

# **Iran's nuclear challenge and European diplomacy**

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## Table of Contents

Foreword by Antonio Missiroli	5
Introduction	8
I. Iran's suspected nuclear weapons programme	9
II. Why Iran may want to have a nuclear weapons programme	11
III. EU-Iran relations	16
IV. Policy recommendations	20
Endnotes	21
Executive summary	22

### About the author

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### Acknowledgements

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## Foreword

By Antonio Missiroli

The Nuclear Non-Proliferation Treaty (NPT), which was signed in 1968 and entered into force two years later, is a fairly uncontroversial example of ‘effective multilateralism’, as advocated in the December 2003 European Security Strategy.

In the mid-1960s, most international experts predicted a rapid spread of nuclear weapons across the world. Almost 40 years on, only a handful of new countries have joined the club, despite the chaotic collapse of the Soviet Union and the partial dismantling of its arsenal of weapons.

India, Israel and Pakistan have done so without formally breaking the NPT rules because they never adhered to the treaty in the first place. Other countries (including Brazil, Egypt, Japan, South Africa and Sweden, in 1991 and, more recently, Libya, in 2003) decided, on the basis of a rational cost-benefit analysis, to abandon efforts to develop a nuclear military capability – further evidence that the threshold between civilian and military nuclear programmes is more political than technical. Meanwhile, Africa, Antarctica, South America, the South Pacific and Southeast Asia have become military nuclear-free zones, and central Asia may soon follow.

The situation began deteriorating three years ago, however, when North Korea withdrew from the NPT after circumventing it. Then, in May 2005, the NPT review conference failed to agree on substantive reductions in the arsenals of the major nuclear powers. Finally, while the security environment after 9/11 now encompasses the terrifying possibility of ‘loose nukes’ (acquired, controlled and maybe used by non-state actors and organisations),<sup>1</sup> other recent developments in nuclear policy – the new French ‘doctrine’ as articulated by President Jacques Chirac in January and the US-India deal on nuclear cooperation in early March – have stirred controversy among experts over their possible impact on future anti-proliferation efforts.

This is the main reason why the international community cares so much about the Iranian nuclear programme. This issue lies at the juncture of several sources of tension and risk, and could potentially multiply the crisis, both regionally and globally. It also explains why even ‘Europe’ has started to care so much about Iran, and about non-proliferation in general, after decades of collective silence and occasional sharp internal divisions (as in 1995 in the wake of the French nuclear tests in the Pacific).

The ‘EU-3’ diplomatic initiative, launched in October 2003 by France, Germany and the UK, has come to personify a new European assertiveness in strategic matters. It has filled the dramatic diplomatic vacuum left by Washington’s lack of diplomatic contacts and engagement with Tehran since 1979. It has contained and slowed down the Iranian drive towards uranium enrichment. It has given (back) a major role to the UN’s International Atomic Energy Agency (IAEA), which was sidelined by the US-led war on Iraq and has long been kept in the dark about Iran’s efforts. Furthermore, it has generally raised the level of the foreign policy debate and engagement in European countries.

Finally, without the EU-3’s nuclear diplomacy with Iran, it would have been harder for the US (and Israel) to accept the EU as a serious partner in the Middle East Peace Process and to give it a series of sensitive security tasks in Gaza and elsewhere.

This is not to say that the EU-3 initiative – born from the ashes of intra-European divisions over the Iraq war – has always been uncontroversial. Within the Union, in particular, reservations have been expressed on the way the three countries’ foreign ministers flew to Tehran without appropriate consultations with their partners.

Italy, in particular, still feels uncomfortable about being excluded from the EU-3 format. In October 2003, when it held the Union’s rotating presidency, Rome allegedly decided to keep a low profile, partly out of respect for its own institutional role at that time and partly for fear of annoying the US administration. Ever since then, however, it has insisted that the threesome club be broadened and made more EU-wide.

In addition, Europe's nuclear diplomacy with Iran is now – more or less formally – conducted through a more flexible 'EU-3 +1' format, with Javier Solana, the Union's High Representative for Common Foreign and Security Policy (CFSP), playing a specific and somewhat autonomous role in the talks with Tehran authorities. Sometimes he represents the EU-3, sometimes the other 22 countries, and sometimes the Union as a whole.

Since Iran triggered the current crisis last summer by unilaterally resuming uranium enrichment at its formerly secret sites, in apparent breach of the Additional Protocol to the NPT it signed (and temporarily applied but never formally ratified) in Paris in November 2004, Russia has become an additional key player in the intricate diplomatic poker game over Tehran's nuclear programme.

A sort of very informal 'contact group' now seems to be taking shape – occasionally including China as well – to deal with an increasingly worrying situation.

In this paper, Sara Kutchesfahani provides an accurate and detailed analysis of how and why the Iranian nuclear programme has become a major source of regional and international concern. Similarly to other papers and reports that have analysed this crisis lately,<sup>2</sup> she illustrates the technical and legal intricacies of the dossier, explains why the political stakes are so high, considers the strategic implications of the crisis and makes some policy recommendations.

The whole issue now seems increasingly intractable, as the escalating rhetoric on all sides shows.

Iran's nuclear brinkmanship is based on a mixture of a) rational calculation of the 'West's' ability to deter Iran's drive to enrichment; b) widespread domestic support for the country's ambitions; and c) ideological determination and hostility towards the US and Israel, based in part on a pessimistic perception of its own security.

Furthermore, Tehran has interpreted the opposite fates of Iraq and North Korea as evidence that having nuclear weapons does matter, as it increases the potential costs to enemies of launching a military attack – a key tenet of traditional deterrence that has not lost its relevance in the 21st century.

In essence, the international community is worried about two things: the risk of a new military confrontation in a region already plagued by violence and instability, and the dangerous regional and global example that an Iranian atomic bomb would set.

