

NAVAL POSTGRADUATE SCHOOL

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THESIS

**GERMANY'S IRAN POLICY:
BEYOND "CRITICAL DIALOGUE"**

by

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March 1998

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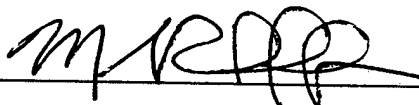
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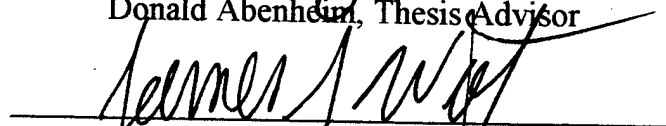


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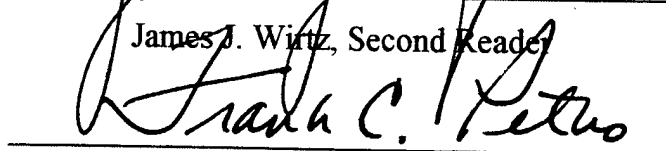
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ABSTRACT

Germany and the United States differ in their approach to Iran. While the United States seeks to contain Iran through diplomatic isolation and economic sanctions, Germany prefers to influence Iran through diplomatic engagement and economic cooperation.

German foreign policy posits that its policy of constructive engagement is the most effective way to influence another country's behavior. This notion has its origins in the Cold War. In 1963, the idea of a "policy of small steps" leading to "change through rapprochement" inspired the policy of *Ostpolitik*. The basic principles of *Ostpolitik* were continued from 1969 through the end of the Cold War. It is widely believed in Germany that the end of the Cold War and the unification of Germany were due not to the success of containment, but to détente and *Ostpolitik*.

Given this policy perspective, Germany considers the political and economic costs of sanctions to be unacceptably high. In addition to the loss to commercial interests, sanctions would affect Germany's overall credibility as a trading state. Moreover, political demands which might be suspect because of Germany's past are translated into more respectable economic demands. Economic sanctions would limit Germany's ability to pursue its political objectives.

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LIST OF ABBREVIATIONS

BAFA	Federal Export Office
BAW	Federal Office of Economics
BDI	Federation of German Industries
BfAI	Foreign Trade Information Office
BfV	Federal Office for the Protection of the Constitution
BJA	Federal Office of Criminal Investigations
BMBF	Federal Ministry of Education, Science, Research, and Technology
BMWi	Federal Ministry of Economics
BMZ	Federal Ministry for Economic Cooperation and Development
BND	Federal Intelligence Service
CDU	Christian Democratic Union
CFSP	Common Foreign and Security Policy
CSU	Christian Social Union
DEG	German Development Company
DIHT	German Chambers of Industry and Commerce
EC	European Community
EU	European Union
FDP	Free Democratic Party
FRG	Federal Republic of Germany
GDR	German Democratic Republic
GTZ	Company for Technical Cooperation
MOIS	Ministry of Information and Security (Iran)
NATO	North Atlantic Treaty Organization
NMV	Near and Middle East Association
OSCE	Organization for Security and Cooperation in Europe
SPD	Social Democratic Party
VUBI	Union of Independent Consulting Engineers
VDMA	German Mechanical Engineering Trade Association
WEU	Western European Union

EXECUTIVE SUMMARY

Germany and the United States differ in their approach to Iran. While the United States seeks to contain Iran through diplomatic isolation and economic sanctions, Germany prefers to influence Iran through diplomatic engagement and economic cooperation.

The Federal Republic's preference for constructive engagement can be traced to its policies of the Cold War. The concept of "change through rapprochement" as an alternative to the Hallstein Doctrine and containment led to Chancellor Willy Brandt's policy of *Ostpolitik* after 1969. While Americans wanted to limit Eastern bloc access to Western technology, to reduce Western dependence on energy resources from the East, to restrict the availability of export credits, and to impose sanctions when deemed necessary for leverage with the Soviet Union, the Federal Republic primarily utilized economic policies for the pursuit of a *modus vivendi* with the Soviet Union. Trade was a fundamental component of *Ostpolitik* and it made the Federal Republic the biggest trading partner with the Soviet Union and Eastern Europe. This policy, based on the use of positive inducements to promote change in the East, was practiced in various forms until the collapse of the Soviet bloc. Consequently, many Germans attribute the end of the Cold War and the reunification of Germany to the success of détente and *Ostpolitik*. Given the view that these policies were so successful, the Federal Republic has applied the same concepts in its extra-European foreign policy.

Germany considers the political and economic costs of sanctions to be unacceptably high. Preferring "quiet diplomacy" and lacking the traditional political-

military structure of other powers, Germany favors economics as the means to attain its political objectives. Sanctions would damage German credibility as a trading partner, a significant factor in a country where 30 percent of the economy is devoted to exports, compared to 10 percent in the United States. This fact means that Germany must make sure its export markets remain open and available to maintain its economy and possibly its political stability. The country is therefore one of the strongest proponents of free trade. To protect its markets, Germany must demonstrate the reliability of its products as well as their delivery. In the past, German business has done well in Iran because of its willingness to stay when the firms of other countries have left the market. Clearly, for Germany, the cost of its participation in economic sanctions would be a loss of economic and political influence.

During the 1990s, Iran has served as a test case for the Federal Republic's constructive engagement policy. In December 1992, the European Union's adoption of "critical dialogue" followed the release in the previous June of the last German hostages from Lebanon. Iran's role in securing their release was seen as proof that relations could be beneficial even if the Salman Rushdie affair remained unresolved. The opportunity to negotiate for the release of German citizens held in Iran was seen as an additional benefit. However, the ongoing Mykonos investigation and trial, official Iranian comments regarding Israeli Prime Minister Yitzhak Rabin's assassination and terrorist activity in Israel, followed by the German issuance of an arrest warrant for the Iranian Minister of Information and Security, Ali Fallahian, led to a deterioration of relations. Despite an increased willingness to criticize Iran, a modification of German policy was inevitable even

before the April 1997 Mykonos verdict. Nevertheless, as events after the suspension of "critical dialogue" demonstrate, Germany continues to adhere to the principles of constructive engagement.

The Federal Republic sees economic sanctions as futile. It will only participate in sanctions if the United Nations imposes them. Consequently, the Iran and Libya Sanctions Act will not succeed in coercing Germany into sanctions. While the United States remains the Federal Republic's primary strategic partner, the United States can no longer link issues to security to the extent that it did during the Cold War. Furthermore, Germany sees itself being asked to make a greater sacrifice than the United States is willing to pay.

While Germany has a different policy for dealing with Iran, it does have the same objectives: to stop Iran from supporting terrorism and disrupting the Middle East peace process and to prevent Iran from acquiring weapons of mass destruction. The fact that American and German policy objectives towards Iran are so similar offers a starting point for coordination. Recent events have created an opportunity to find common ground in dealing with Iran. By coordinating policy efforts, the United States and Germany would have more leverage for dealing with Tehran. The alternative is to risk further divergence between Germany and the United States over Iran policy.

I. INTRODUCTION

The Federal Republic of Germany's relationship with the Islamic Republic of Iran has been viewed with concern in the United States. While the United States seeks to contain Iran through diplomatic isolation and economic sanctions, Germany has sought to influence Iran through diplomatic engagement and economic cooperation. This policy of constructive engagement—called “critical dialogue”—was first adopted by the European Union (EU) with strong German backing at the Edinburgh summit in December 1992. Its objectives were to pressure Iran to support the Middle East peace process, implement a commitment made to the EU not to sponsor terrorism in the Middle East, improve human rights, and halt covert activities that threaten Iranians living abroad.

Germany, along with its EU partners, maintained the policy of “critical dialogue” with Iran until April 1997. At that time, the EU suspended the policy and recalled their ambassadors from Tehran following a Berlin court verdict. That verdict was that senior Iranian government officials had authorized the assassination of three Iranian Kurdish dissidents and their translator at the Berlin restaurant Mykonos in September 1992.

The policy of “critical dialogue,” remains officially suspended. Nevertheless, German relations with Iran have not changed significantly. EU ambassadors, including German ambassador Horst Baeckmann, returned to Tehran in November 1997. German officials, including Chancellor Helmut Kohl and Foreign Minister Klaus Kinkel, have opposed such stronger measures as the implementation of sanctions. No governing coalition or major opposition party has supported a break in ties. The German

ambassador may have been away from Tehran for seven months, however, German companies continued business as usual.¹

A. OSTPOLITIK BEYOND EUROPE

Why has Germany continued to pursue high-level diplomatic and trade relations with Iran—despite repeated violations of the internationally-recognized norms of acceptable behavior, and pressure from allies, human rights organizations, and dissident groups to reduce cooperation?

This study suggests that Germany has maintained relations with Iran for two primary reasons. First, from the German foreign policy perspective, sanctions are not considered as effective as cooperation and engagement for influencing another country's actions. In Germany, there is a widely held belief that trade contributes to reducing international tensions. According to former President Richard von Weizsäcker: "Free trade is not just the consequence of détente, it is a confidence-building measure in itself."² Many Germans attribute the end of the Cold War not to the success of containment, but rather to détente and *Ostpolitik*.³ Consequently, German foreign policy operates under

¹ "Iran and the West: Hate Me, Love My Gas," *The Economist*, 4 October 1997, pp. 50-51.

² Richard von Weizsäcker, Eröffnung des Weltwirtschafts-Forum in Berlin am 24.10.1986, in: Reden und Interviews (3), Presse- und Informationsamt der Bundesregierung, Bonn, 1988, p. 200. Cited in Lothar Gutjahr, *German Foreign and Defense Policy After Unification*, London and New York: Pinter Publishers, 1994, p. 65.

³ Peter Rudolf, "Managing Strategic Divergence: German-American Conflict Over Policy Towards Iran," *The Iranian Dilemma: Challenges for German and American Foreign Policy*, Washington, DC: American Institute for Contemporary German Studies, The Johns Hopkins University, 1997, p. 3.

the philosophy that trade and diplomacy offer the best hope for moderating the regime in Tehran.

Second, the Germans consider the economic and political costs associated with sanctions to be unbearably high. Although Iran ranks low as a market for German exports, the imposition of sanctions would affect Germany's overall credibility as a "Trading State."⁴ Moreover, sanctions increase the long-term uncertainty, and therefore the cost, of doing business abroad. All trading partners of Germany, not just Iran, might be prompted to diversify their sources of supply and seek alternative partners for joint ventures and technologies not developed in Germany.

The late Wolfram Hanrieder described Germany as an economic superpower without the component traditional military-strategic power. He said the distinctions between politics and economics, and between domestic and foreign policy, have been more fluid in Germany than in other countries. Economics is the vehicle used by Germans to attain their political objectives. Political demands, which might be suspect because of Germany's past, are translated into more respectable economic demands.⁵ Economic sanctions therefore threaten to limit Germany's ability to pursue its political objectives.

Numerous interrelated factors influence German policy towards Iran. German relations with Iran are shaped by: (a) the historical ties between both countries over the past century; (b) German foreign and security policy objectives, including its relationship

⁴ Ibid., p. 2.

⁵ Wolfram F. Hanrieder, *Germany, America, Europe: Forty Years of German Foreign Policy*, New Haven and London: Yale University Press, 1989, p. 224.

to the Mediterranean, Near East, and Central Asia; (c) German domestic politics; (d) the political and economic importance of Germany to Iran, including Iran's need for Western technology and capital; (e) Germany's special relationship with Israel; (f) Germany's relationship with the United States; and (g) Germany's own experience of the Cold War—that diplomacy and trade are the keys to moderating an authoritarian regime.

B. RELEVANCE TO U.S. NATIONAL SECURITY

The Clinton Administration designed a policy called “dual containment” in 1993 to exert economic and political influence on Iran and Iraq. In 1995, the administration and Congress began increasing efforts to isolate Iran. New legislation passed in that year called for a total ban on all trade between Iran and the United States. Further, the Iran and Libya Sanctions Act, signed by President Clinton in August 1996, sanctions foreign companies if they invest \$20 million (the limit was lowered from \$40 million in August 1997) or more in the energy sectors of Iran or Libya. As a result, Iran's trading partners have strongly opposed the act as an unjustifiable attempt to coerce them into following American policy. Germany and other EU members have protested the extra-territorial legislation as illegal.⁶ Because Germany and the other EU nations do not participate, the sanctions remain fragile and easy for Iran to circumvent.

⁶ Anthony H. Cordesman and Ahmed S. Hashim, *Iran: Dilemmas of Dual Containment*, Boulder: Westview Press, 1997, p. 15.

C. SANCTIONS AND COOPERATION

Sanctions are an element of international diplomacy, a tool for coercing a government into a particular avenue of response. Gary Hufbauer, Jeffrey Schott, and Kimberly Elliott use the term “sender” to designate the country (or international organization) that is the principal author of the sanctions episode.⁷ The term “target” is used to designate the country that is the immediate object of the episode. More than one country may be engaged in the campaign, but usually a single country takes the lead and brings others along. The leader may enlist support through bilateral consultations or, less frequently, through an international organization. Lisa Martin defines “cooperation” as any joint activity among states. A country which takes the leadership role among the senders is called the “leading sender.”⁸

According to Hufbauer, Schott, and Elliott, there are three main ways a sender tries to inflict costs on its target: by limiting exports, by restricting imports, and by impeding finance, including the reduction of aid. Trade sanctions engender costs to the target country in terms of lost export markets, denial of critical imports, lower prices received for embargoed exports, and higher prices paid for substitute imports.⁹ Because economic sanctions impose costs (both on the states that employ them and on their

⁷ Gary Clyde Hufbauer, Jeffrey J. Schott, and Kimberly Ann Elliott, *Economic Sanctions Reconsidered: History and Current Policy*, 2d Ed., Washington, DC: Institute for International Economics, 1990, pp. 35-36.

⁸ Lisa L. Martin, *Coercive Cooperation: Explaining Multilateral Economic Sanctions*, Princeton: Princeton University Press, 1992, pp. 10.

⁹ Hufbauer, Schott, and Elliot, p. 36.

targets), governments use them to signal resolve and exert pressure for policy changes. Although the goals of sanctions are highly political, states' ability to use sanctions is subject to the rules of economic exchange. This means that unilateral sanctions—those undertaken by just one government—usually fail because the target can find alternative markets or suppliers for the sanctioned goods.¹⁰ Consequently, the United States, with an interest in using economic sanctions, faces the problem of gaining the cooperation of others countries such as Germany. Efforts will not succeed without cooperation.

According to Martin, *coercion* occurs when states have asymmetrical interests.¹¹ In the bilateral sanctions model, it becomes a possibility when the equilibrium outcome is for only one state to impose sanctions. Under these conditions, it will be in that state's interest to attempt to get cooperation from the other through promises, threats, linkage, or whatever techniques are available and cost-effective.

The major sender—the state that is going to impose sanctions regardless of the activities of others—has to persuade other potential sanctioners to cooperate. The major sender must link the sanctions issue to other issues in which it has the power to persuade others. Ability to persuade, or coerce, is based on two factors: sufficient resources to change other potential sanctioners' incentives and willingness to use those resources. Martin postulates that two variables—the United State's declining hegemony and the costs

¹⁰ Martin, pp. 3-4.

¹¹ Ibid. p. 27.

of sanctions to the major sender—effect these two dimensions of coercion.¹² In general, more powerful states should have more resources for this purpose than weaker states. In the early postwar period, the United States frequently was able to gain the cooperation of Germany and other European countries without even asking. Dependence on the United States for security and economic reasons caused these countries to follow its lead “automatically” on most issues, including economic sanctions. As its power declined relative to Germany’s, the United States more frequently had to make explicit threats and linkages in order to gain cooperation.¹³ If this argument is correct, in cases where the United States is the major sender, explicit threats for cooperation—the Iran and Libya Sanctions Act—have ceased to be persuasive.

D. GERMANY AND IRAN

This study seeks to explain the goals, sources, and methods of German extra-European foreign policy. It analyzes the motivations for, and objectives of, current German policy towards Iran; interprets the extent of German-Iranian relations; analyzes the effects of recent Iranian actions on German foreign policy; and finally, assesses the potential implications of German-Iranian relations for American foreign policy. Research was conducted using secondary sources—books, periodicals, German press articles translated by the Foreign Broadcast Information Service (FBIS), and online sources.

¹² Ibid., p. 36.

¹³ Ibid., p. 38.

Chapter II documents German relations with Iran from the historical perspective. It covers the eras of Kaiser Wilhelm II, the Weimar Republic, the Third Reich, and then the Federal Republic. As will be shown, Germany and Iran have had generally positive relations over the last century. Chapter III covers German foreign policy. It explores factors which have influenced Germany's extra-European foreign and commercial policy since the beginning of the Federal Republic. The chapter also assesses current German domestic factors shaping the debate about relations with Iran. Chapter IV assesses the problems faced by German foreign policy in dealing with Iran during the 1990s. It begins with an examination of the German response to Ayatollah Khomeyni's *fatwa* against Salman Rushdie and continues through the recent court verdict that resulted in the suspension of "critical dialogue." As the chapter reveals, German-Iranian relations have endured despite significant problems. Additionally, Germany's willingness to deal with the regime in Tehran has often been constrained by other factors. Finally, Chapter V concludes with an assessment of German relations with Iran and the discusses the potential implications for the United States.

II. HISTORICAL BACKGROUND

Germany and Iran signed their first treaty in 1873. At this time, two years after unification, German foreign policy remained focused on Europe. Chancellor Otto von Bismarck sought to reassure other European powers of Germany's intentions. His position was that Germany was a satisfied power, without further territorial ambitions, and without a desire to challenge Great Britain, France, or Russia in the extra-European imperial sphere.¹⁴ Germany's role in Iran and the Near East remained insignificant until 1898, when German imperialist activities began in earnest.

A. WELTPOLITIK AND IRAN

Bismarck's dismissal by Kaiser Wilhelm II in 1890 marked a turning point for Germany and Europe. The aggressive global policy of *Weltpolitik* ("world politics") replaced Germany's restrained foreign policy. The Kaiser hoped to make Germany a great imperial power. He believed this could be achieved through increased diplomatic influence, colonial expansion, and the development of a modern navy. *Weltpolitik* was partly influenced by Germany's late, but rapid industrialization, which forced it to look overseas for raw materials, markets for manufactured goods, outlets for accumulated capital, and the capability to protect overseas interests.

¹⁴ Henry Kissinger, *Diplomacy*, New York: Simon and Schuster, 1994, p. 146, and Wolfram F. Hanrieder, ed., *West German Foreign Policy: 1949-1979*, Bolder: Westview Press, 1980, p. 2.

Germany's relationship with Iran can be traced back to the development of political and economic ties with the Ottoman Empire. The Kaiser proclaimed himself protector and friend of the world's 300 million Muslims during a visit to the Ottoman Empire in 1898. In 1899, the Germans obtained a preliminary concession from the Ottoman Sultan to build the "Baghdad railway," which was to connect Hamburg, Berlin, and Vienna with Baghdad and the Persian Gulf via Constantinople. The concession for the railway was secured by Germany in 1902. A 200km section was completed in 1904.¹⁵ Because German banks and armaments industry became more interested in Turkey, it was no longer possible to maintain the Bismarckian policy of disinterest towards Near Eastern affairs.¹⁶

Germany made persistent efforts to acquire a "place in the sun" in the Persian Gulf.¹⁷ German trading firms established branches in Bandar Abbas and Bushehr. The Deutsche Orient Bank negotiated for a concession in Iran until British and Russian opposition ended it in 1907. Germany's aggressive foreign policy and naval construction campaign added to British and Russian concerns about German competition in their spheres of influence, leading to the Anglo-Russian Agreement in 1907. This followed the

¹⁵ Rouhollah K. Ramazani, *The Foreign Policy of Iran, 1500-1941: A Developing Nation in World Affairs*, Charlottesville: University of Virginia Press, 1966, p. 89.

¹⁶ Lukasz Hirszowicz, *The Third Reich and the Arab East*, London: Routledge & Kegan Paul, 1966, p. 2.

¹⁷ Ramazani, *The Foreign Policy of Iran, 1500-1941*, p. 117.

