

Iran in the shadow of the 2009 presidential elections

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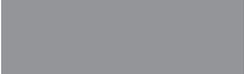
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The editor

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In May 2010 a conference on Iran was organised at the EUISS, almost a year after the 2009 presidential elections and their violent aftermath. This paper recapitulates the main points made during the conference by different speakers, with substantial additions and updates as events have unfolded since. The final product also reflects a specific analytical perspective and provides some specific recommendations for the future.

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Summary

In the past two years the Iranian domestic political scene has undergone a major upheaval where many established norms and institutional frameworks have been abandoned or seriously weakened. A new baseline and sense of normalcy has yet to be established.

The ailing Iranian economy reflects the long-term structural deficiencies of the Islamic Republic and its mismanagement, combined with the damage wrought by sanctions, has made its performance and future outlook a source of great debate and concern. The subsidy reforms that have been hotly debated over the last 18 months and that are now coming into effect, after a protracted legislative battle in the *Majlis*, exemplify the dys-functionalities of the Iranian system of governance and its leaders. While the reform is necessary, the manner in which it is being implemented and its actual content is vague and not very confidence-inspiring.

The primary reason for the sense of upheaval and dislocation in Iran is obviously the revolutionary Green Movement that emerged as a reaction to the contested election result in June 2009. The political demand for a fair election has, in the tit-for-tat cycle of repression and street protests, since become more radical, increasingly calling some of the fundamental tenets of the Islamic Republic into question. Whether the protest movement can gain in traction and strength by linking up with other forces in Iranian society remains to be seen.

The opacity of the Iranian political system has increased and one of the entities whose role and weight must be re-assessed is the Islamic Revolutionary Guards Corps (IRGC). They now have a strong presence in the economy and a central role in safeguarding a highly conservative interpretation of the revolutionary legacy. This said, it must be remembered that, given the complex structure and dynamics of Iranian society, inevitably the spectrum of Iran's social divisions and attitudes is reflected at various levels of the hierarchy of the IRGC as well.

In the foreign policy arena the issue of sanctions remains the most salient feature of US and EU policy towards Iran. In this paper it is argued that

there is no clear or convincing evidence of a correlation between the actual negative impact of the sanctions on Iranian society and the economy, and a change in Iranian nuclear policy or an overall systemic crisis induced by popular discontent resulting in regime change.

Ultimately, the West's whole dysfunctional relationship with Iran needs to be re-thought and revised. It needs to be conceptualised beyond individual issues and topics of contention. There is confusion over the means, sanctions and ends, i.e. strategic decisions on what kind of, if any, relationship the EU and US wants with Iran. A serious discussion on how to overcome this confusion has yet to begin.

1. Iranian politics post-2009

The Iranian political elite is divided along both political and economic interest lines. In addition, there are splits within each group, all of which emerged during the elections in 2009. While some conservative ‘Principalists’ see elections as a tool to maintain state legitimacy – a ritual affirmation of the system – the reformists have primarily viewed elections as an arena in which intra-elite contests are played out.

Herein lies a fundamental difference of perspective regarding what is considered tolerable and acceptable in terms of deviation from the official political and ideological norms. The notion of mutual tolerance and consensus, a *modus operandi* of sorts, was shattered by the election results in 2009 and the ensuing public outcry.

While the Principalists expect all who wish to remain within the sphere of political leadership to rally around the flag, the reformists are doubtful that elections held under such circumstances have any value. Additionally, their constituencies are largely disillusioned with and increasingly hostile to the way in which the political system functions in the Islamic Republic. Thus the elections are not so much an opportunity for contestation anymore as the subject of the contestation itself. In turn, the streets became the new arena for political battles in the aftermath of the presidential election in 2009 and have remained so, with varying degrees of intensity, ever since.

The Ahmadinejad administration is meanwhile trying to establish a new sense of normalcy, a ‘business-as-usual’ atmosphere that is meant to both allow for actual state business to be conducted smoothly as well as to deny the very existence and resilience of an opposition. Thus street protests have gone from being measured in terms of strength by the number of participants they mobilised (demonstrations up to December 2009) to a situation where just being able to muster a few demonstrators onto the streets constitutes a sign of defiance and of the opposition movement’s continued existence (February 2011).

Thus it is important to remember that political and socio-economic grievances and discontent are very much extant regardless of the visibility

or otherwise of public manifestations in the form of demonstrations. The *Majlis* elections in March 2012 will undoubtedly become an occasion for contestation, but the government will almost certainly attempt to secure popular legitimacy without allowing too much substantive competition from political forces beyond the increasingly narrow parameters of what the powers are willing to tolerate.

The Iranian economy

One of the most important structural features of Iranian governance and societal discontent is the economy. Since the revolution, Iran's economy has to a large extent been disengaged from the international economy. It has mainly been characterised as egalitarian and distribution-oriented rather than growth-oriented. The single most important factor in its economic performance is its oil exports.¹

The convoluted and opaque decision-making process in Iran has negative repercussions on the economic environment and business climate. The constitution safeguards a substantial role for the state in all areas of the economy,² but the uncertainties of the system and the government's lukewarm attempts at encouraging investment and privatisation have not fostered a sustained interest in business investments.

The main features of the economy have basically remained the same for the last 30 years and there has been little diversification outside of the oil industry. The ability of the state to rely on revenue from oil exports has in turn delayed the necessary economic reforms. The privatisation schemes have, in turn, mainly resulted in the transfer of officially state-owned enterprises to semi-state institutions like the *bonyads* or corporations tied to state entities like the Islamic Revolutionary Guards Corps (IRGC).

1. Oil exports constituted 43 percent of government revenue and 83 percent of exports revenue in 2005-07. The volatility of the price of oil is considerable, e.g. approximately USD130 billion in 2008 compared to USD 35 billion in early 2009. In 2007 the Iranian state's oil revenue was USD 81 billion but in 2008 it was reduced to about half of that amount. See Table One in Annex, p. 37.

2. Article 44 assigns ownership of all large-scale and 'mother industries' to the state sector and consigns, by contrast, the private sector a role that 'supplements' the economic activities of 'the state and cooperative sectors'. Article 81 prohibits the establishment of foreign companies or organisations in the sectors of commerce, industry, agriculture, mining and services. Article 83 prohibits the transfer of property to foreigners without parliamentary approval. Article 153 prohibits the conclusion of agreements that would result in foreign control of natural resources, economic resources, military affairs, culture, and others.

The strategy of the Leader of the Islamic Republic of Iran, Ayatollah Ali Khamenei, is to concentrate on the economic situation, which requires a normalisation of the political atmosphere in the country. This gambit of normalcy spawning economic growth, which, according to the regime's calculations, will in turn diminish the appeal and ranks of the opposition, is unlikely to succeed. While the Leader still retains formidable institutional prerogatives and powers, his ability to successfully steer the Iranian political discourse in a specific direction is questionable.

Thus the Iranian year 1389 (which ended on 20 March 2011) became characterised, contrary to his wishes, by a continuation of the political infighting that had dominated the fateful year of the presidential elections with the added element of the state's economic woes coming to the fore. Subsequently 1390 has been proclaimed the year of economic *jihad* in order to offset both the effects of international sanctions and the weak domestic development of the economy.

The subsidy scheme – a history

One of the main characteristics of the Iranian economy is the subsidy scheme that cushions large sectors of the population from the inflationary vagaries of the economy. These subsidies on commodities such as basic food staples and fuel were implemented after the revolution as a way of aiding the poorest sections of society during the war. The subsidies have now become a significant burden on the Iranian economy.³

Both President Rafsanjani and President Khatami attempted to gradually phase out the subsidies. Under Khatami in the Third Economic Plan (2000-04), energy prices were raised by 10 percent annually. This was to be followed in the Fourth Plan (2005-09) by raising energy prices to levels prevailing in the Persian Gulf region over a five-year period and the proceeds were to be spent on welfare and infrastructure programmes. This plan was however shelved by the conservative parliament and President Ahmadinejad in 2005 only to return in a different guise in 2007 and finally as an actual subsidy reform plan in 2009. The overall economic strategy

3. For an overview and analysis of the subsidy scheme, see Semira Nikou, 'Iran's Subsidies Conundrum', 30 September 2010, available at: <http://www.pbs.org/wgbh/pages/frontline/tehranbureau/2010/09/irans-subsidies-conundrum.html>; and Kevan Harris, 'The Politics of Subsidy Reform in Iran', *Middle East Report* no. 254, Spring 2010, available at: <http://www.merip.org/mer/mer254/mer254.html>.

is unclear as the Fourth Plan was never fully implemented, and the Fifth Plan has got no further than the draft stage.

Products affected are petrol, gas, kerosene, electricity, water, bread, sugar and cooking oil. Half of the proceeds are to be spent on direct cash transfers to low-income families and the rest split between production subsidies and development projects. A study by the Iranian Central Bank projects that, based on two scenarios with different oil prices over the next three years, the removal of the subsidies will result in an increase in inflation in the range of 31-37 percent.

