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Armenia-Iran: From Close Neighborhood to Closer Cooperation

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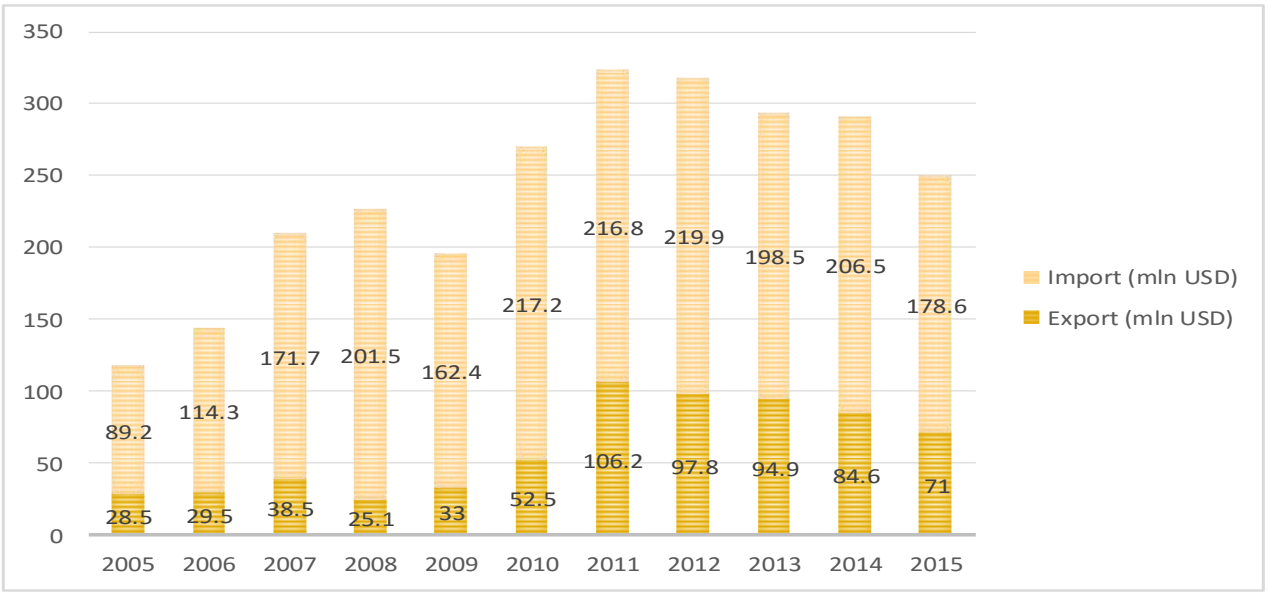
The long-term amicable and close relationship between Armenia and Iran is currently limited, in both scale and scope. There are a number of reasons for this situation, including Russia's influence on Armenia's economy and foreign policy, decades of Western sanctions on Iran, a lack of capacity on both sides to invest more in mutually beneficial spheres, etc.. However, there are some fields where Armenia and Iran are more than just neighbors.

Trade

The first field of cooperation between Armenia and Iran is trade. During the period of 2005-2011, trade turnover between Armenia and Iran tripled, increasing from $117.7 million to $323 million.[1] However, the further tightening of sanctions imposed on Iran in 2012 had a negative impact on bilateral economic relations, reducing both imports and exports. It is worth mentioning that in general, during the last five years, Armenia and Iran enjoyed fairly stable and mostly sustainable trade relations and the recent easing of the sanctions will undoubtedly offer new opportunities. Currently, Iran serves as the 7th trading partner for Armenia for exports and stands 5th for imports.[2]

Trade between Armenia-Iran 2011-2015[3]