Countries which have given up on military proliferation could have second thoughts, and even Russia and China are not amused at the prospect of a growing nuclear 'club'. In addition, the broad coalition that produced the latest IAEA resolution is very heterogeneous and therefore fragile: it can only deliver modest results at, for instance, the United Nations Security Council level and may break up at any moment if it is put under too much strain.<sup>3</sup>

For its part, as the US has deprived itself of diplomatic tools, the prospects of any resort to military force – directly or by proxy – succeeding are slim. The possible regional reverberations are self-evident, the global ones no less chilling. American economic and political sanctions against Iran have proved fairly ineffective and Washington's 'coercive diplomacy' is showing serious limits.<sup>4</sup>

Finally, 'Europe' (regardless of its format, since the EU-3 diplomatic initiative is now attributed to 'Europeans' generally) finds itself in a tricky situation. It made a much-needed and most welcome initial effort to address the problem. Over time, it has learned some lessons, and adjusted its tactics and demands. However, it has very few solid incentives to offer Iran: the talks between the EU and Iran on a Trade and Cooperation Agreement (TCA) have stalled because of a lack of progress on human rights and democracy.

What clout the EU might have because of the volume of its bilateral trade with Iran – and Tehran's need for investment credits to develop its natural gas, petroleum refinery and other sectors – is undermined by Europe's dependency on Iranian oil.

Only Washington can lift the current economic sanctions against Iran, and US support is also crucial for Iran's possible future entry into the World Trade Organization. The EU cannot really threaten Tehran with negative measures, especially the use of force, as this has been categorically – and understandably – ruled out.

Neither the European 'carrot' nor the American 'stick' seem apt to solve the crisis. The Europeans appear unwilling (and are probably unable) to use the stick, while the Americans appear unwilling to offer any carrots. Both have been put off – again, understandably – by the recent conduct of the Iranian authorities, as their deception, negotiating tactics and official rhetoric have destroyed most of the residual ground for constructive diplomacy.

Perhaps the time has come for a formal invitation to the Russians to come on board, as Sara Kutchesfahani's paper suggests. They have both carrots and sticks to wave at Iran, and also perhaps an interest – especially now that they hold the G8 presidency – in proving that they can be reliable players and key international actors, while not necessarily toeing the US and/or EU line. Any lasting international coalition to tame nuclear proliferation (in Iran and elsewhere) should probably include Russia and others.

Perhaps the Americans could start reviewing their overall approach and consider taking a seat – more or less officially – at the negotiating table, thus bringing into play the sizeable and juicy carrots they can offer. Realistically, however, this is unlikely to happen before the mid-term Congressional elections in November this year.

Perhaps more innovative solutions need to be put on the table, from 'multilateralising' Iran's uranium enrichment process<sup>5</sup> to separating its industrial from its scientific development. A limited and internationally controlled research and development (R&D) programme could even be allowed on Iranian soil.

More generally, perhaps all the parties involved have to realise that they cannot achieve all their goals and may have to settle for an acceptable compromise that would allow them to buy time without losing face and credibility.

In this particular context, such an outcome could represent a diplomatic success for Europe's fledgling common foreign policy and its multilateral engagement.

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## Endnotes

1. See J.Cirincione, J.B.Wolfsthal, M.Raykumar (July 2005) *Deadly Arsenals: Nuclear, Biological, and Chemical Threats*, Washington (D.C.): Carnegie Endowment for International Peace; B.Schmitt (ed.) (April 2005) 'Effective Non-Proliferation: The European Union and the 2005 NPT Review Conference', *Chaillot Paper* no.77, EU-ISS, Paris. [www.iss-eu.org](http://www.iss-eu.org); R.M.Frost (2005) 'Nuclear Terrorism after 9/11', *Adelphi Paper* no.378, IISS, Oxford University Press. [www.iiss.org](http://www.iiss.org).
2. See M.Leonard, 'Can EU Diplomacy Stop Iran's Nuclear Programme?', *CER Working Paper*, London, November 2005. [www.cer.org.uk](http://www.cer.org.uk); and especially G.Evans, 'Time to take a deep breath over plans for a nuclear Iran', *Financial Times*, 23 February 2006, based on the *Middle East Report* no.51/2006, 'Iran: Is There a Way Out of the Nuclear Impasse?' by the International Crisis Group. [www.crisisgroup.org](http://www.crisisgroup.org).
3. See the analysis in *Strategic Comments*, vol.12, Issue no.1, February 2006. [www.iiss.org/stratcom](http://www.iiss.org/stratcom).
4. Still, some American analysts of the 'neo-realist' school consider the potential risks of an Iranian nuclear capability as somewhat exaggerated and, at any rate, manageable by the US: B.Posen 'We can live with a nuclear Iran', *International Herald Tribune*, 28 February 2006. p.8.
5. It has been proposed, for instance, that enrichment operations be owned and controlled by a holding company with governments as shareholders: initially, these could be Iran's, the EU-3's and, possibly, Russia's. See G.Forden, J.Thomson 'A shared solution to the Iran nuclear stand-off', *Financial Times*, 20 February 2006, p.13.

## Iran's nuclear challenge and European diplomacy

By Sara Kutchesfahani

### Introduction

The question of how to deal with the current Iranian nuclear crisis continues to plague international policy-makers.

Since the election of the Iranian President Mahmoud Ahmadi-Nejad in June 2005, European efforts to engage diplomatically with Iran appear to have come to a dead-end: no agreement has been reached over the suspected Iranian nuclear weapons programme and the Iranians have resumed their enrichment activities. So where do we go from here?

In retrospect, it is arguable that negotiations aimed at resolving Iran's nuclear challenge could have resulted in a fall-out between the EU and US on a far worse scale than that over the 2003 Iraq War. The dispute between the two sides was never over suspicions about Iran's apparent weapons programme, but rather over how best to deal with the perceived threat.

International Atomic Energy Agency (IAEA) reports have clearly and repeatedly demonstrated Iran's persistent lack of transparency and cooperation with the Agency, and its clandestine behaviour in covering up its secret nuclear fuel cycle programme.

While the 'EU-3' (France, Germany and the UK) have engaged in a critical dialogue with Iran, the Bush administration has repeatedly threatened it with both possible military strikes and referral to the United Nations Security Council (UNSC).

