

Russian-Iranian Relations: A Mixed Bag

Eugene Kogan

The declaration that Russia and Iran are strategic partners lacks both solid foundation and strategic perspective.

Despite the sense of urgency generated by regional and global concerns, Russia and Iran have failed to establish broad-based economic, scientific, technical, educational and societal ties. In terms of arms exports, Russia still sees Iran as a customer, while Iran is doing its best to distance itself from Russia and to become self-reliant; Iran has recently turned to China in order to diversify its weapons imports away from Russia. Whether this divergence will continue remains to be seen. One thing is certain: Iran is interested in buying commercial aircraft from Europe and the United States rather than Russia, even if the latter insist on it. Whether or not this could lead to a collapse of bilateral relations is not a matter of course, but both issues, the burgeoning Iranian defence industry and the purchase of commercial aircraft from countries other than Russia, must be carefully monitored. Finally, the potential for Iranian gas exports to Europe, Gazprom's main market to date, may further intensify the discomfort in this relationship that is based not on trust but on the need for cooperation to ward off American interests in the region.

Russian and Iranian Mixed Interests

Russia and Iran differ on the topics of Armenia and Israel. Iran is to some extent interested in expanding its business relations with Armenia, while Russia is either not really interested in expanding the relationship or is constantly resisting Iranian overtures. The case of the possible construction of the Southern Armenian Railway, which failed to secure external funding, not even from Iran, underlines the ambivalence of Iran and the disinterest of Russia, since the



Photo: kremlin.ru

Vladimir Putin and Hassan Rouhani, President of Iran, shaking hands during Putin's visit to the Gas Exporting Countries Forum summit in Iran in November 2015. Despite the friendly appearance, Russia has been blocking Iranian attempts to export gas to Europe.

railways would not connect Iran with Russia. This connection would only have been possible if Georgia had agreed to allow rail transport through Abkhazia, which is not the case. Thus, the railway project lost out against a competing Azerbaijani-Iranian initiative, which has accelerated since 2016. Hussein Yaghoubi, Director General for International Affairs at the Central Bank of Iran, said on 27 October 2017: "Under the recent agreement, Azerbaijan has agreed to allocate US\$500M for the construction of railways."

Russia is not prepared to support Iran's hostility toward Israel. Russia prefers to keep an eye on Iran. At the same time, Russia is preventing Israel from unilaterally attacking Iran. Nevertheless, Russia and Iran are ready to work together to keep other coun-

tries away from the Southern Caucasus and the Eastern Mediterranean. It can be said that pragmatism was and still is the core of bilateral relations. Despite their pragmatic approach, the two countries differ when it comes to promoting their position in the world. Russia perceives itself as a world power on the international stage on par with China and the USA. Nevertheless, Russia and Iran are opposed to US-led intervention in the region, be it in the Southern Caucasus or Syria. The United States was and still is the driving force behind the economic sanctions imposed on Iran in the past and on Russia following the annexation of the Crimea in March 2014. It must be recalled, however, that Moscow has supported the UN Security Council resolutions imposing economic sanctions on Iran

Author

Eugene Kogan is a defence and security expert based in Tbilisi, Georgia.



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Loader-launcher and 9A83ME launcher of the Russian S-300VM ANTEY-2500 SAM missile system at the MAKS Airshow in 2011. Iran is interested in buying modern Russian SAM systems.

for its nuclear programme in 2006-2008 and 2010. Whether the opposition to the United States and the existing world order is a sufficient reason to unite the two countries in the long term is not a matter of course and remains open to debate. Russia continues to regard Iran as its armaments customer. But as early as May 2016, the Rouhani government decided to diversify the country's arms and military technology imports and to focus more strongly on China as a counterpart to Russia. Until now, China, unlike Russia, has not sold arms to Iran, but that is no longer excluded. This development must be monitored carefully. In addition to turning to China, Iran is also striving to become self-reliant, and that is what worries Moscow, because Russia is not interested in having Iran as a potential arms competitor in the countries near Iran, but rather a country that procures arms exclusively from Moscow and pays for them in hard currency. In addition to preserving Iran as an armaments customer, Russia is also interested in maintaining a positive relationship with Iran's regional rivals Israel, Saudi Arabia and Egypt. Moscow wants to preserve its flexibility and not allow Iran any chance to corner it. However, Iran's hostility to Israel constitutes a difficult balancing act for Russia. Israel wants to ensure that Russian weapons sold to Iran do not fall into the hands of Israel's enemy Hezbollah. Moscow takes into account Israel's concerns, but this requires Russia's constant attention in dealing with Iran and Israel, without

alienating them both. It seems that Iran has so far accepted the balancing act of Moscow. Perhaps Iran is just waiting for the right moment to change the balance of power. It is clear that Iran is ready to be patient for the time being. For how long is hard to say.

