

Iranian Political Influence on the Euro-Mediterranean Region

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Iran's presence in the Euro-Mediterranean region, though increasingly significant, has been based more on association than direct intervention. In other words, Iran's growing presence in the Levant (Syria, Lebanon and Palestine), and the warm partnership it has struck with Turkey, brings the Islamic Republic that bit closer to Europe's hinterland and, thus, a skip away from the European Union's heartland. If one adds to this geopolitical reality Iran's growing potential to project its military power towards Europe, coupled with its energy assets in terms of proximate oil and gas supplies, then the Iranian presence is clearly substantial enough for Europe to take stock of the country's political influence in this part of the world.

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Iran as a Regional Power

Regional events in the Middle East since the 1990s, and in particular since Western military intervention in Afghanistan and Iraq in 2001 and 2003 respectively, have catapulted Iran's ability to project its regional power. The demise of the two hostile regimes on Iran's borders (the militant Sunni Taliban regime and the Sunni Arab nationalist Baath regime) in rapid succession provided Tehran with massive breathing space and geopolitical opportunity for it to consolidate its regional partnerships (in Lebanon and

Syria) and also develop new ones (in Palestine). With its presence in the Persian Gulf assured, and with hitherto unfriendly Iraq being rapidly transformed after 2003 into a close friend under a Shia-dominated administration, Iran proceeded to strengthen its role and influence in the Levant by partnering with Syria in raising the political and military clout of Hezbollah and Hamas as the two non-state actors committed to Iran's agenda of "resistance" –that is to say, resistance to the so-called "American-Zionist conspiracy" in the Middle East. Iran in the Levant has come face-to-face with Israel, raising the security temperature in the region, for Iran's anti-Israel rhetoric has gone hand in hand with the growth of its nuclear and ballistic missile programmes and its stated position that it sees Israel as its strategic enemy in the region. Iran's growing presence in the eastern Mediterranean has thus naturally raised the country's profile in the Euro-Med region, but it is Tehran's geo-security role in the Levant that is of a greater concern, for the parties with which Iran has built up considerable security links, most notably Hezbollah and Hamas, are the very sub-state actors that the majority of European countries find objectionable. Non-European Mediterranean states have also expressed concern: the Arab Mediterranean states have followed the general Arab line of objections to Iran's presence in the Levant, arguing that Arab issues (Palestine and the peace process in particular) should not be exploited by non-Arab states for narrow political ends.

However, Iran is also a state in turmoil, both politically and socio-economically. High oil prices initially helped to shield it from the depth of the brewing crisis, but, as oil prices began to fall from their peak

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in September 2008, cracks quickly appeared in Iran's economic façade. For President Ahmadinejad, who, in summer 2008, confidently claimed that oil prices would never fall below \$100 a barrel, the year-end prices must have come as a worrying reality check. The crisis is profound, even though Iran has not been a direct victim of the credit crunch and financial crisis that have shaken the more open economies of the Middle East since 2008. In Iran's case, the bulk of the \$200 billion in oil exports since 2005 has already been spent, and the strategic oil fund has been raided so intensively that there may be less than \$7 billion left. Indeed, Ahmadinejad's position had become so vulnerable that even before the elections the former top nuclear negotiator under Khatami, Dr Hassan Rohani, blasted him for his damaging economic policies, alleging that the government had withdrawn \$46 billion from the Khatami-established strategic fund between 2005 and 2009, in practice thereby dramatically reducing the country's ability to withstand economic shocks such as falling oil prices.

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Then there is the country's socio-economic situation. Under Ahmadinejad, the economy's structural problems have intensified, adding to the misery of the many millions of low-paid workers, the underemployed and those on fixed incomes. As one analyst has put it, "In fact, Ahmadinejad has run Iran's economy into the ground. On October 11 [2008], just a day after Ahmadinejad declared that inflation was easing, the Central Bank reported that annual inflation had reached 30%. [...] Labor and Social Affairs Minister

Mohammad Jahromi recently estimated the ranks of the jobless at 3 million, 2.4 million of whom are young people. [...] [U]nemployment among young people [defined as below the age of 35] [...] is 21.8%, or twice the national average. At least 14 million Iranians live below the poverty line [at a per capita monthly income of 969,750 rials (about \$100)]."² The problems do not end here, for according to the International Monetary Fund, Iran will face an unsustainable budget deficit if the price of oil remains under \$75 per barrel. Officially, the government has used oil prices of \$55 a barrel as its minimum expenditure baseline, but its spending has been so great that the foreign-currency reserve fund has been emptied. It is calculated that in 2007/8 alone, as much as \$17 billion was withdrawn from the fund. With its annual budgetary commitments based on a minimum price for oil of \$80 per barrel (which still accounts for 80% of the government's sources of income), Iran is likely to be facing some stark choices as oil prices fluctuate between \$60 and \$80 a barrel.

