The Iranian political elite, state and society relations, and foreign relations since the Islamic revolution
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Chapter 7
The European Union Policy towards Iran

7.1 Introduction
While chapter 6 analyzed Iran’s foreign policy towards the EU since the Islamic revolution until 2007, this chapter will look at EU policies towards Iran in the same period. It will focus on the four main issues of EU-Iran relations, namely: (1) energy; (2) trade and investment; (3) human rights; (4) the proliferation of nuclear weapons.

As has been explained in chapter 6, the EU has not yet developed a common foreign policy in general and towards Iran in particular. The different member countries sometimes have very different ideas on what should be the foreign policy of the EU, and what policy it should follow with regard to Iran.181 Most cooperation takes place on a bilateral basis and not within an EU context. That means the EU member countries pursue varying, and sometimes contradictory, interests regarding Iran. This partly explains why the four issues of EU-Iran relations to be discussed have not yet led to constructive results.

In the broadest sense, the EU does not consider economic sanctions an appropriate response to Iran, whereas the US does. The EU argues that only political dialogue could bring about a moderation of Iran’s foreign policies. For the EU, political and economic isolation of Iran would only play into the hands of the conservative and neo-conservative forces in Iran. Furthermore, the EU considers Iran an important potential source of oil and gas resources, and a regional power, playing a prominent role in the stability of the Persian Gulf area.

7.2. The Critical and Comprehensive Dialogue
The EU’s emphasis on political dialogue led to the European Council initiating the “Critical Dialogue” with Iran during the Edinburgh summit in 1992. The European Council of Ministers declared that only a policy of a constructive but “critical” dialogue could be set against Iran’s “domestic human rights abuses, its continued obstruction of the Arab-Israeli peace process, its refusal to revoke the fatwa against Salman Rushdie, and its sponsorship of international terrorism” (European Council in Edinburgh 1992).

The EU hoped that through the Critical Dialogue it could strengthen the more moder-

181. Because EU internal discussions on international agreements and treaties are not accessible by the general public for a period of 30 years, any analysis of the different approaches of EU member countries regarding relations with Iran will have to rely on public statements by policy makers, press reports, and secondary resources.
ate factions of the Iranian political elite, and pave the way for Iran to be integrated with the international community. The European Council’s conclusions at the Edinburgh summit stated:

“Given Iran’s importance in the region, the European Council reaffirms its belief that a dialogue should be maintained with the Iranian Government. This should be a critical dialogue which reflects concern about Iranian behavior and calls for improvement in a number of areas, particularly human rights, the death sentence pronounced by a fatwa of Ayatollah Khomeini against the author Salman Rushdie, which is contrary to international law, and terrorism. Improvements in these areas will be important in determining the extent to which closer relations and confidence can be developed” (The European Council 11-12 December 1992: 37).

But, as could be soon very clearly seen (and is elaborated on below) the economic part of the Critical Dialogue has turned out to be much more effective than discussions on the proliferation of nuclear weapons, the Middle East peace process, or human rights (Moshavi 2003: 294).

The Critical Dialogue came under harsh criticism by the US and Israel. From the point of view of the US government, the Critical Dialogue was not a serious policy strategy and would be unable to bring about any significant changes in the behavior of Iran. At the same time, it undermined the US efforts on sanctions and gave European firms a competitive advantage over their American counterparts (Indyk 1993: 7). A senior US official said:

“critical dialogue means that the Europeans and the Iranians get together, and criticize the Americans” (cited in Timmerman 10 June 1996)

At the same time, the US imposed sanctions on Iran through the ILSA (see chapter 5.4.3), prohibiting not only US but also non-US companies from investing in the Iranian oil and gas sector. The EU threatened that, if Washington would put the ILSA in effect, they would lodge a complaint against the US with the World Trade Organization (WTO).182 The objection of the EU to the ILSA could be noted through various comments made both by EU officials and semi-officials during international meetings. During a visit to Tehran, the French Foreign Ministry Director General for the Middle East and North Africa, Jean-Claude Cousseran, assured the Iranian government of

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182. In November 1997 the EU handed in a formal complaint on the US law at the WTO, based on two grounds: first, the law runs counter to the principle of free trade on which the WTO is built; and second, any punitive action under it would be a violation of international law. The two parties agreed during a meeting in London in May 1998, that the EU would continue its support for the US on combating international terrorism and the US would grant a presidential waiver to Total, as well as to other European oil companies that intended investing in the Iranian oil and gas industry. As Tarock notes (1999: 50-51) in the history of the IRI this was truly the strongest position the EU had taken in favour of the IRI against the US.
support for the country becoming one of its major diplomatic and trading partners:

“France is opposed to the idea of isolating the Islamic Republic and desires to see Iran emerge as one of its major associates within the framework of its foreign policy” (Kayhan Havai 12 February 1997: 24).

The French Prime Minister, Lionel Jospin, commented about the US reaction of initiating countermeasures against the Total – NIOC deal (see chapter 6.3) as follows:

“No one accepts the idea that the Americans can make laws that apply to a global scale;”

and that


The German Economic Minister, Günter Rexrodt, stated, that the US threat of

“impo[sing] extraterritorial sanctions against European companies investing in these countries [Iran and Libya] is the wrong path” (The Guardian Weekly 11 August 1996).

Sir Leon Britain, the EU trade chief, declared:

“The Americans are entitled to disagree with us [on trading with Iran]. What they are not entitled to do is to impose [on us] their will.”

All EU Foreign ministers, he said, supported his stance at a meeting in Luxembourg in September 1997 (Associated Press 6 October 1997). The EU member countries’ reactions to the sanctions are another sign of the different approach followed by the EU, to that of the US, regarding Iran.

With the Treaty of Amsterdam agreed upon in 1997, and ratified in 1998, the role of the European Commission in EU policy formulation was strengthened at the expense of the national governments. In general, the Commission favored dialogue with Iran, but it noted also that the EU’s member countries would remain the final decision-makers on how to proceed with Iran. And this was not so easy.

While Germany and Britain wanted to continue cautiously, France and Italy pushed for a more rapid normalization of relations (Financial Times 24 February 1998). Germany and the Netherlands urged that any agreement reached with Tehran should be in accordance with improvements of the Iranian human rights record. Britain supported this view but, additionally to that, demanded to include issues such as terrorism and nuclear weapons. This debate resulted in two important changes in the EU policy towards Iran:
(1) The contingency of expansion of economic ties with progress on the political front;
(2) Making the problem around the proliferation of nuclear weapons a top priority on the EU’s Iran agenda.

