

Iranian Energy Policy towards the South Caucasus from the Perspective of neoliberal IR Theory

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Abstract: This paper examines the energy policy of the Islamic Republic of Iran towards the South Caucasian states from the perspective of Neo-Liberal IR theory. Significant attention is paid to energy because the trade of this commodity is the most crucial part of bilateral relations between Iran and the countries inhabiting the South Caucasus. The main argument of this paper is that material state considerations, not Islamic ideology define Iran's energy policy in the South Caucasus. Neo-liberal theory, which favors the achievement of goals with the help of soft power and gaining comparative advantage for all parties, over absolute advantage for one side, is used as the main method for discussing the relations. A short background is provided to Iran's relations with each South Caucasian country, followed by an extensive review of the current state of affairs of the relations. It is demonstrated that Iran has managed to preserve normal relations with all the three countries, which supports the initial argument.

Keywords: Energy policy, Trade, Iranian Foreign Policy, South Caucasus, IR Theory

1. Introduction

The era of globalization brought substantial changes in the relations of different countries. Old indicators of state behavior are no longer existent, they are simply unsustainable. Currently, soft power gains advantage in most of the regions of the world. Countries try to overcome their problems through dialog and negotiations, rather than by using force. Absolute gains are favored over relative gains. Less than

twenty years ago only a few would have imagined that almost half of the world's population would now have access to the Internet. This is an example of old standards vanishing and being replaced by new ones. Iran (officially called Islamic Republic of Iran or IRI) has become one of the crucial actors in the South Caucasus recently, largely due to its geographical location and political-economic capabilities. The country plays a major role in the economic interactions of the South Caucasus. The relations between Iran and the South Caucasian countries are developing constantly, largely due to the changes discussed above. Iran, being a religious state cooperates with its secular neighbors. Moreover, for a long period of time it has favored Christian Armenia over Muslim Azerbaijan in its foreign affairs. It should also be stated that the country maintains good relations both with Azerbaijan, with whom it had territorial disputes (the problem of Iranian Azerbaijan) and conflicts on the oil market and with Georgia, which is an ally of the United States, Iran's major rival in the world arena. It should also be stated that the trade of energy sources is the most crucial part of bilateral relations between Iran and the countries inhabiting the South Caucasus. The aim of this paper is to discuss Iran's foreign relation with the South Caucasian states regarding energy issues, paying serious attention to Iran's bilateral relations with these states and avoiding external factors (the role of the US, Russia, Turkey etc.).

That main argument of this article is that Iran's relations with the South Caucasian countries can best be discussed from the perspective of neoliberal IR theory of International Relations. The main contribution to the field would be a change of discourse considering the foreign relations of Iran, from describing the country as a player which uses hardball tactics to one that is more open towards

finding common solutions with its partners. This change of discourse would better equip researchers as well as policy practitioners when dealing with situations that are similar to one discussed below. This paper will begin with discussing the theory itself as opposed to other major schools IR theory and will proceed with stating why this theory best explains Iran's bilateral relations with the South Caucasian states that are going to be presented in more detail below.

2. Neoliberal Theory in International Relations

Neoliberalism, which is often referred to as 'neoliberal institutionalism,' is one of the major theories of IR. Like Neorealism, it encompasses features of both Liberalism and Realism, which makes these two theories more flexible than the formers. As mentioned by Robert Keohane and Lisa Martin, two of the main proponents of the theory, the common ground between Realism and Neoliberalism is the assumption that there is absence of a sovereign authority which is capable of creating and enforcing agreements. It suggests that states advance their own interests, while also making it difficult for them to cooperate with othersⁱ. Not excluding contention between states, Neoliberalism, like Liberalism, favors achieving goals with the help of soft power. It argues that the importance of anarchic character of the international system has been overstated by Realists and Neorealists and that the latter underestimate the possibilities of cooperation within such a systemⁱⁱ. As we will see below, the situation in the South Caucasus is quite close to this assumption of Neoliberalism. Another cornerstone of Neoliberals is the statement, that modern countries favor absolute gains over relative gains, which primarily means denying the zero-sum game and favoring comparative advantage

through which all states would expand their wealth. Finally, what makes Neoliberalism different from Liberalism, together with the acceptance that international system is anarchic, what Liberals do not accept is the role that most Neoliberals give to institutions as mediators of cooperation and brokers of peace in international system. This idea was largely defended by Keohane, whose recent argument is that “many well-informed commentators view the multilateral institutions that have emerged from all this work as providing important support for the contemporary world orderⁱⁱⁱ. One of the principal theories of Neoliberalism that will be recalled below is the theory of Complex Interdependence suggested by Keohane and Nye^{iv}. They argue that in an international arena there is no hierarchy among issues, as Neorealists claim. Another major argument is that in the modern international system states are interdependent as they can’t survive alone and that use of military force among these states is not exercised due to prevailing complex interdependence^v. It will be shown below that Iran’s relations with all three South Caucasian states are a perfect example of Complex Interdependence on a regional level.

