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**Joint Comprehensive Plan of Action, Trump, Iran and  
Azerbaijan:  
how to be a good neighbour in a turbulent geopolitical  
context?**

by **Vugar Bayramov, Ahmad Alili**

**Center for Economic and Social Development (CESD)  
Caspian Plaza, 3rd Block, 13th Floor  
J.Jabbarli str. 44,  
Baku, AZ1065,  
Azerbaijan**

**Phone: (99412) 5943665**

**Fax: (99412) 5943665**

**Email: [info@cesd.az](mailto:info@cesd.az)**

**URL: [www.cesd.az](http://www.cesd.az)**

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## Introduction

In 2015, the Obama administration – in a joint endeavour with the other UN Security Council Permanent Members (UN SC P5) and Germany – drafted an agreement regarding the peaceful resolution of Iran’s nuclear program. The agreement was labelled the Joint Comprehensive Plan of Action (JCPOA).

On 8 May 2018, the current US president Donald Trump presented his remarks denouncing the agreement and claiming it “a giant fiction that a murderous regime desired only a peaceful nuclear energy program”.

Donald Trump also addressed issues such as Iran’s development of ballistic missiles potentially delivering nuclear warheads to US soil, Iran’s support to insurgency groups in the Middle East (even naming Iran an Al-Qaeda supporter) and Tehran’s increased military spending.

In light of Trump’s decision to pull out of the deal, the regional developments surrounding Iran deserve new attention. The decision-makers in Washington started reevaluating Iran’s foreign and military policy, which become bolder in its neighbouring regions. Now, Iran’s influence stretches from the Mediterranean Sea coastlines to the Hindu Kush mountains; some consider the recent events in Yemen and Bahrain as Iran-inspired as well. As a testament of Iran’s increased influence, Iranian generals negotiate with Kurdish military groups and present them ultimatums on behalf of the central Iraqi government in Baghdad. The ‘Shia-Crescent’ concept has become a regional geopolitical reality.

The relatively ‘stable’ region among Iran’s immediate neighbours lies along its northern frontiers. Iran’s ambitions towards increasing its influence in the South Caucasus republics was not as successful as in other regions. Nevertheless, Iran has created and engaged in economic and strategic projects with Azerbaijan and Russia in its northern region. Following US revision of its position on Iran, the implementation of these projects may be postponed to a better future.

It is still not clear how Azerbaijan and other regional countries should act in such a precarious situation. Azerbaijan, with its highly specific historical relations with Iran, wants to be a good neighbour but also wants to avoid sanctions for aiding Iranian companies. As such, the complexity of Iranian-Azerbaijani relations will definitely be elevated to a new level as the result of the recent decisions by the Trump administration.

This paper will briefly present the current status of Iran in the South Caucasus, Iranian-Azerbaijani relations and the perspectives of the development of these relations in the future.

## The faltering Euro-Atlantic alliance and what is next for Iran's fight to break out of sanctions

The decision of pulling out of the JCPOA was taken contrary to the efforts of other UN SC P5 members and Germany. Prior to the announcement by the US president, the leaders of France and Germany paid a visit to Washington in the second half April for the purpose of convincing him of the merits of the agreement; even the UK's Boris Johnson had a meeting with Donald Trump in early May. Even Macron's visit could not sway the president and his announcement on the president's expected decision left little room for doubt regarding Washington's strategy to pull out of the JCPOA.

Pulling the US's support out of the JCPOA represents yet another unilateral decision by Donald Trump which is not in the best interest of its closest European allies. Right after Washington's announcement, the UK's Theresa May, Germany's Angela Merkel and France's Emmanuel Macron made a joint statement emphasizing the importance of the agreement for shared security and their continued commitment to the agreement. They added that they expect the same commitment from all parties who signed the treaty.

The decision means the unilateral restoration of US sanctions against Iran, including Iran's banking sector.

The sanctions on Iran's Central Bank might have an effect on Iran's oil export and selling capacity. The countries with established banking links with Iran will also suffer; in order to avoid limitations in their activities with the US economy, these institutions will have to cease their activities with Iranian banks.

Following Iranian President Rouhani's address on television, the MFA of Iran is instructed to hold talks on the nuclear deal with the EU, Russia and China in the upcoming weeks. The religious leader of Iran A. Khamenei already expressed his distrust towards the UK, France and Germany: only their strong commitment will convince Iran to stay committed to the JCPOA.

The Great Schism has already happened – the Euro-Atlantic alliance, or Europe's NATO-centric security deal has broken down. Washington could not convince London, Paris or Berlin to follow its lead, nor could the others convince Washington.