The government calculates that it needs to re-allocate 40 billion USD to those hardest affected by the removal of the subsidies. So far the *Majlis* has only approved half of that sum, as it remains unclear exactly how the government intends to distribute the money.

After many rumours and proclaimed deadlines for implementing the subsidy cuts, they were finally initiated in December 2010.⁴ The number of people affected and the amount by which they are to be compensated for the removed subsidies remain unclear at the start of the Iranian year 1390.⁵

The Islamic Revolutionary Guards Corps

The Revolutionary Guards, who were from the inception of the Islamic Republic tasked with safeguarding it physically as well as ideologically, are now at the forefront of the internecine war between factions of the ruling elite.

While the general impression might be that the state has survived more or less intact from the upheavals of 2009 and that regime cohesion has been maintained, the social universe from which the regime draws its support is very diverse both socio-economically and ideologically. Iran's society and state are divided by factions and by a range of generational, social and religious cleavages. These divisions are reflected in the make-up of the *Pasdaran* system, the amorphous network of organisational units and

4. See for instance 'MPs advise Ahmadinejad to provide clear information to the people on how to implement targeted subsidies', 18 October 2010, available at: <http://www.khabaronline.ir/news-99259.aspx>.

5. See '27 thousand toman, the monthly subsidies of every Iranian in the budget', Aftab News, 25 February 2011, available at: <http://aftabnews.ir/prth-znk23ni-d.tft2.html>. See also the points made by the blogger Uskowi: 'Monthly Cash Subsidies: Lowered or Ending Soon?', 1 March 2011, at <http://uskowioniran.com>.

associates spanning military and social organisations and a diverse range of business ventures.

Following the end of the Iran-Iraq war, the IRGC started playing a larger social and economic role within the Iranian state and society. This trend became more pronounced, as did the IRGC's more overtly political profile, during the Khatami presidency and has been accentuated considerably under the Ahmadinejad administration. The same generational as well as socio-economic divides that are tangible in society at large and partly underpin competition and enmity between the ruling factions are also present in the IRGC. The fragmentation of the ruling elite that followed the elections in 2009 has also had repercussions on the IRGC. While defecting diplomats have received greater public attention, a number of active duty IRGC members have also defected, primarily via Turkey en route to the United States. A further differentiation within the generational divide pertains to the disparate experience of veterans, i.e. between those who fought the (domestic) Kurdish rebellion and those who defended the country against the Iraqi invasion.

While the top echelon of the IRGC has been staffed with Ahmadinejad loyalists, the Corps as a whole remains, so far, beyond his reach. The bulk of the rank and file direct their loyalties to their former commanders. They would most probably welcome a societal shift in a more conservative, traditional direction but not at the price of endangering the system and the IRGC – which are their ultimate references of loyalty. Thus, Ahmadinejad's more radical form of politics, both domestically and in foreign affairs, is considered by the IRGC to be contrary to the interests of the country insofar as it jeopardises the security of the country.

Similarly, in the context of the IRGC's economic activities, Ahmadinejad's government has favoured a small group of loyalists connected to the IRGC's business ventures. Yet, this is done at the expense of the national economy in general and the overall industrial interests of the IRGC in particular, who suffer from the endemic corruption in the system and fear further repercussions from Iran's international isolation in the economic sphere.

Thus the *Pasdaran* system is neither cohesive (based on consensus on its role in society or Iran's future) nor singular in its loyalties (to Ahmadinejad for instance), a characteristic that stems from the society and the state

within which it is embedded. Ultimately whatever rifts exist in Iranian society will be reflected within the Revolutionary Guards.

The military capacities of the IRGC are often paraded and exhibited by the regime. The IRGC has shown itself capable of developing certain kinds of advanced or new-generation weaponry, e.g. unmanned aerial vehicles (UAVs) and air-sea and sea-sea cruise missiles. Yet it is important to remember that they are, as far as can be ascertained, mainly prototypes which are not mass-produced and thus irrelevant to the overall military capacity of the state. The overall conventional military capacity of Iran is weak. The parading of missiles and other advanced weaponry aims to project confidence at home and induce deterrence abroad. The message is that embargoes and sanctions have not weakened Iran's resolve or its ability to defend itself and retaliate by disrupting the oil transported via the Strait of Hormuz. Whether Iran would be able to maintain such a stranglehold following a massive American military strike is debated by military analysts.

The IRGC already has a substantial role in contraband activities and in controlling the underground economy. This is a key consideration to be taken into account when looking at sanctions, as if sanctions were intensified the black market would grow even further, pushing business out of registered companies.

The IRGC abroad

The Islamic Republic has in the last few years increased its commercial and political ties with several countries in Central and South America, most notably Venezuela. In parallel with this expansion, the IRGC and its elite Qods force are said to have also enhanced their contacts and presence in the region. While little is known about the extent and ambition of this development, it is highly unlikely that any offensive intentions would be countenanced by, for instance, Venezuela as it would most certainly lead to a direct confrontation with the US.

While Hezbollah in Lebanon is still accepting aid and supplies from Iran (including weapons) the movement is also demonstrating that it is not controlled by Tehran. Hezbollah's pragmatism has allowed it to develop an increased political presence within Lebanon, where it is essentially gov-

erning without the risks entailed in governing. Hezbollah is also assiduously avoiding escalating tensions along the border with Israel.

Assumptions of presence equalling influence or perhaps even control seriously underestimate the complexity of the relationships and the recently shifting regional dynamics. This is particularly true in Hezbollah's case, where the socio-political anchoring of the party in Lebanon has for quite some time meant that its attention is focused on its vicinity and self-preservation, rather than on furthering the immediate interests of Iran – two priorities that are not always fully compatible.

Iranian interests in the western provinces of Afghanistan, where private and governmental activities are clearly visible and largely known, are still growing. The IRGC has on numerous occasions worked closely with allied forces. Yet Iran's intentions in Afghanistan are largely economic as one of the most important sources of income is drug trafficking (which is one of the most lucrative activities of some IRGC units in the region). Iranian forces have virtually no interest in provoking an escalation, at least in the Herat and Farah provinces. Iran is also interested in keeping active and increasing its legal, economic and infrastructural role in the region, where several *bonyads* are involved in multimillion dollar contracts and projects, and where some Iranian products are widely traded.

In Iraq the parliamentary elections in March 2010 did not produce a clear result, leaving the country in limbo for nearly 10 months. This situation highlighted the fragile state of the political system and situation in the country and the pivotal role this bestows on external actors like, primarily although not exclusively, Iran. In particular, sectarian politics was brought to the fore and it was through the influence of Tehran that a Shi'ite alliance barely achieved the majority required to form a government. That government, confirmed in late December 2010, is still incomplete at the time of writing.

While Iran has confirmed its continued ability to influence Iraqi politics this does not necessarily entail a greater military capacity or presence in the country. The new Iraqi government, while it is certainly interested in maintaining its special relationship with Iran, is less inclined to allow any substantive military/intelligence Iranian activity on Iraqi soil. This is in order to increase local security and government capacity, to stabilise the political and economic system and to preclude any renewed intervention by the locally-based US forces.



2. The Green opposition

With varying degrees of commitment and intensity a number of groups or circles can be said to be critical of the way the Islamic Republic is governed and headed. Many have come to identify themselves with what might be called a ‘Green narrative’ of opposition sparked by the aftermath of the presidential elections in 2009.

While Iran is in many ways a *post-revolutionary* state, it retains potent remnants of the 1979 revolution both in its state structure, and more importantly, in its societal discourse. The usually unmet demands and grievances of a large swathe of the population constitute a rich seam of discontent and different sections of society still harbour expectations about economic justice and political freedom. Social democratisation, often defined or expressed within an Islamic or revolutionary narrative, is predicated on values and expectations, such as privileging the republican elements of the Iranian constitution, the rule of law, gender equality, secularisation and pluralism. The main vehicle for these sentiments and demands is the younger generation who have been raised in post-revolutionary Iran and are becoming increasingly dissatisfied.

This trend of increasing dissatisfaction could be seen as part of a set of ‘unthinkables’;⁶ it could also be argued that the roots of the general fault lines can be traced back to the early foundational years of the republic. The main difference today is the scope and open nature of the conflict within society and the state elite. Similarly, in the wider regional context today we are witnessing a shift in the Arab world that was inconceivable until it became a reality and is now viewed as inevitable.

The presidency of Ahmadinejad has, despite its attempts to reverse the political situation, exacerbated the conflict and radicalised this trend. Although Ahmadinejad has quite successfully purged pragmatists and reformists and changed Iran’s diplomatic approach and international image (without necessarily changing much of the substance of Iran’s foreign policies), the overall trend towards political crisis remains. Furthermore,

6. These are events and developments that seem unthinkable to those immersed in the present with its apparently immutable political and social conditions and constraints. Yet in hindsight when some of these presumed impossibilities actually come to pass they are often explained, erroneously, as inevitable and ‘natural’.

his attempt to negate the crisis, through repression and his insistence on governing as if there is no opposition, has re-politicised a new generation that was predicted to inherit the political apathy into which many retreated in the aftermath of the crackdown on protesting students in 1999.

