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ANALYSIS EXCLUSIVE

The relationship between Iran and Russia in the energy sector has always fluctuated between cooperation and competition. From when they were empires to this day, this relationship has been influenced by geopolitical variables, economic developments, and international pressures. At times, shared needs and external pressures have brought the two countries closer, while at other times, differences in national interests and political approaches have created uncertainties in their cooperation.

At a time when the global energy market faces challenges such as economic sanctions, regional crises, the decline of traditional energy resources, and increasing interest in alternative energy sources, global policies have also shifted toward fundamental changes. In recent years, many developed countries have witnessed a rise in nationalist and right-wing tendencies, prioritizing protectionist policies and reducing dependency on foreign markets. This shift has impacted the global economic order and cast a shadow over international energy relations.

In this context, Iran-Russia cooperation in the energy sector stands at the intersection of domestic policies, geopolitical considerations, and international developments. On one hand, both countries seek to increase their share in the global market and reduce dependence on the West. On the other hand, the rise of nationalist policies in consumer countries and technological advancements have introduced uncertainties regarding the future of this partnership. Ultimately, rather than leading to a stable and effective collaboration, this alliance is entangled in structural challenges, regional rivalries, and unpredictable shifts in global politics. Some say that, given historical experiences and conflicting interests, the likelihood of this cooperation reaching a definitive and sustainable outcome appears weak, and it may eventually be reduced to a limited and fragile interaction under the pressure of international developments and nationalist policies of developed countries.

Iran-Russia cooperation in energy industry

Opportunities, challenges and global implications



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Opportunities for cooperation

As two major energy powers, Iran and Russia collectively possess over 30% of the world's natural gas reserves and about 20% of the world's proven oil reserves. This vast potential provides a foundation for extensive collaboration in the extraction, production, and export of energy resources. Russia, with approximately 48 trillion cubic meters of natural gas reserves, holds the world's largest share, while Iran, with 34 trillion cubic meters, ranks second. In the oil sector, Iran possesses over 157 billion barrels of proven reserves, and

Russia holds more than 108 billion barrels, making both countries key players in the industry. Given the extensive sanctions imposed by the United States and the European Union against both countries, bilateral cooperation enables them to reduce their dependence on Western financial and trade networks. In recent years, agreements such as the \$40 billion memorandum of understanding (MoU) between Russia's Gazprom and Iran's National Iranian Oil Company indicate the two nations' desire to strengthen their collaboration. This agreement includes invest-

ments in gas and oil field development, construction of export infrastructure, and the use of joint technologies to enhance production. Furthermore, Iran-Russia cooperation can reduce their dependence on Western markets and create alternative routes for energy exports. Projects such as the Iran-Pakistan-India (IPI) Gas Pipeline and initiatives to increase liquefied natural gas (LNG) exports to Asia illustrate the strategic approach both countries are adopting to diversify their export markets. Since Europe, which sourced about 45% of its gas from Russia in 2022,

now seeks to reduce this reliance, Iran and Russia have the opportunity to strengthen their presence in emerging markets such as China and India. Overall, Iran-Russia cooperation in the energy sector can contribute to their economic development and diminish Western influence in the global energy market, potentially altering the balance of power in the industry. However, realizing these opportunities requires overcoming infrastructural, financial, and geopolitical obstacles, making the path of this collaboration complex and rather uncertain.