Of course, the warnings had been coming in thick and fast since 2006, most pointedly from the Iranian parliament, which has to approve the annual budgetary allocations and planned investments. Mohsen Mirdamadi, Secretary-General of the reformist Islamic Iran Participation Front party, has complained that President Ahmadinejad's "main campaign slogan [in 2005] was to share oil wealth fairly. [...] But instead, his economic policies have caused major problems for Iranians, particularly for lower-income people. [...] Since the revolution, Iran's total oil income has been \$700 billion. Over 36% of it was earned during [Ahmadinejad's] tenure of office [...] but inflation and unemployment rates are [...] highest now."³ So, despite the historically high oil prices that Iran has enjoyed for much of Ahmadinejad's presidency, the economy is in much worse shape now than at any time since the early 1990s. Regardless of Iran's strategic importance, it must not be forgotten that it is also a country in crisis, politically and economically, which makes it vulnerable and also unpredictable.

Energy

Energy is central to the Iranian economy and its ability to project soft power. It is also, of course, a key

² ARYAN, Hossein. "Falling Price of Oil Compounds Iranian President's Problems," in www.rferl.org, 29 October 2008.

³ Reuters, 5 December 2008.

plank of the relationship between Europe and Iran in the Middle East. With the European Union's energy dependency rates rising to well above 50% of production, energy security and, indeed, the affordability of energy have become issues of major concern. In this context, supply diversification has been encouraged, particularly since the Russia-Ukraine energy-related tensions spilled over to affect European energy planning in 2008. Not surprisingly, the EU has been keen to diversify its energy suppliers and strengthen ties with North African, Persian Gulf and Caspian Basin energy hubs. By the same token, Europe has also prioritised the further diversification of energy routes into Europe.

Iran, as a major oil and gas producer, has not been ignored by the Euromed countries, particularly as economic links between the two sides remain strong. Iran is the EU's sixth largest energy supplier; however, although the relationship has significant growth potential, its development has been hampered by the ongoing problems relating to the Iranian nuclear programme. Despite these difficulties, the EU remained Iran's largest trade partner, accounting for almost one third of the country's exports. In 2008, the EU's exports to Iran stood at €14.1 billion and its imports from that country at €11.3 billion, giving Europe a substantial trade surplus. EU imports from Iran are 90% energy and energy-related products, while EU exports to Iran are mainly machinery and transport equipment (54.6%), manufactured goods (16.9%) and chemicals (12.1%), which makes the EU a vital link in its economic development. But the EU is also mindful of its energy dependency and of Iran's potential, particularly as an additional supplier of clean energy in the form of liquefied natural gas (LNG).

To put the Iranian potential in context, it is worth noting the EU's relationship with another important trading partner, namely Algeria. The EU currently consumes 63% of Algeria's exports (largely energy) and supplies 58% of its imports. The Algerian economy is heavily dependent on hydrocarbons (oil and gas), which make up 97% of its exports. For all its importance to the EU, however, from a European perspective the major gas reserves are to be found in Russia and the Middle East. The list of major proven resources, with estimated yearly production in billions of cubic metres, is as follows: Russia (47,570), Iran (26,370), Qatar (25,790), Saudi Arabia (6,568) and the United Arab Emirates (5,823).

A related matter is the impact of the possible emergence of a gas producers' organisation in response to the evolution of the global energy market and the surge of interest in natural gas. It is not impossible to imagine the emergence of a gas cartel on Europe's doorstep, encompassing a number of the gas-rich neighbouring countries and regions. Such a cartel might deny the EU the chance to negotiate preferential supply arrangements with countries such as Algeria. In addition, Iran's role in the development of such a gas cartel could have serious consequences for the Euromed region were political tensions between Iran and the EU to rise.

