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How Sanctions on Iran Strengthen Russia

by Sadek Al-Rikaby

As the second wave of US sanctions on Iran approaches, the tension between the two countries mounts and a question arises about the fate of Iran's energy sector. Although Iran has huge reserves of oil and gas, its infrastructure, which allows it to benefit from these resources, needs considerable development.

According to many studies, Iran needs $200 billion to develop its energy sector, with a natural gas development share of $100 billion. However, the decline in production, low oil prices, and the high cost of the war in Syria has made Iran unable to provide the necessary funds to achieve the needed capital. Tehran has therefore been keen to attract foreign investments by trying to modify old buy-back oil contracts to give foreign firms greater privileges. But these hopes have been shattered with the US withdrawal from the Iran nuclear deal, and its decision to re-imposed sanctions.

Many companies (including Total, A.P. Moller-Maersk, Allianz, Siemens, Maersk Tankers, and others) that are operating, or planning to work, in Iran have been forced to withdraw for fear of these sanctions. European refineries have also reduced their purchases of Iranian oil. This means that 500 thousand barrels of Iranian oil exported daily to the European market may stop if the Trump administration refuses to grant any European countries exemptions after 4 November 2018, the date the second round of sanctions take effect. Certainly, the absence of Iran from the European and Asian oil markets will encourage other countries such as Saudi Arabia and Russia to replace it.

Iran-Russia... (CONTINUED ON PG 2)

Sanctioning Iran and the Future of US-India Strategic Partnership

by Amin Tarzi

On 4 November 2018 the United States will resume imposing the full range of economic sanctions on Iran that were lifted as part of the six-party nuclear agreement known as the Joint Comprehensive Plan of Action (JCPOA) signed in 2015.

US-India... (CONTINUED ON PG 3)

Iran-Russia... (CONTINUED FROM PG 1)

During the last meeting of OPEC + (the Organisation of Petroleum Exporting Countries plus Non OPEC producers), Russia made a proposal to increase production by 1.8 million barrels per day (bpd). The proposal was met with considerable opposition from Iran, which considered it a violation of the agreement to cut output. Later on, the parties agreed to increase production to nearly 1 million bpd. Moscow also worked on the construction of two new oil pipelines for Asia, the East Siberian and the Pacific (ESPO and ESPO 2). These pipelines have quadrupled Russia's crude exports to Asia since 2010, to nearly 1.2 million bpd in 2017, with a schedule to increase to about 1.6 million bpd in 2020.

Iran also suffers from special problems in its energy sector. Domestically, Iran consumes about 40 and 60 percent of its oil and natural gas production respectively. The rest of Iranian annual natural gas production, which is estimated at 251 billion cubic meters (cm), is used in the process of injecting old gas fields to maintain high production levels. In addition, the Iranian government is trying hard to curb inflation by subsidizing gas prices domestically. This means a reduction in its natural gas exports to only 6 billion cm a year. Even if Iran manages to increase its natural gas exports over the next three years its annual exports will not exceed 27 billion cm. These quantities will not be enough to meet the European market needs, which increased demand by 5.5 percent year on year to 408.7 billion cm in 2017.

For Europe, which imported nearly 40 percent of its needs from Russia last year, Iranian natural gas could reduce its dependence on Russian gas by 16.5 percent annually, and that figure will gradually increase in the next few years. Certainly it would also lead to lower prices in the market and support the EU's position in its negotiations with Russian companies that refuse to deal with Spot Prices and prefer to deal with futures contracts.

But it seems that Russia will benefit from the recent US sanctions on Iran once again, and strengthen its negotiating position with Europe on many issues, including Ukraine and Syria. Furthermore, Europe finds itself in a weaker position, especially as US President Donald Trump imposed tariffs on European steel and aluminium and criticized Europe for importing gas through the Russian pipeline Nord Stream 2 instead of natural gas exported from the United States.

But Europe itself is divided on this issue. Ukraine, Poland, and some European countries reject the idea of imported Russian gas through Nord Stream 2 reaching Germany directly via the Baltic Sea. Clearly these countries fear that Russia will stop exporting gas through a vast network of pipelines crisscrossing their territory. This means that Russia could reduce the amount of gas it is exporting to these countries at any time and reduce their financial revenues. Therefore, these countries are strongly encouraged to diversify their energy sources and import liquefied natural gas from the United States, even if it is at higher prices.

For his part, Russian President Vladimir Putin is trying to benefit from the US sanctions on Iran in converting Iranian gas from rival energy sources to a tool of partnership. By investing about $50 billion in the Iranian gas sector, Russian companies have decided to develop Iranian natural gas in south Pars fields and modernize Iran’s energy infrastructure. Russia will in turn buy Iranian gas and later export it to European markets with price advantage.

In this way, Putin is helping to ease the sanctions on Iran and impose his own conditions in Syria, where he is negotiating with Trump to reduce Iranian influence there. So it can be said that US sanctions, which have undoubtedly weakened the Iranian regime on the one hand, have been giving Putin a boost which he can use to strengthen his position in and outside Russia on the other hand.

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US-India... (CONTINUED FROM PG 1)

Previously, I have discussed the rationale for the United States to withdraw from JCPOA and the reaction from European partners as well as Turkey and India. Here, I will briefly discuss and expand on the potential effects on the US-India relations should actions by New Delhi and reactions by Washington lead to US retaliatory sanctions on India.