These goals resulted, in 1998, in the so-called “Comprehensive Dialogue” replacing the Critical Dialogue. The distinction between the Comprehensive and the Critical Dialogue is a more structured and institutionalized dialogue on two levels:
(1) A coverage of a wider range of issues at the global level (e.g. WMD proliferation and terrorism); at the regional level (e.g. Iraq and the Middle East Peace Process); and at the bilateral level (e.g. drugs and refugees);
(2) The creation of EU-Iran Technical Working Groups to coordinate cooperation in different sectors: the Working Group on Energy; the Experts Meeting on Drugs; the Experts Meeting of Refugees; the Working Group on Trade and Investment; and the Iran-European Union Energy Policy Dialogue (Calabrese 2004: 4; EU Commission 2001: 71).

In the following section the second of these levels will be discussed.

7.3 Iran-European Union Energy Policy Dialogue

The oil industry has been Iran’s main source of income for the last century. In 1901 the Englishman and entrepreneur William Knox D’Arcy received a 60 year concession from the Persian Shah Muzafar ed-Din to search for oil in Iran. In 1908, he found oil and set up the Anglo-Persian Oil Company (APOC) (Karbassian 2000: 629; Fateh 1979: 250-259). Due to the change from coal to oil of British ships, and because of British strategic interests in oil, the British government bought majority interests in the APOC. Thus, Britain gained direct control of APOC (Fateh 1979: 262-265). When Persia was renamed Iran, in 1936, the APOC became the Anglo-Iranian Oil Company (AIOC), today known as British Petroleum (BP). The Iranian oil industry was nationalized in 1952 by Prime Minister Mosaddeq and received the name National Iranian Oil Company (NIOC) (Karshenas, M. Oil, State, and Industrialization in Iran, (Cambridge: Cambridge University Press, 1990); Fesharaki, F. Development of the Iranian Oil Industry: International and Domestic Aspects, (New York: Praeger, 1976)). When Mosaddeq was overthrown by a coup with the help of the US and Britain. Before the nationalization of the oil industry about half of the AIOC had been owned by Britain. After the coup, between 1954 and 1979, the Iranian oil industry was operated in conjunction with a consortium of international oil companies (Karshenas, M. Oil, State, and Industrialization in Iran, (Cambridge: Cambridge University Press, 1990); Fesharaki, F. Development of the Iranian Oil Industry: International and Domestic Aspects, (New York: Praeger, 1976)). The profit share of this consortium was 75 percent to...
25 percent to the advantage of Iran. Additionally, the international oil companies had to pay the exploration costs. Thus, the former profit share system of 50/50 percent was abolished (Alam 1993: 107). After negotiations with the oil consortium the agreement of 1954 was changed on 20 March 1973, giving Iran control of its own oil industry. That means, according to the new agreement, the Iranian political elite controlled production, marketing, and set the price of oil. The change of the earlier agreement of 1954 in favor of Iran was made possible through the collective agitation of the Organization of Petroleum Exporting Countries (OPEC), which had been established in 1960 by Iran, among others (Amineh 1999: 240).

As has been discussed in chapter 3.2.1, after the Islamic revolution the international oil consortium that had been established by Mohammad Reza Shah was abolished and all its tasks were transferred to NIOC. Also, all joint-venture oil companies were handed over to NIOC. NIOC came under the supervision of the Ministry of Oil, which was set up in 1979.

The security of energy supply is of interest to all major players in the international political scene. 186 It was identified as such by US national security planners in the 1970s (Armitage 2002: 4-7), and in recent years has made a spectacular return to the international political agenda. Major energy consuming countries and regions, especially the US and the EU, but also fast growing countries like China and India, as has been elaborated on in chapter 5.5.2, are concerned about the future of security of energy supply (Andrews-Speed, Liao, Dannreuther 2002).

The EU Green Papers (2001 and 2006) on security of supply express the concerns that the oil and gas supply in the near future will depend on a limited number of oil and gas producing countries, and that import dependence requires an improvement of economic relations with key producer countries. The EU member countries (EU 25) together have about 0.6 percent of the world’s proven oil reserves, 2.0 percent of natural gas reserves, 4.0 percent of proven coal reserves, and 18.0 percent of electric generating capacity. The EU is a net importer of energy (Energy Information Administration January 2006). According to the European Union Energy Outlook to 2020 (1999), by 2020 the EU will import two-thirds of its energy consumption, most of which will be imported from Russia, Norway, Africa, and the Middle East. Oil accounts for 40 percent of the total EU energy consumption, gas for 24 percent. The consumption of gas has been increasing at the expense of coal. The share of coal consumption declined between 1991 and 2003 from 20 percent to 13 percent (Energy Information Administration January 2006). The World Energy Outlook 2005 of the International Energy

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Agency states that gas and renewables will increase their share in the energy mix, at the expense of nuclear power, coal and oil. Between 2003 and 2030, the share of gas in the EU’s energy consumption will rise from 23 percent to 32 percent. In 2003, 6.5 percent of the energy consumed was renewables (table 7.1). By 2030, this amount will have risen to 12 percent. The share of oil in the energy mix in the same period will decline from 38 percent to 36 percent, of coal from 18 to 13 percent, and of nuclear energy from 15 to 7 percent (IEA 2005).

### Table 7.1 Share of Energy Sources in European Union Consumption, in percent, 2003-2030

<table>
<thead>
<tr>
<th>Energy source</th>
<th>2003</th>
<th>2030</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oil</td>
<td>38</td>
<td>36</td>
</tr>
<tr>
<td>Gas</td>
<td>23</td>
<td>32</td>
</tr>
<tr>
<td>Coal</td>
<td>18</td>
<td>13</td>
</tr>
<tr>
<td>Renewables</td>
<td>6.5</td>
<td>12</td>
</tr>
</tbody>
</table>


Iran is not yet a major energy supplier to the EU. Although Iran stands fourth among the main oil exporters in the world, and oil accounts for about 80 percent of the country’s exports, oil imports from Iran account for only 5 percent of the EU’s consumption (Moradi January 2006). However, it has to be expected that Iran will become one of Europe’s most important sources of energy and transit country as, in addition to its huge oil and gas resources, it is the shortest and most economical transit link between the oil rich Caspian Sea region and Europe (Amineh 2003).

In May 1999, a Working Group on Energy was established between Iran and the EU in Tehran. The Working Group meets once a year either in Tehran or in Brussels. Iran also became an observer of the Commission-funded INOGATE187 (Inter-state Oil and Gas Transport to Europe) with the possibility of becoming a full member. For Iran, due to the sanctions imposed by the US, Europe is the second best option to deliver FDI, modern technology, and know-how to Iran. Since the revolution, Iran’s oil and gas industry has suffered heavily from underinvestment. Despite the sanctions laid upon Iran by the US, Iran and European countries have concluded several oil contracts in the last years. The main buyback contracts with European oil firms include:

1. The Cheshmeh-Khosh field awarded to Spain’s Cepsa for $300 million. In January 2004, it was re-awarded to state-owned Central Iranian Oil Fields Company (CIOFC). Cepsa withdrew from negotiations in December 2003 when no agreement could be reached on development costs and buyback terms. But, Cepsa could still be involved in the project in some way;

187. For more information on the INOGATE Program see its website http://ww.inogate.org
(2) A 1 billion dollars, 5 1/2-year buyback contract, signed by ENI in late June 2001, to develop the Darkhovin field; TotalFinaElf, Shell, Eni and BP are bidding to develop the Ab Teymour field.