3. Iran’s relations with Armenia

The bilateral relations of Islamic Iran and Christian Armenia are a great example of Neoliberalism. An old indicator of state behavior, i.e. Islamic ideology, can no longer be applied. The main factor defining Iranian policy is the possibility of achieving economic gains on both sides. This cooperation is mutually beneficial, as it allows Armenia to get out of the economic embargo and blockade imposed by Turkey and Azerbaijan due to the war over Nagorno-Karabakh Republic, while Iran

is seeking its way out of isolation through partnership with Armenia^{vi}. Iranian–Armenian economic relations are based on the four areas of gas, electricity, trade and industry, the centerpiece of which is Iran’s gas exports to Armenia^{vii}. This cooperation is of strategic importance, because it allows Armenia’s energy security and creates a transit road for Iran’s gas exports to Europe possible at the same time. Iranian energy policy played a significant role in the improvement of the relations between two states. In this sense the inauguration of Tabriz-Sardarian gas pipeline by Presidents Ahmadinejad and Kocharyan, in March 2007, was of significant importance. In 2010 the two countries expanded this cooperation. “The agreement is signed for 20 years. For each cubic meter of the Iranian gas, Armenia is to deliver to Iran 3 kWh of energy”^{viii}. This project provides Armenia with an opportunity to become the main exporter of electricity in the Caucasus region, and fosters its economic growth. The bilateral cooperation on electricity supplies should be characterized in two areas: the creation of power plants and an opportunity of Iran–Armenia–Georgia trilateral cooperation^{ix}. Another indicator of Armenia’s strategic importance for Iran is the fact that Iranian businessmen hold one of the largest numbers of joint ventures in the country. The priority areas for them are energy sources and energy transportation. Annual trade between Iran and Armenia doubled to \$200 million, between 2002 to 2006^x. The two sides have agreed on the construction of a third power transmission line which would connect Armenian and Iranian power grids. The leaders of the two countries are planning to build a large hydroelectric plant on the Arax River flowing along the Armenian-Iranian border, increasing their annual trade volume up to \$105 million^{xi}. In May 2011, Armenia and Iran signed a Memorandum of Understanding to increase cooperation in the

energy sector. An agreement was reached to build a 500-800MW power line to interlink electricity grids of both sides^{xii}. Another major agreement was reached to build a 365-kilometer-long pipeline delivering oil from Tabriz to the Armenian town of Yeraskh. The construction of the pipeline is scheduled to be completed by 2014. This agreement, coupled with the construction of a 470-kilometer railway connecting the two countries is believed to further strengthen the cooperation between Iran and Armenia^{xiii}. It should be added that the outlook on Iranian-Armenian relations is generally optimistic. Both sides gain serious advantages from cooperation and are prone to increase it. It will affect the amount of monetary transactions and will increase the mutual trust. Each side believes that the interactions will continue over a long period of time. Drawing on what was mentioned in previous section, this belief is equally shared by the scholars of Neoliberalism, while it also loses some crucial aspects when trying to analyze from the perspective of other major theories^{xiv}.

4. Iran's relations with Azerbaijan

Though these two countries share cultural and religious affinities, their relations are not as friendly as the Iranian-Armenian relations. This is, due to large extent to the fact that Iran and Azerbaijan are competitors on oil and natural gas markets. This is another example of unsustainability of aforementioned old indicators. Another fact should also be given serious attention. Though the two countries have grievances towards each other on what percentage of the Caspian Sea they would get, there has never been an ambition to use hard power on any side. This means that Iran and Azerbaijan favor achieving absolute gains, i.e. economic stability in