Anglo-French Entente Cordiale in 1904. In combination, these agreements effected a radical transformation of the European balance into two rival groups of powers.¹⁸

The Russo-German Potsdam Agreement concluded in 1911 resulted in Russia's formal agreement not to obstruct the Baghdad railway, while Germany admitted Russia's special interests in Iran. However, Britain continued to fear that German control of the proposed line would give Germany financial and political influence in Iran. A German presence in Iran threatened India and the approaches to the subcontinent more than even Russia.¹⁹ A Turkish army under German officers with the use of a railway to Tehran would be a danger.²⁰ Great Britain, in its effort to maintain naval supremacy over Germany, had sought a qualitative improvement in its fleet by changing from coal to oil for fueling. Southern Iran, where most British oil came from, acquired additional strategic value.²¹ Britain's need to secure its position in southern Iran and the Persian Gulf and Germany's need for capital to complete the "Baghdad Railway" led to negotiations. However, two months after an Anglo-German railway agreement was concluded (and the railway itself was still hundreds of miles from Baghdad) war broke out in Europe.²²

¹⁸ Gordon A. Craig and Alexander L. George, *Force and Statecraft: Diplomatic Problems of Our Time*, 3d Ed., New York and Oxford: Oxford University Press, 1995, pp. 35-37.

¹⁹ Klaus Hildebrand, *German Foreign Policy From Bismarck to Adenauer: The Limits of Statecraft*, London: Unwin Hyman, 1989, p. 94.

²⁰ Ramazani, *The Foreign Policy of Iran, 1500-1941*, 1966, p. 107.

²¹ Imanuel Geiss, *German Foreign Policy 1871-1914*, London and Boston: Routledge & Kegan Paul, 1976, pp. 155-156.

²² James Joll, *The Origins of the First World War*, 2d Ed., London and New York: Longman, 1992, pp. 187-188.

German activities in the Middle East were intensified following the outbreak of the First World War. Of the two Muslim states dominating the region, the Ottoman Turks allied with Germany and Austria, but Iran declared itself neutral. Consequently, the German objective in Iran was twofold: first, to impel Iran to follow the lead of Berlin and Vienna and, second, to divert British and Russian energies away from the main theater of war in Europe by creating or intensifying anti-Entente sentiments and activities. The Iranian mood was favorable to German designs.²³

Germany worked through diplomatic and military channels to influence the Iranian government. The staff at the German embassy in Tehran, led by the minister, Prince Henry XXXI de Reuss, established close contact with members of the cabinet of Prime Minister Mustawfi al-Mamalik.²⁴ Additionally, conscious of the pro-German feelings among the prospective deputies of the *Majlis* (parliament), German diplomats worked to influence the Democrats and the Moderates to put aside their differences and form a coalition, with the ultimate aim of winning the cabinet to the cause of the Central Powers and the abandonment of neutrality.²⁵

Several German military missions dispatched to Iran after the German military attaché in Tehran, Count Kanitz, conducted an extensive reconnaissance of the provinces. One mission operated in southern Iran, extending its activities to Kerman and Isfahan.

²³ Ramazani, *The Foreign Policy of Iran, 1500-1941*, p. 118.

²⁴ Ibid., pp. 118-119.

²⁵ Ibid., p. 119.

Another mission was active in Kermanshah and the surrounding areas. German agents exploited anti-British sentiments to foment uprisings among the Qashqa'i and Bakhtyari tribes in southwestern Iran. German military activities in Iran were masterminded in Berlin with the assistance of Iranian nationalists who had formed the Iranian Committee for Cooperation with Germany.²⁶ Prime Minister Mustawfi al-Mamalik was eventually persuaded to negotiate an agreement with Germany.²⁷

When the British and Russians learned of secret negotiations, however, they warned the Iranian government against any pro-German action. Russia dispatched additional troops to Iran from the Caucasus. Prime Minister Mustawfi al-Mamalik resigned in December 1915.²⁸ His successor, Prince Farmanfarma, clamped down on pro-German elements in Iran. Iranian foreign policy generally favored the Allies through the remainder of the war.

B. THE WEIMAR REPUBLIC, THE THIRD REICH, AND IRAN

Germany's defeat by the Allies in the First World War resulted in a rapid decline in interest and influence outside Europe. The collapse of the Second German *Reich* and the foundation of the Weimar Republic ended, for the time being, the era of German

²⁶ Ibid., pp. 119-120.

²⁷ Ibid., p. 128.

²⁸ Ibid., pp. 130-131.

imperialism and caused a reversal to previous continental European orientations.²⁹ German foreign policy avoided any expression or action which could lead to a confrontation with the Western Powers, especially Britain. The Middle East played only a marginal role in the policy of the Weimar Republic.

In Iran, a coup d'état brought Reza Khan Pahlavi to power in 1921. He became shah in 1925. The stabilization of internal conditions after the coup d'état and a postwar hands-off policy by Britain and Russia provided Iran with an unprecedented degree of freedom of action in foreign affairs. This was evident in its policy towards Russia and Britain, and in its "third power" policy.

The shah's favored third power was Germany. Despite Germany's thrust into the Middle East in 1898, and the fact that Iran was an object of its expansionist designs, Iranian Germanophiles remembered Germany's challenge to Iran's traditional "enemies"—Britain and Russia. The powerful German propaganda machine had not only exploited Iran's resentment against these powers, but had also portrayed Germany as the "true friend" of Islam.³⁰

The Weimar Republic directed most of its attention to Europe and coping with the strictures of the Treaty of Versailles. However, in spite of a lack of political interest in the Middle East, Germany carried on commercial relations with the area, although on a

²⁹ Jehuda L. Wallach, "The Weimar Republic and the Middle East: Salient Points," *The Great Powers in the Middle East 1919-1939*, New York and London: Holmes & Meyer Publishers, 1988, p. 271.

³⁰ Ramazani, *The Foreign Policy of Iran, 1500-1941*, p. 278.

smaller scale than before World War I.³¹ Signs of a renewal in German-Iranian economic ties became evident as early as 1920 when representatives of German export companies reappeared in Tehran. In 1922, Iranian students were sent to Germany, and direct steamship service began operating between Hamburg and the Iranian port of Enzeli, passing through the Volga and the Caspian Sea. In 1923, Germany and Iran entered negotiations for the reopening of a German secular school in Tehran. Former German officers were hired to organize and run arsenals in Tehran and Bushehr. The same year witnessed the arrival of Iran's "warship," the *Pahlavi*, and the delivery of arms, munitions, and army trucks, all purchased from Germany. In 1927, the German aviation firm Junkers acquired a monopoly of the postal and passenger air services in Iran.³² The shah's objective was economic self-sufficiency by means of rapid industrialization and German capital and technical expertise were sought to further that goal. German firms built sections of the Trans-Iranian Railway, roads, and other communications projects.

The question of regulated trade between the two countries was taken up as early as 1924. In that year, Germany's 1873 treaty with Iran expired and the German minister in Tehran made several attempts to renew it. A treaty was eventually signed on 10 May 1928. Five days later, on 15 May 1928, Iran signed a "provisional" agreement with Germany which extended most-favored nation treatment to German diplomatic and consular representatives in Iran. This provisional agreement was followed by a Treaty of

³¹ Wallach, p. 272.

³² Ramazani, *The Foreign Policy of Iran, 1500-1941*, p. 280.

Friendship, signed on 17 February 1929, which could be reexamined after ten years. Still another agreement was signed on 24 February 1930 regarding the protection of patents, trademarks, trade names, and designs. Iran and Germany sought to extend each other's nationals and companies in their territories the same rights as their own nationals and companies.³³ Trade between Germany and Iran began increasing.

As part of Iran's rapprochement with Germany, Iran employed German economic advisors. A German financial expert, under the Iranian minister of finance, advised the Iranian government on financial obligations, on the preparation of the budget, and on granting concessions. German financial advisors operated the National Bank of Iran.³⁴ The German-Iranian friendship suffered a setback in April 1932, however, when four German journalists and an Iranian student in Berlin published defamatory articles about the shah, who subsequently launched a campaign against Germans in Iran. The first target was head of the Tehran arsenal. The second was president and chief organizer of the National Bank of Iran, Dr. Hurt Lindenblatt. The shah's disenchantment with Germany also prompted the dismissal of the Iranian finance minister. The German embassy in Tehran had influenced the finance minister, not only to promote German economic interests, but also for cultural and political propaganda by emphasizing the alleged similarities between German and Iranian political ideals.³⁵

³³ Ibid., p. 282.

³⁴ Donald N. Wilbur, *Riza Shah Pahlavi: The Resurrection and Reconstruction of Iran*, New York: Exposition Press, Inc., 1975, p. 147.

³⁵ Ramazani, *The Foreign Policy of Iran, 1500-1941*, pp. 287-288.

The German policy of penetrating Iran predated the Nazis, however, the rise of Hitler in 1933 "added only new impetus to the already existing policy."³⁶ The Nazis saw Iran as a key element in their strategy to isolate the Soviet Union and British India. The persistent German interest in Iran coincided with the psychological predisposition of Iran towards Germany.³⁷ The Middle East became more important for German trade. To reduce unemployment, and secure raw materials necessary for large-scale rearmament and eventual war, Hitler's most important economic initiatives involved promotion of exports. The German export drive in the Middle East was directed toward Iran, Iraq, and Egypt because of their large populations and their relative independence from Britain and France. At the same time, imports from these countries decreased as Germany sought to achieve self-sufficiency. In truth, the Middle East was not a prime source of raw materials for Germany. Germany under Hitler did not need Middle East oil, the one major raw material in the region. It preferred closer sources in the Soviet Union and Romania. Germany also pursued greater exploitation of its domestic supply and invested heavily in the synthetic fuel industry.³⁸

³⁶ Cf L.P. Elwell-Sutton, *Modern Iran* (London, 1944), p. 175, and George Lenczowski, *Russia and the West in Iran, 1918-1948* (Ithaca, NY, 1949), p. 152. Cited in Ramazani, *The Foreign Policy of Iran, 1500-1941*, p. 279.

³⁷ Ramazani, *The Foreign Policy of Iran, 1500-1941*, p. 279.

³⁸ Francis R. Nicosia, *The Third Reich and the Palestinian Question*, Austin: University of Texas Press, 1985, p. 37.

Part of Germany's commercial activity in the Middle East involved the sale of weapons after it resumed those exports in 1936.³⁹ A consortium of German corporations was formed to cooperate with the government in weapons sales abroad. This consortium, known as the Reich Industrial Group: Export Cooperative for War Material (*Reichsgruppe Industrie: Ausfuhrgemeinschaft für Kriegsgerät*), consisted of Germany's leading arms manufacturers.⁴⁰ The Middle East, however, made up only a small proportion of total weapons sales.

After 1933, the National Socialist Party's foreign organization (*Auslands-Organization* or AO) began to grow in influence, develop a foreign service of its own, to send agents abroad to spread Nazi propaganda, maintain contact with subversive elements, and extend party discipline on German nationals.⁴¹ The foreign office continually protested activities of the AO, but by 1937 it had jurisdiction over all Germans living abroad. Further, Hitler made foreign policy without much reference to inputs from diplomats. This problem was made worse by the appointment of Joachim von Ribbentrop, who also had great contempt for the diplomats, to the position of foreign minister.⁴²

In October 1936, Hitler ordered the promotion of close German economic ties with Iran and Afghanistan. These were the only two countries in the region where

³⁹ See *ibid.*, App. 13, "German Weapons Exports to the Middle East, 1936-1939," pp. 219-221.

⁴⁰ *Ibid.*, p. 182.

⁴¹ Gordon A. Craig, *From Bismarck to Adenauer: Aspects of German Statecraft*, Baltimore: Johns Hopkins Press, 1958, p. 113.

⁴² *Ibid.*, pp. 113-114.

Germany sought to strengthen its political influence, because direct British power and influence were weaker there than in the Arab world.⁴³ In late 1936, the *Majlis* ratified a clearing agreement with Germany as the initial step in a series of agreements that brought Iran and Germany into very close commercial relations. The *Majlis* also passed bills providing for the employment of German teachers at the Industrial School of Tehran, to extend the contract of the German in charge of the printing plant of the *Majlis*, and to hire a German professor for Tehran University. In November 1936, the German Minister of Economics, Dr. Hjalmar Schacht, visited Iran.⁴⁴

In 1939, the outbreak of war in Europe made the transit problem extremely urgent for Iran. Transportation was then possible only by way of the Soviet Union. The shah, unsuccessful in his efforts to reach a new economic agreement with the Soviets through direct diplomatic channels, attempted indirect pressure through Germany. The Germans viewed economic cooperation between the Soviet Union and Iran as not only in the interest of both parties, but also of German-Iranian economic plans. The less friction in Soviet-Iranian relations, the Germans believed, the smoother the course of German-Iranian trade. Germany supported Iranian efforts to normalize relations with the Soviet Union.⁴⁵ However, the Pact of Mutual Assistance signed between Germany and the Soviet Union in September 1939 placed significant strains on Iranian neutrality. The

⁴³ Nicosia, p. 183.

⁴⁴ Wilbur, p. 177.

⁴⁵ Ramazani, *The Foreign Policy of Iran, 1500-1941*, p. 223.

German friendship with Iran's traditional bête noire, Russia, was resented, and the developments in Europe at the time increased Iranian apprehensions.⁴⁶

Consequently, Iran suggested joint action with Moscow to settle the question of transit through the Soviet Union. The German role, according to Iran, should consist of a German-Soviet agreement to solve Iran's transit problem. In a German-Soviet trade agreement signed in February 1940, Russia promised, among other things, to "facilitate the transport of goods to Germany from Iran."⁴⁷ In October 1940, Iran and the Soviet Union reached an agreement which provided for the transit of goods across the common frontier without being unloaded, and which provided duty-free transit through the Soviet Union. Later, Iran and Germany concluded an agreement to conduct their trade on a barter basis.⁴⁸

Germany surpassed the Soviet Union as Iran's number-one trading partner in 1939. The phenomenal increase in German-Iranian trade is not attributed entirely to the policies of the Nazis or Shah Reza Khan. The most important factor was Iran's continuing trade problem with the Soviet Union which forced the shah to turn to Germany. In 1940-1941, Iran's German imports amounted to 48 percent of total imports,

⁴⁶ Rouhollah K. Ramazani, *Iran's Foreign Policy 1941-1973: A Study of Foreign Policy in Modernizing Nations*, Charlottesville: University of Virginia Press, 1975, p. 26.

⁴⁷ David J. Dallin, *Soviet Russia's Foreign Policy, 1939-1942*, New Haven, 1943, pp. 422-423. Cited in Ramazani, *The Foreign Policy of Iran, 1500-1941*, p. 224.

⁴⁸ Wilbur, p. 199.

and its exports to Germany were 42 percent of the total.⁴⁹ Soviet-Iranian trade had dropped to almost nothing. By substituting Germany for the Soviet Union as its primary trade partner, the shah had finally succeeded in emancipating Iran from Russia.

Even if Iran's policy of neutrality was strained by the Nazi-Soviet rapprochement, neutrality seemed justifiable until Germany invaded the Soviet Union on 22 June 1941. The British and Soviets were then allied in a common cause against Germany. Iranian neutrality was at stake because both countries opposed the presence of a large number of Germans in Iran. Germans virtually controlled important Iranian industries, railways, and airlines.⁵⁰ In the wake of the invasion, German activities in, and joint Soviet-British pressures on, Iran increased while Iran persistently claimed strict neutrality. In Iran the feeling prevailed that Germany would win the war. It was thought that Germany would mount a successful winter drive through the Caucasus region and that the final German victory would result in the return, to a friendly Iran, of those areas of the Caucasus and Turkmenistan taken from Iran by Russia early in the nineteenth century.⁵¹

In July 1941, stormtrooper auxiliary (*Sturmabteilung* or SA) leaders Roman Gamotta and Franz Mayer headed an efficient Nazi party organization with branches throughout Iran and with members strategically placed in the radio station, railway, and other public services and commercial organizations. Germans also were installed in key

⁴⁹ Ramazani, *The Foreign Policy of Iran, 1500-1941*, p. 283.

⁵⁰ Ibid., pp. 292-293.

⁵¹ Wilbur, p. 201.

posts in the telephone and telegraph offices. Within Iran some 690 Germans were employed by the Iranian government or by German firms, and the community, including wives and children, totaled between 1,200 and 2,000 persons.⁵² German activity was centered at the Deutsches Haus in Tehran, under the supervision of the German minister, an SS officer, who directed a legation staff said to number several hundred people.⁵³

British and Soviet concern about the existence of a German fifth column led to demands that the Iranian government expel four-fifths of all Germans from the country. The Iranian government replied that German technicians could not be expelled without adverse effects on Iran's relations with Germany, because such an action would infringe on Iranian neutrality and invite German retaliation.⁵⁴ At dawn on 25 August 1941, British and Russian forces began a simultaneous invasion of Iran. This was followed by a memorandum to the Iranian government demanding expulsion of all German citizens and the termination of diplomatic relations with Germany. On 9 September 1941, the Iranian government accepted all demands and signed an agreement placing the greater part of the country under the control of the British and Soviet forces.⁵⁵

The Germans departed Iran in late September 1941. By that time, the British had taken 400 German suspects and the Russians about 60. However, the German agents

⁵² George Kirk, ed., *The Middle East in the War*, London, 1952, p. 132. Cited in Wilbur, p. 201.

⁵³ Ibid.

⁵⁴ Kirk, p. 133. Cited in Wilbur, p. 204.

⁵⁵ Wilbur, pp. 206-207.

Roman Gamotta and Franz Mayer escaped.⁵⁶ Negotiations with Britain and Russia were delayed because, according to a British account, Iranian sympathizers with Germany still remained in official positions. In January 1942, the internal tribal situation and actual developments of the course of the war increased British concern about residual German activities. At that time, Franz Mayer and Iranian sympathizers were attempting to stir up revolts among the Kurds and other tribes in northern Iran. Another major German agent escapee in Iran, Berthold Schultze, incited the Qashqa'i tribes in the south.⁵⁷

On 29 January 1942, Iran signed the Treaty of Alliance with Great Britain and the Soviet Union. While this formally changed its status from a neutral to a noncombatant ally of Britain and the Soviet Union, the fundamental attitudes that precipitated a policy of neutrality in the beginning of the war did not change overnight. An age-old distrust of Russia and dislike of Britain fostered Iran's previously friendly relations with Germany. For this reason, Iran was slow in declaring war on Germany. Allied successes in North Africa and in the Soviet defense of Stalingrad gradually shifted Iran's attitude toward the Allies. Additionally, Allied successes undermined the activities of German agents in Iran and led to the arrest of many Iranians suspected of pro-German activities. On 9 September 1943, Iran declared war on Germany.

⁵⁶ Ramazani, *Iran's Foreign Policy 1941-1973*, p. 47.

⁵⁷ *Ibid.*, pp. 54-55.

C. FEDERAL REPUBLIC AND IRAN UNTIL 1990

The Federal Republic of Germany, following the lead of the United States, established close ties with Shah Mohammad Reza Pahlavi after 1953. In 1965, a treaty was concluded between West Germany and Iran on the promotion of mutual protection of capital investments. By the late 1960s, West Germany vied with the United States as the largest source of Iranian imports.

Iran was a natural market for West German industrial firms. They could meet the heavy engineering and construction needs for Iran's industrialization. A visit to Tehran by Chancellor Willy Brandt in 1972 produced a long-term plan for economic cooperation between the two countries.⁵⁸ This guaranteed a major West German role in Iran's development. West Germany would obtain Iranian oil and gas, while West German firms, confident of Iran's stability, believed they would obtain a good return on their investment.⁵⁹

The quadrupling of oil prices in 1973, and the associated financial wealth for oil-exporters, set the stage for an major increase in West German exports to Iran and other countries in the Middle East. The sudden increase in purchasing power available to oil exporters, combined with the desire of oil importers to balance their trade accounts and

⁵⁸ Fred Halliday, *Iran: Dictatorship and Development*, Middlesex: Penguin Books, 1979, p. 257.

⁵⁹ Ibid.

ensure stable supplies of oil, gave great impetus to trade.⁶⁰ In 1974, the shah purchased a 25.01 percent share of the West German steel firm Krupp. While this endowed Krupp with needed funds, it provided a basis for German assistance in expanding steel production in Iran.⁶¹ Also purchased was a 25.02 percent share of the engineering firm Deutsche Babcock. The shah's attempt to purchase 25 percent of Daimler-Benz did not succeed.

In 1974, West German firms secured lucrative contracts in Iran. This included a joint venture agreement to build a refinery and petrochemical complex at Bushehr. In 1975, construction began on a nuclear power plant at Bushehr. Plans for a tri-national pipeline to transport natural gas from Iran to Germany via Russia was another ambitious project.⁶² This arrangement came to an abrupt halt with the Iranian revolution.

