To each their own: The Southern Caucasus and Iranian influence

Abstract

The Southern Caucasus region matters to the European Union for economic, energy and political reasons. Yet the states of the Southern Caucasus — Armenia, Azerbaijan and Georgia — are also important to their southern neighbour, Iran. Realpolitik in the region dictates that the EU balance its relations with its local partners at the same time that Iran, sanctioned by the EU and others, makes various economic, cultural, and political inroads with its pliable neighbours.

Each Southern Caucasus state has a distinct relation with the EU and with Iran. Each must set the realities of its current situation against its western aspirations. Since the adoption of sanctions against Iran in 2010 and their subsequent reinforcement, the EU has also been obliged to consider Iran’s influence on regional politics. While the EU’s interest in the region is based on more than its concerns about Iran, this facet of the Southern Caucasus’s complicated balance of power cannot be ignored.
# Table of contents

1. **The crossroads**  
2. **Armenia**  
   2.1. *Understanding Armenia's relations with Iran*  
3. **Azerbaijan**  
   3.1. *Understanding Azerbaijan's relation with Iran*  
4. **Georgia**  
   4.1. *Understanding Georgia's relations with Iran*  
5. **The EU and its Eastern Partnership**  
6. **Conclusions**
1. The crossroads

The location of the Southern Caucasus has determined much of their states' foreign strategies and policies. Situated at the crossroads of Asia and Europe, Iran and Russia, these states — Armenia, Azerbaijan and Georgia — have been involved in great power struggles since the days of the Mongol expansion. Today, they are again the focus of international concern, in large part because of their relation to Iran. As Tehran adopts an increasingly defiant attitude to the West and the West applies sanctions to tame Iran's regime, the Southern Caucasus states are again being pulled into a larger conflict. Their position offers tactical advantages, but may also undermine their hopes of cooperating and integrating with the West.

As the relation between Iran and the United Nations Security Council, the US and the European Union worsens, Tehran's challengers are increasingly concerned about the South Caucasus, which provide the closest and most accessible markets for Iran. Realpolitik in the Southern Caucasus involves balancing domestic needs with western and Iranian foreign policies. For its part, Iran views the Southern Caucasus differently from one state to another. Although Iran is weaker than the EU and US, its flexible foreign policy allows it to develop various ties with the Southern Caucasus, exploiting the states' instability and mutual distrust to build relations and expand operations. Armenia, Azerbaijan and Georgia have varied histories with Iran, and each has a distinct view of Iran.

The EU's interest in the region is based on more than its concerns about Iran. The countries are neighbours, integrated in the European Neighbourhood Policy and the European Partnership. The Union is working to advance the security, stability and prosperity in the region, in order to promote democracy and good governance. These goals go beyond the questions of Iran's influence in the region, which is one part of the larger picture. Yet the question of Iran's involvement is a crucial one, as it affects a number of the EU's efforts in the region.

2. Armenia

Within the region, Armenia has the closest ties to Iran. These relations are based in large part on the two states' isolation, and are conditioned by geographical as well as economical and political realities: Armenia has only two open borders, one of which is with Iran (the other with Georgia), and Iran is eager to develop relations. Strong cultural ties also underlie the

---

1 For example: Azerbaijan takes stands close to Israel, Turkey and the US and not Iran or Russia, Armenia is close to Iran and Russia but not Turkey, and Georgia has amicable relations with Iran and Turkey, deep relations with the US, and hostile relations with Russia.

Armenia has agreed to implement UN sanctions against Iran, while doing what it must to fuel itself.

According to Armenian President Serzh Sargsyan, Iranian sanctions directly concern to Armenia.

bonds, as some 90,000 ethnic Armenians live in Iranian cities such as Urumieh, Tabriz, and Jolfa.\(^3\)

Iran is Armenia’s fourth trade partner, and the exchange of goods between the two countries reached EUR 244 million in 2011 (with imports from Iran twice the volume of exports to Iran).\(^4\) While Armenia has not explicitly stated its position on the sanctions on Iran,\(^5\) the government has stated it abides by the 2010 sanctions voted on by the UN Security Council in Resolution 1929. Some, more powerful countries have turned a blind eye to Armenia’s energy imports from Iran, as Armenia’s energy sources are limited to two countries and only one has enough significant resources and infrastructure in place to aid Armenia, that one country being Iran.\(^6\) Armenia’s choices are either cut itself off from Iranian energy and goods or to incur severe economic repercussions. The international community has therefore granted Armenia a sort of ‘waver’ based on economic need, although its respect of other aspects of the sanctions regime remains closely monitored.

