



The EU and Iran

Relations between the EU and Iran are currently at a low point. A new raft of strict economic sanctions were imposed by the EU on July 1, 2012¹, no future talks are scheduled between Iran and the ‘Group of Six’ (China, France, Germany, Russia, the UK, and the US) on nuclear disarmament, and the EU’s High Representative has stated that the two negotiating sides are far apart in terms of their respective positions.

While the EU has, for much of the last fifteen years, taken a softer approach towards Iran than the United States, it has gradually been brought into line by the intransigence of the Iranian regime over issues of its nuclear weapons program, its activities across the region (and particularly in supporting insurgents in Iraq and Afghanistan), its continued hostilities towards Israel, and its domestic human rights position, which the EU believes has deteriorated even further since 2009. The EU has also backed the US position on Iran through the ratcheting up of the US sanctions regime and a successful pattern of exporting these measures to the EU. There are, however, large costs for the EU in pursuing a tougher stance towards Iran: a substantial number of European firms have strong export links with Iran, a number of struggling EU member governments are dependent on their supply of Iranian oil, and Iran represents the main holding point and route for Afghan refugees transiting to the EU. The Europeans face a much starker balance between their collective economic interests, the need to find a willing partner in Iran to halt the flow of irregular migrants, and the risks presented by Iranian dominance of a large part of the Middle East and their developing nuclear weapons program. This briefing paper ultimately argues that given the threats posed to Europe by the Iranian nuclear weapons program, the EU has yet to devise a policy response that is adequate to the task.

Context

The Islamic Republic of Iran has found itself in conflict with the west for much of its 33 year history. This relative position has oscillated since 1979, and has been largely dependent upon the domestic politics of Iran, which are frequently related to the balance of power between the deeply conservative institutions of state. The Council of Guardians, Assembly of Experts, and Militant Clergy Association have been engaged in a constant contest for political ascendancy against the Revolutionary Guard and the judiciary. In turn, all of these institutions are mediated by the President and the Supreme Leader, who try to make use of and constrain these institutions in different combinations. The particular state of this struggle at any given time has, to a great extent, colored Iran’s relations with the outside world.

The EU's relations with Iran have been tainted by the issue of Iran's nuclear program, domestic human rights abuses, and the sponsorship of terrorist organizations across the world. In addition to all the high level dialogue and negotiations between the EU and Iran, there have been low level contacts persisting throughout. Examples of these have included academic and student exchanges through the Erasmus Mundus program², and cooperation on refugees, migration and drugs. For the EU, Iran is both a risk and an opportunity. It represents a valuable trading partner, supplier of reliable oil, and, amongst the population at large, a sensible and sophisticated source of high-class researchers and cultural exchange. But Iran's current leadership poses great risks to the stability of the region, to southern Europe, and to the EU's key strategic partners, like Israel and the United States. As a result, the EU has gradually moved to an increasingly hawkish position of confrontation with the Iranian leadership, albeit via the medium of negotiations and sanctions.

War with Iran?

There is a high chance of military action being taken against Iran by 2013. Who might take this military action is open to some debate. Many commentators expect that Israel will opt to try and remove part of the Iranian military program via airstrikes during 2012. This action would have the effect of setting back the Iranian nuclear program before it progresses to full weapons-capability, and it is an action that is unlikely to be vigorously opposed by a US President in an election year: it would be electoral suicide to do so. There are two major difficulties in a military option against Iran. First, Iranian air defenses are state of the art Russian technology, and, therefore, there will be a high attrition rate for an airborne attack. Second, the Russian government has said that it would consider an attack on Iran as constituting a serious threat to its own security, given the proximity of Iran to Russia. This makes European involvement in any action against Iran difficult to imagine.

It is possible to argue that military action has already begun against Iran. No state has publicly confirmed involvement in the targeted assassination of four scientists connected to the Iranian nuclear program. However, these killings, which the Iranian regime has accused Israel of masterminding, have prompted a response of sorts by Iran to fund Jihadist terror training camps in Yemen, Somalia, Libya, and Egypt, a form of asymmetric war designed to destabilize western powers.