The latest IAEA report (published on 8 March) showed that the Agency is still not in a position to assert that Iran's nuclear programme is entirely peaceful. The EU has now reached consensus with the US that the only way forward – at least for the time being – is to take Iran to the UNSC and, if necessary, enforce punitive measures.

The onus is now on Iran to prove that its nuclear ambitions are peaceful: agreeing to the recent Russian proposal to enrich its uranium on Russian soil would definitely be a step in the right direction.

This paper will provide a detailed account of the Iran dossier, including an analysis of European attempts to engage with Tehran. It then offers some tentative policy recommendations.

## I. Iran's suspected nuclear weapons programme

In August 2002, the National Council of Resistance of Iran (NCRI), an exiled Iranian opposition group, held a press conference at which it told the world about Iran's secret nuclear fuel cycle programme. It released details of two undeclared nuclear facilities: a nuclear fuel production plant and research laboratory at Natanz (north of Esfahan in central Iran), and a heavy-water production plant at Arak (south west of Tehran, in the north of Iran).

One month later, Reza Aghazadeh, the former vice-president of Iran and president of the Atomic Energy Organisation of Iran, made a statement at the IAEA General Conference detailing Iran's ambitions to construct nuclear power plants for the peaceful use of nuclear energy.

During the Conference, Aghazadeh provided some information about Iran's intentions to develop its nuclear fuel cycle, coupled with its attempts to deceive the IAEA and its unilateral actions, and agreed to a visit to Natanz and Arak by IAEA Director General Mohammed El Baradei and IAEA safeguard experts.

This trip took place in February 2003. Mr El Baradei's findings underlined Iran's failure to report material, facilities and activities as required by its safeguard obligations under the Nuclear Non-Proliferation Treaty (NPT). This was not the first time that Iran had failed to provide full information about its past nuclear activities: all the nine IAEA resolutions passed on Iran since September 2003 have called on the country to speed up its cooperation with the Agency.

Faced with a US threat to refer Iran to the UNSC, on the one hand, and an EU diplomatic initiative, on the other, Tehran increased its compliance with the Agency's requirements. In a series of U-turns, it then reneged on its initial October 2003 agreement with the Europeans, suspended its uranium enrichment programme again following the Paris Agreement reached with the EU-3 on 15 November 2004, and then reneged on its commitments once again in August 2005 by restarting uranium conversion at its Esfahan facility.

The September 2005 IAEA resolution accused Iran of being in breach of the NPT and urged it to return to its negotiations with the Europeans. Since then, relations between the EU-3 and Iran appear to have reached an impasse, but Russia has become increasingly involved in the process.

Since taking office in August 2005, Mahmoud Ahmadi-Nejad has also been an instrumental factor in the breakdown of talks. After none of the seven presidential candidates received the 50% of the votes needed to win in the first ballot on 17 June 2005, a run-off was held the following week for the first time in the Islamic Republic's history. Ahmadi-Nejad won, with 17.3 million votes to Rafsanjani's 10 million votes; turnout was 63% in the first ballot and near 60% in the run-off.

Ahmadi-Nejad's win was a surprise not only for Iran, but also for the international community, and since he took over from Mohammad Khatami (Iran's president from 1997-2005), the nuclear talks with Europe have taken a turn for the worse.

In mid-November 2005, Moscow produced a compromise proposal which would allow Iran to carry out specified uranium processing but would ensure that the most sensitive activities (which can produce weapons-grade materials) took place on Russian soil and under strict supervision.<sup>1</sup>

This proposal was acceptable to both the Europeans and the Americans, but was not well received in Iran. Leading Iranian parliamentary delegates attacked it, with Heshmatollah Falahatpisheh, a member of the Iranian parliament's Security and Foreign Policy Commission, insisting that Iran could not rely on another country "to supply its nuclear energy needs".<sup>2</sup>

The Russian proposal would allow Iran to continue processing its uranium, although (in principle) not on its own territory. At the time of writing, however, no deal had been reached between Tehran and Moscow.

The latest IAEA Board Meeting (6-8 March) ended without agreement, which meant that the Iran file was automatically sent to the UNSC in New York. In his latest report, Mr El Baradei said he could not conclude that there are “no undeclared nuclear materials or activities in Iran”.<sup>3</sup> The Security Council is expected to begin discussing the issue in mid-March, but it is unlikely that sanctions will ensue.

Iran’s importance as both a strategic player in the wider Middle East and as an important energy-resource provider for both the EU and the US is a crucial factor in all of this. The EU-3’s efforts to engage with Iran are driven by national interests. Europeans are not only dependent on its oil and gas (Iran has the world’s second largest reserves of both and is the world’s fourth largest oil producer after Saudi Arabia, Russia and the US itself); they also have sizeable corporate interests in Iran.

Iran could also become a crucial trading partner and market for consumer goods. With civil unrest in neighbouring Iraq and Afghanistan, Europeans recognise the importance of trying to bring Iran back into the international political and diplomatic arena.



## II. Why Iran may want a nuclear weapons programme

Given the current climate in the wider Middle East, Iran is certainly feeling the pressure. Talk of military strikes by both the US and Israel, coupled with the presence of US troops on Iran's borders as well as in the Persian Gulf, have undoubtedly put it in an uncomfortable position. Feeling threatened and being under constant scrutiny can only add to its insecurity.

Since the creation of the Islamic Republic of Iran in 1979, its relations with both its neighbours and the West have been tumultuous. Faced with a WMD-capable Iraq, an unstable region and a lack of international support, Iran has felt politically isolated, insecure and, above all, threatened.

Twenty-seven years later, however, much has changed in Iran's favour: Saddam Hussein's regime has been toppled and there appears to be no real threat from the new Iraqi government. Tehran has many friends in the new Iraq and can certainly influence developments beyond its borders – for better or worse.

More recently, Iran has established better relations with most of the states within the region (with the exception of Israel) and improved economic ties with China, India, Russia and the EU itself. Nevertheless, the region is still unstable and volatile.