Despite sanctions, Iranian banks subverted international sanctions and SWIFT barriers through Armenian banks.\(^7\) Armenian banks have been sanctioned for supporting Iranian financial transactions. The most recent example is Iran’s Mellat Bank, which had a branch in Armenia (now closed) and which was accused of serving Iran’s nuclear programme.\(^8\) Like all Iranian banks, Mellat’s international transactions were hindered by the 2007 round of sanctions, then more or less halted by a further round of sanctions cutting off access to the SWIFT system. It has, however, won a case in the European General Court stating that the EU did not provide enough evidence to support the case against it. The case is to be further heard in 2013 March.\(^9\) Another bank accused of assisting the nuclear programme is Bank Melli, which also once had Armenian affiliates and was primarily used by the Iranian Revolutionary Guard Corps (IRGC).\(^10\)

Iran has also used Armenia to acquire and transport nuclear information and material from IRGC agents and banking institutions in Armenia. This

---


\(^4\) European Commission, Directorate General for Trade, 2011.

\(^5\) Armenia is consistent with international law in relations with Iran–President Sargysan, news.am, 21 February, 2013.

\(^6\) Personal Interview with a lobbying firm that promotes Armenian relations abroad, 2013. G. Lomsadze, Could Iranian sanctions close Armenia’s third border?, Eurasia.net, 29 November 2011.

\(^7\) S. Cameron-Moore, US prods turkey to enforce Iran sanctions, Reuters, 27 April 2011.

\(^8\) K. Katzman, Iran Sanctions, Congressional Research Service, 10 January 2013, pp.74.

\(^9\) Iran to sue EU after winning sanction case, Reuters, 30 January 2013.

\(^10\) K. Katzman, Iran Sanctions, Congressional Research Service, 10 January 2013, pp.74.

\(^11\) Ibid.
Iran supported Armenia in the 1992 war over Nagorno-Karabakh, and the arms trade between the two states has always been substantial.

Further instability in the region could possibly upset the large Azeri and Armenian populations living within Iran.

also happened frequently in the contested area of Nagorno-Karabakh due to its troubled status and lack of strong central authority\(^\text{12}\).

According to Armenian President Serzh Sargsyan, Iranian sanctions directly concern Armenia. He has said of the sanctions, 'They deal a blow to Iran's and — by ricochet — to our economy, too. But we continue to implement joint interesting projects, specifically in the hydro energy sector [...] and today our relations are developing with success\(^\text{13}\).' Armenia has signed various Memoranda of Understanding with Iran — 20 on economic issues — and since 2009 there has been talk of creating a railway link and the leasing of land to Iran for sheep herding\(^\text{14}\). The most important Memorandum of Understanding was signed in 2010 to establish 'arrangements in the fields of trade and economic relations, banking affairs, transport and communication, agriculture, healthcare and etc. At present [the] Iran-Armenia intergovernmental commission has a serious role in [the] arrangement of Iran-Armenia economic relations\(^\text{15}\).

Iran supported Armenia in the 1992 war over Nagorno-Karabakh — a semi-autonomous region that is *de facto* administered by Armenia — and the two have states have always had a significant arms trade as well as a visa facilitation and liberalisation scheme\(^\text{16}\). Nagorno-Karabakh has its own financial and economic infrastructure and could be a future outlet for Iranian investments and illicit trading. It is in Iran's interest that Nagorno-Karabakh remain stable, without further fighting or displacement of people. Instability in the region might upset the large Azeri and Armenian populations living in Iran, or create a refugee crisis that would put further strain on the Iranian economy. In 2002, Armenia's then-Foreign Minister, Vartan Oskanian, said, 'Iran is the guarantor of stability in the Karabakh region\(^\text{17}\).

The agreements signed between Armenia and Iran — including economic and energy initiatives — and their joint ventures — constructing power


\(^{13}\) *Armenia is consistent with international law in relations with Iran—President Sarayyan.*


\(^{15}\) Ibid.

\(^{16}\) M. Rubin, *Iranian influence in the south caucasus and the surrounding region*, Testimony before the US House Committee on Foreign Affairs, 5 December 2012.

