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**DIRECTORATE-GENERAL FOR EXTERNAL POLICIES OF THE UNION  
DIRECTORATE B  
- POLICY DEPARTMENT -**

*NOTE ON*



**Iran**

POLITICS, ECONOMY, INTERNATIONAL RELATIONS, THE NUCLEAR ISSUE  
AND EU-RELATIONS

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# Iran

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# I. POLITICAL SITUATION<sup>1</sup>

## System of government<sup>2</sup>

The political system of Iran includes democratic elements, in particular the election by universal suffrage of the president, parliament and municipal councils. These elements should not be dismissed as merely ornamental and insignificant. The system is, however, above all theocratic, with mainly conservative clergy holding offices and dominating institutions that are not democratically accountable, but have both legal and practical means to control the outcome of the political process.

The **constitution**<sup>3</sup> mandates that this process should have a specific objective, namely to 'establish an ideal and model society on the basis of Islamic norms'. It declares that 'the righteous will assume the responsibility of governing and administering the country' and states that 'the exercise of meticulous and earnest supervision by the just, pious and committed scholars of Islam (*al-fuqaha' al-'udul*) is an absolute necessity'<sup>4</sup>.

The constitution reflects the ideas of Ayatollah Khomeini, who since the beginning of the 1960's led the religious opposition to the shah<sup>5</sup>. This is particularly true for 'the rule of the Just Islamic Jurist'. The Just Islamic Jurist (*vali-e faqih*), who is also referred to as the **Supreme Leader**, has the duty and power to delineate the general policies of the country and to supervise the proper execution of the general policies of the system. He appoints (and can dismiss) key officials. Furthermore, he is commander in chief of the armed forces and can mobilise troops and declare war.

Ayatollah Khomeini was himself Supreme Leader from the revolution until his death in 1989. Until shortly before, he had a chosen heir, Ayatollah Montazeri. After having called for relaxation of repressive policies and a less isolationistic foreign policy, Montazeri did, however, fall out of favour<sup>6</sup>. Khomeini was instead succeeded by Ali Khamenei<sup>7</sup>, who was prime minister at the time<sup>8</sup>. Possibly provoked by suggestions that the religious grounds for the existence of his office, and for his tenure of it, would be insufficient, Khamenei in 2004 declared: 'In the Islamic

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<sup>1</sup> The human rights situation is dealt with in a separate note.

<sup>2</sup> The International Crisis Group's report *Iran: The Struggle for the Revolution's Soul*, [www.crisisgroup.org/library/documents/report\\_archive/A400729\\_05082002.pdf](http://www.crisisgroup.org/library/documents/report_archive/A400729_05082002.pdf), pp 3-10 contains some further details about the centres of power in Iran. This report, as well as The Economist Intelligence Unit's 2007 Country Profile for Iran, [www.eiu.com/report\\_dl.asp?issue\\_id=1732657158&mode=pdf](http://www.eiu.com/report_dl.asp?issue_id=1732657158&mode=pdf), pp 8-9 (not accessible for free outside Parliament) are among the sources used for the present section of this note.

<sup>3</sup> Adopted 1979 and amended 1989. Available (from computers within the EP) at: [www.oceanalaw.com/gateway/gateway.asp?ID=31&SessionID={FF749D47-8034-46C3-B170-F51DAD708AA1}](http://www.oceanalaw.com/gateway/gateway.asp?ID=31&SessionID={FF749D47-8034-46C3-B170-F51DAD708AA1}) After 'Locations:', write Iran. Then press the 'Search' button at the bottom.

<sup>4</sup> These quotes are from the preamble, subsection 'The form of Government in Islam'.

<sup>5</sup> Khomeini rose to prominence in 1963, when he agitated against a US-designed land reform called the White Revolution. His agitation, and the authorities' actions against him, sparked riots. The following year, Khomeini became the leading voice against a hugely unpopular bill granting Americans in Iraq legal immunity. He was then forced into exile. When returning during the revolution in 1979, he was greeted by millions of people in the streets of Tehran.

<sup>6</sup> Montazeri has since then been a dissident. His memoirs are banned in Iran and he has in periods been in house arrest in his home in the holy city of Qom. In January 2007, he criticised the confrontational stance of President Ahmadi-Nejad on the nuclear issue, as well as the current economic policy. (BBC report on this: [http://news.bbc.co.uk/2/hi/middle\\_east/6286771.stm](http://news.bbc.co.uk/2/hi/middle_east/6286771.stm)).

<sup>7</sup> [www.khamenei.ir/](http://www.khamenei.ir/)

<sup>8</sup> The office of prime minister was at the same time abolished and the position of the president much strengthened.

democracy, no rule is accepted except that transferred from God to the leader. The power of the revolutionary leader is a gift from God<sup>1</sup>.

The Supreme Leader is appointed by the **Assembly of Experts**, from its own ranks. This assembly consists of 86 clerics elected by universal suffrage for a period of eight years. The last such election took place in December 2006. Reformists were barred from running, but there was a competition between different conservative factions. The Assembly of Experts rarely convenes, but can meet in crisis situations. Its head is Hashemi Rafsanjani<sup>2</sup>.

The **president** is elected by the people for a period of four years, renewable once. He appoints and dismisses ministers. Through his responsibility for the national planning and budget apparatus and the right to appoint, and dismiss, the head of the central bank, the president has a strong role in economic policy. His performance is, however, subject to the supervision of the Supreme Leader (who after the last presidential election delegated such power to the Expediency Council). Moreover, the president is dependent on parliamentary support.