In November 1978, Shi'ite leader Ayatollah Ruhollah Khomeyni said from exile in Paris that agreements concluded between Iran and Federal Republic would continue to be honored after a power transfer in Iran.⁶³ Shah Mohammad Reza Pahlavi's departure from Iran in January 1979 was followed by Khomeyni's return in February. In August, the Iranian government canceled all agreements concluded with the Federal Republic under the shah, including a contract for six Type 209 submarines and a port expansion project at

⁶⁰ Thomas L. Ilgen and T. J. Pempel, *Trading Technology: Europe and Japan in the Middle East*, New York: Praeger Publishers, 1987, p. 23.

⁶¹ Halliday, *Iran: Dictatorship and Development*, p. 257.

⁶² Shahram Chubin and Sepehr Zabih, *The Foreign Relations of Iran: A Developing State in a Zone of Great-Power Conflict*, Berkeley and Los Angeles: University of California Press, 1974, pp. 315-316.

⁶³ "Khomeyni Says Iran Agreements with FRG to be Honored," *Hamburg DPA*, 1657 GMT, 11 November 1978, FBIS West Europe, 13 November 1978, p. J 3.

Bushehr.⁶⁴ Also suspended was construction of the Bushehr nuclear power plant, which the new regime saw as an example of the shah's corruption. Kraftwerke Union ended its work on the two reactors.⁶⁵ Two major projects begun by German firms in 1975-1976 were to be completed: a Thyssen oil refinery project and Deutsche Babcock's work on two oil-heated power plants. The new Iranian government maintained the percentages of German firms originally purchased by the shah.

The German-Iranian relationship generated controversies before the Islamic revolution. The 1968 student revolution that upended German society began as a protest in June 1967 during a visit by Shah Mohammad Reza Pahlavi to Berlin. While the protest was a leftist movement organized to fight constitutional emergency legislation, the Federal Republic's ties with the shah's undemocratic regime in Iran offered additional fuel.⁶⁶ In 1976, out of deference to the shah, Amnesty International was not allowed to hold a planned human rights conference on Iran in West Germany.⁶⁷

When Iranian demonstrators overran the American embassy in Tehran in November 1979, taking American hostages, Chancellor Schmidt reaffirmed the Federal Republic's solidarity with the United States and pledged to use Bonn's influence to secure

⁶⁴ "Iranian Government Rescinds 'All' Agreements with FRG," *Hamburg Domestic Service*, 1800 GMT, 10 August 1979, FBIS West Europe, 13 August 1979, p. J 5.

⁶⁵ "Iran Intends to Complete Construction of Reactors," *Hamburg DPA*, 1233 GMT, 1 August 1979, FBIS West Europe, 2 August 1979, p. J 4.

⁶⁶ Gebhard Schweigler, *West German Foreign Policy: The Domestic Setting*, New York: Praeger Publishers, 1984, p. 31.

⁶⁷ "SPD Official Criticizes Links with Iran," *Die Tageszeitung*, 11 November 1993, p. 10, FBIS West Europe, FBIS-WEU-93-218, pp. 25-27.

their release.⁶⁸ Economics Minister Otto Graf Lambsdorff said oil from Iran not bought by the United States owing to the import ban would not be passed on to the Federal Republic. Freezing Iranian assets, however, was out of the question. Germany would not participate in economic sanctions without Britain, France, and Japan.⁶⁹ The idea of a boycott brought the federal government into conflict with its own intentions not to link politics with trade, if avoidable. It was claimed the federal government did not have the far-reaching authority of the American President to block all Iranian accounts or ban the import of Iranian oil.⁷⁰ An economic boycott was also seen as a violation of Germany's 1965 treaty with Iran on the promotion of mutual protection of capital investments. The federal government was also concerned for the safety of the 1,500 Germans living in Iran.⁷¹

The Germans did not want to freeze Iranian accounts in German banks, discontinue trade, and ban Iranian oil. Despite restrictions, trade with Iran was otherwise normal. While the Germans felt an obligation to go along with the American call for the implementation of sanctions, Chancellor Helmut Schmidt and the Foreign Minister Hans-Dietrich Genscher both agreed that the Federal Republic must avoid a trade boycott. It

⁶⁸ "Government to Use Influence for Release of Tehran Hostages," *Hamburg DPA*, 1455 GMT, 20 November 1979, FBIS West Europe, 21 November 1979, p. J 1.

⁶⁹ "Schmidt Assures Solidarity," *Hamburg DPA*, 2043 GMT, 11 December 1979, FBIS West Europe, 12 December 1979, p. J 1.

⁷⁰ Wolfgang Hoffmann, "Cooperation with the Americans Can Become Expensive," *Die Zeit*, 14 December 1979, p. 24., FBIS West Europe, 14 December 1979, p. J 8.

⁷¹ *Ibid.*

would hurt German interests. Economics Minister Lambsdorff claimed there were only two small buyers of Iranian oil in the Federal Republic—Veba and the Saarland Refinery. The government did not want to prohibit industry from exporting goods.⁷² Bankers and the government argued that Tehran maintained its financial commitments. The Iranians indicated they would like to make Deutsche Bank—along with two other European institutions—their bank in Europe.⁷³

By March 1980, Chancellor Schmidt and Foreign Minister Genscher were still skeptical about sanctions. Bonn feared that the position of Iranian president, Abdol Hasan Bani-Sadr, who was regarded as a moderate, might be shaken and that extremist forces might gain the upper hand.⁷⁴ German talks with Iranian officials sought a diplomatic solution to the hostage crisis.⁷⁵

In April 1980, the German ambassador to Tehran, Gerhard Ritzel, was recalled to Bonn for consultations after European Community (EC) foreign ministers presented a demarche on the freeing of American hostages to Iranian President Bani-Sadr.⁷⁶ Bonn continued to advocate that any decisions on sanctions should be taken jointly by the nine

⁷² "Germans Reluctant to Take Sanctions Against Iran," *Der Spiegel*, 17 December 1979, pp. 22-23., FBIS West Europe, 19 December 1979, p. J 1.

⁷³ Ibid.

⁷⁴ "Government Sources Cited on Possible Sanctions Against Iran," *Hamburg DPA*, 1704 GMT, 27 March 1980, FBIS West Europe, 28 March 1980, p. J 1.

⁷⁵ "Genscher Holds Talks on Hostages with Iran's Tabataba'i," *Hamburg DPA*, 1151 GMT, 4 April 1980, FBIS West Europe, 7 April 1980, p. J 1.

⁷⁶ "Envoy to Iran Recalled For Consultations," *Hamburg DPA*, 1511 GMT, 12 April 1980, FBIS West Europe, 14 April 1980, p. J 2.

EC members. Schmidt and Genscher saw no need to break relations. The German embassy continued to maintain official contacts with Tehran. According to the intellectual father of "change through rapprochement," Social Democratic Party Federal Manager Egon Bahr: "Diplomatic relations are an instrument and not a punishment or reward to a partner."⁷⁷ Genscher stressed that diplomatic relations needed to be maintained in the interests of the hostages.⁷⁸ His position was that dialogue must not be interrupted, especially in difficult situations.⁷⁹

Following an EC foreign ministers' decision on 23 April, the Federal Cabinet cleared the way for a package of economic sanctions against Iran effective 17 May. German companies could no longer expect approval of new contracts with Iran. The measures concerned goods and services, the granting of loans, the opening of new accounts or the increasing of existing accounts, but not current payments. Food and medicines were exempted.⁸⁰ The sanctions would not include contracts concluded prior to the taking of hostages on 4 November 1979. Economics Minister Lambsdorff, made it

⁷⁷ "Interview with SPD Federal Manager Egon Bahr," *Cologne Deutschlandfunk Network*, 0518 GMT, 14 April 1980, FBIS West Europe, 15 April 1980, p. J 9.

⁷⁸ "Further Genscher Remarks," *Mainz ZDF Television Network*, 1900 GMT, 10 April 1980, FBIS West Europe, 11 April 1980, p. J 1.

⁷⁹ "Interview with Federal Foreign Minister Hans-Dietrich Genscher," *Cologne Deutschlandfunk Network*, 0518 GMT, 21 April 1980, FBIS West Europe, 22 April 1980, p. J 1.

⁸⁰ "Cabinet 'Clears Way' for Economic Sanctions Package," *Hamburg DPA*, 1416 GMT, 23 April 1980, FBIS West Europe, 24 April 1980, p. J 1.

clear that Bonn supported economic measures, not because of the effect of sanctions, but because of the Federal Republic's relations with the United States.⁸¹

Germany adhered to a policy of neutrality in the Iran-Iraq War, which began in 1980. In January 1981, the release of the American hostages allowed for a gradual resumption of commercial relations. Iranian Foreign Minister Mir Hoseyn Mussavi visited Bonn in October 1981. His successor as foreign minister, Ali Akbar Velayati, visited Bonn in February 1982. Trade peaked in 1983, when Iran purchased \$3 billion worth of German exports. In July 1984, Foreign Minister Genscher visited Iran. He returned to Bonn with the impression the Iranian leadership wanted political dialogue and economic cooperation with the West.⁸² According to Genscher:

If we are to have any influence on its policy, we must ensure that Iran is not forced into isolation. It seems to me that Iran is now more open in the area of relations with Western states. This would also serve our interests. There is considerable interest in establishing and developing economic relations with the FRG, in particular.⁸³

In truth, the Federal Republic had dominated bilateral trade with Iran since 1981. West German firms benefited from their willingness to stay and meet contractual obligations even as many of their competitors departed because of the Iran-Iraq War.

⁸¹ "Lambsdorff: Straits of Hormuz Closing Would Be 'Catastrophe'," *Hamburg DPA*, 1142 GMT, 24 April 1980, FBIS West Europe, 25 April 1980, p. J 1.

⁸² "Iran Seeks Contact with West, But America Still the 'Great Satan'," *Associated Press*, 24 July 1984.

⁸³ "Interview with Foreign Minister Hans-Dietrich Genscher," *Mainz ZDF Television Network*, 1700 GMT, 22 July 1984, FBIS West Europe, 24 July 1984, p. J 2.

In October 1986, 100-150 demonstrators penetrated the German embassy grounds in Tehran and attempted to storm the embassy's main building.⁸⁴ The demonstration ended when the police arrived and the demonstrators dispersed. The demonstration was in protest of the closing of an Iranian stand at the Frankfurt book fair after clashes between stand officials and Iranian opposition students. The foreign ministry in Bonn received an apology from the Iranians.⁸⁵

Genscher's mediation efforts to end the Iran-Iraq War played a role in Tehran's acceptance of the U.N. Security Council cease-fire resolution in August 1988. The end of the eight-year war offered the international business community with lucrative reconstruction contracts and West German firms were well-represented as Iran's leading supplier. Roughly 100 West German firms were represented in Iran, 20 with joint ventures.⁸⁶ In September 1988, hoping to secure additional contracts, representatives from 70 West German firms accompanied Dieter von Würzen, the Secretary of State at the Economics Ministry, to the West German industrial exhibition Tehran.⁸⁷ In November

⁸⁴ "Iranian Ambassador on Near Takeover of FRG Embassy," *Hamburg DPA*, 1120 GMT, 9 October 1986, FBIS West Europe, 10 October 1986, p. J 3.

⁸⁵ "Foreign Ministry Protests Tehran Demonstration," *Hamburg DPA*, 1100 GMT, 8 October 1986, FBIS West Europe, 8 October 1986, p. J 1.

⁸⁶ "An Attempt to Revive Business with Iran," *Frankfurter Allgemeine Zeitung*, 26 November 1988, p. 13, FBIS West Europe, FBIS-WEU-88-228, 28 November 1988, p. 10.

⁸⁷ "Iran: West German Industry Expects Billions in New Orders," *Frankfurter Allgemeine Zeitung*, 15 September 1988.

1988, Genscher visited Tehran accompanied by 112 industrialists and officials.⁸⁸ The two sides signed a cultural and scientific exchange treaty and scheduled an economic cooperation meeting. Financial credit for the Iranians was also discussed.⁸⁹ In December 1988, Federal Construction Minister Oscar Schneider led representatives of the German Construction and Building Machinery Industries to Iran. Even the German Democratic Republic (GDR) was represented, collaborating on the construction of a steel rolling mill as well as a number of chemical and cement plants.⁹⁰

Iran needed to repair war damage to its petrochemical facilities and industrial infrastructure. Priorities included rehabilitation and expansion of oil, power, telecommunications, and transportation facilities. Since oil traditionally accounted for more than 90 percent of foreign currency earnings, most investment was initially concentrated in that sector.

Foreign Minister Genscher wanted to move quickly to improve political and economic cooperation to pave the way for a broader rapprochement in Iranian-Western relations. Genscher wanted progress in the human rights situation in Iran and rapid movement on the release of Western hostages in Lebanon.⁹¹ In February 1989, events

⁸⁸ Christian Burckhardt, "Iran Said Ready to Discuss Hostage with Genscher," *Reuters*, 28 November 1988.

⁸⁹ "Iran: Bonn Agrees to Consider Financing Request," *Middle East Economic Digest*, 9 December 1988.

⁹⁰ "After the War, Business Opportunities in Tehran," *The Christian Science Monitor*, 19 December 1988, p. 12.

⁹¹ Fred Halliday, "An Elusive Normalization: Western Europe and the Iranian Revolution," *Middle East Journal*, Vol. 48, No. 2, Spring 1994, p. 313.

would prove otherwise when Ayatollah Khomeyni's *fatwa* against Salman Rushdie led the EC to withdraw its ambassadors from Tehran once again.

D. FEDERAL REPUBLIC AND IRAN SINCE 1990

Foreign Minister Genscher's attempts to improve German relations with Iran were complicated by the Salman Rushdie affair, the holding of Western hostages in Lebanon, and human rights issues. In 1991, however, there was a temporary improvement. In March, Iranian Foreign Minister Velayati visited Bonn. In April, Bundeswehr soldiers deployed to western Iran as part of Germany's humanitarian assistance for the Iraqi Kurdish refugees.⁹² In May, Genscher made another visit to Tehran. High-level cooperation moved forward in the political, economic, and cultural spheres. Genscher agreed with the Tehran leadership that Germany should take over a bridging function in Iran's rapprochement with the West.⁹³

In June 1991, Economics Minister Jürgen Möllemann led a delegation to Tehran for a joint economic commission—the first since the Islamic revolution. German firms placed bids for contracts to build power stations, telephone lines, port facilities, steel plants, aluminum plants, and cement plants. An agreement was reached to build Mercedes

⁹² "Bundeswehr to Build Refugee Facilities in Iran," *Hamburg DPA*, 1326 GMT, 29 April 1991, FBIS West Europe, FBIS-WEU-91-083, 30 April 1991, p. 6.

⁹³ Hans Joerg Sottorf, "Bonn's Bridging Function," *Handelsblatt*, 10-11 May 1991, p. 2., FBIS West Europe, FBIS-WEU-91-093, 14 May 1991, p. 5.

Benz engines in Iran.⁹⁴ Bayer saw its Iranian business double.⁹⁵ German firms were involved in bidding to build a telecommunications satellite for Iran.⁹⁶ While, a request by Kraftwerke Union to complete the Bushehr nuclear power plant was denied by the German government—no export licenses would be granted—Bonn offered conventional gas power stations instead.⁹⁷ In July 1991, the federal government gave up its reserved Hermes credit policy, allowing basically for open cover toward Iran.⁹⁸

Bonn and Tehran had hopes of an improved relationship with the release of the last two German hostages from Lebanon in June 1992. These hopes soon proved unfounded. Genscher's departure that year from the foreign ministry was accompanied by a noticeable sharpening of German policy toward Iran. Although Velayati visited Foreign Minister Klaus Kinkel in Bonn in July, there was more overt official support for Salman Rushdie.⁹⁹

The adoption of the policy of "critical dialogue" at the EC summit in Edinburgh in December 1992 coincided with the beginning of a steady decline in trade as Iran reduced imports. Further, matters were complicated by evidence of official Iranian involvement in

⁹⁴ "Khavar of Iran, Mercedes Benz to Produce Trucks," *Moneyclips*, 22 February 1992.

⁹⁵ "Germany: Renaissance of Trade with Iran," *Die Welt*, 13 May 1991.

⁹⁶ "Iran: ANT of Germany and Matra of France in Bid for Satellite Project," *Die Welt*, 24 September 1991.

⁹⁷ "Minister on Refusal to Complete Iranian Plant," *Hamburg DPA*, 1218 GMT, 4 August 1992, FBIS West Europe, FBIS-WEU-92-150, 4 August 1992, p. 6.

⁹⁸ "More Guarantees for Trade with Iran," *Die Welt*, 26 July 1991, p. 7, FBIS West Europe, FBIS-WEU-91-146, 30 July 1991, p. 10.

⁹⁹ Halliday, "An Elusive Normalization: Western Europe and the Iranian Revolution," p. 323.

the assassination of four exiled Iranian Kurds at the Mykonos restaurant in Berlin in September 1992.

From 1993 through 1996, the *fatwa* against Salman Rushdie, the Mykonos trial, and other problems prevented a normalization of relations. German business with Iran continued to decline. In April 1997, relations reached a new low point following the Mykonos court verdict. Bonn suspended "critical dialogue" and recalled its ambassador, Horst Baechmann, from Tehran. The crisis forced a reassessment of German policy.

Trade has played the most prominent role in the Federal Republic of Germany's relations with the Islamic Republic of Iran. However, unlike economic relations under the Weimar Republic, the government of the Federal Republic has played an active role in promoting German business. The Germans view free trade as beneficial for both Germany and Iran. German foreign policy has operated under the philosophy that dialogue and cooperation are more effective than isolation and sanctions in influencing the regime in Tehran.

III. GERMAN FOREIGN POLICY

Today the Federal Republic shares borders and enjoys friendly relations with nine countries. This achievement can be partially attributed to German foreign policy. Additionally, German democracy has been strengthened by both its relations with the United States and by economic prosperity. This has led to economic, military, political integration with the West, and since the end of the Cold War, increasingly closer ties to the East. German extra-European policy reflects this experience.

A. FEDERAL REPUBLIC AND EXTRA-EUROPEAN POLICY, 1949-1990

Federal German statecraft throughout the postwar period was shaped by a unique set of factors—national partition, the burdens of German history, and the reality of being on the front line of the Cold War.¹⁰⁰ Germany's division was the central element of its foreign policy, and determined its relations beyond Europe. In the 1950s, under the government of Chancellor Konrad Adenauer, reunification was pursued by attempting to limit East German contacts outside the Soviet bloc. The so-called Hallstein Doctrine denied any legitimacy to the German Democratic Republic. Under it, the Federal Republic refused to engage in relations with any country, other than the Soviet Union, that

¹⁰⁰ Ronald D. Asmus, *Germany After the Gulf War*, Santa Monica: RAND, 1992, p. 32.

recognized East Germany.¹⁰¹ The Hallstein Doctrine was intended to pressure other states into accepting Bonn's position that it was the heir of all the former *Reich*.¹⁰²

Adenauer's "policy of strength" accorded with the Eisenhower administration's policy of containment.¹⁰³ The success of Bonn's pro-Western security and recovery policy, through which the Federal Republic became the bulwark of Washington's containment policy in Europe, solidified the Cold War alliances in Central Europe and further deepened the division of Germany.¹⁰⁴ The raising of the Berlin Wall in 1961, however, ended any hopes for a rapid demise of the GDR.¹⁰⁵ Further, after the Cuban missile crisis in 1962, Chancellor Adenauer's "policy of strength" collided with the Kennedy administration's shift towards a policy of détente and pursuit of nuclear arms control with the Soviet Union. Adenauer insisted that a solution of the German problem had to be a precondition for détente, while the Kennedy administration believed it might only be achieved as the result of a long process of détente, if at all. Nevertheless, the Christian Democratic Union's (CDU) foreign policy remained centered on the Hallstein Doctrine.¹⁰⁶

¹⁰¹ Craig and George, p. 119.

¹⁰² Gutjahr, p. 25.

¹⁰³ Schweigler, p. 16.

¹⁰⁴ Hanrieder, *West German Foreign Policy*, p. 16.

¹⁰⁵ Gutjahr, p. 24.

¹⁰⁶ *Ibid.*, p. 25.

