assists the *March 14 Alliance* (headed by the pro-Saudi Al-Hariri family). The current Lebanese Prime Minister Tammam Salam has been elected with the support of the pro-Saudi coalition. Occasionally, the confrontation between Saudi Arabia and Iran flares up and Riyadh-backed Sunni militants attack Iranian diplomatic representatives. One such high-profile terrorist attack in Beirut claimed the life of the cultural attaché at the Iranian Embassy on November 19, 2013.¹⁰⁹

Iran's relations with **Qatar**, a country that also seeks to be a regional power, are not so clear. On the one hand, like Saudi Arabia, it supports the anti-Assad forces.¹¹⁰ On the other hand, the Iranian leadership established positive contacts with Egypt's moderately Islamic government led by the now ex-president Muhammed Mursi (Mursi and the *Muslim Brotherhood* he officially represented received aid and support from Qatar). In early February 2013, then President Mahmud Ahmadinejad attended the summit of the *Organization of Islamic Cooperation* in Cairo, the first visit by an Iranian President to Egypt since 1979 (diplomatic relations between the two countries were severed after Cairo signed a peace treaty with Israel). Ahmadinejad held talks with Mursi and discussed ways of resolving the Syria's domestic crisis.¹¹¹ The two states were planning to restore diplomatic relations, but the plan was prevented by the July 3, 2013

¹⁰⁵ Syrian opposition puts its stake on Saudi weapons // Regnum. July 8, 2013. URL: <http://www.regnum.ru/news/fd-abroad/east/1681100.html> (in Russian).

¹⁰⁶ INTERFAX International News feed, January 20, 2014, 17:18 (in Russian).

¹⁰⁷ See, for example, Isaev V.A., Filonik A.O. *The Kingdom of Bahrain: Experience of Resource-Driven Development*. Moscow, RAS Institute of Oriental Studies, 2006. P. 79 (in Russian).

¹⁰⁸ INTERFAX International News feed, December 25, 2012; March 5, 2013, 16:22 (in Russian).

¹⁰⁹ Iranian Embassy attaché dies in terrorist attack near the Iranian Embassy in Beirut // Interfax, November 19, 2013. URL: <http://www.interfax.ru/world/news/341838> (in Russian).

¹¹⁰ Teheran and Doha hold regular direct consultations on Syria. Syria was at the focus of the negotiations held on May 14, 2013 during the visit of then Qatari Prime Minister Hamad bin Jassim to Teheran. See: INTERFAX International News feed, May 14, 2013, 22:23 (in Russian).

¹¹¹ INTERFAX International News feed, February 5 and 6, 2013, 16:50 and 18:34 respectively (in Russian).

coup in Egypt, which Teheran strongly condemned. Iranian officials, commenting on the change of power in Egypt, called on the army to respect the will of the people and stressed that Mursi was Egypt's legitimately elected president.¹¹²

That the two monarchies have different approaches to Iran is the result of the different state paradigms chosen by the royal houses in Doha and Riyadh. The Al-Saud family treats Iran as an ideological enemy preaching the Shi'ite heresy, whose spread in the region must be stopped at any cost. Qatar takes a more pragmatic approach based on economic interests and political expediency. Qatar will soon start importing Iranian natural gas in order to meet its growing domestic demand. Iran remains one of the main suppliers to Qatar of farm produce, food, textiles and chemicals.¹¹³ It cannot be ruled out that Qatar sees Iran as a counterbalance to the growing might of Saudi Arabia, which it considers to be one of its main opponents in the region.

So far, despite some progress, a rapprochement between Teheran and Doha is not on the cards. There is still much that divides the two states. This is highlighted not only by the issue of Syria, but also Palestine. In recent years, Qatar has been trying to wrest control over the Palestinian national movement from Iran. Within *Hamas*, some groups look towards Doha, while others look towards Teheran. The former include the head of the *Hamas* political bureau Khaled Mashal (who has lived in Doha since 2011¹¹⁴), and the latter is thought to be headed by Ismail Haniyeh.¹¹⁵

As regards the **Arab countries that are members of the Cooperation Council for the Arab States of the Gulf**, they basically adhere to the policy with regard to Iran that was set by Saudi Arabia back in the 1980s, whereby Iran is seen as the main threat to stability in the Persian Gulf. The United Arab Emirates is the only exception. Early this year, the Emir of Dubai and Prime Minister of the United Arab Emirates Sheikh Mohammed bin Rashid Al Maktoum called for an easing of sanctions against Iran.¹¹⁶ As with Qatar, economic interests play a part here, as Iran conducts trade with Arab countries through Dubai – where many Persians live.

It would seem that Iran's regional status is bolstered by economic interests, despite the fact that its geopolitical positions on the whole have been seriously weakened. Thus **Turkey**, which remains a key consumer of Iranian gas and oil, has continued trade and economic

¹¹² INTERFAX International News feed, July 2, 2013, 13:04 (in Russian).

¹¹³ Kasaev, E.O. *Qatar in the 21st Century: Current Trends and Economic Development Forecasts*. Moscow: Mezhdunarodniye Otnosheniya Publishers, 2013. P. 125 (in Russian).

¹¹⁴ Russia will grow with the Middle East // WordYou.Ru, December 24, 2013. URL: <http://wordyou.ru/v-mire/rossiya-budet-prirastat-blizhnim-vostokom.html> (in Russian).

¹¹⁵ INTERFAX International News feed, January 9, 2014, 19:11 (in Russian).

