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A new geopolitical and economic outlook for the EU? How closer relations with Iran might affect the bilateral relations between the EU and Israel

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After the signing of the JCPOA (Joint Coordinated Plan of Action) many authors – including those who should know better – put a lot of hope into a “new beginning” of European-Iranian relations. Although sympathising with these hopes, I try to pour some cold water on heated expectations: neither is Iran the constructive and competent partner many in the EU dream of it to be nor does the EU conduct an Iran policy worth that name, let alone having formulated something remotely reminiscent of a European strategy on the Middle East. Finally, relations with Israel remain what they are stable but bumpy and increasingly farther away from the EU’s Holy Grail for the Middle East conflict: the “two state solution” solemnly formulated in the “Declaration of Venice” of 1980.

In short I do not foresee any qualitative change in relations with Iran or Israel in the years to come; this said there could be “quantitative” changes, which at a certain point in the future may (or may not) lead to qualitative changes in bilateral relations. As an expert on Iran (domestic, security, regional policy, relations with EU) but not on Israel, my comments will focus on EU-Iran relations.

(1) EU-Iran: Back to un-normal

To begin with the signing of the JCPOA ends a decade long crisis in EU-Iranian relations. What makes things a bit trickier is the fact that the core of this crisis was not even European but the state of play in US-Iranian relations on one hand and

transatlantic relations (EU-US) on the other. Hence European policy on Iran was tied to the US (but not vice versa). It will be interesting to see whether the EU and/or the E3 (France, Germany, UK) will decide to unravel the legacy of a decade of intense foreign policy coordination on Iran both inside the EU and between the E3 and the US. Given circumstances, E3/EU and the US will continue to coordinate for the foreseeable future and therefore any sudden change of EU-Iranian relations is extremely unlikely. And there is a good reason to continue cooperation, namely the implementation of JCPOA and the lifting of sanctions. Here timing is important: the JCPOA foresees a time frame of eight years for full implementation however the political clock ticks faster: if in two years from the date of signature no significant progress is made (JCPOA implementation is on track sanctions get lifted step by step) the whole process might be at risk. Thus the nuclear crisis will only be over when this complicated and extremely risky process bears fruit. Until that day EU-Iranian relations are still in crisis modus. In other words the implementation of JCPOA and the end of sanctions signify the end of crisis.

But this does not mean that as soon as the crisis ends EU-Iran relations can be qualified as “normal”. True, after the JCPOA is implemented relations between EU member states and Iran will intensify as contacts between civil society, businessmen, scholars, artists etc. will increase and even the EU will have more diplomatic contacts with the Islamic Republic. But relations will not be normal according to EU standards. EU member states are free to define the success and the degree of “normality” in their bilateral relations to Iran politically. This is not possible for the EU which has to observe clear benchmarks: namely the signing of a Political Dialogue and Trade and Cooperation Agreements (PDA TCA), which is usually accompanied by the opening of an EU embassy. All of this failed already under Khatami and I see no indications why any of the three points should succeed now. This is not the place to go back to the EU-Iran saga of the 1990s and the 2000s but even then relations were complicated to say the least. I settle my case by bringing the Critical and the Comprehensive Dialogues to mind, both were chances for better relations in their own rights. But the simple fact that EU and member states needed these special formats is in my view proof enough that relations back then were not regarded to be “normal”. Thus the end of crisis will bring us back to the

status quo ante nothing more.

But the *status quo ante* consists basically of a strategy paper from the EU Commission on relations with Iran dated 2001! To the best of my knowledge no EU institution has ever tried to systematically analyse the four main areas of interests between Europe and Iran; they are energy security, economic relations, regional policies and human rights. These areas of interests are contradicting each other and different EU institutions prioritize different aspects: the Parliament is adamant about Human Rights in Iran; the EEAS has an interest in Iranian regional policy; and the Commission in economic and legal issues, etc. Yet as there is no European *energy security* strategy worth that name I add energy to economics (the only viable and feasible project for European energy security that involved Iran, Nabucco, has been buried silently). There and in its regional policy many Europeans put their hopes and bets on Iran.