For Israel, an Iran with a nuclear device represents an existential threat (the same applies to nations like Saudi Arabia), while to America the threat is not direct, but in the form of regional instability to the Middle East, which represents a core interest to the US. For the EU, the recognition of Iran as a threat is enshrined with the coming online of the missile defense system in Southern Europe (see accompanying brief), which is aimed at downing a ballistic missile from Iran. Although a nuclear Iran represents a physical threat to the EU, and its funding of extremists represents asymmetric physical threats to key European countries, the EU has wanted to continue to deal with Iran diplomatically, rather than militarily. This is partly a reflection of structural problems with the EU's collective and individual military presences, partly the established political culture in Europe, and partly a recognition of the

desire to restore the trading links between Iran and Europe as soon as politically possible. Europe sits with a considerable risk from Iranian nuclear weapons, but lacks the willingness to respond decisively to it.

Once the Iranians have acquired nuclear capability, the debates around military interventions will dramatically change. The very real prospect that, once attacked, Iran would decisively strike against Israel with nuclear weapons provides much of the rationale for the Iranian procurement program and the West's opposition to it. There is also the question of what would provide sufficient cause for Iran to use its nuclear weapons: during the Cold War there were numerous proxy wars where American and Soviet military personnel faced each other in conflict (e.g. the Korean and Vietnam Wars), but these did not provide sufficient cause for a nuclear escalation. Given Iranian government rhetoric, we can reasonably assume a much lower threshold for action, which might include the attempt to knock out their nuclear arsenal. So, during 2012 there will be a heightened chance of action, in part to prevent the realization of the nuclear program. But as Iran is a militarily sophisticated nation, such action would not be straightforward. and the sort of regional instability that would result from an Iranian response could have a catastrophic impact on the global economy. In this regard, the EU and its diplomatic course can be viewed as a stabilizing influence on the international community's efforts to dissuade Iran from a nuclear weapons program.

Nuclear Weapons Program and the Sanctions Regime

Since the discovery of Iran's nuclear weapons program in 2003, the EU's position has been that it does not object to an energy related nuclear program but strongly objects – in line with the 1970 Non-Proliferation Treaty (NPT) – to the development of nuclear weapons. Iran is currently enriching uranium at 20% purity, which is well in excess of that required for civilian energy purposes, and not far short of the percentage required for the development of nuclear weaponry. Iran's evasion of the International Atomic Energy Agency (IAEA) also poses real problems for the EU and the international community, and should – under the NPT – be reported to the UN Security Council.

Despite the obvious recourse to the Security Council, the EU has, from the very start, made it clear that it wishes to persuade Iran not to pursue nuclear weapons via diplomacy. The UN Security Council has passed numerous resolutions attempting to restrict enrichment processes and access to missile technology, instilling confidence that this is only a civilian program.³ In line with a developing and evolving EU foreign policy, the EU has done this diplomacy at supranational as well as national levels, via key member states like the UK, France, and Germany. The tenor of the European position has been to offer the Iranian regime enhanced cooperation (in 2005, 2006, and May 2008) in developing a civilian nuclear power infrastructure that could not be weaponized. To try and sweeten this offer, the 2006 approach included the offer of economic, technical, political, and security cooperation as part of accepting assistance with the civilian nuclear weapon program.⁴ It is this mix of requiring restrictions to the nuclear weapons program while offering enhanced cooperation that is still the European approach today, albeit with the addition of a fully-fledged sanctions regime.

