

The consequences for Russia of the nuclear deal with Iran

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The five permanent members of the UN Security Council (the USA, the United Kingdom, China, France and Russia) plus Germany and the European Union signed a deal with Iran on 14 July in Vienna (a Plan of Action with five appendices, henceforth referred to as the Vienna Agreement). Under this agreement, Iran undertook to restrict its nuclear programme and to bring it under international scrutiny for 15 years in exchange for a gradual lifting of international sanctions (both those imposed between 2006 and 2010 by the UN Security Council and the unilateral US and EU sanctions). Even though Russia has officially reacted positively to this deal, the consequences it will have are rather ambiguous from Moscow's point of view. Iran looks set to become stronger and will possibly normalise its relations with the West, and especially the United States. This, in political terms, is a disadvantage for Russia. The Kremlin's ability to use its policy towards Iran as a bargaining chip in contacts with Washington will be reduced significantly. In turn, the benefits will include improving the perception of Russia in the West and the opening up of new opportunities for the geopolitical game in the region, both with Iran and its opponents in the Arab world. Similarly, in economic terms, the possible lifting of sanctions will offer Russia new opportunities to achieve immediate benefits owing to co-operation in the nuclear and military-technical areas. In the short term, the lifting of sanctions will not pose any threat to Russia's position on the global energy markets. However, in the long term, the end of Iran's international isolation may bring negative consequences for Russia, such as the dominant position of Western and/or Chinese companies in the Iranian upstream sector, rising exports of Iranian oil and gas to EU and Asian markets (which are essential for Russia) and the downward pressure on oil and gas prices.

Russian interests concerning Iran

Russia's policy towards Iran has so far been based on two fundamental assumptions. Firstly, Moscow has viewed Iran as being a pragmatic and loyal, if difficult, partner in the post-Soviet Southern Caucasus and Central Asia, and as being a valuable geopolitical ally in the Middle East. With all the ideological differences between the Russian authoritarian regime and the Iranian Shia theocracy, these two countries had ideological opponents in common, namely the liberal West – with the United States

at the forefront – and Sunni fundamentalism. The Russian political establishment appreciated the moderation that they believed was being demonstrated by Iran in the post-Soviet area in the 1990s and at the beginning of the 21st century¹. From Moscow's point of view, Teheran has behaved loyally to its historic competitor to the north, not only refraining from any attempts to oust it from the areas which had once been in the zone of Persian dominance (the South-

¹ See: M. Bratersky, 'Otkrovenno o politike', *Indeks bezopasnosti*, No. 2 (97), 2011, p. 173.

ern Caucasus and Tajikistan), but actually helping it maintain and stabilise its influence there². Another thing the two countries have had in common is their rejection of Western influence, especially any Western military presence in the post-Soviet area and in the Middle East. As a consequence of this, despite the dispute over the delimitation of the maritime border on the Caspian Sea³, Moscow has viewed Iran as a pragmatic and loyal partner in the region. In the Middle Eastern context, it has viewed Iran as a valuable ally, whose geopolitical interests coincide to a great extent with those of Russia – the two countries backed the Alawite regime in Syria and the anti-Taliban government in Afghanistan, co-operated with the political-paramilitary Hezbollah movement, which represents the Shia community of Lebanon, and they also both had tense relations with Saudi Arabia and Qatar. They also had a common enmity towards the self-styled Islamic State.

The second fundamental assumption of Russia's policy towards Iran was the belief that the conflict between Washington and Teheran was unresolvable. This made Moscow view Iran as an important partner in its policy of containing American primacy in global politics⁴.

² In the mid-1990s, Teheran helped Russia end the civil war in Tajikistan on conditions which guaranteed an advantage to the pro-Moscow and secularist faction led by the incumbent president Emomali Rahmon over the Islamic-democratic opposition. Teheran has also provided diplomatic and propaganda support to Moscow in the Islamic world in its struggle against Chechen separatism. It has consistently backed the only pro-Russian state in the Southern Caucasus—Armenia. For more on this subject see: Clément Therme, *Les relations entre Téhéran et Moscou depuis 1979*, Presses Universitaires de France, Paris 2012, pp. 136, 147–148.