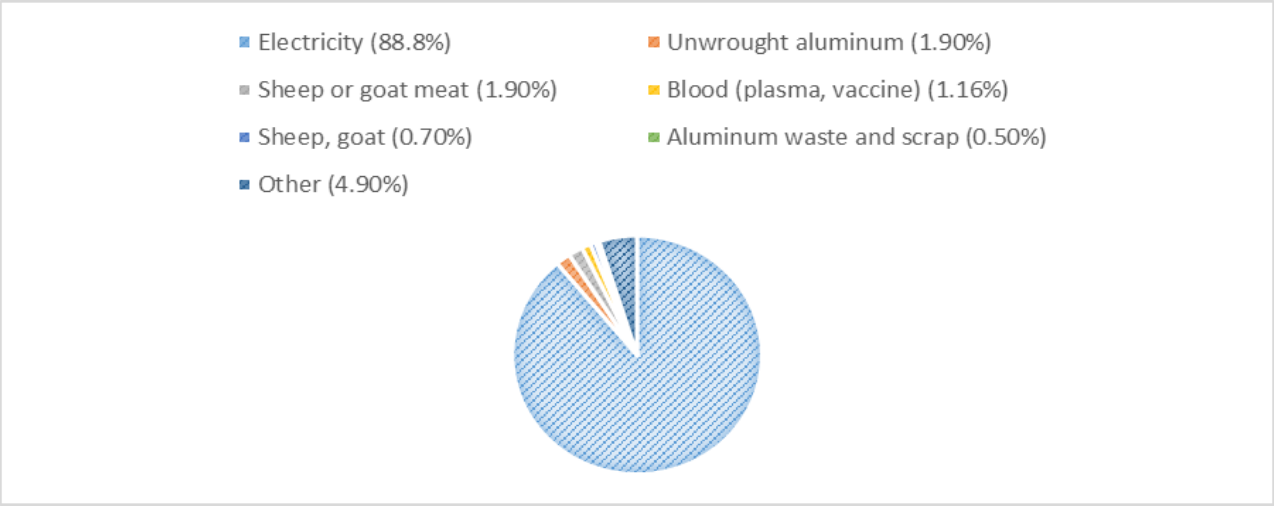
[1] «Ինչ ենք վաճառում Իրանին և ինչ ենք այնտեղից ներմուծում. ՀՀ-Իրան առևտրի իրական պատկերը (ինֆոգրաֆիկա)» (What Do We Sell to Iran and What Do We Import?: Trade Between Armenia and Iran), *Business for Business,* 15 հունվար 2016. http://goo.gl/d2oK4t

[2] «Արտաքին հատված.Ապրանքների արտահանում և ներմուծում, արտաքին առևտուր» (Export and Import of Goods: External Trade), *ՀՀ ազգային վիճակագրական ծառայություն,* հունվար 2016. http://armstat.am/file/article/sv_11_15a_411.pdf

[3] Ibid.