In 1963, Social Democratic Party (SPD) politician Egon Bahr, in speech in Tutzing, called for a new approach to the East through a policy of "small steps" that would lead to "change through rapprochement."¹⁰⁷ It was in this spirit that Chancellor Willy Brandt initiated the policy of *Ostpolitik* aimed at closer relations with all the states of Eastern Europe when a coalition formed by the SPD and the Free Democratic Party (FDP) took office in 1969. Brandt had already introduced a few reforms to lay the foundation for the new *Ostpolitik* while he was foreign minister in the "Grand Coalition" government with Chancellor Kurt Kiesinger from 1966 to 1969.¹⁰⁸ From 1970 to 1972, Brandt sought, and obtained, treaty agreements with the Soviet Union, Poland, and East Germany recognizing the Federal Republic's postwar boundaries and establishing relations with the Eastern bloc states.¹⁰⁹ This policy of opening to the east became a continuous thread in the policies practiced by both center-left and center-right governments in Bonn over the two decades preceding the collapse of the Soviet bloc. *Ostpolitik* rested on the assumptions that, first, the Federal Republic, despite the crimes subsequently committed by communist regimes, had a special responsibility to compensate Eastern Europe for the aggression and atrocities carried out by Nazi Germany; and, second, that a web of treaties and agreements with the Soviet bloc would improve human rights for the citizens of these neighboring communist states, while creating a peace-inducing dialogue with communist

¹⁰⁷ Craig and George, p. 120.

¹⁰⁸ Gutjahr, p. 26.

¹⁰⁹ Philip H. Gordon, *France, Germany, and the Western Alliance*, Boulder: Westview Press, 1995, p. 15.

regimes. *Ostpolitik* involved West Germany's relations with the Soviet Union, its ties to East Germany, and its dealings with the rest of Eastern Europe. In the case of East Germany, *Ostpolitik* represented Bonn's attempt through dialogue and cooperation to overcome the burdens of Germany's division.

Gradually, the link between reunification and détente became reversed. The main goal of the West German *Ostpolitik* became a general change in the relationship between East and West, a process at the end of which the systemic differences between East and West would disappear and, along with them, the border between East and West Germany. The policy was designed to maintain an all-German national consciousness.

West Germany's adherence to a policy of détente was controversial at its outset. In opposition, the CDU argued against the policies pursued by Chancellors Brandt and Schmidt. However, when the CDU returned to power in coalition with the FDP in 1982, the new CDU-FDP government avoided a return to the Hallstein Doctrine. The basic interest of the West German public in détente was too strong to be neglected. The mix of a strong interest in détente with an unabated distrust of the Soviets and their ulterior motives was very much evident in the picture of West German attitudes that emerges from a number of public opinion polls. Even after the Soviet invasion of Afghanistan in 1979, an overwhelming majority of West Germans favored continuing a policy of détente.¹¹⁰

¹¹⁰ "Should the Federal Republic continue the policy of détente in the future, or do you think it makes sense not to continue?" Polls in January and May 1981 resulted in 74 percent and 68 percent supporting a continuation, respectively (Source: Noelle-Neumann, *Jahrbuch* 1983, p. 637). In August and September 1983, 87 percent considered a continuation of the policy of détente an appropriate instrument for securing peace and liberty in the Federal Republic in the long run (SINUS-Institut, *Sicherheitspolitik, Bündnispolitik, Friedensbewegung*. Bonn: Friedrich-Ebert-Stiftung, October 1983, p. 26). Cited in Schweigler, pp. 104-105.

However, the support of West Germans for *Ostpolitik* was not necessarily matched by the perceived results. Most Germans believed that the Soviet Union benefited most from the policy of détente.¹¹¹ Still most West Germans believed that the policy was the best way to bring about changes in Eastern Europe. They believed that the cause of human rights could be furthered through quiet diplomacy and continuing cooperation. West Germany refused to impose economic sanctions against the Soviet Union and other Eastern European countries to force an improvement of general or specific human rights. This strained German-American relations and left the Federal Republic open to charges that it was interested in détente merely to reap economic benefits from East-West trade and that it disregarded the potential danger of strengthening the Soviet Union.¹¹² One of the benefits West Germany expected from trade with Eastern Europe, however, was political and social change, at least over the long run. For that reason, as well as for more commercial ones, West Germany continued to trade with the Soviet Union and other Eastern European countries.¹¹³ This made West Germany the East's major Western trading partner.

According to Peter J. Katzenstein, the foreign policies of Chancellor Adenauer—integration with the West—and Chancellor Brandt—accommodation with the East—were

¹¹¹ Ibid., p. 51.

¹¹² In 1978, trade with communist countries was 7.2 percent of total West German trade. West Germany accounted for 21 percent of Organization for Economic Cooperation and Development (OECD) exports to the East. In 1977, 34 percent of Soviet high tech imports came from West Germany. Cited in Lisa Martin, p. 181.

¹¹³ Schweigler, p. 52.

a means of securing their position in power.¹¹⁴ In both cases, foreign policy promised substantial long-term political gains for a particular social alliance and coalition government. Adenauer and Brandt succeeded because their foreign policy strategies exploited opportunities in the international state system which West Germany's domestic structures simply did not do. Domestic politics also illustrated how the opposition reacted to the foreign policy successes of Adenauer and Brandt. Because it realistically wanted to improve its electoral chances, the SPD embraced the policy of Western integration after 1959. When Brandt became foreign minister in 1966 and chancellor in 1969, continuity in the policy of Western integration was beyond doubt. Similarly, after its electoral defeat of 1972, the CDU gradually came to accept the premise of *Ostpolitik*. When the CDU returned to power in 1982, Chancellor Kohl continued the Eastern policy of the previous coalition government. Continuity was underscored by the fact that the liberal Free Democrats stayed on as the junior partner in the new coalition cabinet and continued, with Hans-Dietrich Genscher, to head the foreign ministry. By then the "Genscherist" approach had gained wide acceptance in West Germany as a pragmatic policy to reduce international tensions and improve living conditions in East Germany.¹¹⁵

¹¹⁴ Peter J. Katzenstein, *Politics and Policy in West Germany: The Growth of a Semisovereign State*, Philadelphia: Temple University Press, 1987, p. 362.

¹¹⁵ Dirk Verheyen and Christian Søe, eds., *The Germans and Their Neighbors*, Boulder: Westview Press, 1993, p. 4.

This continuity in foreign policy across different governments demonstrates the incrementalism rather than large-scale policy change that typifies West German politics.¹¹⁶ Incrementalism is a reflection of another value of German foreign policy—predictability and calculability (*Berechenbarkeit*).¹¹⁷ Stability is valued above all. This strong interest in continuity and the inclination for not upsetting any kind of balance comes from the knowledge of the ill-effects of incalculability from 1890 to 1945. German foreign policy is to always be predictable and, to others, calculable.¹¹⁸

The economic system (*Soziale Marktwirtschaft*) adopted by the Federal Republic in 1949, under the watchful eye of the Allied occupiers, was based on liberal economic principles.¹¹⁹ This endorsement of the free market forces at home was complemented by a commitment to free trade abroad and a belief that German economic recovery and subsequent growth would be fostered by exports. While the federal government has intervened to ensure a favorable economic climate to German exporters, economic initiative has remained primarily in the hands of the private sector.¹²⁰

The sectors dominating West Germany's postwar economic miracle (*Wirtschaftswunder*) were mechanical engineering, the electrical industry, and chemicals—

¹¹⁶ Katzenstein, p. 362.

¹¹⁷ Schweigler, p. 87.

¹¹⁸ *Ibid.*, pp. 87-88.

¹¹⁹ Ilgen and Pempel, pp. 101-102.

¹²⁰ *Ibid.*, p. 102.

the same sectors that had been the backbone of German economic might prior to the war. The competitiveness of these sectors was assisted by the close links between corporate leaders and German banks.

The German banking sector still dominates the economy and owns large portions of stock in major corporations. Moreover, bankers regularly serve on the supervisory boards of these corporations, participating actively in strategic planning and investment decisions.¹²¹ Cooperation between the corporate and financial sectors of the economy is particularly advantageous in the negotiation and financing of exports.

West Germany's commitment to economic liberalism included a distinction between private and public activities. This complemented the country's larger postwar foreign policy strategy, which was to separate diplomatic affairs from commercial relations. Market criteria, not domestic or international politics, were seen as desirable guides to choices both in the local economy and in foreign trade. However, keeping politics out of economic affairs is more difficult as a state's international economic influence grows, which was the case from the 1960s on. The West German strategy—to downplay politics and diplomacy and to give attention to commercial relations by supporting the initiatives of the private sector—brought high returns in trade and investment.¹²² Insisting that trade and politics should remain separate, West German businesses frequently flourished when political entanglements jeopardized the business of

¹²¹ Ibid., p. 103.

¹²² Ibid., p. 104.

non-German firms.¹²³ This strategy paid off in post-1979 Iran. West German firms were willing to stay in the market and meet contractual obligations even as many of their competitors departed.

The Federal Republic of Germany was constructed after the Second World War with a moral debt and political commitment to the state of Israel that has limited and complicated its relations with other states in the Middle East. Germany and Israel established diplomatic relations in 1965. However, already in the early 1950s, negotiations between Chancellor Adenauer and Prime Minister David Ben Gurion of Israel resulted in the 1953 Restitution Agreement.¹²⁴ The Federal Republic's policy concerning the Near and Middle East has been based on the principles of the right to exist of all states of that region, including Israel, within recognized and secure borders; the right to self-determination by the Palestinian people; and the nonuse of force by all parties. The peaceful settlement of the Arab-Israeli conflict and later the Iran-Iraq War were central objectives of West German policy.¹²⁵

B. GERMAN FOREIGN AND COMMERCIAL POLICY MECHANISMS

During the Allied occupation from 1945 to 1949, checks and balances were designed in the German political system to prevent extremists from returning to

¹²³ Ibid., p. 106.

¹²⁴ "German-Israeli Relations," German Information Center, June 1995. Online. Available <http://www.germany-info.org/govern/israel.htm>

government.¹²⁶ The chancellor, cabinet, and legislature all contribute to the policy-making process. The federal chancellor is responsible for general policy, and the Federal Chancellery (the chancellor's office) serves as the center for policy review and coordination. The chancellor's direct executive role is limited. Although the chancellor has wide powers to name political appointees in government, he does not enjoy complete freedom in making appointments to cabinet posts. A number of cabinet positions are filled by coalition partners. Since the late 1960s, such important posts as economics and foreign affairs have been controlled by the FDP, Helmut Kohl's junior coalition partner, which adheres to free market principles.

1. Foreign Policy Mechanisms

The Ministry of Foreign Affairs is the central department for planning and implementing foreign policy. It shares responsibility for foreign economic policy with the Ministry for Economics and the Ministry of Finance. Security policy is coordinated with the Ministry of Defense. Although the executive branch takes the initiative in foreign affairs, the *Bundestag* (the lower house of parliament) and the *Bundesrat* (the upper house of parliament, where the *Länder* are represented) are involved in the policy-making process. These bodies ratify foreign treaties and approve most foreign affairs legislation and budgetary provisions. Parliamentary groups in the *Bundestag* and various committees

¹²⁵ "Government Document Sets Out Middle East Policy," *Hamburg DPA*, 0002 GMT, 17 November 1987, FBIS West Europe, FBIS-WEU-87-222, 18 November 1987, p. 8.

provide organizational structure for the policy making process. Moreover, power is divided between the federal and *Land* governments. Foreign policy is the prerogative of the federal government, but *Länder* (federal states, e.g., Bavaria or Lower Saxony) are permitted to conclude agreements with foreign countries. These agreements, however, are subject to approval by the federal government.

2. Commercial Policy Mechanisms

The policies of three government ministries affect the strategy of exports—the Federal Ministry of Economics, the Federal Ministry of Education, Science, Research, and Technology, and the Federal Ministry of Economic Cooperation and Development. The Federal Ministry of Economics (*Bundesministerium für Wirtschaft*, or BMWi) acts as the primary ministry on issues of economic policy. In addition to collecting and disseminating information useful to German exporters, the ministry engages in promotional activities to boost trade and investment opportunities. Among the most common is the organization of high-level commercial missions to the Middle East that bring together government officials, trade association leaders, and representatives of individual firms.¹²⁷

The Federal Ministry of Education, Science, Research, and Technology (*Bundesministerium für Bildung, Wissenschaft, Forschung und Technologie*, or BMBF),

¹²⁶ The protocol for terminating the occupation regime was signed on 23 October 1954 and took effect on 5 May 1955. The Federal Republic did not technically become a sovereign state until that date, although its constitution, the Basic Law, took effect in 1949.

¹²⁷ Ilgen and Pempel, p. 110.

is the second government ministry involved in technology exports.¹²⁸ BMBF is concerned about the application of research to industrial development and industrial policy in Germany. The ministry's participation in technology trade is based on a belief that successful international technology transfer must begin with extensive research contacts between suppliers and recipients. These contacts will bring commercial opportunities for technologies developed in Germany. The typical pattern is for Germany to conclude a scientific and technical cooperation agreement with a developing country. Such an agreement may be defined broadly or target specific industries. Following this type of agreement, there is generally an exchange of technical personnel, and projects are assigned to the appropriate German and Middle Eastern research institutes.¹²⁹

The third federal ministry with activities related exports is the Ministry for Economic Cooperation and Development (*Bundesministerium für Wirtschaftliche Zusammenarbeit und Entwicklung*, or BMZ). This ministry coordinates all German foreign aid programs aimed at raising the economic, social, and environmental conditions of countries in the third world. The policy is to enhance administrative efficiency, improve the functioning of market economies, and encourage better use of applied technologies.¹³⁰

Three semi-autonomous agencies operate under BMZ. The *Kreditanstalt für Wiederaufbau* (KfW) arranges financing. The Company for Technical Cooperation

¹²⁸ Federal Ministry of Education, Science, Research, and Technology. Online. Available <http://www.bmef.de/menues/english.htm>

¹²⁹ Ilgen and Pempel, p. 110.

¹³⁰ Ibid., pp. 110-112.

(*Deutsche Gesellschaft für Technische Zusammenarbeit GmbH*, or GTZ) coordinates technical aid and training in developing countries. The German Development Company (*Deutsche Investitions- und Entwicklungsgesellschaft mbH*, or DEG) organizes capital investment projects. The DEG is administered by a supervisory board made up of government officials and representatives from industry, banking, and trade unions. The DEG solicits and approves project proposals from private German firms.¹³¹

Following dictates with antecedents in the nineteenth century, the German government gives considerable attention to policies designed to promote foreign trade and investment. The government strategy is driven by recognition of mutual interests between the Federal Republic and developing countries pursuing growth-oriented strategies. Private sector organizations are also active in promoting German technology trade and investment. The associations of German Chambers of Industry and Commerce (DIHT) provide advisory services to members as well as many of the services normally assigned to the commercial sections of embassies abroad. It has negotiated bilateral chambers of commerce agreements with most countries in the Middle East. Under public law, DIHT must also provide advice to the government on various aspects of commercial policy. Generally, its position reaffirms the liberal position of the Ministry of Economics at home and abroad. German chambers of commerce also supervise vocational training in the Federal Republic. Local chapters control three-year programs that not only train German workers, but are open to foreign employees who might receive training as part of a

¹³¹ Ibid., pp. 112, 117.

management contract with a large German firm. There are opportunities for pre-contract training, on-the-job training, and retraining.¹³²

The many German trade associations organized by industry and coordinated through the Federation of German Industries (BDI) also promote exports. Most German trade associations are well organized and well financed and provide a wide range of services to would-be exporters. One of the most important for the Middle East is the German Mechanical Engineering Trade Association (*Verein Deutscher Maschinenbau-Anstalten*, or VDMA), which represents most of all German heavy and light industry. In chemicals, the *Verband der Chemische Industrie* (VCI) enjoys a similar reputation for influence. In consulting, the Union of Independent Consulting Engineers (VUBI) has been successful at promoting business for its members who do business in the Middle East.¹³³

A trade association directed specifically to the Middle East is the Near and Middle East Association (*Nah und Mittlost Verein*, or NMV), founded first as the German-Persian Society in 1918 and renamed the German-Orient Society in 1934. Like other trade associations, the NMV gathers information and attempts to find business opportunities for its members. The NMV also promoted the establishment of the Oriental Institute in Hamburg, a small group of scholars outside the university system who do medium- and long-term studies on political, social, and legal developments in the Middle East, assessing their implications for German commerce. The institute is funded primarily

¹³² Ibid., p. 113.

¹³³ Ibid., pp. 106, 113.

by the state of Hamburg (an SPD federal state) and receives additional support from German private foundations.¹³⁴

The Germans offer a variety of supportive measures for those engaged in exports. Exporters secure insurance and financing through a mix of private and government-authorized agencies and institutions. Insurance is supplied through a government-sanctioned consortium led by the private export insurance company, Hermes. The Federal Republic depends primarily on the banking system to extend credit at market rates for the financing of exports. Long-term financing to the Middle East is also available via consortium lending. The normal channel is the *Ausfuhrkredit Gesellschaft* (AKA), a private syndication of commercial banks that acts as a mechanism for pooling the credit resources of its members. A second source of financing is the KfW.¹³⁵

The government and the private sector have viewed technical training as a valuable resource to be exported and a means to develop markets abroad for German technology exports. The private sector has attempted to capitalize on the strengths of German technical education by linking training provisions in management contracts to technical programs administered by local chapters of the DIHT. The government in Bonn has also given attention to training. The bilateral scientific and technical agreements implemented by the Ministry of Education, Science, Research, and Technology frequently begin cooperative research projects with educational opportunities for foreign scientists.

¹³⁴ Ibid., pp. 113-114.

¹³⁵ Ibid., pp. 114-116.

engineers, and technicians. However, the most extensive commitment to training is made through the GTZ, the BMZ's agency of technical cooperation. The GTZ sends its own experts and consultants to work on local development projects, particularly to assist with the training of local personnel. The GTZ works closely with the KfW and the DEG in deciding which projects are most worthy of support. The German foreign aid program, through the coordinated activities of the KfW, DEG, and GTZ, is designed to support the efforts of private German firms to sell their goods and services in developing countries. The foreign aid effort also seeks to ensure that such goods and services are absorbed effectively by those countries' economies.¹³⁶

C. TRANSITION SINCE 1990

Following the unification of Germany on 3 October 1990, the Federal Republic did not have much time before a succession of major events—the Gulf War, the unraveling of the Soviet Union, war in the Balkans, and attempted coups in Russia—forced Bonn to rethink its foreign policy. German foreign policy adapted slowly. Whereas the new Germany was under growing pressure from its allies to take on new responsibilities in the world, it also felt obliged (because of those same allies) to show restraint in its foreign policy actions as a unified state.¹³⁷ The country was preoccupied with the challenge of East German reconstruction.

¹³⁶ Ibid., pp. 118-119.

¹³⁷ Gordon, pp. 36-37.

Although the Federal Republic is a major economic power, it never developed strategic thinking as is found in the United States, Britain, or France. Concepts such as grand strategy remained largely off limits. Open debates about Germany's national interests rarely occurred. "Geopolitics" was a term that Germans avoided for it reminded them of *Machtpolitik* and a militaristic past that contemporary Germany has forsworn.¹³⁸ The West German political elite proudly pointed out that Germans were seeking to define a postnational identity in the context of European integration and the Atlantic alliance. German diplomats became experts in shrouding their interests in the diplomatic language of multilateralism and integration.¹³⁹

The Christian Democratic Union (CDU) and its Bavarian sister party, the Christian Social Union (CSU), stress that transatlantic links should be given more priority over more European-dominated organizations such as the Organization for Security and Cooperation in Europe (OSCE). The CDU is a middle of the road grouping with a generally conservative policy and broad political appeal.¹⁴⁰ The CSU has distinguished itself from the CDU by pushing a slightly more confident tone regarding what its members perceive as German national interests. The FDP is probably the least nationalistic and the most multilateralist in philosophy of the German political parties when it comes to the

¹³⁸ Ronald D. Asmus, *German Strategy and Opinion After the Wall 1990-1993*, Santa Monica: RAND, 1994, pp. 11-12.

¹³⁹ *Ibid.*, p. 11.