³ Moscow wants the seabed to be delimited along the so-called 'modified central line', while Iran insists on a modification that would give 20% of the seabed's surface to each of the Caspian states. Furthermore, Iran wants the sea to be divided into national zones, while Russia is opposed to this. Y. Y. Belobrov, A.G. Volodin, N.I. Kozyrev, Y.V. Lankin, V.I. Sazhin, V.I. Yurtayev, 'Novaya povestka dnya rossiysko-iranskich otnosheniy, Sovremennyye rossiysko-iranskiye otnosheniya: vyzovy i vozmozhnosti', *Rabochaya tetrad RSMD*, no. XIV (2014), pp. 41–42.

⁴ This topic was raised in an interview given by President Vladimir Putin to the Iranian news agency IRNA during his visit to Teheran on 16 October 2007, <http://www.kremlin.ru/events/president/transcripts/24603>

It also allowed it to use its relations with Iran to strengthen its position in dealing with the United States and to be engaged with it in a variety of geopolitical bargaining. As part of this bargaining Moscow offered modifications of its policy towards Teheran in exchange for Washington respecting its interests, for example in the CIS area. In this context, the Iranian nuclear programme, which Washington sees as a primary threat to US interests, offered Moscow an excellent opportunity to play this game⁵.

Moscow viewed Iran as an important partner in its policy of containing American primacy in global politics.

Although Russia had no interest in Teheran having nuclear weapons, unlike Washington it did not treat the blocking of Iran's nuclear ambitions as an absolute priority, and probably believed that it would be futile in the longer term perspective⁶. Therefore, Russian policy with regard to the Iranian nuclear programme was a projection of a number of goals Russia had been trying to achieve. The most important of these goals was – contrary to official declarations – to keep the dispute over the Iranian nuclear programme unresolved⁷. On the one hand, Russia consistently defended Iran's right to have a full nucle-

⁵ This has also been noticed by Russian experts. See, for example: N. Kozhanov, *Understanding the Revitalization of Russian-Iranian Relations*, Carnegie Moscow Center, May 2015, pp. 4–5.

⁶ "We in Moscow see little hope in stopping Iran if it is dead-set on building a bomb. If a nation with 70 million people, 2,500 years of continuous statehood... and sufficient technical expertise really wants to go nuclear, it will." Dmitri Trenin and Alexey Malashenko, *Iran. A View from Moscow*, Carnegie Moscow Center 2010, p. 5.

⁷ As Russian analysts wrote in 2011, "But in fact, Russia is actually quite happy with the existing situation in Iran. In this state of neither peace nor war, Russia is actively involved in the negotiating process. This offers an opportunity for the Kremlin to raise the stakes in its bilateral dialogue with the United States, which is far more important to it than relations with Iran. Russia wants to keep the situation from degenerating into war, but neither would it welcome full reconciliation between Iran and the United States." V. Orlov, I. Trushkin, 'The Iranian Nuclear Program: Dilemmas facing Russia', *Security Index*, No.2 (95), 2011, pp. 34–35.

ar cycle (i.e. the production of fissile materials which could be used, following further enrichment, for making a nuclear bomb) and opposed the imposition of any sanctions on Iran, in particular economic sanctions. On the other hand, Moscow in its defence of Iran was not ready to go as far as to risk firm retaliatory measures from the USA. As a consequence, Moscow was playing a game of obstructing or hamstringing US attempts to convince the UN Security Council to impose economic sanctions on Teheran, at the same time suggesting to Washington that its opposition to sanctions rather than being absolute could be softened, but for a price. This tactic brought Russia a number of benefits. Firstly, this made it an unusually valuable partner for Teheran, a partner who was delaying and limiting international sanctions initiated by Washington. Secondly, it forced Washington to seek favours from Moscow if it wanted to count on its co-operation or at least neutrality as regards sanctions on Iran, and thus it had to take into account and respect Russian interests to a certain extent. In 2010, during Dmitri Medvedev's presidency, Russia responded positively the US 'reset' policy⁸, and agreed to an embargo on supplies of a number of weapon categories and suspended the implementation of a contract for supplying S-300 air defence systems. However, it also prevented the UN Security Council from imposing economic sanctions which the United States

