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# EUROPE AND IRAN IN A FAST-CHANGING MIDDLE EAST



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## FOREWORD

ERNST STETTER AND NATHALIE TOCCI

Maintaining a positive agenda of engagement between the European Union and Iran is today more urgent than ever.

Against the backdrop of regional tensions in the Middle East and the international fallout from the Trump administration's unilateral withdrawal from the Joint Comprehensive Plan of Action (JCPOA), this engagement is proving challenging but the importance of sustaining it is critical.

Following a year-long research and public engagement project, the Foundation for European Progressive Studies (FEPS) and the Istituto Affari Internazionali (IAI) present this timely publication, which is aimed at providing a comprehensive analysis of the challenges in the relationship between Iran and the EU, as well as evidence-based recommendations as to how these challenges can be tackled and overcome.

A recurring theme throughout this edited volume is the recognition that the EU as a whole and its individual member states maintain a key interest in the survival of the JCPOA and should expand engagement with Iran in all possible fields, fostering the conditions for involving Iran in the quest for progressive solutions to the many conflicts and tensions besetting the Middle East.

Advocating in favour of the establishment of confidence-building measures, the creation of a substantive security dialogue and the promotion of a positive agenda of regional cooperation, an authoritative and diverse group of scholars and practitioners from Iran, the Middle East and Europe aim to contribute with this volume to the drafting of a new page in the EU's engagement with the country. We trust that this can only assist

in encouraging a more informed discussion on the common interests and challenges affecting EU-Iran relations and the broader Middle East as we work towards a more sustainable and progressive future for the region as a whole.

Brussels - Rome, May 2019

## INTRODUCTION

ANDREA DESSI AND VASSILIS NTOUSAS

This edited volume marks the end of a research and public engagement project entitled “Europe and Iran in a Fast-Changing Middle East: Confidence-building Measures, Security Dialogue and Regional Cooperation”. The project was designed and implemented by the Foundation for European Progressive Studies (FEPS) and the Istituto Affari Internazionali (IAI), with the support of the European Parliament, the Italian Ministry of Foreign Affairs and International Cooperation (MAECI) and the Compagnia di San Paolo of Turin.

Launched in April 2018, one month before the US Trump administration announced its unilateral withdrawal from the Iran nuclear deal, or Joint Comprehensive Plan of Action (JCPOA), the project assessed the implications of Trump’s decision for Europe, Iran and regional geopolitics. This volume, which collects the various analyses produced during the one-year project, dissects the progressively worsening outlook for regional security in the Middle East and explores avenues for the EU and its member states to contribute to a de-escalation of tensions via multilateral dialogue and its principled defence of the JCPOA.

Stemming from an ongoing strategic partnership between FEPS and IAI, which has involved a number of research projects on EU policy in the Middle East, Africa and the Sahel, the project benefitted from cooperation with the Tehran-based Institute for Political and International Studies (IPIS). The project presided over an exchange of study visits and the holding of parallel workshops in Rome and Tehran. A high-level IPIS delegation visited IAI in Rome in May 2018 and a seven-member FEPS-IAI delegation visited Tehran in January 2019.

Against the backdrop of mounting transatlantic tensions surrounding European efforts to salvage the JCPOA, the edited volume analyses different dimension of EU-Iran relations, Iranian foreign and domestic policy and the resurgence of geopolitical tensions and competition between pro- and anti-Iran groupings in the Middle East. Aimed at outlining challenges but also potential areas of convergence and cooperation between regional actors and their extra-regional backers, the volume stems from an understanding of the centrality of the JCPOA for European interests in the Middle East and the EU-Iran relationship, which is thoroughly developed in the final contribution to this book.

Composed of five thematic reports and one final strategy paper, individual chapters are authored by leading European, Iranian and Middle East experts. The analysis therefore benefits from different perspectives and thematic focuses, providing a comprehensive overview of recent security, economic and political developments in the Middle East and their significance for Europe in general and for the EU-Iran relationship in particular.

The first chapter, authored by Adnan Tabatabai, outlines the social and political ramifications the US's "maximum pressure" policy is having on Iran. In emphasising that the reform-oriented and pragmatist currents in Iranian politics will likely be weakened by the US's return to sanctions, the author also posits that President Hassan Rouhani and Foreign Minister Javad Zarif may consolidate their position by adopting a more critical and confrontational approach towards the US and its regional allies. In addressing Iran's worsening economic and environmental outlook, the analysis outlines how these challenges are unlikely to cross a critical threshold as Iranian authorities will do everything possible to maintain the system's stability. However, such ad-hoc measures will fall short of introducing meaningful developmental policies, as the overall priority will be economic and political survival rather than sustainable growth.