There are, in other words, reasons why Iran would want to have a nuclear weapons capability. Going nuclear could be in its national interest because of its need to feel secure in a highly unstable region, the sense of prestige which comes from having a nuclear weapons capability, and the need to counter possible threats. Recent developments in strategic affairs – from North Korea to India – also seem to prove that having nuclear weapons does make a difference.

All of this does not mean, of course, that Iran has a right to have nuclear weapons. As a signatory to the NPT since it was first agreed in July 1968, it has forsaken the right to seek or acquire such a capability – and Tehran still insists that a nuclear-armed Iran is not in its own interest.

### Iran's nuclear history vis-à-vis the West

The first Iranian nuclear power programme began in 1957 when the US and Iran signed the Atoms for Peace Programme, marking the beginnings of US-Iranian civil nuclear cooperation and an increase in the Shah's interest in nuclear energy.

Iran began developing nuclear technology in the 1970s with help from France, Germany and the US. However, between 1979 and 1985, the Iranian nuclear programme lay dormant owing to the pressures of the Iran-Iraq war and the country's political transformation.

During the Iran-Iraq War (1980-1988), Tehran became increasingly concerned about Iraq's potential, and desire, to produce chemical weapons. The fatal chemical attacks in Halabja (Iraq) in 1988 launched by Saddam Hussein – resulting in the deaths of approximately 6,800 innocent Kurds – and Baghdad's targeting of Iran with Scud-derived missiles, did nothing to quell Iranian fears.

At that time, the newly established Islamic Republic's political priority was to consolidate and spread the message of the Islamic Revolution rather than to develop nuclear energy.<sup>4</sup> However, in the late 1980s, most notably after the ceasefire of 1988 with Iraq, the Iranian nuclear programme restarted with secret Pakistani and open Russian assistance. Ever since then, the West has suspected Tehran of pursuing a nuclear weapons programme.<sup>5</sup>

From the moment Iran's nuclear programme was publicly revealed, the US has repeatedly called for Iran to be referred to the UNSC. Then suddenly, in October 2003, one month after the first IAEA resolution was passed on Iran, the French, German and British foreign ministers were invited to Tehran to discuss the Iranian nuclear programme as part of the EU's policy of engagement with the country.

### **Tehran Agreement (October 2003)**

During the visit, the EU-3 trio – Dominique de Villepin, Joschka Fischer and Jack Straw – and Hassan Rowhani, former secretary of Iran’s powerful Supreme National Security Council and a former key negotiator, reached an agreement under which Iran pledged to cooperate fully with the IAEA to address and resolve outstanding issues, and to suspend all uranium enrichment and reprocessing activities voluntarily. This was aimed at dispelling the international community’s fears that Iran was working towards the development of nuclear weapons. Iran also agreed to sign and begin ratifying the IAEA’s Advanced Safeguards Protocol.

In return, the EU-3 foreign ministers promised to oppose efforts to refer Iran to the UNSC as long as it implemented its commitments fully. The EU-3 governments also agreed to recognise Iran’s right to use nuclear energy for peaceful purposes in accordance with the NPT. In addition, they pledged to cooperate with Iran in promoting security and stability in the region, including establishing a nuclear-weapon-free zone in the Middle East. They also said that Iran could expect easier access to modern technology and supplies in a range of areas if international concerns were fully addressed and resolved.

Iranian cooperation with the IAEA appeared to improve in the wake of this visit. Soon afterwards, Tehran announced that it had decided to sign, ratify and start applying the IAEA Additional Protocol, and to voluntarily suspend uranium enrichment and processing activities.

However, despite repeated expressions of concern from the IAEA and further resolutions on Iran, Tehran reneged on this agreement and began assembling centrifuges and enriching uranium again.

Faced once again with the US threat of referral to the UNSC, Iran subsequently made another agreement with the EU-3, in Paris in November 2004.

### **Paris Agreement (November 2004)**

This new accord stipulated that Iran would commit to suspending uranium-enrichment activities and stop its programme to convert raw uranium into uranium tetrafluoride.<sup>6</sup> In return, this agreement could pave the way for a broader trade deal with the EU, as well as giving Iran access to nuclear technology for medical and energy purposes.

Previously, Iranian officials had insisted that they would only agree to a temporary suspension of their uranium-enrichment activities (for six months at the most) and the October 2003 Agreement had not set a time limit for this. However, at the November 2004 talks, the Iranians insisted on a timetable for the delivery of some rewards, including the resumption of talks on a trade agreement between the EU and Iran. These began on 15 December 2004.

The Europeans, having learnt from their previous experience, were adamant that although a deadline had not been set for the suspension of Iran’s atomic energy programme, it would have to include all work on enrichment. They warned that in the absence of this, and if Iran restarted its enrichment programme, they would not negotiate on the second part of the deal: including trade and political concessions as well as offers of nuclear cooperation.

These incentives were included in the EU’s August 2005 offer, which the Iranians were quick to reject as insufficient. In the meantime, they had broken the terms of the Paris Agreement and, after their most recent act of defiance in January 2006, which provoked international condemnation, the main priority for both the US and the EU was to refer Iran to the UNSC.

### **US policy**

Relations between the US and Iran have been non-existent since 1979. Washington severed all ties with Iran in 1979 after Islamic militants stormed the American embassy in Tehran and 63 Americans were

taken hostage for 444 days. Today, virtually all trade between the two countries is still prohibited, although a few contacts are maintained via Switzerland.

