



CENTRE FOR EUROPEAN REFORM

# policy brief

## The EU and Iran: how to make conditional engagement work

*By Steven Everts*

- ★ The IAEA's decision to censure Iran for its nuclear activities but also to give Tehran time to co-operate with inspectors creates a breathing space. The EU should use it to put forward a broader set of policies, fleshing out the political and economic incentives it is offering Tehran, while making clear that if Iran fails to satisfy the IAEA, trade and other sanctions will follow.
- ★ 'Regime change' will not end Iran's nuclear ambitions. If Western countries do not address underlying Iranian security concerns, any Iranian government will continue to want nuclear weapons. Therefore, the EU should try to persuade the US to offer Iran diplomatic relations and a security guarantee in exchange for denuclearisation.
- ★ While avoiding America's taunting rhetoric of regime change, the EU should position itself more clearly on the pro-democracy side. This means giving political support to those inside Iran promoting deep reform, and especially reaching out to young Iranians.

Under heavy international pressure, Iran agreed in mid-December 2003 to accept highly intrusive inspections of all its nuclear installations. This decision came after the board of the IAEA, the UN's nuclear watchdog, had agreed at the end of November to a resolution that strongly criticised Iran for its clandestine nuclear activities. That resolution had held back from sending the issue to the UN Security Council. It gave Iran one more chance to prove its innocence and co-operate fully with the IAEA. The US had wanted the IAEA to conclude that Iran was in non-compliance with the nuclear Non-Proliferation Treaty (NPT), a first step towards UN-mandated sanctions. But the Europeans argued that such a move would have robbed them of all leverage, precisely at a time when Iran was showing signs of a genuine desire to end its international isolation. The EU and the US compromised by agreeing to a 'trigger clause', stipulating that should new

evidence of further "serious breaches" come to light, the IAEA board will convene immediately to consider "all options". In layman's terms the resolution said: let bygones be bygones, but if we catch you again, sanctions will follow.

Politically, Iran's decision to sign the NPT's 'additional protocol', paving the way for tough 'anytime, anywhere' inspections, is both significant and welcome. IAEA inspectors will now step up their monitoring. International attention will focus again on Iran in March 2004, when the IAEA board will reconvene. Therefore, the Vienna compromise creates a breathing space in which Iran must prove the sincerity of its commitments and in which the EU must demonstrate that 'conditional engagement' with Tehran can deliver real results.

Europeans can take some satisfaction at how they have, thus far, handled Iran. But European

leaders should also realise that the Iran problem won't go away. Washington and Tehran remain on a collision course. Iran almost certainly wants nuclear weapons; Bush has said a nuclear Iran is "unacceptable." Moreover, the discontent with the mullahs and the disillusionment with the record of the reformers will intensify. Thus, Iran is set to be a big story in 2004.

### Iran as a puzzle

Foreign ministries around the world are assigning their 'best and brightest' to the job of devising a coherent strategy on Iran. This is just as well, since dealing with Iran is a bit like playing three-dimensional chess. The West is pursuing multiple, potentially conflicting objectives with a country whose politics are in flux and whose leaders oscillate between hostility and pragmatism. The stated aims of preventing a nuclear Iran, promoting democratic reforms and ending Tehran's support for terrorist groups sound reasonable enough. The difficulty is they sometimes conflict: doing a deal with the conservative establishment on Iran's nuclear programme will be necessary to ensure any agreement is implemented. But this will further strengthen the hardliners' grip and weaken the reformist camp. Conversely, highlighting the need for regime change, and perhaps acting on it, removes any incentive for the regime to comply with various international demands. Put differently, the rest of the world has to decide what the real problem is: Iran's quest for nuclear weapons, or the radical Islamic nature of the regime?

All this of course sounds terribly familiar. Regime change, weapons of mass destruction, non-compliance, transatlantic rift, Britain's choice: the key ingredients for another international bust-up are in place. However, analogies with the Iraq crisis can be misleading. Iran, unlike Iraq, has no habit of invading its neighbours. There is hence no comparable set of UN resolutions, and no record of 12 years of UN-mandated sanctions and inspections. As for the domestic scene, disillusionment and anger at the stiffening deadlock between reformers and conservatives is certainly rising. Nonetheless, Iran today has a much more pluralistic political landscape than Iraq ever had under Saddam Hussein. The international political geography is different too. First, the big international players – US, Europe, Russia and Japan – are closer than they ever were on Iraq. All suspect Iran is developing nuclear weapons – and all believe that concerted international action is needed to prevent a nuclear Iran. Second, to the extent that differences in policy exist between the US and Europe, and they do, this time Britain is on the European side.

