A Last Line of Defence: A Strategy for Europe to Preserve the Iran Nuclear Deal

by Riccardo Alcaro and Andrea Dessì

ABSTRACT
One year since the US’s unilateral withdrawal from the Joint Comprehensive Plan of Action, commonly known as the Iran nuclear deal, the EU–Iran relationship hangs in a balance. Europe’s attempts at limiting the impact of renewed US sanctions have thus far had negligible results. Iran has taken note and scaled back compliance with its nuclear obligations. Not all is lost, however. Europe has a limited window of opportunity to prevent the end of the deal, which would severely harm the non-proliferation regime and Middle Eastern stability. Europe should delegitimise a policy of regime change or destabilisation, facilitate EU–Iran trade, increase assistance to ordinary Iranians, fight against US extra-territorial sanctions, and wage a sustained diplomatic campaign in favour of the JCPOA in Tehran and Washington.
Introduction

A structured and functional EU–Iran relationship is contingent on the survival and successful implementation of the Joint Comprehensive Plan of Action (JCPOA), more commonly known as the Iran nuclear deal. Signed by the EU and the so-called E3 (France, Germany and the UK), along with China, Russia, the US and Iran in July 2015, the JCPOA was welcomed as a landmark non-proliferation deal, representing a successful example of multilateral diplomatic action to resolve an international crisis through compromise and dialogue. In exchange for accepting stringent limitations on its nuclear programme, Iran was promised relief from sanctions that the UN, the EU and the US had imposed on it to force it to the negotiating table. The deal was subsequently integrated into a UN Security Council Resolution (UNSC Resolution 2231), thereby making compliance a binding commitment under international law. It has been in force since January 2016.

Representing the culmination of a long and arduous diplomatic effort in which the EU played a key facilitating role, the signing of the JCPOA provided an injection of confidence for the EU’s often-criticised external action. Not only does the agreement reflect the EU’s penchant for cooperative crisis management and diplomacy, but it also helps the EU meet a number of priorities in its foreign and security policy, namely the strengthening of the global arms control regime, and in particular the

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Non-Proliferation Treaty (NPT), while contributing to a de-escalation of tensions in the Middle East, a strategically vital region neighbouring Europe.

Further, albeit secondary, priorities advanced as a by-product of the JCPOA included resolving an abnormal relationship with Iran as a stepping stone towards a gradual normalisation of ties and the opening up of a new market for EU investments and trade, particularly in the energy domain. This could in the long-run contribute to an expansion and further consolidation of EU energy and trade relations with all states in the Persian Gulf, a dimension which in turn could boost regional stability as well as the maximisation of the EU’s economic and energy interests and political leverage in the region.

It was on these bases – and on top of issues relating to EU credibility and respect for signed international agreements – that the E3 and the EU High Representative Federica Mogherini (E3/EU) vowed to preserve the JCPOA following the decision by US President Donald Trump to unilaterally withdraw from the agreement in May 2018. This European commitment has been reiterated numerous times ever since, and yet the threat of US extra-territorial sanctions has been largely effective in limiting significant EU–Iran trade and investment. Iran eventually decided to scale back compliance with the deal, reflecting dwindling strategic patience in Tehran and contributing to growing fears about a rapidly closing window of opportunity for Europe to salvage the JCPOA.

1. European interests and the centrality of the JCPOA

1.1 Europe’s stakes in the JCPOA

European support for the JCPOA and, more broadly, for a policy of engagement with Iran rests on a number of assumptions that directly touch upon EU interests. These span the full spectrum of normative, security and economic interests, representing an area of continuity and agreement among EU institutions and member states. It follows that a potential unravelling of the JCPOA will directly undermine these European interests and it is on these grounds that the EU’s principled defence of the agreement should be framed.

In the nuclear domain, the JCPOA’s provisions have pushed Iran’s estimated “break-out capacity” – namely the ability to produce enough fissile material for a bomb – back from a few months’ time to at least one year. They have placed significant limits on the number and quality of active centrifuges – the machinery

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3 EEAS, Remarks by HR/VP Mogherini on the Statement by US President Trump Regarding the Iran Nuclear Deal (JCPOA), Rome, 8 May 2018, https://europa.eu/!QD77HB.

needed to produce fissile material – and prevented Iran from activating its heavy-water nuclear reactor.\(^5\) The expiration timeframe of the JCPOA restrictions varies between 10 and 15 years from the 2016 entry into force of the agreement.

Crucially, the JCPOA has strengthened inspection and oversight powers by the International Atomic Energy Agency (IAEA), the UN nuclear watchdog. While the most intrusive inspection powers will expire in 2040, Iran will be permanently bound to respect the IAEA Additional Protocol – which strengthens the agency’s inspection powers. The verification system set up by the JCPOA thus amounts to the “most robust” in the world,\(^6\) as IAEA Director General Yukiya Amano has recently noted. Since the deal’s entry into force, the IAEA has repeatedly confirmed Iran’s compliance with the JCPOA.\(^7\)

Following President Trump’s decision to unilaterally cease US compliance with the JCPOA, however, there is growing fear that Iran will eventually terminate the deal. A collapse of the JCPOA would severely undermine the NPT regime, especially if Iran goes further and quits not only the JCPOA, but the treaty itself.\(^8\) Iran’s leaving the nuclear deal may spawn further proliferation efforts in the Middle East, and lead to a potential pre-emptive strike against Iran by the US or the US and Israel in order to prevent it from making further military-related nuclear progress.