the region and trade of the goods they possess, over relative gains. Building up on what was discussed above it should be restated that the bilateral relations between Iran and Azerbaijan should also be analyzed from the perspective of Neoliberalism. Iran uses soft power against Azerbaijan, which means that the country fulfills its goals through cooperation rather than coercion^{xv}. Despite major problems there have also been several strategic agreements between these countries, the most important of which was the agreement for implementing electricity projects signed in August 2004^{xvi}. Another agreement to build a hydroelectric dam on the Arax River was signed in December 2006, which would give possibility to use the river's water equally. The third major agreement was signed in early 2006 and implemented in August 2006, according to which electricity from Iran would flow to the Azerbaijan Republic via the Astara border^{xvii}. However, due to the absence of an agreement on the percentage of the Caspian Sea each country would get the bilateral relations remain rather tense. What should be added is that the trade of energy is also quite crucial for Azerbaijan as its exclave of Nakhchivan is totally dependent on Iranian natural gas. It is anticipated that when some of the ongoing projects are completed the flow of electricity between the two countries will triple, from 200 to 600 MW^{xviii}. The collapse of the Soviet Union brought substantial changes to the South Caucasus. Both sides are exchanging information and trying to cooperate on issues of mutual interest. Scholars belonging to the Neoliberalism school largely favor these exchanges and claim that when two countries communicate with each other the likelihood of a conflict is very low^{xix}.

5. Iran's relations with Georgia

Unlike Armenia and Azerbaijan, Georgia does not have common borders with Iran, which limits the bilateral relations between the two countries. It should also be noticed that Georgia is an ally of the United States, the relations of which with Iran are rather tense. However, Iran and Georgia reached several agreements regarding trade of energy sources, primarily of natural gas. This is also an important indicator of Neoliberal concepts implemented in practice. It should be added that Neoliberals believe that "there are many mutually beneficial arrangements that states forgo because of the fear that others will cheat or take advantage of them, they see important gains to be made through the more artful arrangement of policies"^{xx}. In this sense it could be said that Iran and Georgia managed to overcome their fears. Bilateral relationships were established in 1992 and are dictated by the economic aspect. It was reported on this occasion that Georgia would receive 200 billion cubic meters of gas from Iran, providing chemicals, minerals and other raw materials^{xxi}. After President Saakashvili's visit to Tehran in July 2004, an agreement was reached according to which Georgia would export mineral water to Iran in exchange for gas^{xxii}. Due to the fact that Georgia was experiencing problems with gas because Russia declared that it would double the price of its exported gas to Georgia from 2007, Iran would find a reliable economic partner. After Russian gas was cut off in early 2006, Iran exported 30 million cubic meters of gas to Georgia, which is an indicator of Iran's importance in Georgia's foreign relations^{xxiii}. "In June 2005, during President Saakashvili's visit to Tehran a memorandum of understanding for \$2.5 million development aid from Iran was signed"^{xxiv}. It was reported several times that Georgia paying serious

consideration to joining the Iranian–Armenian energy cooperation^{xxv}. In January 2006, Georgia reached an agreement with Iran for emergency natural gas supplies as Georgia suffered its worst energy crisis. Russian high level officials were regularly accused of imposing an energy blockade on Georgia. The last meeting between these two countries took place In January 2010, when “Iranian officials discussed the terms for building two hydroelectric power plants in Georgia with a combined capacity of 36 megawatts”^{xxvi}.

6. Conclusion

Iran’s energy policy in the Caucasus should be understood by material state considerations and not by ideology. However, there is room for expanding the cooperation between Iran and the South Caucasian republics. Taking into consideration how important South Caucasus is for Iran’s national interests after the collapse of the Soviet Union, Iran, being a regional power, has not pursued as active a foreign policy towards its northern neighbors as it could. However, over the past twenty years Iran has been active in expanding its presence in the region and gaining influence by reaching agreements on economic cooperation and extending economic ties with South Caucasian republics. One of Iran’s primary goals is to become one of the most influential actors in the South Caucasian economy. If Iran manages to fulfill the goal, it will recover its geographical-economic status as the north–south and east–west corridors for connecting various regions to one another, such as Europe, the Middle East, and West and East Asia. It was demonstrated above that Iran tries to maintain good relations with all three South Caucasian states, though the degree of bilateral cooperation has not reached desirable levels.

The focus of Iranian energy policy towards all three states is the trade of natural gas. The country has reached high-level cooperation in the sphere of electricity, as well. From a theoretical perspective, as was noted several times above, these relations, largely based on mutually beneficial trade, could be best understood from the perspective of Neoliberalism. Neoliberalism, unlike other major schools of International Relations theory, has enough capacity to describe all the nuances of these relations in a grasp manner, without losing any key points.

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