

IRAN'S STRATEGY IN THE SOUTH CAUCASUS

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Abstract

The Islamic Republic of Iran seldom has been lauded for its foreign policy in the west. In contrast, Tehran is regularly accused of being a supporter of terrorism and a source of regional instability. In this regard the “mullah regime” is mostly blamed to pursue an irresponsible foreign policy undermining not only regional but, thanks to Iran’s nuclear programme, also international security. Paradoxically, while constantly being criticized by western governments, Iran’s immediate neighbours seem to take a complete different view on Iran’s foreign policy. From Baghdad to Kabul, neighbouring governments are quick to point out Iran’s constructive role in regional politics. By concentrating on Iran’s strategy towards the South Caucasus this paper wants to present the reader with proof of Iran’s ability to pursue pragmatic Realpolitik in spite of its religious nature. In the current debate this element of Iran’s foreign policy is hardly ever recognized. In order to shed light on this issue the author outlines the driving forces behind Iran’s foreign policy whilst concentrating the analysis on Tehran’s approach to its northern neighbours.

Keywords: *Iran, Azerbaijan, Armenia, Georgia, Russia, Caspian Sea, South Caucasus, foreign policy, energy*

Introduction

After the Cold War the South Caucasus re-emerged as a critical area in the geopolitical contest between major regional and global powers. The Caspian Sea’s rich natural resources arouse visions of a prospering region while the outbreak of conflicts demonstrated how difficult this was to achieve. This essay will explain the dynamics of Iran’s policies in the South Caucasus and evaluate any risks of confrontation. The author tries to provide evidence that Iran’s relations to all three South Caucasian states are improving and that economic ties dominate mutual affairs. Section II will give a quick overview of the dynamics behind Iran’s turn towards the South Caucasus followed by three case studies covering Iran’s relations to each one of the South Caucasian countries in section III-V. Finally, section VI will give an assessment on the prospective developments between Tehran and the South Caucasian states in the near future.

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The dynamics behind Iran's turn towards the South Caucasus

While Iran was readjusting its policy towards the Arab countries after the ceasefire with Iraq and Ayatollah Khomeini's death at the end of the 1980's, a dramatic change occurred along its northern border. The Soviet Union (SU) collapsed, the bipolar confrontation which had dominated world politics for 45 years ended and Iran's main rival, the USA, remained as the sole superpower.

In essence three broad developments at the end of the 1980's and early 90's directed Iran to develop relations with its South Caucasian neighbours. First, was the new geopolitical reality. The cease-fire agreement with Iraq and the US-led Desert Storm campaign changed Iran's political environment to the west. While Saddam Hussein was weakened and ceased being an existential threat, the US enlarged its presence in the Middle East and became the guarantor of the status-quo while pursuing its double-containment policy. Simultaneously, the collapse of the Soviet Union and the rise of New Independent States (NIS) changed Iran's geopolitical situation to the north. New immediate security threats arose, such as conflict between Armenia and Azerbaijan, the escalation of inner conflicts in Georgia, and civil wars in Tajikistan and Afghanistan that destabilized Central Asia.

Second, was the changed socio-economic reality. Iran's economy was ruined after the war with Iraq, which cost the country an estimated \$ 160 billion.¹ Falling oil prices during the 1980's as well as failed economic policies curbed down earnings and economic performance. Unexpectedly high birth rates hampered economic growth. A massive brain drain of around 4 million Iranians deprived the country of the human capital needed for economic recovery.² Furthermore an 'economic and demographic shift from southern to northern Iran'³, caused by the severe war damages in southern Iran, modified the economic equilibrium and made an expansion of increased economic relations with its northern neighbours inevitable.

Third, were the ethnic realities of the Islamic Republic. Iran consists of different ethnic groups of which the Persians are only a 51 % majority. The rest of the population is made up of Azerbaijanis (24%), Gilakis and Mazandarani (8%), Kurds (7%), Arabs (3%), Lurs (2%), Baluchis (2%) and finally Turkmens (2%).⁴ These large minority groups are situated mainly on border areas. Thus, regional instability, such as the Armenian-Azerbaijani conflict, has the potential to spill over into Iran.