The prospect of a nuclear arms race in the Middle East, which would most likely spell the end of the NPT, was among the concerns that led European member states and the administration of Barack Obama, which led the negotiation, to prioritise the nuclear dimension in dealing with Iran. Fears that Saudi Arabia and other states, including Egypt and Turkey, move to acquire nuclear technologies to offset the threat of a nuclear-capable Iran played an important role in fostering the conditions for the conclusion of the JCPOA. The EU retains a key interest in the preservation of the NPT and the broader multilateral arms control regime, issues that touch European security interests directly and on which EU member states have invested much time and effort.

Such considerations are connected to the second key European priority tied to the JCPOA: regional stability in the Middle East. European states share the US’s concern about Iran’s regional policies, particularly about the conflict in Syria, Tehran’s

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\(^7\) The IAEA reports on Iran’s compliance with its non-proliferation standards are available on a dedicated webpage of the agency. See IAEA website: IAEA and Iran – IAEA Reports, https://www.iaea.org/node/10290.

support for armed proxies in Lebanon, Iraq, Palestine and Yemen. Yet, the E3/EU have approached these issues as separate from the nuclear dossier. Underlying Europe’s choice is its assessment that removing the nuclear dimension from the fraught geopolitics of the Middle East would significantly reduce the potential for further conflict. Moreover, Europe has calculated that a resolution of the nuclear issue would open the way for a broader dialogue with Iran.

The Europeans calculated that the JCPOA could become a stepping stone for a more holistic regional dialogue, involving Iran and gradually extending to other key state actors in the Middle East. By providing incentives for Iran – in the form of sanctions relief and new trade agreements – Europe had sought to slowly modify Iran’s threat perceptions and regional calculus, substituting the decades-long US containment strategy with one based on qualified and conditional engagement facilitated by EU–Iran economic and political interactions. Moreover, the EU had sought to strengthen Iran’s pragmatist president, Hassan Rouhani, and his foreign minister Javad Zarif, both of whom support a policy of dialogue with the West. This approach was to be complemented with the creation of new avenues for Iranian citizens, particularly the youth, to increase their exposure to the West instead of China or Russia, both of which remain strategic competitors to Europe and the US.

Europe’s trade and energy interests also require consideration. These are secondary compared to the hard security and normative interests outlined above, and are conditional on the successful implementation of the JCPOA. Yet, they should be considered functional to the EU’s broader effort to encourage a gradual stabilisation of the Middle East.

The reason is that while these may be secondary for Europe they are by no means secondary for Iran. With oil sanctions alone being estimated to have cost the Iranian economy 160 billion US dollars between 2012 and 2016, the JCPOA provided much needed economic relief to Iran, including the freeing up of about 100 billion US dollars in frozen assets abroad. The prospect of renewed European trade and investment was highly lucrative for Iran’s leadership. Before international sanctions, the EU used to be Iran’s largest trading partner. In 2008, total bilateral trade reached 27 billion euro. By 2013, when EU sanctions were in force, this fell to under 7 billion.

Economic and trade relations between the EU and Iran did increase in the wake of the 2016 signature of the JCPOA, with EU countries accounting for more than one fifth of Iran’s crude oil exports. While they never got to pre-sanctions levels, between 2016 and 2017 Iran’s oil exports to Europe grew by almost 50 per cent, with

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Spain, Italy and Greece representing the largest customers.\textsuperscript{11} Hydrocarbon exports currently account for 80 per cent of Iran’s exports and returns from these sectors are estimated to fund half of the 2018–2019 budget.\textsuperscript{12}

While both the US and the EU support Middle Eastern stabilisation and maintain similar preferential relationships with regional actors such as Israel and Arab Gulf states, disagreements are centred on the long-term visions of regional security and the best tactics to achieve this end. The E3/EU maintain that stability cannot be achieved via the isolation of such a key strategic player as Iran, and that any approach towards Iran must be conducive to strengthening the broader rule-based international order. The Trump administration and Washington’s regional allies in Tel Aviv, Riyadh and Abu Dhabi have embraced the opposite approach. They argue that Iran’s regional ambitions lie behind the present instability in the Middle East and insist that by prioritising nuclear negotiations the JCPOA signatory parties have in effect appeased Iranian ambitions.

These opposing viewpoints also stem from a different reading of what brought Iran to the table to negotiate the JCPOA. The Trump administration and its regional allies point to the success of the sanctions regime as proof that pressure and isolation works, and argue that more far-reaching concessions could have been secured at the time.\textsuperscript{13} By contrast, EU member states consider the JCPOA as the outcome of a broader and carefully crafted international effort to coax Tehran by mixing inducements with sanctions. Between the two, it was the carrot of a consensual resolution of the dispute based on a gradual re-introduction of Iran into the global economy, rather than pressure alone, that ultimately convinced Tehran to join the negotiating table.

With Europe exposed to Middle East turmoil in a much greater fashion compared to the US, any increase in tensions or conflict in the region presents the EU with significant security challenges. These encompass not only hard threats such as terrorism, the proliferation of weapons of mass destruction, illicit trafficking or threats against European nationals in the region, but also issues tied to migration flows, energy security, trade and investment interests. Given the extent of Iranian influence in Iraq, Syria, Lebanon and, albeit in a less direct fashion, Yemen and the Gaza Strip, Europe is rightly concerned that any potential escalation would quickly enflame the region, with spill-over effects impacting Europe shortly thereafter.