(2) The Economy

It is no exaggeration to state that Iran needs the lifting of sanctions more than the EU does. But this does not mean Europe can easily forego an important market and potential energy provider like Iran so easily, especially when relations with Russia sour. Yet for the EU doing business is much more and has an almost ideological touch. Promoters of an intensified economic engagement with Iran would justify it by quoting (West-)German “Ostpolitik” and its motto “Wandel Durch Handel” – change via trade. As long as one does not mistake “change” with “regime change” or “change of the character of the regime” this motto holds true. There are indeed real chances that the presence of a huge expatriate community in Iran could have a moderating impact on the way the regime deals with parts of its own population. But one has to be realistic that it will affect Iran’s overall human rights record only marginally if at all and as long as money pours in the motivation to alter the nature of the Perso-Islamic security state remains very low.

This does not mean the current government would not have any reform agenda, it has. Ruhani was voted into office partially precisely of such an agenda and many liberal economists (if such a term is of any value in Iran’s rentier economy) from the

Rafsanjani and Khatami eras joined his team. There are three core elements of his reforms are alongside the easing of cultural restrictions and the ethnic question:

- (1) Strengthening the rule of law, of which the reigning in of Iran's radical Islamists (Ansar-e Hezbollah...) is part of;
- (2) restructuring the provincial administration which relates to the 2009 reform of the IRGC (Islamic Revolutionary Guards Corps) on one hand but where one hopes that the governors would make their provinces more attractive for investments and
- (3) Strengthening the economy, which is the main point of his reforms.

However, a closer look at Ruhani's economic ideas as published in a 600+ pages oeuvre entitled "Our Economy and National Security" shows him to be a diehard statist and given his career it is not surprising that he understands more about national security than about free entrepreneurship, tellingly enough this term is missing in the aforementioned book. A successful entrepreneur in Iran would face similar problems like one in Russia: a *Krishna* or a system of strongmen protection. However, in Iran these strongmen are not necessarily criminals but state officials: Has a firm or any enterprise achieved a certain size and importance, it is obliged to employ people of the Herasat – the general security agency under supervision of the Intelligence Ministry (which is omnipresent in Iran but expat-Iranians would never talk about them). Then the volunteer militia of the Basij would show up and finally in most cases the IRGC may offer cooperation. Forcefully employing so many people from the security sector in private businesses limits options when restructuring is necessary.

But the problem goes deeper and has to do with the Basijification of academic life in Iran, namely the fact that joining the Basij is also a cheap way to achieve academic credentials and paves the way to good jobs regardless of qualification. The Ahmadinezhad government, which brought masses of civil servants with low levels of education but impeccable ideological credentials into economic key positions, was only a harbinger of things to come. Ruhani's government is in a way the comeback classic expertise, because the experts were still educated in the West and understood western thinking including economic thinking. This is any longer

the case with the younger generation of homemade would-be experts.

Under these circumstances the Ruhani cannot do too much, if it wants to keep private enterprises free of Basiji and IRGC intervention it has to condone their actions in other fields. In the case of the Basij this means allowing many of them to work directly for the government and thus bloating the numbers of civil servants. In the case of the IRGC this means to give them more leeway for their own economic activities. Yet this problem is nothing new and reminiscent to the situation that existed during the Shah's regime: powerful individuals and institutions prying for oil money – a typical curse for rentier economies. Needless to say this problem is well known to everybody and the Supreme Leader initiated a series of economic reforms aiming at economic rationalisation and professionalization, including amendments of certain articles of the constitution the cutting of subsidies and that like. But this process drags on for a decade now and its results remain to be seen. The sector most affected is of course Iran's oil and gas industry, which would need immediate investment. And it is here where people slowly grasp that getting the sanctions lifted would not automatically mean that investors would easily put money in, given the complicated nature of a semi-etatist economy ridden by corruption, patronage and nepotism.