US-Iranian relations are not likely to improve, given the mutual feelings of distrust. The US does not recognise the legitimacy of the Iranian government and accuses it of being the world's primary state sponsor of terror, denying its people freedom and pursuing a clandestine nuclear weapons programme.<sup>7</sup> Meanwhile, Iran is adamant that there is a hidden US agenda against the Islamic Republic, which is four-fold:

- *Political*: America is trying to isolate Iran from the rest of the international community by declaring it a pariah state, and (according to the Iranian press) is forcing it to give up its revolutionary and Islamist credentials.
- *Economic*: The US has enforced economic sanctions since the occupation of its embassy in Tehran and continues to do so, thus diminishing Iran's economic prospects both domestically and internationally.
- *Military*: Iran is encircled by US troops. The Persian Gulf, as well as Iran's neighbours: Afghanistan, Iraq, Pakistan and Turkey, all have bases for US soldiers, which Iran perceives as a covert means of containment.
- *Cultural*: Everything written in the US press about Iran is deemed as propaganda against the Islamic Republic.<sup>8</sup>

President George Bush's labelling of Iran as part of the 'axis of evil' in his State of Union address in January 2002 did not improve Tehran's perceptions of the US. In the address, he claimed that Iran was trying to develop WMDs and insisted that the Iranian nuclear programme must to be monitored.

The 'axis of evil' speech, coupled with the 'War on Terror' launched first in Afghanistan and then in Iraq, is seen by Iranians as proof that the US is keen to pursue regime change in the region.

In a televised interview shortly after taking up her new position as US Secretary of State in January 2005, Condoleezza Rice talked about "the great reform movement that is going to sweep through the Middle East".<sup>9</sup> With the removal of the Taliban in Afghanistan and of Saddam Hussein in Iraq, Iran might conceivably be next in line in the US's 'great reform movement' plan. Not only are there US troops on two of its borders, but the governments in both countries have been set up by – and are fully supportive of – the US. On top of this, the US navy is present in the Persian Gulf.

Recent talk by US officials about launching a military strike on Iran's nuclear facilities only adds to its insecurities. Although Tehran is quick to dismiss such talk, the threat remains.

With the US military (and, to some extent, US policy) heavily tied up in Iraq and Afghanistan, it seems unlikely that a full-scale ground invasion will be launched. It is therefore unclear how credible the US threats are. However, any sort of attack would not only be devastating for Iran, but would also be catastrophic for the region.

It would lead to a drastic deterioration in the current situation and perhaps a more intense race towards nuclear proliferation. It is perhaps precisely for this reason that Iran wants to pursue its nuclear programme: having a nuclear weapons capability would provide the best deterrent against a pre-emptive strike by the US and/or Israel.

### **Israeli policy**

The US is not alone in threatening to attack Iran to prevent it from acquiring nuclear weapons if diplomacy fails.

Rumours of military strikes have recently emanated from Israel via US Vice-President Dick Cheney. In January 2005, in a televised interview, he publicly raised the possibility that Israel "might well decide

to act first” to prevent Iran from obtaining nuclear weapons.<sup>10</sup> Then, in March 2005, the UK’s *Sunday Times* revealed secret Israeli plans for a combined air and ground attack on Iranian nuclear power plants. These attacks were said to have been given ‘initial authorisation’ by the inner cabinet of Israeli Prime Minister Ariel Sharon in February this year.<sup>11</sup>

In response to this report, Ephriam Sneh, a member of the Israeli parliamentary defence and foreign affairs committee, said Israel would only take military action as “a very last resort”.<sup>12</sup> Previously, on a three-day visit to the US in April 2005, Israeli Prime Minister Ariel Sharon expressed concern over the slow pace of EU-3/Iran talks, but said Israel had no intention of attacking Iran<sup>13</sup> (although he did confirm that the Israelis had intelligence showing that Iran was close to “a point of no return” in learning how to build the bomb).<sup>14</sup>

Such talk, coupled with the latest proposal from the Bush administration to provide Israel with 100 ‘bunker-buster’ bombs capable of destroying underground targets,<sup>15</sup> raises doubts about whether Israel is, in fact, ready to launch a military strike. However, Israel is said to have a nuclear arsenal (although this has never been publicly confirmed or denied by the Israeli government) and it may want to consolidate its potential nuclear monopoly in the Middle East.

Iran does not recognise the State of Israel and its Supreme Leader, Ayatollah Ali Khamenei, regularly denounces it. More recently, hard-line President Ahmadi-Nejad provoked widespread international condemnation by saying that Israel should be wiped off the map, that the Holocaust was a ‘myth’ and that Israelis should be moved to Germany or the US. Tehran also opposes the Middle East Peace Process, and was instrumental in creating anti-Israel terrorist organisations such as Hezbollah in Lebanon.

Last October, former Iranian President Rafsanjani claimed that his country had developed a satellite-launching rocket<sup>16</sup> with a range of 2,000 km<sup>17</sup> that could easily reach Israel. This claim has yet to be substantiated, but Iran’s Shahab-3 missile already has a range of 1,300 km and could therefore pose a threat to Israel.

Even if Iran goes nuclear, it is very unlikely, given the implications, that it would launch an attack on Israel, but this is almost certainly a question in the back of Israeli minds – and Israel’s destruction of Iraq’s Osirak nuclear reactor in 1981 to prevent Baghdad from developing nuclear arms demonstrates its real capabilities.

Iran’s nuclear facilities are spread throughout the country since, after the destruction of Osirak, it decided to build a dispersed nuclear infrastructure. However, if Tehran develops a nuclear weapons capability, this would not necessarily prevent Israeli military and political planners from launching an attack. However, such a strike would only be considered if the Israelis were fully convinced that there was a real threat, or were explicitly asked by the Americans to act.

On a more practical level, Iranians regard it as inconceivable that the US or Israel would attack them. They do not believe the US military would take the risk, not least because they can see how the civil unrest in both Iraq and Afghanistan is taxing the US military forces tied up in both countries.

Military strikes on Iran would not be an effective pre-emptive measure. Although they might destroy nuclear facilities, they would foster anti-US and anti-Israeli sentiments throughout the region, including in Lebanon. Iranian forces could retaliate in both Iran and Iraq, as could Iran’s allies in the wider region. The resulting damage would be of uncontrollable proportions.

### **Does Iran want a nuclear weapons programme?**

The official message from Iran has been clear and consistent: it is not seeking to develop nuclear weapons, but wants the opportunity to generate civil nuclear energy. There are legitimate reasons for this: Iran wants to be treated on an equal footing with all other NPT members, who are entitled to develop a full nuclear fuel cycle.