The **parliament** (the *Majlis*, in the constitution referred to as the Islamic Consultative Assembly) consists of 290 members elected by universal suffrage in multi-member constituencies for a four year term. Five seats are reserved for small religious minorities<sup>3</sup>, but none for the millions of Sunni Muslims in the country<sup>4</sup>.

The Majlis can legislate on all matters. The Guardian Council can, however, object to any law and the Expediency Council then intervenes (these two bodies are presented below). The president needs parliamentary approval of ministerial appointments and the president, or any of the ministers, can be summoned to parliament for questioning, which can be followed by a vote of confidence. The parliament also has significant budgetary powers.

Debates are often lively and the parliament functions as an arena for real contests between different factions. Who gets access to this arena is, however, in the first place determined not by the electorate, but by the **Guardian Council**.

Consisting of six jurists appointed by the Supreme Leader from the top clergy and an equal number appointed by the parliament, at the recommendation of the Head of Judiciary (who in his turn is appointed by the Supreme Leader), the Guardian Council vets every person wanting to become a candidate in a presidential or parliamentary election, or an election to the Assembly of Experts. Out of more than 1 000 persons wanting to stand in the 2005 presidential election, only 8 were allowed to do so.

The parliament must send all draft laws to the Guardian Council, which shall determine the compatibility with Islamic law (*shariah*) and with the constitution. The Guardian Council also has the responsibility to interpret the constitution in other contexts, which makes it comparable to a constitutional court.

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<sup>1</sup> Quoted in K Amirpur, *The future of Iran's reform movement*, in *Iranian Challenges*, Chaillot Paper 89, the EU Institute for Security Studies, Paris 2006.

<sup>2</sup> For more about him, see below.

<sup>3</sup> Zoroastrians: 1, Jews: 1, Assyrian and Chaldean Christians: 1, Armenian Christians: 2 (one in the north, one in the south of the country).

<sup>4</sup> These are mainly Kurds, Baluchis, Turkmen and Arabs. Source: B Hourcade, *Iran's internal security challenges*, in *Iranian Challenges*, Chaillot Paper 89, the EU Institute for Security Studies, Paris, 2006.

When the parliament and the Guardian Council take conflicting positions, the **Expediency Council** should resolve the issue. Created by Ayatollah Khomeini in 1988, it should focus on discerning and protecting state interests. Remarkably, this body is empowered to override both the constitution and its underpinnings of *sharia* law if necessary to preserve the interests of the Islamic state. The Expediency Council more recently gained responsibility also for supervising policy implementation.

### **The neutralisation of the reformists**

The superior character of the power given to democratically unaccountable institutions was highlighted when the electorate began to express a very clear desire for reforms. In 1997, the reformist cleric Mohammad Khatami clearly won a presidential election and in 2001, voters handed him a second, even bigger victory. Between 2000 and 2004, also the parliament was in reformist hands. This resulted in some more space for public debate in the country, but ultimately little less. Although Khatami and the reformists in the parliament had a strong democratic mandate to comprehensively reform the country's political, economic and cultural life and seek improvements of its international relations, they found it impossible to do so. Their initiatives were continuously blocked by the non-elected political power centres. The conservative clergy used their control also of the judiciary and much of the security apparatus to attack students and reform intellectuals, to persecute government officials and parliamentarians and to force reformists to concentrate on fending off attacks instead of on moving their political agenda.

After having let many reformists run in the 2000 parliamentary elections, the Guardian Council acted decisively against this group before the 2004 parliamentary elections, disqualifying inter alia a large number of incumbent MPs. In the presidential election the following year, reformists were allowed to run and one of them almost made it to the second round. The roughly 60 % of the electorate who voted did, however, favour a candidate of a very different kind: Mr Mahmoud Ahmadi-Nejad.

### **The presidency of Ahmadi-Nejad**

The victory of this austere man calling for a return to the revolutionary ideals took almost everybody by surprise. A number of possible explanations have been advanced<sup>1</sup>. They normally include references to a deep disillusionment within the electorate after the reformists' failure, to Ahmadi-Nejad's simple personal lifestyle, which bolsters his credibility as a man of the people unaffected by corruption within the elite, and to the attractiveness, not least to poorer Iranians, of promises by Ahmadi-Nejad during the election campaign to 'put the oil income on people's tables'.

Ahmadi-Nejad is the first president of the Islamic republic who is not a cleric. But ever since his childhood in a very religious family in a poor district on the outskirts of Tehran, he is a devout believer. Some commentators argue that his claim that the return of the hidden Imam is near

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<sup>1</sup> For example in the International Crisis Group's briefing *Iran: What Does Ahmadi-Nejad's Victory Mean?*, [www.crisisgroup.org/home/index.cfm?id=3604&l=1](http://www.crisisgroup.org/home/index.cfm?id=3604&l=1).

must be taken into account when his policies are analysed<sup>1</sup>. Ahmadi-Nejad was a student (at a technical university) at the time of the revolution, he participated, within the Revolutionary Guards, in the war against Iraq in the 1980s, and was provincial governor and most recently mayor of Tehran before winning the presidential election<sup>2</sup>.

The Revolutionary Guards (*Pasdaran*) and its associated volunteer militia (*Basij*) may well have provided some support in connection with the presidential election. Certain recent decisions by his government could be interpreted as a return of such favours and as efforts to cultivate the power base which these organisations may represent<sup>3</sup>.