Although Trump's decision will create additional geopolitical challenges in the region, the EU's attitude toward Iran will be a key point for the future of economic plans and strategic alliances in the region.

Iran and the countries in the region – including Azerbaijan - now have the option to choose the European lead, instead of the American, in the issues concerning the JCPOA.

## Iran in the South Caucasus: Azerbaijan as the way to prosperity

In order to grasp the fundamentals of regional dynamics, there are several important points to take into account:

- Azerbaijani-Iranian-Armenian relations
- Energy cooperation
- Transport cooperation
- Iranian and Azerbaijani investments
- Strategic relations

Azerbaijan and Iran have a very specific and sometimes complicated relationship due to their shared history. Iran has more than 20 million Azerbaijanis and Azerbaijan's population's religious background is mainly Shiit-muslim. These factors can play both greatly positive and greatly negative roles in the relations of the two countries.

Iran tries to keep balance between Yerevan and Baku. By doing so, Tehran is gaining access to the EAEU market and strengthening trade relations with Armenia as a supplier of natural gas. Due to the strong Russian presence in the Armenian economy, Iran could not get the share in the Armenian market it desires; however, there is an established cooperation on electricity and natural gas transfer between the two countries.

In addition, Tehran maintains close ties with Azerbaijan. The countries try to do business in the energy and communication sectors. Iran tries to build the Astara-Rasht-Qazvin railway, which is supposed to be part of a bigger railway network connecting Iranian railways to Russian railways via Azerbaijan. As a result of this transport project, which is labelled the North-South transport corridor, Iranian ports in the Persian Gulf will be connected to Russian ports in the Baltic Sea, allowing goods from India to be delivered to North European countries.

To some extent, Azerbaijan and Armenian were competitors for this project. Due mainly to economic reasons (the rate of return of the Armenian railroads), Armenia was so far left out of the transit corridor.

Iran and Azerbaijan have also established a swap mechanism for natural gas: Iran provides Nakhchivan, an Azerbaijani enclave in the south-west of the country, with the natural gas in exchange for natural gas in the other Iranian regions closer to Azerbaijan. Due to the expected lift of sanctions, Azerbaijan and Iran were recently having intensive discussions on the gas reserves of the Caspian Sea and their mutual exploration.

Iran and Azerbaijan have also started investing in each other's economies in sectors other than energy and transportation. While Azerbaijan is heavily investing to the transport capacity of Iran and Rasht-Qazvin, Iran has recently opened a joint car production plant known as Azermash in Neftchala, Azerbaijan<sup>1</sup>. The car production plant is going to produce different brands of cars, including Samand and Khazri.

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<sup>1</sup> Financial Tribune (Iranian Economic Daily). Iran, Azerbaijan Joint Auto Plant to Open in March  
<https://financialtribune.com/articles/economy-auto/80542/iran-azerbaijan-joint-auto-plant-to-open-in-march>  
Published: 23 January 2018, Retrieved on: 12 May 2017

According to various media sources, 450 Iranian companies currently operate in Azerbaijan. These companies are mainly involved in transport, energy, industry, healthcare, finance, IT and tourism<sup>2</sup>.

Iran and Azerbaijan have recently developed their strategic relations for regional security as well. Currently, there is a Iranian-Azerbaijani-Russian security triangle in the region. The main aim of these cooperation is believed to be to fight against radical religious group originating in the Middle East.

### Turbulent geopolitical environment and the future of regional economic and political incentives

Indeed, President Trump's decision will further complicate the geopolitical situation in the region. The aftershocks of changes in the US-Middle East and US-Iran policies will reach the Caucasus.

In the current global and regional geopolitical environment in which the Azerbaijani-Russian-Iranian security triangle functions, it will be hard for Azerbaijan to both go against Russia's and Iran's wills and cease all cooperation with Tehran.

The triangle also has the potential to turn into a club of countries with closer economic relations. Due to sanctions and Iran's limited outreach, Tehran might have no option but to focus on the development of mutual economic relations with its current partners, Azerbaijan and Russia.

President Trump's pulling out of the JCPOA will also do nothing to prevent Tehran from deepening its cooperation with Turkey. Azerbaijan could also be part of any deepening economic and political relations between Tehran and Ankara.

Because of the growing separation between EU actors and the US, Azerbaijan might be keen to align itself with European decision-makers, rather than decision-makers in Washington. This will allow Baku to be on the safe side in its cooperation with Iran.