Is Iran, then, facing a revolutionary situation? Here, there are several interpretations reflecting different experiences and appraisals regarding the present situation.

Those who emphasise the collective memory of the revolution and the events leading up to it see clear parallels. The revolution took well over a year to gestate to a state where the Shah and his political entourage simply did not have the men or the will to decisively deal with or fiercely crack down on the opposition. In fact, the Shah vacillated between offering some accommodation and meting out quite harsh repression and this dichotomy is clearly evident in the present-day case as well. There is no reason to believe that the state has in any way exhausted its potential for violent repression. There are a variety of reasons why it has stayed its hand, but its willingness to resort to harsher methods if it is cornered or otherwise perceives itself to be under imminent threat should not be underestimated. Obviously the recent developments in the Arab world have helped in re-energising the opposition and given them hope that public manifestations of dissent can help serve their long-term cause.

Therefore the situation or current context could be diagnosed, in some respects, as *pre-revolutionary*. Younger, restive politicised generations have joined older, more Islamic Republic-oriented Islamic revolutionaries (like Mousavi, Karroubi and Rahnavard) and their presence is felt beyond Tehran and the five major cities in the country. In the beginning, the glue holding the movement together was their outrage at the fraudulent elections. But since then the focus of their grievances has shifted from criticism of the brutal crackdown to issues of accountability, transparency, justice and, inevitably, the general nature and setup of the Islamic Republic. Different groups are at different positions along this axis of discontent with the Islamic Republic. With many people's domestic expectations of the Ahmadinejad administration having been dashed, the Green Movement is criticising the government for what they claim to be unprecedented levels of mismanagement and corruption.

Yet, while the context leading to revolution in 1979 and the objectives of republicanism, social justice and rule of law may be similar today, the path towards achieving these goals is very different. In the late 1970s, the goal was to rewrite the constitution, depose a monarch and dramatically reshape the state structure. But today, many of the leaders who participated in the revolution and the state-building process that followed, like Mousavi, no longer believe this to be a sustainable solution. The anarchic realities of any revolution would be catastrophic to the Greens; they know all too well that a massive uprising would lead to unnecessary violence and fragment the opposition. The reformists within the Green Movement have in general refrained from questioning the basic principles of the Islamic Republic, particularly the Guardianship of the Jurist, attempting instead to emphasise the freedoms and rights of ordinary citizens enshrined in the constitution that are being systematically abrogated or ignored. From their perspective, the Ahmadinejad administration has violated the existing constitution and hence they in turn must work to prevent more authoritarian policies/amendments from being adopted. The recent street demonstrations and the escalation of repression have shown that maintaining a nuanced critique of the President while accepting the system (*nezam*) of the Islamic Republic is difficult if not virtually impossible.

While the leadership of the Green Movement has been able to keep the situation from developing into violent resistance, they have yet to overcome many differences among the groups that constitute the opposition camp and which are an obstacle to the formation a well-organised, coherently-led movement. Part of the problem is the issue of devising a clear message and vision for the future, beyond the immediate present impasse. Here, Mousavi's claim to be led by the people rather than the other way around is partly true; he has until recently been quite cautious with his long-term structural demands, occupying an intra-movement centrist position of sorts. This in turn makes him vulnerable to the dynamic present in most contexts of pre-revolutionary political crises: the intransigence of the regime will push the opposition to become more radical and entertain more ideological and political unthinkables, rather than fewer, which is of course the aim of government repression. In this dialectical radicalisation, a centrist position runs the risk of quickly being marginalised within the opposition. This is evident in the revived demonstrations where the

protestors' slogans have become increasingly strident and the response from the authorities is equally harsh.

There is also a clear leadership problem within the Green Movement. The inability to organise and unite opposition groups led to the failure of the reform movement under Khatami, who buckled when faced with state pressure. Today, there are similar factional problems plaguing the opposition. However, given the severe repression by the government, the imperative for change is greater than ever before. This has led to other voices, such as Zahra Rahnavard (former university chancellor and academic – also Mir Hossein Mousavi's wife), taking much stronger, clearer leadership roles. Accordingly, the nominal opposition leaders have honed their message over the past year, moving towards, but not actually delivering, a fully-fledged programme.⁷

The leadership problems of the movement mirror the fact that the Green Movement is the amalgam of different disaffected groups coming together in this instance just as the cohesion of the political elite is fraying. While the opposition managed on several occasions to upset the semblance of public order and calm that the government wanted to convey, neither side has proved strong enough to subdue the other. The phase of street protests lasted until the anniversary of the revolution on 11 February 2010. The exaggerated expectations of the opposition's ability to organise protests on that important day in the political calendar of the republic were thwarted. This indicated both the extent to which the Green Movement's ability to effect change had been overstated (mostly by its expatriate supporters) and the determination and desperation with which the government organised its own mass rallies (which were not that impressive considering the resources at hand). The state turned parts of Tehran into a virtual garrison to ensure that protestors would not gain access to the main arteries of the city and coalesce into a larger demonstration. So while the government won the day, it also became clear that attempting to muzzle the opposition in this way is difficult to sustain in the long run.

After a year-long hiatus the Green Movement managed to mobilise a sizeable number of people to go out and demonstrate again. As a kind of pre-

7. The full text of 'The second edition of the Charter of the Green Movement', issued by the Green Hope Coordination Council, in previous coordination with Mousavi and Karroubi, Gooya News, 22 February 2011, available at: <http://news.gooya.com/politics/archives/2011/02/118075print.php>.

text for congregating, they gathered to celebrate and support the uprising in Egypt which representatives of the Islamic Republic had praised and claimed to be following in the footsteps of Iran's 1979 revolution. At the very least, the opposition has proven that they are still a force to be reckoned with and that normalcy has not been restored in Iran's political life.

Obviously the revolutionary tactics the regime employed themselves in 1978-1979 could now in turn be used against them by the opposition. Yet what seems to be lost on the radical conservatives holding the reins of power is that a revolutionary situation is engendered by an overall structural and functional need for radical reform, be it economic, social or political.

Green mobilisation and class politics

As with any domestic unrest, there is a clear economic dynamic that is vital when assessing the sustainability of an opposition movement. Opposition groups have more difficulty working towards significant change if the vast majority of the population is satisfied with the current economic environment. If business leaders are making money, the uncertainty that follows significant political change is bad for business. Yet, if opposition groups can convince business leaders, unions and labourers that business will improve with a change in government, the opposition becomes dramatically stronger. While the current economic situation in Iran deteriorates, more space is opening up for new leadership, as business is no longer continuing as usual.

For the protests to gain momentum again and maintain a greater visibility, additional sectors of society have to become involved. Key economic elites have suffered under the government's mismanagement of economic and trade policies and have grievances due to the preferential contract treatment from which current/former members of the IRGC have benefited. However, the most important element to be considered here is the working class, which was instrumental in sustaining the momentum of the protests and tipping the scales against the Pahlavi monarchy in 1978-79. Workers have been present at, and participated in, the protests in the last year but as a class they have yet to immerse themselves in this conflict.

In some camps the assumption has been that the workers would almost by default side with and actively support the Green Movement. This is a false assumption and the situation has not developed along such a trajectory of organic and intuitive connections between nascent labour movements and the political opposition. Nevertheless, increasing economic pressure and hardship might trigger greater participation of the working class in the protest movement. The recent subsidies reform bill, mentioned above, will have a crucial impact here. Ahmadinejad's government, after a lot of discussion and turf wars, managed to get a modified bill through the *Majlis* in the spring of 2010. The details of the actual plan are still murky and it was only implemented in late 2010 with most of the effects becoming noticeable early in 2011. In addition, the budget for the Iranian year 1390 has been delayed and it is too early to assess the effects of the removal of the subsidies and their replacement with cash payments to certain income groups.

While most economists believe it is a necessary reform, the net effect of the bill is difficult to gauge. It will most probably have hyper-inflationary effects. The question is whether the government will have the means and capacity to alleviate its effects on the least well-to-do. In combination with high unemployment and a generally underperforming economy, increased dissatisfaction is quite likely.

There are however two conditions that suggest that it is rather unlikely that workers' dissatisfaction will culminate in political agitation. First, the leading figures of the Green Movement have mostly abandoned their statist view of the economy, shifting rather to a neo-liberal perspective. Consequently, the working class has no explicit champion for their cause in the intra-elite wrangling in Tehran. Secondly, the Iranian working classes have not had an independent nationwide organisational structure at their disposal for the last 30 years. The state created its own compulsory labour unions shortly after the revolution; there is no support from the companies themselves for such activities, and there is no shortage of ideological animosity towards the basic idea of organised labour. Some of those who have become reformists in the last decade spent the early years of the Islamic Republic resisting and thwarting attempts to establish independent unions.