Ahmadi-Nejad belongs to a new generation within the leadership of the country, with a background and a religious attitude similar to his own. These people have a platform called *Abadgaran Iran-e Islami* ('Developers of Islamic Iran'). They are now taking over lots of positions in the government apparatus, helped in particular by Ahmadi-Nejad's determined use of his power to appoint office holders. While doing so, they may antagonise established factions within the ruling elite.

The Supreme Leader is publicly expressing support for Ahmadi-Nejad's government, calling it the most popular the country has had since the Constitutional Revolution a hundred years ago. Ayatollah Khamenei has, however, also seen to that Ahmadi-Nejad and his government is subjected to increased scrutiny, notably through delegating unspecified supervisory power to the Expediency Council. Following Ahmadi-Nejad's Holocaust denial and statement that Israel should be wiped off the map, the Supreme Leader also created a new advisory foreign policy council.

In the balancing of Ahmadi-Nejad's power, a key role is played by the candidate that he defeated in the second round of the presidential election, Hashemi Rafsanjani. Having been speaker of the parliament from the revolution until the death of Khomeini and then president for eight years, Rafsanjani is since 1997 chairman of the Expediency Council and since September 2007 also head of the Assembly of Experts. He can be described as a pragmatic conservative and is widely regarded as an exceptionally shrewd operator.

Although totally dominated by conservative deputies of whom a big majority reportedly belong to the *Abadgaran*, the parliament may mount strong resistance to appointments and other actions by the president. It did so already when Ahmadi-Nejad had just come to power by refusing to approve four of his nominees for ministerial posts.

In December 2006, municipal elections and elections to the Assembly of Experts did not go well for candidates of the president's liking. Weak delivery on the economic promises made in the election campaign appeared to cause Ahmadi-Nejad a loss of support from the electorate. As the March 2008 parliamentary elections are now approaching, handling this issue will be a challenge for Ahmadi-Nejad and candidates with links to him.

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<sup>1</sup> According to the Shia Muslim faith upon which the Islamic Republic of Iran is based, the Prophet Mohammad was succeeded by twelve Imams, the last of whom, Mahdi, went into hiding. Imam Mehdi will, however, one day return and fill the world with justice.

<sup>2</sup> A short official biography is available at [www.president.ir/en/](http://www.president.ir/en/).

<sup>3</sup> This includes the award, without tendering, of big contracts for engineering companies operated by the Revolutionary Guards.

## II. ECONOMIC AND SOCIAL SITUATION

Iran is a country with medium human development and it has since the 1979 revolution gradually improved its position in the UNDP's ranking according to human development of the countries of the world. In the same period, its population has doubled, to 70 million. This growth is however set to slow down, as the average fertility rate in recent years has dropped to only 2.1. Every year, well over half a million job-seekers enter the labour market and a high proportion of them cannot find a job. Overall unemployment is around 15 %. Every year, some 200 000 people leave the country.

The economy is dominated by the state and public foundations, called *bonyads*, originally set up after the revolution to manage confiscated assets. The foundations benefit from tax exemptions and allocations of huge sums from the state budget. Their management is far from transparent and allegedly riddled with corruption, nepotism and abuse of power.

The inflation rate is almost 20 % per year. There are, however, price controls on several basic consumer items. Since summer 2007, petrol is rationed. Through this measure, the state seeks to limit its expenditure for keeping down the price. Reducing the country's dependency on imports may, however, be equally important. Surprisingly enough, Iran keeps importing much of the petrol it needs, since it has not equipped itself with sufficient refining capacity.

Iran's economic system is widely regarded as rather inefficient. Some steps towards a more market based economy have, however, been taken<sup>1</sup>.

The oil exports are, of course, of crucial importance to the economy. The production is increasing, but it is still well below its level before the revolution. At its present rate, the oil production can be sustained more than 90 years, provided that the current estimate of the total oil reserves is correct. Iran also has giant gas deposits. Discussions on the construction of a gas pipeline to Pakistan and India<sup>2</sup> have recently been held, but for the moment seems to continue without India (which may have something to do with a strong US pressure for this project to be stopped).

The EU based oil companies ENI, OMV, Repsol, Shell and Total have all shown interest in investing in Iran's energy sector or do this now. The USA's controversial Iran Sanctions Act<sup>3</sup> threatens companies of any nationality making such investments with penalties, but seems to have little dissuasive effect. The fact that it has been in force for more than ten years, but has never been used, goes a long way towards explaining this.

US pressure on foreign banks to stay out of business with Iran may, however, be much more effective. The Economist Intelligence Unit reports that Germany's as well as Italy's exports to Iran are in sharp decline and attributes this to the US pressure.

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<sup>1</sup> For details on this, see the Economist Intelligence Unit's 2007 Iran Country Profile, [http://www.eiu.com/index.asp?layout=displayIssueTOC&publication\\_id=1330000733](http://www.eiu.com/index.asp?layout=displayIssueTOC&publication_id=1330000733), p 28ff (not accessible for free outside Parliament).

<sup>2</sup> Referred to as 'the peace pipeline', because of the new reason to maintain peace that it would give Pakistan and India.

<sup>3</sup> Better known as the Iran-Libya Sanctions Act (ILSA). Libya has, however, been removed from it and the name has been changed.



### III. INTERNATIONAL RELATIONS<sup>1</sup>

Iran's demographic and economic weight in its region and its enormous reserves of the hydrocarbons that fuel the world economy, as well as its several millennia long unbroken history as a state (comparable only to that of China), its imperial past and cultural self-confidence all contribute to a wide-spread belief that Iran deserves to play a very prominent role in its region and beyond. This role is in sharp contrast to the current reality of being surrounded by countries from which a myriad of security threats emerge, being subject to UN imposed sanctions and running a possibly imminent risk of a US or Israeli attack on its territory.

