

EU Embargoes Iran over the Nuke Issue

By Akbar E. Torbat

July 08, 2012 "[Information Clearing House](#)" -- The latest round of negotiations on Iran's nuclear program between Iran and the EU3+3 (Britain, Germany, France plus China, Russia, and the US) on June 18-19, 2012 in Moscow ended inconclusive. Subsequently, the EU decided to enforce its previously announced embargo on Iran's oil effective July 1, 2012. Thus the EU joining the US unilateral trade and financial embargo against Iran made the West united to pressure Iran to give up its nuclear program. As it appears Iran is determined to pursue its nuclear activity despite economic pressure by the West. Historically, Iranians have always been united to protect their national interest regardless of who ruled Iran. For instance, when Prime Minister Mohammad Mosaddeqh nationalized Iran's oil in 1951, Britain retaliated by imposing an oil boycott against Iran and deprived the country from its oil income. In response, Mosaddeqh restricted imports into Iran and was able to make Iran's balance of trade positive quickly. The boycott failed to prevent Iran from pursuing its national interest then as it could be the case now.

Iran's Nuclear Issue

The US has exaggerated the danger of Iran's nuclear program to the point that no one with common sense can believe it. There is no logical reason for sanctioning Iran on the issue of nuclear proliferation. Why should Iran be sanctioned while Israel is the only country in the Middle East that has hundreds of nuclear weapons in its arsenal and refuses to sign the Non-Proliferation Treaty (NPT)? Also the US has the world largest military with over two thousands nuclear bombs and is not getting rid of its own nuclear arsenal as required under Article VI of the NPT. By using the nuclear issue pretext, the US has coerced the European countries to cut their ties with Iran.

Iran's nuclear issue has been the subject of hot debates in the past few years. Kenneth N. Waltz, a prominent scholar on the theory of International politics and nuclear proliferation, recently wrote an article concerning Iran's nuclear issue (Foreign Affairs July/August 2012). He argues in that article, despite warnings from the US, the EU, and Israel regarding a nuclear-armed Iran, it would "most likely restore stability to the Middle East." He further adds "If Tehran determines that its security depends on possessing nuclear weapons, sanctions are unlikely to change its mind." Previously, on February 8, 2007, Kenneth Waltz had debated the issue with Scott Sagan at Columbia University. They have jointly authored a book concerning the spread of nuclear weapons. In that debate, Sagan argued about the dangers of nuclear weapons as opposed to Waltz's contention that nuclear capabilities deter threats and

preserve peace. Waltz said “we should not worry ... so sleep well”, there is no danger even if Iran gains nuclear capability.

The Iranian officials have repeatedly denied that Iran is developing nuclear weapons. Nevertheless, if one assumes Iran is gaining nuclear capability, this may in fact contribute to balance-of-power in the region as some foreign policy experts have indicated. They say Iran is surrounded by several countries in the region that have nuclear bombs: from the West by Israel, from the East by India and Pakistan, and from the North by Russia and from the South by the Fifth American fleet centered in Bahrain. Therefore, if Iran gains nuclear capability, it would be for deterrence purposes. The former French foreign Minister Roland Dumas also commented that Iran’s nuclear capability is a factor of balance-of-power in the region. Therefore, if nuclear capability is for deterrence and balance-of-power, it can be regarded as a factor for maintaining peace. Then, why has Iran been simultaneously put under sanctions and threats of military force? There are at least a dozen countries that have nuclear capability but possess no nuclear bombs; included are Canada and Brazil that are closer to the United States than Iran. Why should Iran be treated differently? Is it for the sake of maintaining stability in the region or is it for Iran’s rich oil resources?

The EU Policy towards Iran

Since the 1979 revolution, the United States has had policy differences with its European allies regarding Iran. The European Union member countries have opened diplomatic and commercial links with Iran. In contrast, the U.S. has tried to contain Iran by means of economic sanctions. The US has increased its pressure on Iran from selected economic measures to unilateral and extraterritorial sanctions, and in the past few years has used its influence to impose multilateral sanctions by the UN Security Council. Also the US has continuously pressured the EU to join the sanctions. The EU member countries had continued their engagement with the Islamic regime without yielding to the US pressures until recently.

In December 1992, the European Union adopted the so-called “critical dialogue” policy toward Iran. The goal of this policy was to criticize the Islamic Republic on certain issues such as violation of human rights, assassination of Iranian dissidents, and nuclear proliferation, while having constructive diplomatic and economic relations with it. On occasions, there have been impasses, such as Salmon Rushdie’s death sentence by Ayatollah Khomeini in 1989 and the Mykonos case when a German court found in 1996 the Iranian top rulers were guilty of ordering killing of three Kurdish leaders and their interpreter in a restaurant in Berlin. The EU dealt with such problems diplomatically by temporarily recalling their ambassadors from Tehran for example. To strengthen their relations further, on June 8, 1998, the EU member states

formally approved a more favorable policy of “comprehensive dialogue” with Iran. In contrast to the critical dialogue that was focused on the problems between the two sides, the new dialogue sought to be “open and global”. It included not only the regional and international issues but also economic, cultural, and scientific issues.