The Iranian government says it is honouring the NPT and is within its rights under Article IV of the Treaty to “develop research, production, and use of nuclear energy for peaceful purposes”. It objects to being ‘unfairly’ treated and being openly criticised over its alleged nuclear ambitions.

The debate within Iran is also shaped by resentment that the international community did not object as harshly to the development of nuclear power and the subsequent acquisition of nuclear weapons by India, Israel and Pakistan. So, given that these actions did not provoke the same international condemnation, is Tehran the victim of international ‘double standards’?

Not really: what differentiates Iran from India, Israel and Pakistan is that it has signed up to the NPT, whereas the other three have not. Iran is legally obliged to have its nuclear programme monitored by the IAEA as it has voluntarily undertaken to comply with a legally binding treaty.

However, as a signatory to the NPT, Iran is within its rights in wanting to produce and use nuclear energy for peaceful purposes.

The US and the EU do not understand why Iran needs civilian nuclear power, given its huge hydrocarbon energy reserves in oil and gas. But this ignores the fact that its oil reserves are expected to run out within the next 20-30 years. All this means that Iran’s reasons for wanting to generate civilian nuclear power are theoretically credible. However, its recent actions suggest that it has other motives.

Tehran’s lack of cooperation with the IAEA, coupled with its constant renegeing on its agreements with the EU-3, suggests that its desire to produce nuclear energy is just a smokescreen to cover up its ambition to acquire a nuclear weapons capability. Iran wants the world to believe that it does not intend to build nuclear weapons, yet its current behaviour suggests otherwise.

There are three key reasons for the current impasse in attempts to resolve the crisis:

- IAEA reports show that Iran has not fulfilled all its NPT obligations.<sup>18</sup> It has not been honest or transparent with the Agency, and successfully managed to hide its secret nuclear programme for 20 years. If Iran had nothing to hide, why did it conceal its activities from the IAEA?
- Iran’s recent behaviour towards the EU-3 has escalated tensions. Breaking its agreement with them and subsequently resuming its enrichment programme did not instill confidence that Iran’s intentions were – and are – peaceful.
- Iran’s perceived association with terrorism raises questions regarding its overall – present and future – behaviour. Moreover, calls by the country’s president for the destruction of Israel could lead many countries to conclude that Iran cannot be allowed to acquire nuclear arms.

Whether Iran will ever openly admit to the international community that it is pursuing a nuclear weapons programme is hard to tell. Given the current climate in the region, the talk of military strikes by the US and Israel, and the recent IAEA resolution, it seems very unlikely that the Iranians would do so.

Iran is unlikely to withdraw from the NPT, but, as Article X of the NPT stipulates that a country can give three months’ notice to do so, this cannot be ruled out entirely – even though it would be an unwise step, with grave implications for regional and international security.

### III. EU-Iran relations

The EU launched a ‘critical dialogue’ with Iran in 1993, partly as a response to the Salman Rushdie affair<sup>19</sup> and partly because Europe could no longer ignore Iran’s importance in the Middle East, a crucial and volatile region.

The dialogue was ‘critical’ from the EU viewpoint as it expressed concerns about Iran’s behaviour and demanded improvements in various areas. Initially, this dialogue had a three-point agenda which in part reflected the specific concerns of France, Germany and UK. Iran’s links to terrorism had to be severed (a French condition); Iran would have to be seen to improve its human rights record (a German demand); and the *fatwa* issued against Salman Rushdie had to be addressed (a British request). Improvement in these three areas was seen as essential if Iran wanted to have a closer relationship with the EU as a whole.

The dialogue was suspended in 1997 as a result of the ‘Mykonos case’,<sup>20</sup> when a Berlin Appeal Court blamed Islamic Republic officials for murdering four Kurdish dissidents at the Mykonos café in Berlin in 1992. Following this, the EU withdrew its ambassadors from Iran.

Diplomatic ties were restored in March 1998 and, from then on, the dialogue was referred to as a “comprehensive engagement”. This time, however, the EU highlighted four major areas of concern that Iran needed to address. It pledged to enhance trade ties with Iran through a dedicated EU-Iran Trade and Cooperation Agreement (TCA) if Iran was seen to be:

- promoting democracy;
- improving its human rights record;
- suspending its ties with terrorist organisations;
- abandoning its intention to develop WMDs.

The EU could not afford to isolate Iran for an indefinite period because of its regional strategic importance and the potential benefits for both sides of closer ties. And with the election of a reformist president in Iran in the summer of 1997, the timing could not have been better for restoring relations.

Indeed, relations with EU Member States did improve considerably after President Khatami’s election and between May 1999 and November 2000, many EU-Iranian working groups were set up and expert meetings held.<sup>21</sup> Since then, although nuclear negotiations have also taken centre stage in bilateral relations, both sides have continued to emphasise the possibility of establishing a TCA. (The EU-3/Iran Paris Agreement in November 2004 stipulated that three working groups would be set up in order to facilitate this.)

Should the TCA materialise, it would bring major benefits to both sides: the EU would gain enormously from Iran’s reserves of oil and natural gas, and Iran would profit from EU trade and investment.

The EU is already Iran’s biggest trading partner – as the table below shows, the EU’s imports from Iran

<b>EU-Iran trade (value in millions of euro)</b>						
	2000	2001	2002	2003	2004	Jan-Nov 2005
EU-25* imports from Iran	8493	6750	5658	6953	8212	10197
EU-25 exports to Iran	5389	6777	8236	10018	11873	11733

*Source: External and Intra-European Union Trade, No 2/2006, Eurostat<sup>22</sup>*

*\* This refers to the EU-15 and the ten new Member States which joined the EU in May 2004.*

have gathered momentum after a temporary decline around 2001 – and a comprehensive trade agreement would increase the current levels.

Furthermore, the political benefits of such an agreement would be significant: the EU would have an opportunity to improve Iran's human rights record and Iran's partnership with a major trading bloc could end its isolation from the outside world.

