

How Moscow Is Helping to Solve the Iran Problem

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Though news reports generally give a very different impression, Russia is actually playing a constructive role in dealing with the multifaceted issue of Iran's nuclear program. One hint came last month, when Russia's second-largest financial institution closed the accounts of Iran's embassy in Moscow. While given little attention by the media on either side of the Atlantic, this move signals the Kremlin's willingness to confront Iran on its march toward nuclearization.

Russia's irritation with Iranian policy was underlined by the manner in which the management of VTB 24 — the retail banking arm of the state-controlled behemoth, VTB — dismissed these particular clients. Teheran's diplomats were reportedly given three hours to physically withdraw or wire out their funds or their "accounts would be blocked and money confiscated." Explaining itself, the bank's top management is said to have informed Iranian Ambassador Seyed Mahmoud-Reza Sajjadi that the embassy's business was no longer profitable and that his credit card would also be blocked.

What moved Russia to take action at this particular juncture? The answer most likely lies in Moscow's appreciation that what once passed as business as usual is becoming an increasingly risky bet. Since the Soviet collapse, Russia and Iran have had very strong industrial and military ties, which have included financial aid and technical assistance on nearly all nuclear-related issues. The implicit understanding until now appears to have been that Iran would not further fan the flames of Islamic radicalism across its vast southern belt and that both countries would collaborate selectively in frustrating aspects of U.S. foreign policy in their shared neighborhood.

Read through the darkest lens, this relationship has been a profitable one for Russia, with Iran's pursuit of the bomb boosting the price of the Kremlin's principal cash export, oil, while encouraging states in the region to purchase ever larger amounts of its military equipment. A more benign view is the one offered by the Russians themselves: By staying engaged with the Iranian program, Moscow retains influence no one else possesses while keeping a significant part of its potentially footloose cadre of Cold War-era nuclear engineers employed.

Until now, Iran's supporters in the Kremlin have been able to make a persuasive argument for continuing, if not strengthening, ties with Iran, perennially ranked as one of Russia's top 10 trading partners. But in fact the relationship is starting to demonstrate diminishing returns. As the international community ramps up the sanctions regime, pushing Iran ever closer to pariah status, countries that continue to do business with it are getting shut out of lucrative markets. The United States and Europe are now systematically identifying companies, financial institutions and individuals doing business with Iran and are aggressively cutting them out of their home markets.

Having finally completed a torturous 19-year journey to accede to the World Trade Organization, Russia has no wish to be subject to robust new third-party sanctions. Despite periodic rhetoric to the contrary, its entrenched leadership has followed a consistent course of deepening the once-isolated country's integration into the global economy. This commitment comes despite the reality that the architecture of global governance was designed by, and is still substantially dominated by, the United States.

Indeed, the move against Iran's embassy in Moscow followed a series of international decisions: United Nations Security Council Resolution 1929 in 2010 that imposed further sanctions on Iran after it failed to comply with previous resolutions concerning its nuclear program; Iran's blacklisting as a "high risk and noncooperative jurisdiction" by the Financial Action Task Force, which Russia is a member of; and U.S. President Barack Obama's signing, in February, of an executive order tightening existing sanctions.

The gloomiest estimates are that Iran may get its nuclear bomb within 18 months. For Russia, the risks of that threshold being crossed are growing more starkly clear, and they include even greater instability among its nearest neighbors, emboldened radicals within its own borders and new barriers to the investment and trade vital to maintaining Russia's economy. While Iranian possession of nuclear weapons would likely lead to higher prices for oil, the additional volatility liable to occur in commodities markets would complicate the Kremlin's task of restructuring Russia's economy and restoring predictability to management of the federal budget.

To help itself and support the efforts of the international community, Russia can take two more steps within the financial industry. First, VTB has traditionally maintained a correspondent-banking relationship with the Export Development Bank of Iran, a state institution that has been blacklisted for its alleged role in proliferating weapons of mass destruction and terrorism. Second, the Bank Melli Iran, which has been sanctioned by the UN and European Union and cited by the U.S. Treasury Department for involvement in money laundering, continues to finance Iranian and Russian business through its Moscow branch. Russia should shut down both of these banking operations now. This would not only protect its own banking system from illicit activity, but would also signal Russia's determination to head off Tehran's gambit for a nuclear weapon.

Helping Iran in its march toward nuclearization puts Russian companies, individuals and financial institutions squarely in the crosshairs of the international sanctions regime. As Russia tries to negotiate the delicate dance of short- versus long-term financial gain, continued close relations with Iran will almost certainly have an economic cost and loss of face that the Kremlin is unwilling to bear. Doing business with a state that is increasingly becoming both a political and a financial pariah will have consequences.

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