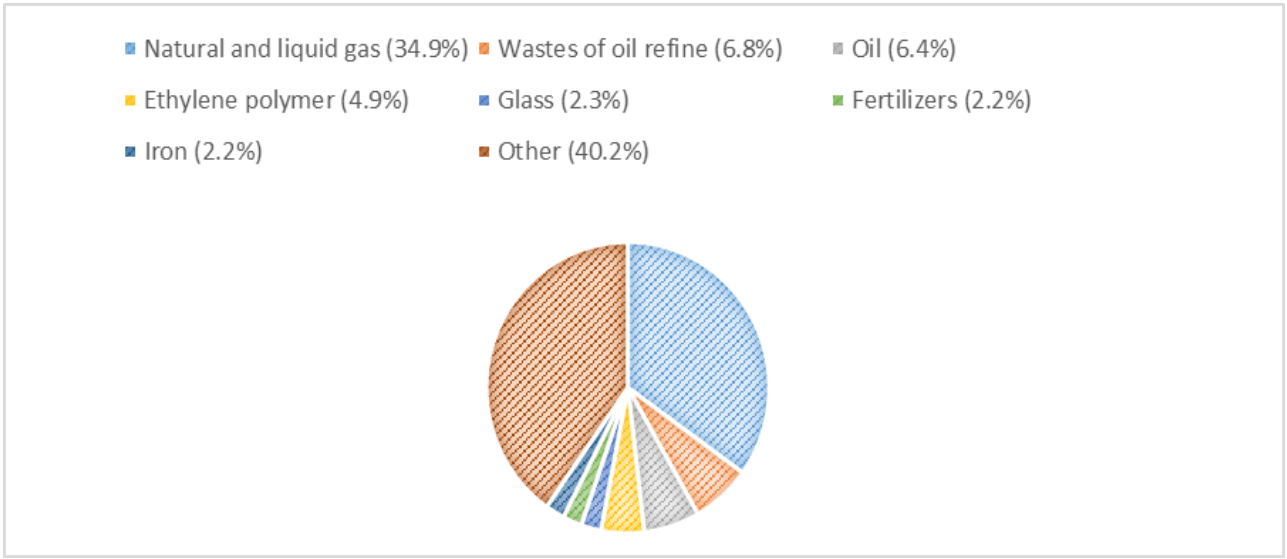
However, if we look more closely at these figures, the gaps in trade between Armenia and Iran become more obvious among other goods and most importantly, in terms of Armenian exports electricity to Iran. Moreover, the sale of electricity from Armenia comprises almost 89 percent of total exports. Thus, exports are largely dependent on this one area and there is an urgent need to diversify exports to make cooperation more sustainable.

Armenian Exports to Iran (2014)[4]



Imports are also dependent on one main area, but are much more diversified compared to exports, with natural gas accounting for the biggest share of Armenian imports from Iran, comprising about 35 percent of total Armenian imports from Iran.

Armenian Imports from Iran (2014)[5]



Energy

An analysis of trade statistics reveals the importance of the energy sector for both Armenia and Iran. According to the barter agreement between the two countries, Armenia has been providing electricity to Iran in exchange for gas since 2009. So far, Armenia has imported 2.2 billion cubic meters of gas and provided

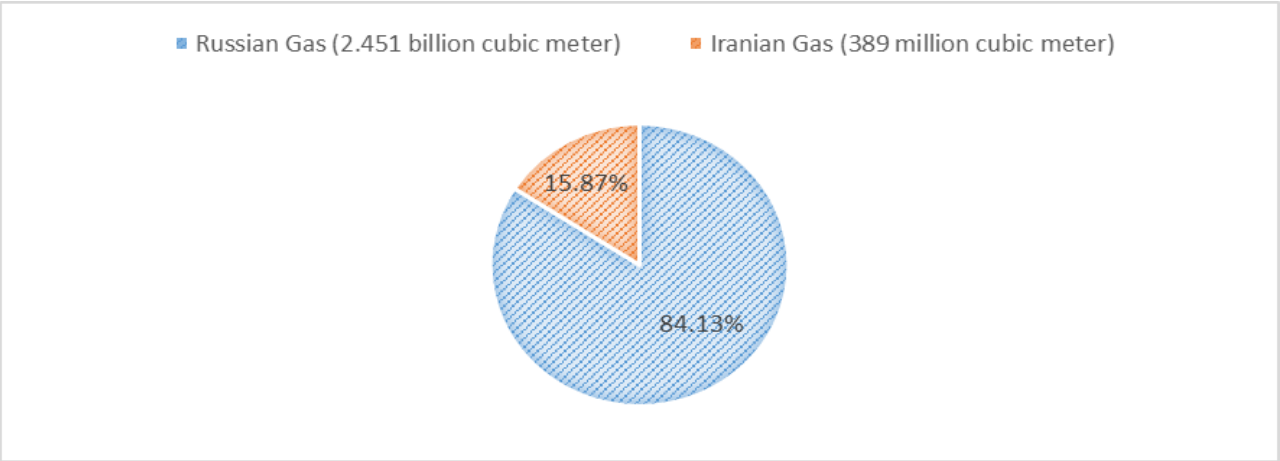
[4] «Ինչ ենք վաճառում Իրանին և ինչ ենք այնտեղից ներմուծում. ՀՀ-Իրան առևտրի իրական պատկերը (ինֆոգրաֆիկա)» (What Do We Sell to Iran and What Do We Import?: The Trade Between Armenia and Iran), *Business for Business,* 15 հունվար 2016. http://goo.gl/d2oK4t

[5] Ibid.