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Given this context, Iran's menacing claims in March 2010 that it could make European countries suffer by cutting off energy supplies should they continue to support America's calls for further sanctions on the Islamic Republic and that it has the capability to target any adversary with its missiles have raised the security threshold even higher. In the Euromed context, Tehran's threatening outbursts must be taken seriously. According to General Hossein Salami, deputy commander of Iran's Revolutionary Guards Corps, "Iran is standing on 50% of the world's energy and, should it so decide, Europe will have to spend the winter in cold." These are not idle words and for Europe to see the Persian Gulf energy zone so threatened, just as it is trying to wean itself off its over-dependence on Russian supplies, must be of direct concern.

As one observer has noted, "Ironically, right when Central European capitals support US plans for a shield to counter Iranian missiles, the Islamic Republic could offer some in the region a shield against Russian monopoly power."⁴

Miller's observation that "Long-term, of course, Iran will probably become a net-exporter of gas regardless of US sanctions" should not be ignored either. His view that, in practice, "unilateral sanctions seem to

⁴ MILLER, Ryan R. "Energy Carrots for Iran: Killing Two Birds with One Stone," in www.atlantic-community.org, 15 April 2008.

encourage Chinese energy companies to fill the gap” is also important, for although the Chinese “may not be ideal from Iran’s standpoint (Chinese firms lack the sophisticated technology of Western oil and gas majors, and Iranian gas interests have their eye on European customers), Iran will have little choice but to look eastward if cut off from Europe’s lucrative markets.” Evidence for such a development presented itself in February 2010, when it was confirmed that China had overtaken the EU as Iran’s largest trading partner. Indeed, as American and EU energy companies have withheld investment in Iran’s vital oil and gas industries, China has stepped in to fill the gap by signing multi-billion-dollar agreements to develop oil and gas fields.

According to Iranian sources, the official figures that identify the EU as Tehran’s largest commercial partner (with trade totalling \$35 billion in 2008, compared with \$29 billion with China) disguise the fact that much of Iran’s trade with the United Arab Emirates (UAE) consists of goods channelled to or from China. Transshipments to China now account for more than half of Tehran’s \$15 billion (€10.9 billion) trade with the UAE. When this is taken into account, China’s trade with Iran would exceed \$36.5 billion, which could be more than with the entire EU bloc.⁵ Of particular interest is that 23% of the country’s imports in terms of value were coming from the UAE, its single largest source of imports. It is also worth noting that today China depends on Iran for 11% of its energy needs.

Nuclear Politics

Even before Ahmadinejad’s re-election, European Union foreign policy chief Javier Solana had chosen to let off steam about Iran’s intransigence over its nuclear programme in a very public manner, stating on 21 November 2008 that he was “worried” by the International Atomic Energy Agency’s (IAEA) most recent report that Iran was not responding constructively to the calls to stop its sensitive nuclear work.⁶ To demonstrate his frustration with Tehran he used strong language (by diplomatic standards at least) to make his point. “I am worried (by) the report of the Agency in Vienna,” he claimed, recalling that this was the second IAEA report to say that Iranians “are not

cooperating. [...] And some of the figures [the IAEA] offers about the quantities, the number of centrifuges, are troublesome.” Since then, of course, the IAEA has become even more vocal, stating in February 2010 that it was seriously concerned by some of Iran’s activities.

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It has thus become increasingly clear that the context for energy in European-Iranian discussions has gotten caught up in Iran’s nuclear programme, and it is there that it is now taking shape. The irony is that European countries have been champions of dialogue with Tehran for some time, and from “critical dialogue” to “constructive engagement” to the EU-3/Iran Paris agreement of November 2004 (in which Iran agreed to suspend its uranium enrichment activities in return for a broader economic and security dialogue with the West), Europe has taken the lead in trying to resolve the nuclear crisis and create a conducive environment for confidence-building between Iran and the West. This notwithstanding, as of 2010, following Ahmadinejad’s re-election in June 2009 and the hardening of the arteries of dialogue between Tehran and the West, Europe is increasingly caught between the tempo of geopolitical power plays in its “near abroad” and its growing thirst for energy from Russia, as well as countries such as Iran. Nuclear politics has spilled over into energy politics and, as far as Europe is concerned, it is even more reliant on Russia (which also happens to be both Iran’s energy competitor and nuclear partner) for its security calculations. In this climate, Tehran’s reluctance to de-link energy relations from its security-related nuclear dispute with the international community has made Iran’s political relations with European countries even more troublesome, undeniably to the detriment of both. As this trend is set to continue, it is valuable to keep in mind

⁵ BOZORGMEHR, Najmeh and DYER, Geoff. “China overtakes EU as Iran’s top trade partner,” *Financial Times*, 8 February 2010.