The second thematic report in the volume, authored by Ellie Geranmayeh, examines the resurgence of intra-regional rival-

ries and competition between Iran and those countries opposed to it. Outlining how the Trump administration's strong support for Saudi Arabia, the United Arab Emirates (UAE) and Israel against Iran and its allies are fuelling regional tensions in the Middle East, the author examines how the EU and its member states need to carefully navigate these regional tensions, employing their limited leverage to resist any further escalatory action in the region, promoting dialogue and limited cooperation instead.

Authored by Luciano Zaccara, the third thematic report zeros-in to focus on the intra-Gulf Cooperation Council (GCC) crisis surrounding Qatar by analysing the motivations that led Saudi Arabia, the UAE, Bahrain and Egypt to sanction and blockade the small Gulf kingdom starting in late May 2017. In addressing the crisis, now in its second year, the author outlines how the narrow relationship between Qatar and Iran was among the main factors mentioned by blockading states as justification for the restrictive measures implemented towards Qatar. While the Qatar-Iran relationship was mainly grounded in trade, Iran has made the most of the crisis, improving its image and economic relations with Qatar. Yet, these gains may well be short lived, due to the nature of threat perceptions in the region and the hardening animosity towards Iran emanating from other Arab Gulf states, Israel and the US Trump administration, making it unlikely that Iran become a normalised state actor in the Gulf in the short-to-medium term.

Moving from the regional level to that of global actors, the fourth thematic report, authored by Ranj Alaaldin, tackles the role and interests of extra-regional actors in the Middle East, including the US, Russia and China. In analysing the multiple overlapping alliance frameworks that underpin the Middle East's political and security challenges, the chapter examines how these have shaped opportunity structures for alternative authorities on the ground but also at the international level. By dwelling on the ambitions of Russian and Chinese foreign policy towards the region, the chapter outlines the risks for US and European interests but also the shortcomings of Beijing's and

Moscow's efforts to accrue leverage and influence over regional actors and particularly Middle Eastern citizens.

The fifth thematic report, authored by Cornelius Adebahr, investigates the economic and commercial dimensions of the EU-Iran relationship and the growing challenges posed to its future development by the election of Donald Trump and Washington's re-imposition of sanctions on Tehran. The chapter first outlines the gradual improvements in EU-Iran trade and economic cooperation following the JCPOA, and subsequently moves to analyse how the US's 'maximum pressure' policy, and in particular the threat of US secondary sanctions targeting European companies doing business in Iran, have posed enormous challenges to the EU's ability to sustain its engagement efforts towards Tehran. As a result, and due to a considerable contraction in trade and commercial relations since 2018, the JCPOA is under significant strain, undermining European hopes that the agreement could gradually pave the way for a more comprehensive relationship with Tehran.

The final strategy report, co-authored by Riccardo Alcaro and Andrea Dessì, provides a comprehensive analysis of European interests tied to Iran and the successful implementation of the JCPOA. The authors outline how the EU's support for the JCPOA and, more broadly, for a policy of engagement with Iran spans the full spectrum of European normative, security and economic interests. In advancing progressive recommendations addressed to EU actors, the authors focus on various dimensions of EU-Iran relations, calling on the EU to stand firm in its principled defence of the nuclear deal.

In conclusion, the editors of this volume would like to thank a number of individuals who provided valuable assistance in the project's implementation, leading up to the present publication. On top of the authors of the individual chapters, our thanks go to Riccardo Alcaro, IAI's Research coordinator, Head of the Global Actors programme and editorial director of the IAI Papers series; Silvia Colombo, Senior Fellow within IAI's Mediterranean and Middle East programme, for her valuable

inputs and suggestions on the project's focus and outreach dimensions; Nathalie Champion, IAI's Programme Assistant, for her help in organising events and the study visits to Rome and Tehran; IPIS for the valuable discussions and meetings in Tehran and fruitful cooperation in hosting the joint FEPS-IAI delegation; Ernst Stetter, the outgoing FEPS Secretary General, and Nathalie Tocci, IAI's Director, for overseeing the project and, last but not least, Flavia Clementi, IAI's Intern, for her assistance in gathering research and statistical data for the final strategy report and in helping make this publication a reality.