\(^{17}\) B. Schaffer, *Iran's role in the south caucasus and caspian region: diverging views of the u.s. and europe*, 'Iran and its Neighbours: Diverging Views on a Strategic Region', German Institute for International and Security Affairs, July 2003, pp.20. Vartan Oskanian is the former foreign minister of Armenia and leader of the Civilitas Foundation, he is currently under investigation for money laundering in connection with a US donor and his Foundation.

\(^{18}\) *Bilateral Relations-Islamic Republic of Iran*, Ministry of Foreign Affairs of Armenia.


\(^{20}\) Ibid.
stations, for example — have multiplied in recent years. One such project, the Tabriz-Yerevan natural gas pipeline that was completed in 2008, exchanges the surplus of electricity that Armenia generates for natural gas from Iran. Armenia has profited greatly from this relationship, and now obtains 23% of its energy from Iran, which about 51 million cubic feet per day of gas, thereby offsetting the Russian dominance of the Armenian energy market. The relationship has expanded Armenia's extremely limited regional trade with a partner that has supported Armenia's position in Nagorno-Karabakh and looks to Armenia for further economic cooperation.

2.1. Understanding Armenia's relations with Iran

Armenia has traditionally adopted a 'multi-vector' foreign policy that takes into account both its western aspirations and its immediate needs. Options for trade between these states are severely limited, but access to Turkey or Azerbaijan would greatly decrease Armenia's reliance on its two current trading partners.

Armenia's relationship with Iran is borne out of necessity. Armenia has traditionally adopted a 'multi-vector' foreign policy to balance its western aspirations with its immediate needs. However, its reputation as a banking outlet for sanctioned Iranian banks and a country that is blatantly subverting international gas/oil sector sanctions does not help Armenia's relationship with the West.

To remedy this problem, Armenia needs alternatives. As of now, the country can directly trade only with Georgia and Iran. Access to Turkey or Azerbaijan would greatly decrease Armenia's reliance on its two current partners.

The EU should take a stronger role in resolving the Nagorno-Karabakh conflict, in order to at least open negotiations between Armenia and Azerbaijan. The EU could play on trade and expansion issues to bring the parties to the table. The EU could, for example, offer cross-border trade and transportation arrangements, similar to Pakistan's and India's trade liberalisation across the Line of Control, an effort to develop micro-economic growth and confidence.

The EU has shown its commitment to Armenia with its involvement in the Minsk Group, its efforts to create Association Agreements (including Deep and Comprehensive Trade Agreements), and work on a visa liberalisation scheme. EU funds earmarked for Armenia via the National Indicative Programme have been set at EUR 157 million for 2011-2013.

However, the EU needs to increase its presence in Armenia, in part to offset Iranian influences and establish economic leverage to control aspects of Armenian trade — the 'where, who and what'. One simple, yet effective manner of deepening ties would be to develop Armenia's railway system, providing people and goods northern and western travel. Europe has a plethora of experience in encouraging infrastructure improvements and this would be an easy and physical way to show the

---

final product of EU investments. It may not be 'capacity building' but it would be delivering tangible services that the populace can see and touch and show the EU’s presence. The EU is currently Armenia’s first trade partner, accounting for one third of Armenia’s foreign trade in goods in 2011. In that year, the EU absorbed 46% of Armenia’s merchandise exports — worth EUR 458 million — and provided 28% of Armenia’s imports, worth EUR 882 million. The relationship exists, the EU must exploit must now build upon it to successfully mould their partner westward and away from the other track.

Trade would further develop if the Nagorno-Karabakh issue were resolved. An end to the frozen conflict would increase the movement of goods and services and offer Armenia a new partner (Azerbaijan). The EU should also work to convince the Armenian government that Iran does not have to be the only actor guaranteeing stability in the Nagorno-Karabakh issue.

The outcome of Armenia’s isolation has highlighted the need to establish supportive policies. Armenia’s current relations with Iran in the energy, financial and political sectors are all logical outcomes of its current isolation. However, if the country were given choices other than Georgia and Iran, it could develop at a faster pace, as well as possibly pare down — or at least balance — its current relation with Iran.