The sanctions and the risk of an attack are of course consequences of Iran's nuclear programme and suspected pursuit of a nuclear bomb. To a western observer, it may therefore seem obvious that the pressure that Iran is now facing is self-inflicted. Iranians of all walks of life do, however, tend to have a different view. A majority seems to support the pursuit of control of the entire nuclear fuel cycle as a necessity in the face of what they perceive as a campaign by foreign powers to deny Iran the means to ensure its healthy development and to reduce Iran's capacity to upset their designs for the region.

Regime propaganda certainly helps explain why this view is widespread. This propaganda would, however, not be as effective if it did not connect to a long-since established mistrust of foreign powers policies in relation to the region - a mistrust which is not entirely surprising given Iran's historical experiences<sup>2</sup>.

Because of its strong support for the shah, the USA was naturally regarded by the 1979 revolutionaries with utmost suspicion. The US embassy was briefly invaded and later occupied during 444 days. Ayatollah Khomeini supported this (he may also have been an instigator), quite likely because he calculated that the occupation could be useful for marginalising and striking against competitors for power in the new republic<sup>3</sup>. It would appear that fuelling American hostility and generating an outside threat remains a method that hardliners use to reduce the room for manoeuvre of less radical competitors on the domestic scene. This may be one of President Ahmadi-Nejad's motives for his aggressive pushing of the nuclear programme, as well as for his Holocaust denial and call for Israel to be wiped off the map. It is almost certainly the background of several instalments in the colourful rhetorical war between Iran and the USA.

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<sup>1</sup> The nuclear issue is dealt with in the next section of this note.

<sup>2</sup> The decline of the last Persian empire in the 19<sup>th</sup> century offered Russia opportunities to conquer lands and extend its influence, while Britain made Iran acquiesce to its geo-strategic priorities, in particular that of preventing threats to the British control of India. British business tycoons later extracted spectacular concessions. This included the handing over, in the beginning of the 20<sup>th</sup> century, of control of Iran's oil to the Anglo-Persian Oil Company (today's British Petroleum, BP). Half a century later, Prime Minister Mosaddeq nationalised this company, which ultimately led to a CIA-engineered coup in which he was ousted. Securing its influence by propping up the Shah, the US was able to use Iran as a pawn in the Cold War and ensure that Iran remained a reliable oil supplier. The Shah did, however, ultimately fail to quell the religious and also leftist opposition to his heavy-handed rule. The revolution in 1979 meant the sudden loss for the US of all its influence in Iran and the start of a hard confrontation, which still continues.

An extensive discussion of US-Iranian relations can be found in Ali M Ansari, *Confronting Iran* (available in the EP library).

<sup>3</sup> P Clawson and M Rubin in their book *Eternal Iran* analyse the embassy occupation in this way and claim that 'selectively leaked documents seized from the embassy (...) were used to jail liberals as spies'. A Ansari (op cit) more generally affirms that '[f]or Ayatollah Khomeini, this student initiative [the occupation] ensured that the revolution again had a unity of purpose and allowed the suppression of internal opposition'.

Branding the USA 'the Great Satan' does, of course, make it a lot more difficult for a considerable time to come to take up official contacts, let alone establish diplomatic relations. President George W Bush's condemnation of Iran as a member of an 'axis of evil' was not only similar in contents and form. It probably also had a similar aim<sup>1</sup>.

While it is clear that Iran sponsors Hezbollah and Hamas, establishing a connection with Al Qaeda is difficult. The Iranian regime is Shia and Al Qaeda has developed in a distinctly Sunni environment, mainly in Saudi Arabia. Their interests in Iraq may be almost diametrically opposed to each other and the same may go for Afghanistan. And there seems to be little or no evidence of any actual Iranian help to Al Qaeda.

According to the US' National Security Strategy<sup>2</sup>, the aim of the policy towards Iran is 'to open up its political system and afford freedom to its people', which sounds very much like a 'regime change' policy. Substantial sums of money are spent on democracy promotion in Iran and related activities, but it is rather unclear what these activities actually consist in. It is worth noting that dissidents in Iran tend to be extremely careful to avoid becoming associated with the USA, for security reasons, no doubt, but also because few Iranians have any confidence in America's priorities and intentions in relation to their country.

Apart from what has just been mentioned, the main elements of the current US policy on Iran are stepping up of US sanctions and pursuit of stronger UN-decided sanctions against Iran in the context of Iran's nuclear programme, continued military pressure, including through the deployment of two aircraft carriers and other naval forces in the Gulf and declarations that 'all options', meaning also that of a military strike, 'remain on the table'.

Although some in the US argue that engagement with Iran is necessary to get the situation in Iraq under control<sup>3</sup> and US-Iranian talks at ambassadorial level were held in Baghdad in May 2007 (the highest level such talks since the revolution), no dialogue on Iraq has so far been launched<sup>4</sup>. For Iran, the main developments in Iraq since the US-led invasion have several highly positive aspects: Saddam Hussein, against whom Iran in the 1980s fought a war that cost about a million lives only on the Iranian side, is gone; power in Iraq has switched from the Sunni minority to the Shia majority, through which Shia Iran can exercise influence. And the price for these radical changes, notably the strong US military presence in Iraq, is starting to look like a temporary rather than a permanent price.