# 1

## **BACK TO CRISIS MODE: IRAN'S QUEST TO MANAGE INTERNAL CRISES AND EXTERNAL PRESSURES**

ADNAN TABATABAI

### **1. The JCPOA and President Hassan Rouhani's foreign policy conduct**

The US withdrawal from the 2015 Iran nuclear agreement known as the Joint Comprehensive Plan of Action (JCPOA) between Iran and the E3/EU+3 – comprising France, Germany, the United Kingdom plus China, Russia and the United States, as well as the European Union<sup>1</sup> – is exerting tremendous pressure on the Iranian government led by President Hassan Rouhani. Just as its completion helped boost Rouhani's presidency, the potential prospect of the JCPOA falling apart is already undermining the goals his government had laid out for its second term (2017–2021). In order to make better sense of the extent to which the “JCPOA crisis” is likely to affect both Iran's foreign policy conduct and domestic power balance, it is important to recall the expectations that came with the deal and the overall logic behind the Iranian elite's consensus to play its part in completing an agreement with the E3/EU+3.

Rouhani ran his 2013 electoral campaign on the promise of resolving the then decade-old nuclear standoff. He presented the resolution of the dispute as the key to both improving Iran's foreign relations and overcoming domestic challenges.

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1. The group of states composed of France, Germany and the UK (E3) plus the permanent UN Security Council veto powers (China, Russia and USA) is also called the P5+1: the five permanent members of the UN Security Council – China, France, Russia, UK and USA – plus Germany.

When Rouhani announced his candidacy, not many believed he could be a serious contender. He was known as a thoroughly security-minded clerical figure who preferred not to be in the spotlight. He served as a deputy military commander during the 1980–88 Iran–Iraq War, and since then was known as a key strategist in Iran’s defence and security apparatus. Portraying him as a Reformer, as was done in many Western outlets and commentaries, was hugely misleading. He was seen by Reformists as an opportunity for future political capital, which is why they activated their mobilisation capabilities for his presidential campaigns in 2013 and 2017, and asked their own candidate Mohammad Reza Aref to withdraw his candidacy in 2013 and support Rouhani’s presidential bid.

## 1.1 The emergence of the “Moderates” as a third political camp

During Rouhani’s candidacy and later presidency, Iran’s political landscape went through an interesting development. Prior to the 2013 elections, two political camps existed: the Reformists (*estaahlab-ha*) and the Principlists (*osulgeraa-ha*). Both camps feature organisations that resemble parties in that they represent large coalitions of interest groups and political factions, but are more loosely organised and dependent on key personalities compared to a political party in the Western sense of the term.<sup>2</sup> The Reformists are those in Iran’s political establishment who seek to gradually liberalise the political, cultural and social sphere while pledging allegiance to the Constitution of the Islamic Republic. The Reformists’ foreign policy vision entails seeking to normalise relations with Europe and minimise tensions with the United States. Their leading figure ever since their emergence as a political camp in the mid-1990s has been former president Mohammad Khatami (1997–2005). The

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2. For more information and analysis on the different political groups within Iran’s main camps, see: Adnan Tabatabai, “Iran Votes. A Primer on the Elections for Parliament and the Assembly of Experts”, in *CARPO Reports*, No. 2 (25 February 2016), <http://carpo-bonn.org/wp-content/uploads/2016/02/CARPO-Report-02-Tabatabai.pdf>.

Principlists constitute the more conservative elements of Iran's political elite. Their overall political conduct is driven by a comparably stronger emphasis on the Islamic Republic's founding principles – particularly the Islamic/Shiite and anti-imperialist dimensions which define a foreign policy that prioritises the Muslim world as well as relations with Eastern (and arguably Latin American) powers.

Rouhani managed to rally behind him moderate and pragmatic elements of both the Reformist and Principlist camps. After eight years of a Reformist government under Khatami followed by eight years with a Principlist administration led by conservative Mahmud Ahmadinejad (2005–2013), the viewpoint emerged that a cross-factional government may serve the country best. The trend towards a new centrist political faction could be observed for some years prior to the 2013 presidential elections, and manifested itself in the formation of the Moderates (*e'tedaaliyoun*). This meant, however, that the more radical currents of both the Reformists and Principlists became side-lined in their own camp as this pull to the centre took shape. Yet, while the most devoted Reformists felt this trend might lead to their political prevalence in the long term, radical parts of the Principlist camp saw their political relevance slowly recede – hence their fierce opposition to any internal and external policy the Rouhani administration has introduced.