6.6 billion kilowatt hours of electricity.[6] The agreement is beneficial for both parties and as Armenia's Deputy Minister of Energy and Natural Resources Hayk Harutyunyan declared, Armenia plans to import more Iranian gas staring from 2017 and will thereby export more electricity to Iran. He added that Yerevan and Tehran signed a $120 million agreement on the construction of a third electrical transmission line between the two countries during the coming 18 months. [7]

This is very important for two reasons. First, Armenia will take a step towards diversifying its gas imports. More specifically, in 2014, Armenia imported 2.451 billion cubic meters of gas from Russia, importing only 389 million cubic meters from Iran.[8]

Gas Imports to Armenia in 2014[9]



Second, it will be more economically beneficial for Armenia to import Iranian gas, as it is cheaper than Russian gas. According to Armenian Customs Service data, for example, in 2014, Armenia paid over $183 per 1,000 cubic meters for Iranian gas and roughly $266 for Russian gas imports. In 2015, the price was $188 and $202 respectively.[10] Even when Russia's Gazprom lowered the gas tariff to $165 per thousand cubic meters in 2015, it did not lead to retail price reductions for Armenian households and corporate consumers.[11] So Gazprom uses its monopoly in this sphere and sets its own pricing policy. However, the diversification of Armenian gas imports will be difficult not only because of the Russian pressure but also due to the limited capacity of Armenian and Iranian energy infrastructure. The diameter of the Armenian-Iranian pipeline launched in 2007 is only 28 inches wide, instead of the 56 inches initially planned, while the Iranian section built specifically for this connection is 56 inches wide.[12] Currently, the pipeline's maximum capacity is estimated at 2 billion cubic meters per annum.[13]

Armenia and Iran currently have another project of cooperation in the sphere of energy: the hydro-electric station located in Meghri. The construction of that facility officially started in December 2012 and is planned to be completed and operational by 2018. According to the agreement between Armenia and Iran,

[6] «Հայաստանը ՌԴ–ից և Իրանից 2.451 մլրդ խմ գազ է ներկրել 2014թ.–ին, ինչը 3,8%–ով շատ է 2013թ.–ի նույն ցուցանիշից» (Armenia Imported 2.451 billion cubic meter gas from Russia and Iran in 2014, Which Exceeds the Amount in 2013 with 3.8%), *ԱՐԿԱ լրատվական գործակալություն,* 14 հունվար 2016. http://arka.am/am/news/economy/gaz_2_451_2014_3_8_2013_/

[7] "Armenia to import more Iranian gas starting from 2017." *News.am news agency,* 20 October 2015. http://news.am/eng/news/291786.html

[8] «Հայաստանը ՌԴ–ից և Իրանից 2.451 մլրդ խմ գազ է ներկրել 2014թ.–ին, ինչը 3,8%–ով շատ է 2013թ.–ի նույն ցուցանիշից» (Armenia Imported 2.451 billion cubic meter gas from Russia and Iran in 2014, Which Exceeds the Amount in 2013 with 3.8%), *ԱՐԿԱ լրատվական գործակալություն,* 14 հունվար 2016. http://arka.am/am/news/economy/gaz_2_451_2014_3_8_2013_/

[9] «Հայաստանը ՌԴ–ից և Իրանից 2.451 մլրդ խմ գազ է ներկրել 2014թ.–ին, ինչը 3,8%–ով շատ է 2013թ.–ի նույն ցուցանիշից», *ԱՐԿԱ լրատվական գործակալություն,* 14 հունվար 2016: http://arka.am/am/news/economy/gaz_2_451_2014_3_8_2013_/