So the working class is, for now, at best a defensive force capable of re-

acting to increased economic distress induced by state actions. For this to change and for the working class to become an active force capable of setting and pursuing an agenda in concert with the Green Movement, two conditions must be met. The Green Movement must adopt a much more social justice-oriented political platform (a return to their roots for men like Mir Hossein Mousavi) that acknowledges and prioritises the socio-economic grievances and interests of the former. Secondly, the same problem that hinders the unification of the Green Movement applies to the labour movement: there is little space for organisational structure and growth. Without a more co-ordinated and cohesive organisational structure it will be virtually impossible for the opposition to broaden and sustain a protest dynamic.



3. Sanctions and foreign policy

While sanctions are a tool rather than a policy as such, they constitute a consistent feature of the policies adopted in the US and EU *vis-à-vis* Iran. It is therefore important to try and evaluate their effects as well as their efficiency with regard to the stated goals for which they are employed – something which has hitherto been done far too seldom.

Sanctions as an engine of systemic change

There is a basic assumption generally held by proponents of further sanctions against Iran, particularly the kind of sanctions that will have a tangible impact on Iranian society. This is based on the hypothesis that there is a simple and straightforward correlation between economic hardship induced by sanctions and the achievement of the political outcome desired by those applying the sanctions, i.e. regime change.

The expectation is that sanctions will restrict Iran's economic relations with the outside world and raise the transaction costs for both imports to and exports from Iran. Thus the economic difficulties of the regime will affect its ability to cushion the population at large from the negative impact of the sanctions, in turn stoking further and greater popular discontent and weakening the regime's popular base.

This argument underestimates the regime's ability to deflect the impact of any hardship caused by sanctions on the general population by attributing them to external interference and whipping up nationalistic sentiment against such interference. More importantly, it also flies in the face of evidence from Iran's recent economic history, which casts serious doubt over any simple presumptions that the business and economic cycles are unambiguously intertwined with political dissatisfaction, that hardship and economic distress are linked with, and go hand in hand with, discontent and revolt and vice versa. In short, impoverishment does not automatically lead to rebellion.

Two brief examples will suffice to refute this presupposed linkage. First, the 1979 Revolution did not stem primarily from economic decline and hardship nor did it follow a period of economic depression and auster-

ity. In fact, the backdrop to the Revolution was a period of significant and sustained economic prosperity. Over the two decades of 1960-79 as a whole, Iran's real GDP growth averaged 9 percent per annum, which is on a par with the current Chinese economic growth rate. The oil boom of the 1970s further catapulted Iran into a period of unprecedented economic growth and expansion which was interrupted by outbreaks of revolutionary unrest in 1978 and 1979.

Second, and by contrast, in the post-revolutionary period of the 1980s Iran's economy suffered almost a decade of serious entrenchment. In real terms, GDP contracted by 1.3 percent over the period spanning the war with Iraq (1980-88), yet these years did not weaken popular support for the revolutionary regime in any significant sense. On the contrary, the regime arguably strengthened its hold over society and the economy.

The prosperity of the golden years of the 1970s oil boom, which was unevenly distributed, highlighted inequalities within Iranian society and led to spiralling inflation, ended in widespread discontent, culminating in the ultimate downfall of one of the most powerful monarchies in the region. In contrast, the hardships and austerity of the 1980s were in fact contemporaneous with the Islamic government's consolidation and stabilisation.

Sanctions as a means to thwart Iran's nuclear ambitions

If the aim of the sanctions is to inhibit Iran's nuclear programme most would agree that this is unlikely to succeed. The question too few are currently asking is what follows on from the failure of the sanctions regime? Eventually, bar a war, Iran and the US would need to return to the negotiating table to deal with Iran's nuclear programme (as sanctions would have had no effect). At this point, the US and the EU would have less leverage, as the threat of yet more sanctions would no longer be viable. Therefore, Iran would be in a stronger position at the negotiating table; imposing sanctions on Iran as a means of pressurising it over its nuclear programme actually empowers the country.

There is simply no evidence that further sanctions will have any effect on the Iranian nuclear programme. Rather, sanctions seem likely to further cripple the already ailing Iranian economy (bolstering the black market

controlled by the IRGC as a consequence) and drive non-Iranian companies out of the country (increased economic isolation and less international competition often encourages, or allows for, more authoritarian state practices). So a plausible case can be made for sanctions being primarily aimed at increasing Iran's international isolation, which in turn would affect the country both domestically and in the conduct of its foreign policy.⁸ Yet this in and of itself will not necessarily lead to change in the Iranian position with regard to the nuclear programme.

Thus the sanctions strategy can be assessed and criticised from several perspectives and according to various criteria. If the stated goal – curtailing Iran's nuclear programme and reaching full disclosure of its intent – fails, it will likely enhance the risk of a war.⁹

The United Nations Security Council implemented sanctions in relation to Iran's nuclear programme through Resolution 1696 in July 2006. Since then an additional five resolutions have been passed, either demanding compliance from Tehran or imposing new sanctions as punishment and as a means of increasing the pressure on successive governments in Tehran to cooperate and comply. The scope of the sanctions has increased from targeting specific material related to the nuclear programme and weapons-related equipment to targeting individuals believed to be key figures in the programme and in banks related to the IRGC.

In parallel to the sanctions, in varying shapes and constellations, the P5+1 have been negotiating with Iran on its nuclear programme. In Geneva in October 2009 the parties came very close to an agreement on fuel for the Tehran research reactor (TRR) which would give Iran fuel in exchange for its own low-enriched uranium. Ultimately the deal fell apart. The US then forged ahead with the proposal of imposing a fourth set of sanctions on Iran through the UNSC. Meanwhile Turkey and Brazil picked up the thread and pursued their own negotiations with Tehran. They reached an agreement in May 2010, days before the UNSC vote on new sanctions against Iran.¹⁰

8. See Sadeq Zibakalam, 'The government, instead of decreasing tensions with the West, has steadily increased them', 9 September 2010. Available at: <http://aftabnews.ir/vdcfjedyxw6dxva.igiw.html>.

9. See Patrick Disney, 'Is the Sanctions Debate Justifying the Military Option?', 26 April 2010. Available at: <http://www.insideiran.org/news/is-the-sanctions-debate-justifying-the-military-option/>.

10. See Rouzbeh Parsi, 'The trilateral Iranian nuclear agreement: shell games, international style', EUISS Analysis, May 2010. Available at: <http://www.iss.europa.eu/uploads/media/RP-IranTurkeyBrazilpdf.pdf>.

The nuclear deal between Iran, Turkey and Brazil was thus badly timed and offered some but not all of the benefits of a similar deal proposed in October 2009. While some criticised it for not going far enough in trying to get Tehran to come clean on its nuclear programme, the purpose and ambition of the suggested deal was never to solve the actual issue of Iran's nuclear programme. The deal was intended as a confidence-building measure that could lead the parties to more substantial negotiations on the core issues.

The US publicly expressed its displeasure with the Turkish-Brazilian initiative, thereby exhibiting reluctance to seeing the problem resolved by someone else or step-by-step. If this indicates an all-or-nothing approach towards negotiating nuclear matters with Iran, there is no reason to believe that the US/EU will be able to reach an agreement with Tehran.

The renewed US effort to get a fourth round of UN sanctions was successful. UNSC Resolution 1929 entered into force in June 2010.¹¹ Due to their recent attempt to break the deadlock between the P5+1 and Iran, Turkey and Brazil voted against the resolution, which they saw as a diplomatic failure.

The new sanctions specifically target the access of Iranian banks and institutions to the international financial system and their ability to conduct financial transactions with counterparts outside Iran. While these sanctions are quite comprehensive in their aim to cut off Iranian access to international finance, they do not deal with Iran's primary sources of income: oil and gas. That this is the price the US and EU had to pay in order to get Russia and China on board is quite apparent. Instead the US and EU have, on their own, implemented additional sanctions that target, among other things, Iran's oil and gas industry.

This step of imposing multilateral additional sanctions provoked more of a debate (albeit not much of one) in the EU than in the United States. Besides worrying about the negative trade and economic repercussions that this policy might entail for Member States, countries like Sweden openly voiced their doubt as to whether sanctions are a useful tool in trying to

11. See: <http://www.un.org/News/Press/docs/2010/sc9948.doc.htm>.

influence Iran on the nuclear issue in the first place.¹² The EU sanctions were put in place on 26 July and aim in particular at trying to curb European investments in Iran's oil and gas sector, restrict its sea and air cargo trade and the freedom of movement of key personnel in the IRGC.¹³

In addition to financial sanctions UNSC Resolution 1929 also circumscribes (thus expanding on the previous UNSC arms embargo) Iran's right and ability to acquire heavy armaments and related training and maintenance assistance.¹⁴ Iran's ability to continue to rely on Russia and China as sources of sophisticated and heavy weaponry is looking quite uncertain as both these countries have agreed to the new tighter sanctions.¹⁵ The most public example of this so far is the Russian equivocation over sales of S-300 surface-to-air missiles to Iran – an order paid for several years ago but not yet delivered. They were said to be defensive weapons and hence allowed under the new sanctions but in September 2010 Russian president Dmitri Medvedev decreed their sale illegal.¹⁶

In late 2010 new negotiations between the P5+1 and Iran were announced. The latest round took place in Istanbul in January 2011. While the P5+1 see this as an opportunity to revisit the TRR deal, Tehran tries to depict the nuclear issue as somewhat obsolete. In this vein Iran's ambassador to the IAEA stated that the country is soon going to have enough uranium enriched to 20 percent to provide fuel for the TRR and is in the process of manufacturing the fuel rods itself. This would make a fuel swap for this reactor a much less attractive deal from the Iranian point of view and hence politically more difficult. In short, this confidence-building measure could be rendered useless.¹⁷

Furthermore the Iranians believe that as they will not have budged an inch, when they return to real negotiations they will do so in a position

12. See James G. Neuger, 'EU to Target Iran's Oil, Gas Industries in Widened Sanctions', *Bloomberg Businessweek*, 16 June 2010. Available at: <http://www.businessweek.com/news/2010-06-16/eu-to-target-iran-s-oil-gas-industries-in-widened-sanctions.html>.