The virtual US encirclement of Iran will, however, not disappear if all US troops in some years will have been withdrawn from Iraq. What the situation in Afghanistan will then be is anybody's guess. Turkey is likely to remain a NATO member and may continue to provide the USA with

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<sup>1</sup> Bush's salvo, delivered in his State of the Nation address in January 2002, abruptly put an end to a beginning thaw in US-Iranian relations triggered by Al Qaeda's 11 September 2001 terror attacks. As the USA prepared for ousting the Taleban regime in Afghanistan, Iran's reformist president Khatami managed to arrange support from his country for this operation. Neither hardliners in Iran, nor Israel and its lobby in the US were happy with the improving US-Iranian climate. A very timely Israeli interception of a ship full of weapons apparently en route from Iran to the Palestinian Authority strengthened the earlier image of Iran as an obvious foe. As it turned out, this incident set the scene for President Bush's rhetorical attack. After this attack, Khatami was powerless to continue his pursuit of a less confrontational relationship with the USA.

<sup>2</sup> [www.whitehouse.gov/nsc/nss/2006/nss2006.pdf](http://www.whitehouse.gov/nsc/nss/2006/nss2006.pdf), p 25.

<sup>3</sup> Engaging Iran, as well as Syria, was an important recommendation of the high profile report of the Baker/Hamilton Iraq Study Group presented in December 2006. This report is available at [www.bakerinstitute.org/Pubs/iraqstudygroup\\_findings.pdf](http://www.bakerinstitute.org/Pubs/iraqstudygroup_findings.pdf) (Iran is dealt with mainly on p 36ff).

<sup>4</sup> There are speculations that unofficial talks are conducted. If this is true, it seems that they are not at all productive.

military access to the region. Israel will certainly remain a strong US ally, Azerbaijan may move further in a NATO and US direction and there is a possibility, although probably quite small, that Turkmenistan will start to move in a similar direction. As to Pakistan, the future, including of its US-relations, is clearly very uncertain.

Not least in order to help limit the US influence in the region, but also to get access to interesting military hardware, Iran cultivates its relations with **Russia**. Iran's current interests and those of Russia are to a big extent similar or complementary, in the geo-strategic area as well as in the economic field. It should be noted that Iran is not, and appears never to have been, a sponsor of Islamist rebels or terrorists in Chechnya and elsewhere in the northern Caucasus. Strategic considerations take precedence and lead Iran to cooperate with non-Muslim Russia.

Strategic considerations also seem to be behind Iran's choice of developing good relations with Russia's best friend in the South Caucasus, notably Christian Armenia, and not with Shia Muslim (albeit highly secularised) **Azerbaijan**. Cooperation with Azerbaijan could expose Iran to destabilising influences, in particular in the region of Azerbaijan on the Iranian side of the border, which is home to far more Azeris than the Republic of Azerbaijan. There is a conflict between Iran and Azerbaijan over the ownership of hydrocarbon deposits beneath the Caspian Sea and Azerbaijan's cooperation with NATO is raising suspicions in Tehran.

**Armenia** gets help from Iran to limit the isolation it suffers due to the conflict with Azerbaijan over the Nagorno-Karabakh region and the closed border also with Turkey (Armenia's main lifeline is, however, that via its neighbour to the north, Georgia). The first part of a gas pipeline which will increase Armenia's security of energy supply has recently been completed and an agreement on Iranian (non-weapon) supplies to the Armenian military has just been concluded. Armenia must, however, weigh the advantages of further cooperation with Iran against the serious problems with the US that this cooperation can provoke.

As if to further prove wrong Samuel Huntington's well-known thesis that religious fault-lines shape international relations (leading to a 'clash of civilisations'), Iran's relations with fellow-Muslim **Pakistan** are rather tense, while its interest in developing its relations with non-Muslim **India** is great. Iran refrains from supporting the Muslim side in the conflict over Kashmir and was cautious also during the partly religious inspired civil war in Tajikistan in the 1990s.

Iran's relations with **Saudi Arabia** and the **Gulf States** remain uneasy. Those with Algeria and Egypt have gone from bad to reasonable.

#### **IV. THE NUCLEAR ISSUE**

The Iranian nuclear issue means Iran's dogged efforts to master the full nuclear fuel cycle, its suspected pursuit of nuclear arms and the reaction from the international community that this has triggered, including the mediation efforts by the EU High Representative, Mr Solana, and France, Germany and the UK (the EU-3), the UN sanctions and the US military build-up in the region. In addition to being extremely important in its own right, this issue determines the general development of Iran's relations with the EU, deeply influences other foreign relations and plays a major role in Iranian domestic politics. It is linked to Iran's ambitions in the region and may well affect developments in Iraq and in the Arab-Israeli conflict.

## Brief background and state of play

Iran has signed and ratified the Nuclear Non-Proliferation Treaty (NPT)<sup>1</sup> and a Safeguards Agreement, through which non-nuclear-weapon states undertake not to acquire nuclear weapons and accept subjecting themselves to certain controls. Reports from the International Atomic Energy Agency (IAEA) on the implementation of the Safeguards Agreement are, however, since a few years fuelling suspicions that Iran is carrying out activities that will make it nuclear-weapons capable as a prelude to developing a nuclear bomb.

In 2004, France, Germany and the UK, together with the EU High Representative, made a concerted effort to bring this situation under control<sup>2</sup>. This resulted in the Paris Agreement on suspension by Iran of all enrichment related and reprocessing activities, pending agreement on a long-term arrangement. However, little progress towards such an arrangement was made and when Mr Ahmadi-Nejad was elected president of Iran in June 2005, the prospects darkened.

