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## **Mark Fitzpatrick**

I appreciated hearing your forward-looking suggestions for a preliminary nuclear action plan, and I noted that you have discussed this with Iranian counterparts, which is important. I give the final presentation to Erzsébet.

## **Erzsébet N. Rózsa**

Thank you. I would like to thank the consortium for the opportunity to address you today. I was asked to speak about the impact of EU sanctions on Iran. I have to make two preliminary remarks: first, it is too early to see all the impacts that may affect Iran; secondly, the EU sanctions are not sanctions in themselves, as you are fully aware. There are UN Security Council sanctions and others, so sometimes I cannot say that this is only the effect of the EU sanctions, since there are occasions when others have an impact.

My starting point is that, if you look at the Islamic Republic of Iran's history, the top priority is the regime's existence and survival. Everything else lies below this concept. Even now, when the EU sanctions were introduced, this is clearly visible. There is a kind of deterrence in effect now, deterring probably the implementation of EU sanctions on the one hand, and deterrence from regime change, which is the biggest threat for Iran now, and has always been.

I tried to analyse impacts on the political, economic, financial and social spectrum. In the political sphere, it is already clear that there have been quite a lot of messages ever since the EU sanctions were passed. The Iranian leadership were giving different arguments, saying that the oil embargo on Iran by the EU was meant to influence the parliamentary elections due on 2 March. I am sure that this was not the idea; then that the European countries have imposed sanctions on themselves because they are in the grip of financial difficulties, and the oil embargo against Iran will aggravate their problems. This is another argument.

What I think is most important, however, is that, yesterday, at Friday noon prayer, Ayatollah Khamenei came out and gave the *khutbah*, in which he said, 'If they had not closed the gates on science on us, we would not be progressing on space exploration and sending satellites into orbit. The more sanctions they impose against us, the more we turn to our own domestic powers, skills and views, and these talents are like a spring'. From our point of view, this is very important, because I am very much afraid that this means rather retreating than progressing towards negotiations, despite the fact that we all know that, within the Iranian political elite and administration, huge debates are going on with regard to what to do with the nuclear option. Even Leon Panetta said that they have not made a decision, and they have not made a decision to cross the nuclear threshold. We have been saying that for the past five or 10 years or so. This Khamenei *khutbah* is very important and we will have to see how it evolves.

We should also not forget that there is a huge domestic political debate and transformation, possibly, in Iran. Now, the reformists are absolutely out of the picture. We will see quite clearly in the parliamentary elections after 2 March that there is intense political infighting among the conservative forces. It is not just this or that centre of power but it is now openly and clearly between Ayatollah Khamenei and Mahmoud Ahmadinejad. Interestingly, the press has become increasingly open in the past couple of days and weeks in terms of criticising Ayatollah Khamenei, which was unheard of before. That this has a big impact within Iran is clearly seen in the fact that Khamenei, who usually withdraws from public appearances, has now started a charm campaign. For example, he paid his condolences to Mir Hossein Mousavi, who is under arrest, and whose brother passed away. He even said that Mousavi was such a big person who has contributed so much to Iranian development and so on and so forth. Khamenei is going out of his way to pay his condolences and even visit the family of the nuclear physicist who was murdered. Something very deep is underway in Iran. We should not

forget – because this will be decisive – that, even now, Ahmadinejad goes out publicly criticising Khamenei, which is, again, something unusual.

Then there are the official political countermoves. The Majlis is either on the point of passing or has already passed – I was unable to check – a law that prohibits the sale of oil to the EU before the EU stops importing. It would be in effect for five years and they are talking about this law as being an Iranian sanction against the EU. There is then the media campaign saying, ‘We need not sell oil to Europe. In any case, only 10% of our foreign exchange is with Europe’.

There are the close relations with Turkey. Foreign Minister Davutoglu constantly goes back and forth between Ankara and Tehran and makes statements, if I believe the Iranian press, that the UN sanctions are obligatory but unilateral sanctions by any state are not. Then there is the question of India and China. Then there was a statement by Algeria saying that they are not going above their OPEC quota. China and Russia are strongly criticising EU sanctions. Iran is using every possibility in the international media to question the credibility of the sanctions at all. I would not like to go into details in that respect.

Economic sanctions are aimed at oil and gas exports and investments. We know about the European intentions, but we should mention Turkey here, which takes 7% of Iranian oil exports. This represents 30% of Turkish oil consumption. What are we going to do about that? Iran is producing quite enough gasoline. One way of pressurising Iran was in the gasoline field, but they have become self-sufficient. Some gas and oil projects have not been stopped; for example, Pakistan refused to abandon a multi-billion-dollar Iran gas pipeline project, despite very strong pressure from the US.

In terms of the financial side of the issue, this is probably where the impact of EU sanctions may be more visible. The loss in value of the rial is a huge problem. It has lost 40-50% of its value in the past two or three months, but the government is making countermoves. They have fixed the value of the rial at a medium rate and introduced very severe punishment for money-changers. Of course, when anyone goes to Iran, they change money with the money-changers, not at the banks. If the police find foreign currency on any person, they can be prosecuted. I do not think that this will be effectively implemented for more than two or three weeks, but it is a very influential tool at the moment. The Turkish Halk Bank announced that it is doing business with the Iranian Central Bank. The Indians have changed some of their trades with Iran into Indian rupees, and the Chinese into yuan. The Chinese are also making very good use of this crisis and trying to get better prices from Iran.

In terms of the social impact, this is felt not only from EU sanctions but from all other sanctions. Small businesses are closing and unemployment is on the rise. To mention one example, Daimler has closed down an assembly factory in Iran, so people were laid off. The price of gold coins has gone up, which is important because young people cannot get married. This is what really affects the life of the society. The food trade has been badly hurt. Because European and other banks cannot deal with the Iranian Central Bank, no credible letters of credit are being issued, so income from grain and livestock has stopped. It is very important but, unfortunately, these sanctions are hurting the middle class the most – the middle class on whom we would like to depend for change, because they are the ones who have their savings in US dollars and euros, who travel abroad and who send their children abroad. They are the ones who may have debts in foreign currencies.

In terms of the outcome, I am definitely sure that Iran will not give up uranium enrichment. I fully agree with Maurizio’s statements. This can be the end result of negotiations, but no precondition will be accepted – that is definitely sure. Iran is affected, of course, but the EU and even other sanctions are not waterproof. We are speaking about the international community, which is not us. There are many countries that will just break the sanctions. They will say, ‘This is forbidden but that is not’.

Iran will cleverly use the ambiguities, if I may say so, within the situation and will discredit the EU. Many countries over the world will not like Iran, but they could be receptive to criticism of double standards and credibility etc. While the sanctions will hurt the EU too, others will take advantage on sight.

To finish, I want to agree with Bernd Kubbig: the EU Iran policy is counterproductive and needs to be changed somehow. Thank you.

**Mark Fitzpatrick**

Thank you, Erzsébet. Your very cogent presentation on the effect of EU sanctions reinforces our belief that it was very good to have a regionalist on this panel.