U.S. AND IRANIAN STRATEGIC COMPETITION

The Impact of China and Russia

By Nori Kasting and Brandon Fite

November 28, 2012

Anthony H. Cordesman
Arleigh A. Burke Chair in Strategy
acordesman@gmail.com
Contents

Executive Summary ........................................................................................................................................ 3
China .......................................................................................................................................................... 5
Evolving US-Chinese Relations .............................................................................................................. 5
Evolving Iran-Chinese Relations ............................................................................................................. 8
A Mutually Enabling Political Relationship ............................................................................................. 8
The Shanghai Cooperation Organization .................................................................................................. 11
The Chinese-Iranian Economic Relationship: Qualified Support for Current and Future Oil ......... 12
Tensions in a Lopsided Relationship .......................................................................................................... 15
US-Chinese Dependence on Gulf – Not Iranian – Oil .......................................................... 15
Chinese Military Assistance to Iran and US Opposition ............................................................... 17

Figure 10.1: Chronology of Key Reports of Chinese-Iranian Arms Cooperation ..................................... 18

US Frustration with China’s Role in Iranian Sanctions ............................................................................. 20
China’s Role in the Iranian Nuclear Program .......................................................................................... 23
The Effect of Transition in Afghanistan on Chinese-Iranian Relations .............................................. 24
Implications for US Policy ......................................................................................................................... 25

Russia ....................................................................................................................................................... 27
Evolving US-Russia Relations .................................................................................................................. 27
Security-Based Political Relations ........................................................................................................ 28
Economic Relations ................................................................................................................................. 30
Evolving Iran-Russia Relations ................................................................................................................ 32
Degrading Political Relations: From Cooperation to Tolerance ........................................................... 34
The Russo-Iranian Economic Relationship: Arms, Energy, and Technology ......................................... 35

Table 10.2: Russian Trade with Iran: 1995-2008 .................................................................................. 36

Russian Military Assistance to Iran ........................................................................................................ 40

Figure 10.3: Chronology of Recent Russo-Iranian Arms Cooperation ................................................... 41

Russia’s Participation in Iranian Nuclear Efforts ..................................................................................... 44

Figure 10.4: Chronology of Russo-Iranian Nuclear Cooperation .......................................................... 45

Russian and Iranian Roles in the Syrian Conflict ................................................................................... 47
Implications for US Policy ....................................................................................................................... 48
EXECUTIVE SUMMARY

China and Russia are key players in US-Iranian strategic competition. As major world powers and permanent members of the UN Security Council, China and Russia play an important role in shaping sanctions and other aspects of international action in dealing with Iran’s nuclear program. At the same time, they are both trading partners with Iran, and are arms exporters to the Islamic Republic. China has been a major importer of Iranian oil and both Russia and China have an interest in investing in Iran’s petroleum sector.

This gives both nations mixed motives in dealing with the US and Iran. These motives are compounded by the fact that Russia trades less with the US, and has exported nuclear technology to Iran, but has more reason to be concerned about Iran’s nuclear weapons programs. China is a major trading partner with the US, but is also caught up in a growing competition with the US for power and influence in Asia.

This helps explain why the formal position of both China and Russia is that they will only impose those sanctions required by applicable UN Security Council resolutions and not enact sanctions beyond those specifically mandated. They have so far interpreted the UN sanctions to mean they should place serious limits on the sale of critical new weapons to Iran, but have the potential option of making such sales to Iran in the future.

Both countries seek to maximize the benefits they can gain from the ongoing competition by refusing to commit to either player. Both nations have an interest in preventing or at least forestalling open hostility that will upset this balancing act, as any conflict could have an impact on their economies. As a result, China and Russia seek to use their support of either side to advance their own positions, while at the same time minimizing the diplomatic costs of their actions. In the recent past, China has carefully tilted toward Iran, and Russia toward the West. But China has also recently been more cautious in dealing with Iran, and Russia has increasingly tended to game the issue as part of a broader hardening in its relations with the US.

The US seeks Chinese support in pressuring Iran to end its nuclear weapons program and limit arms transfers. Iran urges China as a fellow non-Western power to resist what Iran believes are US-led attempts to “dictate” China’s behavior. Iran also seeks to win Chinese support by billing itself as a secure and dedicated source of energy resources for a century of Chinese growth. The resulting US and Iranian competition for influence over China and Russia plays out over proliferation and sanctions, trade and energy investments, arms sales, and each nation’s position in dealing with Afghanistan and Central Asia.

So far, China has been able to maintain positive, if somewhat strained, relations with both the US and Iran by selectively supporting each side. China is willing to use US competition with Iran as an opportunity to expand its influence and test the boundaries of the US-led international order.

---

Chinese moves are calculated to reap the benefits of US-Iranian competition while minimizing the costs associated with supporting both sides. Unlike China, whose main interest in Iran is Chinese energy security, Russia has a range of interests, none of which is central to Russia’s global strategy. Russia’s approach to Iran is both broader and more flexible than China’s, and the US and Iran compete for Russian support on an issue-by-issue basis. The primary areas of competition are proliferation and sanctions, trade and energy deals, nuclear technology and infrastructure sales, arms sales, and influence in the Gulf and greater Middle East.

Russia has historically been an important contributor to Iran’s nuclear infrastructure and conventional arms capacity, but relations between the two states have been impacted by intensifying Iranian competition with the West and the past warming Russian relations with the US in the wake of the Obama administration’s “reset” policy in 2009.

Russia has cooperated with the US in meaningful ways, but Moscow’s moves away from Tehran should not be interpreted as a wholesale shift in Russian policy. Russia has hardened its position towards the US. It opposes military action against Iran and has been unwilling to support increased sanctions beyond UN Security Council Resolution 1929, which was issued in June 2010.

Russia’s role in the competition has also been affected by the changing political landscape in the Middle East, specifically the uncertain future of its Syrian ally, President Bashar al-Assad. By cooperating on a limited basis with the West, while advocating for a softer approach to Iran, Russia leverages its position as an intermediary in order to promote its own interests.

The ties that China and Russia have with Iran are based primarily on each country's assessment of the economic and symbolic benefits of their respective relations with Iran, relative to the risk that their support of Tehran costs in a more valuable relationship with the US. Both China and Russia work to gain politically and economically from the ongoing competition between the US and Iran, but do so with the knowledge that Iran can offer only a limited range of incentives in the context of China’s and Russia’s broader strategic interests.

Leaders in Moscow and Beijing focus on the influence, security and economic gains to their respective leaderships, and pursue international relationships from that standpoint. At present, external pressure from the US and its allies is not able to make either China or Russia give up all ties to Iran, and they manipulate such ties to Iran as a bargaining chip in dealing with the US, as well as the European and Arab Gulf states. If the US is to be more successful in isolating Iran, it will need to convince both countries that Iran poses a greater threat to their individual interests than they now perceive, seek the help of the Arab Gulf states and other powers to influence China and Russia, and develop a more powerful mix of incentives to encourage Chinese and Russian cooperation.

China:

China plays a key role in determining the success of US attempts to isolate Iran and is an important player in US-Iranian competition. The struggle to capture Chinese support plays out over issues like proliferation and sanctions, trade and energy investments, and arms sales. Iran seeks to win Chinese support primarily by billing itself as a secure and dedicated source of energy resources. Despite continued US pressure, China has been able to maintain positive, if somewhat strained, relations with both the US and Iran by supporting nuclear/arms sanctions on Iran diplomatically and by flouting them in practice.
Russia:

The US and Iran compete for Russian support on an issue-by-issue basis. Russia does not yet consider Iran a security threat and it is not dependent upon Iran’s energy resources; rather it is a competitor. Instead of having one overriding interest in Iran like China, Russia has a multiplicity of interests, none of which is central to Russia’s global strategy. Russia’s ties with Iran involve nuclear technology and infrastructure sales, arms sales, and influence in the Gulf and Middle East. In the international arena, Russia has repeatedly tried to portray itself as an intermediary power in order to best position itself within the ongoing US-Iranian competition, all the while working to reap the benefits of selective cooperation with both sides.

China

China is an active player – as both a supporter and potential spoiler – in the ongoing struggle between the US and Iran. China exploits its dual-role as Iranian benefactor and permanent member of the UN Security Council and serves as a de facto gatekeeper to meaningful international sanctions on Iranian nuclear ambitions. The US is obliged to leverage the strength of its bilateral partnership with China to influence China’s position vis-à-vis Iran.

Iran seeks China’s patronage by offering economic cooperation, particularly in the energy sector; by stressing the need for mutual opposition to American dominance; and by encouraging China to take a leading role in shaping the future of the global system. China values its relations with the US too much to risk a meaningful breach, but it is willing to use US competition with Iran as an opportunity to improve its global strategic position.

Evolving US-Chinese Relations

The rapid pace of China’s economic and military growth – along with the deepening of trans-Pacific trade relations – makes the Sino-American relationship one of the principal focal points of the twenty-first century. The US-Chinese economic relationship is the defining feature of bilateral relations, and the driver of nearly all other considerations between the two countries. The relationship has important impacts on the overall health and stability of the global economy, and the secure flow of every aspect of global economic development and trade. The Congressional Research Service reports that China holds $1.16 trillion or 26.1% of US federal debt and is the US’s second largest trading partner. In 2010, China exported some $1.5 trillion worth of goods, over 20% of which went to the United States, according to the CIA. This figure represented 26% of China’s GDP at the time, and the volume of exports to the US alone was equal to 5.2% of GDP.

---


The trade relationship between the US and China continues to deepen. In 2011, the US was the single greatest customer for China, purchasing more than 17% of all Chinese exports. The US is also the third largest supplier of China’s imports after Japan and South Korea; nearly 7% of China’s total imports originate in the US.

Likewise, China continues to be one of the US’s most important trading partners. After neighboring Canada and Mexico, China was the third most important buyer of US goods in 2011, purchasing about 7% of all US exports. China is also the source of more than 18% of all US imports, making China the US’s largest import partner.

For the foreseeable future, both the US and China will remain dependent in large part on the overall health of the global economy. Terrorism, piracy, and insurgency all pose a common threat to trade and economic growth – which concerns both the US and China. This risk to the global economy will be especially high if a terrorist threat escalates to an insurgency, if there is a successful terrorist attack on critical economic targets, or a terrorist attack involves the use of weapons of mass destruction.

At the same time, the emergence of China as a major world power has led to increasing competition as well as increasing economic interdependence. China has steadily emerged as a power that pursues its own interests on a global scale, while the US has struggled to bring China closer into the international order it dominates.

The US and China compete most in Asia, but they also have common interests in ensuring the steady flow of hydrocarbons from Central Asia, seeing a stable Transition in Afghanistan, and promoting the stability of the global economy. Since September 2001, both nations have been committed to addressing the global security threat posed by terrorism. Beginning in 2009, officials from the US Treasury and State Departments have also met with their Chinese counterparts at the US-China Strategic and Economic Dialogue. The Dialogue serves as the highest-level forum for both nations to address a broad range of bilateral, regional, and global issues.

---


The US’s relationship with Taiwan has long been the core irritant in the US-Chinese relationship. In January 2010, China suspended military dialogue with the US and threatened to impose sanctions on US defense contractors after the US confirmed a $6.4 billion arms deal with Taipei.\textsuperscript{12} China’s competition with the US over Taiwan is exacerbated by growing tensions between China and US allies over other territorial claims in the Pacific.

A significant increase in Chinese military capabilities has also raised tensions in the relationship. The transformation of China’s military from a regional, land-based defense force into a more mobile body capable of trans-regional action impacts the American strategic approach to East Asia.\textsuperscript{13}

China’s territorial claims in the South and East China Seas are bolstered by the PLA’s continued development of advanced Anti-Access/Area Denial capabilities.\textsuperscript{14} As the PLA continues to grow and transform, the US is intent on pursuing an active relationship with Chinese commanders in order to build trust and prevent miscommunication. On a visit to Beijing in January 2011, US Secretary of Defense Robert Gates commented on the relationship saying, “We are in strong agreement that in order to reduce the chances of miscommunication, misunderstanding or miscalculation, it is important that our military-to-military ties are solid, consistent and not subject to shifting political winds.”\textsuperscript{15}

As China’s regional and international interests expand and grow more complex, the PLA’s international engagement will expand, especially in the areas of peace operations, HA/DR, and joint exercises. In addition to furthering PLA modernization, the focus of these engagements will likely remain on building China’s political ties, assuaging fears about China’s rise, and building China’s international influence, particularly in Asia.

The end result is that both states must constantly balance their competing interests in competition and cooperation, while dealing with different internal interests and political change. The reelection of President Obama will preserve some continuity on the US side. The situation is less certain in the case of China.


