

## Dilemmas in the German policy towards Iran

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**For economic and strategic reasons Iran is for Germany one of the key partners in the Middle East, where Berlin has been building its political and economic position since the 1990s. On the one hand, in the current international situation Germany publicly criticises the government in Tehran and assumes the role of a US ally in the resolution of the Iranian nuclear programme issue. At the same time Berlin is trying to shape its policy towards Iran so as not to give up economic relations and to preserve political contacts at the lower level. Such an approach has been criticised both in Germany and abroad. It shows however Germany's efforts to keep a balance between conflicting political goals and its focus on possible benefits the country may achieve if the problem of the Iranian nuclear programme is resolved.**

### Why is Iran important for Germany?

From among other EU member states, Germany has the most advanced relations with Iran. An extensive network of German-Iranian political, economic and cultural contacts has been developing since the early 1950s. Germany also has analytical centres which deal with the politico-economic situation in Iran and, more broadly, across the region.

For Germany Iran is one of the most important economic partners in the Middle East and a promising export market. Currently, Iran is ranked third as Germany's trade partner in the region, preceded by Saudi Arabia and the United Arab Emirates. Third position is an effect of international economic sanctions imposed on Iran and political pressure on German

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firms to limit their activity in the country. Regardless of that, Germany is still the most significant Western trade partner for Iran; 35% of Iranian imports from the EU come from Germany (for comparison: 19% from Italy and 16% from France)<sup>1</sup>. Germany is also an important supplier of machines, equipment and technologies. The desire to diversify the sources of

energy raw materials makes German firms interested in investing in Iran's gas sector and in importing Iranian gas to Germany and the European Union. The recent gas crises have motivated them to engage more actively in the construction of the Nabucco gas pipeline, which will supply gas to the EU from Central Asia and probably also from Iran in future.

<sup>1</sup> Data for January – May 2008.

The interest of German corporations to invest in the Iranian energy sector has been proven by talks between their representatives and the Iranian energy minister at the time of his visit to Berlin in May 2009, the details of which have not been disclosed. However, considering the current political situation, the implementation of projects in the gas sector seems impossible at present. Nevertheless, German companies are making contacts and probing for possibilities of co-operation with Iran intending to finalise contracts when the political climate becomes more favourable.

Relations with Iran are also important for Germany from the geopolitical point of view. The building of Germany's presence, influence and position in the Middle East since the late 1990s is linked to the country's desire to increase its significance in the international arena. Good politico-economic contacts with Iran are to Germany's advantage in the region where the room for a more active German policy is limited, especially considering the privileged bilateral relations of Arab countries with the United States and France. Indirectly, such contacts also help Germany to gain international prestige. They have enabled the country to join the group of permanent members of the UN Security Council and create the '5+1' group dealing with the issue of the Iranian nuclear programme. Germany wants the problem of Iran's uncontrolled development of the nuclear programme to be resolved in order to prevent the possible production of nuclear weapons. However, Berlin insists on using peaceful measures (diplomatic and economic) for this purpose and supports the policy of dialogue and co-operation, while excluding military intervention from the USA or Israel.

## The evolution of the German policy towards Iran

Until 2005 (especially at the time of Gerhard Schröder's government), Germany's policy towards Iran could be characterised as 'change through rapprochement,' which involved an enhancement of political (visits by senior German politicians to Iran and Iranian politicians to Germany) and economic contacts (increasing export guarantees, agreement on the protection of investments and promotion of German exports). The policy of co-operation (also referred to as 'critical dialogue') was in opposition to the US proposal to isolate Iran and gradually extend the economic sanctions imposed on the country and its attempts to convince their European allies to adopt a similar strategy. Differences in the approaches were especially strong during the presidency of George W. Bush, when the policy towards Iran was one of the factors which adversely affected German-US relations.

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Since 2005, German policy towards Iran has been revised and rhetorically sharpened as a consequence of several factors. Firstly, the election of Mahmoud Ahmadinejad as president of Iran, whose anti-Israeli statements and challenging of the existence of Holocaust has made German political elites publicly dissociate themselves from the previous policy of 'change through rapprochement' towards Iran. Secondly, the increasingly hot dispute over the Iranian nuclear programme;

the policy of dialogue adopted by the EU-3 group (Germany, France and the United Kingdom) was unsuccessful because Iran did not stop enriching uranium and rejected the European politico-economic offer in 2005. For this reason Germany supported the gradual imposition

of sanctions on Iran by the UN Security Council (developed in collaboration with Germany as part of P5+1 format) and even an expansion of the sanctions imposed by the EU. The third factor was the electoral victory in 2005 of the Christian Democrats, who wanted Germany to adopt a tougher stance towards Iran. The CDU/CSU/SPD government did not limit its activity to sharper words and gradually reduced export guarantees (Hermes) for German companies, which partly caused a gradual decrease in German exports to Iran<sup>2</sup>. The fourth and the most significant factor was the desire to improve relations between Germany and the USA. Steps taken by the coalition government of Christian and Social Democrats were aimed to soften the US and Israeli criticism of the German policy towards Iran.

