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## Elections without Change

The Iranian regime defies financial crisis and risk of war

by Cornelius Adebahr



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*No sign of revolution here. Anyone who had hoped that the elections to the Iranian parliament—the Majlis—would get the population stirred up again like it was in the summer of 2009 must be disappointed. As it does at the beginning of every spring, the recent Iranian New Year celebration (Nowruz) brought the entire country to a standstill—and the regime survived yet another critical phase. Iran is nowhere near its own “Persian spring” or the consummation of the Green (opposition) Movement initiated just three years ago. At the same time, international sanctions and increasingly bellicose rhetoric are bringing the country’s economic crisis to a head. Whether this economic malaise will finally lead to a change in conditions in Iran is an open question—accompanied by hopes and dreams.*

The Iranian parliamentary elections at the beginning of March 2012 had a special added value: normally fixated on President Mahmoud Ahmadinejad as the purported source of all evil, German media audiences were finally able to recognize that he is not particularly powerful in his own country. Appropriately enough, the election was interpreted as a face-off within the conservative camp, as a duel between the religious leader (or Supreme Leader) Ayatollah Ali Khamenei and Ahmadinejad. After all, voters who were critical of the regime had little reason to participate in the elections because many reformers were calling for a boycott. For the same reason, the regime did not consider its share of votes as the standard for measuring its level of success, but looked at voter turnout instead. And especially in view of the country’s international isolation, participation in elections is seen as legitimation of the system.<sup>1</sup> This is why from Khamenei on down, the Iranian leadership has never grown tired of emphasizing that voting is a religious obligation. The reports on an apparent increase in voter turnout in comparison to the last elections four years ago—from 7 percent to now 64 percent—were understandably euphoric.<sup>2</sup>

### And the winner is ... Ahmadinejad?

In Germany and the world, the media predominantly interpreted the elections as a successful balance of accounts between the conservative estab-

lishment and the populist president—but the media missed the mark here. In view of the sluggish ballot counting process, an analysis like this was premature anyway. Four weeks after the elections, the official results still had not been announced (status as of March 30, 2012)—a fact that fuels the suspicion that the results will be based on power plays behind the scenes and not on actual voting shares. In addition, almost one-fourth of the total seats (approx. 70 out of 290) will not be awarded until the second round of elections since none of the candidates in the relevant electoral districts could attract the required 25 percent of the votes. Surprisingly, the majority of the seats in the deeply symbolic capital city are slated to be determined in the second round at the beginning of May.

In the candidate-oriented Iranian electoral system, a given candidate’s political agenda may ultimately have nothing to do with the list his name appears on. Since the system is not set up for fixed party membership, a candidate can belong to several political groups in order to increase his visibility. For example, the majority of the candidates in the conservative caucus true to the principles of revolutionary leader Khamenei (the United Principled Front) are also on the list of the Association of Islamic Revolution Loyalists party. The latter is viewed as supporters of the president. The electoral successes of the United Principled Front led local correspondents to talk of Ahmadinejad’s defeat in their initial reports. But who the multiply

listed candidates will actually be loyal to once they arrive in the new parliament won't be certain until they cast their first votes.<sup>3</sup>

Until now, the president's summons to the *Majlis*—the first time this has happened in the history of the Islamic Republic—has been interpreted as the expression of his isolated position. At the beginning of February, the 79 representatives who demanded that Ahmadinejad appear before them were finally successful. Above all, they wanted to call him to account for an economic policy they perceived as disastrous. Since a step like this had been prevented once before by the intervention of Ali Larijani, parliamentary chairman and Khamenei confidante, everyone thought that the Supreme Leader must have sanctioned the step this time. This makes the fact that some of the most prominent critics of Ahmadinejad failed to enter parliament in the first round and now have to worry about being successful in the second one even more significant. They immediately softened their tone in regard to the president. He did go to parliament at the appointed time, but for the most part used the nationally-televised debate as a platform for the post-election campaign.<sup>4</sup>

Only one thing is certain: due to the absence of almost any reform elements, the next parliament will be a bastion of conservatism. The battle lines will therefore be drawn between the nationalist/populist camp of Ahmadinejad and the Islamist/principled mainstream of the Supreme Leader. This is why the major issue is whether Ahmadinejad will be able to nominate his successor of choice for the presidential election next year (in which he will not be able to participate because he will have had two terms in office). According to the “Putin/Medvedev model” his most trusted advisor, Esfandiyar Rahim Mashai, would be the most likely candidate,<sup>5</sup> but the majority of the clergy has a pan-Islamist outlook and views his propagation of “national, Iranian Islam” with a great deal of suspicion.