In November 2012, President Hu Jintao and two-thirds of China’s leading political figures were replaced by new members.\textsuperscript{16} It remains unclear exactly how the ascension of the Politburo’s “fifth generation” leaders will shape future Sino-American relations, although key factors of the relationship – bilateral trade, Taiwan, and shared demand for resources – will likely remain the primary drivers of actions on either side.

**Evolving Iran-Chinese Relations**

China established relations with Iran in 1971. Since then, the two have developed a relationship which is strategically beneficial to both parties. Sino-Iranian security cooperation revolves around China’s desire for resource security. Iran provides China with a secure source for oil, a market for arms, and, occasionally, a means by which to indirectly challenge American supremacy.

In return, China provides a major market for Iranian oil, growing investment in Iranian energy, limited arms sales, and occasional diplomatic support. This Sino-Iranian relationship is reinforced to some degree by a mutual distrust of the US’s global reach, although China maintains strong economic and diplomatic ties with the US and refrains from Iranian-style ideological tirades. Over the past forty years, pragmatic China has frequently played the role of enabler in its bilateral relations with Iran.

**A Mutually Enabling Political Relationship**

During the past decade, Iran has sought to frame the Sino-Iranian partnership as an alternative model to what it views as the declining Western system. Ties with a global power such as China provide Iran with needed support as it works to create an international climate less dominated by states that oppose the Iranian regime.

Relations between China and Iran were established during the rule of Shah Reza Pahlavi and became closer due to China’s growing tensions with the USSR. China’s initially strong support for the Shah led to strained relations when the Revolutionary government took power, but relations soon improved.

By the sixth year of the Iran-Iraq War (1980-1988), China had become Iran’s largest supplier of arms.\textsuperscript{17} During the conflict, China provided Iran with HY-2 Silkworm anti-ship missiles, which allowed Iran to strike Iraqi and pro-Iraqi non-combatant shipping in the Gulf, beginning the so-called “tanker war.” In April 1988, the sinking of an American frigate by an Iranian mine led to Operation Praying Mantis, the largest US naval engagement since WWII.

In spite of this “tanker war,” China kept up good relations with Iran and criticized US military involvement, although Beijing encouraged Tehran to accept a negotiated settlement. In July of


1988, while China chaired the UN Security Council, Iran accepted UN Resolution 598, enacting a cease-fire and effectively putting an end to its hostilities with Iraq.\textsuperscript{18}

Since the Iran-Iraq War, China has deepened its relations with Iran through continued arms sales and diplomatic engagement, and most of all through oil purchases. The level of bilateral trade has increased particularly quickly in the last year: according to Iranian news sources, as of November 2011, bilateral trade was up by 34\% from a year earlier.\textsuperscript{19} Of the $39 billion in Iranian exports to China in the first 10 months of 2011, oil exports constituted about 85\%.\textsuperscript{20}

China’s appetite for oil has also grown at a rapid rate. As of 2009, China began importing more than 50\% of the oil it consumes.\textsuperscript{21} China’s greater need for resources to fuel its economic growth has solidified its presence in the Middle East and complicated US attempts to break Chinese ties to Iran.

This helps explain why China has increased its ties with Iran despite international pressure. According to John Garver of the Sam Nunn School of International Affairs, “there were six high level Chinese and Iranian official exchanges in 2003, eleven in 2004, fourteen in 2005, ten in 2006, seventeen in 2007, twelve in 2008, and ten in 2009.”\textsuperscript{22} At these meetings the delegates discussed topics including transportation, agriculture, environmental protection, ship building, training of diplomats, information technology, labor and social security, internal security, the defense industry, and the nuclear issue.\textsuperscript{23}

Leaders in Tehran have stated that a strong Sino-Iranian partnership will help bring about a new world order. Speaking to China’s new ambassador to Tehran in March of 2011, President Mahmoud Ahmadinejad said, “The order and the system dominating the world at present is worn-out and rotten and its unfair nature has been unveiled to all...Under the present conditions,

\begin{flushleft}
\textsuperscript{18} Willem van Kemenade, “Iran’s Relations with China and the West: Cooperation and Confrontation in Asia,” Netherlands Institute for International Relations, November 2009.
\end{flushleft}
the world needs a humane and fair new order and Iran and China can have fruitful cooperation in
the interest of humanity to define and establish this order.”24

This view is publically critical of present American leadership and suggests that Iran and China
are integral to a needed transition. According to the Iranian Fars News Agency, Foreign Minister
Ali Akbar Salehi “underlined Beijing's important role in international equations, and called on
the Chinese officials to double their efforts to play a greater role in the new world order.”25 The
Iranian leadership seems to believe that as Chinese influence expands, Western pressure will
decrease and Iran will be more able to pursue its national ambitions.

Iranian officials stress that an expanded international role in the Sino-Iranian relationship is
necessary to secure regional peace and security and to advance the mutual interests of Beijing
and Tehran. In March 2011, Hossein Sobhaninia, a senior Iranian MP stated, “With regard to the
recent developments in the Middle-East and North Africa, parliamentary cooperation between
Iran and China plays a key role in restoring peace and stability in the region and serving the
interests of the two nations.”26 Sobhaninia is a member of the Iranian parliament's Presiding
Board and was speaking with Chen Zhili, Vice Chairman of the Standing Committee of the
National People's Congress of China.

From Beijing’s perspective, support for Iran is a method for asserting China’s independence and
growing clout on the international stage. David Shambaugh has described China’s foreign
policy-making apparatus as trending towards hardline realists, who view US efforts at
sanctioning Iran as evidence of a broader US policy of containing China.27 From this viewpoint,
Chinese intransigence towards US-led efforts to isolate Iran is as much about defying the US as
continuing to do business with an important energy provider.

At the same time, it is important to highlight the relative economic value of Iran and the US to
Beijing. According to a 2012 RAND study,

Through October 2011, total bilateral Chinese-Iranian trade amounted to approximately $39
billion. The PRC’s new investments in the Islamic Republic reportedly totaled roughly $1 billion
in 2011, though figures are hard to come by and the Iranian regime is widely suspected of
deliberately seeking to exaggerate the size of Chinese investments for political purposes...By
contrast, through the third quarter of 2011, Chinese investments in the United States amounted to
approximately $15.9 billion, while U.S. imports from China reached approximately $330 billion
through October 2011. Finally, in the energy sector, over the past two years, Chinese firms
CNOOC and Sinopec have purchased more than $4.6 billion worth of energy assets in the United


26 “MP Underscores Iran, China's Key Role in Restoring Peace in Region,” Fars News Agency, April 19, 2011.

States, giving these firms an incentive not to put their U.S. investments at risk by cooperating with Iran in ways that earn Washington’s ire. As this comparison makes clear, the US is a far more important economic partner for China than Iran. The relationship is not one-way; the US depends on China as well. China is not afraid to use its leverage to exert a certain amount of independence in its Iran policy, both for the purpose of profiting from cheap Iranian oil and for the purpose of displaying its strength on the world stage. However, China’s strategic interests are not as closely aligned with Iran as Tehran would like, and ultimately, Beijing values its relationship with the US far more than its relationship with the Islamic Republic.

The Shanghai Cooperation Organization

Iran has had some success in strengthening its relations with both China and Russia through its involvement in the Shanghai Cooperation Organization (SCO). In recent years, China has viewed the SCO as a mechanism to facilitate regional trade. Moscow would like to see the SCO’s security mandate expanded—a development that would surely benefit Russia’s growing desire to counterbalance NATO and supplement the aging Collective Security Treaty Organization (CSTO).

Iran’s participation in the SCO represents a low-cost method for enhancing its international status. In 2005, Iran was granted observer status in the SCO, an organization dominated by Russia and China. The SCO was originally formed to provide a forum to help resolve border disputes in Central Asia and counter an emerging international terrorist threat. Tehran applied for full membership in 2008, but was denied two years later under new rules prohibiting membership to countries that are under UN sanctions. The refusal to grant Iran full membership status in the SCO was seen by many as a bid not to antagonize the US, which opposed Iranian membership in the organization.

Iran’s attempt to upgrade its status at the SCO was more symbolic than a serious effort to join in regional cooperation. The SCO has limited capabilities in terms of regional security and continues to be stymied by a lack of organizational focus. Iranian membership in the SCO would do little to fundamentally change the existing relationship between Tehran and Beijing or between Tehran and Moscow.

Still, observer status in the SCO provides Iran with a forum to denounce the West and voice its views on an international stage. At the 2011 summit in Astana, President Ahmadinejad stated “All opinion polls show that the US is the worst country in the world. People everywhere regard

---


this country as their own enemy.” He also claimed the international order was led by “slavers and colonizers.”

There are indications, however, that China wants to keep Iran’s role in the SCO limited. At the same 2011 summit in which President Ahmadinejad voiced intense criticism of the US, Chinese President Hu attempted to reign in Iranian rhetoric. According to the Christian Science Monitor, “In a sideline meeting with Ahmadinejad, [Chinese President] Hu called upon Iran to ‘take substantial steps in respect of establishing trust’ and ‘speed up the process of dialogue,’ in international efforts to curb Iran's nuclear program.” Even if Iran were to be upgraded to full membership in the SCO, it is unlikely that the status would produce much in the way of tangible benefits to Tehran.

**The Chinese-Iranian Economic Relationship: Qualified Support for Current and Future Oil**

China’s growing demand for secure sources of oil and US and EU sanctions on Iranian energy exports have had a major impact on Sino-Iranian economic relations. They have pushed China to reduce its imports and trade with Iran while producing an environment in which Iran is becoming increasingly dependent on Chinese oil purchases. This helped lead to a Chinese effort to keep its relations with Iran and the US balanced at the 2011 meeting of the SCO. At that meeting, President Hu emphasized China’s strong economic relationship with Iran. He reaffirmed his country’s support for Iran’s pursuit of peaceful nuclear power, and stated that Iran was China’s second largest trade partner in West Asia.

China is Iran’s largest buyer of crude oil, and Beijing is unlikely to cease its Iranian imports in the near future, despite repeated calls for sanctions by the US. In 2010, China was Iran’s single largest buyer of crude oil, accounting for some 20% of Iran’s total oil exports. That percentage held constant through 2011, when China purchased about $16 billion worth of Iranian oil. According to Agence-France Presse, this figure represented around 11% of China’s oil imports

---


for 2011.\textsuperscript{36} Currently, Iran is China’s third largest supplier of oil; according to the \textit{Wall Street Journal}, China buys some 524,000 barrels per day from the Islamic Republic.\textsuperscript{37}

At an Iranian oil exhibition in April 2011, the number of Chinese companies in attendance jumped from 100 in 2010 to 166.\textsuperscript{38} In June 2012, China reportedly pledged to reduce its imports of Iranian oil by 455,000 barrels per day, or about 18%.\textsuperscript{39} That same month, China received a sanctions exemption from the US, presumably in return for its promise to cut its oil imports from Iran. However, it is possible that by August 2012, China’s imports of Iranian oil returned to their previous level of about 550,000 barrels per day.\textsuperscript{40}

China is sensitive to external pressure concerning its investments in Iran, but Beijing believes that some level of energy trade can still be conducted without incurring a serious risk of US sanctions. At a news briefing in October 2012, a spokesman for the Chinese Foreign Ministry declared that China “oppose[s] the imposition of unilateral sanctions on Iran and believe[s] that using sanctions to exert pressure cannot fundamentally resolve the Iran nuclear issue.”\textsuperscript{41}

China’s export of gasoline to Iran serves as a another example. There was a 75% drop in total sales of refined gasoline to Iran in 2010 due to US and EU sanctions.\textsuperscript{42} China moved in to fill the gap and sold Iran half of its gasoline imports for the month of July 2010, amounting to roughly 45,000 barrels per day.\textsuperscript{43} Perhaps due to its limited options, Iran reportedly bought Chinese gasoline at a 25% premium above the market rate.\textsuperscript{44}

China sees Iran as a nation where energy investment might help secure its imports. According to the US Energy Information Administration (EIA), Iran has the world’s fourth largest proven oil


\textsuperscript{38} “Chinese Firms Dominate Iran Oil Exhibition.” \textit{Agence-France Press}, April 15, 2011. http://www.google.com/hostednews/afp/article/ALeqM5jIaR0aF5otNEn7hmxynIxUjU3MA?docId=CNG.237368a6f7fb52b5d54540410303906.81.


reserves, after Saudi Arabia, Venezuela, and Canada. If both oil and gas reserves are included and natural gas reserves are converted into barrels of oil equivalent (boe), Saudi Arabia has 302.5 boe, and Iran has 301.7 boe. Russia's hydrocarbon reserves, the world's third largest, are 198.3 boe. This means Iran's hydrocarbon resources are almost equal to those of Saudi Arabia and greater than those of Russia.