## 1.2 Merging domestic and foreign affairs

By linking internal and external affairs through Rouhani's focus on the relevance of the nuclear dossier, his electoral campaign arguably became the first in the history of the Islamic Republic to be mainly defined by a foreign policy issue. Prior to his campaign, foreign policy did not play a primary role for either the electorate or the political elites. This approach and his electoral victory gave Rouhani the mandate to prioritise the nuclear file during his first term. All other pressing issues were viewed as subordinate, both by the political leadership and by the broader public. Expectations rose that challenges

ranging from economic hardship to environmental problems to social and cultural affairs would be more easily overcome once the nuclear negotiations were finalised and an agreement reached.

In a quite unprecedented manner, Iran's media set up an impressively diversified and detailed coverage of the ongoing nuclear negotiations between Iran and the E3/EU+3. Pros and cons were laid out extensively. Apart from technical aspects such as the number of centrifuges and the precise capabilities of Iran's nuclear facilities, ideological considerations such as whether direct talks with the US should be conducted, or how far the West should be trusted, were the subject of heated op-eds, TV talk shows and radio commentary. A media debate as diverse, contentious and informative as the one on Iran's nuclear file would not have been possible, had the state elite not deliberately chosen to foster it. News websites ran specially designated dossiers to cover the ongoing talks. Frequently Asked Questions were offered online to inform readers in full about which components of Iran's nuclear programme were discussed. Opponents of the nuclear accord featured multiple op-eds in which the dangers of dealing with the West were highlighted. Legal experts warned about the continuous psychological effect of sanctions if they were only waived but not lifted. In a similar fashion, TV and radio debates on the nuclear talks were granted prime time coverage. To appreciate this fully, one only needs to compare the media discourse on the nuclear negotiations with that on other foreign policy issues such as the war in Syria or the situation in Iraq, where the range of opinions was, and in most respects still is, much more limited.

As a result, a highly sophisticated public debate about the course of the nuclear negotiations took place among the public. Polls and surveys were conducted regularly to assess the mood among ordinary Iranians on the ongoing talks. It can be argued that the overwhelming support for Iran's negotiating team – headed by foreign minister Javad Zarif – made the country's leadership more inclined towards finding a compro-

mise. Both ordinary Iranians and the Islamic Republic's elite seemed unified on one shared ambition: to "normalise" Iran on the global stage.

The path towards normalisation has entailed four steps in Iran's revised foreign policy conduct: institutionalisation of Iran's foreign relations; finalisation of a multilateral agreement; implementation of the agreement; and de-securitisation through implementation.<sup>3</sup>

### 1.3 Institutionalisation of Iran's foreign relations

For a host of reasons Iran's political leaders and parts of its population share a deeply internalised distrust towards world powers in general and the United States and United Kingdom in particular. The same, however, can be said about how Western countries view Iran. In an environment defined by mutual mistrust, decision-makers in Tehran have developed the preference to process foreign affairs through multilateral institutions, particularly when an issue related to Iran's security interests is on the agenda. The nuclear agreement has been such a dossier.

Iran has thus always insisted on seeing the European Union as the main arbiter of the nuclear negotiations and the United Nations as the legal backbone of the JCPOA through UN Security Council Resolution 2231.<sup>4</sup> Furthermore, Iran has shown willingness to open a separate confidential talking channel with the International Atomic Energy Agency (IAEA) to address the possible military dimension (PMD) of Iran's past, present and future activities in the framework of its nuclear programme.<sup>5</sup>

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3. On the basis of multiple conversations with policymakers, analysts and experts in Iran, the author of this paper proposes this four-step process as being the underlying logic behind Iran's readiness to finalise and implement the JCPOA.
  4. UN Security Council, *Resolution 2231 (2015)*, 20 July 2015, [https://undocs.org/S/RES/2231\(2015\)](https://undocs.org/S/RES/2231(2015)).
  5. Rodolfo Quevenco, "IAEA Board Adopts Landmark Resolution on Iran PMD Case", in *IAEA News*, 15 December 2015, <https://www.iaea.org/node/17168>.

## 1.4 Finalisation of a multilateral agreement

The JCPOA and the IAEA resolution on Iran's PMD case have been two files on which Iranian negotiators have succeeded in achieving a multilateral agreement on a sensitive, security-related issue with international interlocutors. Iran's leadership always made clear that talks – particularly those with the US – were not held simply for the sake of holding talks, but must serve a clear goal. One should therefore invest in achieving a compromise, which could then pave the way for an agreement.<sup>6</sup> It can be assumed that in no other format than the E3/EU+3 could the leadership of the Islamic Republic have developed an internal consensus strong enough to enter multilateral talks, which would include one-on-one meetings between Iranian and US foreign ministers. Thanks to the multilateral format, Iran's decision-makers were able to justify vis-à-vis opponents on the home front that these were not negotiations with the US, but with a group of states (i.e., the E3/EU+3) under the auspices of the UN. It was this format that helped the Iranian side to finalise the agreement and succeed in getting it ratified in its parliament, which in 2015 was still composed mainly of opponents of Rouhani.

