
Russian Energy Ties With Iran Send U.S. A Message

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DUBAI/MOSCOW (Reuters) - As the United States warns the world away from business with Tehran, Moscow's tightening ties to Iran's energy sector underline Russia's differences with Washington over Iranian nuclear plans and Kosovo's independence.

While the timing of Moscow's announcement on Tuesday may have been political, the deal for Russian state-controlled energy giant Gazprom to take on big new Iranian oil and gas projects was a long time in the making and dovetails with Gazprom's strategic ambitions, analysts said.

Gazprom, the world's biggest gas producer, will play a larger role in developing Iran's giant South Pars gas field and will also drill for oil.

"The Russian government and the United States are at loggerheads over how to engage with Iran, with Russia actively favouring a more open relationship," said Ronald Smith, chief strategist at Alfa Bank. "This makes Gazprom rather indifferent to American policy wishes."

The U.S. accuses Iran of using uranium enrichment to develop weapons, while Tehran says it needs nuclear power. Russia has been reluctant to impose more U.N. sanctions on Iran.

Despite voicing its own concerns about Tehran's ambitions, Moscow is building Iran's first nuclear power plant and has supplied the fuel it will use.

Russia opposes Kosovo's split from Serbia, which the U.S. has backed.

Despite growing clout on the world stage, Moscow has proved powerless to prevent Kosovo announcing its independence this week.

"There is probably a political element given what happened last week in Kosovo," said Chris Weafer, chief strategist at UralSib bank.

"I would say this investment is in keeping with Gazprom's declared position to become as global as possible but the timing of the announcement clearly has a political message as well."

FILLING THE VOID

Gazprom is advancing in Iran while U.S. political pressure has delayed progress on gas projects by European companies such as Total and Royal Dutch Shell and led to some European banks pulling their financing for Iranian oil deals.

With European and U.S. companies out of the competition, Gazprom has an edge as it bids for a bigger role in developing the world's second-largest gas reserves after Russia's own.

"The Russians know full well that they are at a disadvantage in terms of the quality of their technology compared to the West under normal circumstances," said Ali Rashidi, a university economics professor in Iran.

"Under conditions that Iran cannot attract real rather than token Western foreign investment, the Russians are in an ideal situation to fill the void."

Gazprom may also have been able to negotiate better terms due to the lack of competition and Iran's eagerness to press ahead with development despite U.N. and U.S. sanctions, Rashidi said.

Strategically, a tie-up between Moscow and Tehran makes sense, analysts said. Gazprom's major market is Europe, which would also be the likely destination for much of Iran's future production. Gazprom supplies a quarter of Europe's gas needs.

The deal with Iran will do little to help Gazprom's ambition to boost its presence in the United States.

But for now, it's exposure there is small, analysts said. That, and Europe's dependence on Gazprom, would limit the effectiveness of any reprisal action from the United States, said Teymur Huseynov, head of the Eurasia department at risk consultancy Exclusive Analysis.

"Gazprom's vulnerability to U.S. sanctions is minimal," Huseynov said. "And if you put sanctions on Gazprom you are basically threatening Europe's energy security and that would strain the relationship with Europe and the United States."

Increased coordination between the two countries on investment policy and pricing would also boost the chances of the formation of a gas producers' group resembling the Organization of the Petroleum Exporting Countries (OPEC), Huseynov said.

Iran has called on Russia to set up such a group, which has caused jitters in top customers and politicians in Europe.

Gazprom could also help Iran develop its pipeline system, potentially linking the north of the country to fields in the south, Huseynov added.

That would lessen dependency on gas imported from Turkmenistan, which angered Tehran when it cut off gas supplies at the end of December.

The Russian gas export monopoly owns all the gas pipelines in Armenia, to which Iran has recently completed a new export pipeline. Gazprom will operate the section of that pipeline in Armenia.

Gazprom has been involved in Iran for years and invested about \$4 billion in the country between 2000-2007, said Huseynov. It was involved in an earlier phase of development at South Pars with Total and Malaysia's Petronas.