⁶ “Solana ‘Worried by Iran’s Lack of Cooperation on Nuclear Issue,’” *Agence France-Presse*, 22 November 2008.

that Europe's opposite number in terms of trade and energy links with Iran –namely China– has declared that it will not support the imposition of yet more UN sanctions on Iran. However, should push come to shove at the UN Security Council, China may choose not to “keep a very close relationship with Iran because this could damage its relations with lots of other countries,” according to Yin Gang, a prominent Middle East expert at the Chinese Academy of Social Sciences.⁷ European countries on the Security Council will inevitably be watching the diplomatic traffic between the US, Russia and China very carefully for any signs of progress on the Iran front, in the absence of which the Europeans would have to devise their own mechanisms to balance their energy interests against the continent's broader security imperatives. For these reasons Iran has entered centre stage for Europe.

Another actor, Turkey, has also emerged as a formidable regional player in recent years, increasingly influential as a buffer state between Iran and the European landmass. While Ankara does not perceive a serious military threat from Iran, the fear that a nuclear-armed Iran could spark a regional arms race and force Turkey to take compensatory measures to ensure its own security is not to be dismissed.⁸ Even more worrying from the European perspective is that, were relations with the United States (and NATO) significantly to deteriorate, Ankara might opt to acquire its own nuclear deterrent, thereby seriously destabilising the Euromed's security environment. Added to this is Turkey's desire to become a new energy bridge between west Asia and Europe, with simultaneous links into both the Persian Gulf and Caspian Sea energy zones. “Energy,” notes Larrabee, “has also been an important driver behind Turkey's rapprochement with Iran. Iran is the second largest supplier of natural gas to Turkey behind Russia. In July 1996, the Erbakan government concluded a \$23 billion natural gas deal with Iran. [...] In July 2007, Turkey and Iran signed a Memorandum of Understanding to transport 30 billion cubic metres (bcm) of Iranian and Turkmen natural gas to Europe. The deal envisages the construction of two separate pipelines to ship gas from Iranian and Turkmen gas fields. The

state-owned Turkish Petroleum Corporation (TPAO) will also be granted licenses to develop three different sections of Iran's South Pars gas field, which has estimated total recoverable reserves of 14 trillion cubic metres. The deal has been sharply criticised by the United States, which opposes large investments in Iran's energy sector.”⁹

However, apart from Russia, Iran is one of the few alternative suppliers of natural gas capable of meeting Turkey's growing energy needs. While most of the natural gas under the deal with Iran will be exported to Europe, Ankara would like to see some of it used to meet domestic demand. The EU-Turkey-Iran triangle is another new constellation to watch as Ankara begins to flex its geopolitical muscles eastwards and also towards the West.

Conclusion

In addition to the above, Iran's relations with the North African countries should also be noted. Under Ahmadinejad, Tehran's relations with these Arab countries have been rather cool, and Morocco has gone out of its way to sever its diplomatic ties with the Islamic Republic. Thus, while Iran's presence in the Euromed region may have become more significant in recent years, its relations with the Maghreb countries have at the same time been somewhat weakened, as it has softened its diplomatic presence in this part of the Arab world. Consequently, although Iran's presence in the eastern Mediterranean region remains strong, interest in Iran's energy potential remains high, and Iran is able to work closely with Turkey and others in the regional context, it has been European concerns over Iran's challenge to European security that have tended to characterise recent relations between the Union and Iran. Until these latter issues are resolved or addressed, it is hard to see how Europe would look to improve or enhance bilateral relations, particularly as there are so many other forces pulling the parties apart. If the EU ever needed a coherent voice at the international bargaining table it would be today, given how much of the emerging new order is being shaped on the Euromed region's doorstep.

⁷ BOZORGMEHR and DYER, op. cit.

⁸ Stephen F. LARRABEE, “How Turkey is Rediscovering its Middle East Role,” *Europe's World*, Autumn 2009.

⁹ Ibid.