## 1.5 Implementation of the multilateral agreement

Iran's commitment to abide by the terms of the JCPOA has been confirmed by the IAEA in 12 reports since December 2015.<sup>7</sup> All necessary commitments have been adopted with regard to the number of operating centrifuges, the amount of heavy water that can be stored in Iran, the configuration of Iran's nuclear sites, the shipping of 97 per cent of Iran's enriched uranium abroad and the limitations of the research and

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6. Ali Khamenei, *Leader's Speech in Meeting with Government Officials*, 23 June 2015, <http://english.khamenei.ir/news/2088>.

7. International Atomic Energy Agency (IAEA), *Verification and Monitoring in the Islamic Republic of Iran in Light of United Nations Security Council Resolution 2231 (2015)*, GOV/2018/47, 12 November 2018, <https://www.iaea.org/sites/default/files/18/11/gov2018-47.pdf>.

development activities of Iran's nuclear programme. It took huge political efforts for Rouhani's government to convince internal opponents of the JCPOA and a sceptical public that these (intrinsically technical but highly politicised) steps were worth taking in order to get to an agreement. On 9 April 2015, a week after Iran and the EU made a political statement in Lausanne heralding the incoming finalisation of the deal,<sup>8</sup> Supreme Leader Ayatollah Ali Khamenei said that for him the negotiations on the nuclear issue are "an experience [...]. If the other side stops its usual obstinacy, [...] we can negotiate with it over other matters as well".<sup>9</sup> This sentence very clearly entails the idea that, if implementation went smoothly, it could open pathways to other areas for negotiation. Both President Rouhani and Foreign Minister Zarif made similar comments in speeches, articles, tweets and interviews.

## 1.6 De-securitisation through implementation

Pursuant to the JCPOA, Iran has agreed to an intensified inspections regime, carried out on Iranian soil by the IAEA. Iran's security apparatus no longer views it as a threat to allow international inspectors to enter nuclear facilities. The Joint Commission – the newly established entity in which all parties of the JCPOA regularly meet – has served as a useful mechanism to address and discuss JCPOA-related issues. In this high-level talking channel it effectively became a new normal for Iranian representatives to interact with US counterparts, addressing sensitive issues pertaining to Iran's nuclear programme and holding discussions on JCPOA-related matters – be they technical or political. The JCPOA has thus contributed to de-securitising high-level exposure to interactions with the US.

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8. Spencer Kimball, "Tentative Iran Nuclear Deal Reached in Lausanne After Marathon Negotiations", in *Deutsche Welle*, 2 April 2015, <https://p.dw.com/p/1F-2Dv>.

9. Ali Khamenei, *Leader's Speech in Meeting with Panegyrists*, 9 April 2015, <http://english.khamenei.ir/news/2045>. See also Office of the Supreme Leader, *Leader's Remarks on the Occasion of the Birth Anniversary of Hazrat Fatemeh*, 10 April 2015, <http://www.leader.ir/en/content/13068>.

During and after the nuclear talks, a direct line of communication existed between Iran's Foreign Minister Zarif and then US Secretary of State John Kerry. In Iran, the taboo against direct contact on the highest diplomatic level with the US was thus overcome. The value of this achievement became clear when ten US Navy Seals were detained and released shortly afterwards in January 2016.<sup>10</sup> The incident occurred on the night before the JCPOA was scheduled to enter its implementation phase, and was able to be resolved in a matter of hours only because the direct line between both foreign ministers was there. Kerry emphasised the indispensable role of diplomacy in this incident, while soberly warning about how badly things could have gone just a few years earlier.<sup>11</sup>

It is through these carefully taken small steps that Iran sought to normalise its relations with world powers. This was seen as the most promising path towards improving trade relations, securing foreign direct investment and eventually economic recovery and growth. The consensus among key decision-makers in Iran was solid enough to withstand fierce opposition by hard-line elements within the Principlist camp.<sup>12</sup> Rouhani and Zarif were the main drivers behind this conduct – seeking de-securitisation and normalisation through institutionalisation. Yet, it is important to note that the JCPOA would not have been finalised had the Supreme Leader and the top brass of the military and security apparatus, including the Islamic Revolutionary Guard Corps (IRGC), not consented to it. Thus, assumptions that the nuclear agreement was sealed against the will of Supreme Leader Khamenei and/or the IRGC are misleading and ultimately wrong.