(3) A contract of 2001 with the Italian AJIB (an affiliate of ANI) to develop the Darkhoen oil field, with a total investment of 540 million dollars and a buyback of 920 million dollars;

(4) The 2000 contract with a consortium consisting of AJIB and the Iranian Petropars to develop phases 4 and 5 of South Pars gas field worth 2 billion dollars. The total buyback is 3.8 billion dollars;

(5) A buyback contract to develop the offshore Balal field, signed in April 1999, between Iran and Elf. The field was turned back over to NIOC in January 2003 after the field had reached its contract designated level of 40,000 bbl/d;

(6) The March 1999 contract with a consortium of French Elf Aquitaine and AJIB, with a total investment of 540 million dollars and a buyback of 1 billion dollars;

(7) A US$2 billion deal between Total and NIOC to explore the South Pars gas field on 29 September 1997. NIOC estimates that South Pars has a gas production potential of up to 8 billion cubic feet per day (Bcf/d);

(8) The 1995 contract between French Total and the NIOC to develop the Sirri A and E oil fields. It has an estimated investment of 610 dollars with a buyback of 500 million dollars;

(9) The 1991 contract with Shell to develop Soroush and Norouz oil fields with a total investment of 799 million dollars and a buyback of 1.6 billion dollars (Hasan-Beygi 2002; EIA August 2006; EIA February 2000).

The Working Group on Energy held its third meeting on 19 October 2002 in Tehran. It followed two earlier meetings, on 18-19 May 1999 and on 28 March 2001, held in Tehran and in Brussels respectively. Director General of Energy and Transport in European Commission, Francois Lamoureux, said the committee meeting was important to strengthen ties between Iran and the EU:

"[T]he EU is ready to cooperate in transfer of technical knowledge to Iran in various areas, notably the renewable energy resources, more efficient fuel consumption and in transportation sector."188

During the meeting, the EU and Iran signed two Memoranda of Understanding on energy affairs, one of which was on the third joint session of the Iran-EU expert committee and the possibilities of expanding bilateral ties. The other agreement concerned the creation of an Energy Cooperation Center (ECC). The ECC was opened on 21 October 2002. The EU pays Euro 1.7 million to finance the center’s budget. The ECC

has several objectives: to investigate the possibilities for further energy cooperation; to exchange ideas on experiences with non-nuclear energy technologies; training; the identification of priority projects; and technical assistance for introducing non-nuclear technologies in Iran. The ECC has a staff of 20 people. It is co-managed by the European Commission and Iran.189

Further meetings of the EU-Iran Working Group on Energy and Transport were suspended because of Iran’s nuclear program. The talks were reopened again in December 2005 when the Working Group held its fourth meeting in Brussels. During the meeting the Iranian Deputy Oil Minister for International Affairs, Mohammad Hadi Nejad-Hosseinian, met Ria Kemper, Secretary General of the Energy Charter Secretariat (ECS)190, to discuss developments in the energy sector in the Eurasian region. Kemper stressed that the ECS favors greater energy cooperation with Iran and that it promotes the full membership of Iran to the ECS. Currently Iran has only observer status (IRIB 26 December 2005).

The planned Nabucco pipeline is a more recent indication of strengthening energy ties between the EU and Iran. If construction of the pipeline begins in 2008 the Nabucco pipeline191 could start operating in 2011, transporting gas from the Caspian region, Iran, Iraq, and Egypt via Turkey, Bulgaria, Rumania, and Hungary to Austria. By 2020, the pipeline could transport 25.5 to 31 billion cubic meters of Caspian gas to Europe annually. The Nabucco pipeline should lower EU dependence on Russian gas. However, momentarily the future of the pipeline is no longer clear, since Russia has signed agreements with Turkmenistan and Kazakhstan on the transportation of their gas. Furthermore, Iraq’s future remains very unclear. This puts into question whether Iraq could be considered a major supplier, and whether it could deliver gas through the Nabucco pipeline. The five shareholders of the Nabucco pipeline project are OMV (Austria), MOL (Hungary), Transgaz (Romania), BOTAS (Turkey), Gaz de France and Total (France), and E.ON Ruhrgas (Germany) and RWE (Germany). It is also possible that Russia’s Gazprom will be asked to join the Nabucco project.192

On 14 July 2007 Turkey and Iran signed a Memorandum of Understanding (MoU), in Ankara, on the export of Iranian gas via Turkey to Europe and Turkmen gas to Europe via Iran. There was also an agreement on the development of the South Pars gas field on a buyback basis. The deal could take the Turkmen gas card out of Russian

190. The Brussels-based ECS is an international forum for energy cooperation, in which 51 European and Asian governments participate. The Energy Charter Treaty was signed in December 1994. Its aim is to strengthen the rule of law with regard to energy issues to reduce the risks of energy investment and trade. See for more information the website http://www.encharter.org.
191. For more information on the Nabucco pipeline see http://www.nabucco-pipeline.com
hands as it came shortly after Russia signed several agreements with countries in CEA
and the Italian oil company ENI, to prevent Turkey becoming the main gateway for oil
and gas exports to Europe. Russia’s energy agreements with CEA countries are a seri-
ous threat to EU and Turkish aspirations of reducing their reliance on Russian gas. In
the meantime, it remains to be seen how the US will react to the deal between Iran and
Turkey, the latter of the two is considered a close ally in the region. The US thinks that
Turkey should follow its sanctions on Iran. While Turkish rapprochement with Iran ir-
ritates the US, says Cenk Pala, Director General of Strategic Relations of state-owned
Turkish Pipeline Company (BOTA), Turkey also demands that Washington speed up
Iraqi gas transportation via Turkey to Europe (Today’s Zaman 16 July 2007).

Iran remains an interesting source for diversification. Therefore a moderate tone
towards Iran, and more constructive efforts, could benefit the EU in establishing a
greater economic presence in Iran, or connect its resources to the Baku-Tblisi-Ceyhan
pipeline, and perhaps the Nabucco pipeline. The EU could get its own gas contract
with Iran, although this could be contrary to Russia’s economic and geopolitical inter-
ests in Europe (Umbach 2006).

7.4 Iran-European Union Working Group on Trade and Investment
Before the Iranian Islamic revolution, FDI in Iran was successfully encouraged. Foreign
investments mainly took place in the form of joint ventures. According to a law passed in
1954, all foreign investment was guaranteed and protected. This law encouraged many
foreign firms, in almost every economic field, to invest in Iran. In 1966 an automobile
industry was set-up. The introduction of the assembly line had critics in Iran, especially
among pro-communist forces, who argued that it was not indigenous and created eco-
nomic dependency on foreign suppliers. To appease the communist forces in Iran a steel
mill was constructed in Isfahan, with the help of the Soviet Union. The majority of firms
that invested in Iran, however, were American (Karbassian 2000: 630).