Right now, all of the signs indicate that a representative of the establishment—and therefore, a follower of Khamenei—will succeed Ahmadinejad

next year. Twenty-two years in the making, Khamenei's center of power is too strong and in the wake of the Green Movement of 2009, the perception that his position is above everyday politics is too indisputable. In contrast and as a “deviant current” within the conservative mainstream, Ahmadinejad, Mashai, et al. have not been able to create an independent, institutional basis of power as a counterweight to the Supreme Leader. As a result, most pundits attribute the best prospects for the elections in June 2013 to *Majlis* chairman Larijani, the son of a respected ayatollah and former chief negotiator in the nuclear talks.

## The financial crisis is getting worse

It is surely easier for President Ahmadinejad to express his disdain for parliament than it is to ignore the real economic conditions in the country. This applies first and foremost to the consequences of dismantling the system of government subsidies, which he introduced with the goal of abolishing government support for most consumer goods by 2015.<sup>6</sup>

In December 2010, the government slashed a wide range of concessions and replaced them with direct payments to a large share of the population. For an economy like Iran's, in which the government is constitutionally obligated to control almost all important areas in the interest of social justice and economic independence, this was a significant step. Until Ahmadinejad, no president had had the courage to actually take it. Although the step was a fiscal policy necessity because the subsidies cost a high 15 to 30 percent of the Iranian gross domestic product (GDP), the other leaders had been too anxious about the possibility of triggering social unrest.<sup>7</sup> International sanctions might also have provided some measure of impetus, albeit unintentionally: they may have made it easier for parliament to agree to the controversial plan in the hope of giving the regime more room to maneuver financially.<sup>8</sup>

As a consequence of dismantling the subsidy system, the prices of 16 different goods and ser-

vices—including gas, water, and electricity as well as flour and other basic foods—have risen rapidly. For gasoline/diesel fuel alone, the price rose from the equivalent of €0.07 to €0.49 per liter/€0.012 to €0.29 per liter within a short time. In return, around 60 million Iranians (a good 80 percent of the population) receive a compensatory direct payment of approx. €25 every other month—upon application and without any calculation of needs.<sup>9</sup> However, this sum cannot fully compensate for the price increases. The official inflation rate was recently measured at 21 percent, but the price of many goods has gone up by 40 to 60 percent in the past three months alone due to the currency devaluation.

The government's serious liquidity problems are exacerbating the country's inflation. The fiscal year that just ended (March 2011–March 2012) is forecast to close with a considerable deficit.<sup>10</sup> The central bank president has announced that the domestically held foreign currency reserves have been used up.<sup>11</sup> And the Iranian government cannot mobilize its export income because of restrictions on financial transfers. Its money remains on the books of foreign business partners or is tied to imports from the respective trading partner. A report on website *Baztab-e Emrouz* to the effect that the country is not able to access around \$25 billion in foreign currency held at Chinese banks was deleted shortly after it was published.<sup>12</sup>

Even more than the oil embargo that the Europeans imposed to take effect in the summer of 2012, the country's exclusion from international financial flows is clogging its main economic artery. In addition to targeting the Central Bank of Iran for sanctions, the action that hurts the most is the rupture in the country's international monetary transactions. Under pressure from the American and European governments (especially EU Council Decision 2012/152/GASP from March 15, 2012), Belgian company SWIFT saw no other alternative than to end its collaboration with Iranian private banks, which have long been spared from any sanctions.<sup>13</sup> Since SWIFT practically has a monopoly on international financial transactions, Iranian companies can only pay for incoming goods in cash or barter them for other goods—even when dealing with

non-Western companies. This step will surely have a major impact on all of the country's import and export transactions.

To become liquid again, the government will probably have to ask private companies and the better-off classes to pay up. Businesses will have to be prepared for further price increases—above all for energy carriers. In turn, government price controls should be able to prevent the additional costs from being passed on to end consumers. And the government will probably leave stacks of bills unpaid in the future. The Energy Ministry alone is in debt to domestic creditors to the tune of \$5 billion—despite the increase in the price of energy.<sup>14</sup>

Consumers will also be struggling with upwardly spiralling costs—for gasoline, electricity, and gas in particular. Since the subsidy reforms took effect, observers estimate that almost one-third of all households no longer pay their energy bills. Most observers were also surprised to learn that the proposed increase in the bi-monthly direct payment to approx. €30 actually went through during the *Nowruz* holidays.<sup>15</sup> It can compensate for at least part of the increased costs, but a pay raise for simple workers in the amount of the official inflation rate planned for the Iranian new year remains considerably below the estimated real inflation rate of over 30 percent.