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10. "Iran Frees U. S. Sailors Captured in Persian Gulf", in *CBS News*, 13 January 2016, <https://www.cbsnews.com/news/iran-continues-to-hold-10-u-s-sailors>.

11. *Ibid.*

12. The most outspoken and zealous opponents of the nuclear agreement are members of the arch-conservative Resistance Front (*jebhe-ye paaydaari*), a far-right current of the Principlist camp. For an overview of their main critique, see: Adnan Tabatabai, "Iran Nuclear Talks: What do Rouhani's Hard-line Critics Want?", in *LobeLog*, 11 May 2014, <https://lobelog.com/?p=24371>; and "Iran's Rouhani on Global Stage as Opponents at Home Speak Up", in *LobeLog*, 23 September 2014, <https://lobelog.com/?p=26329>.

## 2. The JCPOA crisis and its effect on Iran's domestic landscape

Iran's revised foreign policy conduct, as outlined above, did not bear the fruits it had promised. In November 2016, Donald Trump was elected president of the US. He had pledged during the campaign that he would withdraw the US from the JCPOA, which he eventually did in May 2018. Concerns about the new US administration radically changing course on the nuclear agreement had been voiced in Iran. In August 2015, during a panel discussion at the Strategic Council on Foreign Relations in Tehran, Zarif was asked by academic and JCPOA critic Foad Izadi what Iran would do if the next US president did not respect UN Security Council Resolution (UNSCR) 2231. Zarif responded with the assurance that "the US has no choice" but to adhere to UNSCR 2231.<sup>13</sup> Statements like this are currently haunting Rouhani's government, as clips of public remarks like the one by Zarif have been going viral on Iranian social media channels.

### 2.1 Rouhani and Zarif will survive but their foreign policy approach will not

While the foreign policy conduct championed by Rouhani and Zarif has been effectively thwarted by the US violation of the JCPOA (which it left without justified cause), both Rouhani and Zarif do not have to worry much about their posts. Adjusting their foreign policy approach has not been too difficult a task for them. Almost three years are left in Rouhani's second term as Iran's president. He will overcome his ambitions to de-securitize or even normalise relations with the US, or his attempt to seek what some coined "a domestic JCPOA" (in reference to Rouhani's electoral promises to open up and ease the political landscape in Iran).<sup>14</sup> Instead, he has started to adopt a

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13. See clip of question by Foad Izadi and response by Javad Zarif (in Farsi), 27 May 2018, [https://twitter.com/Foad\\_Izadi/status/1000689323019300864](https://twitter.com/Foad_Izadi/status/1000689323019300864).

14. "'Great Work' Expected from Rouhani" (in Farsi), in *Iranian Students' News Agency (ISNA)*, 2 September 2017, <https://www.isna.ir/news/96061106245>.

much harsher rhetoric towards Washington, and unlike during his first term, repeatedly lashes out against Israel.<sup>15</sup>

Even though anti-US sentiments are at their peak in Iran due the overly hostile policies coming from the White House, Rouhani's rhetorical shift will cost him dearly in the Reformist camp and among his electorate. At the same time, Rouhani has gained support from conservative Judiciary chief – and newly appointed head of the Expediency Council – Ayatollah Sadegh Larijani-Amoli (who was Rouhani's main target during his second electoral campaign). Perhaps more important for Rouhani has been the support he has received from Brigadier General Qassem Soleimani, the commander of the Quds force – the IRGC branch responsible for operations abroad – who penned a letter of gratitude to the president, praising him for threatening to close the Strait of Hormuz and taking a harder stance against Israel.<sup>16</sup> Similarly, Foreign Minister Zarif has warned that, while he is still advocating engagement, he would decide to opt for independence “at the split of a second”<sup>17</sup> if engagement continues to deliver no significant results or no results at all. Even though hard-line elements keep attacking Zarif, he still garners support from parts of the establishment one would not necessarily expect. None other than conservative cleric Grand Ayatollah Nasser Makarem-Shirazi has criticised those parliamentarians who are asking for Zarif to step down. It is wrong, the cleric has argued, to weaken a minister “who is standing tall against the enemy”.<sup>18</sup>

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15. Tom O'Connor, “Iran's President Gets Tough on U. S. And Israel, Giving Him Support He Needs From Shadowy Top General”, in *Newsweek*, 4 April 2018, <https://www.newsweek.com/iran-president-threatens-us-israel-giving-him-support-needs-top-general-1008560>.

