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Iran Threatens U.S. Interests in the South Caucasus

**Testimony before the
Subcommittee on Europe and Eurasia,
Committee on Foreign Affairs,
U.S. House of Representatives**

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Chairman Burton, Members of Congress, Ladies and Gentlemen:

My name is Ariel Cohen. I am the Senior Research Fellow in Russian and Eurasian Studies and International Energy Policy at The Heritage Foundation. The views I express in this testimony are my own, and should not be construed as representing any official position of The Heritage Foundation.

Thank you for inviting me to testify before you today on the Iranian threats to U.S. interests in the South Caucasus.

The Islamic Republic of Iran (IRI or Iran), has emerged as a major anti–status quo actor in the Middle East, threatening American Sunni Arab allies along the so-called Shi’a Crescent from Lebanon, via Syria and Iraq, to the Persian Gulf. Iran’s implacable hatred of Israel and its threats to wipe the Jewish State off the map are widely reported. What is less well known is the destabilizing influence of the Islamic Republic in the South Caucasus.

The South Caucasus is located between the Black Sea and the Caspian Sea, neighboring Central Asia to the east, the Middle East (Iran and Turkey) to the south, and Eastern Europe to the west, hence connecting Europe and Asia. It also plays a key role in connecting Central Asia to the world via the Black Sea and Mediterranean ports. Home to ancient civilizations and populated by Christians, Muslims, and Jews, the South Caucasus is also the area where Russia, Iran, and Turkey meet.

The United States has worked hard over the last twenty years to encourage development of this strategically important region. American interests in the South Caucasus include security, energy and economic development, and democratization. Thus far, our track record in achieving these goals is decidedly mixed.

Security in the region is threatened by Iranian attempts to export terrorism, destabilize neighboring Azerbaijan, and bypass U.N. and E.U. sanctions. Since the launch of the Baku-Tbilisi-Ceyhan Main Oil Export Pipeline in 2006, no gas export pipeline from the Caspian has been completed; no Turkmen or Kazakhstani gas is transiting the region for exports; and the level of democratization leaves much to be desired.

Since the collapse of the USSR, Washington has sought to prevent Russia and Iran from re-establishing dominance in this region, especially as the importance of Caspian energy resources – oil and gas – is increasing. “Given that the region involves the Russians, Iranians and Turks, it is inevitable that the global power [the U.S. – A.C.] would have an interest as well,” U.S. Secretary of State Hillary Clinton remarked during her visit to the region in July 2010. The U.S. long-term strategy has been to ensure the independence of Azerbaijan, Armenia, and Georgia, allowing for markets to develop and the rule of law to thrive, while sustaining democratization and promoting regional integration.¹ Since the era of bipartisanship on South Caucasus during the Clinton and Bush Administrations, there is a reversal in U.S. attention to and achievements of these policy goals.

Importantly, Iran is endangering the U.S. strategy through the export of terrorism, sanction busting, subversion through soft power application, and cultivating close relations with Armenia while posing a threat to the stability and development of the pro-Western and pro-American country of Azerbaijan.

Iran, the Prime Exporter of Terrorism. Iranians are responsible for at least two recent (2012) and documented terrorist attacks on U.S. and Israeli targets in Azerbaijan, and one in Georgia. Iranian networks and agents targeted the U.S. Embassy in Azerbaijan and “iconic” locations such as McDonalds.

They also targeted the Israeli Ambassador to Baku, the Israeli embassy building, a rabbi, and a number of prominent members of the Azerbaijani Jewish community leaders and their center in Baku.

Georgian security services have disarmed a bomb, apparently planted by Iranian agents, targeting an Israeli diplomat. Georgia is allowing Iranians to travel to their country visa-free. These attacks are a part of a global wave of terror, which includes planned or executed attacks on the Saudi and Israeli Embassies in Washington, D.C., New Delhi, Bangkok in Thailand, and Burgas in Bulgaria, as well as Kenya and Cyprus.