¹⁴⁰ "Principles and Program of the Christian Democratic Union of Germany," Christian Democratic Union. Online. Available <http://www.cdu.de/englisch/gp/gp5.html>

subject of foreign policy. It stands for free enterprise without government intervention.¹⁴¹ The SPD is fundamentally multilateralist on foreign policy issues.¹⁴² It was the primary advocate of détente during the Cold War. The SPD is a strong proponent of human rights, intercultural dialogue, and export controls for dual-use goods.¹⁴³ The Greens, a western German environmentalist party, united in 1993 with an eastern German political group, Alliance 90, to form Alliance 90/The Greens, commonly called the Greens.

1. Extra-European Policy

One of the most important questions facing a unified Germany is how and where it will define its "vital interests." While the issue of German unification was a central element of the Federal Republic's foreign policy during the Cold War, a unified Germany must now determine its geopolitical role in Europe and beyond.

Germany's global interests include respect for human rights, the fight against poverty, the preservation of natural resources, and the non-proliferation of weapons of mass destruction.¹⁴⁴ Although Germany again became Europe's largest and potentially most powerful country, it has also inherited the enduring dilemmas rooted in geography

¹⁴¹ "Welcome to the German Liberals," Free Democratic Party. Online. Available http://www.fdp/de.index_en.cw3

¹⁴² "SPD Positions: Foreign Policy," Social Democratic Party. Online. Available <http://www.spd.de/politik/foreign.htm>

¹⁴³ "Social Democratic Foreign Policy in the Transition to the 21st Century," Social Democratic Party. Online. Available <http://www.spd.de/leitseite/2ljhengl.htm>

¹⁴⁴ Klaus Kinkel, "Germany's Foreign Policy on the Threshold of the 21st Century," Speech before the Council of Foreign Relations, 24 September 1997. Online. Available <http://www.germany-info.org/govern/st1597.htm>

and geopolitics. With the end of the Cold War, German leaders see the new strategic challenges in and around Europe almost exclusively along the so-called "arcs of crisis."¹⁴⁵ One is an eastern arc—the zone of instability between Germany and Russia running from Northern Europe down through Turkey, the Caucasus, and Middle Asia. Another is a southern arc, running through Northern Africa and the Mediterranean into the Middle East, and Southwest Asia. These "arcs of crisis" encompass the numerous potential points of conflict from the Baltic to the Mediterranean and from Germany's eastern border to Central Asia. While Germany remains preoccupied with the challenge of the political and economic reconstruction of its eastern half, the need to stabilize Germany's eastern flank is a primary security concern for the German political class. The countries of the Caucasus and Central Asia are considered significant as the political-cultural point of contact between Europe and Asia. They are the point where various strategic interests intersect means that the instability prevailing in the region is of particular significance to the peaceful development of Europe. Middle East and Southwestern Asia are also considered a potential threat to Europe. Cross border environmental problems, immigration problems, dependence on raw materials and the free movement of trade, the increasing indebtedness of the economies of this region as well as the interdependence of the financial markets are factors the Federal Republic considers threats to the social and

¹⁴⁵ Asmus, *German Strategy and Opinion After the Wall 1990-1993*, pp. 7-8.

economic stability of Europe. The region is also considered of key importance for the future relationship between Europe and the Islamic world.¹⁴⁶

2. Foreign and Commercial Policy Mechanisms

The Preamble to the Basic Law states that the foreign and security policy objective of Germany is to "serve the peace of the world as an equal partner in a united Europe."¹⁴⁷ Continuing the process of European integration remains a central foreign policy objective of the Federal Republic. This affects German relations beyond Europe as German foreign and commercial policy is increasingly coordinated with other members of the European Union.

a) Foreign Policy Mechanisms

The Federal Republic, following unification, adopted a policy aimed at integrating itself into the primary instruments of international cooperation: the North Atlantic Treaty Organization (NATO), the EU, the Council of Europe, the Western European Union (WEU), the Organization for Security and Cooperation in Europe (OSCE), and the United Nations. Bonn's foreign policy emphasized multilateralism in a deliberate effort to minimize concerns about German dominance on the continent. President Richard von Weizsäcker, Chancellor Kohl, and Foreign Minister Genscher went to great lengths to stress Germany's intention to renounce the power politics of past eras

¹⁴⁶ Federal Ministry of Defense, *White Paper 1994*, Bonn: Federal Ministry of Defense, 1994, p. 35.

¹⁴⁷ *Ibid.*, p. 39.

in favor of a "policy of responsibility." In the German view, this meant a continuation of West German foreign policy based on the use of nonmilitary instruments. It also called for a higher international profile in economic, human rights, and environmental issues. With the end of the Cold War, economic power, the Germans believed, had superseded military power in terms of political influence.

European integration and transatlantic cooperation in the Atlantic alliance rank among the objectives of German foreign policy. The preservation of a vital Atlantic alliance and a substantial presence of the United States in Europe continue to be the basic conditions of German security and Europe's stability.¹⁴⁸ NATO remains the central instrument for German and European defense, given that the EU, the WEU, and the OSCE are all still relatively untested in the coordination and implementation of defense policies.

Germany has sought closer coordination with the EU's common foreign and security policy (CFSP). However, CFSP often remains an aspiration rather than a reality. National differences persist, as has been apparent in the former Yugoslavia. In December 1991, the Federal Republic's recognition of Croatia and Slovenia forced the EC's hand and reawakened historical fears over German power in some quarters. Nevertheless, the EU can serve the important function of shifting political responsibilities from individual capitals to the Union's bureaucracy in Brussels. A European context can provide the political cover for Germany to spread its wings in geopolitical issues without

¹⁴⁸ "Kinkel Outlines Foreign Policy Tasks," *Bulletin*, No. 6/24, January 1995, pp. 42-45, FBIS West Europe, FBIS-WEU-95-022, 2 February 1995, p. 10.

having to take steps on a national basis that could reawaken historical fears over German power.¹⁴⁹ Additionally, the Federal Republic can escape direct blame for controversial trade policies by pursuing them together with its European partners, and, if need be, by hiding behind the decision-making process in Brussels.

b) Commercial Policy Mechanisms

Agencies subordinate to the Ministry of Economics (BMWi) include the Federal Office of Economics, Federal Export Office, and the German Foreign Trade Information Office. The Federal Office of Economics (*Bundesamt für Wirtschaft*, or BAW) translates national laws, directives, ordinances, and regulations of the EU into concrete decisions on individual cases for companies and private individuals.¹⁵⁰

Export control tasks formerly undertaken by the Federal Office of Economics (BAW), were taken over by the newly established Federal Export Office (*Bundesausfuhramt*, BAFA) in April 1992. BAFA reviews whether or not the export of a given article requires a license. The specific approval requirements and prohibitions are outlined in the War Weapons Control Act and in the Foreign Trade and Payments Ordinance. In addition, the export of war weapons is subject to licensing pursuant to War

¹⁴⁹ Asmus, *Germany After the Gulf War*, p. 28.

¹⁵⁰ Federal Office of Economics. Online. Available http://www.bmwi.de/english/en_baw.html

Weapons Control Act. As a rule, European statutes apply for the export of dual-use goods and armaments, including the transfer of technology.¹⁵¹

The German Foreign Trade Information Office (*Bundesstelle für Aussenhandelsinformation*, BfAI) assists German and foreign economic partners. It provides up-to-date information on important markets abroad and on the eastern German market. In particular, BfAI assists small- and medium-sized companies with exports, imports, cooperation projects, and investments. The office also provides information on Germany as business location to potential foreign investors. BfAI focuses on the market situation, production locations, foreign trade, legal foundations for economic cooperation, marketing networks, assistance measures, and contact offices in Germany and abroad.¹⁵²

D. DOMESTIC FACTORS IN IRAN POLICY

German policy is based on the assumption that Iranian behavior can be influenced through communication and incentives. Unlike the United States, which carries the burden of traumatic events involving Iran and classifies the country as a “rogue nation,” the Federal Republic considers Iran to be a regional power with an important role in maintaining stability in the Persian Gulf and Southwest Asia. The debate in Germany is not whether to engage Iran, but over the priorities of that engagement.

¹⁵¹ Federal Export Office. Online. Available http://www.bmwi.de/english/en_bafa.html

¹⁵² German Foreign Trade Information Office. Online. Available http://www.bmwi.de/english/en_bfai.html

1. Shape of the Debate

Conflicting issues affect Germany's Iran policy. Economic interests compete with human rights priorities and proliferation concerns. Tolerance of Iranian intelligence activities threatens the Iranian dissident community in Germany. Iranian dissidents compete with the Iranian government to influence German public opinion and government policy. As a result, there are apparent contradictions in the relations between the Federal Republic and Iran.

a) Economics

Germany depends on foreign trade. Per capita, the country exports twice as much as Japan and more than three times as much as the United States. The export-driven economy is based on manufacturing industries, which employ over 40 percent of the work force (specifically chemicals, automobiles, and electrical and mechanical engineering).¹⁵³ Exports generally account for around one-third of gross domestic product (GDP). According to the Federal Economics Ministry, about 15,000 German jobs depend on business with Iran.¹⁵⁴

¹⁵³ Andrew A. Procassini, *Competitors in Alliance: Industry Associations, Global Rivalries, and Business-Government Relations*, Westport: Quorum Books, 1995, p. 93.

¹⁵⁴ "Critical Dialogue with Iran Being Reexamined," *Frankfurter Allgemeine Zeitung*, 16 March 1996, p. 1, FBIS West Europe, FBIS-WEU-96-053, 16 March 1996, p. 12.

There are 169 German firms represented in Iran. Iran ranks forty-second as a market for German exports and forty-ninth concerning imports.¹⁵⁵ In 1996, German exports to Iran totaled a little over 2.2 billion Deutsche Marks (DM), while imports amounted to DM 1.1 billion.¹⁵⁶ German exports to Iran include capital goods, equipment, automobiles, and the provision of training. German imports from Iran include crude oil, carpets, and tropical nuts. However, Iran is not a major source of oil for Germany.¹⁵⁷ Iran is interested in reducing the imbalance in bilateral trade, intensifying cooperation in the field of training, stepping up technology transfers, and promoting investment in Iran, particularly by medium-sized industry.¹⁵⁸ There has been some cooperation in environmental questions.

In recent years, German exporters have had fewer reasons for optimism. While Iran ranked third among non-European importers of German goods and services in 1992, after the United States and Japan, the Iranian market has declined significantly since then. The Iranians had difficulties paying short-term loans.¹⁵⁹ Low foreign currency

¹⁵⁵ "Kinkel Views Possible Changes in EU-Iran Relations," *Stuttgarter Zeitung*, 22 August 1997, p. 1, FBIS West Europe, FBIS-WEU-97-234, 22 August 1997.

¹⁵⁶ "I Am Afraid There Will Be Power Struggles," *Die Tageszeitung* (Internet Version), 13 August 1997, FBIS West Europe, FBIS-WEU-97-225, 13 August 1997.

¹⁵⁷ Charles F. Doran and Stephen W. Buck, eds., *The Gulf, Energy, and Global Security: Political and Economic Issues*, Boulder and London: Lynne Rienner Publishers, 1991, p. 157.

¹⁵⁸ "Iran, Trust Agency Hold Talks on Possible Investment," *Neue Zeit*, 8 February 1993, p. 10, FBIS West Europe, FBIS-WEU-93-030, 17 February 1993, p. 8.

¹⁵⁹ "Still No Easing of Tensions in Trade with Iran," *Frankfurter Allgemeine Zeitung*, 14 October 1993, p. 18, FBIS West Europe, FBIS-WEU-93-198, 15 October 1993, p. 9.

reserves forced them to cut back on imports.¹⁶⁰ Germany's proportion of total Iranian imports has not changed much, but because Germany was the leader, the decline has been significant.¹⁶¹

The Economics Ministry, Finance Ministry, and Hermes negotiated with the Iranian Central Bank Markazi about refinancing.¹⁶² Debts involved around 1,000 individual demands by up to 700 exporters.¹⁶³ An agreement was reached in February 1994 on a schedule for deferred repayment. In November 1994, the BDI signed a rescheduling agreement for uninsured German claims on Iran. About 750 companies were party to the agreement.¹⁶⁴

Access to Central Asia is another element in German economic interests in Iran. During a visit to Bonn by Iranian Foreign Minister Ali Akbar Velayati in June 1994, one of the issues discussed with German officials was the use of Iranian facilities for reaching landlocked Central Asian markets.¹⁶⁵ Iran has improved its transportation links with Central Asia. A new Iran-Turkmenistan rail link opened last year, and planned new

¹⁶⁰ "Iran, Trust Agency Hold Talks on Possible Investment," *Neue Zeit*, 8 February 1993, p. 10, FBIS West Europe, FBIS-WEU-93-030, 17 February 1993, p. 9.

¹⁶¹ "Special Report: Germany and the Middle East," *Middle East Economic Digest*, 20 October 1995.

¹⁶² Heinz Heck, "Waigel Fears Addendum to the Budget," *Die Welt*, 18 February 1994, p. 13, FBIS West Europe, FBIS-WEU-94-035, 22 February 1994, p. 24.

¹⁶³ Ibid.

¹⁶⁴ "Germany, Iran Agree to One Billion D-Mark Rescheduling," *Deutsche Presse-Agentur*, 18 November 1994.

¹⁶⁵ Sajjadi, Dariush, "Iran and Germany: Best Political and Trade Partners," *Moneyclips*, 16 June 1994.

links will further improve rail communication. Annual transit trade through Bandar Abbas has tripled since 1994.¹⁶⁶

The importance of Central Asia was highlighted in late August 1997 when Economics Minister Günter Rexrodt led a 45-member delegation to the Central Asian countries of Turkmenistan, Uzbekistan, Kyrgyzstan, and Kazakhstan.¹⁶⁷ Although the exploitation of the region's huge oil and gas reserves is mainly in the hands of non-German companies, German firms want to participate in infrastructure development projects.

b) Human Rights

The promotion of human rights is a central policy objective of the Federal Republic. Multilateral cooperation in human rights is conducted through the United Nations, the EU, the Council of Europe, and the OSCE. Foreign Minister Klaus Kinkel has summarized the German position:

¹⁶⁶ "Iran and Central Asia: Silken Dreams," *The Economist*, 21 June 1997, pp. 49-50.

¹⁶⁷ "Rexrodt Sees Good Prospects for Business in Central Asia," *Düsseldorf Handelsblatt*, 25 August 1997, p. 9, FBIS West Europe, FBIS-WEU-97-237, 25 August 1997.

Massive human rights violations are a threat to international stability, they are damaging to development, and they are a barrier to peace. As such, an active, global policy on human rights is very much in our interest. It must be in our aim to establish and safeguard the full spectrum of human rights, both civil and political rights as well as economic, social, and cultural rights throughout the world...We need to pursue a preventative human rights policy in order to ensure that human rights violations do not occur in the first place. The means for doing this are dialogue and cooperation, but also monitoring, public criticism and coercive measures....¹⁶⁸

German policy is based on the belief that progress in human rights can be achieved through political dialogue and economic cooperation—the two key elements of “critical dialogue.”

Over the years, German foreign policy has consistently emphasized political dialogue to promote human rights. In 1979, Germany’s view on dialogue is summarized by government spokesman Armin Grünwald:

...if we were to maintain bilateral diplomatic relations only with countries whose form of government is to our liking, then we might save the expense of quite a few ambassadors. By the same token, we would lose the possibility of exerting any influence or obtaining any political information. Thus, it is absolutely erroneous to assume that severance of relations, for instance, would be helpful—especially to those whose human rights we advocate. On the contrary, it is necessary to stay in position in order to maintain a dialogue with a government and cause things to transpire if it can be done at all.¹⁶⁹

¹⁶⁸ Statement by German Foreign Minister Klaus Kinkel on the German Cabinet’s approval of the “Fourth German Government Report on Its Human Rights Policy in Foreign Relations,” 29 October 1997. Online. Available <http://www.germany-info.org/govern/st1897.htm>

¹⁶⁹ “Bonn Advocates Restoration of Human Rights in Iran,” *Saarbrücken Saarländischer Rundfunk Network*, 1145 GMT, 11 April 1979, FBIS West Europe, 13 April 1979, p. J 1.

The idea is that keeping open the lines of communication forces the Iranian political elite to face the human rights issues unacceptable to the West.

For Germany, the other means to promote human rights is cooperation. This has primarily involved economics cooperation. From the German point of view, trade is justified as an incentive for Iran to change its policies. According to former Economics Minister Möllemann:

It is our conviction that in a world that mainly consists of states that do not yet follow our concept of human rights, we should probably use the instruments of contracts and economic cooperation better to gradually come closer to the implementation of our guiding values.¹⁷⁰

Further, trade concessions in exchange for progress in human rights are seen as mutually beneficial. Not only should Iran change its policies for the better, but Germany benefits from exports. The problem, however, is that Iran's policies have not changed, leading to accusations that Germany is only concerned with commercial benefits.

Public criticism and coercive measures are also mentioned by Kinkel as means to promote a human rights policy. While it is unclear what Kinkel means by coercive measures, Germany is more willing to use public criticism now than in the past. In 1979, during the imposition of death sentences and swift executions of members of the shah's regime, the German government resisted making an official protest. It did not want a disturbance in relations with the new Iranian regime. However, in recent years, Foreign

¹⁷⁰ "Möllemann Discusses Relations with Iran," *Die Zeit*, 21 February 1992, p. 28, FBIS West Europe, FBIS-WEU-92-036, 24 February 1992, p. 13.

Minister Kinkel and other German officials have repeatedly appealed to Iran to cease the persecution of the Baha'i community and writers like Salman Rushdie and Faraj Sarkuhi. Nevertheless, there have been no improvements in human rights conditions in Iran as a result of German policy.

c) Nonproliferation

The Federal Republic has demonstrated increased concern about the proliferation of weapons of mass destruction (WMD) and missile system technology. Germany has been a primary target for the technology-acquisition efforts of countries, such as Iran, seeking to develop these systems. According to Chancellor Kohl's intelligence service coordinator, Bernd Schmidbauer:

We must expect that Iran will have missiles for nuclear, biological, and chemical weapons with a range of about 2,000 km in the foreseeable future. The technology of these new carrier systems is currently being developed and tested. It can be ready for use within five years.¹⁷¹

This has raised fears, not only for regional security in the Middle East and for Israel, but also because these systems would threaten Europe. The German government has tightened export controls as a result.

German export controls are generally effective in thwarting many of acquisitions attempts. However, some dual-use goods have been exported, purportedly to

¹⁷¹ "Schmidbauer Views Dangers of Illegal Technology Transfers," *Der Spiegel*, 7 July 1997, pp. 32-33, FBIS West Europe, FBIS-TAC-97-189, 8 July 1997.

civilian end users.¹⁷² Iran is responding to Western nonproliferation efforts by relying on commercial firms as procurement fronts and by developing more convoluted procurement networks. Iran also has tried to reduce its dependence on imports by developing an indigenous production capability.¹⁷³ In the late 1980s, German firms assisted in the construction of a pesticides production plant in Iran that was later suspected to be for chemical weapons.¹⁷⁴

Export controls were tightened in 1992 in response to increased reports of German nuclear exports.¹⁷⁵ According to the amendment to the Foreign Trade and Payments Regulation, exporters were required to obtain permits for goods and services in the field of nuclear technology previously exempt from export controls. In business transactions with a group of countries that included Iran, additional goods and services not mentioned in the export list for nuclear technology and documents related to nuclear technology were subject to approval.¹⁷⁶ Still, in 1992, the approval rate for licenses to Iran of dual-use equipment was up to 80 percent, according to officials at the Federal

¹⁷² Director of Central Intelligence, *The Acquisition of Technology Relating to Weapons of Mass Destruction and Advanced Conventional Munitions: July-December 1996*, Central Intelligence Agency, June 1997, p. 6.

¹⁷³ Ibid.

¹⁷⁴ "Bayer Suspected of Illegal Chemical Sales to Iran," *Hamburg DPA*, 1631 GMT, 24 November 1989, FBIS West Europe, FBIS-WEU-89-228, 29 November 1989, p. 11.

¹⁷⁵ "Stricter Regulations Concerning Nuclear Exports," *Süddeutsche Zeitung*, 21 March 1992, p. 6., FBIS West Europe, FBIS-WEU-92-056, 23 March 1992, p. 12.

¹⁷⁶ "Bonn Tightens Export Regulations," *Frankfurter Allgemeine Zeitung*, 22 April 1992, p. 15., FBIS West Europe, FBIS-WEU-92-079, 23 April 1992, p. 8.