So while the political developments of Iran's western border limited its ability to conduct active policies, developments on its northern border opened up opportunities as well as serious threats. Under enormous pressure from its young population to achieve economic progress, and as a result of the increasing instability in the region, Iran turned its attention towards its northern neighbours.

¹ CIA Analysis, Iran's economy: a survey of its decline, (1991), <http://www.foia.cia.gov/>, p iii.

² Ibid, piii.

³ Roy, Oliver, The Iranian foreign policy towards Central Asia, (1998), <http://www.eurasianet.org/resource/regional/royoniran.html>, p. 4.

⁴ The CIA World Fact Book 2006, <https://www.cia.gov/cia/publications/factbook/index.html>.

To have a better understanding of Iran's foreign policy approach towards the South Caucasus, the following three chapters will analyze Tehran's relations with Armenia, Azerbaijan and Georgia.

Armenia

Relations between Armenia and Iran are based on a common history and common geopolitical objectives. After the fall of the SU, Christian Armenia and Islamic Iran were not divided by religion but united by common enemies. Iran's trouble with Azerbaijan's nationalistic government under President Elchibey (1992-93), and the menace of increased US-Israeli-Turkish influence in the South Caucasus guided Tehran to support Armenia at the beginning of the Nagorno-Karabakh conflict.⁵ In addition, the assistance to Armenia advanced Iran's cooperation with Russia, with which Iran shared common interests in the Caucasus by establishing what was later labelled as the Russia-Armenia-Iran axis. Armenia on the other hand, landlocked between Turkey, Azerbaijan and an unstable Georgia, needed Iran in order to disenclave itself, circumvent sanctions imposed by Turkey and win the war with Azerbaijan.⁶

After initially providing support to Armenia, Iran shifted its stance towards one of neutrality and tried in vain to mediate between the two adversaries. Tehran was worried about the instability along its northern borders and tried to achieve a diplomatic resolution of the conflict. The unresolved Nagorno-Karabakh conflict and the possibility of renewed hostilities still represent a major source of concern for Iran.

Over the years Yerevan and Tehran have built up very strong relations. Energy cooperation plays the biggest part in their mutual relations and the construction of a gas pipeline from Iran to Armenia has been completed. Although the pipeline was supposed to end Yerevan's dependence on Russian gas, it will most probably be taken over by Gazprom.⁷ Russia has become Iran's main competitor in Armenia's energy market and has successfully pressured Yerevan to reduce the pipeline's diameter, so as to prevent Iran from exporting its gas to Georgia and other countries.⁸ But there are rumours that Iran and Armenia are planning to build a second pipeline with the capacity to deliver Iranian gas to third-party countries.⁹ Furthermore, Armenia and Iran have agreed upon the construction of a third power transmission line connecting Armenian and Iranian power grids.¹⁰ There are also plans to build a large hydroelectric plant on the Arax River flowing along the Armenian-Iranian border.¹¹ Infrastructural projects like the current construction of a highway from Armenia to the Iranian

⁵ Mohammad-Reza, Djalili, Iran and the Caucasus: Maintaining some Pragmatism, in: *The Quarterly Journal*, No.3, September 2002, p. 54.

⁶ Ibid, p. 54.

⁷ 'Kocharian confirms Russian control of Iran-Armenia Pipeline', <http://www.armenialiberty.org/armeniareport/report/en/2006/10/F20C558F-A566-4192-9BBF-7EF0CF256EEA.ASP>, 31/10/2006.

⁸ Ibid.

⁹ 'Russia tightens control over the Armenian Energy Sector', <http://www.eurasianet.org/departments/business/articles/eav101706.shtml>, 18/10/2006.

¹⁰ 'Armenia deepens ties with embattled Iran', <http://www.eurasianet.org/departments/insight/articles/eav072806.shtml>, 18/10/2006.

¹¹ Ibid.

border are underway in order to increase the modest current trade volume of \$ 105 million between the two countries.¹²

Azerbaijan

The relationship between Iran and Azerbaijan has exhibited massive turbulence over the past years. Three connected sets of factors steer their relations: ideology, geopolitics and economics.