13. See: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2010:195:0039:0073:EN:PDF>.

14. 'Security Council imposes additional sanctions on Iran, voting 12 in favour to 2 against, with 1 abstention', Security Council press release SC/9948, 9 June 2010. Available at: <http://www.un.org/News/Press/docs/2010/sc9948.doc.htm>.

15. Arms Control Association, 'The UN Sanctions' Impact on Iran's Military', *Issue Brief*, vol. 1, no. 7, 11 June 2010. Available at: <http://www.armscontrol.org/issuebriefs/iransanctionseffectonmilitary>.

16. BBC News, 'Kremlin bans sale of S-300 missile systems to Iran', 22 September 2010. Available at: <http://www.bbc.co.uk/news/world-europe-11388680>.

17. Alan Cowell, 'Iran Says Time Running Out for Nuclear Deal', *New York Times*, 12 January 2011. Available at: <http://www.nytimes.com/2011/01/13/world/middleeast/13iran.html?scp=1&sq=soltanieh&st=cse>.

of strength. In contrast, the US is equally sure that Iran's return to the negotiating table will reflect its own ability to inflict pain on Iran, thus reaffirming US strength.

Iranian reactions

As usual the reaction from Iran has been one of initial defiance by the president: 'Maybe the Iranian nation will someday celebrate the introduction of these sanctions because we will make our economy a strong, global power completely independent of imports.'¹⁸ This is then followed by reluctant and equivocal public acknowledgements of the fact that the economy has been affected.

All in all, the effects of this latest round of sanctions on the Iranian economy and society have been significant.¹⁹ These sanctions have teeth and Iran is bleeding – though there is no indication so far that the economic hardships imposed on the population at large (which of course partly also stem from long-term government mismanagement) have any impact on Tehran's nuclear policy and ambitions.²⁰

Large global companies, especially in the oil sector, have cut down on their dealings with Iran or started to phase them out completely. This does not mean that Iran will have difficulty obtaining new supplies, however, as smaller companies (many based in Dubai or China) move to fill the gap left by the multinationals. The new supply contracts are likely to be more expensive though.²¹

18. President Ahmadinejad quoted in Abbas Djavadi, 'Iranian Small Business Squeezed By Ahmadinejad's Policies', RFE/RL, 9 September 2010. Available at: http://www.rferl.org/content/Iranian_Small_Business_Squeezed_By_Ahmadinejads_Policies/2122863.html. See also first Vice President Mohammad Reza Rahimi's statement, Fars News Agency, 'Gov't Vows to Improve Iranians' Financial Situation amid Sanctions', 9 August 2010. Available at: <http://english.farsnews.com/newstext.php?nn=8905181098>.

19. For an assessment from a sanctions advocate, see Charlie Rose's interview with US Under-Secretary for terrorism and financial intelligence, 6 October 2010. Available at: http://www.charlierose.com/view/interview/11231#frame_top. For more critical appraisals of the purpose and effects of the sanctions, see Al-JazeeraEnglish, 'Inside Story – Cutting ties with Iran?' with Profs. Scott Lucas and Sadeq Zibakalam, 21 October 2010. Available at: <http://english.aljazeera.net/programmes/insidestory/2010/10/20101021134457171350.html>; see also Pierre Noël, 'Is Europe Shooting Itself In The Foot (To Russia's Benefit)?', 1 July 2010 Available at: <http://www.raceforiran.com/iran-natural-gas-and-eu-sanctions-%E2%80%99Cis-europe-shooting-itself-in-the-foot-to-russia%E2%80%99s-benefit%E2%80%9D>.

20. See for instance the statement made by Alaeddin Boroujerdi, the chairman of the National Security and Foreign Policy Committee of the Iranian Parliament, who suggested that the Parliament would review Iran's relationship with the IAEA: 'Initiating a review of, and developing a plan for, an urgent reduction of relationship with the agency', Mehr News, 9 June 2010. Available at: <http://www.mehrnews.com/fa/newsdetail.aspx?NewsID=1098231>.

21. 'Total joins petrol embargo of Iran as sanctions loom', *Financial Times*, 28 June 2010. Available at: <http://www.ft.com/cms/s/0/5879ec78-8251-11df-9467-00144feabdc0.html>; 'BP halts supply of jet fuel to Iranian airliners', Reuters, 5 July 2010. Available at: <http://www.reuters.com/article/idUSTR66425B20100705>.

The sanctions are not just hitting large-scale projects; as cheap Chinese imports replace both more expensive foreign goods and domestic production, and the IRGC expands its economic role and influence, small businesses are becoming increasingly imperilled.²²

As the effects of the sanctions have become ever more apparent,²³ domestic criticism of Ahmadinejad and others for failing to prepare adequately for international sanctions and for underestimating their effects has grown, including in the conservative camp.

The United States and Iran

President Obama's plan to engage Iran at a diplomatic level has faced many difficulties. The failure of this effort at diplomatic outreach is primarily due to large ideological differences within the Obama administration as well as long-standing hostility towards the Islamic Republic in Congress. US lawmakers have been aggressively pursuing harsh sanctions but for a long time the Obama administration managed to delay any such initiative in order not to jeopardise the push for new sanctions in the UN Security Council. Presently, both UN-approved sanctions as well as the harsher measures proposed by Congress have been signed into law. Under these difficult circumstances the Obama administration has not managed to articulate a unified policy or strategy for dealing with Iran.

The attempt to reach out diplomatically to Iran has been severely impeded by two factors in particular. The rifts in Tehran have made reaching a consensus within the Iranian political elite on such a controversial issue as whether and how to deal with the US impossible. Meanwhile, the nuclear programme is being kept on track, thus continuing to pose an obstacle to any attempt at *détente*. In turn, because of domestic pressure as well as Israeli resistance, the Obama administration set an artificial deadline for negotiations (approximately 12 weeks, which was allowed to lapse with-

22. Abbas Djavadi, 'Iranian Small Business Squeezed By Ahmadinejad's Policies', RFE/RL, 9 September 2010. Available at: http://www.rferl.org/content/Iranian_Small_Business_Squeezed_By_Ahmadinejads_Policies/2122863.html.

23. 'After currency crash, more worries for Iranian economy', *Washington Post*, 6 October 2010. Available at: <http://www.washingtonpost.com/wp-dyn/content/article/2010/10/05/AR2010100506165.html>; 'Nahavandian: Sanctions have increased the cost of imports by 30%', *Saham News*, November 2010. Nahavandian is the president of Iran's Chamber of Commerce. See: <http://sahamnews.org/?p=9610>; see also Brian Murphy, 'Iran's leaders face rumblings as prices rise and sanctions bite,' *Associated Press*, 7 November 2010. Available at: http://www.iranfocus.com/en/index.php?option=com_content&view=article&id=22166:irans-leaders-face-rumblings-as-prices-rise-and-sanctions-bite&catid=31:economy&Itemid=46.

out any clear explanation as to what was to happen after the expiry date) undermining the whole effort.

The Obama administration is pursuing a dual track policy that is quite contradictory.²⁴ On the one hand, the offer to pursue diplomatic relations is still on the table, while on the other hand, the administration – most visibly under the direction of Secretary of State Clinton – has a strong focus on sanctions and their intensification. Yet with the US and other European allies pushing for increased sanctions, the objectives still remain rather unclear. Thus far, there has been confusion over tactics and no coherent strategy.

The United States has a long history of imposing sanctions on the Islamic Republic, going back to the taking hostage of US Embassy personnel in Tehran in 1979. Over the years new sanctions have been added, so that today a whole, and frequently bewildering, array of sanctions are in place, with the result that there are very different interpretations of what constitutes compliance with or infringement of the sanctions regime.