Export Office. The high approval rating applied to a list of controlled technologies virtually identical to the Coordinating Committee for Multilateral Export Controls (COCOM) lists used throughout the Cold War. Approval ratings were much lower for other dual-use equipment placed on more restrictive lists because of a direct application to chemical, biological, or nuclear weapons, and ballistic missiles. Approvals were virtually nil for munitions list items, despite German sales to Iran of weapons material up until 1987.¹⁷⁷

Bonn continued its national restrictions on the export of dual-use goods and services after a EU harmonization went into effect in 1995. The EU restrictions apply to all non-EU countries unless member countries enact a country list such as Germany's. Germany requires permission for dual-use exports to other EU countries if the German-based firm knows the goods are destined for an end customer in a listed country.¹⁷⁸

The Federal Intelligence Service (*Bundesnachrichtendienst*, or BND) has confirmed that Iran secretly and systematically imports arms. Reportedly, as many as 600 firms under Iranian influence were used for the procurement of sensitive products in 1994.¹⁷⁹ The Economics Ministry has warned industrial companies that Iran is trying to use German technology to boost arms programs. Iranian organizations making purchases in Germany include the Defense Industries Organization (DIO), which imports dual-use

¹⁷⁷ "Germany's Iran Bonanza," *Middle East Defense News*, 21 December 1992.

¹⁷⁸ "Trade Policy: German Export Control Policy," *EIU Business Europe*, 26 December 1994.

¹⁷⁹ "Spies' Base," *Der Spiegel*, 10 October 1994, pp. 18-21., FBIS West Europe, FBIS-WEU-94-196, 11 October 1994, p. 21.

technology, and the State Purchasing Organization (SPO), which is in charge of buying equipment, weapons systems, and installations for the armed forces.¹⁸⁰ A procurement network operating in Düsseldorf and other German cities has attempted to acquire controlled equipment by exporting it to Iran by means of detour orders via other European countries.¹⁸¹ The centers of these procurement activities are in Hamburg, Schleswig-Holstein, the Rhine-Main area, and Cologne-Düsseldorf.¹⁸²

In May 1997, the federal government introduced severe measures in an attempt to stop arms exports to Iran. A "coordination agency for Iran" was established at the Cologne customs investigations office to monitor suspicious "Iranian-controlled firms in Germany."¹⁸³ Schmidbauer says generally the illegal drain of technology from Germany has gone down considerably due to a more effective control system.¹⁸⁴ The BND, however, expects Iranian procurement efforts to continue.¹⁸⁵

¹⁸⁰ "Iran Trying to Use German Technology to Make Arms, Bonn Warns," *Deutsche Presse-Agentur*, 15 December 1994.

¹⁸¹ "Tehran Wants 'Reparations' From Bonn; Partial Trade Boycott Confirmed," *Frankfurter Allgemeine Zeitung*, 12 August 97, FBIS West Europe, FBIS-WEU-97-224, 12 August 1997.

¹⁸² "Bonn Tolerates Iranian Arms Deals," *Die Welt* (Internet version), 16 April 1997, FBIS West Europe, FBIS-WEU-97-106, 16 April 1997.

¹⁸³ "Special Mullah Commission," *Der Spiegel*, 19 May 1997, p. 18, FBIS West Europe, FBIS-WEU-97-140, 20 May 1997.

¹⁸⁴ "Schmidbauer Views Dangers of Illegal Technology Transfers," *Der Spiegel*, 7 July 1997, pp. 32-33, FBIS West Europe, FBIS-TAC-97-189, 8 July 1997.

¹⁸⁵ Hans-Jörg Heims, "Serious Danger to World Peace," *Süddeutsche Zeitung*, 9 July 1997, p. 6, FBIS West Europe, FBIS-TAC-97-191, 19 July 1997.

d) Public Opinion

A series of RAND-Friedrich Naumann Foundation surveys beginning in 1990 indicate that the Germans recognize a new and broad spectrum of possible threats and security challenges have emerged. Postwar Germany has often shied away from playing a leadership role in public to avoid raising fears about its power, however, the German public sees itself as the best equipped country to play a leadership role in the EU in terms of monetary, economic, and foreign policy.¹⁸⁶ There remains clear German support for an ongoing and more balanced partnership between the United States and the EU. Nine in ten Germans favored an expanded “partnership among equals” between the United States and EU. Eight in ten Germans favored an expanded alliance between the United States and Europe. RAND surveys showed the German public supports the integration in principle and it sees a strengthened EU as a partner and as a complement to the transatlantic relationship, not as an alternative. At the same time, there is a clear public desire to see Bonn push German interests.¹⁸⁷

RAND surveys also found that a majority of the German public supports a unified Germany’s assuming more international responsibility. In 1994, that majority was more than six in ten (62 percent).¹⁸⁸ Nonmilitary missions are preferred—humanitarian

¹⁸⁶ Ronald D. Asmus, *Germany’s Geopolitical Maturation: Public Opinion and Security Policy in 1994*, Santa Monica: RAND, 1995, pp. 30-32.

¹⁸⁷ *Ibid.*, pp. 32-34.

¹⁸⁸ *Ibid.*, p. 39.

missions receiving support from 90 percent. Economic sanctions have been supported only just above 50 percent.¹⁸⁹ Interestingly, as a German foreign policy goal, securing foreign markets generally received more public support (49 to 61 percent) than preserving human rights (39 to 51 percent) during surveys from 1991 to 1994.¹⁹⁰

e) Iranian Political Influence

The Iranian government's share of ownership in German industry presents the potential for influence on German political and economic policy. It could limit the Federal Republic's options for dealing with the regime in Tehran. Further, it provides the Iranian government an opportunity to influence the investment decisions of German firms and increases the potential for technology transfers.

On 4 November 1997, Krupp and Thyssen agreed to a full merger that will create Germany's biggest engineering firm, with almost 200,000 employees and annual sales of \$42 billion.¹⁹¹ The Iranian government bought 25.01 percent of Krupp under the shah in 1974. This share of the company was maintained even after the Islamic revolution, and also after the company merged with Hoesch in 1991. The stake in Krupp entitles the Iranian government to have two representatives on its board.

¹⁸⁹ Ibid., p. 42.

¹⁹⁰ Ibid., p. 43.

¹⁹¹ "Krupp and Thyssen: Curtain Call," *The Economist*, 8 November 1997, pp. 5, 69.

Iran sought firms in eastern Germany controlled by the *Treuhandstalt* privatization agency after unification. Iran planned to acquire a stake in Takraf, a crane and dredger manufacturer, the largest machinery concern in eastern Germany.¹⁹² Iranians had already discussed various port projects with Takraf, particularly on Qeshm Island, in the Strait of Hormuz. Iranians made an offer for 40 percent of the tire producer Pneumant and the Leuna chemical factory.¹⁹³ In November 1996, Iran showed an interest in buying the troubled firm Sket, the largest machinery concern in eastern Germany.

Political intentions, not commercial objectives, have driven the Iranian government's recent interest in eastern German firms. Iranian investment in Germany was DM 1.38 billion in early 1995, up from DM 645 million in 1992.¹⁹⁴ In truth, however, Iran lacks the capital to export. Iran conducted its negotiations for Pneumant, for example, at the same time low currency reserves forced it to cut back on imports from the EU and Germany. Additionally, inefficient firms in the former East Germany offer little promise. The Iranian government's real objective was to improve its image, especially after revelations of its involvement in the Mykonos killings. Even if it does not make an actual purchase, Iran still benefits from the publicity of its negotiations for troubled eastern German companies.

¹⁹² "German Official Confirms Iranian Interest in Machinery Firm," *Deutsche Presse-Agentur*, 6 December 1996.

¹⁹³ "Iran, Trust Agency Hold Talks on Possible Investment," *Neue Zeit*, 8 Feb 93, p. 10, FBIS West Europe, FBIS-WEU-93-030, 17 February 1993, p. 8.

¹⁹⁴ Peter Rudolf, p. 4.

f) Iranian Intelligence Activity

The Federal Office for the Protection of the Constitution (BfV) has reported that the Iranian Ministry of Information and Security (MOIS) has its headquarters for Western Europe at the Iranian embassy in Bonn.¹⁹⁵ With the help of Iranian cover firms in Germany, the headquarters is reportedly involved in the illegal transfer of scientific and technological information and goods that can be used for military purposes. It is suspected to have had a role in the deaths of numerous exiled Iranians in Europe since Iran's 1979 Islamic revolution.¹⁹⁶

Iranian intelligence service monitors the approximately 100,000 Iranians who live in Germany.¹⁹⁷ Informers are recruited among Iranians living in Germany, who must turn up in the consulates at regular intervals to have their passports extended or renewed.¹⁹⁸ Tehran has primarily focused on the largest and most active resistance group, "People's Mojahedin of Iran," which now operates under the name of "National Resistance of Iran." Supporters of the Kurdish minority in Iran also have become a focus, especially those of the "Kurdish Democratic Party of Iran." In addition, purposeful

¹⁹⁵ "Code Name 'Bozorg Allawi'," *Der Spiegel*, 2 May 1994, p. 16., FBIS West Europe, FBIS-WEU-94-085, 3 May 1994, p. 9.

¹⁹⁶ See Thomas Sancton, "The Tehran Connection: An Exclusive Look at How Iran Hunts Down Its Opponents Abroad," *Time*, 21 March 1994, pp. 50-55.

¹⁹⁷ Peter Scherer, "Tehran's Agents Are Targeting Opposition Members," *Die Welt*, 16-17 March 1996, p. 5, FBIS-TOT-96-012-L, 28 May 1996.

¹⁹⁸ "Spies' Base," *Der Spiegel*, 10 October 1994, pp. 18-21., FBIS West Europe, FBIS-WEU-94-196, 11 October 1994, p. 21.

agitation and propaganda to spread the ideas of the Islamic revolution among non-Iranian Muslims have been a part of the work of Tehran's agents.¹⁹⁹

g) Dissident Community

The 100,000 Iranians in the Federal Republic are the largest Iranian community in Europe. Many are dissidents who originally came to Germany to study or to escape the regime in Tehran. Iranian students traditionally are the biggest group of foreign students from the Middle East studying in German universities. In the 1980s, Iran was one of the largest sources of applicants seeking asylum in Germany as a result of the Islamic revolution and the 1980-1988 Iran-Iraq War.

The dissident community has often affected German relations with Iran. Following the revolution in 1979, the Federal Republic frequently became a battleground between supporters and opponents of the regime. There were frequent demonstrations against Ayatollah Khomeyni. Khomeyni supporters attacked and interrogated alleged members of the shah's intelligence organization, SAVAK.²⁰⁰ The Iranian embassy and the consulates were occupied in protest of the Khomeyni regime and mass executions in Iran.²⁰¹ Iran Air offices and Bank Melli offices were firebombed.²⁰² In July 1982, Iran

¹⁹⁹ Peter Scherer, "Tehran's Agents Are Targeting Opposition Members," *Die Welt*, 16-17 March 1996, p. 5, FBIS-TOT-96-012-L, 28 May 1996.

²⁰⁰ "Ayatollah Nuri Confirms 'Blacklists' of SAVAK Agents," *Hamburg DPA*, 2024 GMT, 22 July 1979, FBIS West Europe, 23 July 1979, p. J 2.

²⁰¹ "Anti-Khomeyni Students Occupy Embassy in Bonn," *Hamburg DPA*, 0811 GMT, 3 August 1981, FBIS West Europe, 3 August 1981, p. J 2.

closed all of its diplomatic and consular offices in Germany after Khomeyni supporters were expelled for attacks against Khomeyni opponents.²⁰³ Relations were resumed after one week following a letter from Foreign Minister Genscher to Foreign Minister Velayati.²⁰⁴

Representatives of the exiled dissident community in Germany campaigned for international isolation of the Khomeyni regime following the *fatwa* against Salman Rushdie.²⁰⁵ Iranian dissidents appealed to Germany and the EU to break ties with Iran after the Mykonos court verdict in April 1997.

***h)* Islamic Extremism**

Iranian Islamists who promote agitation and propaganda in Germany constitute another concern. According to the BfV, a prominent role is played by the Islamic Center in Hamburg, which after the revolution became Iran's ideological center in Western Europe for the spread of Iranian-style Islamism. Iran has tried to infiltrate mosques throughout Germany. All official Iranian facilities abroad, including embassies, trade offices, cultural centers, airline offices, and even state companies are obliged to

²⁰² "Monarchist Group Claims Attack," *Hamburg DPA*, 1425 GMT, 5 June 1984, FBIS West Europe, 6 June 1984, p. J 3.

²⁰³ "Iranian Envoy Denies Involvement in Clash," *Hamburg DPA*, 1109 GMT, 29 April 1982, FBIS West Europe, 30 April 1982, p. J 2.

²⁰⁴ "Iran Ends Diplomatic Boycott, Cites Letter," *Hamburg DPA*, 0832 GMT, 12 July 1982, FBIS West Europe, 12 July 1982, p. J 1.

²⁰⁵ "Resistance Groups Condemn Khomeyni," *Hamburg DPA*, 1128 GMT, 23 February 1989, FBIS West Europe, FBIS-WEU-89-035, 23 February 1989, p. 15.

support the country's propaganda.²⁰⁶ According to Peter Frisch, head of the BfV, any conflict with an Islamic state "could be really dangerous" given that an estimated 31,000 Islamic extremists are part of Germany's 3 million-strong Muslim community.²⁰⁷ Frisch also has said about 150 Hamas and 600 Hezbollah adherents live in Germany. They support their partisans in Lebanon or Palestine against Israel.²⁰⁸ The result is increased caution in Germany's dealings with the Near and Middle East. Additionally, it has contributed to Germany's interest in serving as a mediator between the Islamic world and the West.

2. The Roles of the Major Policy Figures

Major German policy figures and officials involved in relations with Iran have included Chancellor Kohl, his policy advisor Joachim Bitterlich, former Foreign Minister Hans-Dietrich Genscher, Minister of Economics Günter Rexrodt, former Minister of Economics Jürgen Möllemann, and the manager of the German-Iranian Chamber of Trade, Herbert Riedel.

In contrast to some areas of foreign policy, however, with a high involvement of the chancellor's office, policy towards Iran has mainly been the domain of Foreign

²⁰⁶ Peter Scherer, "Islamic Fundamentalists Terrorize and Murder in the Name of Allah," *Die Welt*, 4 November 1994, p. 8, FBIS West Europe, FBIS-WEU-94-215, 7 November 1994, p. 12.

²⁰⁷ "Diplomatic Reprisals Follow as Berlin Court Verdict Fingers Iran," *Deutsche Presse-Agentur*, 10 April 1997.

²⁰⁸ "Justification to Kill," Interview with Peter Frisch, President of the Federal Office for the Protection of the Constitution, *Der Spiegel*, 1 September 1997, pp. 58-61, FBIS West Europe, FBIS-WEU-97-244, 1 September 1997.

Minister Klaus Kinkel.²⁰⁹ Kinkel, of the FDP, was instrumental behind the EU's adoption of the policy of "critical dialogue," which was essentially an adaptation of Hans-Dietrich Genscher's policy. Kinkel maintained the policy even when it was clearly not working, leading to severe criticism in the German press. Moreover, despite evidence indicating Iranian involvement in the September 1992 Mykonos murders, Kinkel continued to say there was no evidence Iran supports terrorist activities as late 1995.²¹⁰

Prior to becoming Foreign Minister in May 1992, Kinkel was Justice Minister from January 1991 to May 1992, State Secretary in the Federal Ministry of Justice from 1982 to 1991, and President of the BND from 1979 to 1982. He was chairman of the FDP from 1993 to 1995.²¹¹ Despite the variety of prominent positions held prior to becoming Foreign Minister, Kinkel lacks the prominence of his predecessor, Hans-Dietrich Genscher. The result is that Klaus Kinkel has had to compete for influence against officials like Kohl's advisor, Joachim Bitterlich.

Minister of State Bernd Schmidbauer also has played a prominent role in relations with Iran. Schmidbauer, of the CDU, became Chancellor Kohl's intelligence service coordinator in December 1991. Schmidbauer visited Tehran in 1992 and held discussions with Iranian Minister of Information and Security, Ali Fallahian, in Bonn in October

²⁰⁹ Rudolf, p. 8.

²¹⁰ "Germany Will Not Cancel Invitation to Iran's Foreign Minister," *Deutsche Presse-Agentur*, 9 November 1995.

²¹¹ Deutscher Bundestag - Biographie des MdB Klaus Kinkel. Online. Available: <http://www.bundestag.de/mdb/kinkekl0.htm>

1993.²¹² The visit was highly criticized, particularly after Fallahian announced that the two countries' security agencies had cooperated for two years. This, it was later revealed, consisted of organizational training and computers.²¹³ Schmidbauer defended the discussions by saying they were related to narcotics, terrorism, and humanitarian purposes, not so much to the benefit of German citizens as to the citizens of other countries. He did admit that Fallahian requested his assistance to stop the Mykonos trial. The trial began later that same month.

Like Kinkel, Schmidbauer denied claims of official Iranian involvement in the Mykonos killings. Further, he played down BfV reports that the Iranian embassy in Bonn was the "center of the Iranian secret services" in Europe.²¹⁴ Schmidbauer negotiated for the release of Germans imprisoned in Iran, including Helmut Szimkus. He used contacts in Lebanon to facilitate the exchange of prisoners and the bodies of soldiers between Israel and Hezbollah. Schmidbauer also has served as a mediator in negotiations between Iranian and Israeli diplomats.²¹⁵

²¹² "Report on Bonn Talks with Iranian Intelligence Chief," *Frankfurter Allgemeine Zeitung*, 9 October 1993, p. 6, FBIS West Europe, FBIS-WEU-93-200, 19 October 1993, p. 25.

²¹³ "Weekly Claims Intelligence Cooperation with Iran," *Hamburg DPA*, 0204 GMT, 23 October 1993, FBIS West Europe, FBIS-WEU-93-204, 25 October 1993, p. 32.

²¹⁴ "Untruthful Language," *Der Spiegel*, 12 August 1996, pp. 37-38, FBIS West Europe, FBIS-TOT-96-022-L, 12 August 1996.

²¹⁵ Udo Ufkotte, "Secret Talks Between Israel and Iran," *Frankfurter Allgemeine Zeitung*, 21 February 1995, pp. 1-2, FBIS West Europe, FBIS-WEU-95-034, 21 February 1995, p. 20.

E. A POLICY OF SMALL STEPS

The Federal Republic's preference for constructive engagement can be traced to its policies of the Cold War. Egon Bahr's concept of "change through rapprochement" as an alternative to the Hallstein Doctrine and containment led to the policy of *Ostpolitik* under Chancellor Willy Brandt after 1969. While Americans wanted to limit Eastern bloc access to Western technology, to reduce Western dependence on energy resources from the East, to restrict the availability of export credits, and to impose sanctions when deemed necessary for leverage with the Soviet Union, the Federal Republic primarily utilized economic policies for the pursuit of a *modus vivendi* with the Soviet Union. Trade with the east was a fundamental component of *Ostpolitik* and it made the Federal Republic the biggest trading partner with the Soviet Union and Eastern Europe. This policy, based on the use of positive inducements to promote change in the East, was practiced in various forms until the collapse of the Soviet bloc. Consequently, many Germans attribute the end of the Cold War and the reunification of Germany to the success of *détente* and *Ostpolitik*.

Given the view that these policies were so successful, the Federal Republic has applied the same concepts in its extra-European foreign policy. The policy of "critical dialogue" was an application of the principles of *Ostpolitik* to Iran. The policy operated on the assumption that Iranian behavior could be influenced through communication (discussions on human rights) and through incentives (commercial relations). Not long after Germany and its EU partners adopted the policy of "critical dialogue, however, German relations with Iran would confront a series of crises.

IV. CRISES IN GERMAN-IRANIAN RELATIONS

The relationship between Germany and Iran has not been smooth. One crisis after another has prevented the normalization of relations hoped for at the end of the 1980-1988 Iran-Iraq War. These crises are significant because they demonstrate the problems faced by German foreign policy in dealing with the regime in Tehran. The Federal Republic's human rights priorities often have conflicted with its economic objectives. In the past, concern for the safety of Germans held in Lebanon or in Iranian prisons also has constrained Germany's willingness to respond to Iranian human rights violations. Nevertheless, recent events reveal the limits of Germany's toleration for Iranian actions, they demonstrate the delicate balance between Germany's relations with Iran and its commitment to Israel, and they reveal the gradual deterioration in German-Iranian relations that ultimately led to the suspension of "critical dialogue" in April 1997.