Domestic, int'l challenges

Despite Iran and Russia's vast capacities in the energy sector, their cooperation faces multiple challenges at both domestic and international levels. One of the most significant obstacles is regional competition and conflicting interests, preventing the collaboration from reaching a long-term strategic level. Russia, as the world's largest natural gas exporter, supplied over 155 billion cubic meters of gas to Europe annually before the Ukraine crisis. Meanwhile, Iran, due to harsh sanctions, has been unable to secure a substantial share in the global gas market, and some say Russia, as a potential competitor, has little incentive to facilitate Iran's entry into European markets; Then again, they signed the cooperation agreement. In the oil sector, both countries are major exporters, and given the Western-imposed \$60 price cap on Russian oil, Moscow has been forced to sell its oil at a discount, increasing direct competition with Tehran in Asian markets such as China and India. Apart from these conflicts in interests, political instability and Western economic sanctions pose additional barriers. Both Iran and Russia face US and EU sanctions that restrict access to advanced technologies, foreign investments, and energy transportation infrastruc-



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Iranian President Masoud Pezeshkian (l) answers a reporter's question while his Russian counterpart, Vladimir Putin, looks on after signing a long-awaited strategic partnership agreement in Moscow, Russia, on January 17, 2025.
president.ir

ture. Reports indicate that Western sanctions caused a 7% drop in Russia's oil production in 2023, while Iran, due to export restrictions, only exports about 1.5 million barrels of oil per day — far below its actual capacity. Moreover, the global financial system, dominated by the US dollar, complicates banking transactions and payments between Iran and Russia, forcing them to resort to barter trade and local currencies. Infrastructural difficulties and the need for massive investments also hinder energy cooperation between the two nations. Many of Iran's oil and gas fields require modern technology for extraction and production, but sanctions prevent Western companies from operating in Iran. At the same time, Russia, facing its own investment challenges, lacks the financial capacity to fund major energy projects in Iran. For instance, the development of Phase 11 of Iran's South Pars gas field — one of the world's largest — has faced delays since France's Total withdrew in 2018 due to sanctions and a lack of investment. While Iran needs over \$80 billion in investments to develop its oil and gas sector, Russia, struggling with declining energy

domestic production. This trend has directly affected Iran-Russia relations, making economic and trade interactions more difficult. One clear example of this shift is the recent US and European policies on energy security. After the Ukraine crisis and extensive sanctions on Russia, the European Union significantly reduced its reliance on Russian gas. In 2022, US liquefied natural gas (LNG) exports to Europe increased by over 140%, and Russia's share in Europe's gas supply fell from 45% in 2021 to less than 10% in 2023. This change indicates that even markets previously dependent on Russian energy are now seeking alternatives — a trend that could affect Iran and Russia's ability to secure new buyers. Furthermore, the Biden administration's Inflation Reduction Act (IRA) of 2022 allocated billions of dollars to renewable energy development, reducing reliance on fossil fuels. This policy led to a record-high US oil production of 13.2 million barrels per day in 2023, decreasing Western countries' need for Iranian and Russian energy and pushing these two countries to vie harder for Asian and African markets.



purchasing discounted Russian oil, is diversifying its imports from countries like Saudi Arabia and the UAE. These developments suggest that even the Asian markets, which are currently attractive to Iran and Russia, may change course in the long term. In conclusion, the rise of economic nationalism and efforts to reduce reliance on foreign energy pose new challenges for Iran-Russia cooperation. As history has

competitions, and technological advancements in the energy sector. Examining these paths can provide a clearer view of the outlook for energy relations between the two countries.

Scenario one: Deepening cooperation and creating an independent energy bloc. In this scenario, Iran and Russia will expand their cooperation in the energy sector and seek to form an independent en-

ergy bloc separate from the West. Contracts such as the \$40 billion MoU between Gazprom and the National Iranian Oil Company, and efforts to develop joint projects in energy extraction and transportation, can strengthen this path. Moreover, given that Iran and Russia collectively hold over 65% of the world's gas reserves, they can play a more decisive role in the global energy market in this way. However, realizing this scenario requires massive investments, infrastructure development, and coping with Western pressures, which makes its implementation difficult.

Scenario two: Hidden competition and gradual reduction of cooperation. Despite official announcements of strategic cooperation, competition between Iran and Russia over energy markets, particularly in China, India, and Turkey, is a serious challenge. Following Western sanctions, Russia has increased its oil exports to Asian markets, and its share in China's oil market reached over 19% in 2023, while Iran's share in the same market was only 6%. Russia is seeking to maintain its position at any cost. In such circumstances, cooperation between the two countries may turn into an ongoing but imperceptible competition that reduces its importance in the long term.