\textsuperscript{11} Congressional Research Service (CRS), “Iran: Efforts to Preserve Economic Benefits of the Nuclear Deal”, in \textit{CRS In Focus}, No. IF10916 (updated 26 February 2019), \url{https://fas.org/sgp/crs/nuke/IF10916.pdf}.
\textsuperscript{12} Ibid.
1.2 The JCPOA on life support

Largely as a result of the US administration’s policy of “maximum pressure” on Iran, the risks of both nuclear proliferation and military conflict have returned to the Middle East. The Trump administration has adopted successive rounds of restrictive policies aimed at squeezing Iran’s economy by targeting key export-oriented sectors, particularly energy exports. These comprised the re-imposition of all sanctions suspended under the deal, including the so-called “secondary” sanction targeting foreign companies doing business with Iran; a refusal to extend oil import waivers to eight countries14 in early May 2019 and, finally, the sanctioning of Iran’s metals industry, a key employer and export-oriented economic sector.15 The designation of the Islamic Revolutionary Guard Corps (IRGC) as a foreign terrorist organisation has further complicated the matter.16 Given that the paramilitary IRGC has over time morphed into a protean organisation with a deep presence in Iran’s economy, foreign companies may unknowingly engage with Iranian counterparts with some links to it, thus falling under the remit of US sanctions.

These policies have brought about a significant escalation in accusatory rhetoric and threats, with the US announcing new troop deployments to the region and Iran renewing its warning about potential disruptions to maritime security in the Persian Gulf and the strategic Strait of Hormuz passageway.17 Lately, US President Trump has sought to tone down the rhetoric, even announcing that he is ready for direct talks with Iran.18 However, the contradictory signals coming from different power centres in the US administration are making foreign parties uneasy about the prospects of negotiations and the true objectives of the US president.

Indeed, if one is to consider the administration’s early rhetoric and policies – including the twelve (later thirteen19) demands outlined by US Secretary of State Mike Pompeo in May 2018 as pre-conditions for renewed negotiations with Iran,20

14 The eight countries included: China, Greece, India, Italy, Japan, South Korea, Taiwan and Turkey.
this hesitancy, particularly on the side of Iran’s leadership, is understandable. The demands, which extend well beyond the nuclear domain and touch on Iran’s ballistic missile programme and support for regional allies, resemble calls for a complete capitulation on behalf of Iran’s leaders and have therefore been deemed unacceptable in Tehran.\[^{21}\] Europe, through HR Mogherini, has publicly expressed doubts about the wisdom of delivering an ultimatum to Iran, again insisting that the JCPOA should be the basis for any further interactions with the country.\[^{22}\]

Tehran’s future abidance to the JCPOA is in no small part dependent on the ability of signatory parties to make true on their side of the bargain and provide trade and investment to revitalise Iran’s economy. Yet, following the re-imposition of US sanctions, EU oil imports have quickly ground to a halt, with other non-EU importing countries, such as China, India, Japan and South Korea also gradually reducing exposure to Iran’s oil market.\[^{23}\] Similarly, European companies have left Iran in droves out of fear of losing out on lucrative trade contracts with the US. Iran has also lost access to international financial markets, as the Brussels-based SWIFT company, which manages interbank messaging across the globe, has disconnected most Iranian banks from its network for fear of incurring US sanctions.\[^{24}\]

In response to the US’s confrontational approach, Iran initially continued to stick to the JCPOA. Tehran hoped that Europe – as well as Russia and China – could make true on their commitments. With Iran’s GDP expected to contract by six per cent in 2019 according to the International Monetary Fund (IMF) and inflation predicted to increase to 37 per cent, the highest it has been in two decades, the Iranian government is in dire need of an economic lifeline.\[^{25}\]

EU efforts to provide Iran with these expected returns, however, have been slow and insufficient. They have included updating the EU’s 1996 blocking regulation to shield EU companies from potential fines deriving from extra-territorial sanctions and updating the European Investment Bank’s (EIB) mandate to allow for limited investments in Iran in June 2018. In August 2018, the European Commission approved an 18 million euro aid package for Iran, 8 million of which was earmarked as support for Iran’s private sector and small and medium-sized enterprises (SMEs), another 8 million for environmental projects and 2 million to combat the health

\[^{97, 1991, 6 (November/December 2018), p. 60-70.}
\[^{21, 2019, 06/talk-iran-preconditions-pompeo-190602112556238. html.}
\[^{22, State by HR/VP Mogherini following Today’s Speech by US Secretary of State Pompeo on Iran, Brussels, 1 May 2018, https://europa.eu/!qP43um.}
\[^{24, SWIFT System to Disconnect Some Iranian Banks this Weekend”, in Reuters, 9 November 2018, https://reut.rs/2FmUvJw.}
\[^{25, Simeon Kerr, Andrew England and Najmeh Bozorgmehr, “Iran’s Economy Slumps As US Sanctions Pile on the Pain”, in Financial Times, 29 April 2019, https://www.ft.com/content/ac599cf4-6a72-11e9-80c7-60ee53e6681d.}
Finally, in January 2019, the E3 established a Special Purpose Vehicle (SPV), called Instrument in Support of Trade Exchanges (INSTEX), allowing for a means of trade with Iran. The instrument has been designed to avoid cross-border financial transactions, whereby Iranian importers of E3 goods would pay Iranian suppliers of E3-based customers, and E3 importers of Iranian goods would pay E3 exporters to Iran. For this to work, INSTEX and a twin financial mechanism set up in Iran are expected to keep a ledger of potential orders on the basis of which they will direct payments. INSTEX is presently only limited to trade in humanitarian goods (medicine, medical devices and food), which fall outside the remit of US sanctions. Located in France, run by a German official and financially supported by the E3 governments, INSTEX has yet to finalise its first trade transaction.