This chapter explores the following events: (a) Ayatollah Khomeyni's call to murder British author Salman Rushdie in 1989; (b) the holding of German hostages in Lebanon by the pro-Iranian Hezbollah until 1992; (c) the sentencing of a German citizen to death in Iran in 1992; (d) the arrest of German citizens in Iran in 1992 and 1993; (e) Iranian President Rafsanjani's comments concerning the assassination of Israeli Prime Minister Yitzhak Rabin in 1995; (f) the arrest of Iranian writer Faraj Sarkuhi in 1996; and (g) the April 1997 Berlin court verdict implicating Iranian government officials in the murder of Iranian Kurdish exiles. These incidents reveal how Germany has both benefited, and been victimized, through its relations with Iran.

A. SALMAN RUSHDIE

In February 1989, Ayatollah Khomeyni issued a *fatwa* (religious edict) condemning British author Salman Rushdie to death and calling for his assassination for writing the novel *The Satanic Verses*. The book was considered offensive to Muslims. Khomeyni's death threat was met by a firm response in the Federal Republic. Foreign Minister Hans-Dietrich Genscher recalled the German chargé d'affaires in Tehran, Thomas Troeml, back to Bonn (the ambassador, Armin Freitag, was on leave). The Iranian ambassador in Bonn, Mehdi Ahari-Mostafavi, was also summoned to the Foreign Ministry where the State Secretary, Jürgen Sudhoff, condemned the threat to murder Rushdie.²¹⁶

Chancellor Helmut Kohl called on the "whole community of civilized nations" to act against Iran's threat to murder Rushdie.²¹⁷ The *Bundestag* strongly condemned the threat. All major political parties called for measures against Iran. The CSU and Greens demanded the termination of a German-Iranian cultural agreement concluded the previous November. SPD called for use of all possibilities including economic pressure to persuade Tehran to yield. However, a motion by the Greens calling for the termination of all economic agreements with Iran was rejected.²¹⁸

²¹⁶ "Government Condemns Iranian Threat Against Rushdie," *Hamburg DPA*, 1102 GMT 17 February 1989, FBIS West Europe, FBIS-WEU-89-032, 17 February 1989, p. 6.

²¹⁷ "Kohl Urges 'Civilized Nations' to Act Against Iran," *Hamburg DPA*, 1540 GMT 22 February 1989, FBIS West Europe, FBIS-WEU-89-035, 23 February 1989, p. 15.

²¹⁸ "Bundestag Condemns Khomeyni's 'Exhortation to Murder'," *Hamburg DPA*, 1319 GMT 23 February 1989, FBIS West Europe, FBIS-WEU-89-036, 24 February 1989, p. 6.

The Foreign Ministry emphasized the requirement to address the *fatwa* against Rushdie at the European level.²¹⁹ Following an EC foreign ministers' resolution to stop high-ranking official meetings until the threat was rescinded, preparations were stopped for a planned German-Iranian Economic Commission meeting in Tehran.²²⁰ Bonn temporarily suspended new credit talks. Genscher postponed the German-Iranian cultural agreement. Agricultural Minister Ignaz Keichle called off a visit to Tehran planned for May. Baden-Württemberg Economics Minister Martin Herzog canceled a delegation visit to Iran planned for June. The Foreign Ministry indicated that respect for the fundamentals of international law would be necessary for an improvement in relations.²²¹

Relations appeared to be improving by late September 1989 when Foreign Minister Genscher met with Foreign Minister Velayati at the United Nations. Genscher expressed optimism that relations could again take positive steps after Iranian President Rafsanjani made a statement that in the future his country would respect the sovereignty of all countries.²²² The suspension of high-level contacts did not effect steadily improving commercial relations between Germany and Iran.

²¹⁹ "Iran Commission Postponed," *Hamburg DPA*, 1328 GMT 22 February 1989, FBIS West Europe, FBIS-WEU-89-035, 23 February 1989, p. 15.

²²⁰ "Genscher Shelves Agreement," *Hamburg DPA*, 2131 GMT 20 February 1989, FBIS West Europe, FBIS-WEU-89-033, 21 February 1989, p. 11.

²²¹ "Bundestag Condemns Khomeyni's 'Exhortation to Murder'," *Hamburg DPA*, 1319 GMT 23 February 1989, FBIS West Europe, FBIS-WEU-89-036, 24 February 1989, p. 6.

²²² "Genscher Discusses GDR Refugees, Iran Ties," *Hamburg DPA*, 1630 GMT 29 September 1989, FBIS West Europe, FBIS-WEU-89-189, 2 October 1989, p. 4.

In February 1993, three months after the EC's adoption of the policy of "critical dialogue," Iran's supreme religious leader, Seyyed Ali Khamenei renewed the *fatwa* against Salman Rushdie. In response, the German Foreign Ministry renewed its call for Iran to rescind the *fatwa* and reaffirmed that Bonn's stand remained in alignment with the EC.²²³ Foreign Minister Klaus Kinkel pledged his support to Rushdie during a meeting with the author in December 1993.²²⁴ The *Bundestag* also unanimously approved a motion appealing to Iranian government to withdraw its death sentence.²²⁵ Iranian officials, however, continued to say the *fatwa* could not be altered.²²⁶ Foreign Minister Velayati pointed out that, to the Iranian way of thinking, *fatwa* is tantamount to a divine law and therefore cannot be rescinded.

The *fatwa* against Salman Rushdie was the first crisis in German-Iranian relations after the end of the Iran-Iraq War. While it setback closer cultural and political cooperation, it did not affect economic ties. German-Iranian trade increased steadily from 1989 to 1992. Moreover, the Federal Republic's reaction to the death threat had to take into account the fact that Iran was mediating for the release of German hostages in Lebanon.

²²³ "Bonn Urges Iran's Repeal of Rushdie Sentence," *Hamburg DPA*, 1148 GMT 15 February 1993, FBIS West Europe, FBIS-WEU-93-030, 17 February 1993, p. 8.

²²⁴ "Foreign Minister Meets Salman Rushdie in Bonn," *Berlin DDP*, 1212 GMT 9 December 1993, FBIS West Europe, FBIS-WEU-93-236, 10 December 1993, p. 20.

²²⁵ "Bundestag Appeals to Iran," *Berlin DDP*, 1246 GMT 9 December 1993, FBIS West Europe, FBIS-WEU-93-236, 10 December 1993, p. 20.

²²⁶ "Rowhani Denies Pursuit of Rushdie," *Hamburg DPA*, 1119 GMT 28 April 1993, FBIS West Europe, FBIS-WEU-93-080, 28 April 1993, p. 15.

B. LEBANON HOSTAGES

Germans citizens were among the Western hostages held in Lebanon until the early 1990s. All were held by pro-Iranian Hezbollah who apparently intended to use the abductions to obtain the release of the Hamadah brothers, Ali Abbas and Muhammad. The brothers were arrested in Germany and later sentenced to life and 13 years imprisonment, respectively, for murder, hostage taking, and hijacking a TWA airliner from Athens to Beirut in 1985. Muhammad Hamadah was responsible for the murder of U.S. Navy diver Robert Stetham on the hijacked TWA flight.

Hoechst manager Rudolf Cordes and Siemens technician Alfred Schmidt were kidnapped in January 1987, the same month Ali Abbas Hamadah was arrested in Frankfurt. Chancellor Kohl and Foreign Minister Genscher requested Iranian help to secure their release.²²⁷ Iranian intermediaries were involved almost from the beginning.²²⁸ The Germans made it clear, partly due to American pressure, that they would not trade the Hamadah brothers for the German hostages. Alfred Schmidt was released by January 1988. Rudolf Cordes was released in September 1988.

Thomas Kemptner and Heinrich Struebig were abducted in May 1989. Again the Hamadah family was reportedly responsible, and willing to release the Germans only on the condition that both its sons in German prisons were released. In August 1991, the

²²⁷ "Kohl Asks Iran to Help Release Cordes in Lebanon," *Hamburg DPA*, 1313 GMT 31 March 88, FBIS West Europe, FBIS-WEU-88-062, 31 March 1988, p. 5.

²²⁸ "'Iranian Contacts Meddling' in Kidnapping Cases," *Hamburg DPA*, 1327 GMT 2 Feb 87, FBIS West Europe, 2 February 1987, p. J 2.

Iranian ambassador, Seyyed Hoseyn Musavian, irritated Bonn and was consequently summoned to the Foreign Ministry after claiming that Iran "knew the family well" and calling for a pardon for the Hamadah brothers.²²⁹ The Germans made it clear that they were not willing to make any concessions. Struebig and Kemptner were finally released in Beirut in June 1992.

Hostage mediation efforts opened new lines of communication between Germany and Iran. Bonn later used its contacts in Tehran to mediate between Israel and Hezbollah. However, German-Iranian relations remained strained over human rights issues, including the sentencing to death of a German citizen in Tehran.

C. HELMUT SZIMKUS

The German government was informed of the arrest of Helmut Szimkus on charges of espionage in early 1989. Iran accused the German engineer of having been an agent for Iraq during the Iran-Iraq War. It was also claimed that Szimkus had spied on targets for Iraqi missiles with the knowledge of and support from German diplomats. A trial began in April 1991. In January 1992, Szimkus allegedly admitted to his offense and was sentenced to death.

In January 1992, Klaus Kinkel, who was then federal justice minister, visited Szimkus in Evin Prison in Tehran. Szimkus appeared to have been tortured. Kinkel threatened grave consequences if Szimkus was executed. Additionally, the Foreign

²²⁹ "Iranian Envoy Summoned Over Hostage Remarks," *Hamburg DPA*, 1042 GMT 16 August 1991, FBIS West Europe, FBIS-WEU-91-160, 19 August 1991, p. 7.

Ministry made it absolutely clear that Bonn diplomats were not involved in the alleged espionage case.²³⁰

In negotiations between Bonn and Tehran, the Iranians indicated that the death sentence could possibly be converted into a prison sentence. A prerequisite, however, was that the Szimkus case could not appear in the headlines of any newspapers.²³¹ Bonn was assured Szimkus' sentence would be commuted until the Iranian supreme court confirmed the death sentence in April 1993. That same month, during a visit to Bonn by Iranian Deputy *Majlis* President Hasan Rowhani, Klaus Kinkel pointed out that the execution of Szimkus would place a serious strain on German-Iranian relations.²³² In January 1994, during a visit to Bonn by Muhammad Larijani, secretary of the International Relations Committee of Iran's Supreme Council for National Security, Kinkel again appealed to Iran to pardon Szimkus.²³³ Minister of State Bernd Schmidbauer was promised that the death sentence would be commuted to a prison sentence in February 1994.²³⁴ Szimkus was pardoned and set free in July 1994.

²³⁰ "Foreign Ministry Rejects Iranian Espionage Charges," *Süddeutsche Zeitung*, 3 February 1993, p. 7, FBIS West Europe, FBIS-WEU-93-022, 4 February 1993, p. 17.

²³¹ Ibid.

²³² "Grateful for Life Term," *FOCUS*, 10 January 1994, p. 14., FBIS West Europe, FBIS-WEU-94-007, "Kinkel Comments on Iranian Relations," 11 January 1994, p. 21.

²³³ "Kinkel Urges Iran to Pardon German Citizen," *Berlin DDP/ADN*, 1544 GMT 14 January 1994, FBIS West Europe, FBIS-WEU-94-011, 18 January 1994, p. 18.

²³⁴ "Iranian Death Sentence on German Commuted," *Berlin DDP/ADN*, 1302 GMT, 26 February 1994, FBIS West Europe, FBIS-WEU-94-039, 28 February 1994, p. 28.

D. FERSCH AND BACHMANN

Building contractor Paul-Dietrich Fersch was imprisoned in Tehran allegedly for fraud, insulting Khomeyni pictures, and espionage in August 1992. Following intervention by Bernd Schmidbauer, Fersch was released from an Iranian prison and allowed to return to Germany in October 1993.

Gerhard Bachmann was arrested in October 1993. Bachmann, considered one of the most respected members of the German community in Iran, was charged with unauthorized contact with the Iranian army, bribery, and espionage.²³⁵ Foreign Minister Kinkel summoned the Iranian ambassador, Seyyed Hoseyn Musavian, to the Foreign Ministry to protest the arrest.²³⁶ Bachmann was released one month later in November 1993.

E. RAFSANJANI STATEMENTS

Iranian President Ali Akbar Hashemi Rafsanjani called the assassination of Israeli Prime Minister Yitzhak Rabin "a divine revenge" in November 1995. In reaction, Foreign Minister Kinkel recalled the German ambassador, sent a letter of complaint to the Iranian government, and summoned the Iranian ambassador to the Foreign Ministry to protest the

²³⁵ "Iran Released Businessmen After Kinkel's Intervention," *Hamburg DPA*, 1258 GMT 4 November 1993, FBIS West Europe, FBIS-WEU-93-214, 8 November 1993, p. 25.

²³⁶ "Iranian Envoy Receives Protest," *Berlin DDP/ADN*, 1142 GMT 11 October 1993, FBIS West Europe, FBIS-WEU-93-195, 12 October 1993, p. 34.

statement.²³⁷ Nevertheless, Kinkel still continued with plans for Iranian Foreign Minister Velayati to attend a two-day Islamic conference scheduled the following week in Bonn.

Kinkel's decision not to withdraw the invitation was severely criticized by the *Bundestag* where a resolution was passed calling for Bonn to cancel Velayati's invitation. Kinkel, after holding crisis talks with the coalition parties, postponed the Islamic conference altogether.²³⁸ The policy of "critical dialogue" came under increasing fire and led to speculation that Kinkel would resign. Nevertheless, Kinkel defended the policy. He said the talks were being used to try to bring Tehran into the Middle East peace process, to build at least limited agreement over human rights questions, to aid individual cases of people in trouble in Iran, and as a means to oppose Iranian support for terrorist groups.²³⁹ Subsequently, however, following Iran's approval of the series of suicide bombings in Israel in February-March 1996 by Islamists which killed 60 people, it was declared that any evidence of Iranian involvement in or support for the bombing campaign in Israel would force Germany to reconsider its relations with Iran.²⁴⁰

²³⁷ See "Interview with Foreign Minister Klaus Kinkel by Martin Schultze in Bonn," *Munich ARD Television Network*, 2115 GMT, 10 November 1995, FBIS West Europe, FBIS-WEU-95-218, 13 November 1995, p. 13.

²³⁸ "Germany Will Not Cancel Invitation to Iran's Foreign Minister," *Deutsche Presse-Agentur*, 9 November 1995.

²³⁹ *Ibid.*

²⁴⁰ Cordesman and Hashim, pp. 19-20.

F. FARAJ SARKUHI

Faraj Sarkuhi, editor of the literary journal *Adineh*, was one of 134 writers who signed a petition in October 1994 calling for freedom of expression.²⁴¹ He was first arrested at the apartment of Jens Gust, the German cultural attaché in Tehran, in July 1996. During the arrest, the Gust was locked in a room for over an hour, interrogated, and all his private files and documents searched.²⁴² Sarkuhi was released but arrested again on 3 November 1996 as he prepared to fly to Germany, where his wife and children live. Sarkuhi did not reappear for six weeks. At the end of January, the newspaper *Die Tageszeitung* published a letter from the writer smuggled out of Iran which said he had been detained in Tehran by the Iranian intelligence services until 20 December, and as a result of torture, confessed that he is a German spy.²⁴³ On 20 December, Sarkuhi, looking distraught, announced at a state-organized press conference that he had been in Germany since November.²⁴⁴ He was arrested again in during another attempt to leave the country in February. A trial for Sarkuhi, on charges of spying for Germany and trying to leave the country illegally, was announced in June.²⁴⁵ The trial was to be held in secret.

²⁴¹ "Iran: Law Versus Pen," *The Economist*, 28 June 1997, p. 42.

²⁴² "End of the Sound of Shawms," *Der Spiegel*, 2 September 1996, pp. 22-25, FBIS West Europe, FBIS-WEU-96-171, 2 September 1996.

²⁴³ "Atmosphere of Fear," *Der Spiegel*, 30 December 1996, pp. 104-107, FBIS West Europe, FBIS-WEU-97-014, 30 December 1996.

²⁴⁴ "Iran: Law Versus Pen," *The Economist*, 28 June 1997, pp. 42-44.

²⁴⁵ "Trial of Iranian Writer Sarkuhi to Be Held Soon," *Süddeutsche Zeitung*, 31 May-1 June 1997, p. 1, FBIS West Europe, FBIS-WEU-97-153, 2 June 1997.

Occurring at a time of strained relations, the arrest of Faraj Sarkuhi received significant attention in Germany. Foreign Minister Kinkel called the editor's trial an obstacle to Bonn-Tehran relations.²⁴⁶ While Sarkuhi's arrest was clearly intended to silence Iranian critics of the regime in Tehran, the charges of espionage were designed to exert pressure on Germany as a result of the Mykonos trial.

G. MYKONOS ASSASSINATION

The greatest crisis in German-Iranian relations since the *fatwa* against Salman Rushdie began with the assassination of Iranian Kurdish opposition leader Sadegh Sharafkandi, two associates, and a translator at the Mykonos restaurant in Berlin on 17 September 1992. The victims, members of the Kurdish Democratic Party of Iran, had been in Berlin to attend the Socialist International Congress.

A large-scale investigation initiated by the Federal Office of Criminal Investigations (BKA) and the prosecutor general's office led to the arrest of one Iranian and four Lebanese. According to the BfV, Kazem Darabi, the Iranian suspected of organizing the attack, worked for the Iranian intelligence service VEVAK.²⁴⁷ As

²⁴⁶ "Iran Objects to German Remarks on Jailed Editor, *Reuters*, 12 September 1997.

²⁴⁷ "BfV Chief Gives Statement to Mykonos Committee" *Die Tageszeitung*, 11 November 1993, p. 4, FBIS West Europe, FBIS-WEU-93-219, 16 November 1993, p. 36.

investigations continued, it became increasingly apparent the group had received guidance from agents in the Iranian embassy in Bonn.²⁴⁸

The suspects were charged with murder in May 1993. High security court proceedings opened in October 1993. The investigation, concluded in January 1996, led to an arrest warrant in March 1996 for Iranian Minister of Information and Security Ali Fallahian, who the public prosecutors office was convinced was the wire-puller behind the murders. Despite the arrest warrant, the Kohl government continued to assert that "critical dialogue" would not be reconsidered.

The German press became increasingly critical of the government—particularly Klaus Kinkel and Bernd Schmidbauer—for promoting ties with Iran while ignoring German security agencies' warnings of Iranian involvement in terrorism, even within Germany itself.²⁴⁹ In April 1996, Kinkel listed five policy goals for Iran which would serve as "surveying posts" for further development of relations. These goals included support for the Middle East peace process, recognition of the elected Palestinian authority, a public view of no financial or military support for extremists; and efforts to moderate the behavior of Hezbollah.²⁵⁰

²⁴⁸ "Massive Protection From the Mullah's Embassy," *FOCUS*, 13 December 1993, p. 15, FBIS West Europe, FBIS-WEU-93-239, 15 December 1993, p. 17.

²⁴⁹ "'Critical Dialogue' with Iran Under Fire," *FBIS Media Analysis*, 23 March 1996.

²⁵⁰ "Germany, EU to Retain Critical Dialogue with Iran, Bonn Says," *Deutsche Presse-Agentur*, 23 April 1996.

Iranian authorities repeatedly sought to influence the course of the trial, and in the run up to the verdict they reportedly made clear they would not tolerate any direct naming by the judge of spiritual leader Ayatollah Khamenei or President Rafsanjani. However, at the conclusion of a three-year trial in November 1996, a German federal prosecutor accused top Iranian officials of planning the Mykonos murder. Prosecutors also demanded life sentences for Kazem Darabi and a Lebanese suspect. The accusations triggered demonstrations outside the German embassy in Tehran.

Chancellor Kohl sent a letter to President Rafsanjani saying Germany was not responsible for the actions of its independent judiciary. In the letter, Kohl said Germany was interested in the continuation of friendly relations between the two countries.²⁵¹ Foreign Minister Klaus Kinkel responded to developments in Iran with an appeal for prudence to ease tensions between Bonn and Tehran. Breaking off diplomatic relations, he argued, would be a mistake. As for calls from German politicians that he abandon the term "critical dialogue" to describe German-Iranian relations, Kinkel said the expression had taken on too heavy a symbolic meaning. Germany, he continued, wanted to pursue a policy of "active influence" ("*aktive Einwirkung*") towards Iran in the belief that it is better to maintain contact with Iran than force it into a corner.²⁵²

On 10 April 1997, the Berlin court declared its verdict. Judge Frithjof Kubsch backed the prosecution's contention that the five defendants acted on orders from Iran's

²⁵¹ "Tehran and Bonn Mend Fences," *Financial Times*, 25 November 1996.

