

Russian Energy Strategy Makes Partners of Rivals

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Brief Analysis

On April 2-4, a high-ranking delegation from Islamabad visited Moscow to discuss whether Russian energy giant Gazprom will help construct the ambitious gas pipeline between Pakistan and Iran. Although the outcome of the talks is still unknown, analysts suggest that the Russian company's involvement in the project would align perfectly with Moscow's interests in the international energy market.

NEVER-ENDING STORY

Only three years ago, many experts considered the pipeline project dead. Even when Tehran and Islamabad inked the initial agreement on its implementation in 2009, none saw it as a practical first step. By that time, the sluggish talks between the two countries and their former partner, India, had dragged on for nearly twenty years, encountering problems both predictable and unexpected. Since the signing, however, Iran and Pakistan's determination to begin construction has been growing and now appears much stronger than analysts initially believed it to be. They managed to settle price issues and decided to get rid of India, seemingly the main troublemaker in previous talks.

HIT BY SANCTIONS

Iran and Pakistan's interests in the pipeline are simple. Islamabad badly needs Iranian gas for its power plants and therefore seems willing to ignore Western warnings concerning the potential negative consequences of dealing with Tehran. For its part, Iran sees the project as a way to gain access to South Asian markets. Given that Europe is currently closed to Iranian gas exporters, the pipeline's importance for the Islamic Republic cannot be underestimated.

Thus far, the sanctions regime against Iran has created obstacles to practical implementation of the project. Tehran has been quite successful in building its 1,100-kilometer portion of the pipeline by relying solely on its own financial and engineering capacities. Yet Pakistan has experienced troubles because it lacks the necessary resources and qualified personnel and must therefore rely on foreign participation. International punitive measures (especially from the United States and European Union) do not allow Islamabad to use Western capital for an Iranian project, nor to seek Iranian assistance on the Pakistani portion of the pipeline (Khatam al-Anbia -- probably the only Iranian firm capable of taking part in construction -- belongs to the Islamic Revolutionary Guard Corps and has been

severely hit by sanctions). That's where Gazprom comes in.

GAZPROM'S CONSIDERATIONS

Even before Tehran and Islamabad took the first steps toward practical implementation, the Russian government expressed support for the project. In June 2006, then president Vladimir Putin gave his blessing to Gazprom's hypothetical participation despite the tentative nature of Iran and Pakistan's discussions at the time. And although initial exchanges between the three countries were somewhat reluctant and theoretical, the situation has changed recently: earlier this year, Gazprom noted Pakistan's problems and offered to assist Islamabad. The Russian behemoth allegedly stated its readiness to invest up to \$1.5 billion in the pipeline with only one condition: that the project be granted to Gazprom without bidding. Discussing this condition and related issues was reportedly the main purpose of the recent Pakistani delegation to Moscow.

There are at least three reasons for Gazprom's apparent "charity." First, the company regards Pakistan as a prospective field for significant future investment, as stated early on by top manager Alexander Ananenko. Participation in the pipeline's construction would be a good way for Gazprom to introduce itself to Islamabad.

Second, the project would allow Russia to remain indirectly involved in economic cooperation with Tehran. Moscow is keenly interested in the Iranian energy sector; although it understands that now is not a good time to invest in the sanctioned country, it hopes to stay on good terms with Tehran in order to secure access to a future, more open Iran. Gazprom's participation in Pakistan's part of the project creates an opportunity to demonstrate Russia's good intentions to the Islamic Republic without being punished by the international community, since the company would technically be helping Islamabad alone.

Yet the main reason for Russian participation is strategic: Moscow likely believes that successful implementation of the project would divert Tehran's attention from the European gas market and reorient it toward South Asia and China, which are considered less important to Russian gas exporters. Iran has periodically attempted to join the Nabucco project -- the proposed multinational pipeline from Turkey to Europe -- and position itself as an alternative to Russian gas suppliers. Such efforts have led Moscow to view Iran as a potential rival.

Unexpectedly, however, Russia has responded by seeking closer cooperation with Tehran. In a kind of strategic judo, Moscow prefers to remain in constant, close contact with its opponent, strangling it in a friendly embrace rather than instigating open conflict. In doing so, it hopes to redirect the existing and potential flows of Iranian gas toward non-European markets, or at least limit the future amounts of such gas available for export to Europe by using them in alternative projects. From this perspective, the Iran-Pakistan pipeline definitely corresponds with Russian interests.

NOT ONLY IRAN

Russia has used this strategy of close energy cooperation with potential rivals elsewhere as well. During Putin's first and, in particular, second term, Moscow sought to buy gas from Azerbaijan and Turkmenistan in order to divert both countries from participation in Nabucco. These efforts, along with China's new Central Asian gas contracts and the tough Russo-Iranian position on construction of trans-Caspian pipelines, brought results: since March 2012, the Nabucco investors have been compelled to revise their construction plans, seriously limiting the length and projected capacity of the pipeline. This decision was explained by the fact that apart from Azerbaijan, no country in the region now seems capable of filling Nabucco with gas.

Moscow has also used international and regional organizations to influence the market policy of rival gas producers. In 2001, Russia, Iran, Qatar, and others created the Gas Exporting Countries Forum (GECF), which was initially supposed to become a venue for discussing and coordinating joint market policy. And in 2007, Moscow sought to create a second forum: the International Organization of Noncommercial Oil and Gas Associations (MANGO), no doubt intended as an alternative venue for meeting Russian energy interests if the GECF fell through. Yet Moscow

became less interested in both organizations after 2008, when its bid to establish St. Petersburg as the GECF's new headquarters was rejected. This development prevented Russia from acquiring additional control over the GECF and made it leery of repeating the same mistake with MANGO -- that is, creating a potentially effective but ultimately uncontrollable organization. Instead, Moscow now devotes much of its attention to the so-called "Energy Club" of the Shanghai Cooperation Organization, where it appears to wield stronger influence than in the GECF.

CONCLUSION

It is difficult to predict the exact decision that Russia, Iran, and Pakistan will make regarding Gazprom's participation in the pipeline's construction. Yet many analysts believe that Moscow will probably continue trying to influence its main energy rivals through active cooperation with them.

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