⁸ Washington's tangible moves as part of the 'reset' policy, which met Russian expectations halfway, included: reducing US engagement in the post-Soviet area (in particular, withdrawing from active efforts to integrate Georgia and Ukraine with NATO), giving up the deployment of elements of the national missile defence system in Central Europe (which was presented by the Barack Obama administration as a 'reconfiguration' of the system plans, although in practice this meant withdrawal from a decision which had already been made to build a particular missile defence system and replacing it with plans to deploy a NATO system which had lower parameters), the signing and the ratification of a strategic arms reduction treaty (START-2) based on the parity principle, and the ratification of an agreement on nuclear co-operation (offering Russia real financial benefits, including sale of nuclear fuel on the US market).

and the European Union had to finally impose unilaterally.

This game of Russia's also prevented its relations with Teheran from being straightforward. Teheran rejected Russian initiatives to regulate the nuclear issue on several occasions (in 2005–2009). These included transferring uranium enrichment for the Iranian nuclear plant and transporting spent nuclear fuel to Russia.

Washington was forced to seek favours from Moscow if it wanted to count on its co-operation or at least neutrality as regards sanctions on Iran.

These initiatives were intended on the one hand at avoiding any excessive aggravation of Iran's conflict with the West (and thus the need to unambiguously take sides and thus spoil relations with the other), and on the other at making Iran dependent on Russia. When these initiatives were rejected by Teheran, this led to Russia taking a firmer stance on Iran and to it supporting the resolutions passed by the UN Security Council (no. 1737 of 23 December 2006, no. 1747 of 24 March 2007, no. 1803 of 3 March 2008 and no. 1929 of 9 June 2010) imposing restrictions on supplies of nuclear and missile technologies and offensive weapons to Iran, and also imposing sanctions on a number of people and institutions engaged in the Iranian nuclear programme⁹.

At the same time, Russia took care to make sure that the sanctions did not affect its co-operation with Iran in the nuclear sector. This co-operation began back in 1992, when Russia agreed to finish the construction of the Bushehr nuclear power plant, which had been started in the 1970s by Germany's Siemens. Finally, the contract with Russia's Atomstroyexport

⁹ See: <http://www.un.org/en/sc/documents/resolutions/>

(a subsidiary of Rosatom) was signed in 1995, and construction work lasted until September 2013. There were recurring tense situations between Teheran and Moscow during the implementation of the project: Iran accused Russia of prolonging the construction process under US pressure, while Moscow reproached the Iranian partner for payment delays. Furthermore, Iran did not initially want to accept the Russian condition under which the nuclear fuel supplied by Russia for the reactor had to be returned (once it had been used)¹⁰.

The political consequences of the deal

The political impact of the Vienna Agreement is ambiguous for Russia, including both pluses and minuses. If this agreement is put into practice¹¹, it will have a number of negative consequences for Russia. Firstly, when Iran's international isolation ends, this country will have significantly more opportunities to choose political and economic partners and Russia will lose its position of being Iran's privileged partner. Iran's stronger position will spell an essential change in the balance of forces between Teheran and Moscow to the detriment of the latter. More importantly, the implementation of the deal will significantly reduce Moscow's ability to use its stance on the Iranian nuclear dossier and sanctions in its geopolitical bargaining with Washington. It will thus lose its major advantage in relations with Washington and the opportunity to display its role as a 'necessary participant' in the resolution of the most important international problems – something which it uses to stress its position as a superpower.

¹⁰ Clément Therme, *op. cit.*, pp. 189–198.

¹¹ It appears that both the present Iranian leaders and the Barack Obama administration, and – even more so – Western Europe are interested in the implementation of the deal: both parties have invested so much political capital in negotiating it (and its benefits for Iran are so obvious) that blocking its implementation would be pointless to them.

On the other hand, though, the signing of the deal will also bring Russia some benefits, but these will rather be potential benefits and will be only partially compensate for the resulting political losses. Firstly, Russia may capitalise on its participation in negotiating the Vienna Agreement to improve its image as a responsible global actor and a potential constructive partner for the West in solving major international problems. It will thus create a more favourable atmosphere for a possible normalisation of Western-Russian relations, which have been seriously strained due to the Ukrainian crisis, and it provides new arguments to the Western supporters of pragmatic co-operation with Moscow who want sanctions on Russia to be gradually lifted¹².