3. Azerbaijan

Azerbaijan and Iran are both predominantly Muslim countries with a Shiite majority, have similar economic situations and substantial Azeri populations (20 million in Iran). Yet Azerbaijan’s relations with Iran are the coldest of the Southern Caucasus states. Azerbaijan functions quite independently of Iran — unlike Armenia — and is charting its own course through global politics, one financed by gas and oil wealth and directed by a secular government. The country has banned women from wearing the hijab in public and has advocated that the Azeri population in Iran avoid ‘Persianisation’. Azerbaijan actively roots out Iranian transactions and banking actions within its borders and has annulled one domestic bank’s license after the bank was found to be subverting sanctions. Nonetheless, due to corruption and a powerful one-party state apparatus, public officials who oversee various economic sectors are suspected of having struck covert deals with Iran. A number of various Azerbaijani ministers and officials have been suspected of using their official powers as a tool to receive kickbacks and contributing money to the IRGC.

In a number of ways, Azerbaijan has become the opposite of Iran. One is

---

22 European Commission, Directorate-General for International Trade.
23 Mutual azerbaijani-iranian recriminations could worsen, Oxford Analytica, 20 February 2012.
secular, the other deeply religious; one enjoys wealth from its natural resource, while the other is largely unable to export its resources; one is building a military and increasing expenditures, while the other is stagnating economically. And whereas Iran’s policies are met with opposition from the West, Azerbaijan serves as a fly-over, transit and refuelling route for NATO and US aircraft which are participating in the war in Afghanistan.

Azerbaijan has greatly profited from Iran’s decrease in power. Azerbaijan is now the only country in the region that can extract, refine, transport and negotiate its natural resources through an indigenous, government-operated company — the State Oil Company of Azerbaijan Republic (SOCAR). This essentially translates into economic and political power.

Various pipelines to bring the region’s energy west, to the EU, are currently under consideration or construction. The Baku-Tbilisi-Erzurum and Baku-Tbilisi-Ceyhan pipelines have advances, also spurred by a desire to further isolate Iran as well as a need for. The Baku-Tbilisi-Ceyhan route is exclusively financed via a consortium of US and European partners, and has elicited the disapproval of both Russia and Iran25.

One of the most important proposed pipelines is the proposed Trans-Caspian Pipeline. The pipeline would diversify the EU’s imports by transporting gas to the Union without Russian or Iranian input. (Its completion depends, however, on Turkmenistan’s infrastructure). Another project has been proposed by the EU: the Nabucco Pipeline. However, this project would likely include gas from Iran in the pipeline: a sharing agreement struck by Azerbaijan and Iran via the Shah Deniz Consortium allows 10 % of the gas to be sourced in Iran. Bringing this Iranian gas to the EU would, in principle, contradict the oil and gas sanctions the EU currently has placed upon Iran26.

The largest regional resource development programme in Azerbaijan is the Azerbaijan International Oil Consortium (AIOC), which regroups 11 companies from seven countries. Azerbaijan effectively prevented Iran from joining the consortium in 200727.

Azerbaijan’s opposition to Iran has also been demonstrated by its

---

25 V. Vira and E. Fitzgerald, The United States and Iran: Competition involving turkey and the southern caucasus, Center for Strategic and International Studies, 4 August 2011.
27 Companies and countries include: British Petroleum (UK), Ramco (UK), Amoco (US), Unocal (US), Exxon (US), Pennzoil (US), ITOCHU (Japan), Stateoil (Norway), Lukoil (Russia), Turkish Petroleum (Turkey), Delta Nimir Khazar (Saudi Arabia)
28 Iran’s ministry of intelligence and security: a profile, pp.39.
29 G. Rossman, Recent arms purchases by Azerbaijan a hedge against Armenia, not Iran, Foreign Policy in Focus, 21 June 2012.
30 Ibid.
31 Natural gas exports from Iran, pp.4.
32 Natural gas exports from Iran, pp.4
Yet for all its animosity towards Iran, Azerbaijan provides Tehran with gas for Azerbaijan’s exclave of Nakhchivan.