The Qods (or “Jerusalem”) Force, an Iranian elite paramilitary organization of the Islamic Revolutionary Guard Corps (IRGC), is exporting the Islamic revolution by fostering militant Shiite movements, creating deterrence and retaliatory networks, and destabilizing unfriendly regimes. Officially, the Qods Force is a part of the IRGC’s five known branches, alongside the ground forces, the navy, the air force (in parallel with the regular tri-services), and the brutish Basij street militia.² In reality, the Force enjoys a great degree of autonomy and is directed by the Supreme Leader. Iranian student activists compared IRGC to the Soviet KGB and the Nazi SS, calling it “the agent of order for a harsh ideological regime and its agent of oppression”.³

¹ Inessa Baban & Zaur Shiriyev, “The U.S. South Caucasus Strategy and Azerbaijan,” *Turkish Policy Quarterly*, Vol. 9 No. 2, pp. 94-95, <http://www.turkishpolicy.com/dosyalar/files/93-103.pdf> (accessed December 2, 2012).

² Kevjn Lim, “Iran’s Secret Weapon,” *The National Interest*, <http://nationalinterest.org/commentary/irans-secret-weapon-7313?page=1> (accessed December 2, 2012).

³ Sarah Akrami and Saeed Ghasseminejad, “The terrorist organization behind the power of the mullahs”, *Jerusalem Post*, May 22, 2012, <http://www.jpost.com/LandedPages/PrintArticle.aspx?id=271045>The terrorist organization behind the power of the mullahs (accessed December 3, 2012)

A 2010 U.S. Department of Defense report indicates that the Qods Force “clandestinely [exerts] military, political, and economic power to advance Iranian national interests abroad,” making the Force the spearhead of Iran’s foreign policy.

The Qods Force has been accused of masterminding or supporting some of the most prominent attacks against Western and Israeli targets over the past three decades. Its role was decisive in launching Hezbollah, the Shiite militant group that is responsible for the death of over 240 American Marines and numerous American diplomats and intelligence officers in Lebanon in the 1980s, and attained notoriety for its massive rocket attacks on Israeli civilians in the Second Lebanon War of the summer of 2006.

Little wonder, then, that international attention has in recent years focused on Qods Force Major General Qassem Soleimani, the enigmatic operator who runs the “handpicked elite of an already elite ideological army.” Ali Alfoneh, an Iran scholar specializing in the IRGC at the American Enterprise Institute, wrote that although lacking formal qualifications, Soleimani rose through the ranks due to his reputation for gutsiness during tough times.

In his current role, Soleimani replaced Ahmad Vahidi in the late 1990s. Vahidi went on to become Iran’s defense minister. Soleimani’s personal connection to Supreme Leader Khamenei, which dates back to before the 1979 revolution, may have facilitated his ascendancy.

It is no wonder that Iran’s leaders, who believe that independent Azerbaijan belongs within the Persian orbit, turned to Soleimani and the Qods Force. The Iranian intelligence services have been operating on Azeri soil as far back as the mid-1990s.

In 1997, members of the Islamic Party of Azerbaijan were tried for spying on behalf of Iran. In 2007, Said Dadasbeyli, an Azeri cleric and alleged leader of a group known as the “Northern Mahdi Army” was accused of receiving assistance from the Qods Force and plotting to overthrow the secular government. The Azerbaijani authorities believed he had provided Iran with sensitive intelligence on the American and Israeli embassies in Baku.

In October 2009, two Lebanese Hezbollah operatives and their four local Azerbaijani assets were charged with plotting to attack the U.S. and Israeli embassies. In January 2012, three men were accused of planning to assassinate a rabbi and a teacher working at a Baku Jewish school.

Iran’s Anti-Israel Agenda. The fact that the Iranian intelligence services have prioritized Israeli and Jewish targets inside Azerbaijan may be interpreted as a signal to the Azerbaijani government that Tehran is upset by the close Azerbaijani-Israeli cooperation. In the past, Iran undertook a number of diplomatic steps to signal its ire to Baku about the relationship with Israel. For the Iranian Islamist Shi’a dictatorship, neighboring, predominantly Shi’a Azerbaijan is far too secular, too pro-Western, and too pro-Israel.