Moreover, Iran's extraction rate is relatively low compared with its energy reserves. Iran has not developed its extraction capabilities to fully exploit its natural gas reserves. Given the proper amount of investment and technology, Iran could boost its production substantially and become an even larger provider of energy for China.

China already is providing important technical assistance to develop the Iranian energy sector—assistance that the US opposes. Iran’s energy sector has been handicapped by constitutional limitations on foreign ownership and investor concerns over the country’s political and economic stability. Iran’s oil production levels remain below pre-revolution levels and substantial offshore gas reserves have yet to be exploited. High levels of domestic energy consumption and an inability to refine most of its crude have also made Iran reliant upon gasoline imports. China’s current commitment to Iranian energy resources, despite sanctions, is a saving grace for Iran’s underdeveloped energy industry.

Nevertheless, China has been careful about signing binding contracts with Iran. The leaders of China’s national oil companies are wary of overreaching in an unstable economic environment and of unnecessarily offending Washington in the process. Writing in Foreign Affairs, Erica Downs and Suzanne Moloney describe China’s investment strategy as follows:

Their strategy is to negotiate agreements but delay major spending in the hope of securing access to Iran's resources over the long term while minimizing the immediate risks of taking on legal and financial commitments in an unpredictable environment...Commitments to Iran largely take the form of non-binding memoranda of understanding (MOUs). Such MOUs total nearly $80 billion, but only a fraction will likely be realized if Chinese companies fear that these investments could provoke sanctions under U.S. law or if the companies are forced to choose between energy projects in Iran and energy projects in the U.S.

---


**Tensions in a Lopsided Relationship**

Iran and China also have several areas of tension. Many in the Iranian merchant-class have grown resentful of China’s growing influence in Iran’s domestic markets. Erica Downs and Suzanne Moloney report that “the Iranian media regularly complain that China is price gouging, that its materials are inferior, and that cheap Chinese imports are driving Iran's small industries out of business.”

Tehran has taken steps to block products that are “beneath the dignity of the Iranian consumer” by banning 170 “low quality” products, nearly all of which are Chinese.

Both sides understand that the Chinese-Iranian energy relationship is heavily tilted in China’s favor. Despite Iran being the third largest supplier of Chinese oil imports, Iranian oil accounted for only 11% of China’s total oil imports for 2011. China also has significant trade links with Saudi Arabia and the United Arab Emirates – both of which have strongly anti-Iranian foreign policies. Moreover, as noted above, China’s trade and diplomatic ties with the US are much more important to China than its ties with Iran.

Iran has become increasingly dependent on China both as a market for crude oil and as a supplier of refined gasoline. China, on the other hand, continues to profit from the Western exodus from Iranian energy sources, while remaining in no way dependent on decisions made in Tehran. As international sanctions continue to increase Iran’s isolation, Tehran will continue to need China’s patronage. China, for its part, will continue to take advantage of Iran’s need for an oil export market and the opportunity that the Iranian case provides to demonstrate China’s growing independence in the Western-led international system.

**US-Chinese Dependence on Gulf – Not Iranian – Oil**

The US and China must both, however, look at the overall flow of oil and not just at Iran. Both are dependent on the overall flow of energy from the Middle East, North Africa, and Central Asia. Currently, some 20% of the world’s oil passes through the Strait of Hormuz each day – most of it from Gulf Arab states and not from Iran. The CIA World Factbook estimated that China consumed 9.79 million barrels of oil per day (MMBD) in 2011, while the US consumed an estimated 18.84 MMBD.

---


52 “Iran-China trade soars to top $45 bn: Report,” *Agence-France Press*, January 25, 2012. [http://www.google.com/hostednews/afp/article/ALeqM5hY7c68GUtbB3l6eNvA4XKSe4pREQ?docId=CNG.0fba0ae87a709d1765a1374d04dc31be.11](http://www.google.com/hostednews/afp/article/ALeqM5hY7c68GUtbB3l6eNvA4XKSe4pREQ?docId=CNG.0fba0ae87a709d1765a1374d04dc31be.11).


The International Energy Agency (IEA) and the Energy Information Administration (EIA) of the US Department of Energy both estimate that the US, China, and the global economies will remain dependent on the secure flow of oil and gas exports through 2035 – as far into the future as either agency makes predictions. China and the rest of the developing world are predicted to steadily become more dependent on energy imports, highlighting the importance of secure flows of oil and gas exports to the world economy through 2035. The US, Europe, and Japan are not predicted to make any significant reductions.

Both the US and China are predicted to increase their energy consumption, but China has far more reason to be concerned about its growing dependence on foreign sources. The US will increase its consumption of energy by a relatively small amount, at an average rate of 0.7% per year until 2035. Washington is also stepping up its domestic oil and gas production, which will reduce its dependence on imports.

China, on the other hand, is projected to increase its consumption from 8.32 MMBD in 2009 to 19.1 MMBD in 2035, and is becoming steadily more dependent on energy imports. The EIA is still reassessing future US energy imports to take into account its rising domestic oil and gas production, but the EIA estimated in June 2012 that

The net import share of U.S. petroleum and other liquids consumption, which fell from 60 percent in 2005 to 50 percent in 2010, continues to decline in the Reference case, with the net import share falling to 36 percent in 2035. In the High Oil Price case, the net import share falls even lower to a 22-percent share in 2035. In the Low Oil Price case, the net import share remains flat in the near term but rises to 51 percent in 2035, as domestic demand increases and imports become cheaper than crude oil produced domestically. As a result of increased domestic production and slow growth in consumption, the United States becomes a net exporter of petroleum products, with net exports in the Reference case increasing from 0.18 million barrels per day in 2011 to 0.34 million barrels per day in 2035. In the High Oil Price case, net exports of petroleum products increase to 0.9 million barrels per day in 2035.

In contrast, the EIA forecasts that China will produce 4.2 MMBD of conventional and unconventional liquids in 2035, and require 14.2 MMBD in imports (74%).

As noted above, US oil and gas imports are projected to drop because of new technology and growing domestic production. Like the IEA, the EIA estimates that China will significantly increase its energy imports of gas – particularly if the destruction the Fukushima Daiichi nuclear power plant in Japan results in China further slowing its nuclear program.

Such data do, however, understate the true level of US import dependence on Gulf and other energy exports – as well as US dependence China and Asia. The US imports large additional amounts of oil and gas indirectly through its imports of manufactured goods – a large percentage


of which come from China, Europe, and other Asian states that are heavily dependent on imports from the Middle East and North Africa.  

**Chinese Military Assistance to Iran and US Opposition**

China has historically been an important arms supplier for Iran. In the years following the Iran-Iraq war, China steadily increased its weapons sales to Iran. Iran purchased $400 million worth of weapons from China between 1993 and 1996, and $600 million during the 1997-2000 period.\(^5^8\) In addition to small arms, Beijing supplied Tehran with artillery pieces, anti-ship cruise missiles, surface-to-air missiles, fighter jets, tanks, armored personnel carriers, and fast-attack patrol vessels. Contemporary Chinese supplies to Iran have included large-caliber sniper rifles, armor-piercing rounds, C-802 “Silkworm” anti-ship cruise missiles, shoulder-fired HN-5 anti-aircraft missiles, 107mm rockets, 60mm and 82mm mortars, rocket-propelled grenades, anti-aircraft guns, landmines, and components for roadside bombs.\(^5^9\)

According to Richard Grimmett at the Congressional Research Service, the value of arms transfers decreased in first decade of the 2000s. Between 2002 and 2005, arms sales were valued at approximately $100 million, and then dropped below $50 million in the period from 2007 to 2010.\(^6^0\) Less reliable data from the Stockholm International Peace Research Institute indicates that China accounted for 84% of Iran’s weapons imports in both 2010 and 2011.\(^6^1\) Moreover, Sino-Iranian arms sales have affected the stability of the region through Iran’s support of proxy militant forces.

The US has vigorously opposed Chinese sales to Iran’s military sector – with mixed effects. Speaking to CNN in 2007, Under Secretary of State for Political Affairs Nicolas Burns stated that the US had “irrefutable evidence” that the Iranians were transferring arms to militants in “Lebanon, in Gaza, in Afghanistan, and in Iraq” in direct contravention of UN Security Council Resolution 1747.\(^6^2\) Some of these arms were believed to originate from China, a signatory to UN

---


Resolution 1747 banning Iran’s export of arms. John McConnell, the former Director of National Intelligence, testified to Congress that China’s arms sales in the Middle East were “destabilizing” and “a threat” to US forces.63

In 2009, former Defense Secretary Robert Gates delivered a report to Congress giving a brief summation of the US position on the Sino-Iranian arms trade:

Beijing conducts arms sales and training both to enhance foreign relationships and to generate revenue to support its domestic defense industry. China’s arms sales range from small arms and ammunition to joint development or transfer of advanced weapons systems. Chinese companies sell primarily to developing countries where China’s low-cost weapons sales serve both commercial and strategic purposes…China supported UN Security Council Resolutions 1737, 1747, 1803, and 1835. However, concerns remain regarding China’s enforcement of existing laws regarding arms sales to Iran. A number of transfers to Iran have resulted in U.S. trade penalties and sanctions against entities in China. Some weapons that Chinese entities supplied to Iran were found to have been transferred to terrorist organizations in Iraq and Afghanistan. This is a serious issue that the United States continues to monitor.64

China has denied its complicity in illicit arms transfers. According to David Albright, president of the Institute for Science and International Security, much of the problem can be attributed to weak enforcement mechanisms in China. Chinese companies may be violating UN sanctions against Iran without the knowledge of the Chinese government because China lacks the proper law enforcement and export control networks to intercept dual-use technology. At a forum in January 2011, Albright said that while the US and Europe have developed means to detect Iranian front companies, in China “a large amount” of illicit equipment and material reaches Iranian buyers.65

A chronology highlighting key moments in the Sino-Iranian arms relationship and the US pressure to disrupt it is shown below in Figure 10.1:

**Figure 10.1: Chronology of Key Reports of Chinese-Iranian Arms Cooperation**

- **4 June 2000:** China is reported to be assisting Iran in an advanced surface-to-surface ballistic missile development project. The transfer of guidance systems, missile engines, and solid fuels could help Iran construct factories for missile manufacturing. In addition, Chinese assistance with the production of these materials is essential for Iranian development of long-range missiles.66


**18 July 2000:** In reference to reports of China's assistance to Iran's missile program, Zhu Bangzao, the Chinese Foreign Ministry spokesman, brushes aside allegations saying, “This report is baseless,” and “We hope the Middle East and the Gulf will maintain peace and stability.”

**26 January 2001:** *The Washington Times* reports China is continuing to sell missile-related technologies to Iran. According to an anonymous source, China supplied Iran with specialty metals and chemicals used in missile production. China North Industries Co. was identified as the seller. The Iranian buyer was Shahid Bakeri Industrial Group.

**19 July 2002:** US State Department imposes economic sanctions on eight Chinese companies involving “three cases of sales of advanced conventional arms and chemical and biological weapons components to Iran.” The sales were made between September 2000 and October 2001 and violated the Iran-Iraq Nonproliferation Act of 1992.

**23 May 2003:** The US government imposes sanctions on China North Industries Group (Norinco) for allegedly supplying missile technology to Iran. The sanctions bar all exports to the US by Norinco or its subsidiaries, and forbids any contracts between the company and US government agencies. In 2002, Norinco exported an estimated $100 million worth of products to the US.

**16 June 2004:** Testifying on behalf of the US-China Economic and Security Review Commission, Carolyn Bartholomew says, “Chinese entities continue to assist Iran with dual-use missile-related items, raw materials and chemical weapons-related production equipment and technology.” The Commission’s annual report states, “China has sought energy cooperation with countries of concern to the United States, including Iran . . . Some analysts have voiced suspicions that China may have offered WMD-related transfers as a component of some of its energy deals.” Chinese companies are accused of having sold CSS-8 and DF-15 ballistic missiles to Iran, along with cruise missiles identified as HY-1, HY-2 Silkworm, C-201, C-601, C-801 and C-802.

**23 November 2004:** The CIA’s six-month assessment of WMD trends for July-December 2003 acknowledges limited improvements in Chinese nonproliferation efforts but raises concern about continued assistance to Iran. “Although Beijing continues to take some steps to educate firms and individuals on the new missile-related export regulations - offering an export control seminar in September 2003 for officials and companies from China and other countries - Chinese entities continued to work with Pakistan and Iran on ballistic missile-related projects during the second half of 2003.”

---


related assistance helped Iran move toward its goal of becoming self-sufficient in the production of ballistic missiles.”

- **28 March 2007:** Speaking before the House of Representatives Foreign Affairs subcommittee on Asia, Deputy Assistant Secretary of State for East Asian Affairs Thomas Christensen criticizes Chinese investments in the Iranian energy sector. He said, “We have made clear to Beijing that these types of investments, along with continued arms sales, send the wrong signal to the Iranian regime and raise serious concerns under US law.”