Congress had been pushing for stricter unilateral sanctions for quite some time but agreed to let the Obama administration first rally the UNSC to a new set of international sanctions before implementing new unilateral measures. The Comprehensive Iran Sanctions, Accountability and Divestment Act of 2010 was signed into law by President Obama on 1 July.²⁵ The legislation imposes penalties on international companies that supply Iran with refined oil products, and on banks that do business with the designated Iranian institutions. International companies that break the rules could have their assets in the US frozen, be barred from doing business with US banks, and be denied US government contracts. In late September 2010, the Obama administration went one step further and through an executive order targeted officials in the highest echelons of the Iranian political and military establishment who had committed human rights abuses.²⁶

24. For an unexpected peek into the inner workings of this policy, see Scott Peterson, 'For Iran, WikiLeaks cables validate its skepticism of Obama's sincerity', 30 November 2010. Available at: <http://www.csmonitor.com/World/Middle-East/2010/1130/For-Iran-WikiLeaks-cables-validate-its-skepticism-of-Obama-s-sincerity>. The original document is called 'Iran Sanctions: Aa/S Glaser Briefs EU On Priority', available at: <http://www.wikileaks.de/cable/2009/04/09BRUSSELS536.html>.

25. See: <http://www.treasury.gov/resource-center/sanctions/Documents/hr2194.pdf>.

26. Executive Order 13553 of 28 September 2010. Available at: <http://www.treasury.gov/resource-center/sanctions/Documents/13553.pdf>.

With the election of the 112th Congress where the Republican Party has the majority in the House of Representatives, a more combative stance on Iran can be expected, where proposals to further enhance the sanctions regime and remove the Mojahedin-e Khalq organisation (MeK) from the State Department's terrorist list are very prominent issues.²⁷ It should be stressed here that the MeK is *not* a viable and legitimate interlocutor. The group advocates violence and has a dubious track record when it comes to understanding and espousing democracy and respect for human rights.

The failure of sanctions will also have domestic repercussions for the Obama administration. With the House of Representatives under Republican control and Obama's own re-election campaign in effect already starting in 2011, the Iranian issue will continue to constitute a significant foreign policy problem. With the nuclear issue the centrepiece of its Iran policy, the administration risks facing criticism for both a failed diplomatic approach and failed sanctions. This increases the risk of an escalation towards war as more hawkish voices will claim that 'all options have been exhausted'.

Equally disturbing is the small group of individuals within the Ahmadinejad administration who see a cunning logic in encouraging an armed conflict with the US. Already engaged in two regional wars, US military power around the world is stretched. A third ground war could severely damage the role of the US as the world's leading military power. According to their assessment, a multipower world in which power is more evenly distributed would be beneficial for Iran and their (i.e. Ahmadinejad's) faction would then have both an opportunity to consolidate state power in the event of an actual war as well as play a larger regional role as American influence wanes.

The European Union and Iran

The EU has tried to engage Tehran in different ways since the 1990s when the 'critical dialogue' was launched. While this venture demanded a lot of coordination from the Member States – and is considered a failure by

27. See the statement of the new chairman of the House Foreign Affairs Committee at the hearing on Iran sanctions implementation, 1 December 2010: http://foreignaffairs.house.gov/press_display.asp?id=1650. On the MeK and the US, see Tony Karon, 'Why Are Some US Politicians Trying to Remove an Iranian "Cult" From the Terror List?', 4 March 2011, available at: <http://globalspin.blogs.time.com/2011/03/04/why-are-some-u-s-politicians-trying-to-remove-an-iranian-cult-from-the-terror-list/#ixzz1FhKhjMkM>; and Barbara Slavin, 'Iranian "Terrorist" Group Courts Friends in High Places', 1 March 2011, available at: <http://ipsnews.net/news.asp?idnews=54675>.

some – it was a necessary and useful ambition that in its own way contributed to encouraging the growth of the then emerging Iranian civil society and increased political activity in the country.

During the era of the George W. Bush administration, the EU engaged Iran both out of principle and necessity, balancing Washington's confrontational approach and acting as its proxy when serious negotiations with Iran did take place.

In many ways, however, the EU has been retreating from engagement with Iran for the last couple of years. An early fatal political strategy was to wait for more acceptable or flexible interlocutors. This has backfired as Khatami was not succeeded by the pragmatic Rafsanjani but instead by a radical populist, Ahmadinejad. Similarly, the expectation that George W. Bush would be succeeded by someone more inclined towards a traditional multilateral approach has partly been proved true, yet there is a serious underestimation of domestic constraints on attempts to steer US foreign policy towards engagement with Iran. Therefore the EU should seize this moment to be at the forefront rather than wait for US initiatives. This in turn will require a much stronger EU, and a coordinated approach by the Member States in order not to send out conflicting signals.

This is of course not easily accomplished as the mutual distrust and lack of credibility between Iran and the EU now is quite formidable. The EU believes Iran is not coming clean on its nuclear programme and that it is procrastinating on the issue. From the Iranian perspective, the EU has lost much of its credibility as an interlocutor. Yet the Union is abdicating what few positions it had by adhering to a nuclear dossier- and sanctions-first approach. European companies are now being encouraged to leave Iran by the EU (which was not the case in the 1990s when the US ILSA sanctions were enacted) and are being increasingly replaced by Chinese companies and possibly other non-Western mid-sized companies, in addition to domestic IRGC-related business entities. This is highly problematic for the soft power projection of the Union in the region as well as for its energy security.²⁸

28. In 2008 the EU was Iran's primary source of imports at 26.7% and 2nd exporting market at 18.6% (primary market was China). See: http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113392.pdf. For more recent data (2009), see Annex, pp. 38-40.

Thus, like the US, the European Union needs to address the lack of an overall strategy towards Iran in two important respects.

First, the nuclear issue is currently defined solely in terms of preventing Iran from developing a nuclear weapon. While this is an important ambition and necessary both for security reasons as well as maintaining the credibility of the NPT, there should be more attention paid to what the implications would be for the world if Iran actually crosses the nuclear threshold. The likelihood of Iran resorting to the use of a nuclear bomb is negligible, as the ideological fervour of the rulers of Tehran has always been tempered by their survival instinct. Iran's 'going nuclear', however, would radically shift the strategic balance of the region (the actual reason for Israeli hawkishness rather than the probability of Iran constituting an existential threat). But this requires further discussion as a simple plan of containment is neither effective nor feasible.²⁹

Secondly the Union needs to think hard about what kind of relationship it wants with Tehran beyond the nuclear dossier. What is needed is a regional framework that is more constructive than one that simply maintains low-intensity tensions between different 'blocs'. A balance of power through maintaining low-level conflict would not be a sustainable scenario as this would be neither stable nor low-risk, as it could easily escalate into something much more intense and belligerent.

While there is obvious exasperation with Iran on both sides of the Atlantic this 'Iran fatigue' risks cementing sanctions as the centrepiece of an Iran policy by default. Yet in a not so distant era a more formidable foe in the form of the USSR – who could have literally annihilated the world – was both contained and engaged, leading to a peaceful resolution of the Cold War.

The latest round of sanctions from the UNSC and the enhanced additions implemented by the EU only make sense from a regime change perspective, although this has never been acknowledged. For instance, the banking sector sanctions target Bank-e Sepah (the bank of the IRGC). Among the many functions of the bank is to open an account for every person undertaking military service. Thus every conscript is a customer of the

29. For arguments for and against containment and engagement, see Timo Behr (ed.), *Hard Choices: The EU's Options in a Changing Middle East*, Finnish Institute for International Affairs, Report 28, 21 April 2011. Available at: <http://www.fiia.fi/en/publication/185/>.

bank. The role of the bank as an extension of the increasingly organic connection between the IRGC and Iranian society at large is an indication of how difficult it is to square a sanctions regime with minimal detrimental effects on the general population.

There is a danger that the sanctions regime is being stubbornly pursued in the hope that the other side's position and perspective will radically change, and as a result allow us in the West to retain our position and avoid a necessary re-assessment of the situation and the concomitant strategic rethink. The notion of sanctions being a catalyst for change is premised on the positive outcome of a chain of several situations, building towards a happy ending. Even in the case of this improbable chain of events taking place, the questions that remain disconcertingly overlooked are: (a) whether a change of government would necessarily alter Iran's nuclear ambitions; and, more ominously, (b) if the regime collapses who and what entity will take its place?

Conclusions

In order to avoid further unnecessary brinkmanship, a firm and constructive engagement with all factions in Tehran should be initiated to ease tensions on the international stage and also to help level the playing field in Iranian domestic politics. Considering the complex nature of Iranian society and the long-term course of its political development, time will reward pragmatism and a policy of engagement will sustain this line of thinking inside Iran as well.

From a long-term perspective, what Iran needs is to undergo a gradual transition and experience external and domestic reconciliation and integration, not another sudden revolution with many unknown variables. For this to succeed, the situation needs to be de-escalated both on the domestic and international fronts, ensuring that pragmatically-inclined groups and those actors who have not yet adopted a clear position are not alienated into believing that their fortune lies with the most abrasive and ideologically hardcore factions.

Thus the non-nuclear track needs to be upgraded and differentiated. The engagement should not be confined to high-level diplomacy. Many in Tehran will not welcome the engagement effort, due to principled objections or the fear of being ostracised at home. However, this should not be taken as evidence that engagement is impossible or undesirable. The soft power of the EU is still credible enough to entice Tehran not to close the door, and at the minimum to have more options than just the Chinese at their disposal.