Secular Azerbaijan is not the model Iran wants to see at its northern border: a prosperous, energy-exporting, Western-oriented and Israel-friendly, majority-Muslim country. Iranian-

Azerbaijani relations are further complicated by rising Azerbaijani nationalism inside Iran, where over 25 percent of the population is ethnic Azeri.

Unconstitutional discrimination against the Azerbaijani language as a language of public discourse and education in Iran continues to poison Azeri-Persian ties.

It is no wonder that Iranian policies are making Azerbaijan's leadership feel threatened. I believe that they should also engender greater concern among U.S. foreign policy makers.

Sanction Busting. Iranian attempts to circumvent the sanctions regimes imposed by the U.N., the U.S., and the E.U. in an attempt to pressure Tehran away from developing nuclear weapons target the South Caucasus. These include illegal banking operations and the proliferation of “front” companies engaged in the acquisition of sensitive, dual use, or outright military technology. All three South Caucasus countries are involved in trade with Iran, but Armenia, the closest to Tehran, is the principal concern for U.S. policymakers, law enforcement, and the intelligence community.

According to Armenian press reports, Iranians use Yerevan real estate to launder money and achieve liquidity outside of the country.⁴ An additional aspect of the Iranian-Armenian cooperation, which may violate the sanctions, is the Meghri hydroelectric plant along the Arax River between the two countries. On November 8, 2012, Armenia broke ground for the long-planned US\$330 million 130-megawatt plant, which will be built by an Iranian company, and Iran will use the electricity generated by the project for the next 15 years. Afterwards, ownership of the plant will be transferred to Armenia. In 2011, Armenia and Iran also agreed to an oil product pipeline planned to run from the city of Tebriz to the Armenian border, to supply Armenia with Iranian fuels.

Bypassing Banking Sanctions and Acquiring Technology. Last August, news agencies reported that the Iranian regime was attempting to expand its banking relationships in Armenia as a convenient location to avoid international sanctions. Mellat Bank, an Iranian financial organization sanctioned by the U.S. Treasury [for helping to finance imports for Iran's nuclear proliferation activities](#) and suspected by the British Treasury of violating international sanctions, operates in Yerevan.⁵ Other Iranian banks connected to illicit military-industrial, economic, and financial activities by the regime also attempt to operate in Armenia in order to bypass international law enforcement. While the Government of Armenia has denied these reports, according to the Armenian press, their adherence to international banking sanctions against Iran has been questioned by Western officials.

Richard Giragosian, director of the Yerevan-based Regional Studies Centre (RSC) says that Iran looks at the South Caucasus as a region where it can procure “critical elements” for its nuclear effort that the sanctions have restricted: “Many [Iranian] Revolutionary Guard units have

⁴ Justin Vela, “Iran May Look North to Skirt US Sanctions,” Hetq, November 25, 2012, <http://hetq.am/eng/articles/20897/iran-may-look-north-to-skirt-us-sanctions.html> (accessed December 2, 2012).

⁵ “[Shareholders to intervene in Bank Mellat v HM Treasury Iran sanctions Supreme Court challenge](#),” Global Banking and Finance Review, <http://www.globalbankingandfinance.com/Investing/Shareholders-to-intervene-in-Bank-Mellat-v-HM-Treasury-Iran-sanctions-Supreme-Court-challenge.html>, (accessed December, 2, 2012).

pursued over the past several years setting up joint ventures with foreign partners — front companies — designed to pursue technical spare parts for military use and nuclear centrifuge development.” Front companies of this type were closed in recent years in Dubai and Kuala Lumpur. “There is new concern that Armenia, Georgia, and other countries may become attractive for such a pursuit.”⁶

The Iranian Drug Trade Threatens the South Caucasus. The South Caucasus is increasingly becoming a prime drug transit destination for the Iranian drug trade, directed and protected by the Quds Force and Hezbollah.

Drug dealers using high-speed motorboats, night goggles, grenades, automatic assault rifles, and machine guns are breaching the borders of Azerbaijan, and may be laundering their ill-gotten gains in the casinos of the region. Iranian producers of methamphetamines use industrial chemical production lines supervised by professional pharmacists and chemists to produce ultra-pure meth for export.