- **February 2008:** The US State Department launches a “major diplomatic offensive” to put pressure on Beijing to cease possible weapons trades with Iran. The US shares intelligence with eight “key allies” to “persuade China to enforce its export control laws more effectively” and to “aggressively implement” UNSC resolutions on the sale of arms and contraband materials.

- **February and April 2009:** The US sanctions several Chinese businesses for missile proliferation in Iran.

- **February 2011:** The US Congress is informed by the 2011 “Section 721 Report” that Chinese “entities” have “continued to supply missile-related items to Iran,” despite US sanctions.

### US Frustration with China’s Role in Iranian Sanctions

The US and EU have made steadily growing efforts to sanction Iran and pressure it to end its nuclear program. China has been both a partner and a spoiler in this effort. China has participated in UN resolutions punishing Iran for its undisclosed nuclear ambitions, but China has also maintained strong economic ties with Iran and actively undercuts the aggressive sanctions programs initiated by the US and its partners.

UN Security Council Resolution 1929, issued in June 2010, imposed sanctions on Iran’s nuclear program and military activities. UNSCR 1929 expanded previous sanctions by restricting arms sales, providing states with the ability to search vessels suspected of carrying contraband cargo, and also by targeting Iranian firms linked with Iran’s nuclear development capability.

---


actively worked to block any barriers that UNSCR 1929 might place on normal commercial transactions, especially in the energy sector. China ultimately voted in favor of UNSCR 1929, but according to John Garver, the vote was delayed in order to benefit Iran:

In mid-December 2009 the Obama Administration began pushing for a fourth round of Security Council sanctions after concluding that Tehran would not respond adequately to Washington’s overtures over the previous ten months. China did not agree to begin discussing this matter until the end of March 2010, about three and a half months after the U.S. proposal. It then took another nine weeks to reach agreement on what became Resolution 1929. China’s lethargic approach helped delay Security Council action by several perhaps six months. All together Beijing’s delaying tactics probably gained several years of time for Tehran. This occurred in a situation in which Washington was urging that time was running out for a peaceful settlement and as Tehran pushed forward vigorously with its nuclear efforts.78

China also has opposed US sanctions, including the US Comprehensive Iran Sanctions, Accountability, and Divestment Act of 2010 (CISADA). CISADA expands sanctions by making US business endeavors in Iran financially untenable and targets Iran’s energy and banking sectors, along with business activities which directly or indirectly benefit the Islamic Republican Guard Corps (IRGC).79 US officials have cautioned that the effectiveness of such sanctions is predicated on the degree to which all parties adhere to their proscriptions. A defection or obstruction by a major power such as China dramatically reduces the effectiveness of sanctions.

Two months after using its vote as a permanent member of the Security Council to censure Iran, Chinese officials reiterated their nation’s political and economic commitments to Tehran. According to Iran’s state-run Mehr News Agency, Chinese vice premier Li Keqiang and Iranian oil minister Masoud Mir-Kazemi jointly expressed their interest in expanding ties, specifically in the oil and gas sectors. Speaking directly to Chinese interests, Mir-Kazemi said, “…[Iran] is prepared to deliver secure energy to the region, especially to the People's Republic of China, and this matter will lead to stable and strong relation [sic] between the two countries.”80 Vice premier Keqiang reciprocated the commitment, stating:

China is willing to work hard with Iran, continue to push mutual political trust [sic], and maintain communication, dialogue and coordination on important international issues, to maintain regional and global peace, stability and prosperity…The key point is to solidly push forward existing cooperative projects, to ensure they are put into effect smoothly, to deepen bilateral pragmatic cooperation and promote the continued development of bilateral ties.81

Both Chinese and Iranian officials have claimed their relationship will not be damaged by UNSCR 1929. China did so by denouncing the additional sanctions placed on Iran by the US and its allies. At a July 6, 2010 press briefing, Chinese Foreign Ministry spokesman Qin Gang said, “The Security Council not long ago adopted the 1929 Resolution on the Iranian issue. China believes that the resolution should be earnestly, accurately and fully implemented, instead of being arbitrarily interpreted and expanded.”

Chinese leaders continue to condemn non-UN punitive measures and push for renewed negotiations, but they have also cautioned Tehran against rash action that may further polarize the international community. China has also recently strengthened ties to alternative sources of energy, namely Saudi Arabia and Qatar.

The US has responded with pressures of its own. In January 2012, the US sanctioned the Chinese oil-importer, Zhuhai Zhenrong, for transacting with Iran. Even though the sanctions were essentially symbolic because the company had no ongoing activity with the US covered by sanctions, Chinese Foreign Ministry spokesman Lie Weimin used the incident to critique extra-UN sanctions. He said, “Imposing sanctions on a Chinese company based on a domestic (US) law is totally unreasonable and does not conform to the spirit or content of the UN Security Council resolutions about the Iran nuclear issue.”

China has, however, kept up a balancing act. Although China formally opposes the current round of US and European sanctions on Iran, Chinese officials have also taken a stronger rhetorical stance on the issue of Iran’s possession of nuclear weapons and the prospect of Tehran interrupting shipping in the Gulf by “closing” the Strait of Hormuz. Speaking in Doha on a six-day tour of the Middle East, Chinese Premier Wen Jiabao stated that Beijing “adamantly opposes Iran developing and possessing nuclear weapons” and that closing the Strait would be regarded as aggression.

Thus far, China has been able to play its double role with relative impunity. Despite China’s continued frustration of American efforts to pressure Iran, the US has declined to seriously enforce a 1996 measure penalizing third-country companies that invest in Iran's energy sector and do business in the US. China realizes that it is a major trade partner of the US, and it is unclear to what extent Washington can enact harsh sanctions on Beijing without doing serious damage to its own economic interests. This gives China help in successfully navigating the passage between support for Iran and alienation of the United States. Its support is limited


enough to avoid overt confrontation with the West, but substantial enough to earn the good faith of Tehran and the lucrative energy contracts such a relationship brings.

**China’s Role in the Iranian Nuclear Program**

China has been adamant that its support of Iranian nuclear development has been limited exclusively to Iran’s pursuit of peaceful nuclear technology. The Nuclear Threat Initiative reports, however, that in the mid-1980s, “China began training Iranian nuclear technicians in China under a secret nuclear cooperation agreement, assisted in the construction of Iran's primary research facility in Isfahan, and also agreed to supply Iran with subcritical or zero yield nuclear reactors – all under IAEA safeguards.”

The US and China clashed throughout the 1990s over the latter’s nuclear cooperation with Iran. After first proposing and then cancelling the sale of several nuclear reactors to Iran, the Chinese leadership in 1997 provided then Secretary of State Madeline Albright with a confidential agreement promising to halt support for Iran’s nuclear programs. In an October 1997 press briefing, US National Security Advisor Sandy Berger stated: “We have received assurances from the Chinese that they will not engage in any new nuclear cooperation with Iran and that the existing cooperation—there are two projects in particular—will end. That is the assurance we have received.”

Despite this commitment, Iran continued to receive assistance from entities within China in the twenty-first century.

The US has since repeatedly sanctioned Chinese companies and business conglomerates for violations of the Iran Nonproliferation Act and the Iran and Syria Nonproliferation Act. These sanctions have been imposed on Chinese entities every year since 2001, up through 2010. The sanctions were imposed for sales of missile-related technologies, dual-use technologies, and technologies related to chemical weapons. Based on this evidence, it appears that China’s role in Iran’s nuclear program, at least for the past decade, has been limited to supplying technologies related to missile capability, rather than assistance with nuclear reactors.

As international sanctions have toughened against Iran, it has become more difficult to determine the complicity of the Chinese government in such technology transfers. According to the *Washington Post*, however, the Obama administration believes that “…companies are violating U.N. sanctions, but that China did not authorize their activities.”

---


87 “Press Briefing by Secretary of State Madeleine Albright and National Security Advisor Sandy Berger,” The White House, Office of the Press Secretary, October 29, 1997.


Iranian arms trade has made both detection and blame harder for those attempting to interdict the supply of nuclear equipment to Iran.

**The Effect of Transition in Afghanistan on Chinese-Iranian Relations**

China’s relationship with Iran is unlikely to undergo meaningful change as the US and its allies prepare to withdraw from Afghanistan in 2014. Unlike Iran, China has so far attempted to distance itself as much as possible from the situation in Afghanistan, with which China shares a tiny and remote border. Iran, on the other hand, has far deeper links with Afghanistan due to their long and porous border and many shared aspects of culture and history.

Iran has numerous economic interests in western Afghanistan, particularly in the city of Herat, which was once part of the Persian Empire. Additionally, Iran’s cultural ties are especially strong with Afghanistan’s Hazara, who, like most Iranians, are Shi’ite Muslims. Tehran has a history of providing military aid to the Hazara in the 1980s and 1990s, and has continued to support them in the 21st century.

Iran’s influence in Afghanistan may increase after the withdrawal of most ISAF troops as a result of Iran’s security interests. Afghanistan is important to Iran as a means to secure its eastern flank; Iran faces challenges from cross-border trafficking in weapons, persons, and narcotics. Continued instability in Afghanistan has been a recurring problem for Iran, both before and after the US-led invasion in 2001. Following Transition, Tehran would like to see a stable, Iran-friendly government emerge in Kabul, and may take some action in pursuit of that goal.

China’s interest in Afghanistan is far more limited. China does share a border with Afghanistan – a 50-mile frontier along the remote Wakhan corridor – but this border has no roads, either paved or dirt, passing through it. China has limited security interests in Afghanistan itself, but Beijing does have an interest in regional stability and in combating international terrorism. Like Iran, China would like to see Afghanistan emerge from Transition with a stable government capable of containing the threat from Islamic extremism.

In particular, China worries about the threat from Uigher separatists in its western provinces. One group that has been cited by Beijing as a security threat is the East Turkestan Islamic Movement (ETIM), which seeks to establish an ethnically Uigher state in regions of western China and Central Asia. Since the 1990s, ETIM members have reportedly received training in terrorist camps in Afghanistan, and seem to view China as their primary enemy.

Human rights activists have accused China of hyping the Islamic terrorist threat in an attempt to prevent international criticism of widespread ethnic repression in its Western province of Xinjiang. The accuracy of such charges is unclear, but it is clear that Beijing has concerns that a resurgence of the Taliban – or greater instability following 2014 – in Afghanistan would aid Uighur separatists in western China. At an SCO summit meeting in June 2012, Beijing

---


announced that it would increase efforts to work with Kabul in counterterrorism initiatives and better intelligence sharing, accompanied by a pledge of about $23 million in assistance.  

China has some economic interests in Afghanistan, notably the Chinese-owned Aynak copper mine and the China National Petroleum Company’s agreement with Kabul to explore the Amu Darya River Basin, which is estimated to hold up to 87 million barrels of oil. These interests, however, are extremely limited compared to Chinese political and economic investments in neighboring countries such as Iran and Pakistan. At present, China’s relationships with both Iran and Pakistan are far more strategically valuable than the potential resources Afghanistan could provide to Beijing in the near- or medium-term.

Additionally, the continuing political instability in Afghanistan has prevented China from fully developing these resources. Although the Aynak copper mine is scheduled to become operational in 2013, production has already been slowed due to security concerns surrounding transit routes.

However, Afghanistan is now a poor option for increased Chinese investment in resource development – oil or otherwise – because of its unstable political and security conditions. Beijing can find little strategic justification for additional involvement in Afghanistan, especially when compared with the potential costs of alienating valuable partners such as Pakistan and Iran. Iran’s role in Afghanistan may increase after 2014, however, due to a greater opportunity to further its strategic interests in the absence of ISAF activities. Despite this possibility, Transition in Afghanistan is unlikely to have a measurable effect on Chinese-Iranian relations.

Implications for US Policy

The effectiveness of US tactics in dissuading Iran from pursuing a path of belligerence has been weakened by China’s diplomatic and economic relationship with Iran. If the US is to be successful in weakening the ties that bind China and the Islamic Republic, US policymakers must recognize that energy security is the cornerstone of Beijing’s relationship with Iran and find some way of dealing with this.