In light of the shortfalls of what was promised in terms of sanctions relief and trade relations, Iran is now slowly moving towards a “less for less” approach. On 8 May 2019, President Rouhani announced that Iran was suspending compliance with the JCPOA-set limits on the production of low-enriched uranium (LEU) and heavy water. Both measures are of concern as they affect Iran’s ability to produce weapons-grade material, namely highly enriched uranium (HEU) and plutonium (for the production of which heavy water is instrumental). Rouhani warned about a further reduction of Iran’s compliance with the JCPOA following the expiry of a 60-day window unless the other signatory parties to the agreement – the E3/EU, Russia and China – implement concrete measures to safeguard Iran’s promised returns.

While the E3 and EU HR Mogherini denounced Iranian ultimatums, Europe has maintained its commitment to the deal, renewing its call for strategic patience in Iran and promising it would take further action to meet Iran’s requests. Whether such action is sufficient to stop the erosion of the JCPOA remains uncertain.

2. A European strategy for Iran

The E3/EU’s failure to uphold the pledge they made to Iran following the US withdrawal – notably to expand EU–Iran trade, maintain banking relations and preserve Iran’s capacity to export oil – has made European calls for strategic...

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26 CRS, “Iran: Efforts to Preserve Economic Benefits of the Nuclear Deal”, cit.


28 Ibid.


patience increasingly unsustainable for the Iranian government. Europe’s inability to act upon its stated interest in safeguarding the JCPOA has thus contributed to eroding the consensus inside Iran for staying in the deal, damaged Europe’s standing and consequently reduced its ability to shape events in Iran and the region.

Not all is lost, however. Undoubtedly, Iran is signalling that it is making preparations for a change of course: from strategic patience to limited strategic confrontation – by resuming suspended nuclear activities and scaling up tensions in the region through limited attacks and sabotage, mostly by proxy – in order to regain some bargaining power vis-à-vis the US. The Iranian leadership is aware that this strategy is full of risks – including that of military escalation, deliberate or accidental – and will only take this path if it determines that all other means to resist US pressure have been exhausted. This is why President Rouhani has carefully constructed the decision to exceed JCPOA-set limits in terms that emphasise Iran’s lingering interest in the endurance of the deal. His message to the other signatory parties – Europe included, in spite of Iran’s fading trust in it – is that they retain the ability to affect Iran’s calculations, further proving the point that defence of the JCPOA is key to Europe’s ambition to play a role in the geopolitics of the Middle East.

The question is what Europe can do that it has not already tried, and failed to carry forth. With a normalisation of economic relations out of reach for the time being, the E3/EU should fall back on more realistic objectives, while relentlessly seeking to keep Iran engaged. In the short- to mid-term, the E3/EU should set the goal of creating political incentives for Iran to stay in the deal while taking steps that reduce the appeal of the US “maximum pressure” policy. Success in this endeavour would expand Europe’s long-term options for engaging Iran in further discussions concerning regional security and bilateral opportunities for trade, investment and cooperation. In order to do that, the E3 and the EU need not reinvent the wheel. They should give greater coherence and add some meat to a series of steps they have already taken.

2.1 Discursive “normalisation” of Iran

The first such step concerns Europe’s discursive construction of Iran. In February 2019, the EU Foreign Affairs Council issued a reasonably balanced statement giving Iran its due both on the positives – continued respect of the JCPOA and progress on meeting international anti-money laundering standards – and the negatives – regional tensions, the ballistic programme, assassination plots against dissidents in EU countries and the state of human rights.31 The red line running through the statement is Europe’s recognition of the Islamic Republic of Iran as a legitimate interlocutor to be engaged and when necessary confronted, but not contained and isolated. The E3/EU, as well as other EU countries, should consistently make

normalisation of Iran – meaning framing it as a country with understandable, if not legitimate, aspirations and concerns – the discursive framework of their public statements.

European leaders and high-level officials should insist that the historical record, including with regard to the JCPOA, points to the clerical regime being ultimately rational. Accordingly, they should maintain that the nuclear programme was (and is) a bargaining chip Iran has used in its interactions with the West or, in case these were to deteriorate, as a means to acquire a deterrent against much more powerful enemies. This would make it easier to present Iran’s ballistic missile programme and support for regional proxies not simply as a potential means of aggression, but as deterrents and instruments to exert pressure on regional rivals – including the US – possessing vastly superior military forces.

The Europeans should recognise and denounce Iran’s sponsorship of Islamist armed groups, some of which engage in terrorist activities, but should also trace such support to the fraught regional context. Critically, they should recall that Iran is largely irrelevant to the spread and consolidation of terrorism as a systemic threat factor, since groups such as al-Qaeda and the Islamic State are rooted in Sunni extremism, an ideology as hostile to Shia Iran as it is to European values and power. Finally, the Europeans should acknowledge that the Islamic Republic is a repressive but not autocratic polity, which even entails elements of democracy, in order to dispel the notion that support for it is limited to regime insiders.