## The conflict of interests

The government led by Angela Merkel has faced a dilemma about the way of conducting the policy towards Iran due to the mutually contradictory goals it wants to achieve. On the one hand, Germany's economic and strategic interests require the establishing of closer relations with Iran. However, on the other, one of the goals Merkel's cabinet is to improve relations with the United States, a traditional ally and partner of Germany, which in the present international situation means increasing pressure on Iran by reducing economic relations.

So far Germany has been trying to resolve this dilemma by keeping a balance between public criticism of Tehran's policy, lowering state guarantees ('Hermes') for export of German products to Iran and the lack of decisive measures to limit German-Iranian trade relations and support for political co-operation with Iran in less controversial areas. After the presidential elections in Iran in June 2009 and the brutal suppression of the opposition's demonstrations, Germany has sharpened its rhetoric on the international forum and promised support for further sanctions, which however does not mean a real change of its previous policy<sup>3</sup>.

**Angela Merkel's government is facing a dilemma over the stance it should take on Iran considering the existence of mutually contradictory goals in German policy.**

However, the policy adopted by Angela Merkel's government has been criticised both at home and abroad. The USA and Israel have criticised Berlin for its failure to take decisive steps to put stronger pressure on Iran by limiting German-Iranian trade contacts. Although German politicians

in their public statements support additional sanctions, the USA doubts whether Germany will in fact agree to impose further sanctions on Iran (for example, enforced only by Western countries if Russia or China does not back another UN Security Council resolution). On the other hand, German companies, which are used to the state's support in their foreign expansion, oppose the reduction of state export guarantees in trade contacts with Iran. The more the demand for German products shrinks as a consequence of the global economic crisis in other regions<sup>4</sup>, the louder the protests and lobbying of German business circles<sup>5</sup> against the policy towards Iran adopted by Angela Merkel's government become. Most German experts on the Middle East oppose additional economic sanctions, and part of the political elite is sceptical about this concept as well (for example members of the FDP).

<sup>2</sup> They reached 4.4 billion euros in 2005; 4.1 billion euros in 2006 and 3.6 billion euros in 2007. Data according to the German Federal Ministry of Economy and Technology, <http://www.bmwi.de/BMWi/Navigation/Aussenwirtschaft/Bilaterale-Wirtschaftsbeziehungen/laenderinformationen,did=277798.html>

<sup>3</sup> Chancellor Angela Merkel pleaded for imposing heavier economic sanctions in the case of lack of progress in the resolution of the nuclear programme issue. However, this stance was then softened in statements given by representatives of the German Foreign Ministry, who said that new sanctions on Iran would be imposed as a last resort.

<sup>4</sup> Statement by Martin Herrenknecht, Deputy Chairman of the German Near and Middle East Association (NUMOV), concerning the need to develop economic contacts with Iran despite political restrictions. "Right now, at the time of recession and considering the need to protect jobs, we should discuss our relations with Iran." The quote comes from the article *Federal Government is Talking with Iran about Afghanistan* published in Handelsblatt, 13 May 2009.

<sup>5</sup> The German Near and Middle East Association (NUMOV) is a business and lobbying organisation. This is an association of German firms operating in the Middle East, which has good contacts with adequate federal ministries. The German Orient Institute in Berlin, which is financed by NUMOV, operates close to the association performing analytical and educational tasks regarding Middle Eastern issues.

## Conclusions

1. In its policy towards Iran, Germany has been trying to keep a balance between the realisation of its economic and strategic interests, an adequate reaction to the Iranian nuclear programme and keeping good political relations with the USA and Israel. As a consequence, Germany continues, albeit in a limited version, its policy of 'change through rapprochement' accompanied by criticism of Tehran's policy and threats to impose additional sanctions. It also assumes the role of 'mediator' in talks with Iran.

2. Despite official support for the imposition of limited sanctions on Iran and the reduction of state aid to firms co-operating with Iran, the German government is not ready to radically curtail trade relations with Iran and to impose further sanctions in the longer term. This is a consequence of strong lobbying by representatives of German business circles, due to which the government in Berlin will find it difficult to impose restrictions on German-Iranian economic relations. Despite recent constraints, German firms have made efforts to expand their contacts with Iran, finalising subsequent German-Iranian projects worth billions of euros<sup>6</sup> and lobbying for Berlin's more conciliatory policy towards Tehran.

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3. In broader terms, the political isolation of Iran is not in the interest of Germany. Therefore, Berlin will not cut its dialogue with Tehran on a lower level and co-operation in areas which are 'less controversial' for international public opinion, such as the stabilisation of Afghanistan (border protection, support for the return of Afghan refugees and combating drug trafficking)<sup>7</sup>. Economic and political contacts with Iran and the good perception of Germany are a value which Berlin would not like to lose by cooling the relations for a longer period.

<sup>6</sup> Construction of a section of the fast magnetic railway Transrapid in North-Eastern Iran, designed by a German engineering firm or sale of German technologies to the Iranian petrochemical sector

<sup>7</sup> In mid May 2009, Bernd Mützelburg, special envoy of the German Foreign Ministry for Afghanistan and Pakistan, presented a strategy of including Iran as part of a regional approach to the stabilisation of Afghanistan and promised a visit to Teheran.



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