If the US can persuade China that Iranian oil is too costly politically and find help from the Arab Gulf states in providing viable alternatives, Beijing may become more willing to control its illicit arms and technology exports and cooperate in enforcing stricter sanctions. Washington should


consider four broad and interrelated guidelines to decrease Iran’s attractiveness as an energy provider and increase the likelihood of Chinese cooperation with the US:

- **Promote energy alternatives and stress the cost of cooperation with Iran.** In an ideal world, Beijing would like to maintain primary access to Iranian oil at heavily discounted prices. With its massive amounts of reserve resource potential, Iran could become a long-term and eventually high-output producer of the resources China needs to sustain and increase its economic and military growth. To some extent, international sanctions promote Chinese interests by driving down prices and outside claims on Iranian oil at no real cost to Beijing. To reduce this effect, the US should increase the political costs of doing business with Iran while leveraging US relationships with other oil producers to provide alternative energy sources to China. This tactic has already achieved marked success during the US push to garner China’s support for Resolution 1929. According to Erica Downs and Suzanne Moloney, Chinese crude imports from Iran dropped by 35% during the first half of 2010.\(^7\) Though Chinese traders attributed the decline to pricing issues, the drop coincided with US pressuring of the Saudi government to guarantee oil supplies to China.\(^8\) Through tough enforcement of legislation like CISADA, the US government should also continue to pressure Chinese oil companies to choose between investing in either the US or Iran.

- **Undermine Iran’s anti-Western narrative by further integrating China.** In addition to the lure of secure energy, Iran hopes to draw China away from the West and closer to itself by disparaging the current international order. Without pandering or sacrificing vital interests, the US should continue to explore every means available to fully engage China and increase its stake in the present global system. If Beijing’s stock in the status quo increases, outlier nations like Iran are more likely to become less desirable partners.

- **Prevent Iran from reaching its true hydrocarbon production capability.** Taking into account oil and natural gas reserves, Iran is second to only Saudi Arabia in hydrocarbon resources, although its production capacity remains critically underdeveloped. If, through internal or external investment, Iran were allowed to increase its output capacity to its full potential, Iran could potentially become an irresistible partner for China. While Iranian oil production remains inhibited, the US should take steps through sanctions or otherwise to prevent further development of the Iranian energy sector.

- **Accentuate existing cleavages between Iran and China.** At the same time that President Ahmadinejad praises Sino-Iranian cooperation and the necessity for Beijing’s strong leadership in the transitioning international order, the Iranian media denounces Chinese products as “beneath the dignity” of Iranian consumers. Beijing has proven itself not easily affected by rhetoric, but all means should be taken to exploit instances of public incivility and growing divisions on the domestic level.\(^9\)

The US should not expect a fundamental change in China’s strategic approach, but rather a gradual shift towards the West and away from Tehran. If political pressure or energy alternatives prove unsatisfactory, Beijing has limited incentive to continue support for the US. China has proven itself responsive to external pressure, but it has also demonstrated a firm commitment to calculated opportunism.

Beijing’s leaders focus on the security and prosperity of China, and they will pursue international relationships from that standpoint. US policymakers should remember that China will be

---


pragmatic and relentless in the pursuit of its own self-interest. So far, Beijing has shown little indication that it is attempting to transform itself into the Western ideal of a “responsible international stakeholder.” China is committed to China. In policy terms, this means that China is committed to securing abroad the resources needed to keep the economy going at home.

This does not mean that China’s position on Iran cannot change if given the right incentives. But ascribing benign or malevolent intentions to China is less useful than understanding what the key drivers of Chinese foreign policy are: access to oil (most important), and demonstrating autonomy in international affairs (somewhat important). If the US is able to elicit greater cooperation from China in isolating Iran, it will be through leveraging these drivers, rather than criticism or attempts to appeal to China’s presumptive responsibilities as an emerging world leader.

**Russia**

Russia’s relations with Iran have been both cooperative and competitive. Russia does not have the close economic relationship with Iran that China has, but Russia also has not consistently supported the US and Europe in dealing with Iran. Russian calculations are decidedly realist and its policies towards each side fluctuate according to the relative risks and benefits of association. Russo-Iranian relations are driven by Russia’s goals to establish trade and transport links to the Gulf, to coordinate oil and gas export policies, and to counter US influence in the Middle East.

Once again, the US and Iran compete for Russian support on an issue-by-issue basis. Unlike China, whose overriding interest in Iran is energy security, Russia has a multiplicity of interests, none of which is central to Russia’s global strategy. As a result, Russia’s approach to Iran is both broader and more flexible than China’s. Russia is free to deemphasize one area of cooperation while highlighting another. To best position itself within the ongoing US-Iranian competition, Russia seeks to portray itself as an intermediary between Washington and Tehran. At the same time, Moscow pragmatically works to reap the benefits of selective cooperation with both sides.

**Evolving US-Russia Relations**

The relationship between the US and Russia has gone through cycles of tense and improving relations. After the dissolution of the Soviet Union, the emergent Russian Federation took steps to integrate itself into the post-Cold War order, but maintained both its uniquely non-Western identity as well as its interests in the states formerly under its suzerainty. Russia deeply values its influence in its neighbor states, and is wary of a greater expansion of NATO that would include additional former members of the Warsaw Pact.

Russia continues to distance itself from, and sometimes oppose, the US in a number of areas. Toward the end of the 2000s, Russia and the US began to clash diplomatically over a number of issues, including gas cutoffs to Ukraine, a cyber-attack on Estonia, anti-Western rhetoric from

---

President Putin, and the placement of missile defense systems. In 2008, after Russia supported the breakaway regions of Abkhazia and South Ossetia in the Georgia War, Russo-American relations reached their lowest point since the end of the Cold War.

The election of President Barak Obama provided an opportunity for both countries to “reset” their relationship and refocus on issues of mutual interest. At a bilateral summit in July 2009, President Obama and President Medvedev were able to reach agreements on nuclear security, cooperation on Afghanistan, military-to-military cooperation, a joint commission on POW/MIs, and the formation of the Bilateral Presidential Commission. Cooperation was advanced by the successful enactment of a new START treaty in February 2011.

The improvement of relations at the official level appeared to have a trickle-down effect to the Russian public as well. The Russian-based Public Opinion Foundation reports that between February and July 2010, the percentage of Russians who believe US-Russian relations are improving rose from 31% to 41%. Additionally, one-third of Russians hope for further improvements in relations—a rise from one-fourth six months earlier.

Since that time, however, Russo-American relations have become more tense. This is partly a result of US disapproval of President Putin’s growing consolidation of political power, and partly because of some tension between both countries’ policies in the Middle East. Russia opposes regime change in both Iran and Syria, and seems to increasingly see Iran as a way of limiting US influence in the region.

Security-Based Political Relations

The US and Russia share some security interests, particularly in maintaining stability in Central Asia and combatting international terrorism. On the other hand, Russia views the US-led expansion of NATO missile defense systems with mistrust—an issue which complicates US-Russia relations. To bring about greater cohesion of Russian and American interests, the Obama Administration has implemented a strategy of engagement built on joint participation in bilateral agreements, revolving mainly around issues of global security.

As the world’s largest nuclear powers, both the US and Russia have interests in maintaining constructive relations and in working to promote nonproliferation. That being said, Russian fears of Western encroachment and Western fears of Russian expansionism have historically created

---


tensions. Leaders in both countries have had to frequently redirect political focus onto issues of mutual interest to achieve cooperation.

Bilateral military activities were suspended in August 2008 as a result of the hostilities in Georgia, but they have since been restored. On July 6, 2009, Chairman of the Joint Chiefs of Staff Admiral Mullen and General Makarov, Chief of Defense for the Russian Federation, renewed military-to-military engagement between the US and Russia. The framework of the new relationship aims to promote operational cooperation, inter-office dialogue, and a more open exchange of strategic goals.

A White House Fact Sheet issued in July 2009 described renewed military relations as follows:

The Armed Forces of the United States and Russian Federation have agreed in their work plan for 2009 to conduct nearly 20 exchanges and operational events before the end of the year, including a strategic discussion between the U.S. Joint Staff and the Russian General Staff, orientation for Russian military cadets at the U.S. Military Academy at West Point, planning for a joint exercise to respond to a hijacked aircraft in national and international airspace, visit of the faculty of the Russian Combined Arms Academy to the U.S. Army Combined Arms Center at Ft. Leavenworth, and a naval war game conducted by the Kuznetsov Naval Academy and the U.S. Naval War College. In addition, the U.S. European Command and the Russian Ministry of Defense have agreed to meet to plan a robust and more ambitious work plan for 2010.106

Security cooperation has been enhanced by a common interest in stability in Afghanistan and Central Asia – although Russia scarcely welcomes the idea of a prolonged US role in the region. In 2009, Russia agreed to permit US troops and non-lethal materiel bound for Afghanistan to transit through Russian territory and airspace—a move which directly conflicted with Iran’s hope that Russia would help limit the US presence on its eastern flank. This move by Russia offered substantial financial savings for ISAF. According to the Wall Street Journal, “Supplying Afghanistan from the north is 90% cheaper than airlifting in supplies, and less hazardous than transporting them by truck through Pakistan.”107

Speaking to the Russian Duma, Foreign Minister Sergei Ryabkov explained that – in accordance with the agreement – there had been 780 US flights over Russia carrying 115,000 US troops and more than 19,000 metric tons of cargo since September 2009.108 By Russian accounts, the air route accounted for 16% of all US military shipments to and from Afghanistan.109 The Russian supply routes have played a key role in maintaining the sustained flow of materiel to ISAF forces


after Pakistan closed its borders to NATO traffic following the friendly fire incident that left 24 Pakistani soldiers dead in November 2011.

Another result of the diplomatic reset in 2009 is a new Bilateral Presidential Commission. The State Department describes the Commission’s purpose as follows:

[The Commission] is dedicated to identifying areas of cooperation and pursuing joint projects and actions that strengthen strategic stability, international security, economic well-being, and the development of ties between the Russian and American people. It is intended to serve as a regular and structured mechanism to advance the highest-priority bilateral objectives through 18 working groups chaired by senior government officials from a variety of agencies and ministries. Working groups have been formed on the following topics: policy steering; agriculture; arms control; business development and economic relations; civil society; counterterrorism; counter-narcotics; education, culture, sports, and mass media; science and technology; energy; environment; emergency situations; health; military to military; nuclear energy and nuclear security; space cooperation; intelligence; and defense relations.110

As a result of the Commission’s efforts, the US and Russia have held over 100 meetings with over 60 government agencies and non-governmental partners. In spite of growing tensions in recent years, the meetings have promoted cross-national investment and produced a counter-proliferation deal to dispose of enough weapons-grade plutonium for 17,000 warheads.111

Additional positive developments occurred in the second half of 2010. At NATO’s 24th summit in November 2010, a meeting of the NATO-Russia Council produced several agreements, including an effort to pursue cooperation on missile defense. Along with the passage of the new START treaty, the Senate also ratified the US-Russia 123 Agreement on civilian nuclear cooperation.112

However, Russia’s unwillingness to participate in further sanctions and its increasingly vocal warnings against Western-led military action against Iran delineate the limits of Russia’s move toward the West. There remain significant sources of tension in the Russo-American relationship, and gains are costly and fragile.

**Economic Relations**

Russian trade with the US is limited compared to trade with partners like China or the EU states, but increased economic relations have helped to improve US-Russia relations from their 2008 lows. In 2010, trade between the US and Russia climbed to $31.7 billion, a 35% increase from the previous year. US imports from Russia grew 41% to $25.7 billion, but exports to Russia only

---


increased 13% to $6.0 billion. The State Department attributes the rapid growth in US imports from 2009 to 2010 to “the low base year and nascent economic recovery in the United States, but also to the rising price of oil and other commodities.” Such dramatic increases are an important indicator of an upward trend of integration, but are probably not sustainable in their own right.

This trade is comprised mainly of inter-industry exchanges. According to the State Department country report on Russia:

Oil and oil products represent over two-thirds of the value of all U.S. imports from Russia. Russia is currently the 32nd-largest export market for U.S. goods. Russian exports to the U.S. were fuel oil, inorganic chemicals, aluminum, and precious stones. U.S. exports to Russia were machinery, vehicles, meat (mostly poultry), aircraft, electrical equipment, and high-tech products.

Foreign direct investment remains low in comparison with other BRIC countries. According to a Deutsche Bank Research report:

Russia ranked below Brazil and China, slightly below India and above Turkey on average from 2000-2008. Looking at US FDI as a percentage of GDP, Brazil leads with 4.4%, while the levels in India, China and Turkey are all close to 1% and hence on par with Russia. In per capita terms, Brazil received most US FDI followed by Russia and Turkey, which both obtained significantly more FDI per capita than China and India.

Deutsche notes, “Russia accounted for only 0.3% (USD 6 bn) of the US FDI stock abroad on average from 2000 to 2008." During 2000-2008, the two major sectors of US FDI in Russia were mining (53%) and manufacturing (16%). These sectors represent 6% and 3% of worldwide US FDI stock, respectively. All of Russia’s other investment sectors were close to or below 1% of worldwide US FDI.


\[^{115}\] U.S. Department of State, Background Note [Russia], updated March 16, 2011. [http://www.state.gov/outofdate/bgn/russia/176740.htm](http://www.state.gov/outofdate/bgn/russia/176740.htm).