Despite its limited relations with Iran, Azerbaijan does provide Iran with gas to supply Azerbaijan’s exclave of Nakhchivan through the Baku-Astara Pipeline. The agreement provides Iran with a small transport fee and allows Nakhchivan to receive gas without passing through Armenia or Nagorno-Karabakh. In 2010 Azerbaijan and Iran also signed a Memorandum of Cooperation to ship gas to Iran to produce electricity. Yet the energy trade between Azerbaijan and Iran is miniscule: 32 million cubic feet per day flow to Iran from Azerbaijan, and even less in the other direction (26 million cubic feet per day on average from July 2011 to June 2012). This pales in comparison to the 733 million cubic feet per day Turkey imports from Iran and 1 billion cubic feet per day Turkmenistan exports to Iran.

3.1. Understanding Azerbaijan’s relation with Iran

Azerbaijan enjoys abundant oil and gas, but growth rates have gone from astronomical to anaemic. Azerbaijan has abundant oil and gas wealth. However, growth rates have gone from astronomical to anaemic — under 2% — due to a decrease in oil production and a general decline in the use of natural gas in western Europe. According to the European Bank for Reconstruction and Development, Azerbaijan’s 2% growth in 2012 derived from the non-oil

Figure 1: Oil and gas routes/connections in the South Caucasus and Nakhchivan

Source: The Central Asian-Caucasus Institute

33 N. Orujova, ERBD revises up Azerbaijan growth forecast to 4 pct, Azernews.am, 21 January 2013.
The future Nabucco pipeline, will link Azerbaijan and the EU.

To avoid this scenario, the EU could pursue the Nabucco project and increase its role in the Trans-Anatolian (TANAP) pipeline, which is projected to be complete in 2017 and to supply much of eastern and Southeastern Europe. Beyond the reach of Russia and Iran, this pipeline represents an important project not only for Azerbaijan, but for European interests as well. TANAP is projected to be the first big pipeline and a precursor to a Trans-Caspian project that is exclusively funded by Turkey and Azerbaijan. As with the proposed Nabucco pipeline, TANAP would link Azerbaijan and the EU. The project would also mean that some of the EU’s eastern energy supply will come from a potentially unstable area of the world, subject to three conflicts, and that EU energy will be dependent on Caucasian politics and potential conflict with Iran.

Figure 2: Oil and gas routes in the South Caucasus

Source: Le Monde diplomatique, 2012

The 2011 proposed trans-Caspian pipeline, which the EU has supported, is opposed by Iran because it will be a large line, incorporating many Caspian states and will leave Iran out. Both Azerbaijan and Turkmenistan are working closely on this project, which would link Turkey, the EU, Turkmenistan, Azerbaijan and Georgia. Completing TANAP and the Trans-Caspian pipelines, are the precursors to a more ambitious Nabucco-style project. It would not only fuel the EU and enhance its presence in the

---

34 Baku gives green light to the TANAP pipeline deal, Rianovosti, 18 January 2013.

sector. If growth does not pick up, Azerbaijan may very well find it necessary to export to Iran, in which case it would not need to build new pipelines or to expand those already in place.
Iran has supported Armenia in the Nagorno-Karabakh conflict.

Azerbaijan and Iran both exert considerable leverage over one another. This means that their relationship is unlikely to evolve greatly, as each side is walking a fine line to avoid negatively impacting their populations. Although Iran has clearly professed its support for Armenia in the Nagorno-Karabakh conflict — thereby somewhat offsetting Azerbaijan’s military advantage — Azerbaijan will not completely shun Iran given the Azerbaijani exclave of Nakhchivan. Azerbaijan is, however, willing to disrupt Iranian efforts to operate within Azerbaijan’s borders, thereby maintaining its relations with the West. Greater EU involvement in the energy sector, along with a negotiated ‘cooling down’ of Nagorno-Karabakh, would do much for bringing Azerbaijan more fully into the western sphere. Even then, however, Azerbaijan will continue to exercise its foreign policy independently in order to preserve incoming energy investments from US and European based companies and states and its freedom to participate in or remain independent from various regional organisations and partnerships.

Georgia’s position is ambiguous: on the one hand expressing a desire to join both NATO and the EU, while on the other pursuing relatively amicable relations with Iran. This amicable relationship is not a geographical imperative: the two countries do not share a border, although they may operate a joint parliamentary ‘friendship group’ proposed by Georgia’s new government to enhance trade relations and bilateral diplomacy beyond the current Intergovernmental Joint Economic Commission. In 2010 Georgia and Iran created a visa facilitation and liberalisation scheme, which permitted 90,000 tourists to travel between the two countries in 2012. In 2010, Iran also opened a consulate in Batumi. The two countries have signed a total of 47 bilateral trade agreements, and Georgia imports goods worth about EUR 77 million from Iran and exports goods valued at about EUR 15 million. Georgia is, however, wary of investing in Iran and its with foreign direct investment (FDI) flows into Iran barely reached EUR 800,000 in 2011 — a tiny percentage of the EUR 751 million that was invested in the country that year. Iranian trade can be seen as serving as a form of protection for Georgia against any future Russian embargo.