After having rejected an EU proposal for a framework for a long-term arrangement<sup>3</sup>, Iran in August 2005 resumed uranium conversion (an enrichment-related activity). It thereby abandoned the Paris Agreement. The IAEA found that Iran had not complied with its Safeguards Agreement and reported this to the UN Security Council.

Iran proceeded to enrichment on a limited scale. It then twice ignored deadlines for suspending enrichment set by the UNSC. It also turned down a package of incentives for agreeing to suspension, presented to it in June 2006 by Mr Solana, on behalf of the EU-3 and with the support of the other permanent members of the UNSC<sup>4</sup>.

In December 2006, the UNSC unanimously decided that Iran without further delay must suspend proliferation-sensitive nuclear activities and imposed sanctions: a ban on trade in material and on assistance related to sensitive activities and the freezing of assets of certain entities and individuals<sup>5</sup>. On 24 March 2007, the UNSC decided to add other entities and persons and to prohibit arms sales by Iran<sup>6</sup>. The IAEA Director General reported on 23 May on Iran's compliance with its obligations.

President Ahmadi-Nejad in the beginning of April 2007 announced that enrichment at an industrial scale had started. A high official then explained that 50 000 centrifuges for enrichment will be installed in Natanz. New threats of abandoning the NPT (which North Korea did before going open about its nuclear weapons programme) have also been heard.

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<sup>1</sup> [www.un.org/events/npt2005/npptreaty.html](http://www.un.org/events/npt2005/npptreaty.html). A detailed account of Iran's relation to the NPT is given in a study prepared for the EP's Foreign Affairs Committee in 2006, [www.expo.ep.parl.union.eu/expo/cms/pid/189](http://www.expo.ep.parl.union.eu/expo/cms/pid/189)

<sup>2</sup> A determination to avoid a repeat of the spectacular split in relation to the invasion of Iraq the year before may well have helped to make this concerted effort possible.

<sup>3</sup> ...which some commentators and even a key official of the EU Council have described as too modest.

<sup>4</sup> This package included comprehensive support for nuclear energy production and legally binding guarantees of nuclear fuel supply, so as to make enrichment in Iran wholly unnecessary for such supply.

<sup>5</sup> Resolution 1737:

<http://daccessdds.un.org/doc/UNDOC/GEN/N06/681/42/PDF/N0668142.pdf?OpenElement>

<sup>6</sup> Resolution 1747:

<http://daccessdds.un.org/doc/UNDOC/GEN/N07/281/40/PDF/N0728140.pdf?OpenElement>

Time seems to be playing into the hands of the Iranian government, although Iranian diplomacy by brinkmanship and US increasing frustrations in Iraq could at any moment trigger more unpredictable exchanges in this relationship.

Iran is maintaining pressure on the IAEA and Board of governors to consider the matter closed and on 27 August the IAEA published on its web-site, at the request of Iran, a document setting out the timeline of the Iranian agreement to comply with the demands of the Board of Governors concerning its nuclear activities<sup>1</sup>. On 22 November Dr ElBaradei briefed the IAEA's Board of Governors on the Iranian dossier and confirmed the workplan agreed in August was going according to schedule. Iran hailed the publication as further evidence that it was in compliance with the IAEA. However, others such as at the Carnegie Endowment for International Peace stated that the timeline "...shows that it is unlikely that Iran and the IAEA will complete their tasks before March or April 2008. Consequently, Iran may have more than eight months of continued centrifuge installation and operations."

Whilst claiming cooperation with the IAEA on the one hand Iran also proudly announces further achievements in its nuclear programme such as with the claim that it can now run a cascade of 3,000 centrifuges (and thus enough to produce nuclear fuel).

Time may also be on the Iranian side with the controversial nuclear deal between the United States and India being interpreted as undermining the non-proliferation regime and evidence of double-standards (since India is not a member of the NPT and the deal requires changes to the rules in the Nuclear Suppliers Group and endorsement by the IAEA).

There are differing views on how much time Iran now would need to build a bomb. The US intelligence services now believe that a nuclear weapons programme which Iran earlier had was halted in 2003<sup>2</sup>. Enrichment to the very high level necessary for a bomb, weaponisation and some kind of tests must first be carried out, and none of this is easy.

As mentioned above, the US National Security Strategy suggests that regime change in Iran is the US' ultimate goal. The White House denies that it plans to attack Iran. At the same time, it has sent two air-craft carriers, holds military exercises in the Gulf and has increased its troops in Iraq. The USA is present also in Turkey, Afghanistan, Pakistan and Azerbaijan, effectively encircling Iran.

A US and/or Israeli attack on Iran could take different shapes. Most believe that such an attack would aim at setting back the Iranian nuclear programme, rather than at causing more widespread destruction or preparing for an invasion. It is, however, very likely that if Iran intends to produce nuclear arms, it also uses secret facilities which may be impossible to localise or to destroy without causing massive 'collateral damage' in the form of killed and maimed civilians.

### **Efficacy of Sanctions?**

A recent letter (dated 12 September 2007) from the US House of Representatives' Committee on Foreign Affairs to its counterpart in the European Parliament has raised awareness on the

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<sup>1</sup> [www.iaea.org/Publications/Documents/Infocircs/2007/infocircnr12007.shtml](http://www.iaea.org/Publications/Documents/Infocircs/2007/infocircnr12007.shtml)

<sup>2</sup> Link to the National Intelligence Estimate that drew this conclusion: [www.dni.gov/press\\_releases/20071203\\_release.pdf](http://www.dni.gov/press_releases/20071203_release.pdf)

efficacy of European sanctions on Iran and prospects for their further extension. The European Parliament shares the United States Congress apprehension with respect to any actions that threaten international peace and security and regional instability. The EP will continue its close dialogue with US Congress on how we can develop our common approach, including on sanctions, within the framework of international law.