A further increase in unemployment is the probable result.<sup>16</sup> The state has less and less capital to divert to an active employment policy and as a result of the financial bottlenecks, bankruptcies and dismissals—combined with unpaid wages—are the only things that can be expected from the company side in the future. The overall unemployment rate is officially 13 percent and it is said to be 30 percent for the 15–29 age group. In reality, both values are probably higher. The high rate of unemployment and drop in purchasing power—primarily in the middle and upper income brackets—also combine to curb the growth rate of the Iranian domestic economy.

Contrary to what the Supreme Leader emphasized in his New Year's speech, the past (Iranian) year was far removed from the “economic jihad” the

regime called for as an answer to the sanctions.<sup>17</sup> In fact, the current recession and the shift of economically profitable activities to the black market will continue in the medium term. The Revolutionary Guards (or *Pasdaran*), who control a large share of the Iranian economy and are happy to take over the illegal business deals,<sup>18</sup> have the most to gain from this situation.

## The nuclear program, sanctions—and war?

Even if the Iranian economy is now suffering as a result of the international sanctions, this does not seem to have had much of an effect on the country's nuclear program or its willingness to negotiate its terms until now. The elections have not had any visible effect on the situation either. This is not only because the Supreme Leader, who has his office for life, has the ultimate authority for the program. The entire political spectrum, including the remaining reformers, also view the (civil) program as the proof of national scientific/technological progress.<sup>19</sup> Because of its role, the program is not subject to negotiation—and the idea that Iran could be moved to forego uranium enrichment or be forced to abandon it was illusory from the very start.

In view of this, international pressure—regardless of its applicability in light of repeated International Atomic Energy Agency (IAEA) warnings and multiple UN Security Council resolutions—has not been able to persuade the regime to give in until now.<sup>20</sup> In fact, the pressure seems to have increased support for the program among the general population (which should not be interpreted as approval of the current president's policies, but instead as basic support for the system). Being branded as the pawn of foreign powers is practically a political death sentence in a country that values its national sovereignty highly, especially in light of Iran's international isolation.

Even if the first weeks of 2012 were not merely an irresponsible poker game between individual political leaders, they have still shown how explosive the situation is likely to remain for the rest of the year. Iran has again threatened to close the Strait

of Hormuz, which would be a compelling motive for US military intervention. There is evidence to support the presumption that both Israel and Iran have launched assaults on civilians on the opposite side. Israel in turn has made it clear that it is prepared to go to war unilaterally if it perceives Iran as having overstepped the line. And at the same time, the measures against the financial sector and the oil industry that the Americans and the Europeans adopted in January put them on the highest rung of the sanctions ladder.<sup>21</sup> Other than a full embargo on the country—which the nuclear program does not justify—the fountain of non-military measures has run dry.

The fact that Iran and the five permanent members of the UN Security Council and Germany (the P5+1) now want to resume the negotiations that broke off a good year ago is a good sign in and of itself—not least because this gives everyone involved a chance to stop and clear their heads. At the same time, it is clear that this step alone will not prevent Israel from taking unilateral military action. Both sides will have to achieve substantial progress rather quickly in order to de-fang the arguments in favor of a military strike.

The Europeans have taken the lead here—and not only because EU High Representative for Foreign Affairs Catherine Ashton also negotiates in the name of the P5+1.<sup>22</sup> This special area of responsibility also derives from the own best interests of the Europeans—they don't want the bomb or the war. For the Israelis, however, a war to prevent Iran from building a bomb is a realistic political option. It is for the Americans as well (“no containment” and “all options on the table”), but not in an election year please. And subjecting themselves to the dictates of foreigners (e.g. by foregoing their ability to enrich uranium) is not an option for the Iranians. Whether or not they would pay the price of exposing their country to an attack to avoid it is a decisive question—and one that can hardly be answered in advance. Another thing is certain: the current regime experienced eight years of war against Saddam Hussein in the 1980s and he was supported by the West, so Iran has felt strong enough to defy all threats until now. It seems as if the leadership in Iran and the US and Israel will all

be able to live with either one of the alternatives—the bomb or war.