---

35 Most likely due to the process involved in fuelling Nakhchivan, Azerbaijan agrees to, but has not ratified the United Nations 1929 sanctions on Iran.
36 Ministry of Foreign Affairs of Georgia, 2013.
37 H.A, Sadri, pp.393.
38 National Statistics Office of Georgia, geostat.ge.
39 UNCTAD Statistics, based on an exchange rate of 0.77 EUR = 1 USD.
Despite the pro-western policies and rhetoric of its leaders, Georgia has, like its Southern Caucasus neighbours, recognised the advantages of a 'balanced' foreign policy. Prime Minister Bidzina Ivanishvili has said that his model for treating regional dynamics is Armenian foreign policy. This approach has served Georgia well in the past as Iran provided Georgia with cheap gas during the 2006 Russian gas embargo and has not recognised the independence of Abkhazia and South Ossetia from Georgia. Yet Georgia must balance the advantages that Iran offers — in particular, offsetting the Russian threat — with the western desire that it not cooperate too much with Iran. The Georgian Foreign Ministry has called Iran, 'important [...] as [an] alternative supplier of energy' and 'one the important trade partner of Georgia.'

4.1. Understanding Georgia's relations with Iran

While the new Georgian government has extended its diplomatic hand to Iran — and indeed to all countries in the region — it is not as simply 'pro-Iranian', as some western rhetoric suggests. Georgia's approach is also partly a response to the policy of the previous government, which adopted a very western approach, limiting relations with some regional partners and focusing heavily on western contact (while also signing many deals with Iran and liberalising). Georgia, in other words, is now diversifying its relations and hedging against a possible deterioration of relations with Russia. Deepening its links with Iran also serves to attract the West's attention and give the country a more visible spot on the world stage.

The EU's policy towards Georgia should therefore not react too strongly to the appearance of Georgian-Iranian cooperation. Georgia still aspires to become more integrated with Europe, and the Georgian government has not forgotten those long-term goals. When the Baku-Tbilisi-Erzurum pipeline's expansion is completed, sometime within the next five years, it will provide another source of non-Iranian gas and facilitate cooperation between Georgia, Azerbaijan, Turkey and the EU.

For the moment, tense relations between Georgia and Russia have contributed to Georgia's — and Armenia's — energy security strategy, in which Iran provides a source of energy that does not come from the north. Georgia is already deeply integrated into NATO, US and EU structures and projects. These partners' funds should be used carefully, and the partners should recognise Georgia's precarious situation and reassure Georgians that their country remains on the West's radar and that the country's regional relations are being closely watched.

40 Iran, Ministry of Foreign Affairs of Georgia, 2013.
41 Georgia-Iran: Tbilisi is not shifting policy on Tehran, Oxford Analytica, 13 December 2012.
5. The EU and its Eastern Partnership

The topic of energy is one of pivotal importance to the EU, the Southern Caucasus and Iran. The issue places the EU at the front line of the international community’s standoff with Iran. The EU could severely limit Iranian exports by creating closer relations and regulatory schemes with the surrounding states. One of the West’s most effective forms of leverage over foreign policy in the Southern Caucasus region is energy transport. At a recent energy conference at the European Parliament, it was stressed that gas would become the most important energy resource in Europe. The EU, while decreasing its reliance on fossil fuels, still sees gas diversification and investments as key energy policies. Gas imports may be decreasing, but imports from the Southern Caucasus can increase, with less reliance on Russian gas. Generally gas consumption may be lessening, but the rebalancing can increase the imports from some select states—such as Azerbaijan. The topic of energy — and the question of how the EU will ensure a steady supply of gas and oil — is one of pivotal importance to the EU and to the Southern Caucasus and Iran. The problem of transporting Caspian gas — through Nabucco or any Southern Corridor project, without importing Iranian resources and violating international sanctions — is a political as well as an economic and technical challenge.