Sanctions have been an important part of the EU's diplomatic pressure upon the Iranian regime. Although sanctions can be criticised as a long term or blunt instrument, we see the role of sanctions as an instrumental part of a comprehensive strategy towards Iran through the United Nation and IAEA.

Since the adoption of UNSC Resolution 1737 imposing sanctions upon Iran for failure to halt uranium enrichment, the EU like the US has also applied its own additional sanctions going beyond those set out in the UN resolution. EU sanctions are set out in Common Position (2007/140/CFSP<sup>1</sup>) dated 28 February 2007 and in a Council Regulation dated 20 April 2007 (EC No 423/2007<sup>2</sup>). Both have been regularly reviewed leading to an extension of the application of sanctions in the Common Position in April 2007<sup>3</sup>, and in the regulation on 21 April<sup>4</sup>, 24 April<sup>5</sup>, and on 6 June 2007<sup>6</sup>. The European Parliament will follow the further review and implementation of the EU sanctions regime and seek clarification on the nature and role of continued European investments.

### Claims by Iran - and by its critics

Iran claims that its nuclear activities are entirely peaceful. It argues that it is being denied its right, under article IV of the Nuclear Non-Proliferation Treaty (NPT)<sup>7</sup>, to conduct peaceful nuclear activities and that sanctions are illegal. The counter-argument is that the right applies to peaceful activities only and that Iran is not providing sufficient cooperation to make it possible for the IAEA to safely determine whether its activities really are exclusively peaceful.

There are a number of reasons for suspecting that Iran is determined to be nuclear weapons-capable and to develop a nuclear bomb. Iran seems to have **no need to master the entire nuclear fuel cycle** if production of nuclear fuel is the only purpose. All but a few states with nuclear power plants import the fuel they need. And Iran does not even have any nuclear power plant yet (with Russian help, a first reactor is being built in Bushehr). The Iranian government replies that it plans to construct a great number of reactors and that a history of failures of foreign companies to honour contracts makes it necessary to become independent. However, there also seems to be **no need to conduct proliferation sensitive heavy water activities**. Moreover, because of Iran's enormous oil and gas reserves, there is **no obvious need for any nuclear energy**.

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<sup>1</sup> See: OJ L 61, 28.2.2007, p. 49 <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2007:061:0049:0055:EN:PDF>

<sup>2</sup> Council Regulation (EC) No 423/2007 (OJ L 103, 20.4.2007, p.1)

<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2007:103:0001:0023:EN:PDF>

<sup>3</sup> Common Position 2007/246/CFSP (OJ L 106, 24.4.2007, p.67)

<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2007:106:0067:0075:EN:PDF>

<sup>4</sup> amended by:

Commission Regulation (EC) No 441/2007 (OJ L 104, 21.4.2007, p.28)

<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2007:104:0028:0031:EN:PDF>

<sup>5</sup> Council Decision 2007/242/EC (OJ L 106, 24.4.2007, p.51)

<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2007:106:0051:0054:EN:PDF>

<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2007:090:0030:0030:EN:PDF>

<sup>6</sup> Council Regulation (EC) No 618/2007 (OJ L 143, 6.6.2007, p. 1)

<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2007:143:0001:0002:EN:PDF>

<sup>7</sup> [www.un.org/events/npt2005/npttreaty.html](http://www.un.org/events/npt2005/npttreaty.html)

An **intensive and expensive pursuit to acquire new military capabilities** and **major military exercises** also provoke suspicion. Whilst Iran has legitimate regional security concerns, and may feel threatened by the USA and or Israel, which explain its military build-up, Iran could radically reduce or get rid of that risk by agreeing to suspend its sensitive activities and accept further IAEA control measures.

President Ahmadi-Nejad's **utterly aggressive pronouncements on Israel**<sup>1</sup> of course contribute to the suspicions. Moreover, some claim that Ahmadinejad believes in religious ideas on an apocalypse that will pave the way to a new and better world.

## V. EU-IRAN RELATIONS

The EU does not have any contractual relations with Iran and there is no Commission delegation in Teheran. A Commission communication<sup>2</sup> setting out perspectives and conditions for developing closer relations, including the conclusion of a Trade and Cooperation Agreement, was endorsed by the Council in 2001 and a negotiating mandate was adopted. Progress in deepening economic and commercial cooperation should go in parallel with progress as regards the attitude to human rights, non-proliferation, terrorism and the Middle East peace process.

The development of relations soon got blocked by the nuclear issue, but this did not hinder trade from developing strongly<sup>3</sup>. An attempt in spring 2007 to prepare the ground for a restart of a human rights dialogue - which could have functioned as a confidence-building measure - failed.

Conclusions on Iran adopted in recent EU Council meetings<sup>4</sup> have contained little more than declarations of support for UNSC resolutions and reiterations of the EU's support for a negotiated solution.

### EP positions and activities

Parliament supports the work of the EU-3. In a resolution of 15 February 2006<sup>5</sup>, it also stated that the nuclear issue must be resolved in accordance with international law and that a comprehensive agreement, which takes account of Iran's security concerns, should be strived for. The statement that Israel should be 'wiped off the map' was condemned in a resolution of 17 November 2005<sup>6</sup>.

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<sup>1</sup> For example, President Ahmadinejad in October 2005 said that Israel should be 'wiped off the map'.