After the collapse of the SU, Azerbaijan went through an identity crisis. The country's 'complex interweaving of historical and religious bonds to Iran; ethnic, ethno-linguistic and traditional intellectual links to Turkey; and political, intellectual and linguistic ties to Russia' made the creation of a coherent national identity difficult.¹³ But despite Azerbaijan's cultural and historic legacy, the nationalistic Popular Front of Azerbaijan (PFA) decided to take an overly pro-Turkish stance. Taking power in June 1992, PFA's leader and elected president, Abulfaz Elchibey, overemphasized Azerbaijan's Turkish cultural heritage to the extent that not only Russia and Iran but also the country's own ethnic minorities (14% of the population in the early 90's)¹⁴ felt excluded.

Azerbaijan's early orientation towards Turkey and the West, as well as its disregard for Russia and Iran was a matter of concern to both regional powers. Both were alarmed by the prospect of rising US–Israeli-Turkish influence in the Caucasus. More worrisome for Iran was the fact that the 'Greater Azerbaijan' idea gained widespread support in Azerbaijan. According to the 'Greater Azerbaijan' idea, Azerbaijani national unity was split into northern and southern halves by imperial Russia and Iran and should therefore reunite.¹⁵ Conversely, many Persians are convinced that 'Northern Azerbaijan' was originally part of Iran lost to Russia in 1828.¹⁶ President Elchibey led the "Greater Azerbaijan" campaign and accused Iran of mistreating its Azerbaijani population living in northern Iran close to Azerbaijan's border. Tehran, fearing the spread of separatist sentiments among Iranian Azerbaijanis, who account for 24% of its population, went on the offensive. In addition to financing Islamic parties in Azerbaijan and launching a public relations campaign, Tehran started to destabilize Azerbaijan by supporting the Talysh separatist movement, an ethnic minority in Azerbaijan with a strong Persian identity. Together with Russia, Iran managed to undermine President Elchibey's policies and destabilize Azerbaijan. Foreign and domestic policy failures led eventually to Elchibey's loss of power in June 1993. He was succeeded by more moderate ex-communist Heydar Aliyev.¹⁷

Heydar Aliyev avoided the extreme nationalistic position of his predecessor and pursued a more balanced policy towards his neighbours. But relations between Iran and Azerbaijan remained strained. Differing positions on the issue of the division of the Caspian Sea, the construction of the Baku-Tbilisi-Ceyhan (BTC) pipeline, as well as Iran's exclusion from the 'Contract of the

¹² Ibid.

¹³ Nazrin, Mehdiyeva, Azerbaijan and its Foreign Policy Dilemma, in: Asian Affairs, vol. XXXIV, no. III, (2003), p. 271.

¹⁴ *Microsoft Encyclopaedia 2005.*

¹⁵ Mehdiyeva, p. 280.

¹⁶ Oliver, p. 11.

¹⁷ Mehdiyeva, p. 271.

Century' petroleum exploration agreement in 1995 angered Tehran.¹⁸ The bilateral relations deteriorated on July 2001 as a British Petroleum boat, which was conducting prospecting operations on disputed offshore oilfields under Azerbaijani authorization, was forced to return to port by an Iranian warship.¹⁹ Sable rattling between the two countries followed but eventually gave way to a more pragmatic approach.

The relationship has changed since then and is progressing towards closer cooperation in political, economic as well as cultural domains. In the political field Azerbaijan supports Iran's right for peaceful use of nuclear technology and has repeatedly expressed its refusal to join any anti-Iran coalition, stressing the need to settle the issue by diplomacy.²⁰ Both sides have signed an agreement banning their respective territories from launching an attack on the other. Moreover, bilateral cooperation against drug trafficking has been introduced.²¹ In the economic field, energy and gas swap agreements have been signed and Baku has voiced its interest in transferring oil to the Persian Gulf.²² With the completion of power lines and ongoing projects, the transfer capacity of electricity between Iran and Azerbaijan, which currently stands at 200 megawatts, will increase to 600 megawatts.²³ In Addition, Azerbaijan's First Deputy Premier suggested that if Russia's gas price becomes too expensive Azerbaijan will start to negotiate with Iran. Both countries also cooperate on infrastructure projects within the framework of the North-South Corridor and TRASECA. Even the negotiations about the division of the Caspian Sea have recently been described as fruitful by the Iranian Ambassador to Baku.²⁴ Cultural ties could be fostered by the establishment of the Iran-Azerbaijan Friendship Association.²⁵