Involving the Southern Caucasus in the Energy Community Treaty would be a productive first step. Funds to develop infrastructure would be made available, and the gas and oil markets in the Southern Caucasus would be subject to EU standards. The Southern Caucasus states would have to meet various market, extraction, regulatory and transparency requirements. Resources would gravitate to this large joint energy market, allowing the EU to better amend and harmonise its neighbours’ policies, much as it does with Association Agreements or trade agreements. Including the region is entirely within the purview of the Energy Community Treaty, as Article 2 describes the purpose of the Energy Community and specifies the need to ‘develop market competition on a broader geographic scale and exploit economies of scale’. Redefining the Energy Community could help dictate how and where oil is sourced, and verify that sources do not contravene current EU sanctions on Iranian oil, gas and related technology. By the sheer comparative advantage and the superior regulatory capabilities of the EU, it could also limit Iranian exports widely — not just to the EU — by creating closer relations and regulatory schemes with the surrounding states. The EU’s regulations and efforts to shape the Southern Caucasus market could also serve as a bargaining tool in negotiations with Iran over

---

43 The Energy Community was created in 2006 to expand eastern energy supply to Eastern Europe. Armenia, Azerbaijan, and Georgia are all ‘observers’ in the Community.
44 EC(2011) 539, 9/7/2011.
their nuclear programme and in future bilateral relations. If sanctions were to end, the Energy Community could still serve as a ‘carrot’ or ‘stick’ to influence the Iranian public and foreign policy.

Secondly, the potential importance of the ‘Southern Corridor’ gas and oil pipelines is should not be dismissed. The possible resources that the EU could receive from this is significant and would do much to control the flow of energy in the region. It could be a transformative project for the region and its relations with the EU. Currently, Iran receives a little 1 billion cubic feet of natural gas per day from Turkmenistan and Azerbaijan. This is mainly transported through the Dauletabad-Haseminejad pipeline, on which Turkmenistan is very reliant for revenues.46 If this line was disrupted, or if Iran stopped imports, the Turkmen economy would suffer. As a country that the EU would like to develop, the EU would do well to invest in the any project would move Turkmen gas westward. If the EU could divert and focus the Southern Corridor to incorporate Turkmen gas within the greater regional energy strategy, this would be another option for limiting and enhancing the EU’s ability to control Iranian gas exports into the Southern Caucasus. It would also allow cooperation Turkmenistan, who is a difficult country to deal with and is extremely difficult to establish

46 Natural gas exports from Iran, U.S. Energy Information Administration, pp. 5.
Revitalising Armenian-Azerbaijani relations would effectively decrease Iran’s clout in the region.

It will be important to finalise the status of Nagorno-Karabakh.

Internal ties with. Energy cooperation could be a major inroad into better future relations.

The EU already works extensively with Central Asian and Southern Caucasus countries through the Baku Initiative, which builds infrastructure, aids energy efficiency and assists countries integrating into the western energy market. The Initiative is also a useful tool to control costs and prices. Yet an improved cooperation would make the system more transparent, boost partner states’ regulatory and infrastructure development, and give the EU an on-the-ground presence to develop resources in the region.

Third, the EU should expand its efforts at conflict mediation. Resolving the question of Nagorno-Karabakh and revitalising Armenian-Azerbaijani relations would constitute a powerful way to decrease the Iranian presence in the region. Armenia has demonstrated western aspirations, but is limited by a lack of open borders and options for trading. For the moment, Armenia perceives Iran as a guarantor of stability in Nagorno-Karabakh. The EU should work in conjunction with the Minsk Group to facilitate high-level talks, as well as programmes and processes that aid civil society and alleviate the distrust on both sides of the border. By doing this, the EU would not only improve public relations with the two sides, but would come to be seen as the key negotiator and partner. If a dialogue led to even a small volume of trade between Armenia and Azerbaijan, this could form the basis of a real peace process and would limit Iranian influence. The EU would become a facilitator for progress, demonstrating the advantages of relations to both Armenia and Azerbaijan and moving beyond the status quo. Relations between Armenia and Azerbaijan would also allow gas to be delivered to Nakhchivan from Azerbaijan, obviating the current need to go through Iran to supply the exclave.