Russia may capitalise on its participation in negotiating the Vienna Agreement to improve its image.

The deal offers Russia an additional argument to oppose NATO's implementation of the so-called third phase of the missile defence shield, pointing out that the liquidation of the nuclear threat posed by Iran removes the need for the United States and NATO to have anti-ballistic missiles in Central Europe (in Romania and especially in Poland).

¹² In a statement made on the day the agreement was signed, the Russian minister of foreign affairs, Sergey Lavrov, suggested that the "priceless experience of joint action" of the great powers concerning Iran should be used to "resolve other crisis situations", and the former Russian foreign minister Igor Ivanov directly pointed to the "Iranian precedent" for settling the conflict over Ukraine. See: http://www.mid.ru/foreign_policy/news/-/asset_publisher/ckNonkJE02Bw/content/id/1581404<http://www.rg.ru/2015/07/22/ivanov.html>; *Iranskiy precedent i ukrainskiy uzor*, <http://www.rg.ru/2015/07/22/ivanov.html>

Oleg Syromolotov, the Russian deputy-minister of foreign affairs made a similar reference to the Iranian precedent in his latest interview for *Kommersant* (27 July 2015) in the context of the possibilities of co-operation with Washington in combating terrorism; <http://kommersant.ru/doc/2776797>

The improvement of the atmosphere in relations with the West may also be used by Russia to resume its diplomatic efforts to bring about a compromise between Assad's Alawite regime in Syria and the part of the armed Syrian opposition which is supported by the West.

Paradoxically, the possible strengthening of Iran will make Arab countries more interested in Russia as a potential partner. Saudi Arabia, wishing to weaken the Teheran–Moscow axis, has already demonstrated its desire to establish warmer relations with Russia. The second successor to the throne and the kingdom's defence minister, Mohammed bin Salman, took part in the Economic Forum in Saint Petersburg and delivered an invitation to President Putin from King Salman to visit Riyadh. Shortly after this, the Saudi Public Investment Fund signed a letter of intent with the Russian Direct Investment Fund, declaring it was ready to invest US\$10 billion in Russia within a timeframe of 4-5 years¹³. In turn, the Russian side has declared it is ready to sell Iskander missiles to Riyadh¹⁴.

Finally, Russia is a member of the Joint Commission (consisting of all participants of the 6+1 negotiations) established to monitor the implementation of the provisions of the document and to resolve any disputes that may emerge between the parties. It is thus able to influence the process of bringing the deal into practice. Since the commission's prerogatives extend to all issues linked to the implementation of the agreement, Russia has thus gained the right to co-decide not only on the sanctions imposed by the Security Council, but also on the unilateral sanctions adopted by the United States and the European Union (since the deal also includes provisions concerning these).

¹³ <http://kommersant.ru/doc/2762984>

¹⁴ Vice-director of Rosoboronexport Igor Sevastyanov, <http://tass.ru/armiya-i-opk/2092045>

The economic consequences: the short-term opportunities ...

The lifting of the anti-Iranian sanctions may, paradoxically, bring Russia short-term economic benefits. So far, despite Moscow's political readiness to develop economic co-operation with Iran, regardless of the sanctions and also despite the lack of competition from Western firms, trade volume between the two countries has been falling regularly over the past few years, reaching: US\$3.8 billion in 2011, US\$2.33 billion in 2012 and US\$1.5 billion in 2013¹⁵.

It cannot be ruled out that, given the new conditions, Russia will improve its trade volume with Iran mainly through the implementation of the memorandum signed in August 2014.