Before the revolution, Iran had good economic and diplomatic relations on a bilateral
basis with EU member countries. But there were only minor economic contracts with
Iran at the EU level. In 1963, Iran and the EU signed the first trade agreement. This
trade agreement was extended twice, in 1972 and 1978, but was abolished after the
Iranian Islamic revolution (Posch May 2006: 99-100), while bilateral economic rela-
tions continued, especially between Iran and Germany, and Iran and Italy (see chapter
3.2.2). Since the ILSA, the economic vacuum in Iran left by the US has been filled by
European companies. According to an EU Commission Report, the EU is Iran’s main
trading partner, in terms of both imports and exports. In 2004, the EU accounted for
44 percent of total imports to Iran. Among EU member countries Italy, Germany, and
France are Iran’s first, second, and third main trading partners respectively. The three
EU member countries alone account for about 65 percent of Iran’s total trade with the
EU (EUROSTAT 2006, 2005). Iran is the country with the greatest export guarantees
for Germany, totaling Euro 5.5 billion, followed by Italy, Euro 4.5 billion, and France,
Euro 1 billion.193

With the election of Mohammad Khatami as president, in 1997, negotiations on trade relations between Iran and the EU were started. In 2001, the European Council requested that the European Commission prepare a framework for a Trade and Cooperation Agreement (TCA) between the EU and Iran (Posch 2006: 100; Quille & Keane 2004; European Council Conclusions 14 May 2001). The EU Commission received a mandate for such an agreement at the Luxembourg Council on 17 June 2002 (European Council Conclusions 17 June 2002). This mandate was linked to a political dialogue on issues such as human rights, WMD, and counter-terrorism. Institutionally, from the EU side, the negotiations over a TCA were led by the Commission, while those on a Political Dialogue Agreement (PDA) were led by the EU presidency, with both negotiations influencing one another (Figel 12 October 2005). The EU made clear, several times that the TCA and the PDA were inseparably linked:

“The Council recalled that in deciding to open these [i.e. TCA] negotiations it expected that deepening of economic and commercial relations between the EU and Iran should be matched by similar progress in all other aspects of the EU’s relations with Iran. It identified in particular the need for significant positive developments on human rights, non-proliferation, terrorism and the Middle East Peace Process.”194

In the context of the Comprehensive Dialogue, the EU member countries disputed whether the time was right to conclude a TCA. Nine countries (Spain, Belgium, Italy, Greece, Austria, Finland, Sweden, Ireland, and France) favored a trade agreement under EU competence, which would be subjected to ratification by the European Parliament. The Netherlands, Germany, Britain, Portugal, and Luxembourg preferred an agreement, which combined both economic and political issues, and needed ratification both by the European and national parliaments (See Financial Times 13 May 2002; Agence France Presse 13 May 2002; EUObserver.com 15 May 2002).

These two approaches are a reflection of different interests, power disparities, and disagreement on what tactic to follow with regard to Iran. Economic interests play a role here but are not the driving force behind a certain standpoint. For example, while Italy195 and France – Iran’s first and third largest trading partners respectively – fa-

194: On this conclusion see the General Affairs and External Relations homepage at http://europe.eu.int/comm/external_relations/iran/introgac.htm
195: In a hearing on the situation in Iran before the Foreign Affairs Committee of the Chamber of Deputies on 28 January 2004 the Italian Minister of Foreign Affairs Franco Frattini stated the following: “I can briefly say that there is great demand for ‘Italy,’ for the confirmation and strengthening of new trade partnerships between Italy and Iran. Highly prestigious sectors such as infrastructure and entrepreneurial development were already the object yesterday of a demand for ‘Italy’ to which we obviously will have to respond,” http://www.iranwatch.org.
vored the first approach (a trade agreement under EU competence and subject to ratification by the European Parliament), Germany (Iran’s second greatest trading partner) and Britain (that had increased exports to Iran) both supported the second approach (an agreement combining both economic and political issues, that needed ratification both by the European and national parliaments), arguing that the EU should negotiate with caution. Other aspects, that probably were important, were the impact a success or failure to conclude an agreement with Iran would have on the development of a common EU foreign policy, as well as the question of the extension of competences within the EU (Calabrese 21 July 2004). The question whether the EU Commission or the European Council will be at the heart of a common EU foreign policy could lead to two very different outcomes:

(1) A Europeanization of foreign policy;
(2) An ad hoc and re-active approach to foreign policy.

In a report to the Council of Ministers of 8 February 2001, the European Commission notes on the EU’s interests in economic cooperation with Iran:

“the European Union has political as well as economic reasons in its expansion of ties with Iran. Iran is a major source of oil and gas in a strategic area, in addition to having considerable interests in the neighboring regions such as Central Asia. Iran can be a prospective regional economic partner with considerable potentials and can present major trade and investment opportunities.”

At the Luxembourg Summit, in June 2002, the EU decided in favor of the second option, the agreement that combined both economic and political issues, and also needed ratification both by the European and national parliaments. Since then, European officials have declared that they will treat political and economic issues, for practical reasons, separately, but have emphasized that nevertheless both are integrally linked. As has been said by the EU External Affairs Commissioner, Chris Patten, in February 2004 in the European Parliament:

“The Iranians know perfectly well that all those issues – political, nuclear, trade and human rights-are umbilical linked. We cannot simply ignore problems in one area and think that we can move forward rapidly in all others.”

The EU policy shift to “cross-pillar coherence” was also favored by the US (Calabrese 2004: 5). The first round of talks on the TCA was held in Brussels on 12 December 2002 (EU Presidency and Commission 12 December 2002).

The EU argued in one of its internal papers in favor of a TCA:

The conclusion of an economic and trade agreement would be among the alternatives for the expansion and consolidation of ties with the EU. This will remove a whole host of obstacles and limitations in the way of trading with the EU, as well as create new economic and trade opportunities for the Union. Thus the issue of bilateral economic ties within the context of a Trade and Cooperation Agreement referred to in the ratifications of the Council of Ministers in May 2002, is a highly significant matter that could turn out to be a major leap forward in the area of bilateral relations” (EU-Presidency and Commission 12 December 2002).

The talks on a TCA between the EU and Iran were suspended in July 2003 due to Iran’s nuclear program. They resumed in January 2005 as a result of the Paris Agreement (chapter 7.5). The eighth round of negotiations was held on 12-13 July 2005, but was suspended again because of the nuclear issue. Several EU countries declare that the nuclear issue is a risk to trading with Iran (Katzman 2007: 42).