Despite Moscow's understanding of Israel's concerns about Russian arms sales to Iran, Moscow has no qualms about supplying weapons to Tehran. Russia insists on the full price paid by Iran for Russian weap-

ons. Putin's pursuit of better relations with Israel did not prevent Putin from forging closer ties with Iran when he refused to call Iran's affiliated armed group Hezbollah a terrorist organisation and to prevent Russian weapons from falling into the hands of Hezbollah. Whether or not Prime Minister Benjamin Netanyahu's government rejects Putin's policy of considering the concerns of both sides is irrelevant to Putin, although Putin has a good relationship with Netanyahu and Netanyahu is often in Moscow. Netanyahu visited Moscow in August 2017 for the sixth time since the Russian intervention in Syria in September 2015. Putin will do the best for Russia and not the best for Israel or Iran.

Consequently, the Russians were less concerned than the Israelis about Iran's improved technical nuclear capabilities and the political rationality of its leadership, while at the same time the Russians warned of the dangers of an Israeli preemptive strike against Iranian nuclear facilities, the danger of which only became apparent in April 2010. Putin's pragmatism can therefore be described as pure cynicism on the basis of clearly formulated priorities, which both the Israeli and Iranian Governments reluctantly accept out of caution.

Diverging Interests or Wishful Thinking

In the energy sector, Iran and Russia are potential competitors. The 140-kilometre-long gas pipeline, which was officially inaugurated in 2007, supplies natural gas from Tabriz, Iran, to Armenia. Contrary to Iran's



Photo: Wikipedia CC

A Chinese J-10 aircraft at the Zhuhai Airshow. The J-10 is part of the core arsenal of the Chinese Air Force. China wants to sell 150 J-10 fighters to Iran. The J-10 is an all-weather, multirole fighter with modern air combat capabilities against both land and air targets. Iran currently has around 500 aircraft, mostly older jets like the F-4D, Su-24, F-5E, J-7M and the F1.



Photo: Mikhail Arutunian / Wikipedia CC

The new headquarters of Gazprom Armenia in the capital Yerevan. The Russian state-owned company Gazprom controls the entire gas distribution network in Armenia, thereby denying Iranian companies access to the Armenian market.

original plans, the pipeline cannot be used for larger exports outside Armenia, as its diameter has been reduced at the request of Russia. Consequently, the annual capacity of 2.3 billion cubic metres of natural gas is not sufficient for export to Europe. Today, the entire gas distribution network in Armenia is controlled by Gazprom Armenia, a wholly-owned subsidiary of Russian Gazprom. In other words, "Give the Emperor what belongs to the Emperor" and accept reality.

As sanctions against Iran were eased in January 2016, Gazprom began new negotiations to increase its presence as an investor in the Iranian energy sector. But the experience in Armenia has led many Iranian experts to be wary of Russian policy and Russia is unlikely to gain a foothold in the Iranian market, as the Government of Rouhani is not prepared to open up the lucrative market, even if Iran needs time and investment to achieve its goals. Whether or not Iran will turn to the EU for investment in the energy sector is something that cannot be discussed here. Nevertheless, it can be said that Tehran is considering this. But much also depends on the willingness of European investors to sign up. EU investors are reluctant to provide funds for fear of US sanctions.