### EU-Iran Trade and Cooperation Agreement

As mentioned above, the EU has been trying to establish a Trade and Cooperation Agreement (TCA) with Iran since February 2001. The first round of negotiations in Brussels in December 2002 focused on trade, political dialogue and cooperation in the fight against terrorism.

The TCA format and menu is different from the potential EU-3 agreement with Iran, as the TCA would be a political agreement between the EU-25 and Iran, and could only materialise if Iran addressed the four areas of concern outlined above.

This agreement is part of the EU's wider engagement package with Iran. If there is no progress on any of the four areas of concern, then TCA talks will automatically be halted. The negotiations are continuing for the moment, but at a slower pace than before because of the current nuclear crisis.

### EU-3's efforts

France, Germany and the UK are the driving forces behind the EU-Iran dialogue, and are working in concert to try to reach an agreement with Tehran over its nuclear programme.

There are no discernible strategic differences amongst the three, although there may be nuances in their perceptions and ultimate visions of how to resolve the crisis. Their national economic interests may also differ slightly – as the tables below show that of the three, Germany is the biggest exporter of goods to Iran, while France is the main importer of Iranian products – but this is not a major factor.

#### Exports to Iran (value in millions of euro)

	2000	2001	2002	2003	2004	Jan-Nov 2005
EU-25	5389	6777	8236	10018	11873	11733
Germany	1566	1927	2236	2678	3573	4079
France	791	1199	1578	2067	2331	1810
UK	478	685	633	685	649	610

Source: External and Intra-European Union Trade, No 2/2006, Eurostat<sup>23</sup>

#### Imports from Iran (value in millions of euro)

	2000	2001	2002	2003	2004	Jan-Nov 2005
EU-25	8493	6750	5658	6953	8212	10197
Germany	543	394	304	272	357	382
France	1139	827	828	1047	1430	2001
UK	59	52	57	44	61	51

Source: External and Intra-European Union Trade, No 2/2006, Eurostat<sup>24</sup>

Over recent decades, there have also been some changes in each of the three countries' bilateral relations with Iran. When the EU's 'critical dialogue' with Iran began in the early 1990s, Germany was more pro-Iran than the other two.<sup>25</sup> Then, after the Mykonos case in 1997, France enjoyed closer relations with Tehran.<sup>26</sup> Of the three, the UK has had the most difficult relationship with Tehran, and during the 1980s, it was the only west European country not to have an ambassador in Iran.<sup>27</sup>

However, since the formation of the EU-3, the trio have demonstrated a united approach and their interests – in acting on behalf of the EU and as a threesome – coincide.<sup>28</sup>

Other EU Member States appear to be relatively happy with the EU-3 taking the lead on this issue, as all of the EU-25 are equally concerned about the prospect of a nuclear Iran. In addition, the trio are now often accompanied in their endeavours by Javier Solana, the Union's High Representative for the Common Foreign and Security Policy. However, when it was devised, the concept of the EU-3 was unprecedented and created some controversy within the Union.<sup>29</sup>

The EU-3's efforts to contain the Iranian nuclear threat were initially successful, with Iran suspending some aspects of its enrichment activities for up to 18 months. However, when Tehran reneged on its agreement with the Europeans in August 2005 by restarting its nuclear fuel cycle programme, it claimed that the Europeans had not implemented their part of the Paris Agreement (progress on the TCA and access to civilian nuclear technology). The Europeans then offered to implement these, but were rebuffed by the Iranians, and the talks broke down.

Ahmadi-Nejad's victory has made Iran even less malleable and reliable, thus further escalating the nuclear crisis. Since becoming president, he has changed the Iranian nuclear negotiating team and enforced a complete change in personnel in almost every branch of government and the public sector.

European officials had hoped that Rafsanjani would be elected as the new president, as they were fairly confident that he would be able to complete the negotiations and 'sell' Europe's demands to the Iranian public. With Ahmadi-Nejad in office, European officials now fear their policy of engagement may be much harder to pursue.

That said, Ahmadi-Nejad – like his predecessor Khatami – cannot take any authoritative decisions without gaining approval from a higher (that is, religious) authority: a U-turn in Iranian national policy cannot be made by the president alone.

### **A shift in EU priorities: has the nuclear question become the EU's number one priority in dealing with Iran?**

The EU has recently made the nuclear question the overarching priority in its dealings with Iran.

As already noted, when the Union began its comprehensive dialogue with Tehran in the early 1990s, it highlighted four areas of concern. These areas have not changed since the Rushdie affair, nor were they ever given any order of importance. There is, however, a current imbalance between concerns about WMD and nuclear proliferation on the one hand, and those about human rights and democracy, on the other. Too little emphasis or pressure has been exerted on human rights or democracy issues and they have been downgraded, with the nuclear issue given top priority.

EU officials insist that the human rights and democracy issues are still important, but most argue that the nuclear issue needs to be resolved first.<sup>30</sup>

There are three reasons for this: firstly, and most importantly, because of the international security implications of the nuclear issue; secondly, because the Union now wants to play a strategic role in the Middle East; and thirdly, because it wants to be a stronger player in nuclear non-proliferation. By making this a key priority, the EU is showing the international community that it is serious about combating the global proliferation of nuclear weapons.



These different areas of concern are not disconnected, but if the nuclear issue can be resolved first, then it is more likely that the others will follow. Interestingly, EU officials agree that if the emphasis were put on the other areas, then the general EU-Iran dialogue would not progress. In short, the emphasis is now on security because the EU-Iran human rights and democracy dialogue has stalled.

As part of its long-term engagement policy with Iran, the EU had attempted to address the Iranian human rights and democracy issues through the EU-Iran bilateral dialogue which began in 2002, but this has proved difficult.

The European Parliament's 'Annual Report on Human Rights in the World 2004', published in April 2005, voiced two concerns about Iran's human rights record: the overall deterioration in the general situation and the increase in the number of executions.<sup>31</sup>

However, it is very difficult for the EU to promote human rights in Iran because Iranians automatically view any attempt by external governments to get involved in their domestic policy as outside meddling.