**Table1. Structure of trade with Iran (thsnd. USD)**

	2012	2013	2014	2015	2016
Trade Volume	263,787.10	281,029.70	186,597.90	124,712.40	210,761.40
Import	176,444.8	207,682.3	147,156.2	90,455.4	161,077.6
Export	87,342.3	73,347.4	39,441.7	34,257.0	49,683.8

**Source:** Azerbaijan State Statistical Committee, 2018<sup>3</sup>

Table 1 indicates the structure of trade with Iran. There is increase in 2013, but decrease in 2014 and 2015. In 2016, there is increase. The following table indicates the Iran's GDP performance in the selected years. As we can see, in many cases the trade relations between Iran and Azerbaijan

<sup>2</sup> Financial Tribune (Iranian Economic Daily) Iranian investment in Azerbaijan at USD 1.2 bn <https://financialtribune.com/articles/economy-domestic-economy/53365/iranian-investment-in-azerbaijan-at-12b>  
Published: 12 November 2016, Retrieved: 13 May 2016

<sup>3</sup> AzStat. Foreign Trade Indicators <https://www.stat.gov.az/source/trade/> Retrieved: 17 May 2018

depends on the performance of Iranian economy. If sanctions affect the performance of Iranian economy it will also harm the relations between the countries.

**Table2. Iran GDP (constant. 2010 thsnd. USD)**

	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
	462,736,543.5	461,838,494.7	483,098,855.1	476,718,833.7	540,581,254.0

**Source:** World Bank, 2018<sup>4</sup>

Nevertheless, as the result of the recent announcement, Azerbaijan will enjoy additional temporary gains.

Due to the sanctions, it is expected that Iran will have to decrease its daily oil export by 0.5 mln barrels per day (in 2018, the daily export of Iranian oil was 2.13 mln barrels), which might lead to USD 6 increase in oil prices per barrel.

Azerbaijan, as an oil exporter, will enjoy temporarily high oil prices in the world market due to the renewal of sanctions. Due to the economic challenges that Azerbaijan faces today, it needs additional money and this increase will be helpful for the macroeconomic stabilisation of the country.

According to the Center for Economic and Social Development's calculations (CESD), at the average oil price of USD 70, Azerbaijan will have an additional AZN 4,282 billion. In case of average USD 75 – this figure will be AZN 5,139 billion. Hence, Azerbaijan would, in some economic perspectives, benefit from Iranian sanctions and enjoy the temporarily high prices for oil.

On the other hand, the revived sanctions by the US are expected to have negative effects on bilateral Iranian-Azerbaijani economic relations. The sanctions targeting Iran's banking sector will force Azerbaijani banks to stop sending remittances to Iranian companies. The banks in Azerbaijan and other countries of the region will restrain themselves from doing business with Iranian banks or in Iran related affairs, if their SWIFT connections are under threat.

Sanctions may also have a negative impact on the implementation of joint energy and transport projects from an economic point of view. Iran will have less resources to fund common energy and transport projects in the Caspian region. It is also expected that, due to the expected weak performance of Iranian economy after the restoration of sanctions, the North-South transport corridor will be less profitable, as Azerbaijani investment in Iran might not be a source of income for the country.

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<sup>4</sup> World Bank. Date. Iran, Islamic Republic  
[https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?end=2016&locations=IR&start=1960&view=chart&year\\_1ow\\_desc=true](https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?end=2016&locations=IR&start=1960&view=chart&year_1ow_desc=true) Retrieved: 17 May 2018

## Conclusion

The Joint Comprehensive Plan of Action (JCPOA) – a multilateral agreement signed between Iran and UN Security Council Permanent members (UN SC P5) (and Germany) – has faced its serious first challenge.

As it was announced, the current US administration is not happy about Iran's development of ballistic missiles potentially delivering nuclear warheads to US soil, Iran's support to insurgency groups in the Middle East and Tehran's increased military spending. The current US administration decided it needed to revise the document.

This development will definitely affect Iran's economic potential and ability to launch different economic projects, and regional cooperation in the Caucasus.

Iran has already started economic and strategic projects with Azerbaijan and Russia in the region. If the economic performance of Iran slows down, it will also affect its economic relations with the countries to its northern borders.

It is still not clear how Azerbaijan and other regional countries should act in such a situation: Azerbaijan, with its highly specific historical relations with Iran, wants to be a good neighbour, but also would like to avoid being sanctioned for aiding Iranian companies.

While Donald Trump's decision might put additional pressure on the economy of Iran, but it will certainly push Tehran to find new ways to boost its economic relations with the countries in its immediate neighbourhood.

Nevertheless, given the position of the European Union countries on the issue, Azerbaijani public and private sector players (except banking sector players) might find it within their comfort zone to follow the European lead and be part of the regional projects together with Russia and Turkey.