The Iranian question consists of three parts: first, what is Iran really up to with its nuclear programme? And what policies could dissuade it from going nuclear? Second, how is the domestic political scene evolving? What are the prospects for peaceful regime change, and what role should outsiders like Europe play? And third, will European foreign policy be able to pass the Iranian test? Will Britain stay with the rest of Europe if America starts to apply strong pressure?

### Tackling Iran's nuclear programme

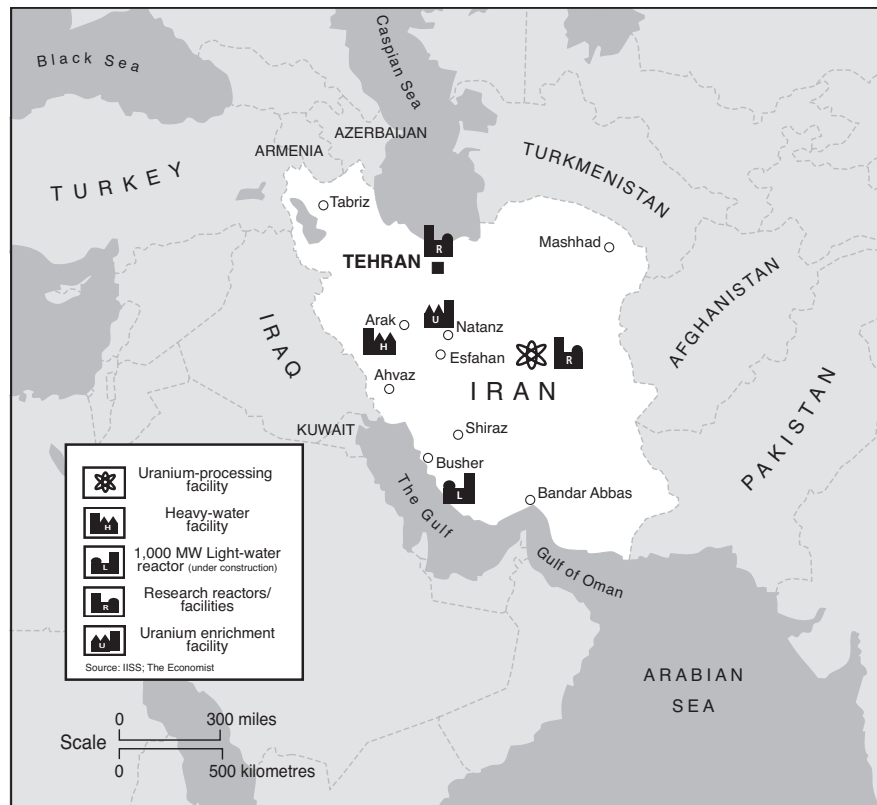
The record unearthed by IAEA inspections points overwhelmingly to a serious nuclear weapons programme. Iran has consistently claimed its nuclear activities are entirely civilian and peaceful in nature. But such assertions have always been unconvincing. Iran has enormous oil and gas reserves and every year flares off more energy than its desired nuclear plants would produce. Questions abound on Iran's nuclear programme, technical in nature but political in significance. Why exactly is Iran building a heavy-water reactor in Arak and a uranium enrichment facility in Natanz? Iran only admitted their existence after a group of exiled Iranians, the National Council of Resistance of Iran, revealed them. Moreover, why has Iran experimented in secret with uranium metal which has no use for the type of power reactors it has planned, but which is useful if it wants to build bombs? Iran told the IAEA it had designed and built its own enrichment equipment – until evidence emerged it had imported these from abroad. Most worryingly, IAEA inspectors have discovered traces of highly enriched, weapons-grade uranium at Natanz and at the Kalaye Electric Company on the outskirts of Tehran. Iran now says that contaminated material from abroad is responsible. The rest of the world is not so sure.

Like a guilty suspect, Iran keeps changing its story each time inspectors find further incriminating evidence. As a result, there is an emerging consensus that Iran wants nuclear weapons. At a minimum it wants to become self-sufficient in nuclear matters by controlling the nuclear fuel cycle. This would make the country independent from uranium supplies from abroad and hence less susceptible to international pressure. The fear in Washington is that Iran is using the cover of the NPT, which allows countries to develop a civilian nuclear programme under international supervision, to get close to the nuclear threshold. Once there, Iran can, perfectly legally, withdraw from the NPT after six months' notice and proceed with developing a nuclear arsenal. The British and French governments estimate that Iran could have a nuclear capability by 2007.