Hezbollah’s ratlines through the Bekaa Valley in Lebanon, Syria, Turkey, Europe, and South America make it a drug pushing terrorist organization with global reach, busy opening the doors to cooperation with drug cartels for distribution deals. The porous borders and corrupt customs officers of the Caucasus have created an additional trafficking route via the Black Sea and air routes to Western Europe.⁷

Caspian Sea Delimitation. Iran is subverting the delineation of the Caspian Sea, causing significant delays in off-shore energy development there. The Soviet-Iranian Treaties of 1921 and 1940 did not provide marine boundaries or delineation lines, and therefore, these treaties do not apply to today’s situation, especially after the demise of the Soviet Union.

By resisting the partition of the Caspian Sea and construction of a modern hydrocarbon pipeline infrastructure, as proposed in the past by American government and international energy companies as well as Azerbaijan, Iran is blocking the ability of land-locked Newly Independent States such as Azerbaijan, Kazakhstan, and Turkmenistan to gain revenue and develop properly.

To put it simply, Iran’s leaders don’t care about the well-being of the peoples of the neighboring states. It has bountiful oil and gas resources to the south and ample access to the Persian Gulf and the Arabian Sea/Indian Ocean. Applying their zero-sum approach, the Iranians believe that it is in their interest to limit the Caspian oil and gas supply to European and Western markets.

In July 1998, Russia and Kazakhstan signed an agreement on the delimitation of the northern part of the Caspian Sea in order to exercise their sovereign rights to subsoil use. On November 29, 2001, and February 27, 2003, Kazakhstan and Azerbaijan signed an agreement on the delimitation of the Caspian Sea. Kazakhstan, Azerbaijan and Russia signed an agreement on the

⁶ Vela, “Iran May Look North to Skirt US Sanctions”.

⁷ Joby Warrick, “In Iran, Drug Trafficking Soars as Sanctions Take Bigger Bite,” *The Washington Post*, November 1, 2012 (accessed December 2, 2012).

delimitation of adjacent sections of the Caspian Sea on May 14, 2003.⁸ Thus, Kazakhstan, Azerbaijan, and Russia recognize the national sector regime in the Caspian, while Iran resists the partition.

Turkmenistan, intimidated by Iran, has also not signed the national sector regime. The lack of this regime makes it difficult to build underwater pipelines for oil and gas. Turkmenistan could be sending its gas west via Azerbaijan's rapidly developing export pipeline system for sale in Turkey and Europe. However, as a result of Iran's intransigence, almost all of Turkmenistan's gas is sent to China, and Kazakhstan is equally unwilling to commit to an oil or gas cross-Caspian pipeline as long as Iran resists the settlement of the Caspian Sea's legal regime.

Iranian claims to the Azerbaijani national sector in the Caspian have already led to dangerous incidents that had the potential to escalate. In 2001, Iran—a known sponsor of terrorism—began an aggressive campaign to claim a greater portion of the Caspian Sea and its resources. Its leaders asserted that Iran has territorial and treaty rights to as much as 20 percent of the Caspian Sea surface area and seabed, significantly more than its long-recognized sector comprising about 12 to 14 percent.⁹

Tehran's use of air and naval forces to threaten a seismic research ship working for a Western company in Azerbaijan's Caspian Sea sector has jeopardized, in addition to energy production, Western investments and the economic development of the post-Soviet states in that region.

Iran's use of military force to assert its claim to part of Azerbaijan's sector of the Caspian Sea undermines security and the future of Caspian oil and gas development. Iran not only has violated its neighbor's air space and territorial waters, but on one occasion even massed ground troops on the border.

These aggressive actions were a blatant violation of international law. On July 23, 2001, an Iranian warship and two jets forced a research vessel working on behalf of BP in the Araz-Alov-Sharg field out of that sector. That field lies 100 kilometers (60 miles) north of Iranian waters. Due to that pressure, BP immediately announced that it would cease exploring that field, which it did by withdrawing the research vessels. This aggressive policy has not changed since.