[10] "Armenia to import more Iranian gas starting from 2017." *News.am news agency,* 20 October 2015. http://news.am/eng/news/291786.html

[11] "Armenia Wants Russia to Cut Gas Price." *Radio Free Europe/Radio Liberty's (RFE/RL) Armenian Service*, 16 January 2016. www.azatutyun.am/content/article/27491874.html

[12] Grigoryan, Armen. "Iran-Armenia Railway Project and Russian Geopolitics." *Eurasia Daily Monitor Volume: 12 Issue: 20.* 2 February 2015. www.jamestown.org/programs/edm/single/?tx_ttnews%5Btt_news%5D=43487&cHash=7ed8c7c0a1ce1799ad9f04de3e0201bd#.VrCPeY9OLsY

[13] "Iran, Georgia Mull Gas Supplies via Armenia." *Radio Free Europe/Radio Liberty's (RFE/RL) Armenian Service*, 4 January 2016. www.azatutyun.am/content/article/27467324.html

the construction costs ($323 million) will be paid by the Iranian side and in return, energy produced during the first 15 years from the hydro-electric facility will be provided to Iran, after which Armenia will assume complete ownership of the power plant. [14] The construction of the Meghri power plant has been marked by many uncertainties and even scandals, however. For example, a full year after the official groundbreaking ceremony, the plant's construction plan was still not finalized.[15] In another unexpected development, the Armenian side has recently announced that the intensity of Meghri hydropower station will be reduced to a capacity of 100 megawatts per hour, although initially, it was planned to have a capacity of 130 megawatts per hour.[16]

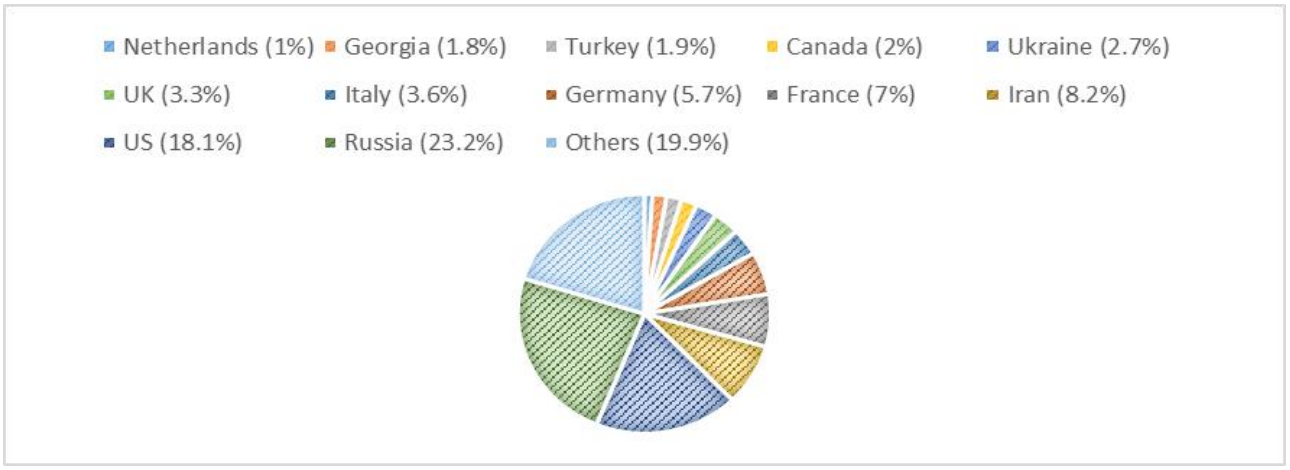
In December 2015, a new opportunity was discussed during a meeting between the Armenian, Iranian and Georgian Energy Ministers and the Director General of the "Russian Electrical Network" JSC in Yerevan. More specifically, the parties agreed on regional projects that would enable the four countries to unite their electric energy systems, negotiate mutual energy supplies, offering a new regional element to cooperation in this field and is the first one of its kind in this region.