According to the US Trade Representative, Russian exports to the US totaled $34.6 billion in 2011, while imports of US goods totaled $8.3 billion. Russia is the US’s 20th largest trading partner; this position may strengthen as Russia prepares to join the World Trade Organization. This data supports the trend of a rebound in the volume of US-Russian trade after the economic downturn of 2008. Still, as discussed above, US-Russian trade remains limited: both countries have other trade partners that are much more important.

**Evolving Iran-Russia Relations**

Russo-Iranian relations have had a turbulent history marked by periods of cooperation and competition, which have been influenced by domestic as well as external factors. After the fall of the Shah in 1979, Iran’s Supreme Leader Ayatollah Ruhollah Khomeini made it known that Iran would not be aligned with either Cold War superpower. He denounced the Soviet Union as “the Lesser Satan” despite its policy of atheism, its support of Iran’s communist party, its incursion into Afghanistan, and its provision of arms to Iran’s regional rival Iraq.

After the death of Khomeini and the formation of the Russian Federation, tension gave way to a period of increased cooperation. Russia sold weapons to Iran and pledged to complete the construction of Iran’s nuclear power plant at Bushehr. When an Islamist-led rebellion broke out in Chechnya in 1994, Tehran expressed solidarity with Moscow rather than the rebels, despite Iran’s history of revolutionary rhetoric. When President Putin came to power in 1999, Russo-Iranian commitments seemed to be intensifying. New sales of Russian weapons to Iran were announced in 2000, and in March of that year, then President Khatami visited Russia, marking the first visit of an Iranian head of state to Russia since 1979.

However, an incident in July 2001 involving Iran’s interruption of oil exploration off the coast of Azerbaijan led to a souring of relations. Iranian interference caused Azerbaijan to look to the US for support – a turn of events that Russia viewed as undermining its quest for regional superiority in the Caspian.

Moscow has tried unsuccessfully to mitigate international tensions over Iran’s nuclear program. Putin’s offer to enrich uranium in Russia instead of Iran was rebuffed by Ahmadinejad, and the West has grown increasingly concerned. Since the mid-2000s, Russia and China have collaborated to dilute Western-led efforts to sanction Iran. Russia has, however, been more


willing to reduce its support to Iran when it suits Russian interests, mainly because it does not need Iranian oil.\textsuperscript{125}

Current Russo-Iranian relations are mixed, and both nations clearly seek their own advantage while leveraging their relationship in dealings with the US. Russia supports Iran’s competition with the US when it perceives it can control or predict Iranian behavior. Tehran lauds Russo-Iranian cooperation, but it also refuses to be controlled by Russian interests and is not afraid to rebuff what it perceives as Russian overreaching. The US tries to take advantage of breaches when they occur, and all three states are forced to recalculate. Despite these tensions, leaders in Tehran and Moscow recognize the mutual utility of positive relations and they continue to pursue partnership to varying degrees.

Russia’s cooperation with Iran is motivated by its goals of enhancing trade connections to the Gulf, using its oil and gas export policies to counter US influence in the Middle East, and seeking to maintain sway over former Soviet states in the Caspian region. Iran has historically valued Russia as a significant supplier of arms and nuclear technology, a source of diplomatic cover at the UN, and as a powerful member of a group of states that Iran hopes can counterbalance Western power.

In particular, Russia sees Iran as an ally in the ongoing disputes with the littoral states of the Caspian Sea. Moscow and Tehran share a common stance in opposing the construction of a trans-Caspian pipeline — something that would greatly benefit Turkmenistan and Azerbaijan while reducing the importance of existing pipelines through Russia and Iran.\textsuperscript{126}

Additionally, the recent military buildup in the Caspian — particularly between Azerbaijan, Turkmenistan, and Iran — is a source of concern for Russia, which has traditionally viewed the Caspian as its backyard. As the second strongest Caspian littoral state, Iran’s cooperation on regulating arms and maintaining peace in Caspian waters is especially important to Moscow.\textsuperscript{127}

Russia and Iran do, however, have divergent regional perceptions and policies in other areas, and Russia scarcely supports Iran’s nuclear weapons and missile programs. Russia’s concern over the prospect of regional instability caused by the nuclear issue, the strains its ties with Tehran places on its connections (particularly commercial) to the West, and Iran’s unwillingness to follow through with Russian offers to mediate the dispute have all been continuing sources of tension.


Degrading Political Relations: From Cooperation to Tolerance

Russia has helped develop Iran’s nuclear capacity, providing technical assistance with the construction of the nuclear power plant at Bushehr. It has since broadly supported anti-proliferation efforts in the UN, but Russia has irked the US in recent months by continuing to offer limited support to Syria’s Assad regime and suppressing freedom of speech at home. Also, Russia’s current leadership – the re-elected President Putin and his inner circle – remains deeply suspicious of US motives in general, and US foreign policy regarding Russia’s neighbors in particular.

Recently, Russia seems to have moved towards a more neutral position: occasionally appeasing Washington with diplomatic support for international sanctions, yet continuing trade with Iran. In response, Iranian officials have criticized Russia’s collaboration with the West, yet praised those elements of Russo-Iranian cooperation that remain.

Russia and Iran have sometimes come together over issues like trade and regional security. To promote regional cooperation and their shared interest in limiting Western influence in the Caspian Sea, Iran and Russia participate in the Caspian Sea states summits. In 2007, the members (which include Azerbaijan, Iran, Kazakhstan, Russia, and Turkmenistan) issued a joint statement declaring that they “under no circumstances will allow the use of their territories by other states for an aggression or other military actions against any of the parties.”

Iran and Russia also maintain multilateral ties through their participation in the Shanghai Cooperation Organization (SCO).

In 2009, Russian leaders voiced their support for the re-election of President Ahmadinejad and became the first country to formally recognize the results of the contested race. Speaking at the SCO summit in Russia, Russian Deputy Foreign Minister Sergei Ryabkov said, “We welcome the newly elected president of Iran on Russian soil...It’s extremely symbolic that his first foreign visit after his re-election was made to Russia.” Referencing both countries’ strong preference for unhindered national sovereignty, he further remarked that the contested election was an “internal affair of the Iranian people.”

These trends do not reflect popular opinion on either side. According to the Russian news service RIA Novosti, the Russian public has a highly negative view of Iran. Furthermore, in November

---


2009, polling revealed that 93.5% of Iranians have a negative opinion of Russia. A common opposition chant heard in the aftermath of the disputed elections was “Marg bar Russia” (Death to Russia) in contrast with the more common anti-American refrains.

There are other tensions. In December 2009, President Ahmadinejad began demanding compensation from the former Allied powers, including Russia, for their occupation of Iran during World War II. Announcing his intention to form a committee to “calculate the damages,” Ahmadinejad said, "You inflicted lots of damages to the Iranian nation, put your weight on the shoulders [of the Iranian people] and became victors in the World War II. You didn't even share the war profits with Iran…If I say today that we will take full compensation ... know that we will stand to the end and will take it.”

In early March 2010, Iranian Transportation Minister Hamid Behbahani announced that, by executive order, all Russian commercial pilots working in Iran would be required to leave the country within 60 days. He justified the policy by claiming that “…our country itself possesses plenty of professional and specialist pilots, there is no need to bring in pilots from abroad.”

The Russians, for their part, continue to pursue a strategy of pragmatism in their relationship with Iran. Iran remains a lucrative market for Russian arms and technology; cooperation, though curtailed, remains profitable. Neither Russia nor Iran is willing to sacrifice meaningful political capital on behalf of the other, but until outside pressure forces a change, the opportunistic partnership remains.

**The Russo-Iranian Economic Relationship: Arms, Energy, and Technology**

Table 10.2 shows that Russian exports to Iran and Iranian exports to Russia have grown steadily according to the Russian Federal State Statistics Service. In addition to hydrocarbons, Russo-Iranian trade includes agricultural products, telecommunications, aviation, nuclear technology and equipment, and weapons. Iran is Russia’s most significant trading partner in the Middle East, with bilateral trade hovering around $3 billion in 2009 (a significant drop from a record-setting $3.7 billion in 2008).

---


Iran and Russia are both energy exporters. Russia is the world’s largest producer of natural gas, holding 23% of the world’s gas and 6.3% of the world’s oil.\textsuperscript{138} Iran, with the world’s second largest gas reserves, controls 16% of the world’s gas and 11% of its oil.\textsuperscript{139} Along with Qatar, Russia and Iran control some 55% of the world’s proven gas reserves, forming a kind of “gas troika.”\textsuperscript{140}

Russia and Iran’s status as world energy suppliers and their proximity to the oil rich Caspian Sea has led to energy-centric cooperation between the two powers, but cooperation has diminished in many respects as sanctions intensify and Iran looks to challenge Russia’s dominance of energy transport to the EU. According to Reuters, “Iran has said it wants to supply the Nabucco pipeline, a long delayed project that is backed by the European Union as a way to curb dependency on Russia by pumping gas from the Caspian and the Middle East...that would undermine the efforts of Russia’s leaders, who have spent a decade garnering support for rival pipelines such as South Stream and Nord Stream.”\textsuperscript{141}

As a brief chronology demonstrates, sanctions and a generally more hostile business environment have led Russian companies to pull back from Iran in recent years:

- **March 24, 2010**: Lukoil, Russia’s second-largest oil company, announced its withdrawal from the Anaran project in Iran “due to the impossibility of carrying out further work at the field because of the economic sanctions imposed by the U.S. government.” The project is comprised of four oil structures designed to exploit reserves estimated at 2 billion barrels of oil.\textsuperscript{142}

\begin{table}[h]
\centering
\begin{tabular}{|c|c|c|c|}
\hline
 & RUSSIAN EXPORTS TO IRAN & & IRANIAN EXPORTS TO RUSSIA \\
\hline
1995 & $249 million & 1995 & $27 million \\
2000 & $633 million & 2000 & $57.6 million \\
2005 & $1.9 billion & 2005 & $125 million \\
2008 & $3.3 billion & 2008 & $401 million \\
\hline
\end{tabular}
\caption{Russian Trade with Iran: 1995-2008}
\end{table}

\textsuperscript{138} “Factbox - Russia's relations with Iran,” Reuters, May 26, 2010. \url{http://www.reuters.com/article/2010/05/26/iran-nuclear-ahmadinejad-idUSLDE64P10N20100526}.

\textsuperscript{139} “Factbox - Russia's relations with Iran,” Reuters, May 26, 2010. \url{http://www.reuters.com/article/2010/05/26/iran-nuclear-ahmadinejad-idUSLDE64P10N20100526}.

\textsuperscript{140} Ladane Nasseri and Greg Walters, “Russia, Iran, Qatar Form ‘Gas Troika’ Gazprom Says (Update 3),” Bloomberg News, October 21, 2008. \url{http://www.bloomberg.com/apps/news?pid=newsarchive&sid=aeFP4Z8bWzLE}.

\textsuperscript{141} “Factbox - Russia's relations with Iran,” Reuters, May 26, 2010. \url{http://www.reuters.com/article/2010/05/26/iran-nuclear-ahmadinejad-idUSLDE64P10N20100526}.

\textsuperscript{142} “LUKoil Withdraws From Iran Project, Citing 'U.S. Sanctions','’ Radio Free Europe, Radio Liberty, August 2, 2011. \url{http://www.rferl.org/content/Lukoil_Withdraws_From_Iran_Project_Citing_US_Sanctions/1992471.html}.
X. The Impact of China and Russia AHC 20.11.12

- **April 7, 2010:** Industry sources report that Lukoil will cease its gasoline exports to Iran in expectation of international sanctions. Lukoil had supplied some 250,000 to 500,000 barrels of gasoline to Iran every other month, traders said.\(^{143}\)

- **June 1, 2010:** Caspian Sea producers suspend oil swaps with Iran after Tehran steeply raised fees on operations to avoid an oil glut following lower sales of its own crude. Producers said Iran had made the market deliberately uneconomic.\(^{144}\)

- **February 3, 2012:** Vice-CEO of Russia’s Lukoil tells RIA Novosti that although Russia’s relations with Iran seem stable, Lukoil has no current plans to renew contracts with Iran, due to international sanctions.\(^{145}\)

Nevertheless, Russian commercial cooperation with Iran and condemnation of sanctions imposed outside of the UNSC framework continues. Despite US pressure, the Russian government and Russia’s most significant oil major, Gazprom Neft, have publicly announced their intention to remain active partners in Iran’s energy and petrochemical sectors. However, the nature of the continued partnership remains confined mainly to generalities.\(^{146}\)

Stronger US sanctions have had an impact. In December 2010, Iranian PressTV reported that the head of the oil arm of Gazprom, Alexander Dyukov, said that his company plans to carry on working with the Iranian government despite the impact of international sanctions. Russian website OilExp quoted him as saying: “The Company continues holding negotiations over two Iranian oil fields, but so far, the parties have not reached any agreements.”\(^{147}\)

Several weeks after the US and its partners issued supplemental sanctions to UN Resolution 1929, the Russian Energy Minister, Sergei I. Shmatko, met in Moscow with his Iranian counterpart, Massoud Mir-Kazemi, and issued a joint statement praising “active cooperation between Russian and Iranian companies in the oil, gas and petrochemical sectors, which are developing and widening in their joint work.”\(^{148}\)

This helps explain why Russian officials criticized increased non-UN sanctions on Iran’s energy sector by the US, EU, and Japan in late 2011. They labeled further punitive measures as not only unnecessary but counter-productive to the easing of tensions heightened by recurring

---

\(^{143}\)“Russia's Lukoil to halt gasoline sales to Iran,” *Reuters*, April 7, 2010. http://www.ynetnews.com/articles/0,7340,L-3872694,00.html


assassinations of Iranian nuclear scientists and the release of a November 2011 IAEA report which alleges a weapons-oriented component to Iran’s nuclear program.