Other obstacles to greater economic cooperation, in terms of trade and investment between Iran and the EU, have to do with Iran’s domestic investment environment, such as: a lack of, or unclear, regulations in Iran; lack of transparency in laws and regulations; an unclear tax system; an insecure investment climate; the treatment of non-native personnel of foreign firms; granting of import permits to foreign importers; and repatriation of investment profits (European Commission 7 February 2001). The fact that EU member countries have not yet found a common ground on how to deal with Iran complicates the expansion and intensification of relations with Iran.

7.5 Iran-European Union Human Rights Dialogue

The Iran-European Human Rights Dialogue was initiated in 2002 with no preconditions and stating “that each party could choose to terminate the dialogue at any time”. Starting on 21 October 2002, the human rights situation in Iran remained on the agenda of following EU Council meetings (for example those of 18 March 2003, 21 July 2003, 13 October 2003, 11 October 2004, and 12 December 2005). The EU presidency and High Representative have commented on the Islamic Republic’s human rights situation on various instances e.g. in the case of the Iranian-born Canadian journalist Zahra Kazemi (who died in prison on 11 July 2003 under un-clarified circumstances) or calling for the permanent release of Akbar Ganji (released from prison on 18 March 2006), and his lawyer Abdolfattah Soltani.197

Until now (December 2007), four rounds of the Human Rights Dialogue have been held, the most recent in June 2004. So far the results have been rather disappointing. Despite a visit of the EU-3 (Britain, France, and Germany) to Tehran on 14-15 June 2004 and proposals by the EU for a fifth round of negotiations, until now the Iranian

government has not agreed on another round of the Dialogue (Council of the European Union 20 December 2005). In its conclusions of 7 November 2005, the European Council showed its disappointment that the Human Rights Dialogue with Iran had come to a halt:

“The Council expresses its deep concern at the serious violations of human rights which continue to occur in Iran. It urges Iran to strengthen respect for human rights and the rule of law. The Council is disappointed that the EU-Iran Human Rights Dialogue has not been held since June 2004, despite repeated attempts on the EU’s part to agree dates for the next round. The Council urges Iran to take steps to resume substantive discussions under the Dialogue and to demonstrate by its actions that it is willing to improve respect for human rights including by fulfilling its obligations and earlier commitments in relation to juvenile executions and by permanently releasing Akbar Ganji and other prisoners of conscience” (Council of the European Union 7 November 2005: 14).

Although the Iranian government did not like the direct criticism of the EU on the human rights situation in Iran, the country has not explicitly withdrawn from the dialogue process. While statements by US authorities would never be accepted by Iran, the EU approach could make at least some impact. Other countries, which cooperate with Iran, such as China, Russia, and other Muslim or developing countries only very rarely, if at all, criticize the human rights situation in Iran (Posch May 2006: 102).

In an internal document the EU describes the human rights situation in Iran, since the election of Ahmadinejad as president, as alarming. Because the Iranian government does not show any intention to continue meetings on the human rights issue with the EU, the EU has now rethought its strategy, namely to engage with the people rather than with the government, and to directly assist human rights activists. It also considers engaging in issues such as drugs, environment, health, and rescue services, which are less politically sensitive, but can help to build-up civil society. The appearance of European political figures on Iranian radio, television, and Internet could be a step in that direction. Some countries in Europe are already active in this field. The EU could also carry out media training programs. Additionally, Iran has been included in the EU’s Erasmus Mundus program to strengthen academic exchange between EU member countries and Iran (published in Dombey 13 February 2007).

7.6 The Proliferation of Nuclear Weapons

The parliamentary elections in Iran in 2000, and Khatami’s re-election as president in 2001, encouraged the EU to establish closer links with the IRI. In 2003, various European Council Conclusions addressed the nuclear issue (for instance Council Con-
clusions of 16 June 2003, 21 July 2003 and 3 September 2003). Whilst, in the early years of the new millennium, the EU became more confident regarding political reform in Iran, it also became more concerned about WMD proliferation and ballistic missile development.

The introduction of the US National Security Strategy in 2002, and the Bush Doctrine of 2003, definitely played an important role in the latter. Furthermore, the war in Iraq, besides other factors such as energy security, presented a challenge to the EU in developing a common security strategy that would be aware of the nuclear threat and present measures to respond to it, yet would not drive a deeper rift between the EU and the US. At the same time, the war in Iraq and the nuclear issue in Iran presented an opportunity for Britain, France, and Germany to strengthen their position within the EU, both individually and collectively (Calabrese 21 July 2004). The nuclear issue in Iran is, thus, not only important with regard to the NPT but also, in a broader sense, it is a test case for EU-US relations and intra-European politics (Calabrese 21 July 2004).

WMD also became the top priority on the European security agenda due to other factors, the most important of which being the expansion of Europe towards the East. With its enlargement, the EU is drawn much closer to the Gulf region and, thus, to Iran. The European Security Strategy approved in Thessaloniki, Greece, on 12 December 2003, is fully aware of this development, stating that:

“[t]he integration of acceding states increases our security but also brings the EU closer to troubled areas” (Council of Europe 12 December 2003).

The European Security Strategy laid the groundwork for the EU’s new strategic concept, identifying three major threats to European security: international terrorism; WMD proliferation; and failed states (Council of the European Union 12 December 2003). Though sounding similar to the US National Security Strategy of 2002, the European Security Strategy is somewhat different, stressing that the reactions to the threats identified should not be limited to military force but should also include political, economic, and civil means. The EU clearly objects to a “preventive strike” and supports the spread of “good governance” rather than “regime change.” Though preferring diplomatic negotiations, it also considers the use of force necessary in specific circumstances. Taking into account the enlargement of the EU towards the East, the proliferation of WMD, in general, and the WMD issue in Iran, in particular, is an important aspect of the European Security Strategy (Haine 2004: 71-72). From 2003, the EU policy on Iran developed parallel to the EU strategy for dealing with WMD proliferation (Council of Europe June 2003 and December 2003). The WMD strategy was developed as a response to the EU divisions regarding the war in Iraq in 2003. It aimed

199. See the European Council Conclusions at http://www.eu.int/comm/external_relations/iran/intro/index.htm
at developing a joint EU approach to dealing with the proliferation of WMD. Important aspects of the strategy that are relevant to the Iran WMD crisis are:

1. The emphasis on political and diplomatic preventive measures to counter the proliferation of WMD;
2. Only turning to coercive measures if political and diplomatic measures have been exhausted, and only if they are in accordance with chapter VII of the UN Charter and international law;
3. A multilateral approach to implement and universalize existing disarmament and non-proliferation norms;
4. Address the WMD problem by addressing the demand side and find political solutions to the question of why a certain country seeks to develop nuclear capabilities.