Tourism

Another sector of cooperation between Armenia and Iran is tourism. For Iranians, Armenia is one of the main tourism destinations, because of the close geographical location, attractions and entertainment. In 2015, Armenia received 1.19 million tourists in total and the number of tourists has decreased by one percent compared with 2014.[17]

Interestingly, the share of Iranian tourists visiting to Armenia has increased. If at the third quarter of 2014 only 6.8 percent of all the tourists visiting Armenia were Iranians, during the same period of 2015 they accounted for 8.2 percent.[18] At the same time, tourists from Iran are in third place among all the tourists visiting Armenia, following those from Russia and the United States.

Tourists visiting Armenia during the third quarter of 2015[19]



While talking about the tourists visiting Armenia from Iran, it also important to mention that some of them are Iranians with Armenian descent. There are no exact figures on how many Armenians currently live in

[14] «Մեղրիի ՀԷԿ-ի նախագծային հզորությունը նախատեսվում է նվազեցնել մինչև 100ՄՎտ», *Արմենպրես լրատվական գործակալություն (Armenia Will Reduce the Intensity of Meghri Hydropower Station to 100 Mega Watt),* 23 դեկտեմբեր 2015: http://armenpress.am/arm/news/830631/mexrii-hek-i-nakhagtsayin-hzorutyuny-nakhatesvum-e-nvazecnel.html

[15] «Մեղրիի ՀԷԿ-ի շինարարությունը կսկսվի միայն հաջորդ տարի» (The Construction of Meghri Power Plant Will Start Only Next Year), *Ազատություն ռադիոկայան,* 12 դեկտեմբեն 2013. www.azatutyun.am/content/article/25198358.html

[16] «Մեղրիի ՀԷԿ-ի նախագծային հզորությունը նախատեսվում է նվազեցնել մինչև 100ՄՎտ» *(Armenia Will Reduce the Intensity of Meghri Hydropower Station to 100 Mega Watt), Արմենպրես լրատվական գործակալություն,* 23 դեկտեմբեր 2015. http://armenpress.am/arm/news/830631/mexrii-hek-i-nakhagtsayin-hzorutyuny-nakhatesvum-e-nvazecnel.html

[17] «Զբոսաշրջություն. Միջազգային զբոսաշրջություն» (Tourism: International Tourism), *ՀՀ ազգային վիճակագրական ծառայություն,* հունվար 2016. www.armstat.am/file/article/sv_12_15a_421.pdf

[18] «Զբոսաշրջություն. Միջազգային զբոսաշրջություն» (Tourism: International Tourism), *ՀՀ ազգային վիճակագրական ծառայություն,* հոկտեմբեր 2015. www.armstat.am/file/article/sv_10_15a_431.pdf

[19] Ibid.

Iran. The estimates differ from between 70,000 and 120,000.[20] The special ten-year residency permits and the dual citizenship offered to Diasporan Armenians have promoted the repatriation of many Iranian Armenians, yet they usually use Armenia either as a family vacation venue or as a bridge to migrate to the United States, Canada and EU countries.

Transportation and Infrastructure

In addition to energy and tourism, Armenia and Iran are also currently using other opportunities to deepen cooperation and create new opportunities. In January 2016, Armenian Minister of Transport and Communications Gagik Beglaryan and Iranian Minister of Roads and Urban Development Abbas Akhundi signed a new memorandum on the construction of an international corridor called the "Persian Gulf and Black Sea." The corridor will span Iran, Armenia, Georgia, Bulgaria and Greece.[21] At the same time, another memorandum was signed on cooperation in the railway sector. The development of the Armenia-Iran railway is a way to mitigate the isolation of Armenia. With the Armenia-Iran railway, Armenia will join the Trans-Iranian railway.[22] In addition, Iran and Armenia plan to construct a railway between Norduz and Agarak to make the transportation of goods easier and more cost effective.[23] Victor Rebets, the manager of the Russian company operating Armenia's existing railroads, the South Caucasus Railroad Stock Company, announced plans to operate the Iran-Armenia link as well, supposedly from 2022, when the construction work is expected to be finished.[24]