16. “IRGC Commander Hails Iran's President Stance on Oil Export”, in *Islamic Republic News Agency (IRNA)*, 4 July 2018, <http://www.irna.ir/en/News/82962038>; “General Soleimani's Message to the President” (in Farsi), in *ISNA*, 5 July 2018, <https://www.isna.ir/news/97041307669>.

17. Italian Institute for International Political Studies (ISPI), *Med2018 – Special Dialogue with Mohammad Javad Zarif* (video), 22 November 2018, <https://youtu.be/3xydLffH6C8>.

18. “Ayatollah Makarem Shirazi: The Impeachment of Ministers Who Stand Against the Enemy Is Not Right” (in Farsi), in *ISNA*, 28 November 2018, <https://www.isna.ir/news/97090703004>.

## 2.2 Potential hard-line backlash and elite realignment

Iran has gone through the experience of unmet promises of normalisation before, specifically during the era of Reformist President Mohammad Khatami. Due to the amount of internal pressure on his reform agenda and the hostile policies of then US President George W. Bush, Khatami was not able to deliver. As a consequence, in the decisive second round of the 2005 presidential elections roughly 20 million eligible voters, most likely former supporters of Khatami, decided not to cast their ballot.<sup>19</sup>

Thanks to their commitment and ideological zeal, Principlist voters eventually delivered the presidency to hard-line conservative Ahmadinejad, who was then controversially re-elected in June 2009 for four more years. In 2013, it was the Principlists' promise of invulnerability to external pressure that was unmet. Even though neither Rouhani nor his cabinet can be regarded as Reformist, figureheads of the Reformist camp (Khatami included) gave their backing to Rouhani. Their support was essential to mobilise voters not only in 2013, but also in Rouhani's successful re-election campaign in 2017 – held in parallel with Municipal Council elections that also saw Rouhani-friendly candidates win – as well as during the 2016 parliamentary and Assembly of Experts elections, which secured a Rouhani-leaning majority in the *Majles*, the Iranian parliament.

However, Rouhani has so far failed to show proper appreciation towards the Reformists, as he has fallen short of his electoral promise to improve civil rights and failed to include Reformists in his cabinet. In October 2018, Rouhani attended a meeting to engage Reformist leaders.<sup>20</sup> The president was heavily criticised but still got the majority of the camp behind him – in the absence of viable alternatives, one can argue. A joint commit-

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19. See Iran Data Portal: *2005 Presidential Election*, <http://irandataportal.syr.edu/?p=955>.

20. Rohollah Faghihi, "Rouhani Finally Engages with Reformists, But Some See Too Little Too Late", in *Al-Monitor*, 30 October 2018, <http://almon.co/34m9>.

tee was formed to ensure that communication channels between Reformists and the president would be used more frequently.<sup>21</sup> But given the grievances expressed against Rouhani by many Reformist interlocutors, and the scant attention the president has been paying to them, a tacit rift can be sensed.

Rouhani may very well have come to the conclusion that he no longer needs the backing of Reformists. As a second-term president, he will not be allowed to run again in 2021, and parliamentary elections will be held in 2020 with only one year left in his presidency. For Rouhani, the years after 2021 are increasingly becoming a priority. He certainly wants to ensure he does not end up like Khatami, who is effectively banned from the political scene, or like Ahmadinejad, who has turned into a marginal and at times comical figure (and whose closest aides have been arrested one after the other on corruption charges). As a politician with a three-decade track record in Iran's security establishment, Rouhani is equipped with the necessary capital to navigate through the intricacies of the Islamic Republic.

Right after his electoral victory in 2017, Rouhani sat down with top-level IRGC commanders to settle their disputes.<sup>22</sup> In general, it should be noted that the most popular IRGC figure in Iran, Soleimani, while rarely commenting on domestic affairs, has presented himself as leaning towards Rouhani's Moderate camp. During the 2016 parliamentary election campaigns, Soleimani threw his political weight behind parliament speaker Ali Larijani,<sup>23</sup> who is known as a close ally of President Rouhani. It will be important to watch how this interaction between Iran's top military brass and Rouhani develops. It will be a decisive factor in Rouhani's post-presidency career.