Therefore, it cannot be ruled out that the new conditions will offer Russia a chance to improve its trade volume indicators, and the implementation of the Russian-Iranian memorandum on economic co-operation signed in August 2014 may contribute to this. The content of this memorandum has not been disclosed. According to media reports, Iran would supply oil to Russia (0.5 million barrels daily, i.e. around 25 million tonnes annually¹⁶) in exchange for barter supplies of Russian goods to Iran: trucks and railway cars, equipment used in the energy sector, and agricultural products (mainly grain). In another variant, Russia would build eight hydroelectric and thermal power plants in Iran. The lifting of the sanctions paves the way for enhanced co-operation in the nuclear sector, especially given the fact that Moscow, which

¹⁵ Data from the website of the Russian customs service: www.customs.ru

¹⁶ This might help Russia overcome increasing infrastructural impediments restricting Russian oil supplies to Asian markets.

has until recently been Iran's sole partner in this area, has a privileged position as compared to other prospective investors. This will in particular make it possible to implement the contract envisaging the construction of two new reactors at Bushehr nuclear power plant signed by Rosatom in November 2014¹⁷. Furthermore, the Vienna Agreement itself provides that Russia will co-operate with Iran on enriching uranium for civilian purposes and take part in the reconstruction of the heavy water reactor in Arak¹⁸.

The deal also offers a chance for exports of Russian weapons to Iran to be resumed. Although the new deal upholds the restrictions on weapon exports to Iran, which were imposed by the UN Security Council in 2010, exports are still possible on condition that contracts are reported to and verified by the UN Security Council. Already in March this year, President Putin revoked the decree passed by his predecessor, Dmitri Medvedev, which had suspended a contract for supply of S-300 air defence systems to Iran worth US\$800 million. Russia has also announced that it will sell them to Iran as soon as the latter has withdrawn its complaint to the arbitration court in Geneva against the Russian decision to suspend the contract¹⁹.

In the medium term (the next five years), there will be no real threat to Russia's position on the regional oil and gas markets connected to Iran coming out of international isolation. While it is true that Iran has the world's largest confirmed natural gas deposits (around 34 trillion m³) and fourth largest oil deposits (21.7 billion tonnes)²⁰, it nevertheless seems rather unlikely that

this potential could be used in the coming years on a scale that could pose a serious threat to Russia's interests.

Firstly, Iran will be unable to increase its output any time soon. The sanctions have led to a degradation of the Iranian oil sector: between 2011–2014 its output fell from 3.6 million to 2.8 million barrels daily, and exports from 2.9 million to around 1.5 million. A return to the previous production and export levels will require heavy investments of between US\$50 and 100 billion. Thus Teheran's promises to increase oil exports by one million barrels a day (around 50 million tonnes annually) by 2016 are rather unrealistic.

In the medium term, there will be no real threat to Russia's position on the regional oil and gas markets connected to Iran coming out of international isolation.

Secondly, the volume of Iranian oil exports did not pose any serious competition to Russian exports. Although Iran supplied oil to markets that are important for Russia (the European Union and Asian countries), it was in quantities far smaller than Russian supplies. At that time, the share of Iranian oil in EU imports did not exceed 7%, and thus was much smaller than the share of Russian oil (on average, around 30% in 2000–2015). Furthermore, the markets within the EU which were lost while sanctions were in place will be difficult to regain given falling consumption levels.

Thirdly, it will be a long time before Iran is able to export gas to Europe. The example of the Southern Gas Corridor (gas exports from Azerbaijan via Turkey to the EU) illustrates that it takes years to negotiate the conditions of similar supplies and to build the necessary transport infrastructure. Meanwhile, Iran currently has neither an LNG terminal nor the adequate transport capacity necessary for possible exports using the pipeline system (it exports gas to Turkey via the Tabriz–Erzurum–Ankara gas pipeline,

¹⁷ In addition to this, an intergovernmental protocol envisaging the construction of eight new nuclear reactors in Iran and a memorandum between Rosatom and the Atomic Energy Organisation of Iran on enhancing co-operation in the nuclear power sector were signed.

¹⁸ <http://www.un.org/en/sc/inc/pages/pdf/pow/RES2231E.pdf> (20 July 2015).