The Europeans should dismiss accusations that such discourse amounts to an apology or appeasement of the Islamic Republic. The point is not about justifying what Iran does. It is about rejecting the demonisation of it championed by advocates of the "maximum pressure" policy. The story underlying the maximum pressure campaign is that of an Iran run by a clique of religious fanatics bent on regional domination and the destruction of Israel, who have set up a terrorism-sponsoring dictatorship that threatens not only regional but global security too.\footnote{See, amongst others, President Trump’s speech outlining its administration’s Iran policy in October 2017: White House, \textit{Remarks by President Trump on Iran Strategy}, Washington, 13 October 2017, https://www.whitehouse.gov/briefings-statements/remarks-president-trump-iran-strategy.} Europe’s discourse on Iran would demystify this apocalyptic reading while not obscuring facts. A re-crafted discourse on Iran along the lines above would question the normative premises of a policy of regime destabilisation or change, while providing legitimacy to the more realistic pragmatic engagement of Iran that the EU has long promoted.

\textbf{2.2 Facilitation of EU–Iran trade}

In principle, engagement with Iran starts with delivering the sanctions relief the E3/EU pledged when they signed the JCPOA. The threat of US extra-territorial sanctions has made this devilishly difficult, if not impossible. As noted above, the
measures EU governments have taken to counter US sanctions – the re-enactment of the blocking regulation, the expansion of the EIB’s mandate and the creation of INSTEX – have had no effect. The Europeans claim that these measures should be assessed not only against their – so far non-existent – practical impact but also as a political statement in support of the nuclear deal. While there is an element of truth in this, framing policy actions as political statements is tantamount to an admission of powerlessness. The E3 have thus intensified work on the operationalisation of INSTEX.

The instrument will probably need an injection of public money to sustain its initial activities. The reason is that, no matter how insulated INSTEX is from US regulations, EU banks and exporters are concerned that any interaction with Iran may nonetheless be toxic for their US-based interests. The E3 should press the US government to give formal reassurances that firms resorting to INSTEX would not be targeted as long as they do not run afoul of US sanctions. They should also broaden participation in INSTEX by other countries, starting with their fellow EU member states and partners in Asia, in order to increase the ledger of potential trade with Iran. Finally, they should expand the scope of trade facilitated by INSTEX to other categories of goods falling outside the remit of US extra-territorial sanctions.33

Even if operational, INSTEX would run into the further problem of a lack of liquidity on Iran’s part. The volume of trade the mechanism can facilitate is directly proportional to the amount of orders for foreign goods by Iranian companies, which is evidently limited. Things would change if the Iranians were able to inject revenues from oil sales into the system. The problem of course is that disrupting Iran’s oil sales is the main policy objective of the Trump administration, which has warned the E3 that it would punish anyone associated with INSTEX – businesses, government officials and staff – if it engages in sanctioned trade, particularly in the oil sector.34

The E3 face a difficult choice. They could open INSTEX to countries that are still willing to buy Iranian oil – namely China and perhaps Turkey and India, if they indeed resume imports from Iran. Additionally, they should explore the feasibility of an oil swap between Russia and Iran, whereby Iran would provide for some of Russia’s internal energy demand, which Russia would have otherwise provided for itself, and Russia would channel the saved funds into INSTEX. To avoid that INSTEX falls victim to US sanctions, the E3 had best set up a separate SPV to manage oil transactions with Iran. This option would surely take longer to implement, but is

While working on operationalising INSTEX, the E3 should consult with Russia, China and other countries interested in participating in the oil-related mechanism. This would give the E3 the time to test INSTEX while providing Iran with an incentive to exert further patience.

Another reason for the E3’s caution on moving too fast on the oil-related SPV is the possibility that President Trump directs an opening of talks with Iran. Deferring the establishment of the oil-related SPV would protect the E3 from accusations of spoiling Trump’s diplomatic effort. In fact, the E3 would be contributing to it. If US-Iranian talks do take place and lead to a limited US-Iranian détente, it is entirely plausible to assume that the US will have to agree to Iran increasing its oil sales. Oil revenues could then be put into the E3’s newly designed oil-related SPV (or even INSTEX, if the US agrees), which will sustain more trade than what EU banks would be ready to support given their concern about the continued existence of US sanctions.

If, on the contrary, no diplomatic opening occurs between Washington and Tehran, the E3 should be ready to go on with their oil-related SPV and dare US regulators to enforce sanctions. While risky, the move would challenge the deterrence power of secondary sanctions, which has arguably been critical to their effectiveness. After all, the US government has so far largely escaped any political backlash from its punishing of allied government officials and businesses.

The E3 would undoubtedly expose themselves to criticisms of provoking a grave crisis, but they would in fact be implementing what their stated policy has been since the US withdrawal from the JCPOA. Most likely, they would also find sympathetic voices in the US, particularly those – in the media, Congress, the Democratic party and the administration itself – who have criticised President Trump for his disregard of allies. Finally, the sanctioning of European officials and businesses would open the possibility of challenging the legality of secondary sanctions in US courts, which has never been tested. European governments should make it clear to their US counterparts they would provide officials and even businesses with support in lawsuits. Concerns about damaging the effectiveness of secondary sanctions may make the US administration wary, even persuading it to let targeted European officials and businesses off the hook.

