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European views on China's relationship with Iran

Over the last year, European member states have managed to maintain a united front in their efforts to adopt an oil ban on Iran, despite resistance from some member states. This, in turn, has led to greater convergence of views between Europe and Washington on the threat posed by Iran's nuclear program and the need for sanctions. But while Europe is united in the recognition that concerted efforts need to be made to engage China in order to ensure the effectiveness of international efforts to denuclearize Tehran, its ability to coordinate with Beijing on the matter remains limited. In this testimony, I will focus on three main factors that have made the EU's cooperation with Beijing on Iran difficult.

1. The challenges of identifying and coordinating with the numerous stakeholders involved in China's Iran policy

China's Iran policy is highly fragmented and informed by a number of influential stakeholders each pursuing different objectives. The extent to which the different European member states (most notably France, Germany and the UK) and European bodies (such as the Commission) have identified the different stakeholders and pursued an ongoing and active engagement with them varies highly. French, German and British efforts are most likely the most persistent and advanced in this respect, with representatives from the Commission and the External Action Service (EAS) raising the issue with their Chinese counterparts less frequently and more as a matter of protocol during EU-China summits.

Indeed, sustained engagement on China's Iran policy would require ongoing cooperation with different parts of the Ministry of Foreign Affairs, the military and China's state-owned energy companies. The multiplicity of actors is further complicated by the fact that their interests in Iran and their assessment of the implications of a nuclear Iran vary. Finally, even though none of these actors are the final decision-makers on China's Iran policy, they are instrumental in informing debates and subsequent policy choices.

The broad principles of China's Iran policy are made at the Ministry of Foreign Affairs' (MFA) West Asia and African Affairs (which devises the specific Iran policy and the wider Middle East policy), but the nuclear non proliferation/UN sanctions aspects fall under the department of Arms control and Disarmament, and the department of International Organizations and Conferences respectively. Moreover, insofar as the Iranian nuclear issue also touches upon Sino-US ties, the Department of North American Affairs (one of the more powerful departments) is also involved.

Yet even within the foreign affairs community there is a debate regarding the threat that a nuclear Iran poses to China's interests. Some argue that Tehran's nuclear program and brinkmanship are an additional threat to instability in the Middle East—China's largest source of oil imports and consequently China should take active steps to mediate between Tehran and Washington. Moreover, the MFA's department of North American Affairs is extremely sensitive to the strain that Beijing's ties with Iran are placing on its bilateral relations with Washington. Pressure from the Obama administration holds considerable weight in Beijing's calculus. The same cannot, however, be said for Brussels or for Paris, Berlin or London.

But Beijing remains skeptical of the efficiency of sanctions and eliciting cooperation from China on comprehensive sanctions will remain challenging. While Beijing has in the past supported UN sanctions on Iran, this was achieved due to a number of factors including pressure from the US and Saudi Arabia, but more importantly because sanctions had limited impact on China's economic interests in Iran, namely, oil purchases from the country and future investments in the oil and gas sector. Cooperation on sanctions that undermine China's energy security will therefore be much more difficult to achieve. Moreover, in light of internal debates on the future trajectory of China's foreign policy, with some in China advocating for more assertive diplomatic stances, it will be very difficult for Beijing to comply with sanctions imposed unilaterally by Washington or Brussels (without wider UN approval).

Cooperation with the MFA on Iran is possible and is pursued more regularly by European countries rather than by EU institutions, but European member states are unlikely to hold regular ties with counterparts in all the relevant departments. Cooperation with the corporate and military stakeholders is, however, more complicated.

China's national oil companies (NOCs) and their supporters in the government view energy security as a more pressing concern than Iran's nuclear activities. For CNPC, China's largest NOC, maintaining a foothold in the Iranian upstream has been a strategic goal as the company looks to its future investment destinations. Sinopec and CNOOC, China's second and third largest NOCs also have considerable interests in Iran. While all three companies have slowed down their operations in Iran, and have avoided "backfilling" projects abandoned by European and Japanese firms, they are delaying executing these projects rather than abandoning them all together.

The lure of the North American and European markets, and their growing interest in investing in these markets, has also been an important driver in their decision to delay their investments in Iran.

Chinese traders, Unipet—a subsidiary of Sinopec—and Zhuhai Zhenrong, also buy Iranian oil. Both traders reduced their imports from Iran in early 2012 due to a commercial dispute and were able to lift crudes from other sources, but this was done at a premium and will likely become more difficult and costly if the global oil markets tighten toward the end of the year when the EU import ban kicks in. Both traders have since resolved their disputes with Iran and have signed contracts for 2012. And China's diplomats have stressed that normal trade relations and economic cooperation with Iran will remain separate from the nuclear issue. Energy security is therefore a concern that is shared by diplomats and economic policy makers, and supported by the NOCs. For economic policy makers, the prospect of reduced oil flows from Iran (10% of Chinese oil imports in 2011), combined with current outages in oil production from Sudan and Syria, are a real concern since soaring international crude costs will increase the domestic economic burden and could fuel inflationary expectations. Coordination with corporate entities would be useful for the EU and for member states but is much more difficult to initiate and maintain.