Speaking to Iran's official news agency IRNA in late December 2011, Russian Foreign Ministry Spokesman Alexander Lukashevich said that “Russia is opposed to any anti-Iran action by the international community and believes that they will be useless. We are now witnessing that the previous sanctions against Iran were all futile.”

Russian Foreign Minister Sergey Lavrov stated on January 18, 2012 that the new sanctions had “…nothing to do with a desire to strengthen the nuclear non-proliferation…It's aimed at stifling the Iranian economy and the population in an apparent hope to provoke discontent.” He also warned that the situation risked leading to attacks on Iran in which...“The consequences will be extremely grave. It’s not going to be an easy walk. It will trigger a chain reaction and I don’t know where it will stop.”

On January 23, 2012, the EU Foreign Ministers agreed to freeze the assets of the Iranian Central Bank and impose a boycott on Iranian oil while honoring existing contracts until July 1, 2012. Iranian media sources rapidly decried the EU move as “illogical and unjustifiable,” and Ali Ashghar Kaji, Deputy Foreign Minister for European and American Affairs, claimed that “certain powers within the European Union have been seeking to create tension in relations with the Islamic Republic of Iran by pursuing the U.S. policies and adopting a hostile approach.”

The Russian Foreign Ministry’s response to the embargo expressed both “regret and alarm” with the decision. Russia is pushing for a resumption of P5+1 (the Five Permanent Members of the UN Security Council plus Germany) negotiations with Iran and claims that the European tack toward a tougher line with Iran “…is a deeply mistaken approach.”

In its official statement, the Russian Foreign Ministry made clear that Western attempts at modifying Iran’s behavior through punitive action would be unsuccessful and unsupported by Russia: “It is obvious that what is happening here is open pressure and diktat, an attempt to ‘punish’ Iran for its intractable behavior…Under such pressure Iran will not agree to any concessions or any changes in its policy.”

---


Aside from the political and diplomatic aspects of sanctions, Russia’s oil industry stands to benefit from the diminished supply of Iranian oil available to international markets. In February of 2012, an angry Tehran threatened to cut oil supplies to six European states in retaliation for their support of sanctions.\textsuperscript{155} Oil prices escalated in response, bringing additional revenue to Russia’s oil conglomerates. According to the \textit{New York Times}, Russia currently leads the world in oil production at 10 million barrels per day, 7 million of which are exported.\textsuperscript{156} Rising tensions with Iran have increased the global oil price by about $5-$15 per barrel, which has added some $35-$105 million to Russia’s oil industry.\textsuperscript{157} This in turn likely aided the political aspirations of Putin,\textsuperscript{158} who was re-elected in March.

Despite Moscow’s opposition to non-UN sanctions on Iran, however, Russian officials continue to denounce Tehran’s intransigence over the issue. Early in January 2012, Russian Deputy Foreign Minister Gennadiy Gatilov explained Russia’s position as one of “regret [that] Iran continues to ignore international demands to alleviate concern over its nuclear program and to freeze construction of [the] enrichment facility.”\textsuperscript{159}

In April 2012, Iran and the P5+1 agreed to resume their negotiations, and a meeting was held in Baghdad on May 23-24, 2012.\textsuperscript{160} This meeting did not make progress in either eliminating sanctions or eliciting a pledge from Tehran to cease uranium enrichment. However, the Russian Deputy Foreign Minister stated after the talks that the Russians had a positive view of the level of cooperation with the US, and there were reports that Moscow would be interested in taking a leading role in the next meeting, which it hosted on June 18-19.\textsuperscript{161}

Just a week after the P5+1 negotiations in Moscow, Russian President Putin visited Israel on June 25-26. During the visit, Putin attempted to reassure his Israeli hosts regarding Russia’s view of Iran’s nuclear program. In a post-meeting press conference, Putin stated:

\begin{footnotesize}
\begin{enumerate}
\end{enumerate}
\end{footnotesize}
If one side makes a statement regarding the possibility and necessity of eliminating the other side, of annihilating it, then that approach is absolutely unacceptable for Russia. We have stated this position many times; it is our fundamental position…The Iranian problem is complicated, but I ultimately feel that it can and should be resolved by absolutely peaceful means, by way of negotiations and on the basis of respecting the rights of the Iranian people to the peaceful use of nuclear energy with absolute guarantees to the global community that the implementation of that programme will not lead to the emergence of nuclear weapons and will not promote the proliferation of weapons of mass destruction in the world.\textsuperscript{162}

Russian officials did continue to stress their opposition to the sanctions on Iran imposed by the US and the EU in August and September 2012. After a meeting with US Secretary of State Clinton, Russian Foreign Minister Sergey Lavrov told reporters that “unilateral U.S. sanctions against Syria and Iran are increasingly becoming extra-territorial in nature and are touching upon the interests of Russian business.”\textsuperscript{163} Lavrov reportedly mentioned Russian banks’ losses in particular.\textsuperscript{164}

\textbf{Russian Military Assistance to Iran}

Security-based cooperation between Russia and Iran has historically focused on arms sales. The beginning of significant arms trading between Russia and Iran occurred after the death of Ayatollah Ruhollah Khomeini in 1989. The then Soviet Union provided Iran with weapons, scientific-technical cooperation, and a commitment of mutual non-interference in domestic matters.

Since 1992, Russia has sold Iran major weapons systems, including twenty T-72 tanks, air-to-air missiles, Tor-M1 short-range anti-aircraft missiles, submarines, armored vehicles, and combat aircraft like the MiG-29.\textsuperscript{165} In the past ten years, Iran has purchased more than $5 billion in Russian weaponry.\textsuperscript{166}

According to Richard Grimmett of the Congressional Research Service, during the first decade of the 2000s the value of Russo-Iranian arms deliveries was significantly lower than the value of arms agreements. While the value of arms deliveries slightly increased, climbing from $300


Data from the Stockholm International Peace Research Institute show that Russia accounted for nearly 16\% of Iran’s weapons imports in both 2010 and 2011, making Russia Tehran’s only significant arms supplier, other than China.\footnote{Trend-Indicator Value (TIV) Arms Transfer Database, Stockholm International Peace Research Institute, Accessed October 26, 2012. http://www.sipri.org/databases/armstransfers.} The decrease in agreements over time and the large gap between the value of promised agreements and actual deliveries reflect an aspect of Russia’s response to international pressure on Iran’s nuclear program.

The chronology in Figure 10.3 below highlights some of the major deals in the Russo-Iranian arms trade:

\textbf{Figure 10.3: Chronology of Recent Russo-Iranian Arms Cooperation}

- \textbf{1989 to 1991:} The Soviet Union signed a series of deals supplying Iran with MiG-29 and SU-24 fighter aircraft, aircraft missiles, S-200 air defense systems, three diesel submarines, and hundreds of tanks and armored vehicles as well as various munitions. The arrangement included licensed manufacturing of tanks and armored vehicles and a 10 year period for parts and supplies. The contracts were to stay in effect until 1999-2001. With the exception of tank and armored vehicle exports that fell short of expected quotas, the bulk of the weapons were shipped to Iran in 1992-1996.\footnote{Alla Kassianova, “Russian Weapons Sales to Iran: Why They are Unlikely to Stop,” PONARS Policy Memo No. 427, Tomsk State University, December 2006. http://www.gwu.edu/~ieresgwu/assets/docs/ponars/pm_0427.pdf.}

- \textbf{2001:} A bilateral agreement on military and technical cooperation was signed, leading to widespread anticipation of future multi-billion dollar contracts. Few deals were ultimately concluded, however, and these were relatively modest: a $150 million helicopter contract and an order for 300 armored vehicles that was suspended a few years later. Some enterprises received smaller orders for repairing Russian-made equipment.\footnote{Alla Kassianova, “Russian Weapons Sales to Iran: Why They are Unlikely to Stop,” PONARS Policy Memo No. 427, Tomsk State University, December 2006. http://www.gwu.edu/~ieresgwu/assets/docs/ponars/pm_0427.pdf.}

- \textbf{December 2005:} A contentious $700-900 million air defense systems contract was announced. Russia delivered 29 Tor-M1 missile systems.\footnote{Tony Halpin and Alexi Mostrous, “Russia ratchets up US Tensions with Arms Sales to Iran and Venezuela,” \textit{The Times}, September 19, 2008. http://www.timesonline.co.uk/tol/news/world/europe/article4781027.ece.}

- \textbf{2007:} Russia and Iran signed a deal to supply five batteries of long-range S-300 air-defense missiles, which are similar to the US Patriot system, worth almost $1 billion.\footnote{Fred Weir, “Why Russia is cutting off major arms sales to Iran,” \textit{Christian Science Monitor}, September 23, 2010. http://www.csmonitor.com/World/Europe/2010/0923/Why-Russia-is-cutting-off-major-arms-sales-to-Iran.} However, it is unclear whether Russia
actually intended to sell Iran the systems or if it merely wanted to send a message to the international community, namely the US, that it can sell Iran the systems. In the end, they were never delivered.

- **December 2008:** The Deputy Director of the Russian Federal Organization for Military and Technical Cooperation Alexander Foumin said that his country intended to increase joint military cooperation with Iran, a change that he said would bring greater stability to the region.

- **2010:** The Kremlin ordered a halt to all sales of sophisticated Russian weaponry to the Islamic Republic. A decree signed by President Dmitry Medvedev banned the supply of battle tanks, armored vehicles, large-caliber artillery systems, warplanes, military helicopters, ships, and missiles – including S-300 air defense systems – to Iran as part of measures to bring Russia into compliance with tough sanctions instated by UN Security Council Resolution 1929. Russian Deputy Foreign Minister Sergei Ryabkov said unspecified defense cooperation with Iran would continue, despite the end of major arms sales. However, Anatoly Isaikin, the head of the state arms trader Rosoboronexport, said that no international agreements bar Russia from selling weapons to Tehran, meaning Moscow is not eliminating the possibility of future sales to Iran.

- **August 2011:** Citing Russia’s failure to deliver the S-300 air defense system, Iran filed suit against the Russian Federation with the International Court of Arbitration, hoping to either force Moscow to sell the military hardware to Tehran after all or pay reparations.

While arms sales generate revenue in the hundreds of millions of dollars, Russia’s agreements with other consumers such as China and India far outweigh those with Iran, and the importance of the relationship should not be overestimated. Moreover, Russo-Iranian military cooperation declined after 2008. Russia’s delayed delivery of the S-300 air-defense system, its growing relationship with Israel, and the revelation of Iran’s secret uranium enrichment facility at Qom in September 2009 led to a significant cooling of relations.

In 2007, Iran had announced that it had brokered a deal to purchase the S-300 air-defense system from Russia. The missile system, which is designed to track and destroy ballistic missiles, cruise missiles, and low-flying aircraft, is comparable to the US MIM-104 Patriot system, according to

---


Russia’s RIA Novosti news service. As discussed above, the S-300 system was added to a list of weapons banned for sale to Iran by UNSCR 1929 in June 2010.

After some hesitation, the Russian government decided to formally cancel its contract with Iran in September 2010. The change in policy represented a marked show of support for the Western-led effort to put greater pressure on Iran. Announcing the decision, General Nicolai Makarov remarked that the sale was halted because the missiles “definitely fall under sanctions.”

Predictably, Iranian Defense Minister General Ahmad Vahidi denounced Russia’s decision as a slavish gesture to the West. Speaking on Iranian state-run TV he said, “We think Russia should show it has an independent stance in choosing its relations with other countries as well as on international issues…They have not done it so far.”