Despite the differences in methodology and the recent controversies over the war in Iraq, the US and the EU have common concerns about Iran’s nuclear ambitions, and both consider it necessary to prevent Tehran from acquiring nuclear weapons. They agree that only together they can address the Iranian challenge. Thus, the EU and the US have the same opinion on the full implementation of the Additional Protocol (AP) to the Non-Proliferation Treaty (NPT), which Iran signed in December 2003, and that Iran has to respond to all questions raised by the International Atomic Energy Agency (IAEA) regarding its nuclear activities. It is interesting to note that, while the US acted unilaterally in Iraq, it seems to be choosing the multilateral road in Iran. However, more recently, a unilateral military attack by the US on Iran has again become a possibility. Since signing the AP, Iran has come under pressure to explain why it has not informed the IAEA on its uranium enrichment and plutonium separation (the two ways to produce nuclear weapons). Therefore, the US and the EU believe that Iran is developing a nuclear weapons capability. Both Conservative and Reformist members of the Iranian political elite have stressed repeatedly that the country’s nuclear ambitions are only civilian in nature (Bowen and Kidd 2004: 257; Fitzpatrick 2006).

In February 2003, IAEA Director General, Mohammed El Baradei, and other IAEA experts visited a nuclear fuel production plant and research laboratory at Natanz (north of Isfahan, in central Iran), and a heavy-water production plant at Arak (southwest of Tehran, in northern Iran). The inspections followed public claims on 14 August 2002 by, Alireza Jafarzadeh, spokesman of the National Council of Resistance of the Mujahedin-e Khalq Organization, that Iran had clandestine nuclear facilities in Natanz and Arak (Rakel 2008 forthcoming). The conclusion of this visit was that Iran had failed to report on its nuclear activities, which it is obliged to do under the NPT (Kutchesfahani 2006: 9). The EU reacted immediately. Shortly after el-Baradei’s visit to Iran, the

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200. The AP requires Iran to inform the IAEA in detail about its nuclear activities and grant it greater access to nuclear sites to verify that the country is a non-nuclear-weapon state under the NPT.
Swedish Minister of Foreign Affairs, Anna Lindh, proposed the establishment of a new EU non-proliferation policy in the EU General Affairs and External Relations Council (GAERC). This proposal was later followed by the European Security Strategy. While some believe that this proposal was related to the conflict in Iraq, particularly EU internal divisions regarding it, and the lack of an alternative EU strategy to the US policy, it is clear that the nuclear programs in Iran and North Korea also played an important role (Portela 2003; Sauer 2004; Denza 2005; Milagros 2006).

The IAEA Board also asked Iran to sign the Additional Protocol. In August 2003, Iran admitted having received technological support from abroad. The IAEA Board Resolution of 12 September 2003 set an ultimatum to Iran. Iran had to provide full information about its nuclear program before the end of October 2003. In the same month Javier Solana visited Tehran. He warned the Iranian government that if it failed to meet the IAEA demands, this could have negative effects on EU-Iran relations (EU Council Conclusions 21 July 2003). Solana stated:

“Minister Kharrazi and I discussed the nuclear program in some detail. This is an issue of increasing concern for us. The report presented recently by the Director General of the IAEA, Dr. El Baradei, raises a number of serious questions. It is important that Iran urgently clarifies those outstanding questions. Full cooperation and transparency with the IAEA are fundamental, now and in the future. Confidence is key. That is why we welcome the engagement made by the Iranian authorities to commence discussions on an additional protocol to tighten the inspection mechanism. As I mentioned already a year ago, the signature and implementation of such a protocol would be a crucial factor in creating that confidence. We expect to see rapid progress in the discussions with the IAEA. Only by taking such steps we will be able to avoid unwelcome effects on EU-Iran relations.”

In October 2003, the British, French, and German Foreign Ministers (Jack Straw, Dominique de Villepin, and Joschka Fischer) [EU-3] were invited to Tehran to discuss Iran’s nuclear program. The three foreign ministers and the chief Iranian negotiator, Hassan Rowhani (then also Secretary of the Iranian SNSC), agreed that Iran would fully cooperate with the IAEA, and that it would suspend all uranium enrichment and reprocessing activities voluntarily. In return, the foreign ministers promised to do everything to prevent the case being transferred to the UN Security Council, and to recognize Iran’s right to use nuclear energy for peaceful means in accordance with the NPT. They also declared their readiness to cooperate with Iran to promote security and stability in the Middle East, establish a regional nuclear-weapons-free zone, and provide Iran access to modern technology (Iran Ministry of Foreign Affairs, 21 October 2003).

But, EU member countries were divided on how to proceed with Iran, such as on what the EU should offer Iran in a “nuclear bargain.” For example, Ireland opposed providing assistance to Iran’s civilian nuclear sector. The divisions among EU member countries delayed the development of a compromise policy that was started in August 2003, for almost three months until November of the same year. Disagreements within the EU remained on the question of whether the nuclear issue should be part and parcel of all agreements with Iran (Calabrese 21 July 2004).

After lengthy and difficult negotiations, Iran and the EU signed the Paris Agreement on 14 November 2004. The agreement spoke of a solution that would provide objective guarantees that Iran’s nuclear program would be exclusively for peaceful purposes. In exchange, Iran was to be provided with “firm” guarantees on nuclear, technological, and economic co-operation and “firm” commitments on security issues.

“We want a durable, cooperative and long-term partnership with Iran. This agreement opens the way. Potentially it is the start of a new chapter in our relations,”

Solana said in a statement from Brussels (Haeri 15 November 2004).

In May 2005, the US agreed to lift its veto on Iran’s membership to the WTO, after the WTO had formally supported Iran’s membership. Preconditions of this are continuing talks between Iran and the EU on Iran’s nuclear program. When the US confirmed it would lift its veto, Tehran agreed to stop its nuclear enrichment program until August 2005, when the EU-3 would come up with new suggestions on how to settle the dispute (Dombey 26 May 2005).

The presidential elections in Iran in June 2005 had a major influence on the negotiations. Both the EU and the US had hoped that Rafsanjani would become president and follow a moderate policy on the nuclear issue. But, it was Ahmadinejad who was elected.

203. In a statement at the 47th session of the IAEA General Conference on 15-19 September 2003 the Ambassador of Ireland Ronan Murphy said on Ireland’s general position on the NPT: “For Ireland the core of the NPT is the relationship between nuclear non-proliferation and nuclear disarmament. Ireland sees these concepts as mutually reinforcing and looks to the five Nuclear Weapon States to lead by example [...] [T]he policy of Ireland in relation to Nuclear Energy and reprocessing is clear and unambiguous. This policy is shaped by the belief that Nuclear Energy and its associated activities pose a particular risk to public health and the environment. For these reasons we do not consider that nuclear energy provides a sustainable energy source [...] While the Agency [IAEA] recognizes the transboundary and international risks posed by the nuclear industry, Ireland believes that this dimension and the issues arising from it between nuclear and non-nuclear countries (particularly neighbouring countries) do not always find a ready appreciation among nuclear countries. The reality is that the adoption of the nuclear option in one country creates a threat or risk to the population of a neighbouring country [...] whether they emanate from accidents, incidents, discharges, or malicious attack.”