If Iran is indeed busy trying to develop nuclear weapons – and in private both its reformers and its conservatives concede they want them – then the real question becomes: can the United States, Europe and others construct a set of policies to get Iran off the nuclear track? If a different regime will not end Iran’s nuclear ambitions, what will?

head of Iran’s national security council, said the day after the agreement that the enrichment pause “could last for one day or one year, it depends on us ... as long as Iran thinks this suspension is beneficial it will continue, and whenever we don’t want it, we will end it.” Such comments may have been aimed at a sceptical domestic audience, which feels Iran is being

### Iran and its neighbours



The October visit to Tehran by the foreign ministers of Britain, France and Germany produced an apparent breakthrough. Europe’s ‘big three’ came with a tough message: Europe was prepared to continue talks on a trade and co-operation agreement from which Iran would draw large benefits. But first Iran had to comply with all IAEA demands. Iran got the message and promised three things: a complete and accurate account of its nuclear activities, including a list of suppliers; a promise to sign the protocol; and a suspension of its uranium enrichment activities. This visit was a good day for EU foreign policy. It showed that conditional engagement could be effective. In Tehran, the story is that a fear of ‘losing Europe’ played a key part in Iranian calculations.

Clearly it is now up to Iran to fulfil all its commitments. Worryingly, Hassan Rohani,

treated unfairly. But it does nothing to persuade Americans that Iran is sincere. Uranium enrichment must cease and can only restart once tight international supervision is in place.

But alongside pressure and demands, the West also needs to develop a broader set of policies. These should make clear that it takes Iranian security concerns seriously while explaining that going nuclear is not the answer. In this context a closer look at the regional security situation will be crucial. From Iran’s perspective, their region looks distinctly threatening. Iran is a proud and nationalistic country with a deep distrust of the outside world. This is partly paranoia and ideology. But it also has a rational core. Throughout the 20<sup>th</sup> century there has been plenty of foreign interference in Iranian politics. Take the coup in 1953, organised by the US and the UK, against the nationalist

government of Mohammed Mossadegh. In the 1980s, Iraq repeatedly used chemical weapons against Iran – with at least tacit agreement from the US. Israel, Iran’s arch-enemy, has an extensive nuclear arsenal, not subject to any international inspections. Then there are Pakistan and India, each with a nuclear deterrent. Most importantly, Iran fears US intentions, especially given the vast numbers of US troops next door in Afghanistan and Iraq. The wry joke in Tehran is that there are just two countries in the world that have only the US as their neighbour: the other one is Canada.

Europe should, together with the US and Russia, take the lead in initiating a regional security dialogue aimed at reducing political tensions and increasing transparency in military postures. This effort could be loosely modelled on the Organisation for Security and Co-operation in Europe (OSCE) to emphasise that security and human rights issues need to be tackled in parallel. In the mid-1970s, the West and the Soviet Union agreed on a set of confidence-building measures, such as transparency on military manoeuvres, economic links and minimum standards on human rights. The Soviets thought they had scored a major diplomatic coup by getting Western countries to recognise the political status quo. In the end, the West had the better deal: the human rights standards of the OSCE gave it a powerful lever to hold the Soviets to account and support dissident groups. The lesson from the ‘Helsinki process’ is that co-operative security can reduce underlying political hostility and lead, eventually, to ‘regime change’. In foreign ministries around Europe, policy planners are discussing this idea of setting up an OSCE for the Middle East. It now needs to move from planning staffs to operational departments.

The US must also start thinking about giving Iran some of the assurances it craves. Ever since the 1979 hostage crisis, strong emotions and dissident groups with questionable political agendas have influenced US thinking about Iran. It is time for the US to set up normal diplomatic relations. America will also have to think about conditional security guarantees for Iran. With North Korea the US is, reluctantly, offering a deal whereby the North Koreans get a multilateral security guarantee in exchange for denuclearisation. Something similar has to happen with Iran. Moreover, the US has to make clear it no longer aims for regime change. Of course the US and others are perfectly entitled to push for greater democratisation in Iran. But they must stress that change has to come from within. Excessive regime change rhetoric is removing the incentive for Iran to comply with the West’s demands. The Iranians

say they may be damned if they do comply, and damned if they don’t.