Moscow is also concerned that Iran, Azerbaijan or even both of them could be in-

involved in energy projects that could undermine Russia's position in the European and Turkish energy markets. In August 2016, President Vladimir Putin called on his Azerbaijani and Iranian counterparts in Baku to

cooperate more closely on oil and gas. The trilateral format helped Moscow formulate a plan to supply Northern Iran with natural gas via Azerbaijan in exchange for Iranian LNG to be supplied to Russian companies in the Persian Gulf. This, in turn, would allow Iran to reduce its dependence on Turkmenistan as the only natural gas supplier, while the Russian authorities could ensure that at least part of the Iranian gas does not enter Europe. However, the total quantity of Iranian gas that will reach Europe is likely to displease Russia.

Russian-Iranian trade is declining. For example, in 2015, trade between the two countries amounted to US\$1.2Bn, compared with US\$1.7Bn in 2014 and with US\$3.5Bn per year in 2010 and 2011. However, according to the Department of Asian Affairs of the Russian Ministry of Defense (MoFA), trade between Iran and Russia recovered to over US\$2Bn in 2016, with energy, machinery and weapons sales accounting for the lion's share of transactions. According to RBC Information Systems of Russia, Russia supplied weapons worth more than US\$300M to Iran. Nevertheless, this modest upturn can hardly be described as a breakthrough, as both sides expected higher sales. But reality turned out to be different.

By mid-2016, long-discussed joint projects in the energy sector were still on the drawing board and the construction of the second and third power units of the Bushehr nuclear power plant that were discussed back in November 2014 had not yet begun.

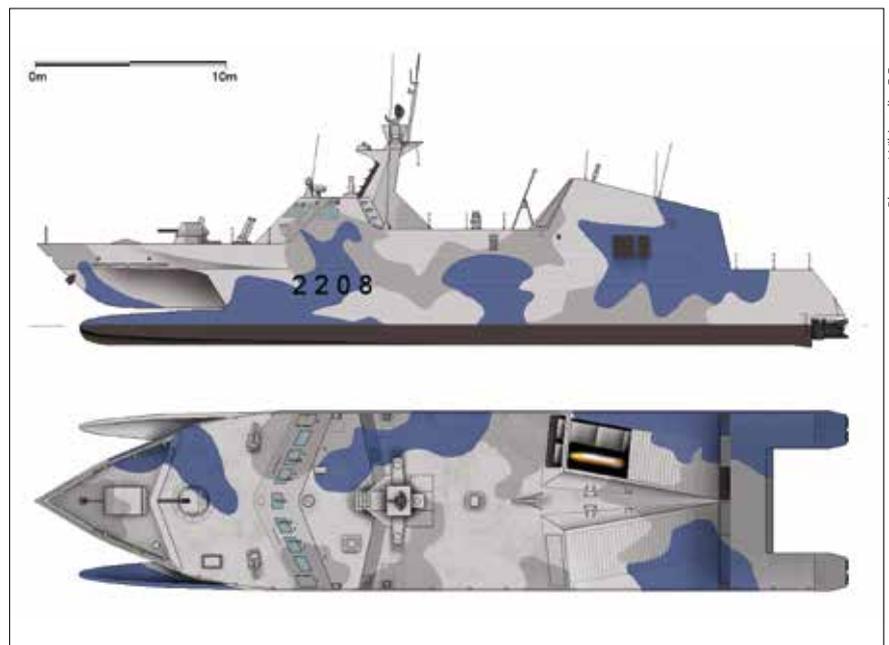


Photo: Wikipedia CC

The Chinese Fast Attack Craft 2208 – Type-022 HOUBEI Class. China offered the HOUBEI Class high-speed missile boats to Iran. China also sold the boat to Pakistan. China and Iran already have a long-standing navy-to-navy relationship.

Therefore, it is premature to say whether Rosatom, Russia's major nuclear energy corporation, is looking for new orders to compete after it finishes constructing reactors at Bushehr. We need to remember that most Iranian companies are short of money, which means that their Russian counterparts have to find the finances for each project. Since Russia is also experiencing a credit crunch, only a small part of the projects receives government loans.

For instance, this was the case with the construction of a thermal power plant in Bandar Abbas and with the supply of rail wagons by Uralvagonzavod. Russia's Vnesheconombank (VEB) signed an agreement with an Iranian Bank of Industry and Mining over a loan worth US\$1.2Bn for the development of the plant in Bandar Abbas. Uralvagonzavod won the contract for the supply of 5,000 wagons, the first batch of which was shipped in September 2016. In addition, Russia and Iran signed a US\$2.5Bn deal in late July 2017 to set up a much-needed rail wagon factory. Both sides will set up a new joint venture, 80 percent of which will be owned by Russia, but financed 100 percent by Russia.