Sanctions Regime

The EU's sanctions regime has increasingly dovetailed into the sanctions pursued by the United States since 1996. Of these key and complementary pieces of legislation, the main examples of relevance are as follows:

The Iran-Libya Sanctions Act 1996, which became the *Iran Sanctions Act 2006* (known as the ISA). This mechanism provides for financial and practical sanctions on organizations and persons outside the US who carry on trade with Iranian energy interests. In theory, the US can obviously only penalize organizations and individuals registered in the US, but in what has become a distinctive pattern of behavior, the US has been able to deny transgressors access to US markets and capital, thus effectively extending the reach of US jurisdiction. Because the EU has been Iran's main trading partner for the last fifteen years, such extensive provisions hit European firms and the EU disproportionately hard. The ISA was extended by Executive Order 13590, issued on November 21, 2011, and brought many multinational oil companies under the provisions of the act. While three European oil interests (Total of France, ENI of Italy, and Royal Dutch Shell of the UK and Holland) were awarded an exemption from these provisions, they have since been caught by the EU's sanctions regime that came into force on July 1, 2012. The ISA 2006 was itself extended in America by the Comprehensive Iran Sanctions, Accountability and Divestment Act 2010, which compels the US Administration to investigate intelligence suggesting non-compliance and then to take action on that investigation. Effectively, this means that the US Administration cannot opt to ignore transgressions from strategic partners, which places the European governments in a position of either being with America, or against.

The Iran Freedom Support Act 2006 provides a mechanism by which the US can impose sanctions on third countries that have been found to be assisting Iran, as well as providing some non-military support for those campaigning for political change in Iran. The 2006 act is in the process of being replaced by the Iran, North Korea and Syria Sanctions Consolidation Act 2011, which specifically targets countries assisting the Iranian energy sector, and also places an obligation on the US to assist non-US countries to find alternative sources of oil to Iran. This now dovetails well with the EU's 2012 sanction regime, which is forcing EU countries to find alternatives to Iranian oil. In bringing the regimes into line, there is common ground for a transatlantic approach.

Oil Sanctions

The Iranian oil sector generates an estimated 20% of Iran's GDP (which is about €670 billion), 80% of its exports, and 70% of government revenue. Even though the Iranian oil fields are assessed as having 130 billion barrels of proven oil reserves (making them the third largest reserve in the world), they are increasingly expensive to exploit due to their maturity. This places Iran in the difficult position of having a large revenue stream potentially available to them, but also reliant upon western technology and expertise to exploit it cost effectively. But it is precisely because of Iran's reliance upon this sector that the sanctions regimes of

both the US and the EU have targeted the oil industry. The EU has placed a full embargo on Iranian oil exports from July 1, 2012, as a response to the forestalled negotiations on the Iranian nuclear weapons program in Moscow in mid-June.⁵ The EU Council concluded after the Moscow summit that it needed to place additional economic pressure on Iran, and instated a full embargo on Iranian oil, including a retrospective ban on contracts signed in 2011 and equally a ban on European insurance firms underwriting the risk of transporting Iranian oil. European insurance firms are said to underwrite the vast majority of risk involved in transporting Iranian oil, and so this particular measure is likely to cause Iranian oil interests considerable difficulties. The European Council also confirmed a new set of financial measures against Iran, and a travel ban and asset freeze against named figures within the Iranian government (who were stated to be supplying Syria with the means by which to repress legitimate opposition there) and businesses registered in Iran. Baroness Ashton (the EU's High Representative) has said that the EU and its contact group partners and Iran are extremely far apart in negotiating terms. This is partly a reflection of Iran's considerable diplomatic skill in stalling serious actions being taken against it. But it is also a reflection of the strength of Iranian air defenses (supplied largely by the Russian government, as with Syria), which means that the regime can have reasonable confidence in being able to repel any air attack made against it. That the Iranian program is also safely stored in difficult to penetrate state-of-the-art bunkers assists this view. Once the Iranian regime acquires nuclear weapons, the debate around its disarmament will radically change. Much of the talk about surgical air strikes to disable its nuclear capabilities will cease in the knowledge that Iran could then decisively move to strike against Israel (its most likely first strike target).⁶

The EU oil sanctions, originally agreed upon in January but at that time not implemented, were assessed by European officials to have been a key reason why the Iranian regime came back to the negotiating table in June. The EU's sanctions have some unintended consequences built into them for struggling European governments, some of whom have been buying Iranian oil on very favorable terms. These dependent countries include Italy, Greece (a third of whose oil comes from Iran), and Spain. But one of the important aspects of the EU sanctions, internally, is the pledge that European governments will collectively ensure supply across the whole union, and try to level off potential price increases on the wholesale market. These internal EU measures aim to mitigate the impact on struggling European governments. As such the EU is confident that no EU member will be adversely impacted by the sanctions. More widely, however, China, India, Japan, South Africa, and South Korea remain large customers for Iranian oil, although Japan and South Korea have switched the mainstay of their intake to Saudi Arabian sources during 2012.