Soft Power Competition. Finally, Iran is concerned about Western pop culture influence, which is palpable in neighboring Azerbaijan, as well as with the easy reach of casinos and beaches in the resort of Batumi, Georgia, on the Black Sea. Azerbaijan's victory in the 2011 Eurovision song contest; hosting Eurovision in 2012 as well as concerts by Jennifer Lopez; Rihanna; and Shakira; and hosting the under-17 Women's World Cup Soccer Tournament may all be interpreted as points scored in the soft power competition with the Islamic Republic. It is no accident that Iranians come in droves to relax in Baku, and not vice versa.

⁸ T. Jafarov, "Iran to Consider Determination of Iranian Part of Caspian Sea," *Trend*, November 19, 2012, <http://en.trend.az/regions/iran/2089495.html>, (accessed December 2, 2012)

⁹ Ariel Cohen, "Iran's Claims Over Caspian Sea Resources Threaten Energy Security," Heritage Foundation Backgrounder No. 1582, September 5, 2002, <http://www.heritage.org/research/reports/2002/09/irans-claim-over-caspian-sea-resources-threaten-energy-security>.

The payback is harsh: Iranian-trained and -paid mullahs are indoctrinating Azerbaijanis living in the villages and towns along the Iranian border. One of the main complaints: they convince families to pull their daughters from the state-run, co-ed education system and encourage early marriages for girls—as early as 12 or 13. As part of putting forward the argument for a more militant, severe interpretation of Islam and more rigorous adherence to Sharia, these mullahs preach polygamy, forbidden by Azerbaijani law. Azeri government officials justifiably complain that the barrage of propaganda is undermining the secular regime in the country.

Conclusion. On the bilateral level, the U.S. has strong economic and strategic interests in the Caspian and the South Caucasus. Without Georgia and Azerbaijan, the Northern Distribution Network, which supplies the U.S. and NATO troops in Afghanistan, would lack its Caucasus leg. An American partnership with Azerbaijan answers Washington’s need to consolidate its presence in the South Caucasus–Caspian Sea region and isolate Iran.

As Professor Stephen Blank of the U.S. Army War College recently wrote,

The administration has hitherto treated the South Caucasus as an afterthought or as an overflight issue on the road to Afghanistan. Such neglect is dangerous and misconceived. The mounting threats in the Middle East, Iran, and the Caucasus show how vital it is that the U.S. strengthen pro-Western regimes.... For if we continue to neglect the Caucasus, this neglect will quickly become malign. And malign neglect invariably generates not only instability but also protracted violence.¹⁰

Around the region, the U.S. needs to:

- Expand anti-terrorism and drug trafficking cooperation between the U.S. and the three South Caucasus states, neutralizing Iranian subversive activities in the region;
- Focus intelligence community efforts on collecting and neutralizing Iranian sanction-busting activities in financial and technology transfer sectors;
- Uphold the interests of small Southern Caucasian countries when attempting to construct an effective Iran policy which leads to elimination of Tehran’s nuclear weapons program;
- Sustain energy projects and help European countries in diversifying their energy supplies by connecting them to the energy resources of the Caspian Sea–Central Asia region. Specifically, the U.S. should help Turkey and Europe to finalize the TANAP and Nabucco pipeline projects;¹¹

¹⁰ Stephen P. Blank, “US Should Work to Strengthen Relations with Azerbaijan,” *The Hill*, November 2, 2012, <http://thehill.com/blogs/congress-blog/foreign-policy/265427-us-should-work-to-strengthen-relations-with-azerbaijan> (accessed December 3, 2012).

¹¹ Baban and Shiryev, “The U.S. South Caucasus Strategy and Azerbaijan,” pp. 103-104.

- Develop a comprehensive interagency soft power strategy to powerfully support the Iranian opposition, including that of Iranian Azerbaijanis, and leading to a victory of democratic forces in Iran.

By its aggressive actions, Iran is endangering the fragile equilibrium in the strategically sensitive region, which is important for the U.S. interests. America should remain vigilant and deter the violence, extremism and terrorism practiced by the Islamic Republic against America's friends and allies.

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