Finally, the US and Europe should put the perspective of Iranian entry into the WTO on the table. This would not just increase trade and investment; because of the WTO’s transparency requirement on subsidies, it would also undermine the role of the *bonyads* – the foundations run by clerics which have a stranglehold on the economy. Ordinary Iranians complain not only about the restrictions on their personal freedom and dress codes but also about the rampant corruption and monopolistic exploitation by the clerical establishment.

Put together, this package would be an offer impossible to refuse. But the West should make it firmly conditional on Iran giving up the quest for nuclear weapons and accepting stringent international verification of that decision.

### Breaking the domestic deadlock

The international and the domestic dimensions of the Iranian question are intimately linked. The Nobel committee’s decision to give the 2003 peace prize to Shirin Ebadi was a shrewd one, and instantly turned this soft-spoken human rights lawyer into a celebrity. It signalled to the regime that its record on human rights, gender equality and due process of law is grossly inadequate. But it also sent a message to Washington: change has to come from inside Iran, a position that Ebadi has always espoused.

The split reaction in Iran to the news of Ebadi’s Nobel prize was symptomatic of both the country’s political divisions and the weakness of the reformist camp. Ordinary people and pro-democracy activists gave her a hero’s welcome when she returned to Tehran from a short trip to Paris. More than 10,000 people, a large demonstration by Iranian standards, gathered at the airport, including several reformist members of parliament. Reform-minded papers and online journals were ecstatic. But conservative clerics struck back immediately. Hard-line newspapers ran hostile editorials. In Qom, a group of conservative clerics put out a statement portraying the award – quite accurately – as an attempt by outsider powers to weaken the Islamic nature of the regime. Most depressing was the U-turn that President Khatami performed. Initially his reaction was enthusiastic. But a few hours later – presumably after conservative forces had intervened – Khatami back-pedalled, belittling the award as “not very important”.

The story of Iranian politics in the last few years has been a slugging match between the *Majlis*

(parliament), where reformers are dominant, and the conservative-controlled Guardian Council. The conservatives have many levers of power including the security apparatus, the judiciary and the protection of Ayatollah Ali Khamenei. Their most effective weapon is the Guardian Council which is unelected but has the authority to delay and even veto any legislative proposals agreed by parliament which it deems inconsistent with Islamic law. Since 2000 the Guardian Council has blocked a huge number of laws proposed by the *Majlis* including crucial measures relating to press freedom, the minimum age for marriage, divorce laws and the UN convention eliminating discrimination against women. Perhaps most damning of all was the Guardian Council's decision to block a law that would have restricted its ability to veto candidates standing for various elections. Increasingly, former President Rafsanjani, now head of the Expediency Council, and various 'conservative technocrats', are acting as the swing vote in these deadlocks between reformers and conservatives.

Despite these setbacks for the reformist movement, Khatami has so far not carried out his threat to resign unless the Guardian Council respects the legislation passed by parliament. One reason may be that parliamentary elections are scheduled for February 2004 – and Khatami may want to wait for the results of these elections first. Khatami himself won a huge victory when he first stood for president in 1997, and again in 2001, but the failure of moderate reformism to deliver is turning people away from politics. As a consequence of turnout falling to a mere 11 per cent in the capital, conservatives retook control of Tehran city council earlier in 2003. Young people especially are wondering why they should bother to vote, if nothing ever changes. An incredible 65 per cent of Iranians are under the age of 30, while 50 per cent are under 20. These are the 'children of the revolution'. After 1979, Iranians were strongly encouraged to have many children to create "a great Islamic society". Many among them have become hardened cynics. Some are turning to drugs and other forms of escape. Others are drawn to wistful dreaming about the outside world intervening and ending the mullahs' rule. Israel aside, Iran is the country in the Middle East where, below the thin veneer of radical anti-US slogans, the US is most popular. Among young Iranians there is none of the anti-US resentment that pervades so much of Arab thought and discourse.

Herein lies a potential problem for Europe. Given that the regime's manner of running the country is so out of line with people's aspirations, radical change in Iran is inevitable. But Europeans think that change will only

come slowly and through spillover effects from economic liberalisation. It is true that Iran is not 'ripe' for another revolution as some US neo-conservatives argue. Nevertheless, Europe should position itself more clearly on the pro-democracy side. There is a real risk of Europe being on the 'wrong side of history'. An analogy with eastern Europe may be fitting. One reason why east European elites are so pro-American is because they think that during the cold war, western Europe, particularly the centre-left, was too focused on stability, too soft on human rights, and too willing to ignore the plight of dissidents.