Scenario three: External factors reducing Iran and Russia's influence. One of the main threats



The rise of economic nationalism and efforts to reduce reliance on foreign energy pose new challenges for Iran-Russia cooperation. As history has shown, global policy shifts can reshape trade routes, and this ongoing trend may further limit opportunities for Iran and Russia in the energy market.



Then-CEO of the National Iranian Oil Company Mohsen Khojastehmehr (C) is seen during the online ceremony of signing a memorandum of understanding worth around \$40 billion with Russia's Gazprom company on July 19, 2022, in Tehran. ● MOJTABA MOHAMMADGHOLI/SHANA

to both countries is the rapid changes in the global energy market and the reduction of the world's dependence on fossil fuels. According to the International Energy Agency (IEA), global investment in renewable energy reached over 1.7 trillion in 2023, while investment in the fossil fuel sector was only 1 trillion. This indicates that in the coming decades, consumer countries will seek to reduce their dependence on oil and gas, a trend that can decrease demand for Iran and Russia's energy resources. If this scenario materializes, even the strategic alliance between the two countries cannot prevent their declining influence in the global market.

Future of uncertainty, susceptibility

While Iran and Russia seek to reduce reliance on the West and strengthen bilateral cooperation, factors such as competition for export markets, geopolitical instability, sanctions, and structural shifts in the global energy market could make this partnership fragile and temporary. For this cooperation to succeed, both countries must overcome internal and external challenges and adopt a long-term strategy.



A reporter (standing-R) puts a question to the presidents of Iran and Russia after the two signed a comprehensive strategic partnership treaty in Moscow, Russia, on January 17, 2025. Iranian Foreign Minister Abbas Araghchi (front-2nd L) and Russian Foreign Minister Sergey Lavrov (front-L) are seen attending the event. ● president.ir

revenues due to sanctions, cannot adequately support such projects. In summary, despite the political and economic incentives driving Iran and Russia toward closer energy cooperation, regional competition, sanctions, and infrastructure limitations create substantial barriers. The lack of a unified strategy and financial constraints obscure the long-term prospects of this alliance, making its full realization uncertain.

Impact of global policies, economic nationalism

In recent years, the rise of economic nationalism and protectionist policies in developed countries has challenged the traditional global energy market. What have further complicated international energy cooperation are the increasing efforts of governments to reduce reliance on foreign suppliers and boost do-

This kind of global change has taken place before. In the 1970s, following the 1973 oil crisis that took place after the Arab oil embargo against the West, many industrial countries set out to branch out their energy resources. This policy led to the development of oil reserves in the North Sea and a boost in domestic production in the US, which ultimately brought about a reduction in the West's dependence on Middle Eastern oil. Today, a similar move is taking place, and Western countries are not only looking to get away from their dependence on Russian and Iranian energy, but nationalist economic policies have also reinforced this trend. Even in Asia, significant shifts are occurring. China, one of the largest buyers of Iranian and Russian energy, is expanding its domestic energy production and developing shale gas projects. Meanwhile, India, despite

shown, global policy shifts can reshape trade routes, and this ongoing trend may further limit opportunities for Iran and Russia in the energy market.

Scenarios for future of cooperation

The cooperation between Iran and Russia in the energy sector is taking shape amidst a backdrop of numerous opportunities and challenges. Considering various geopolitical, economic, and technological variables, several probable scenarios can be envisioned for the future of this cooperation. These scenarios are influenced by factors such as Western sanctions, changes in global policies, regional



The jacket for the Belal Gas Field development project, constructed with a \$16 million investment, is loaded out from the Sadra Yard in Bushehr, southern Iran, on January 22, 2025. ● ALIREZA KHAZRAEI/SHANA