The position of oil-hungry China remains, therefore, key to maintaining the pressure on Iran. The ever-increasing demand in China for oil products means that China has the capacity to undermine the sanctions regime through its need to secure a strong supply of reasonably priced oil to maintain its output, to satisfy middle class demand for petroleum, and also to increase its soft-power influence over Iran. These competing aims mean that it is likely that China will not – in practice - be supportive of European and American efforts to curtail the

Iranian nuclear weapons program. Such a lack of support will further advance the case for military action against Iran, but also complicate it because of a likely Chinese veto in the UN Security Council and the prospect that China might offer additional military equipment to bolster Iranian defensive capabilities.⁷

Financial Sanctions

The EU's oil sanctions are its main lever against Iran, but it has sought to use connected levers too, in terms of freezing the assets of named persons within the Iranian regime, and more generally, in March 2012, of banning access to the SWIFT electronic banking hub for all Iranian banks, representing a serious hindrance to those wishing to trade with Iran. There are also now strict impositions on European banks to report any transactions with Iran of more than €10,000; again a compliance cost on trade with Iran. Not only does this make it difficult for firms to do business with Iran, but also adds a layer of uncertainty to those European companies not involved in energy or military equipment, who do business with Iran. There is clearly a high chance of all trade with Iran being embargoed, adding an enormous risk premium to any company signing contracts with Iranian interests. This is a problem for the EU, as exports to Iran account for over €14 billion per year, and make significant contributions to the European machinery and transport divisions (commercial and consumer motor vehicles), manufactured goods, and commercial chemicals. The continued disagreements around nuclear policy fundamentally threaten this enduring trade relationship.

Conclusion

Iran represents a series of complex issues for European policy makers. Unlike their American and Israeli partners, the Europeans have been substantial trading partners with Iran for the last twenty years, and parts of Europe have a significant dependency on Iranian oil. Tough stances against Iran come with big price tags. Even so, Europe remains as committed as the US to halting the Iranian nuclear weapons program, but without being willing to commit to a course of action that threatens military action for continued non-compliance. The American sanctions regime against Iran has been formidable since 1996, and as the Iranian response has become more intransigent and the American counter-response ever tougher, the Europeans have moved gradually towards the American position. This briefing demonstrated that the convergence between the US and EU sanctions regimes is now nearly total, providing a great deal of pressure on the current Iranian regime. While there is a reasonable chance of US-Israel led military conflict with Iran in 2012 or early 2013, European powers are unlikely to be involved. This is partly due to their military weakness, but also due to their preference to allow diplomacy and sanctions run their course, and deliver what they see will be an end to the Iranian nuclear weapons program without recourse to military action: there is no evidence yet to suggest that they are right.

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¹ http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/EN/foraff/131182.pdf

² http://ec.europa.eu/education/programmes/mundus/index_en.html

³ For example, UN Security Council Resolutions N° 1696, 1737, 1747 and 1803

⁴ Elements of a Proposal to Iran (1 June 2006)

http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressdata/en/reports/90569.pdf

⁵ EU Sanctions on Iran (25 June 2012)

http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/EN/foraff/131182.pdf

⁶ Only two nations have ever voluntarily abandoned a nuclear weapons programme: Libya in 2003 (and the subsequent toppling of Gadhafi sets a bad precedent for rogue states interesting in this technology) and minority rule South Africa in the early 1990s, who were concerned about the prospect of the majority-rule ANC having access to nuclear weapons.

⁷ China and Russia are the main exporters of military equipment to Iran already.