Finally, cooperation with the Chinese military, the People's Liberation Army (PLA) and the Commission for Science, Technology and Industry for National Defense (COSTIND) which lies at the heart of China's military-industrial complex and oversees military ties with Iran is the most difficult. European member-states have ties with the military but neither PLA or COSTIND are likely to discuss their views on Iran with their European counterparts nor is an ongoing dialog likely, even if European countries were to press the issue and elevate it to a strategic priority.

2. Difficulties in identifying and maintaining an ongoing engagement with the actual decision-makers

Yet even engagement with these actors cannot ensure cooperation with China at the highest level. Ultimately, decisions regarding China's Iran policy are likely made by a select number of leaders within the foreign affairs leading small group. These include President Hu Jintao, Vice President and president-in waiting Xi Jinping, Defense Minister Liang Guanglie, the Party's International Department head Wang Jiarui, Foreign Minister Yang Jiechi, Minister of Commerce Chen Deming, and State Councilor Dai Bingguo—the most senior official in charge of foreign policy, among others.

Since the composition and the meetings of the leading small group are not made official, there are limited channels to institutional engagements with it. For a European institution such as the Commission or the EAS to cooperate with it would be virtually impossible. Even maintaining ongoing ties with the key members specifically on China's Iran, or its broader Middle Eastern policy, would also be

unlikely. While some of the member states including France, Germany and the UK may nurture ties with these leaders individually, it is also unlikely that they cooperate regularly on China's Iran policy.

3. Structural barriers to China-EU cooperation on foreign policy

While the fragmented bureaucratic makeup and the diversity of interests make it difficult for any partner to coordinate with China on Iran, the EU has had a weak track record of engaging with China more broadly.

The diverging interests of individual member states have created notorious difficulties for the EU to speak with one voice as each member state has different priorities in its bilateral ties with China. Moreover, while Europe has some leverage over China on economic questions, it is far more limited on foreign policy issues. Europe is not part of China's neighborhood and has never been a strategic actor in Asia, and it does not have the strategic leverage of the US.

Even though the past year has seen greater unity in European positions on Iran and the need for sanctions, the willingness and ability of each member state to press the matter with Beijing varies significantly. Debt-ridden European countries seeking Chinese financial support will be more reluctant to include China's Iran policy on the bilateral agenda, whereas France, Germany and the UK, for example, will be more inclined to broach the matter. But thus far, the EU and the key member states have failed to make Iran a strategic priority in their relations with China.

Cooperation with China on its Iran policy may be limited, but the European Unions' decision to impose a ban on Iranian crude from July 1 and the increasing difficulties in paying, shipping and insuring Iranian oil, are increasingly complicating China's relations with Iran and its ability to purchase Iranian oil. This does not, however, mean that China will necessarily scale down its oil purchases from Iran. Already, the agreement between Chinese traders and the Iranian oil company will likely mean increased Chinese imports from Iran in the coming months, reaching anywhere between 400,000-500,000 bpd, slightly lower than 2011 import volumes. Moreover, when the EU ban kicks in in July, the financial squeeze on Tehran could lead it to offer Beijing discounted barrels. Some reports suggest it is already offering attractive credit terms to its remaining buyers. Chinese traders will then find it difficult to resist increasing purchases of Iranian oil.

Beijing is likely to maintain a two-pronged approach to Iran: Insisting on safeguarding (even at the cost of delaying) its commercial and energy ties with Tehran, continuing its oil purchases from Iran, while collaborating with the international community on denuclearization efforts stressing its preference for pursuing negotiations rather than sanctions. Any deeper form of cooperation will likely be limited.

China's decision regarding future oil purchases from Iran will, however, depend on a number of factors: First, the US' position and the extent to which Iran remains an important item on the bilateral agenda. As Beijing heads toward its leadership transition and Washington gears up for elections, both sides will want to keep a lid on potential tensions. On the whole, China's ties with Iran are not strategic enough for Beijing to allow them to derail ties with Washington but Beijing has a difficult balancing act domestically. With the rise of foreign policy hawks in China, especially ahead of an already tense leadership transition, Chinese leaders will want to avoid moves that could be interpreted domestically as bowing to international pressure and sanctions.

Second, concerted international efforts will increase the pressure on Beijing, which wants to avoid being isolated internationally and still seeks to portray itself as a responsible stakeholder. Even though the EU has on the whole limited leverage over China, clear and consistent signals that Iran is part of Europe's strategic interests will raise the cost of non-compliance for China. Washington and Brussels should, however, define their expectations for Chinese support on denuclearization efforts. They are more likely to prompt China to adopt a limited mediation role than they are likely to convince China to use oil imports as a means of squeezing Iran. Energy security is seen by China's leaders as a strategic interest, suggesting that Beijing is unlikely to significantly curb its imports from Iran or relinquish its commercial and energy ties with the country.

Third, the technical barriers to importing Iranian crude oil will also be a determining factor. But in this respect, both the EU and the US should consider whether the ultimate goal of sanctions is to squeeze Iran financially by forcing it to offer discounts on its oil to the few remaining buyers, or to take Iranian oil off the market which could result in tighter oil supplies and higher crude costs for all consumers.