In the summer of 2016, the Russian government released two loans (one of which as cited above was provided by VEB) to Iran totalling €2.2Bn (or about US\$2.5Bn), but a promised US\$5Bn loan to Tehran to promote industrial co-operation has yet to materialise. There are plenty of doubts regarding its materialisation.

During Putin's visit to Tehran on 1 November 2017, Russia and Iran agreed on strategic energy transactions worth up to US\$30Bn for the development of Iranian oil and gas fields as well as for research cooperation. But the agreement does not yet mean that it will be implemented.

It can therefore be said that the above-mentioned diverging interests and/or dreams must be approached carefully in order to improve the current situation and implement the above-mentioned projects.

A Small Change in Relations or just an Illusion

Nonetheless, since the signing of the Joint Comprehensive Plan of Action (JCPOA) between Iran and the P5+1 world powers – the United States, the United Kingdom, Russia, France, China and Germany – in 2015, the Supreme Leader of Iran, Ayatollah Ali Khamenei, enthusiastically supported the initiative to deepen relations with Moscow while remaining cautious towards the West. The Iranian government has focused on Khamenei and has supported the development of relations with Russia,

in particular with a view to strengthening defence capabilities. So far, no concrete arms deals have been concluded between Russia and Iran, although frequently published figures of about US\$10Bn have been announced for a potential deal. The JCPOA aims to lift the UN arms embargo by October 2020. Until then, all sales of offensive weapons systems to Iran must be approved by the UN Security Council. This is the reason for the unsigned arms agreements, but negotiations are continuing.

Iran will continue to use its close relations with Russia to improve its defence structure, implement its regional policy and protect its interests at the international level. Russia's right of veto in the UN Secu-

Russia, while Russia is boasting about its bilateral relations. This has nothing to do with Moscow's sense of superiority, as some researchers claim, but with different political positions. Russia plays the role of world power and Iran acts as a regional power. In addition, both sides accept the fact that the diverging positions are unlikely to change in the foreseeable future and that both sides must therefore find a modus vivendi.

In summary, it can be said that even with the increase in trade in 2016, Russian economic relations and investment in Iran are below average and not very impressive. The number of Iranian tourists travelling to Russia in 2016 was rather low (about 80,000) compared with the number of Iranians



Photo: Uralvagonzavod

The Russian state-owned defence company Uralvagonzavod delivered more than 5,000 railway wagons to Iran. The Type 12-581 wagon designed for export to Iran has a capacity of 66 tonnes.

rity Council is an important instrument for defending Iran's interests against possible Western sanctions, and the Iranian leadership values continuous Russian aid. At the same time, Moscow is concerned about the development of the Iranian medium-range ballistic missile programme, but this concern is now rarely or not at all made public. In September 2017, Iran had successfully tested a new medium-range missile despite Russian frowning.

The Iranian-Russian relationship is not a strategic partnership, but a wary partnership in which both sides pay close attention to each other and take special precautions to avoid misunderstandings and misinterpretations or possible mishaps. Lack of coordination, despite the support of Ayatollah Ali Khamenei, could be one of the determining factors for the wary relations between the two countries.

In addition, Iran is hesitant when it comes to publicly highlighting its relations with

travelling to neighbouring countries such as Armenia (189,000), Azerbaijan (about 220,000), Georgia (142,000) and Turkey (1.7 million). On the other hand, Iranian expatriates from the USA and Britain travel to Iran to visit their relatives and get to know the country their parents left more than 40 years ago.

The arms deals in preparation are currently awaiting the lifting of the UN Security Council's arms embargo. Whether China can counteract Russian arms sales to Iran must be carefully monitored.

It is therefore unlikely that Iran will become Russia's strategic partner, and most Moscovites and Tehranis can hope that a pragmatic relationship will develop based on the interests of the two countries as defined by their respective leaderships. Whether the pragmatic relationship can develop into a more substantial and comprehensive relationship remains to be seen. ■