The operationalisation of INSTEX, along with the designing of a separate oil-related SPV, should be complemented with additional trade-facilitating measures. While EU trade with Iran has shrunk, it has not collapsed altogether. A few EU-based banks continue to lend credit to those exporters – mostly SMEs – that


continue to do business with Iran. EU governments should reach out to these credit institutions, identify the main obstacles they face, and provide them with guidance and assistance. These banks have developed a valuable expertise in exerting due diligence for fear of unwittingly infringing US regulations, and EU governments and the Commission should promote an exchange of best practices across the Union. Given how sensitive exporters and especially banks are to their activities with Iran even if they are in keeping with US sanctions, European officials should take precautions not to expose them to unnecessary risks. Exchanges of best practices, for instance, could be carried out by officials who would relay the know-how collected by national banks to their counterparts from other EU countries.

2.3 Resort to retaliatory measures

Litigation is an area where Europe has made no foray beyond the amendment of the rather toothless blocking regulation in June 2018. And yet in 1996, when the regulation was first enacted, EU member states also threatened to file a complaint against US extra-territorial sanctions at the World Trade Organisation (WTO). Then US President Bill Clinton eventually demurred and agreed to grant waivers to EU firms. This time around, nothing of the sort has happened. The Europeans may have calculated that such a move would be useless or even counterproductive. Contrary to Clinton, President Trump is avowedly hostile to the WTO, to the extent that his administration has refrained from appointing new judges to the appellate body. Any proceeding against the US would consequently stall, with the additional damage that an enraged Trump may downgrade US commitments to the trade body.

While most likely ineffective in the short term – WTO cases tend to last years – filing a formal complaint would still make sense for Europe. Hostility to the WTO is a personal fixation of Trump rather than a permanent feature in the trade agendas of both major US parties. Congress, the business sector and whoever will challenge Trump in the 2020 presidential elections may take the complaint seriously. The Trump administration itself may find out that the WTO regime is after all an asset it can use to put pressure on China to correct its unfair economic practices, and could therefore be unwilling to undermine it. In short, a European WTO complaint would be a matter of moderate concern for the US government, which the EU could trade for limited exemptions from extra-territorial sanctions.

While originating in Europe’s struggle to safeguard the Iran nuclear deal, the WTO complaint would further the broader European interest in providing for more solid and longer-term protection of EU firms. After all, the US has also enacted secondary sanctions targeting certain trade with Russia and may well be tempted to take similar steps with regard to China. Passivity on secondary sanctions may turn out to be far more damaging to Europe’s economic and foreign policy interests than it seems to be when considered only through the prism of Iran. EU governments and institutions should thus act to ensure that the use of extra-territorial measures by a third country would trigger retaliation.
Such retaliation should be based on the principle of reciprocity, whereby for instance financial institutions from the country implementing secondary sanctions would be refused authorisation to carry out certain activities in the EU.\(^{37}\) Most critically, Eurozone governments should lend their full support to the European Commission’s plan to bolster the internationalisation of the euro, since the ubiquity of the dollar in financial transactions is ultimately the key to the success of secondary sanctions.\(^{38}\)

### 2.4 Increase of assistance to ordinary Iranians

Given the difficulty in revamping trade, EU countries should consider other options that may bring Iran some benefits. One way to do this is to increase direct assistance to Iranian civil society. The blockade the US has imposed on Iran has greatly exacerbated pre-existing problems of poor governance and made it harder for Iranian authorities to respond to emergencies. Disaster relief, environmental degradation, water management, drug trafficking, cultural exchanges, visa regimes (especially for students and young professionals), scholarships and tourism promotion are all areas in which modest amounts of cash can make a real difference for ordinary Iranians.

While Iran is certainly not the only country in need of assistance, the magnitude of the geopolitical crisis surrounding it and the stakes Europe has in it warrant a significant increase in the funds allocated for these purposes. EU member states should complement the Commission’s efforts, ideally in partnership with one another. In addition, the Europeans should coalesce with other trade partners of Iran, especially in Asia, and lobby the Trump administration to consent to the finalisation of trade transactions that had started before the re-adoption of sanctions but were interrupted thereafter, so that Iranian buyers can at least receive what they have paid for.

### 2.5 Reframing the ballistic missile issue in regional terms

The defence of the JCPOA by the E3/EU has relied on a fundamental principle, namely that the nuclear dimension could, and should, be dealt with separately from the other issues on which Iran’s behaviour is problematic, notably its ballistic programme and support for proxies across the region. The Europeans have wisely continued to emphasise the point in the face of the Trump administration’s claim that the nuclear deal had failed to address those issues. However, in an attempt to assuage the US government, several European countries – and especially the E3 – have increasingly framed Iran’s ballistic activities in terms not dissimilar to those they have used concerning the nuclear programme.

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This is problematic in several respects. The normative framework on which the E3 fall back to depict Iran’s ballistic programme as illegitimate is tenuous. Prior to the conclusion of the JCPOA, the E3 could point to Iran’s membership in the NPT and its transparency duty towards the IAEA to claim that Iran was in breach of its international obligations. Nothing of the sort exists with regard to the ballistic dimension. The E3’s claim that Iran’s missile and space launch testing is in contravention to UNSCR 2231 – the same resolution that incorporates the JCPOA – is only partly persuasive in legal terms. The constraints imposed on Iran are temporary and do not include bans but calls to exert restraint. Besides, it is hard to escape the perception that the E3 are applying a double standard, as they have failed to formally protest against the US’s withdrawal from the JCPOA, which is as comprehensive a violation of UNSCR 2231 as one can get. A further problem in applying “nuclear” standards to Iran’s ballistic programme is that the absence of an equivalent to the IAEA, namely an impartial third body – of which Iran is a member – tasked with monitoring compliance through tested verification mechanisms.