²⁵² "Germany Seeks to End Tensions with Iran," *This Week in Germany*, 22 November 1996. Online. Available <http://www.germany-info.org>

Committee of Special Affairs, whose members include (by implication, though not by name) spiritual leader Ayatollah Khamenei, President Rafsanjani, and Minister of Information and Security Fallahian.²⁵³ The judgment was the first time a court in Europe had directly implicated Iranian leaders in terrorist acts abroad. The court ruled that Iranian Kazem Darabi masterminded the Mykonos restaurant killing and sentenced him to life imprisonment. One Lebanese defendant received a life sentence. He was accused of being a former pro-Iranian Hezbollah terrorist who had undergone paramilitary training in Iran and carried out the killings with Darabi. Two other defendants received a eleven-year sentence and a five years and three months sentence. They allegedly helped with bribes and fake passports. The fifth defendant was acquitted. Germany immediately recalled its ambassador in Tehran, Horst Baechmann, for consultations and expelled four Iranian diplomats. Bonn also suspended the policy of "critical dialogue." On 11 April, the other EU countries except Greece ordered their ambassadors back from Tehran.

Iran recalled its ambassadors from all EU countries except Greece and called off a planned high-level trade delegation to Germany. Hasan Rowhani, deputy speaker of Iran's parliament, called for suspending all Iranian investments in Germany and banning purchases of German equipment.²⁵⁴ Iran also threatened to bring to trial German companies which supplied equipment to Iraq for making poison gas during the Iran-Iraq War. The Iranian parliament held a closed door session to review relations with

²⁵³ "Diplomatic Reprisals Follow as Berlin Court Verdict Fingers Iran," *Deutsche Presse-Agentur*, 10 April 1997.

²⁵⁴ "Global Politics: Germany-Iran Diplomatic Crisis Spreads to Trade," *EIU ViewsWire*, 18 April 1997.

Germany.²⁵⁵ President Rafsanjani denounced the Berlin verdict and warned that Bonn stood to lose its privileged position with Iran.²⁵⁶ Although, German and Iranian officials worked behind the scenes to prevent the damage from going further, the turnout of over 100,000 demonstrators outside the German embassy in Tehran made the issue increasingly difficult to control.²⁵⁷ The safety of the 530 Germans living in Tehran became a major concern.²⁵⁸ There was also concern that protests could get out of control and lead to a storming of the German embassy or that the Lufthansa airline could be the target of an attack.

On 12 April, Klaus Kinkel told *Welt am Sonntag* that the "participation in the armed attack on the Mykonos restaurant by Iranian state organizations, which was established" by the Berlin court, is "a blatant violation of international law." This will have "consequences for Germany's foreign policy." A "reevaluation" of German and European Iran policy "is necessary now."²⁵⁹

On 17 April, during the *Bundestag* debate on policy towards Iran, Kinkel stressed his priorities in a speech:

²⁵⁵ "Thousands of Iranians Protest," *The New York Times*, 13 April 1997. Online. Available <http://www.nytimes.com>

²⁵⁶ "Germany and the EU Suspend 'Critical Dialogue' with Iran," *This Week in Germany*, 18 April 1997. Online. Available <http://www.germany-info.org>.

²⁵⁷ "Global Politics: Islamic Problem," *EIU ViewsWire*, 21 April 1997.

²⁵⁸ "Ministry Spokesman Comments on Mykonos Verdict Response," *Berlin DDP/ADN*, 1350 GMT, 11 April 97, FBIS West Europe, FBIS-WEU-97-101, 11 April 97.

²⁵⁹ "Kinkel Makes First Statement Since Mykonos Verdict," *Berlin DDP/ADN*, 1346 GMT, 12 April 97, FBIS West Europe, FBIS-WEU-97-102, 12 April 97.

We must not break off all contact with Iran, not least because we on our part have clear demands to make. These include in particular respect for human rights. We shall continue to press for Salman Rushdie's safety as well as justice for the Iranian author Sarkuhi. We shall continue to stand up for the rights of religious minorities, especially the Baha'i community. We shall continue to work for a change in Iran's attitude to the Middle East peace process. We shall insist that Iran stop all threats and activities directed against Iranian dissidents abroad, their lives and persons....

...The people of Germany and Iran are linked by a century-old tradition of good relations. Large numbers of Iranians have studied in Germany, many now occupy positions of responsibility and continue to feel an affinity for us. There have been and still are excellent contacts at the university level. These are all factors to be considered when deciding on the future course of our relations with Iran. What has been built up over these long years should even in stormy weather not be demolished wholesale. Particularly with a view also to those who do not back the Tehran regime, we must continue our steadfast efforts to bring about an improvement in those aspects of Iran's conduct which give rise to concern and criticism.

Any evaluation of our relations with Iran must also take into account the undeniable successes of German and European efforts:

- It is due not least to German efforts that Iran has accepted the Chemical Weapons Convention.
- Iran has agreed to the extension of the Non-Proliferation Treaty.
- Iran is cooperating with the International Atomic Energy Agency.
- In Lebanon, German and other Western hostages have been released, thanks to good Iranian offices.
- We have been successful in our mediation efforts between Hezbollah and Israel.
- Helmut Szimkus, a German national held in Iran under the sentence of death, has been pardoned and set free.
- We have obtained the freedom of German nationals Fersch, Schlax and Bachmann, who were being held in Iran.

- Iran has resumed cooperation with the Special Rapporteurs for human rights, religious tolerance and freedom of opinion, who visited Iran in 1996.

We must avoid any action that might strengthen the radical forces in the country. After all, a German and European policy conceived for the long term cannot ignore the fact that Iran is a major player in the region. Its geostrategic situation means it holds a key position in security matters. Without or even against Iran no policy in the region can be successful in the long term. Long-term stability can only be achieved if Iran can be persuaded to adopt a policy of moderation. That is important, particularly in the light of our concern over the continuing arms build-up in the region.

We take the view, as do all our European partners, that it is vital for us to continue to be able to influence Iran and not opt for a policy of isolation, which leads to nowhere. That has been and will continue to be our approach....²⁶⁰

Though Kinkel had suspended the policy of "critical dialogue" only one week earlier, he made it clear that the basic principles of the policy should continue.

The *Bundestag* passed a resolution calling on Iran to observe international law, end support for international terrorism, respect human rights, and "refrain from hunting down opponents living abroad."²⁶¹ However, it imposed no punitive measures. The resolution passed on the strength of Chancellor Kohl's majority. Opposition parties voted against it because they wanted to include specific punitive measures.²⁶² Kinkel stopped short of breaking off diplomatic or economic ties with Iran.

²⁶⁰ "Speech by Dr. Klaus Kinkel, Federal Minister for Foreign Affairs, in the Bundestag Debate on Policy Towards Iran," 17 April 1997. Online. Available <http://www.germany-info.org/govern/st0497.htm>

²⁶¹ "Germany: Iran Violates International Law," *The New York Times*, 17 April 1997.

²⁶² Ibid.

On 29 April, the EU Council of Foreign Ministers, meeting in Luxembourg, agreed to send ambassadors back to Tehran. They extended the suspension of "critical dialogue," but refused to abandon the policy completely, insisting it serves its purpose.²⁶³ The foreign ministers included the following points in their declaration on Iran:

- confirmation that under the present circumstances there is no basis for the continuation of the Critical Dialogue between the European Union and Iran;
- the suspension of official bilateral Ministerial visits to or from Iran;
- confirmation of the established policy of the European Union member states not to supply arms to Iran;
- cooperation to ensure visas are not granted to Iranians with intelligence and security functions;
- concertation in excluding Iranian intelligence personnel from European Union member states

The Council decided to keep the relationship with Iran under close review and instructed the Political Committee accordingly. Member states will instruct their Ambassadors, after their return to Teheran, to contribute in a coordinated way to the continual appraisal by the Council of the relationship....²⁶⁴

The EU foreign ministers decided against economic sanctions. Consequently, the only real change was the suspension of ministerial visits. Further, the decision to extend the

²⁶³ "US Backs Europe's Iran Stance," *The New York Times*, 29 April 1997.

²⁶⁴ "European Union Declaration on Iran," *European Union Press Releases*, No. 26/97, 29 April 1997. Online. Available <http://www.eurounion.org/news/press/972/pr26-97.htm>

suspension of "critical dialogue" was not expected to have much impact. In reality, the policy only amounted to 3-4 hours of talks between senior diplomats every six months.²⁶⁵

Initially, the only significant impact on relations was the postponement of the high-level Iranian trade delegation to Germany in late April. However, before EU ambassadors could return to Tehran, Ayatollah Khamenei ordered the Foreign Ministry not to allow the German or Danish ambassadors back "for a period of time."²⁶⁶ "We are even more than happy if the German ambassador, in particular, does not return," claimed Foreign Minister Velayati. Iran also said it would not rush its ambassadors back to Europe. Iran later said the EU ambassadors could come back, but demanded that the German ambassador return last. Out of solidarity with Germany, the EU reversed its earlier decision. EU ambassadors would not return to Tehran until they were allowed to return together.

On 4 August, a moderate cleric, Muhammad Khatami, was sworn in as president of Iran, signaling a potential new era in Tehran's foreign relations. Khatami, who headed the Islamic Center in Hamburg from 1978-1980, speaks fluent German, and sees himself as a mediator between cultures, was optimistic that German ties with Iran could improve.²⁶⁷ The new foreign minister, Kamal Kharrazi, expressed a willingness to talk with EU foreign ministers, including Klaus Kinkel. However, a few days after Khatami,

²⁶⁵ "Iran Trade: German Murder Verdict Won't Lead to Sanctions," *EIU ViewsWire*, 2 May 1997.

²⁶⁶ "Iran, EU Swap Insults, Not Envoys," *The New York Times*, 30 April 1997.

²⁶⁷ "Enough of the Theocratic State," *Frankfurter Allgemeine Zeitung*, 26 May 97, FBIS West Europe, FBIS-WEU-97-154, 3 June 1997.

took office, a partial boycott of German companies was reported.²⁶⁸ Herbert Riedel, managing director of the German-Iranian Chamber of Commerce confirmed that the Iranian Trade and Industry Ministry was pursuing a boycott of German products. Iran would approve only the imports that it absolutely needs and cannot get elsewhere.²⁶⁹

On 26 August, Germany said it wanted to improve relations with Iran. "After a long pause for thought...we want to slowly reestablish contacts with Iran," said Kinkel.²⁷⁰ However, Kinkel added that Iran had to clarify issues such as whether it would observe international law, its position in the Middle East peace process, and the return of EU envoys. The following day, on 27 August, Chancellor Kohl welcomed what he described as noticeable political changes brought by the new government in Iran.²⁷¹ Kohl said that signals from Iran's new government must be watched closely to see if relations between Tehran and the EU can be improved.²⁷²

The EU's attempts to find a solution for the return of ambassadors remained unsuccessful through September and October. Iranian Foreign Minister Kamal Kharrazi

²⁶⁸ "Tehran Wants 'Reparations' From Bonn; Partial Trade Boycott Confirmed," *Frankfurter Allgemeine Zeitung*, 12 August 97, FBIS West Europe, FBIS-WEU-97-224, 12 August 1997.

²⁶⁹ "Official Views Trade Relations with Iran," *Die Tageszeitung* (Internet Version), 13 August 1997, FBIS West Europe, FBIS-WEU-97-225, 13 August 1997.

²⁷⁰ Emma Thomasson, "Germany Prepared to Repair Relations with Tehran," *Reuters*, 26 August 1997.

²⁷¹ "Kohl Says Changes in Iran Worthy of Recognition," *Reuters*, 27 August 1997.

²⁷² "Germany Eyes Better Ties with Iran," *The New York Times*, 27 August 1997.

continued to insist that the German ambassador must be the last ambassador to return.²⁷³ In November, officials finally reached a compromise solution. Iran agreed to allow the ambassadors to return in two groups, with the German and French ambassadors arriving together in the second group.²⁷⁴ The first group returned to Tehran on 14 November. The German and French ambassadors returned to Tehran on 22 November.²⁷⁵

H. TEST OF CONSTRUCTIVE ENGAGEMENT

During the 1990s, Iran has served as a test case for the Federal Republic's constructive engagement policy. In December 1992, the EU's adoption of "critical dialogue" followed the release in the previous June of the last German hostages from Lebanon. Iran's role in securing their release was seen as proof that relations could be beneficial even if the Rushdie affair remained unresolved. The opportunity to negotiate for the release of Paul-Dietrich Fersch and Gerhard Bachmann in 1993, and secure a pardon for Helmut Szimkus in 1994, were seen as additional benefits. However, the ongoing Mykonos investigation and trial, official Iranian comments regarding Rabin's assassination and terrorist activity in Israel, followed by the issuance of an arrest warrant for Fallahian, led to a deterioration of relations. Despite an increased willingness to criticize Iran, incidents like the arrest of Faraj Sarkuhi made a modification in German

²⁷³ "Iran Wants Talks with Germany to Solve Row," *Reuters*, 5 October 1997.

²⁷⁴ "EU Ambassadors Return to Tehran," *BBC News*, 1037 GMT, 14 November 1997, Online. Available http://news.bbc.co.uk/hi/english/world/monitoring/newsid_31000/31385.stm

²⁷⁵ "European Envoys Back in Tehran," *BBC News*, 1052 GMT, 22 November 1997, Online. Available http://news.bbc.co.uk/hi/english/world/west_asia/newsid_33000/33761.stm

policy inevitable even before the April 1997 Mykonos verdict. Nevertheless, as events after the suspension of "critical dialogue" demonstrate, Germany continues to adhere to the principles of constructive engagement.

V. CONCLUSION

After the Mykonos verdict on 10 April 1997, the Federal Republic did not impose economic sanctions on Iran. Moreover, on 29 April, Foreign Minister Klaus Kinkel agreed to send the German ambassador back to Tehran. While the actual return of the ambassador was delayed seven months until November, this was only due to Iran's insistence that the German ambassador return last. The Germans wanted their ambassador to return sooner, but the Iranians would not back down.²⁷⁶

The Germans avoided the imposition of sanctions and decided to send their ambassador back at the first opportunity for two key reasons: First, it is widely believed in Germany that a policy of cooperation and engagement is the most effective way to exert influence on another country's actions. Second, the Germans view the economic and political costs of sanctions to be unacceptably excessive.

A. LEGACY OF OSTPOLITIK

The policy of "critical dialogue" remains officially suspended. Yet, the Germans will resume a new policy of constructive engagement with Iran even if they no longer use the term "critical dialogue." The Federal Republic's extra-European policy sets the context for its Iran policy. The preference for diplomatic engagement and economic cooperation has its origins in Egon Bahr's 1963 idea of a policy of "small steps" leading to

²⁷⁶ "Everyone Out, Everyone In Again," *Der Spiegel*, 17 November 1997, p. 25, FBIS West Europe, FBIS-WEU-97-321, 17 November 1997.

a "change through rapprochement." Bahr's concept of détente developed into the policy of *Ostpolitik* under Chancellor Willy Brandt after 1969. The basic concepts of the *Ostpolitik* continued under the center-left government of Chancellor Helmut Schmidt and the center-right coalition under Chancellor Kohl. Consequently, the German perception that *Ostpolitik* led to the successful collapse of the Eastern bloc, the end of the Cold War, and ultimately the unification of Germany has fostered its adoption in other theaters of policy, most notably Iran.

In late 1997, one justification for sending back the ambassador to Tehran and restoring full diplomatic relations with Iran was that the new president, Muhammad Khatami, is a moderate and worthy of support. In 1980, Chancellor Schmidt and Foreign Minister Genscher used the policy of constructive engagement as justification for their opposition to economic sanctions to pressure Iran to release the American hostages. They argued that President Bani-Sadr was a moderate whom one should not abandon. Likewise, in 1989, the election of President Rafsanjani was seen as a positive step and a justification for improving ties with Tehran despite Ayatollah Khomeyni's *fatwa* against Salman Rushdie. Constructive engagement is seen as advantageous for keeping open the lines of communication to force the Iranian political elite to face issues unacceptable to the West. The Germans believe this approach is stern, yet potentially accommodating, that it can more likely generate cooperation from Iran, that it will not provoke Iran into aggressive behavior, and that it can help strengthen moderate domestic elements in Iran rather than their more radical counterparts.

B. SANCTIONS TOO COSTLY

Traditionally, the Federal Republic has opposed the use of sanctions. From the German point of view, the political and economic costs of sanctions are unacceptably high. Preferring "quiet diplomacy" and lacking the traditional political-military structure of other powers, Germany favors economics as the means to attain its political objectives. It interprets its security and the best strategy in economic terms. Power political demands which might be suspect because of Germany's past are translated into more respectable economic demands.

Sanctions would damage German credibility as a trading partner, a significant factor in a country where 30 percent of the economy is devoted to exports, compared to 10 percent in the United States. This fact means that Germany must make sure its export markets remain open and available to maintain its economy and possibly its political stability. The country is therefore one the strongest proponents of free trade. To protect its markets, Germany must demonstrate reliability—its products as well as their delivery. Further, Germany cannot afford to write off its substantial loans to Iran. German trade with Iran will probably remain low for the foreseeable future, but in the long run it will improve. In the past, German business has done well in Iran because of its willingness to stay when the firms of other countries have left the market. In 1980 to 1981, Germany only hesitantly participated in the EC sanctions against Iran. However, by 1983, German exports to Iran reached a new peak. In 1989, following the *fatwa* against Salman Rushdie, sanctions were avoided and by 1992 trade with Iran set a record level. In 1997, German trade with Iran may be down, but in the long-run it probably will pick up. Clearly, for

Germany, the cost of its participation in economic sanctions would be the loss of economic and political influence.

There are other factors behind German relations with Iran. The two countries have a century's old friendship that has only been interrupted by pressure from outside powers—Britain and Russia—in the First and Second World Wars. German foreign and security policy considers Iran a strategically important country and far too significant to isolate. It offers access to the potential wealth of Central Asia and has the second largest natural gas reserves in the world.

At the same time, Germany has a special commitment to Israel as a result of the Second World War. This includes a commitment to the security of the Near and Middle East. Iranian opposition to the Middle East peace process, support for Hezbollah in Lebanon, and support and encouragement for terrorism in Israel are all concerns of great gravity. While Israel may complain in public about German-Iranian relations, Israel has benefited from the relationship. Germany has mediated between Israel and Iran, thus displaying its influence in the international system and perhaps the wisdom of its policies.

German foreign policy has to take account of long-term political considerations: its central location in Europe, its economic dependence on exports, and finally, German history. All this sets standards for the objectives, substance, and procedures of German policy.

C. IMPLICATIONS FOR U.S. POLICY

The Federal Republic sees economic sanctions as futile. The only way it would participate in sanctions is if they are imposed by the United Nations. Consequently, the Iran and Libya Sanctions Act will not succeed in coercing Germany into sanctions. While the United States remains the Federal Republic's primary strategic partner, the United States can no longer link issues to security to the extent that it did during the Cold War. Further, Germany sees itself being asked to make a greater sacrifice than the United States is willing to pay.

While Germany has a different policy for dealing with Iran, it does have the same objectives: to stop Iran from supporting terrorism and disrupting the Middle East peace process, and to prevent Iran from acquiring weapons of mass destruction, in particular, nuclear weapons. German officials like to argue that the difference with the United States is only one of tactics. However, that is not an insignificant difference. Different tactics often yield different short- and long-term consequences.

The fact that American and German policy objectives towards Iran are so similar offers a starting point for coordination. The United States and Germany should agree on common measures for tracking Iranian progress on those objectives. Recent events have created an opportunity to find common ground in dealing with Iran. The Mykonos verdict has increased Germany's caution in dealing with Iran. Iranian President Khatami has expressed a willingness to begin dialogue with the United States. Iran needs the West. By coordinating policy efforts, the United States and Germany, in the context of the EU, would have more leverage for dealing with Tehran. The alternative is to risk further

divergence between Germany and the United States over Iran policy. This only benefits the individuals who view the United States as hostile to Iran.

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