<sup>2</sup> [http://ec.europa.eu/comm/external\\_relations/iran/doc/com\\_2001\\_71en.pdf](http://ec.europa.eu/comm/external_relations/iran/doc/com_2001_71en.pdf)

<sup>3</sup> [http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc\\_113392.pdf](http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113392.pdf), p 3.

<sup>4</sup> Links are available at:

[www.consilium.europa.eu/cms3\\_applications/applications/newsRoom/loadBook.asp?BID=71&LANG=1&cmsid=349](http://www.consilium.europa.eu/cms3_applications/applications/newsRoom/loadBook.asp?BID=71&LANG=1&cmsid=349)

<sup>5</sup> <http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+TA+P6-TA-2006-0060+0+DOC+XML+V0//EN&language=EN>

<sup>6</sup> <http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+TA+P6-TA-2005-0441+0+DOC+XML+V0//EN&language=EN>

The EP has criticised the human rights situation in a number of resolutions, often drawing attention to individual cases and calling for the release of certain prisoners. The most recent such resolution was adopted on 25 October 2007<sup>1</sup>.

The EP Delegation for Relations with Iran<sup>2</sup> held a meeting with a delegation from the *Majlis* (Iranian parliament) in October 2006. A second EU-Iran interparliamentary may be held towards the end of 2007. Foreign Minister Manóchehr Mottaki visited the Foreign Affairs Committee (AFET) in February 2006. The EU's High Representative on the CFSP, Javier Solana, has discussed Iran in AFET and his personal representative on non-proliferation, Ms Annalisa Giannella, most recently did so in the Sub-Committee on Security and Defense (SEDE) on 1 March 2007.

SEDE received a confidential briefing on the Iranian dossier from Dr Solana on 10 September 2007.

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<sup>1</sup> <http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+TA+P6-TA-2007-0488+0+DOC+XML+V0//EN&language=EN>

<sup>2</sup> The Iranian government wants the EP to use the name 'The Islamic Republic of Iran', instead of just 'Iran', but so far, no decision to change the name of the delegation or the practice of referring to the country simply as 'Iran' has been taken.





*Iran and neighbours:***Basic country data**

	Egypt	Iran	Pakistan	Saudi Arabia	Syria	source:
Population (million, 2006)	76.9	<b>71.2</b>	164.6	25.8	20.0	UNFPA
Ethnic composition (%)		<b>Persians 51, Azeris 24, Kurds 7, other</b>				US State Dept
Official language + <i>alphabet</i> (other languages)		<b>Persian, Arabic (Turkish, Lori, other)</b>				
Main religion (and other)		<b>Shia Muslim (Sunni Muslim, other)</b>				
President		<b>Mahmoud Ahmadi-Nejad</b>				
Next (and most recent) presidential election		<b>June 2009 (June 2005)</b>				
Next (and most recent) parliamentary elections		<b>March 2008 (February 2004)</b>				
Currency	Pounds (EGP)	<b>Rials (IRR)</b>	Rupees (PKR)	Riyals (SAR)	Pounds (SYP)	
GDP 2006 (bn USD)	107.9	<b>205.4</b>	126.8	349.1	36.1	EIU
GDP per head 2005 (USD at Purchasing Power Parity)	4 337	<b>7 968</b>	2 370	15 711	3 808	UNDP
Real GDP growth rate (%) 2006	6.8	<b>5.3</b>	6.2	4.6	3.0	IMF
Projected real GDP growth rate (%) 2007 and 2008	6.7 6.6	<b>5.0 5.0</b>	6.5 6.5	4.8 4.0	3.3 4.7	IMF
Human development rank /177 countries studied	112	<b>94</b>	136	61	108	UNDP
Corruption rank /179 countries studied	105	<b>131</b>	138	138	79	TI
'Ease of doing business' rank /178 countries studied	126	<b>135</b>	76	23	137	World Bank
Press freedom rank /169 countries studied	146	<b>166</b>	152	148	154	RSF

## Basic country data (continued)

### Explanation of sources and comments:

- EIU The Economist Intelligence Unit, country profiles and country reports; <http://db.eiu.com/index.asp> (not freely accessible outside the EP)
- IMF International Monetary Fund, World Economic Outlook, April 2007; <http://www.imf.org/external/pubs/ft/weo/2007/01/pdf/c2.pdf>, p 26 of the chapter to which this link leads (p 72 of the entire document).
- RSF Reporters sans frontières, Worldwide Pressfreedom Index 2007; [http://www.rsf.org/article.php3?id\\_article=24025](http://www.rsf.org/article.php3?id_article=24025)
- TI Transparency International, Corruption Perception Index rank in 2007; [www.transparency.org/policy\\_research/surveys\\_indices/cpi/2007](http://www.transparency.org/policy_research/surveys_indices/cpi/2007).
- UNDP United Nations' Development Programme, Human Development Report 2007; [http://hdr.undp.org/en/media/hdr\\_20072008\\_en\\_indicator\\_tables.pdf](http://hdr.undp.org/en/media/hdr_20072008_en_indicator_tables.pdf)
- UNFPA United Nations' Population Fund, *State of the World Population 2007*, [www.unfpa.org/swp/2007/english/notes/indicators.html](http://www.unfpa.org/swp/2007/english/notes/indicators.html).
- World Bank The World Bank's Ease of Doing Business Index, 2008 ranks, [www.doingbusiness.org/map/](http://www.doingbusiness.org/map/)
- US State Dept [www.state.gov/r/pa/ei/bgn/](http://www.state.gov/r/pa/ei/bgn/)