By engaging broadly (with all factions and groups) as well as deeply (with all levels of government and beyond) the risk that the engagement effort is seen simply as an attempt to favour a particular group – something which would seriously undermine its overall chance of success – is significantly reduced. Instead of seeing the hit-and-miss risks involved in engaging Tehran as too onerous, the soundest approach would be to try everyone and everything. To try and play the factions in Tehran is dangerous and bound to fail, in particular since their antagonisms and rivalries are seldom solely, if at all, based on specific ideological differences.

For those leaving Iran, neighbouring states and the EU are their primary destinations. This represents the latest wave of politically motivated and active refugees from Iran, a phenomenon dating back to the 1920s. The combination of political freedom (and fewer political constraints than in the US) and physical proximity is both attractive and problematic. Here, the EU needs to do more to grant asylum to and protect those fleeing while giving assurances that they will be safe from the intelligence and security arm of the Islamic Republic. The arrival of groups of people in the EU who until recently were active in civil society or the media in Iran can help level the playing field for political debate within the country by providing them with a platform outside the country. While it is not advisable for the EU to engage these groups directly (nor is it likely that they would seek that kind of cooperation) there are plenty of NGOs and civil society organisations that can and should.

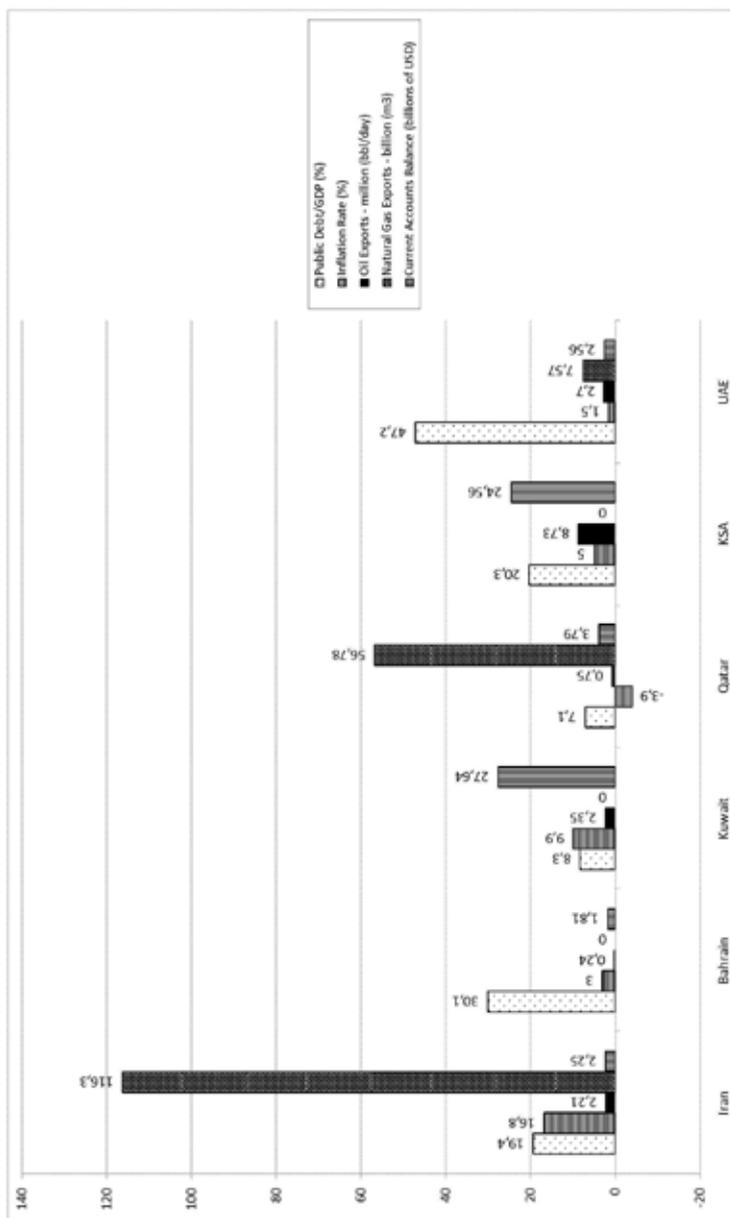
This approach does not preclude highlighting the serious human rights problems in Iran. On the contrary, the initiation of dialogue and exchanges will help break the domestic communications blockade the regime has developed in the last 18 months and allow for a flow of people, trade and information. The appalling human rights situation in Iran is a core issue at the heart of the domestic political struggle and thus has considerable traction. It is therefore a vital aspect of engagement not to marginalise the issue, even though the short-term signal sent out by engagement might give the impression that the EU is bypassing the human rights dimension.

The EU should make clear that it will talk to all parties in Iran including the opposition, both domestic and in exile. It should be made clear to all involved that there is no need to attempt to keep something secret that will eventually become public. This is a policy of being discreet but not conspiratorially secretive.

Admittedly this approach is not guaranteed success nor is it a quick fix. The alternatives have however proven themselves to be both ineffective and detrimental to the overall position of the EU.

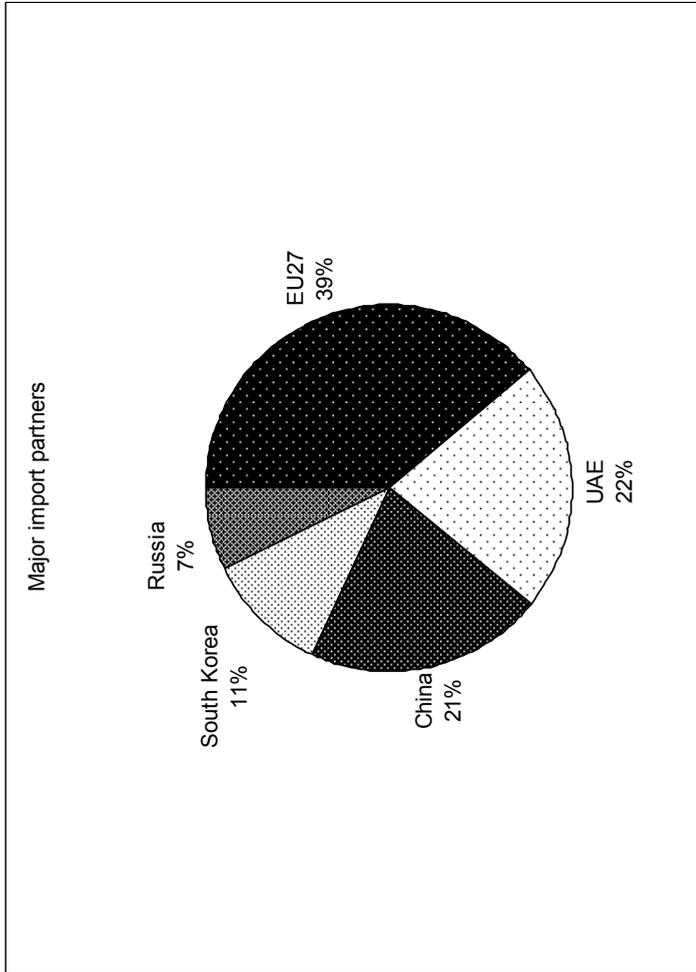
Annexes

Annex 1 – Some financial and energy indicators



Source: CIA World Factbook (<http://www.cia.gov/library/publications/the-world-factbook> – as updated April 2010).

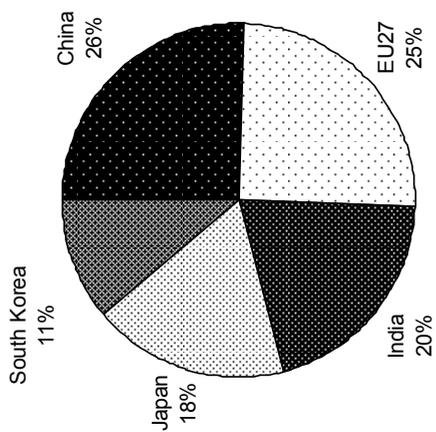
Annex 2 – Iran’s five major trading partners 2009