Iran Sanctions and India-U.S. Strategic Partnership

After delays, the United States and India held their inaugural joint meeting of foreign and defense chiefs known as the 2+2 Ministerial Dialogue on 6 September 2018 in New Delhi to promote synergy in their diplomatic and security efforts as part of promoting a strategic partnership between the two counties. The thorny issue of India's reliance of Iranian oil—India's being second only to China among oil importers from Iran—was not directly mentioned in the final communique of the 2+2 meeting, nor was the impending purchase by India of the Russian S-400 *Triumf* air defense system, a deal that was finalized between Indian and Russian leaders on 5 October.

India imports 80 percent of its oil requirements from the Middle East, ten percent of that coming from Iran. Similar to the cases of China, Japan, and the Republic of Korea, India imported oil from Iran albeit with restrictions during the pre-JCPOA sanction era. Beyond vital oil imports, New Delhi and Tehran are working on other strategic projects, such as the development of the Chabahar Port in the Arabian Sea that will provide India access to Afghanistan and Central Asia, circumventing rival Pakistan and countering China's influence in the region. Additionally, as part of New Delhi's strategy to achieve energy security, the two countries have been discussing building an underwater pipeline to connect Iran and Central Asian energy markets to India, away from Pakistani influence present in other envisaged projects, e.g., the Turkmenistan-Afghanistan-Pakistan-India pipeline project.

Ironically, India's quest to have direct access to Afghanistan, albeit through Iran, is in sync with US President Donald Trump's strategy in Afghanistan and South Asia in which he called on New Delhi to help the US in "Afghanistan, especially in the area of economic assistance and development." India's efforts to provide assistance to Afghanistan and to maintain a strategic presence in that country as a counterbalance to Pakistan as well as in resource extraction competition with China have been curtailed by geography. Pakistan has traditionally kept India out of the Afghan markets. However, after the collapse of the Taliban regime in 2001, New Delhi reentered the Afghan scene and is determined to stay for the long haul. In 2009, India completed the construction of the 78-mile long Delaram-Zaranj Highway, connecting the southwestern part of Afghan-Iranian border with the main ring road in Afghanistan. The highway without access to the Iranian port of Chabahar and a working relationship between New Delhi and Tehran would be useless to India. While Washington has been generally supportive of India's Chabahar plans, the re-imposition of sanctions on Iran will have a direct negative impact on the overall U.S. strategy in Afghanistan and South Asia in a time when India plays a central and essential role in the regionalization and sustainment aspects of United States' 4R+S (regionalize, realign, reinforce, reconcile, and sustain) strategy for ending the Afghan conflict.

Beyond US and Indian priorities and strategies in Afghanistan, the looming sanctions on Iranian oil and gas exports are becoming a point of contention in the ongoing US-India strategic partnership. After the 2+2 meeting in New Delhi, the two sides "welcomed India's enhanced role [emphasis added] in Afghanistan's development and stabilization," which could be read in New Delhi as a nod to the Chabahar project. The official statements sidestepped the thorny sanctions issue, as India pursues a waiver to import oil from Iran, but an unidentified US State Department official traveling with Secretary of State Mike Pompeo said that Washington is asking its partners, including India, "to reduce to zero oil imports from Iran," expressing confidence that the sanctions

US-India... (CONTINUED ON PG 4)

US-India... (CONTINUED FROM PG 3)

issues will be part of bilateral US-India discussions. In a late September interview, Alice Wells, the State Department's top official on South Asia and Central Asia, hinted that Washington was aware of India's concern about trading with Afghanistan through Iran and will carefully evaluate the impact that JCPOA-related sanctions could have on Afghanistan. Even India's partnership with Iran on Chabahar is exempted from US sanctions; the issue of India's importation of oil might remain a challenge.

Two months prior to the 2+2 meeting, outgoing US Ambassador to the United Nations Nikki Haley encouraged India to rethink its relationship with Iran, including seeking alternative suppliers of oil. The devil is, of course, in the details. India is already suffering from high oil prices and a very weak rupee against the US dollar. This makes it almost impossible for India to switch to an alternative fuel supplier for more than 10 percent of its needs even if there was political will to abandon a rising strategic relationship with Iran. Moreover, there is a good chance that a sanctioned Iran would offer India options to purchase cheaper oil than the market prices using currencies other than the US dollar or bartering mechanisms. Back to the overall Indian strategy in its neighborhood, concurrent with hosting Pompeo and US Defense Secretary James Mattis, New Delhi also played host to Iran's Minister of Roads and Urban Development Abbas Ahmad Akhoundi, who announced the impending handover of the Chabahar Port to an Indian firm and a railway project connecting the port to Iranian city of Zahedan close to the Afghan-Iranian border. The concurrence of the two meetings ought to be seen as a vivid display of New Delhi's intent to work on enhancing its strategic partnership with the United States while continuing its relations with Iran.

The success of the JCPOA was not its comprehensiveness of scope nor its spirit, but rather its multilateral nature and its singular and internationally verifiable aim. Iran did not go into the deal giving up much and was rewarded for circumventing and cheating on its international obligations; however, it has abided by the letter of the deal because it is in regime's interest to do so. The US desire for fundamental changes in Iranian behavior has merit, but the over-application of sanctions on allies and adversaries, most of which are sanctioned for bilateral trading issues with the United States, might be a costly and irreversible undertaking for the long-term strategic power of the United States. In the case of India, if the United States decides not to grant a waiver for New Delhi to import Iranian oil as well as on the recent purchase of the S-400 air defense system from Russia, there might be significant negative consequences on an expanding partnership that has the potential of becoming the cornerstone of the US-South Asian as well as the broader Indo-Pacific strategies. In case of a setback in deepening the US-India strategic partnership due to sanctions, the clear victor would be Russia, which already has scored not only on the sale of the S-400 but also with the continuation of the "Special and Privileged Strategic Partnership" with India.

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