More broadly, it certainly looks unwise to demand substantial curbs to the ballistic programme, which Iran considers a pillar of its deterrence posture, at a time when Tehran’s decision to limit its nuclear activities via an international agreement is not paying off. One wonders what incentives Iran may have in heeding further demands to decrease its security assets if doing so in the past has brought it under a de facto blockade by the US. Moreover, the threat posed by Iran’s ballistic programme should be put into context. Ballistic missiles are undoubtedly a matter of concern as they are in theory Iran’s only viable delivery system of nuclear weapons. However, Iran is far from developing a nuclear arsenal and there is no intelligence confirming it has mastered the know-how to miniaturise a nuclear warhead so that it can fit atop a missile. This time factor should inform the threat assessment, thus allowing diplomacy to focus on more urgent matters, notably the endurance of the nuclear deal.

This is not to say that the Europeans should just ignore Iran’s ballistic programme. The wisest way to address it, however, is to focus on the problem of nuclear and ballistic proliferation in the region rather than single out Iran as the only source of insecurity. The E3’s tendency to confront Iran on the ballistic issue – France, in particular, is willing to adopt targeted sanctions – is therefore unwise, and other EU countries should block any attempt to shape EU policy along these lines. Presenting Iran with proposals for arms control arrangements that also involve its foes may have a better chance to persuade it to agree to self-imposed limits at least on certain categories of ballistic missiles.

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2.6 Intensification of consultations on regional issues

Dealing with Iran’s support for proxies in several regional theatres – Lebanon, Syria, Iraq, Palestine and Yemen – is even more difficult for Europe. One reason is the complexity of the challenge, as each of those flashpoints presents specific problems that can hardly be addressed under a single policy framework. Another is that EU member states have extensive links of friendship with Israel and solid partnerships with Arab countries spearheading the anti-Iran coalition. France, Italy, Spain and the UK all sell weapon systems to Saudi Arabia (Germany put a brake on this following the Khashoggi scandal), while the UAE hosts a French military base and Bahrain a British one. Hence, European countries generally find themselves on the front opposing Iran or Iranian-backed forces across the region, most notably in Syria. On top of that, EU countries have made no significant effort to lend more coherence to their Middle Eastern policies, which largely reflect nationally defined priorities. Reflecting their greater involvement in the region, for instance, France and the UK tend to take a harsher line than other EU countries. Unsurprisingly, Tehran’s assessment of the Europeans is that they either are secondary players or are too close to their main rivals to be trusted as neutral interlocutors.

Against this backdrop of mutual suspicion, the continued existence of a forum for dialogue on regional issues between Iran and the E4/EU (the E3/EU plus Italy) is remarkable. These political consultations – which have mostly focused on Yemen – are admittedly of modest practical impact. However, they are a sign that the Europeans – France and the UK included – do not consider Iran as the only source of insecurity in the region and are unwilling to subscribe to a policy of containment. The E4/EU-led political consultations serve the purpose of keeping channels of communication open, which is essential at a time when exchanges between Iran and its rivals are minimal or non-existent and the risk of accidental escalation is on the rise. The E4/EU should intensify their consultations with Iran and agree on established mechanisms to ensure homogeneity in the relaying of messages they hear from the Iranians to their partners in the EU, across the Atlantic and in the region.

2.7 Waging a diplomatic campaign in Tehran and Washington

The final, but by no means least important, component of a more coherent European Iran strategy involves waging a sustained diplomatic campaign in both Tehran and Washington. Europe’s political message to the Iranians that staying in the JCPOA is still in their interest because it prevents international isolation, reduces the risk

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41 A recent example of this is the British government’s decision to designate Hezbollah, the Shia armed group that controls Southern Lebanon and arguably Iran’s most effective ally in the Levant, as a terrorist organisation. The rest of EU countries list only Hezbollah’s “military wing” as such.

of military escalation and gives Europe itself the leeway it needs to work out ways to ease the economic blockade would carry more weight if EU leaders invested in it more consistently. Critically, the Europeans should establish a link between their action in defence of the JCPOA and the degree to which Iran continues to abide by it. Iran should be aware that overcoming a critical threshold in the production of LEU, the level of uranium enrichment or the instalment of advanced enrichment machinery will increase the chance of triggering the snapback of UN sanctions, as foreseen by the JCPOA itself.

Leaving the task to professional diplomats is not sufficient, nor are the sporadic joint statements the E3/EU have come out with in reaction to the most consequential decisions taken by the US or Iran itself (although these are surely warranted and welcome). Visits to Tehran by E3 or E4 foreign ministers (German Foreign Minister Heiko Maas’s recent trip to Tehran is a welcome, but isolated step), as well as by HR Mogherini, would help, as would meetings between President Rouhani and his counterparts in European capitals, possibly in an E3 or E4 format. Incidentally, this would also be an ideal format to underline how harmful alleged assassination plots of Iranian dissidents in European countries (or elsewhere, for that matter) are to Europe’s attempt at saving the nuclear deal.