206. Iran has been candidate for WTO membership since 1996.
In August 2005, the Europeans repeated the earlier demands that Iran give up pursuing full-cycle activities and restrict itself to the construction of light water power reactors and research reactors. In return they offered to expand trade with Iran and gave security incentives that from the Iranian point of view were inadequate. Britain and France committed themselves to not using nuclear weapons against Iran, except in the cases of an invasion or an attack on them, their dependent territories, their armed forces or other troops, and their allies. But the package said nothing about conventional attacks on Iran and nothing about countries that have publicly made physical threats against Iran, namely the US and Israel. The trade incentives were similarly weak, since it is the US and not the EU, which is imposing economic sanctions on Iran (Farhi 24 October 2005). Iran’s response was that, since the EU package was far too short of its expectations, it would resume uranium enrichment at the Isfahan plant. When Ahmadinejad declared Iran’s right to enrich uranium the EU broke off the negotiations. In August/September 2005, Russia proposed to enrich Iranian uranium in Russia and ship it back to Iran. This proposal also found backing among EU member countries, such as France. In a joint France-Russian statement of 14 February 2006, the two countries, both of which are in the possession of nuclear weapons, state:

“Iran [...], France and the Russian Federation are united in their determination to see the proliferation implications of Iran’s nuclear program resolved. They welcome the positive interaction between France, Germany, the United Kingdom, and the High Representative of the European Union, and the Russian Federation in search of a diplomatic solution to the Iranian nuclear issue. They call on Iran to comply fully with IAEA February BOG resolution and requirements, including the full suspension of all enrichment related and reprocessing activities. They recognize legitimate rights for the Iranian people to develop a safe, sustainable nuclear power generation program proven to be for peaceful purposes, in compliance with NPT obligations of Iran and to enjoy the benefits thereof. By effectively removing international concerns in the long run, Iran would pave the way for the international cooperation necessary for the development of such a program. The Russian proposal of a joint-venture for uranium enrichment located in Russia is widely supported by the international community and represents a way forward in that direction.”

The Iranian government continued assembling centrifuges and enriching uranium, and both the EU and the US threatened to refer Iran to the Security Council for sanctions. As Tarock states (2006: 659) it is possible that, had the EU not tried to wear down the Iranians and instead offered better incentives, while the reformist President Khatami was still in power, they might have been given greater consideration in Tehran. One plausible explanation for the EU’s delaying tactics is that it had hoped that the Iranian elections of 2005 would bring back to power former President, Hashemi Rafsanjani and not Mahmoud Ahmadinejad. Ahmadinejad said that the Khatami government had

given too many concessions to the West and the IAEA. He argued that the mastering of nuclear technology was not just a means to produce electricity, but also a way to advance the industrial, scientific, and economic development of the country. It was in this political atmosphere, the West pressing for Iran to be referred to the Security Council and Iran insisting on it proceeding with its uranium enrichment program that the IAEA Board of Governors met in Vienna, in September 2005, to discuss whether Iran should be referred to the Security Council. The Board passed a resolution declaring that Iran was in “non-compliance” with IAEA nuclear safeguard requirements.

Still, despite the nuclear crisis, in its conclusions of 7 November 2005 the European Council underlined the importance of a Comprehensive Dialogue with Iran:

“The Council underlines the long-standing importance it attaches to sustainable political and economic reform in Iran. In this regard, the Council agreed on the importance of the Comprehensive Dialogue. The Council agreed that the Comprehensive Dialogue is an appropriate framework for discussing issues of mutual interest and concern. These include not only areas such as counter-narcotics but also areas of long-standing concern to the EU: terrorism, the proliferation of WMD, Iran’s approach to the Middle East peace process, human rights and fundamental freedoms, and regional issues. While noting progress in the co-operation between Iran and Europe in the field of counter-narcotics, the Council reiterates that the evolution of the long-term relationship, avoiding a deterioration, between Iran and Europe will depend on action by Iran to address effectively all the EU’s areas of concern. The Council reiterates that it is up to Iran to determine, through its actions, whether its long-term relationship with the EU will improve or deteriorate” (Council of the European Union 7 November 2005: 13)

The Iranian nuclear case was finally transferred to the UN Security Council in February 2006\(^2\), with actual discussions starting in March 2006. In its Declaration of the Chairman of 29 March 2006, the UN Security Council made clear that only

“suspending and full, verified Iranian compliance with the requirements set out by the IAEA Board of Governors would contribute to a diplomatic, negotiated solution that guarantees Iran’s nuclear program is for exclusively peaceful purposes, and underlines the willingness of the international community to work positively for such a solution, which will also benefit nuclear non-proliferation.”\(^2\)

Germany was in favor of a proposal allowing Iran limited uranium enrichment. The US, however, blocked any discussions into that direction.\(^2\) The UN Security Council drafted a resolution that demanded Iran stop uranium enrichment before 31 August 2006. All countries voted in favor of this resolution\(^2\), except for Qatar.

On 16 October 2006 the EU-25 Ministers of Foreign Affairs decided to continue

\(^{210}\) “EU, Iran to Meet on Nuclear Offer Next Week,” NTI Global Security Newswire, (29 June 2006). 
talks on sanctions on Iran within the US Security Council. But these talks turned out to be difficult. Russia and China were against heavy economic sanctions on Iran. The US and EU had different opinions on Russia's support for the Iranian nuclear reactor at Bushehr (Lynch and Kessler 26 October 2006). The US demanded from Russia to end its support for the reactor.

In December 2006, the Security Council urged all countries to no longer supply Iran with materials and technology that could also be used to develop its nuclear and missile program. Above this it ordered a freeze of the assets of 10 Iranian companies and 12 individuals related to the nuclear program in Iran. A couple of months later, on 24 March 2007, the Security Council voted unanimously to impose new sanctions on Iran including the banning of Iranian arms exports, and the freezing of assets of 28 individuals and organizations involved in the nuclear program, most of whom have links with the paramilitary forces in Iran (Elliot and Kelemen 27 March 2007).

In its Iran-reflection paper of February 2007 the EU however, states that it considers economic sanctions as not the only means to solve the problems with Iran. It still considers diplomatic negotiations just as, or even more, important:

“The problems with Iran will not be resolved through economic sanctions alone. Iran has shown great resilience to outside pressure in the past, for example during the Iran/Iraq war. The government may also exploit the sanctions to benefit nationalism or to explain economic failure. Nevertheless, Iran must understand that the pursuit of policies which the international community rejects is not cost-free. The EU has agreed to pursue sanctions through the United Nations if the Iranians continue to reject the decisions of the IAEA Board and the UN Security Council. But it has also agreed to keep the door open to negotiations if Iran decides to meet the requirements in the UN Resolutions” (Dombey 13 February 2007).