In addition to the railway link and the international corridor, the internal North-South road corridor will also improve the road connection between Armenia and Iran, providing the latter access to Georgia, more specifically through the "Southern Road Corridor" of Georgia, which enables access to the Georgian Black Sea ports of Poti and Batumi or to the East towards Tbilisi.[25] Thus, it is clear that both Armenia and Iran are committed to creating new opportunities for cooperation and want to raise the level of cooperation to another level.

Conclusion

It is clear that Armenia and Iran have a strong foundation for cooperation in many fields, such as trade, energy, tourism, etc.. With the easing of sanctions, Armenia should try to exploit the opportunity and serve a bridge between Iran and the West, while at the same time, deepening bilateral ties and including new fields of cooperation. As a landlocked country with two of its four borders closed, Iran has a unique strategic value for Armenia, which is becoming more important if we take into account the diverse conflicts in the wider region. As for Iran, Armenia is one of the most stable and friendly neighbors, with a potential to become a link for Iran to connect to the West.

However, Armenia's choices for closer cooperation with Iran, especially in the field of energy, can trigger confrontation from the Russian side. The Russian gas monopoly in Armenia is one of the main instruments of leverage that Russia uses to sustain its influence over Armenia. And in addition, as Armenia joined the Russia-led Eurasian Economic Union (EEU), its current economic choices and priorities are also largely dependent on EEU decisions. As for Iran, even as the West has eased some of the sanctions, there are still some serious obstacles hindering the development of the Iranian market and most importantly, restoring its connection to the international market.

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[20] Բայբուրդյան, Վահան. «Իրանի հայ համայնքը: արդի հիմնախնդիրներ». (Armenian Community in Iran: Current Issues), *ՀՀ ԳԱԱ Արևելագիտության ինստիտուտ.* 2013, էջ 33. www.mindiaspora.am/res/Hratarakumner/2014/bayburdyan%20nor.pdf and Meral, Ziya. "Iran, Armenians and Armenia." *TheCommentator.com.*12 January 2012. www.thecommentator.com/article/796/iran_armenians_and_armenia

[21] «Պատժամիջոցների վերացումից հետո Իրանն ու Հայաստանը կարևոր համաձայնություն են ձեռք բերել» (Armenia and Iran Achieved a Common Agreement After Ease of Sanctions), *«Հայերն այսօր» ՀՀ Սփյուռքի նախարարության պարբերական,* 21 հունվար 2016. http://goo.gl/8aVR7r

[22] "Armenia-Iran Railway Construction Will Remove Armenia's Bloackade." *Armenpress News Agency.* 6 October 2015. http://goo.gl/SiYfPi

[23] «Պատժամիջոցների վերացումից հետո Իրանն ու Հայաստանը կարևոր համաձայնություն են ձեռք բերել» (Armenia and Iran Achieved a Common Agreement After Ease of Sanctions), *«Հայերն այսօր» ՀՀ Սփյուռքի նախարարության պարբերական,* 21 հունվար 2016. http://goo.gl/8aVR7r

[24] Grigoryan, Armen. "Iran-Armenia Railway Project and Russian Geopolitics." *Eurasia Daily Monitor Volume: 12 Issue: 20.* 2 February 2015. www.jamestown.org/programs/edm/single/?tx_ttnews%5Btt_news%5D=43487&cHash=7ed8c7c0a1ce1799ad9f04de3e0201bd#.VrCPeY9OLsY

[25] "Design and Construction." *North-South Road Corridor Investment Program.* http://northsouth.am/en/categories/44

In conclusion, even if transforming the close neighborhood into closer cooperation will be mutually beneficial for both Armenia and Iran, both countries will have to take into account the interests of other actors in the region and beyond, such as Russia, the Eurasian Economic Union, the European Union (EU) and the United States.

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