Resolving the frozen conflict in Nagorno-Karabakh would, of course, also help Nagorno-Karabakh. The region is currently a legal and political ‘gray zone’ where it is hard to define which authorities are competent to pursue ‘front companies’ or Iranian Revolutionary Guard Corps (IRGC) operations. The autonomous nature of the area only makes it more difficult for regional and global entities to halt the local proliferation of IRGC and Iranian government operations.

The IRGC and its intelligence component, the Quds Force, are actively

---

47 The Baku Initiative, European Commission, Directorate-General for Energy and Transport. This is financed under the INOGATE program, within the European Neighbourhood Policy.
49 Ibid, pp.29.
50 K. Sadjadpour, pp.11.
52 Ibid.
The EU or another defence body may have to guarantee the security of the pipelines.

In addition to the recent plot against the Israeli ambassador and Jewish school uncovered by Azerbaijan, another plot to disrupt the Eurovision finals in Baku was revealed. Accurately assessing these risks is complicated given the tendency of Azerbaijani officials to attribute any political violence to radical Islamism — a reflection of the government's aggressive stance on religious fundamentalism. Yet risks do exist, and new pipelines to Europe will mean that European interests are wedged between conflicting countries in the region. This could potentially mean that the EU and/or a separate defence body may have to contribute to the security of the pipelines. The pipelines' physical security will need to be guaranteed, as will their technical systems, which are equally vulnerable.

6. Conclusions

Elections in 2012 and 2013 have brought new politics to the table, reorienting and redefining strategic foreign interests.

This is a very important moment for the future of the Southern Caucasus. Elections in 2012 and 2013 have brought new politics to the table, reorienting and redefining strategic foreign interests. The region is receiving less in funds from the US under the administration of President Barack Obama Administration has set the Southern Caucasus lower on its list of priorities. The EU, on the other hand, has increased funds and attention since the inception of the Eastern Partnership.
For the Southern Caucasus, expanding western relations is paramount if the region is to develop. The states’ foreign policies demonstrate the complexity of geopolitical pressures. Hemmed in by Russia to the north, Central Asia to the east, Iran to the South and Turkey and Europe to the west, the Southern Caucasus are located in a very hostile and difficult-to-navigate part of the world. Iran has taken advantage of regional politics to build significant relations with at least two of the three Southern Caucasus states. These states — Armenia and Georgia — are also close partners with the EU, in a relationship that needs to be monitored to ensure that the EU is neither contradicting its position on Iran nor endangering itself or its eastern partners. The EU should also use its strength and its relationship with these partners to ensure that they are not undermining international efforts to change Iran’s nuclear policy and anti-western perspective.

Both Iran and the EU see Armenia, Azerbaijan and Georgia as pivotal players in the region’s conflict resolution and economic development, as well as the EU’s future energy security. Iran may also have a role to play, once its behaviour grows predictable and internationally accepted and once its human rights record improves. Tehran could then conceivably become another key trade and energy partner for the EU. Sanctions are
If Iran begins to behave in a manner more acceptable to the international community — including by improving its human rights record — the country could again become a key trade and energy partner. However, this is not the final goal or permanent solution.\textsuperscript{53} Yet since 2005 Iran and the EU have taken divergent paths, and the currently poor relations between the two only adds to the grim state of \textit{realpolitik} — one all too familiar to the Southern Caucasus states.\textsuperscript{54} This region will determine whether or not the EU can assume a leading voice and change Iranian policy while keeping its own partners in line. By keeping the Southern Caucasus states in line, this could set an important precedent for how other states in similar situations should act and be dealt with in such a murky and conflicted zone. The EU’s general goal for Iran is to persuade Iran to become a legitimate and constructive partner on the world stage who is in line with international norms. Yet the EU must also ensure that Iran’s neighbourhood — a key region for energy, cooperation funds and external relations — plays according to EU rules and regulations. Finally, the Union must verify that its efforts to settle the Iranian question are not subverted by its eastern partners.

\textsuperscript{53} Factsheet: The European Union and Iran, European Commission, 25 February 2013.

\textsuperscript{54} For a comprehensive list of EU sanctions, please see, Factsheet: The European Union and Iran, European Commission, 25 February 2013; For US sanctions please see, Resource center: Iran sanctions, US Department of the Treasury, 2013; For UN Resolution 1929 please see, Security Council imposes additional sanctions on Iran, United Nations Press Office, 9 June 2010.