¹¹⁶ INTERFAX International News feed, January 13, 2014, 11:01 (in Russian).

cooperation with Iran, in spite of the sanctions (Iran meets between 20 per cent and 30 per cent of Turkey's gas needs).¹¹⁷ Iran therefore seeks to develop contacts with Ankara, including political contacts (despite the support provided by Turkey to the insurgents in Syria). Turkey was an active broker in establishing Iran's contacts with the P5+1 on the nuclear problem (a meeting in early 2013 took place in Istanbul¹¹⁸), and supported Iran's participation in the Geneva II Conference on Syria.¹¹⁹ In general, Iran and Turkey are likely in the near term to continue this positive trend because of mutual economic interests.

Israel remains a tough regional opponent of Iran. Teheran and Tel-Aviv regularly exchange threatening statements; although Israel, unlike Saudi Arabia, is not trying to influence the situation in Syria, which generally accords with Iran's regional aspirations. The change of leadership in Iran marked a shift of emphasis in Teheran's rhetoric with regard to the Jewish state under President Hassan Rouhani and Foreign Minister Javad Zarif. In September 2013, the Iranian minister of foreign affairs, followed by the president, admitted that the Holocaust was a crime against humanity.¹²⁰ In early October 2013, the Presidential Administration of Iran cancelled the *New Horizon* anti-Israeli conference traditionally held under Ahmadinejad.¹²¹

In general, Iran's change of stance reflects its desire to improve its international image as part of its efforts to dilute sanctions. At the same time, it is the most potent proof of the extreme weakness of Teheran's current positions.

Because Iran has lost some of its regional and global influence, **Afghanistan** was outside the purview of its policy during the past year. In 2013, Teheran sought to persuade Kabul not to sign an agreement with the United States that would prolong American presence by another five years in the country. Teheran still fears that the NATO contingent in Afghanistan could be used, if not to attack, then at least to pressure Iran into changing its positions on current issues in international politics.

Iran's cooperation with **Central Asian** states is on the whole at a low level. Central Asian capitals are wary of Iran, whose financial resources have diminished noticeably in recent times. There has been some increase in activity in Tajikistan, in which Teheran continues to invest money on account of the belief that the local Shia mino-

¹¹⁷ INTERFAX International News feed, December 26, 2012, 22:11 (in Russian).

¹¹⁸ INTERFAX International News feed, January 15, 2013, 13:11 (in Russian).

¹¹⁹ On condition that Iran signs the Geneva Communiqué.

¹²⁰ INTERFAX International News feed, September 6 and 25, 2013, 11:37 and 7:14 respectively (in Russian).

¹²¹ INTERFAX International News feed, October 11, 2013, 15:08 (in Russian).

rity can be a vehicle of its national interests. Iran directs the bulk of its investments into Tajikistan's power industry because Tajikistan exports electricity to Iran.¹²²

Iran has limited influence in the **South Caucasus**. Armenia is believed to be its stronghold in the region, whereas Georgia and Azerbaijan, which are harnessed to American interests, take a guarded attitude to their southern neighbour. Baku is seriously concerned about the potential spread of the influence of Iranian Ayatollahs in the Republic (where Shi'ites account for more than 80 per cent of the population). However, it is unable to stop the growing contacts between the two countries at the grassroots level (people in Iran and Azerbaijan have many personal, family and business links).

On the whole, it would be fair to say that Iran's regional positions have been weakened. Preoccupation with domestic political problems connected with overall economic stagnation and the regime of international sanctions has diminished Teheran's clout in the region. ***However, if a nuclear deal with the West is struck, Iran may become more active in regional politics. Such a diplomatic breakthrough could boost the country's status as a regional power.***

That is why Russia should maintain its contacts with Iran at a high level and build on the existing agreements. On the whole, Russia's position on Iran can be viewed as balanced and pragmatic. In its relations with Iran, Moscow has avoided abrupt movements, it has not antagonized the West by attempting to dilute the sanctions regime, and it preserved good relations with Teheran by defending Iran's right to pursue peaceful nuclear activities (and also to support the Bashar Assad regime).

For all these reasons, Moscow has a fair chance of becoming a player in the Iranian oil and gas market, which will soon begin to open up to foreign investors. Today, many Western energy companies are ready to come to Iran to develop hydrocarbons in the country. China too is not likely to miss this chance. Russia has to exert the utmost effort to capitalize on its good relations with Teheran to secure profitable deals. Iran could be a promising market for Russian goods (including dual-purpose goods).

Owing to historical circumstances, Iran is an ally of Russia at the regional level in the struggle against the spread of radi-

¹²² Hassan Rouhani to visit Tajikistan to boost economic cooperation between the two countries // Delovoy Iran. October 23, 2013. URL: http://www.delovoiiran.ru/news/show/32870/Hasan_Ruhani_poset-it_Tadzhikistan_dlya_usileniya_ekonomicheskogo_sotrudnichestva_dvuh_stran (in Russian).

cal Islam, which is supported by various influential circles in the Persian Gulf. This should be the focus of Russia's diplomatic efforts in prompting contacts with the relevant Iranian agencies.

At the same time, in building the paradigm of Russian relations with Iran we should remember that Teheran usually acts pragmatically. The positions of its leadership towards Russia may change if the West offers better deals in the political or economic fields.¹²³

¹²³ Thus, at the recent World Economic Forum in Davos, Iranian President Hassan Rouhani said that diplomatic relations between Teheran and Washington could be resumed. Nor should one discount the cooperation between America and Iran over Afghanistan, Iraq and the Palestinian–Israeli problem.

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