Yet hopes have been raised and undoubtedly the best economic investment comes from ordinary Iranians: their optimism. But optimism needs to be nurtured and with months passing and the hoped for masses of European and other investors not showing up optimism will ultimately fade. Depending on circumstances this may even lead to frustration and as a consequence abstaining from elections, making Ruhani a one-timer (which is why the 2-years maximum timeframe is politically so important).

(3) Regional policy

With the nuclear issue allegedly solved and under the impression of the Syrian crisis notably the rise of the Islamic State many analysts in Europe and the US believe that Iran should be included in any kind of a regional solution. In principle there is nothing against this argument, unless of course one tests it against the

background of reality. To begin with, Iranian foreign policy regarding the region is based on principles some of which are contrary to Western interests whereas others don't – such as the fight against Israel as an illegitimate entity or that never again war against Iran should emanate from a neighbour state. What Western decision makers find so confusing is Iran's ability to implement its aims pragmatically. Iran follows a whole of nation approach that explains the excellent media/propaganda coverage of its policy, the smartness to change the political and ideological justification of what Iran does in the region but also the double hatted-ness of many of its assets deployed in the region. But most importantly Iran coordinates and reviews policies and strategies very well and thus has the necessary flexibility to react if circumstances change without losing credibility towards the international and domestic public, something Western politicians will miss due to a naïvely "critical" and anti-American public.

But most importantly Iran and Saudi Arabia compete for influence in the region and choose Syria as the battleground to fight this out. Seen from that angle any European policy on Syria would have to address IRI – KSA competition first before it could come up with an idea how to stop the bloodshed. This does not mean to make friends out of enemies (IRI KAS) but to contribute to a mutually accepted system of how to manage this competition (for instance, delineation of zones of interests). But for these Western countries have to develop political visions of their own, which leads to the next issue: the clarity of objectives. For Iran, rolling back IS as much as possible in Iraq and keeping it thus as far away from Iranian borders as possible is one priority, to obtain this aim by using only a minimal amount of Iranian troops on the ground but to let local Arabs fight this out, is a second priority, and to prevent Kurdistan to become an independent state is another aim. In Syria however not IS but the maintenance and the survival of the regime is top priority and support structured accordingly. Thus Western interests align with Iranian interests in Iraq but oppose each other in Syria. Western analysts committed a great error when they mistook correlation and alignment of interests with Iran in Iraq with an alliance against IS.

Thus before one could think to cooperate with Iran in both theaters, western decision-makers should clarify their objectives. Things are pretty simple, one

accepts Assad to stay in power or one doesn't. Supporting the first position would be tantamount to accepting a great diplomatic defeat on behalf of those Western especially European states that wanted to see Assad go and structured their intervention accordingly. If on the other hand the replacement of Assad is the main priority then not much of a common base with the Iranians will be found regarding Syria. Even talks about ceasefire lines which most likely will happen at a certain point in the future, will not address the question of relations with the Assad regime. Realistically speaking there is no point to think Iran should (could?) change course, after all why should Iran view its long-time ally Assad less legitimate than other warlords and defy him? And why should Iran now backed up with Russia in Syria settle for less than humiliation for the West?

Another aspect should not be forgotten when talking about Iran's influence in the region: this influence goes to the detriment not only of KSA or Israel but also of those European powers that have interests there and of course against the USA. It is true: cooperating in a meaningful way against IS and stabilising Syria would be a preferable policy, however in order to obtain meaningful results one had to come to a common view on the region including a clear delineation of zones of influence between Iran and KSA. The world is far from that.

(4) Conclusion

The signing of the JCPOA will not result in the creation of "normal" EU-Iranian relations but it will de-escalate the existing crisis mode and opens the doors for greater engagement. However the weaknesses of Iran's economy are related to the weakness of the rule of law in this country and the EU does not have a big card to play here. Mutual frustration on the economic front may set in early on and thus lead to crisis again. On the regional level cooperation with Iran makes sense but before cooperation is possible clarity of objectives must be achieved first. If this is not the case, regional powers will drive dynamics without any input on behalf of EU and E3.