## Wanted: an offer nobody can refuse

In view of the determination to employ military intervention publicly paraded in Tel Aviv and—to a lesser extent—in Washington, the impending negotiations probably represent the last chance for a peaceful solution to this conflict. If the talks are to be more than just a play for more time and if the alternatives to success are unsupportable from the European point of view, the P5+1 will have to make Iran an offer that its leaders will not be able to refuse. This is the only way to convince the world that the West is serious about negotiating and is not using them as a means to get rid of an unpalatable regime.<sup>23</sup> If the Iranian leaders reject this type of offer, it would be clear they are the ones who are not interested in a mutually satisfactory solution.

It is time for the Europeans to throw all of their weight behind the third alternative—negotiations.<sup>24</sup> And they need to stop fiddling around and give it all they've got. The Americans are ready to use a strategy of “overwhelming force” in the event of a military mission, so the Europeans should bring the “overwhelming offer” to the bargaining table. From recognition to broad cooperation, this offer has to include everything that the Europeans—together with the Americans, Chinese, Russians and regional actors like Turkey and Saudi Arabia—are willing to give.

Recognition means a general statement from all of the relevant actors to the effect that Iran—like every other country that has signed the Non-Proliferation Treaty (NPT)—has closed the nuclear fuel cycle and is allowed to enrich uranium for non-military purposes. At the diplomatic level, the issue is the resumption of direct relations—initially between the EU and Iran,<sup>25</sup> and between the US and Iran at a later point in time. Ultimately, recognition implies that the goal of the sanctions was to push the country to comply with the relevant UN resolutions and not to hasten the fall of the Islamic

Republic. Anything else would not only be illegitimate according to international law, but would obstruct the ability of negotiations to resolve the conflict.

Broad cooperation, on the other hand, ranges from collaboration in the energy sector (whether for nuclear energy or oil and gas extraction) and institutional arrangements (Iran's membership in the World Trade Organization) to the development of a regional economic system for the Persian Gulf that includes all of the neighboring countries.

In return, the Iranian regime will have to declare that it does not aim to possess any nuclear weapons and support its claim with complete transparency. The prerequisite for this: IAEA inspectors will have unimpeded access to all of the relevant plants in Iran as then-president Mohammed Khatami arranged for in the 2004 Paris Agreement, implementing the additional protocol to the NPT pending ratification.<sup>26</sup> In addition, the multilateralization of the nuclear fuel cycle is not only an important signal for the rebirth of mutual confidence but would also be a milestone for the worldwide implementation of nuclear non-proliferation in that it allows other countries access to nuclear fuel for civil purposes.

The argument that this would reward the leadership in Iran for years of defiance and obstruction just won't wash. It is a fact of international politics that when a “bad guy” becomes dangerous enough, he is rewarded and not punished when he decides to come around—whether makes a nuclear deal with then-US president Bill Clinton like Kim Jong Il of North Korea did in 1994 or foregoes weapons of mass destruction like Libya's Muammar Gaddafi did at the end of 2003. Agreements like these always seem “unfair” from the viewpoint of the countries that have played by the rules from the very beginning. But it is better to pay a high (monetary and economic) price for the rehabilitation of an individual rule-breaker than to undermine the entire system by allowing them to continue breaking the rules.

After all, this is the second area in which the Europeans need to look out for their own best



interests: the preservation of the non-proliferation regime. Due to the EU's values and its (limited military) ability, it has dedicated itself to "effective multilateralism"<sup>27</sup> and preaches peaceful conflict resolution through the enforcement of mutually binding rules. Monitored by the IAEA, the NPT is a long-established set of rules for nuclear non-proliferation. The treaty has already been weakened by the nuclear powers of Israel, India, and Pakistan, but these countries with nuclear arsenals were never signatories to the NPT. If on the other hand Iran had the bomb, this would signalize that the countries that signed the NPT no longer have to abide by its rules.

Beyond the factual scenario of a regional arms race in the Middle East, this case would also mean running the risk of global re-nuclearization. The goal of preventing it should be incentive enough for the EU and all of its member countries to strengthen its frequently chided foreign policy with success at the bargaining table.

Ultimately, this would be the best way to influence domestic policy in Iran. Instead of merely hoping for a political overthrow or the death of the religious leader, a mutually satisfactory solution to the nuclear conflict would remove a major issue that diverts attention from the country's economic problems. If Iran were accepted as a technologically progressive nation with a closed nuclear fuel cycle, this would defuse the confrontation with the West. And after the sanctions were called off, Iran's internal problems would shift into the spotlight and the people of Iran would be able to call their own leaders—whether the president or the Supreme Leader—to account. Against this background, the presidential election scheduled for the summer of 2013 could be the true expression of the will of the people and not just a religious obligation.

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## Notes

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