The Russian leadership demonstrated its independence soon after, but not for Iran’s benefit. Days after cancelling the sale of anti-aircraft missiles to Iran, Russian officials confirmed a sale of anti-ship missiles to Syria. Dismissing US and Israeli fears that Russian-made arms could fall into the hands of terrorists, Defense Minister Anatoly Serdyukov stated on September 17, 2010 that Russia would fulfill a contract to provide Syria with P-800 Yakhont anti-ship cruise missiles. The supersonic P-800 Yakhont missiles have a range of 300km (186 miles), carry a 200kg (440lb) warhead, and are able to fly at an altitude of only 5-15m (16-50ft), making it difficult to detect and intercept them.

As evidenced by its different approaches to the Iran and Syria deals, Moscow takes a pragmatic approach to weapons sales and international sanctions. Taking into account the intense international pressure on Iran and the growing benefits of trade with Israel, Russia opted to cancel its sale of S-300s to Iran. The cancellation of the S-300 system yielded Russia several coveted Israeli UAVs.

Russian officials have also stated that Iranian nuclear weapons do not pose a strategic threat to Russia or the West which would justify improvements in NATO or US missile defense. On June 13, 2011, Russian Deputy Defense Minister Anatoly Antonov told Ekho Moskvy radio:


Who is threatening Europe today? You mentioned Iran. Why should Iran launch a missile upon Berlin or Rome? Iran's policy, as far as how it is declared by the Iranian leadership, is development of relations with European countries. I cannot say that Iran is a threat...This issue needs to be discussed and resolved. There are two ways to eliminate the threat, namely military-technical, through the creation of a missile shield, and diplomatic, which Russia proposes... One thing Russian leaders are concerned about is regional instability produced by escalating tensions between Iran and its neighbors. In January 2012, Dmitry Rogozin, Moscow’s newly appointed deputy prime minister overseeing the defense sector, told reporters in Brussels, “Iran is our neighbor…and if Iran is involved in any military action, it's a direct threat to our security.”

While Russian officials may not share the West’s perception of Iran as a clear and emerging danger, their position is not one of apathy. Russia has a large stake in shaping regional power dynamics to promote its interests and an upset in the current balance is not likely to be ignored by Moscow. Additionally, an escalation of tension to the point of confrontation is likely to increase US involvement in the region, something that is not viewed favorably by Russia’s leadership.

**Russia’s Participation in Iranian Nuclear Efforts**

Russia has long supported Iran’s right to acquire peaceful nuclear technology while attempting to prevent its acquisition of nuclear weapons capability. Russia differs with the US mainly in its assessment of Iranian capabilities and intentions. Russia’s geographic proximity to Iran means that even a medium-range missile launched from Tehran could target a range of Russia’s territory, and Moscow has no desire to add this scenario to its list of concerns. Nor does the Kremlin take lightly the possibility that Tehran’s continued refusal to adequately address Western concerns could provoke an Israeli airstrike on Iran, which would almost certainly lead to an increased US military presence in the region – something Moscow seeks to avoid.

Still, Russia’s arms industry counts Iran as an important customer. Although weapons deals with China and India represent the major part of Russia’s annual $4.8 billion in arms sales, Iran is still a significant buyer. Additionally, Iran’s interest in civilian nuclear energy is viewed favorably by the Russians, who “see nuclear energy as one of the few fields in which they are

---


globally competitive,” and “look at Iran as a promising market they would be loath to cede to rivals.”

Russia’s continuing support for Iran’s nuclear program frustrates US aims to block Iran’s access to technologies it believes may be used to create nuclear weapons. The completion of the nuclear power plant at the Iranian port town of Bushehr in August 2012 marked another milestone in the Russo-Iranian relationship. A Russian energy equipment manufacturer, Atomstroyexport, began working with the Iranians in 1998 to complete the power plant started by a German company prior to the 1979 Revolution. Under the power plant’s contract, all spent fuel rods are meant to be returned to Russia, and will therefore not become a potential source for reprocessing into weapons-grade plutonium. Because of this stipulation, Russian news sources claim, “nuclear inspectors do not regard Bushehr as a major proliferation threat.”

Russia was able to mitigate the damage done to its relationship with Iran after its cancellation of the S-300 deal by promising Tehran that it would see the Bushehr project through to completion. Although Tehran was angered by the cancelled S-300 deal, it refrained from taking any action that would place the completion of Bushehr in jeopardy. The US has also avoided taking action against Russia’s participation in Iran’s nuclear program because it values Moscow’s decision to support UN sanctions. It should also be remembered that the constraints on Iran’s ability to export oil have made Russia’s oil industry more profitable by pushing up global oil prices.

Mikhail Margelov, head of the security committee of the Federation Council, Russia’s upper house of parliament, articulated Russia’s Iran policy saying: “That is why, if we cooperate with Iran in the field of nuclear energy, as we do by completing Bushehr, we do so because this is the only legal mechanism to keep them cooperating with the international institutions.”

Figure 10.4 provides a chronology of Russia’s participation in Iran’s nuclear program. Unless otherwise noted, data come from the Nuclear Threat Initiative’s Iran Profile:

**Figure 10.4: Chronology of Russo-Iranian Nuclear Cooperation**

- 1987: Russian nuclear cooperation with Iran began, according to a 1999 article written by Viktor Mikhailov, then chairman of the Russian Ministry of Atomic Energy's Scientific Council.

---


• 1992: Russia and Iran signed a 15-year bilateral nuclear cooperation agreement.

• 1993: The Iranian parliament ratified nuclear cooperation agreements with Russia and China. Iran planned to buy two VVER-440s [440MW reactors] from Russia and two 300MWe pressurized water reactors similar to those at Qinshan from China.

• 1995: Russia announced that it would complete Bushehr's construction and agreed to build three additional reactors. Russia agreed to complete construction of the Bushehr-1 nuclear power plant and also secretly offered to supply Iran with a large research reactor, a fuel fabrication facility, and a gas centrifuge plant.

• **February 2005:** After extended negotiations, Russia and Iran agreed to a deal in which Moscow would supply the nuclear reactor for the Bushehr power plant. Russia had been under pressure from Washington to require that spent fuel rods be repatriated to Russia in order to prevent their being reprocessed into weapons-grade plutonium. Both sides agreed on the repatriation, although the schedule of shipments had complicated negotiations.¹⁹⁴

• **January 1996:** The Russian and Iranian contract on the Bushehr power plant went into effect. Russia was under a contractual obligation to complete and render operational the Bushehr nuclear power plant within 55 months.

• **March 1996:** Representatives from China, India, Iran, and Russia signed a protocol in Moscow establishing the Asian Fusion Research Foundation to cooperate in the study of nuclear fusion.

• **1997:** Iran and Russia signed a memorandum of understanding on export controls, emphasizing their commitment to the nonproliferation of nuclear weapons and their means of delivery.

• **1998:** Russia agreed to build two more nuclear reactors in Iran in addition to Russia's $850 million deal to build a 1,000MW nuclear power plant at Bushehr. Kaurov said Russia “agreed in principle” with Iran on the construction of two more reactors at Bushehr. Construction was not expected to begin for five years. This new deal was not a signed contract, but was rather a verbal agreement.

• **2000:** Russian President Vladimir Putin instituted changes to the 1992 presidential decree, “On Controlling the Export of Nuclear Materials, Equipment and Technologies from the Russian Federation,” that permitted Russia to supply nuclear technologies and materials to countries whose nuclear programs are not fully monitored by the International Atomic Energy Agency (IAEA). This was reportedly Moscow's response to the US Congress's passage of the Iran Nonproliferation Act, which imposed sanctions against Russian companies suspected of supplying Iran with prohibited technologies and materials. A spokesperson for the Ministry of Atomic Energy stated that Russia's ability to export nuclear materials and technologies had been “broadened considerably.” It was believed that Putin revised his predecessor's decree in order to expedite the implementation of a contract with Teheran in the near future.

• **2007:** Russia delivered the first fuel shipment to the power plant in Bushehr, in southern Iran. Russian officials claimed that the fuel would be under the control of the International Atomic Energy Agency while its inspectors are in Iran, and that Tehran had given its pledge that the fuel would only be used for the power plant.

• **September 2011:** The Bushehr power plant was connected to Iran’s electricity grid.¹⁹⁵

---


Russian and Iranian Roles in the Syrian Conflict

Syria has been another source of tension, but one affecting US and Russian relations more than US and Iranian relations. Mass popular demonstrations began in Syria in March 2011 and have since evolved into an increasingly lethal civil conflict. Russian and Iranian support for the embattled Assad regime was initially based off of Syria’s strategic significance for both Russia and Iran. Syria is home to Russia’s only military refueling station on the Mediterranean, the naval base at Tartus. Likewise, Syria is Iran’s only ally in the Middle East, other than non-state actors such as Hezbollah.

Russian support for Syria’s ruling Assad regime was initially solid, and Russia’s diplomatic cover was one of the main factors preventing more robust action in the UN Security Council in October 2011, in February 2012, and in July 2012. Russia’s interests in Syria are heavily linked with the robust bilateral arms trade: in 2011, the Centre for Analysis of Strategies and Technologies (CAST), a Russian think tank, reported that Syria purchased $3.7 billion worth of weapons—15% of the Russian defense industry’s total sales, making Syria its second-largest customer after China. From the standpoint of the international community, Russia’s alliance with Iran was highlighted by its pro-Syrian stance.

As the fighting has intensified, however, Moscow’s position has shifted somewhat to be less openly pro-Assad. In July 2012, Russia reportedly ceased its shipments of arms to Assad due to the regime’s inability to continue paying its bills. This decision illustrates why Russia’s view of Syria should be understood in the context of Russian self-interest rather than unconditional support for the Assad regime.

Iran, for its part, has been outspoken in its support for Assad. Tehran has gone further than Moscow in providing more tangible assistance to the Syrian state security apparatus. In September 2012, the commander of the Islamic Revolutionary Guard Corps (IRGC) admitted


publicly that IRGC operatives were active in Syria, albeit in an advisory capacity.\(^{200}\) Iran’s role in Syria is greater than Russia’s mainly because Iran is far more dependent on Syria as an ally, both because Iran is more isolated from the international community and because Syria is the main logistical conduit for shipping Iranian arms to Hezbollah.

The Syrian conflict has exposed the limits of the Russian-Iranian nexus. As the fighting drags on, Russia has begun to distance itself from Assad, while Iran continues to funnel supplies into Syria and has become more open about its level of support for Assad’s forces. In July 2012, a Moscow official responsible for supervising Russia’s international arms trade told reporters that Russia will suspend shipments of new weapons and fighter planes to Syria until the conflict is resolved.\(^{201}\) This development may indicate the limits of tangible Russian support to Assad, whereas Tehran is likely to continue, to the extent it is capable, to provide weapons and training to the Syrian regime.

**Implications for US Policy**

The US has a strong interest in continuing to draw Russia away from Iran and toward its Western coalition. Without Russian support, Iran loses not only a diplomatic sponsor, but also access to arms and technical support for its existing nuclear infrastructure. The Russo-Iranian relationship is built upon mutual opportunism. The US should continue to stress the material and diplomatic benefits of partnership with the West, while at the same time working to enhance the costs of partnership with Iran.

- **Encourage Russia’s growing ties with Israel.** While Russia’s growing trade with Israel has not halted Russia’s supply of missile technology to Syria, it was a factor in the cancellation of the S-300 deal. Israel has begun to sell Russia UAVs, a high priority technology for maintaining pipeline security in Russia. As Russo-Israeli trade increases, the Russians may become more hesitant about alienating a valued trade partner by providing its enemies with advanced weapons technologies. Bilateral pressure will certainly not lead to a cessation of arms sales to Iran, but it may have a dampening effect – decreasing the quantity and quality of future deals.

- **Isolate Iran by further integrating Russia.** Iran would prefer Russia view the world as a duality between Western and non-Western states. To isolate Iran and better integrate Russia into the existing order, the US should continue to support the bilateral agreements and institutions it put in place after the 2009 diplomatic reset.

- **Leverage Russo-Iranian energy competition.** Iran and Russia compete to supply Europe with energy. The US and Europe should take advantage of this competition by offering to favor Russian oil and gas providers in return for Moscow’s assistance in isolating Iran. From a trade perspective, this approach may be doubly advantageous to Russia, since restricting Iran’s ability to export oil has an inherently beneficial effect on the Russian oil industry, driving up its revenues through increases in global oil prices.

Russia has its own agenda and increased competition with the West should not be interpreted as a general shift in the Russian worldview. That being said, Russia has its own reasons to oppose a

---


nuclear Iran. Unlike China, Russia has no need of Iran as an energy supplier, and instead competes with Iran to supply energy to Europe. This creates opportunities for further Russian cooperation and integration with the West.