Such policy served the EU’s commercial interests well, as Iran’s cleric Presidents Akbar Hashemi Rafsanjani and Mohammad Khatami (1989 -2005) opened Iran’s market to the European products and awarded lucrative oil contracts to the European companies. To preserve their commercial interests in Iran, the Europeans wished Rafsanjani would be elected again as Iran’s president in 2005. However, that did not happen as Mahmoud Ahmadinejad won the election. Since then, Iran’s self-reliant economic policies have limited the Europeans’ lucrative interests in Iran and an attempt to foment a velvet revolution supported by the West failed to depose President Ahmadinejad in 2009.

EU Response to the US Extraterritorial Sanctions

In 1996, the U.S. devised an extra-territorial law called Iran –Libya Sanction Act (ILSA) to force third states to comply with US trade sanctions. ILSA penalized the oil companies that invested more than \$20 million in Iran’s oil development projects. The European Union member states opposed ILSA. They considered such sanctions as an extension of the US laws beyond its borders and did not want to comply with it. The EU member states perceived the US-led sanctions as having a “double standard” policy. The United States is forcing a worldwide boycott of Iran while at the same time it openly opposes the Arab League boycott of Israel. The Arab League member states want to boycott Israel economically and prevent non-Arabs from providing support to the Zionist regime. Also, oppressions of the US client regimes in the Persian Gulf region of their people and Israel’s apartheid policy towards Palestinians are not better than the clerical regime’s human rights records in Iran.

In October 1996, at the UN General Assembly meeting in New York, the French foreign minister Herve de Charette said France and Europe could not concur that any single country “regulates world trade by itself by means of decisions that have extra-territorial scope.” In November 1997, the EU made a formal complaint against the United States with the World Trade Organization for imposing ILSA on European companies. EU said ILSA counters the principle of free trade on which WTO is based and any punitive action to enforce it would be in violation of international law. Because of the complaint, the US had to waive ILSA for the European companies. In a summit in London In 1998, attended by the then U.S. President Bill Clinton, the British Prime Minister Tony Blair, and the European Commission President Jacques Santer, it was decided the U.S. secondary boycott provisions would no longer apply to European companies due to their extraterritorial character. Following the summit,

the EU in a press release dated May 18, 1998, announced: European companies now can “conduct their business without the threat of US sanctions.” The waiver of ILSA appeased the European oil companies that were eager to participate in the Iranian oil and gas projects. The oil companies began formally to sign contracts for oil development projects in Iran. On September 30, 2006, ILSA was renamed to Iran Sanctions Act (ISA), as it no longer applied to Libya. Because of pressures from President George Bush and also the subsequent multilateral foreign policy approach by President Barack Obama, the EU member states decided to be more cooperative with the US sanctions on Iran.

The EU Sanctions on Iran

When the UN Security Council issued resolution 1737 regarding Iran’s nuclear program in February 2007, the EU member countries immediately adopted the resolution. At the time, they had over 30 billion euro annual exports to Iran. Only a very small portion of their exports had to be curtailed to comply with the resolution. Yet, the US pressured the EU to do more by cutting its banks and oil companies’ ties with Iran. Despite the US pressures, EU's imports of Iranian crude almost doubled from 2008 to 2010. According to the International Energy Agency in Paris, in 2010, Europe imported on the average about 1.2 million barrels of crude oil per day from Iran. The EU trade with Iran was very important and could not be easily halted for the sake of US objections. The EU was Iran's largest trading partner, accounting for about one third of its exports, 90% of which was energy related. In 2010, Iranian exports to the EU amounted to €11.3 billion and imports from the EU amounted to €14.1 billion. The EU exports to Iran were mainly machinery and transport (54.6%), manufactured goods (16.9%) and chemicals (12.1%). Reducing exports to Iran had negative impact on unemployment rate in Europe, which has been at high levels. Despite that after the UNSC issued further resolutions against Iran’s nuclear program, the US increased its pressures on the EU members to sanction Iran.

In September 2007, the French President Nicolas Sarkozy proposed the EU to sanction Iran beyond the UN measures. Sarkozy wanted to align French policy with the US while other EU member states had mixed reactions. Nonetheless, to please the US, in their summit in Brussels on June 17, 2010, the EU member countries decided to impose limited sanctions on Iran. They banned most of Iran Air’s jets from flying to Europe on the pretext of safety concerns. Iran’s airline at the time had about 60 passenger and cargo planes in its fleet. Subsequently, in a statement, they banned all Iran's shipping and air cargo companies from operating in the EU territory.

Moreover, on July 27, 2010, they approved a set of new restrictions against Iran targeting its foreign trades, financial services, energy, and transportation sectors. All 27 member countries prohibited exporting dual-use items to Iran that could be used as

part of its nuclear program. They also sanctioned Iran's oil and gas industry and prohibited new investments, technical assistance and transfers of technologies to Iran. Furthermore on October 27, 2010, they tightened their sanctions by putting restrictions on Iran's trade, financial services, and energy sectors, which also included banning insurance and reinsurance by EU insurers of the Iranian entities.