The other leg of the diplomatic campaign involves a more determined effort at defending and promoting Europe’s policy stance in Washington. US audiences – not only the administration but also Congress and the public opinion – should be reminded of the risks the US pull-out has exposed Europe to, and of the heavy costs an end of the JCPOA would impose.

EU officials, ministers and leaders should recall the importance of respecting international pacts and lament the erosion of transatlantic solidarity caused by extra-territorial sanctions. They should cast doubt on the notion that the clerical regime will capitulate to US demands and express concern that a sanctions-only policy may eventually narrow down US options and increase the appeal of regime change for a lack of practicable alternatives. They should emphasise that the nuclear dimension can and should be treated separately from other issues on

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which the US is at loggerheads with Iran, and that the JCPOA is conducive, not an
obstacle, to a policy aiming at moderating Iran’s behaviour. They should request
that the US administration restore waivers on Iran’s oil sales or, at the very least, on
sanctions targeting nuclear cooperation with Russian and Chinese companies that
Iran needs in order to comply with the terms of the JCPOA. Finally, they should
blame the current heightening of tensions on the US “maximum pressure” policy
and warn that Europe’s support for strikes against Iran would most likely not be
forthcoming.

EU officials may relay this message in private conversations with US diplomats,
but foreign ministers and leaders should be ready to go public to make their
case. Twice in the past have E3 foreign ministers and the HR penned op-eds in
favour of diplomacy in leading US newspapers. Yet, apart from French President
Emmanuel Macron’s mention of the JCPOA in his speech before Congress in the
run-up to Trump’s withdrawal decision, US audiences have not been fully exposed
to European concerns and reasoning. Op-eds, interviews with the media and
briefings with Washington think tanks, academic institutions and interest groups
should become part and parcel of the agenda of any high-level official, minister or
leader from Europe visiting the US. Given that the time-window to save the JCPOA
is closing, there has never been a more pressing moment for Europeans and the
EU to speak up.

Conclusion

The conclusion of the JCPOA stands out as a rare achievement in Europe’s
otherwise unimpressive foreign policy record. Even if the nuclear drama mostly
revolved around the US and Iran, the Europeans played their secondary role to
remarkably good effect. The nuclear talks that eventually delivered the agreement
after all originated from an initiative the E3, later joined by the HR in the E3/EU
format, had started in 2003–4. In the dozen years that followed, the E3/EU were
able to attract the US, along with China and Russia, into a negotiating framework
that worked as a catalyst for UNSC unity and a forum for crisis management.
When the deal was finally struck in July 2015, the Europeans could legitimately
congratulate themselves for having promoted their interest in the endurance of
the nuclear non-proliferation regime and the removal of a trigger for conflict in
the Middle East.

45 Philippe Douste-Blazy, Joschka Fischer, Javier Solana and Jack Straw, “Iran’s Nuclear Policy
consilium.europa.eu/ueDocs/cms_data/docs/pressdata/en/articles/86360.pdf; Laurent Fabius,
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46 French Presidency, Speech by the President of the Republic, Emmanuel Macron, at the Congress
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President Trump’s decision to cease US compliance with the deal casts an ominous shadow over this positive assessment. The threat of US secondary sanctions has proven far more effective in impacting Europe’s foreign policy than the stated intentions of EU governments. The latter have been incapable of protecting their own banks and companies, thus failing to come through on the promise of sanctions relief and trade exchanges encapsulated in the JCPOA. The Europeans (and not only the Europeans) have found out that they can achieve very little in the face of determined US opposition.

Iran has eventually taken note and has recently qualified its policy of unilaterally respecting a multilateral agreement. This new approach signals a gradual shift from strategic patience to limited strategic confrontation. The Iranians know that leaving the JCPOA carries huge risks, including that of accidental or deliberate military escalation. That is why Iran has made clear that it is ready go back to full compliance with the JCPOA if it gets something in return. In other words, it has given the other JCPOA signatories, including the E3/EU, the chance to affect its nuclear calculations and, consequently, the geopolitical developments that may ensue from them.

Against this backdrop, the defence of the JCPOA emerges once again as the key to a European role in Middle Eastern geopolitics. It is imperative that Europe take action to influence Iran’s cost-benefit analysis. Whatever hope the E3 may have tacitly cultivated that Iran would be willing to exert patience until the next US presidential election should be put aside. The Europeans should inform their support of the JCPOA with the assumption that there might not be a JCPOA when the 2020 election arrives.

In the year since the US withdrawal, the Europeans have taken a number of steps that are not irrelevant politically, even if their practical impact has been non-existent. They should now double down on those steps, take others and invest greater political energy in the process. They should delegitimise a policy of regime change or destabilisation by countering the demonisation of the Islamic Republic. They should facilitate EU–Iran trade, including by envisaging ways to keep Iran’s ability to sell oil abroad. They should increase assistance to ordinary Iranians. They should retaliate against US extra-territorial sanctions, starting with filing a formal complaint with the WTO. They should insist on insulating the nuclear dimension from Iran’s ballistic activities and regional behaviour. Finally, they should give political cover to this array of actions through sustained personal investment by political leaders and foreign ministers, as well as civil society, academia and think tanks. The stakes are sky high for Europe: time has come to draw up a last line of defence for the JCPOA.

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