Georgia

Georgia shares no common border with Iran and has the least developed relations with Iran among the South Caucasian states. Diplomatic relations were not very strong in the past and Iran kept out of Georgia's internal disputes.²⁶

However, the conflict between Georgia and Russia has opened a new chapter of bilateral cooperation. Georgia is desperately seeking a way out of its energy and economic dependence on Russia. Tbilisi's relationship with Russia has suffered severely since the 'Rose Revolution' in 2003 and Mikhail Saakshvili's rise to power. President Saakshvili's westward orientation, his

¹⁸ Iran was expecting to get a 5% share in the international petroleum consortium, but under the pressure of the US, Iran was excluded. For details see: Djalili, p. 52.

¹⁹ 'Azerbaijan: trying to keep Washington and Tehran happy', <http://www.eurasianet.org/departments/insight/articles/eav050506a.shtml>, 18/10/2006.

²⁰ 'Konflikt: Aliev pitaetsya otvesti udar ot svoego iranskogo kollegi Akhmadinezhada', <http://www.ng.ru/printed/67647>, 06/05/2006.

²¹ 'Iran, Azerbaijan to Ink Drug Campaign Agreement', <http://english.farsnews.com/newstext.php?nn=8508120290>, 15/11/2006.

²² 'Baku Seeking to Transfer Oil to Persian Gulf', <http://english.farsnews.com/newstext.php?nn=8507130236>, 23/10/2006.

²³ 'Iran-Azerbaijan energy transfer to increase', <http://www.iranmania.com/News/ArticleView/Default.asp?NewsCode=46011&News>, 23/10/2006.

²⁴ Axis Information and Analysis, http://www.axisglobe.com/print_news.asp?news=5599, 13/11/2006.

²⁵ 'Iran-Azerbaijan Friendship Group Starts Work', <http://english.farsnews.com/newstext.php?nn=8507030388>, 23/10/2006.

²⁶ Phone interview with Professor Edmund Herzig, Professor of Persian Studies, University of Oxford, 16/11/2006.

government's hard stance towards the breakaway republics of Abkhazia and South Ossetia as well as his provocative policies directed against Russia's tacit support for the separatist movements damaged bilateral relations. The most recent incident took place in October 2006 as Georgia arrested four Russian army officers and 11 Georgians, accusing them of spying for Russia's GRU military intelligence.²⁷ Moscow, in response, imposed heavy economic sanctions, cut transport links and announced that it would more than double the current gas price for Georgia from \$110 to \$230 per 1,000 cubic meters.²⁸ Thus, it becomes clear why a closer relationship with Iran is so important to Georgia. As one of the regional powers in the South Caucasus, Iran has the potential to supply Georgia with gas and consequently break Georgia's dependence on Russia. Stronger economic ties with the Islamic Republic could help Tbilisi to diversify its trade, which is again strongly dependent on Russia (ranking first as export and import partner).²⁹

Iran, which has the world's second largest gas reserves after Russia, is profiting from the conflict between Moscow and Tbilisi. Tehran is eager to find a new customer for energy exports and to expand its economic ties. Following the clash between Moscow and Tbilisi as well as Russia's plan to increase their gas price for Georgia, Tbilisi announced that gas from Iran and Azerbaijan could fully replace Russian gas.³⁰ Moreover Iran and Georgia agreed to swap electricity via Armenia.