The internal document acknowledges that sanctions could also work against its imposers given Iran’s poor economic situation and the need for FDI:

“[t]he sanctions [...] have limited direct effect but they come at a moment when the economy is performing poorly, partly because of Iranian mismanagement. Ahmadinejad is under criticism because of rising inflation – officially at 12 per cent, in reality closer to 20 per cent; economic growth around 5 per cent per annum is not keeping up with the need for job creation. Foreign investment has all but dried up, partly because of the nuclear issue and associated action (e.g. restriction on Iranian banks, greater caution of export credit agencies). Without new investment, Iran risks being unable to maintain medium-term oil production, currently 50 per cent of government income” (Dombey 13 February 2007).

Nevertheless, in September 2007 the French President, Nicolas Sarkozy, suggested European-wide sanctions against Iran outside the UN. As was stated by the French Foreign Minister Bernard Kouchner, Britain and Germany are also interested in talking
about such sanctions. Sarkozy’s move is a sign that he follows a foreign policy more closely aligned to US foreign policy interests than his recent predecessors (Blitz 17 September 2007).

Both for the US and the EU a reform of Iran, in particular, and the Middle East, in general, is high on the agenda of their foreign policies. Both agree on issues such as terrorism, the Middle East peace process, WMD and human rights. But the EU’s policy towards the Middle East and Iran differs from that of the US. European leaders have stated that they would oppose military action against countries the US has identified as within the “axis of evil.” In the case of Iraq, however, there was no common position, because EU member countries, such as France and Germany openly rejected, while Britain, Italy, Spain, and Poland actively supported the war. At the same time, most agreements between Iran and the EU derive from negotiations between Britain, France, Germany (the EU-3) and Iran only, leaving the other EU member countries outside the negotiation table, but letting them sign the agreements derived from these negotiations. It can be said that there is a battle between the US and Iran, for the former to keep the EU as far way from Iran as possible, and for the latter to keep the EU as close as possible. At the same time, Iran cannot rely too greatly on the objections to US policy of major European countries. Though the EU and the US do not agree on a number of issues it should not be taken as a sign that the EU would ever participate in an anti-American coalition. Thus, the differences between the EU and the US are not structural but rather of a methodological nature, and close ties between Europe and the US will remain (Sajjadpour 2002: 96,108).

No decision on a military attack by the US on Iran is to be expected before 2008. But, as a source in Washington has stated, George W. Bush will not leave his office leaving the Iran issue open. According to the source, President George W. Bush and Dick Cheney will not trust any presidential successor, be it a Republican or a Democrat. Until then, the US will further apply diplomatic means (MacAskill and Borger 16 July 2007). The meeting in Baghdad on 28 May 2007 between Iran and the US has opened the way for further talks. As Sadjapour notes (June 2007: 1):

“Engagement with Iran is an approach that is easy to advocate but very difficult to carry out. Not since the early days of the revolution has Iran’s domestic and international behavior been less agreeable. Yet perhaps never before has its regional influence been greater.”

Furthermore, on 3 December 2007 the US National Intelligence Council published the National Intelligence Estimate212, in which it states that the IRI halted its nuclear weapons program in 2003. The report’s conclusions could pose an obstacle to G.W. Bush’s possible plans to start a war against Iran and could even put economic sanc-

tions against Iran into question (Shuster 8 December 2007).

In the end the Iranian government has no other choice than to change its policy. What the US and the EU can do is facilitate this change by developing a common more “nuanced” policy approach towards Iran. A dialogue should be comprehensive and not limited to the nuclear issue. A common approach should, besides the US and the EU, also include Russia, China, and India. Iran should not be threatened with sanctions if it fully cooperates with the IAEA. Threatening Iran with military intervention would only weaken the reformist forces in Iran and strengthen the Conservative and neo-Conservative forces (Sadjadpour June 2007: 4-5).

7.7 Summary
Chapter 7 analyzed relations between the EU and Iran since the Islamic revolution, with special focus on cooperation in the areas of (1) energy, (2) trade and investment, (3) human rights, (4) and the proliferation of nuclear weapons.

In contrast to the ideologically driven US policy towards Iran, the EU’s approach is rather pragmatic. Though the EU and the US agree that Iran plays an important role in fighting terrorism, and in the Middle East peace process, and both do not want Iran to become a nuclear state, they differ on the means to reach their goals. This has been so since the establishment of the IRI, when the US imposed economic sanctions on Iran after the hostage taking of US embassy staff in Tehran, and continues to be the case until today.

The EU needs Iran as an important supplier of oil and gas, and also considers it to be a factor of stability in the Middle East. Therefore, the EU considers political dialogue with Iran to be more appropriate than economic sanctions. In 1992, the Critical Dialogue with Iran was initiated by the European Council during the Edinburgh summit. In 1998, the Critical Dialogue was replaced by the Comprehensive Dialogue, followed by the establishment of various working groups the most important of which were on energy, on trade and investment, on human rights, and on the proliferation of nuclear weapons.

Cooperation, however, is hampered by several factors. Beside international political problems such as the nuclear issue, Iran’s internal problems limit economic cooperation between Iran and the EU, such as lack of transparency in laws and regulations, an unclear tax system, an insecure investment climate, the treatment of non-native personnel of foreign firms, granting of import permits to foreign importers, and repatriation of investment profits.

Another important obstacle are the difficulties of the EU to develop a common foreign policy, in general, and towards Iran, in particular, due to different interests of EU member countries and different opinions on what strategy should be followed with regard to Iran. Though economic interests play a role here, they are not the driving force. The success or failure to conclude an agreement with Iran could be of importance for the development of a common EU foreign policy as well as the question on the exten-
sion of competences within the EU. The question of whether the EU Commission or the European Council will be at the heart of a common EU foreign policy could lead to two very different outcomes: (1) A Europeanization of foreign policy; (2) An ad hoc and re-active approach to foreign policy. Besides other factors, such as energy security, the war in Iraq made it obvious that the EU had to develop a common security strategy that would be aware of the nuclear threat and present measures to respond to it, and that also would not drive a deeper rift between the EU and the US. It also presented an opportunity for Britain, France, and Germany to strengthen their position within the EU, both individually and collectively.

Relations between Iran and the EU will remain cautious in the near future, but will continue. The EU might put more emphasis on the interrelations between economic relations, the nuclear issue, and human rights, but it will also acknowledge Iran’s geopolitical significance. Relations will also depend on whether the EU member countries will be able to speak with one voice through a joint foreign policy strategy.

Another important factor for improving relations between the EU and Iran is the US and its position towards Iran. Until now the US and the EU have been unable to develop a joint strategy to deal with Iran. To the contrary, Iran has been a source of friction within the Atlantic Alliance, as well as to some degree within the EU itself. But it seems rather unlikely that the case of Iran will lead to a major crisis between the US and the EU. What makes the EU-Iran relations particularly significant is the refusal of the EU, and its member countries, to capitulate to US pressure on their mutual political and economic relations.

Thus, the nuclear issue in Iran not only is important with regard to the NPT but also in a broader sense is a test case for EU-US relations and intra-European politics.