¹⁹ <http://top.rbc.ru/politics/30/07/2015/55ba5e4b9a-79474f16ea2999>; <http://kommersant.ru/doc/2752221>

²⁰ *BP Statistical Review of World Energy*, June 2015, pp. 6 and 20, <http://www.bp.com/content/dam/bp/pdf/Energy-economics/statistical-review-2015/bp-statistical-review-of-world-energy-2015-full-report.pdf>

which has a total annual capacity of 14 billion m³ and which is filled to 64%). Furthermore, many factors indicate that the price of Iranian gas exported to the EU via the gas pipeline running through Turkey would not be competitive under present conditions. In 2014 in Turkey, it cost US\$65 more than Azerbaijani gas (per 1,000 m³), and US\$155 more than Russian gas.

... and the long-term challenges

However, in the long run the fact that Iran is coming out of isolation may have tangible negative consequences for Russia.

Firstly, the likely presence of foreign companies in Iran may in the long term significantly raise oil output and export volume. According to forecasts, Iran stands a chance of increasing its oil production level from 2.7 million barrels daily in June 2015 to 4.1 million (World Energy Outlook 2014) or even 4.4 million (Wood Mackenzie) barrels by 2025. An increase in the oil supply on global markets, especially given the predicted significant reduction of oil consumption in the EU, lead to even greater price decreases, and this will adversely affect the Russian budget. Another challenge for Russia would be an increase in Iranian exports to countries which are treated as the most promising markets by Russian firms (India, China, Japan and South Korea).

Secondly, in the long run competition with Iran in the gas sector may become an even more serious challenge for Russia, especially if LNG projects are successfully launched²¹. The emergence of Iranian LNG may restrict Russia's share

in what it sees as the largest market (the EU's) and most promising (China's). Iranian gas pipelines could also be developed over the next 5 to 10 years, thus enabling gas supplies to the EU, although economic feasibility will remain a problem (the price would probably still be higher than that of Russian gas).

In the long term, the expected increase in investments from Western and/or Chinese companies in the Iranian upstream sector will pose a challenge to Russia.

Thirdly, Russian companies are unlikely to win a significant position in the Iranian oil and gas upstream sector, given the Western competition. Their financial capabilities are limited, and their technological competitiveness is low. The rather unfavourable balance of Russian energy firms' activity in Iran so far does not help them, either. It is very unlikely that Iran, which even while in isolation terminated contracts with Russian firms, will offer them any special privileges for political reasons²².

Fourthly, Russia has thus far held a monopoly position in the nuclear sector, yet even here it should expect competition. Reports on Chinese plans to build two nuclear power plants in Iran serve as proof of this²³.

²¹ Only one LNG project has been launched in Iran so far, the so-called Iran-LNG project. This project, with China's participation, was suspended due to sanctions in 2012. Plans were made to build two liquefying plants as part of the projects: Pars-LNG and Persian-LNG. <http://www.globallnginfo.com/world%20lng%20plants%20&%20terminals.pdf>; <http://www.bloomberg.com/news/articles/2012-09-02/iran-and-china-suspend-3-3-billion-lng-project-mehr-says>. None of the reports presenting the results of monitoring the implementation of LNG projects planned to be completed within the next five years takes Iran into account in their specifications.

²² In 2011, Iran terminated the preliminary memorandum it had signed in 2009 with Gazpromneft, and an agreement signed with Tatneft was terminated in 2014.

²³ <http://www.oilcapital.ru/industry/271480.html> (22 July 2015).

Conclusion and possible developments

The consequences of the Vienna Agreement for Russia are ambiguous. In the area of politics, the losses seem greater than the profits. However, Russia's ability to sabotage the agreements is minimal in a situation where both Teheran and Washington appear to be interested in implementing them. Any attempt from Moscow to sabotage these agreements would adversely affect its relations with both Iran and the United States. In a situation where Russia is already partly isolated by the West due to its aggression on Ukraine, a policy like this would

be overly risky. Therefore, the Kremlin has chosen a strategy of making the best of a bad show and attempting to use the agreements to improve its own image rhetorically. The fact that the economic consequences of the deal may turn out to be beneficial for Russia, at least in the short term, can be seen as a consolation prize for Moscow. Even though the long-term consequences of the deal appear to be strongly unfavourable for it, given the economic crisis and financial troubles, the Kremlin has no other choice but to opt for solutions which offer temporary benefits.

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