Conclusion

The foregoing analysis has made clear that the region is moving towards closer cooperation with Iran. There are however several factors which could potentially lead to confrontations or a slow down in bilateral affairs and which need consideration. First, relations with Azerbaijan could worsen very rapidly if there is any proof of Azerbaijani involvement in supporting nationalist feelings among ethnic Azerbaijanis in Iran. This issue is very sensitive, as demonstrated by recent tumults among Iran's Azerbaijani population over perceived Persian chauvinism. Furthermore, the unresolved question of the Caspian Sea's division remains problematic. Second, Iran will have to take into account Russian interests in the South Caucasus. This is particularly important in regards to Georgia where Iran has to be very cautious not to anger Russia over its cooperation with Tbilisi. Thus, Iran might give up stronger involvement in the region in order to preserve the close political and military cooperation with Moscow. Third, the American containment policy might hinder Tehran from expanding its influence in the South Caucasus. As done in the past, the US could put pressure on its regional allies to cut down their ties with Iran. Furthermore, an US attack on Iran could lead to extreme responses from Tehran aimed directly against US interests in the South Caucasus. This could lead to Iranian operations in the South Caucasus or even the bombardment of the BTC-pipeline, which certainly would strain Tehran's relations with its South Caucasian neighbours.

Nevertheless, in the short and midterm perspective relations between Iran and the South Caucasian states can be expected to improve for several reasons. First, Iran's relations with

²⁷ 'Russia-Georgia media war escalates', <http://news.bbc.co.uk/2/hi/europe/5392058.stm>, 01/10/2006.

²⁸ 'Russia sets 2007 gas price for Belarus at \$200 per 1,000 cu m', <http://en.rian.ru/russia/20061103/55362782.html>, 13/11/2006.

²⁹ The CIA World Fact Book 2006, <https://www.cia.gov/cia/publications/factbook/index.html>.

³⁰ 'Gruziya rasschitivaet na pomosh Tegerana', <http://www.nregion.com/print.php?i=5518>, 13/11/2006.

Armenia will most likely remain good. Armenia has frozen relations with Turkey and Azerbaijan; additionally it has suffered great losses as a result of Russia's imposed sanctions on Georgia. In this landlocked position, Armenia has no other option than to expand its ties with Iran. Furthermore, Iran is the only country that could help Armenia move its energy sector away from dependence on Russia.

Second, a clash with Azerbaijan is unlikely, because Azerbaijan has no interest in being dragged into a second conflict, nor does Iran seem interested in destabilizing Azerbaijan and risking domestic upheaval among its own Azerbaijani population. Azerbaijani government's policy towards Iran is buttressed by polls showing widespread public opposition among Azerbaijanis to US policy towards Iran.³¹ Interestingly, Azerbaijan has even voted against a recent UN General Assembly draft resolution on the violation of human and minority rights in Iran.³²

Third, Georgia is also trying to break its economic and energy dependence on Russia. The imposed sanctions leave Tbilisi no other choice than increasing its ties with its southern neighbours. Iran, with its huge gas resources, stands out in this respect and both sides are eager to expand bilateral relations.

What can be said without doubt is that Iran is definitely profiting from the recent geopolitical dynamics in the South Caucasus. Stronger cooperation in the region has the positive side effect that it binds the South Caucasus to Iran and gives it stronger leverage in its nuclear standoff. All three Transcaucasian governments have already voiced their concern over a possibility of US-military strike and support a diplomatic solution. In the economic sphere it must be noted that the small overall population of the South Caucasus of around 16 million will certainly not saturate Iran's economic potentials. Iran, sitting on 18 % of the world's gas reserves, is very attracted to the idea of gaining access to European energy markets by expanding electricity and pipeline networks through the Caucasus to Europe.³³ Given Russia's interests in maintaining its market positions in Western Europe and Washington's interest in containing Iran, it remains to be seen how successful Iran can be in this respect. Finally, Tehran is also extremely keen on becoming a transit route for Caspian Sea oil resources to the Persian Gulf. Thus, it can be concluded that Iran's main strategy in the South Caucasus is to advance relations with the respective governments in order to improve its standing vis-à-vis the US, to reach European energy markets and finally to become the main export route for Caspian Sea resources.

³¹ 'Azerbaijan: trying to keep Washington and Tehran happy', <http://www.eurasianet.org/departments/insight/articles/eav050506a.shtml> , 18/10/2006.

³² 'Azerbaijan against UN draft minorities in Iran', <http://en.apa.az/news.php?id=16632> , 26/11/2006.

³³ 'Gazprom pipeline deal points to alliance with Iran', <http://business.timesonline.co.uk/article/0,,13130-2442753,00.html> , 13/11/2006.