The EU cannot do much more than it is already doing: it supports the reformist movement in Iran and would prefer to deal with a democratic Iran, but it is up to the Iranians – and not up to the EU (or any other external actor) – to choose their political system.

In contrast, the nuclear issue is potentially destabilising and directly affects the EU and the rest of the international community. It is precisely for these reasons that the Union has chosen to make this the priority.

### **Where to now?**

While TCA negotiations are continuing, the talks on the nuclear issue have unfolded at a much quicker pace.

The EU-3's ultimate objective was to turn Iran's suspension of its enrichment programme into a permanent cessation, and it used its leverage to back the US threat to refer Iran to the UNSC after the nuclear negotiations failed.

There is now a serious possibility that Iran's case will be dealt with primarily in New York, but Tehran would be wise to try to avoid this as it would open a new phase of international isolation. Furthermore, once the UN starts to deal with the issue, the EU-3/Iran 'game' might be over and Iran would find itself taking on the rest of the international community.

Referral to the UNSC is a very serious step which the Iranians should not take lightly, especially since the US and the EU have already convinced China and Russia – countries with which Iran still enjoys good relations – to back negative measures if necessary. The Iranians cannot afford to take this risk, especially in light of their domestic economic problems. Furthermore, even today's Iran cannot afford to be completely isolated. But the ball is now in its court.

#### IV. Policy recommendations

The EU-3 has invested considerable time and effort in Iran and should therefore, not least for the sake of its credibility, leave the door open to diplomacy and dialogue. Working in partnership with Russia (with a more or less explicit division of labour) may be an effective means to such an end. This is particularly relevant now that Moscow holds the G8 presidency and therefore bears special international responsibilities.

The following set of policy recommendations could help to achieve an agreement:

- **Bring Russia to the forefront:** Moscow is now involved in the negotiations and could serve as a further instrument of pressure. Tehran cannot risk severing ties with Russia, and the EU-3 and US need Russian support in the UNSC (as China is unlikely to play an obstructive role acting alone). Russia may therefore be crucial to ensuring any sort of temporary agreement.
- **Don't give up:** The EU and Russia should actively encourage a continuation of the nuclear negotiations with Iran, provided that Tehran agrees not to continue its enrichment programme. Specific but realistic goals should be set, without fuzzy time frames or delivery dates/terms. The Europeans should not be disheartened by the election of Ahmadi-Nejad because he cannot change Iran's political direction single-handedly.
- **Maintain the spirit of the TCA process and insist on human rights improvements:** The nuclear issue is one of four areas of concern, but the other three also need to be addressed. The EU should not remain silent on human rights, for instance, but rather should offer clear incentives and rewards to help promote democracy, which Iran itself has acknowledged to be in its own interest.
- **Ensure the unity of the EU-3 and the EU-25:** The EU-3, with the continued involvement of Javier Solana, needs to maintain a united front and continue to represent the ambitions of the EU-25 as a whole.
- **Pursue US-EU cohesion:** Although the US and the EU now agree that Iran should be referred to the UNSC, the Union should try to engage the US in common policies that reflect EU policies. From an Iranian domestic perspective, it is primarily the US – and not the EU – which can offer real incentives to curb the Iranian nuclear programme. Iran wants two assurances: a credible security guarantee and solid economic rewards. The EU cannot provide Tehran with the former, as none of the countries within the Union poses a threat to Iran. The Americans, on the other hand, have encircled Iran with their armed forces; and are maintaining economic sanctions against Iran. In addition, the Americans are needed – alongside the Europeans – to facilitate Iran's entry into the World Trade Organization.

All the above should impinge upon, and foster, implementation of the TCA. The EU's attempts to engage with Iran should be followed through if – and in so far as – Iran fulfils its commitments to improve its domestic situation.

Iran should cooperate more fully with the IAEA and outline all its nuclear activities, so it can focus on economic and political goals rather than nuclear ones. Not only would this boost Iran's credibility on the international scene, but it would also relieve US pressure.

A short- to medium-term suspension of Iran's enrichment and reprocessing activities, and progress on the path towards constructing the TCA, would demonstrate to the world – including the US – that the EU-3's approach to engaging with Iran has not only proved fruitful for all parties concerned, but also helped to facilitate the readmission of Iran into the international diplomatic arena.

## Endnotes

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## Executive summary

The transatlantic relationship between the European Union and the United States is based on trust, mutual respect, shared values and common interests.

Both firmly believe in democratic government, human rights and in combating current global security threats. Both agree on the importance of fighting the spread of weapons of mass destruction (WMDs) and curtailing the spread of international terrorism. However, they do not always agree on strategy.

The Iraq war of 2003 showed the polarised views between 'old' Europe and the US: 'old' Europe questioned whether Iraq really posed a threat to international security while the US pushed forward its unilateralist agenda, ignoring the question of whether military intervention was legitimate. This resulted in a very public rift.

Since then, the US and 'old' Europe appear to have made up. Both President George Bush and US Secretary of State Condoleezza Rice individually reaffirmed their commitment to the transatlantic alliance by choosing Europe as their first point of call during separate visits in February 2005.

The question of how to resolve the security challenges of Iran's nuclear activities could have resulted in another EU/US rift.

Until the election of the Iranian hard-line President Mahmoud Ahmadi-Nejad in June 2005 and Iran's subsequent defiance of the Paris 2004 agreement, the EU, led by the EU-3, engaged in a critical dialogue with Iran in the hope that this would lead to an eventual agreement over Iran's suspected nuclear weapons programme. Meanwhile, the Bush administration repeatedly threatened Iran with military strikes and with referring it to the United Nations Security Council (UNSC). The US believes, despite Iranian claims to the contrary, that the Iranian nuclear programme is one of armament, not of peace. Now the EU and the US are jointly pushing for Iran to be referred to the UNSC, leading to a breakdown of the EU-Iran negotiations.

This paper analyses the Iranian nuclear challenge and argues that diplomacy could still play a role in resolving the crisis.