Then EU turned to boycott Iran's oil. In October 2011, the NATO backed forces ousted Muammar Qaddafi, in Libya. At that time, the Western companies became able to control Libya's oil supply. Also Iraq's oil exports had reached to 2.5 million barrels per day, the highest since 1980s, and the US client regimes in the Persian Gulf region had increased their oil production. According to British Petroleum statistical review, in 2011 Saudi Arabia increased its oil output by about 1.2, UAE by 0.450, and Kuwait by 0.35 million barrels per day, which flooded the market in preparation for boycotting Iran's oil. That put EU in a better position to cooperate with the US demand to boycott Iran's oil. As a result, on 23 January 2012, the Council of European Union decided to ban new contracts for importing petroleum from Iran and end the existing contracts effective July 1, 2012. The Council also froze the Central Bank of Iran assets held in Europe and forestalled the trading of precious metals to and from the country. Certain EU partnerships with Iran could be exempted from the sanctions if they were crucial to Europe's energy needs. The energy companies that had long term oil contracts with Iran were mostly based in France, Italy, Norway, and Spain. At the time, the European Union accounted for 20% of Iran's oil exports. Most of Iran's oil export to Europe had gone to Greece, Italy, and Spain that were facing severe financial crisis. The EU countries could pay in euro to purchase Iran's oil but now they have to pay in dollar to buy oil from the Persian Gulf Arab countries and that aggravates the Euro zone crisis further.

Moreover, the US pushed the Society for Worldwide Interbank Financial Telecommunication (SWIFT) to halt processing Iran's monetary transactions. The US threatened to penalize SWIFT if it did not cut its ties with Iranian banks. SWIFT handles a large portion of the world's electronic money transfers. As a result, on March 15, 2012, the Brussels-based SWIFT had to cutoff processing of Iranian banks' transactions. The action extended the EU sanctions on the Central Bank of Iran, which had been previously exempted. That made difficult for Iran to process its financial transactions for oil exports and products imports. Yet, Iran could accept cash or gold for its oil export or could use other alternatives routes such as fax or e-mail for business transactions. Nonetheless, despite EU sanctions, Iran is able to sell its oil to other countries. The main importers of Iran's crude oil have been China, Japan, South Africa, Brazil, Pakistan, Sri Lanka, Spain, India and the Netherlands.

The election of François Hollande as president of France on May 6, 2012 may slightly change France's and the EU positions regarding Iran. Following President Hollande's

victory in the election, the former socialist Prime Minister Michel Rocard immediately visited Iran to warm-up Tehran – French relations that had deteriorated during Sarkozy's presidency.

The Sanctions Double-Edged Sword

Sanctions are a double-edged sword that hurt both sides. It is hard to evaluate which side is suffering more from the sanctions. Iran has reacted to the EU sanctions by countersanctions against major European countries, including Germany, Spain, France, UK, and Greece. Iran plans to cut importing European products. Because the EU ended insurance services of Iranian cargoes, Iran has substituted the Chinese and Japanese companies to insure its shipping cargoes. On June 15, 2012 Japan's lower house passed a bill to provide government guarantees on insurance for Iranian crude cargoes, making it the first of Iran's major Asian buyers to find a way to keep the oil flowing in the face of the EU sanctions. Furthermore, Iran owns a fleet of 39 oil tankers with a capacity to carry up to 70 million barrels of crude that is enough for at least half of Iran's crude export. In addition, Iran recently took delivery of 12 newly built supertankers from China, which expand its fleet to carry most of its oil. Also, Reuters reported in April that Iran had turned off the satellite tracking transponder on some of its oil tankers. That has made it difficult for the US to track who buys Iran's oil and thus helps to prevent possible interferences in Iran's oil shipments. At present, there is a glut of oil tankers and the sanctions have hurt the US and European companies that transport oil. For example a US based company, Overseas Shipping Group (OSG), reported huge losses for its fiscal year ending December 2011. However, despite losing money due to depressed shipping business, OSG has to comply with the US sanctions by not carrying Iranian oil.

In the meantime, after almost 15 months of interruption in negotiations over Iran's nuclear program, negotiators from Tehran and six world powers finally resumed talks on April 14, 2012 in Istanbul. The U.S. and other Western diplomats met with their Iranian counterparts to discuss Iran's nuclear issue. Subsequently, they met in Baghdad on May 23 and in Moscow on June 18-19 without reaching any conclusive agreement. Iran has called for lifting of the sanctions and recognition of its right for uranium enrichment for peaceful purposes. The West is insisting that Iran must permit the IAEA to inspect its military installations and speak to Iranian nuclear scientists. However, Iran does not accept such a request. In the past, it has been alleged that the IAEA has leaked some information that has been used by Mossad to assassinate Iranian scientists and sabotage sensitive industrial installations in Iran (See ICH article 30305 A Covert War). Iran argues that under pretext of inspection, the West wants to gather intelligence information on Iran's important strategic locations to identify military targets for possible sabotage of Iran's scientific and military

installations by bombs or malwares in the cyber space. It remains to be seen whether the future negotiations would resolve the West nuclear dispute with Iran or the sanctions will be continued to hurt the economies of both sides.

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