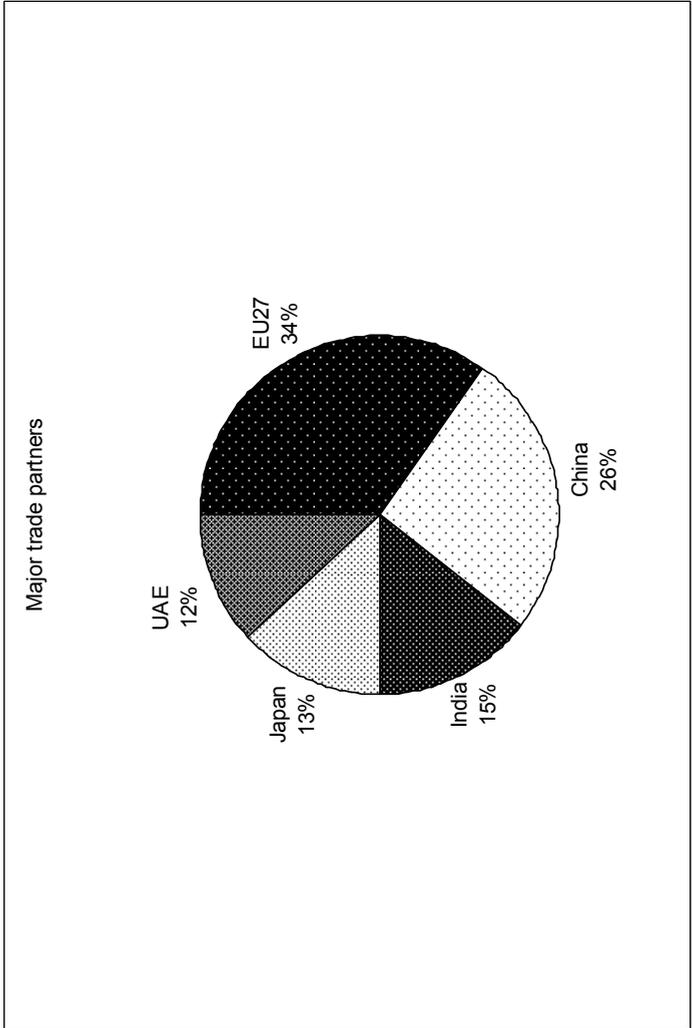
Major import partners	
Partner	Millions of €
EU27	11,463.1
UAE	6,457.0
China	6,223.5
South Korea	3,142.3
Russia	2,180.7
Constituting 69.40% of total imports	

Source: http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113392.pdf
(original data IMF)

Major export partners

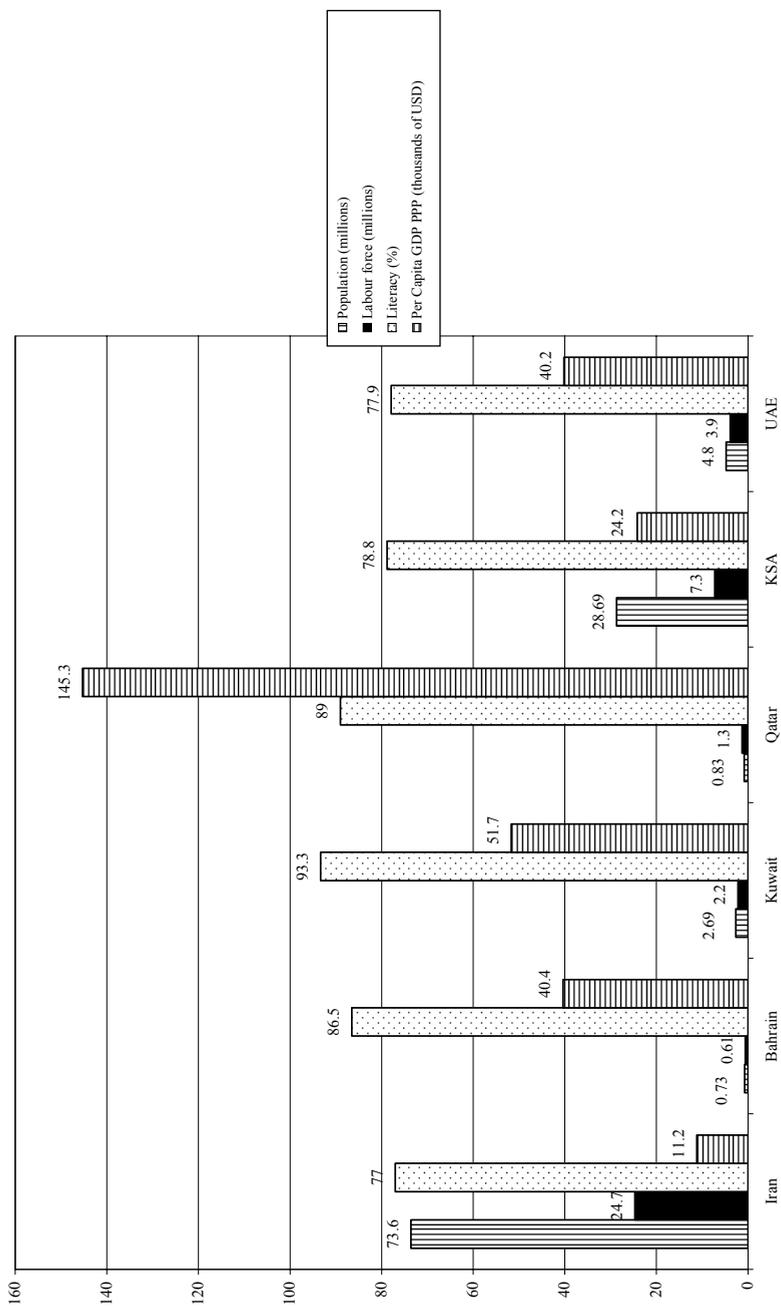


Major export partners	
Partner	Millions of €
China	8,617.2
EU27	8,443.7
India	6,866.1
Japan	6,036.5
South Korea	3,739.3
Constituting 64.70% of all exports	



Major trade partners	
Partner	Millions of €
EU27	19,906.8
China	14,840.7
India	8,421.4
Japan	7,335.7
UAE	6,935.4
Constituting 60.70% of total trade	

Annex 3 – Population

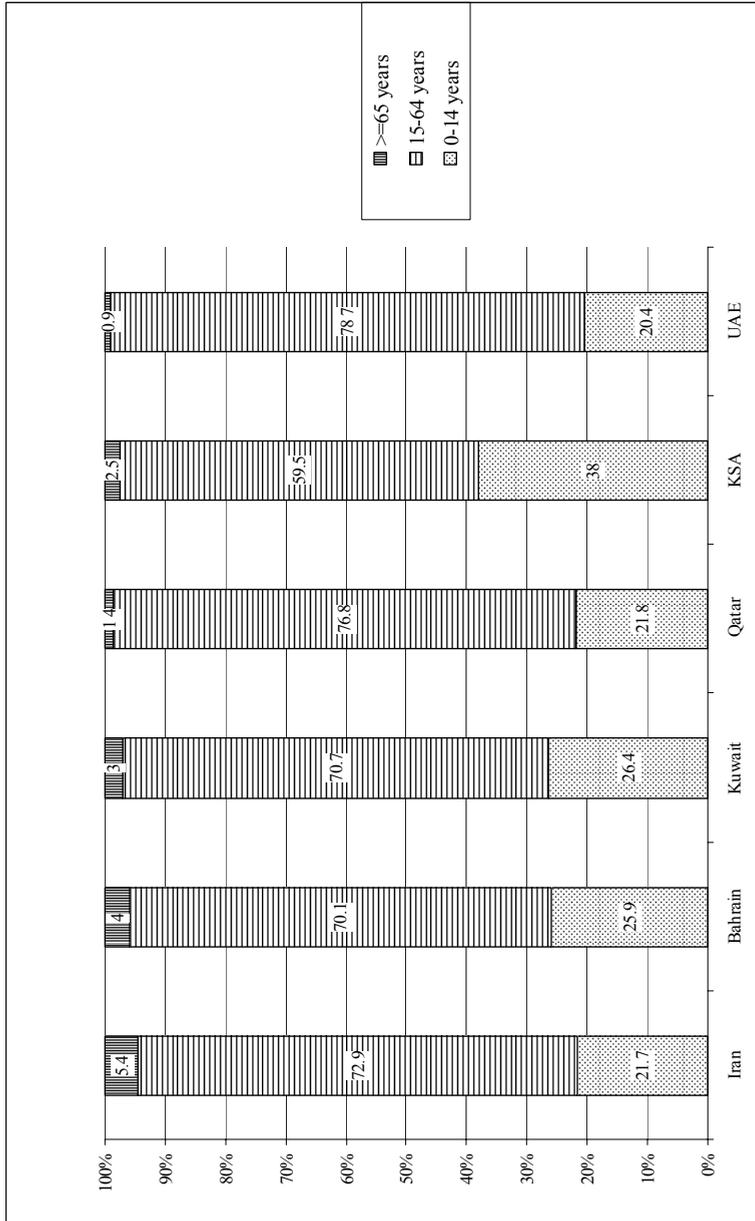


Source: CIA World Factbook with estimations for 2010 and 2011.

(<http://www.cia.gov/library/publications/the-world-factbook>)

NB: Population and labour force figures for some countries include non-nationals.

Annex 4 – Age structure (%)



Source: CIA World Factbook (<http://www.cia.gov/library/publications/the-world-factbook>).

Annex 5 – Abbreviations

GDP	Gross Domestic Product
IAEA	International Atomic Energy Agency
ILSA	Iran and Libya Sanctions Act
IRGC	Islamic Revolutionary Guards Corps
KSA	Kingdom of Saudi Arabia
MeK	Mojahedin-e Khalq organisation
NGO	Non-Governmental Organisation
NPT	Non-Proliferation Treaty
TRR	Tehran Research Reactor
UAE	United Arab Emirates
UAV	Unmanned Aerial Vehicle
UNSC	United Nations Security Council
USD	United States Dollars
USSR	Union of Soviet Socialist Republics

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