Hence Europe needs to calibrate its approach. It is right to resist wild plans for outsiders to initiate regime change. It is up to Iranians to shape their own political future. But Europe should make greater efforts to speak out in favour of, and perhaps give support to, those inside Iran that make the case for reform.

### Avoiding the next international crisis

In recent months, Europe has helpfully toughened up its stance on Iran. It has overtly linked its negotiations on a trade and co-operation agreement to changes in Iranian behaviour, not just in the nuclear field but also with respect to Iran's support for terrorist groups, its rejectionist approach to the Israeli-Palestinian conflict and its dismal human rights record. Europeans are well aware that because of their diplomatic and trade links, they have leverage with Iran, as do the Russians and Japanese. Provided those with leverage use it in a concerted manner, there is a good chance of them influencing Iranian behaviour. Americans are loath to admit it, but they have rather fewer policy options. Short of getting others, such as Europe, Russia and Japan, to put more pressure and forego economic relations, there is little America itself can do. Because of its long-standing strategy of diplomatic isolation and economic sanctions, America is offering little to Iran, and it has even fewer benefits it can threaten to withdraw.

The one big exception to this paucity of options is military action. Radek Sikorski of the American Enterprise Institute (AEI) has said, only partially tongue in cheek, that for neo-conservatives, "Baghdad is for wimps, real men go to Tehran". Similarly, some Americans such as Reuel Marc Gerecht (AEI) speculate that "surgical strikes" could take out all Iranian nuclear installations in one go.

Many Europeans believe that US policy towards Iran is all sticks and no carrots. European strategists also believe America's sticks happen to be quite brittle. Surgical strikes are unlikely

to succeed because of the long list of targets. This would not be ‘Osirak II’, the operation in June 1981 in which Israel attacked Iraq’s only nuclear installation. Moreover, unlike Iraq, Iran has a capacity to retaliate militarily – directly with missiles and conventional arms and indirectly through Hizbullah. It can make life very difficult for America in both Iraq and Afghanistan, where the West is vulnerable. Most important of all, surgical strikes would not eliminate the key ingredients of a nuclear programme: technological know-how and a strong wish to acquire a deterrent for regime survival. The hope in Europe, and the quiet expectation, is that the US will recognise these factors and stick with concerted international pressure.

Ultimately, the probability of America (plus Israel?) choosing coercive military action may not be high. But it would have enormous consequences for Britain and the rest of Europe. It would be Europe’s moment of truth: split again or stay united. The historical record is that when the US applies heavy pressure, Europe fragments with France and Britain spinning in different directions. That record also suggests that neither side has been very successful in influencing America on its own.

#### **Iran as a test case for EU foreign policy**

Iran is a test case for the EU’s doctrine of “effective multilateralism” – the central element of the recently adopted EU Security Strategy. The EU is right to champion international norms and institutions but it should be prepared to carry out its pledge to act tough when countries break the rules. With justification, the Europeans can claim that conditional engagement has – at least for now – produced results. But the EU should make it crystal clear

that it expects full co-operation from Iran with the IAEA, or sanctions will follow.

At the same time, the EU should spell out, through a timetable with specific reciprocal steps, the benefits it is willing to offer if Iran sticks to its commitments. The incentives the EU could put on the table range from measures on trade and investment to access to research and technology. Iran badly needs co-operation with Europe, given the dire state of its economy and the serious demographic and other challenges it faces. Moreover, the EU should push, together with the US and Russia, for a regional security dialogue to reduce underlying political tensions. And Europe can facilitate some informal co-operation between Iran and the US on Iraq and Afghanistan. But Iran must realise that these initiatives are dependent on significant and continued changes in Iranian behaviour, especially regarding IAEA demands. This must be the message that Javier Solana, the EU’s foreign policy chief, brings when he visits Tehran in January 2004.

A tougher yet more creative European stance would go a long way towards forestalling a collision between Washington and Tehran. But another requirement will be a change in America’s approach. After Iraq and the political upheavals it caused, Tony Blair will be especially keen to avoid having to choose between Europe and America on Iran. That is why he must mix his usual deftness with a greater willingness to point out to the Americans the flaws in their current stance – and do so before the issue reaches crisis point.

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