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21. "Task Force on Coordination between Government and Reformists has been formed" (in Farsi), in *Mehr News*, 4 October 2018, <https://www.mehrnews.com/news/4420448>.

22. "Top IRGC Commanders Meet President Rouhani", in *Tehran Times*, 24 July 2017, <https://www.tehrantimes.com/news/415341>.

23. Reza HaghghatNejad, "Hardliners Flinch as Star Commander Backs Larijani", in *IranWire*, 24 February 2016, <https://iranwire.com/en/features/1668>.

## 2.3 Amidst hardship, voters will search for technocrats, not ideologues

Discontent is rife among Iranians. Protests in different parts of the country have become the new normal. In an interesting move, the Rouhani government has brought in legislation that designates certain areas within cities as spaces for peaceful demonstrations, which require no official approval.<sup>24</sup> This is meant to de-criminalise demonstrations and allow discontent to be staged in public. At the same time, however, authorities can misuse this legislation to tighten control over public gatherings, and penalise any peaceful protest outside the designated areas. One of the designated areas is near Iran's parliament in Tehran. Almost every day a different group of people gathers in front of Iran's *Majles* to protest against economic and social hardship, social injustice and corruption.

Workers voice anger about unpaid wages, taxi drivers ask for improved social security, others complain about having lost their wealth in one of the many shady private credit institutions that went bankrupt. In other parts of the country environmental challenges have become life-threatening – particularly the water crisis is worsening rapidly.<sup>25</sup> Furthermore, unemployment and an overall decline of the purchasing power of ordinary Iranian citizens are exerting tremendous pressure on the government to undertake measures that lead to immediate results. One such measure has been the government's reaction to the days-long truck driver protest, namely the decision to grant 900,000 truck drivers free insurance.<sup>26</sup> But it is nearly impossible to address and respond to all existing grievances in a similar fashion.

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24. "Authorized Protest Venues' Approved in Aftermath of Iran Protests", in *Al-Monitor*, 12 June 2018, <http://almon.co/32de>.

25. Zein Basravi, "Iran: Drought Epidemic Fuels Water Crisis" (video), in *Al Jazeera*, 1 August 2018, <https://www.aljazeera.com/news/2018/08/iran-drought-epidemic-fuels-water-crisis-180801141155407.html>.

26. "Free Insurance for 900,000 Truckers Starts Today" (in Persian), in *Tasnim News*, 1 August 2018, <https://tn.ai/1783082>.

There is no doubt that the return of US sanctions will have an exacerbating effect on all the economic challenges that confront Iran. Renowned economists like Djavad Salehi-Isfahani and Bijan Khajepour point to the impact of sanctions in numerical and structural terms.<sup>27</sup> The 18 per cent growth of Iran's economy in the roughly two years of sanctions relief (2016 and 2017) will now come to a halt. The oil sanctions will significantly reduce state revenues that are annually allocated to the National Development Fund. The Rouhani administration contends that the expected budget deficit will be partly compensated by the reduction of the share of oil income accorded to the Fund, from 32 to 20 per cent, in the new Iranian year 1398 (starting on 21 March 2019).

The depreciation of Iran's national currency (Rial) vis-à-vis the US dollar reached 70 per cent between April and October 2018. The announcement of sanctions return by the US administration caused maximum instability and uncertainty over the summer in Iran's market. This led to capital flight and further lack of investment. Prospects have become grim for Iran's private sector and for the hitherto flourishing landscape of small and medium-sized entities to grow and become further independent from the state, particularly when their business relates to international trade. Inflation went below 10 per cent during the first term of President Rouhani but is now hitting the 30 per cent mark again, and is expected to rise further in 2019.<sup>28</sup> Officially, unemployment and youth unemployment rates are at approximately 13 and 30 per cent respectively – figures that are likely to rise further in 2019 – but the official count may be overly optimistic.

For Iran's economy to grow meaningfully, an estimated 200 billion US dollars of investment is needed. With the US primary (that is, sanctions targeting US-based companies) and sec-

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27. Djavad Salehi-Isfahani, "Iran Sanctions: How Deep Will They Bite?", in *LobeLog*, 12 November 2018, <https://lobelog.com/?p=46635>; Bijan Khajepour, "Iran Faces Budget Deficit, But No Shortage of Means to Cover It", in *AI-Monitor*, 19 December 2018, <http://almon.co/35cu>.

28. See IMF data: *Inflation Rate, Average Consumer Prices (annual percent change)*, <https://www.imf.org/en/Countries/IRN#countrydata>.

ondary sanctions (sanctions that can hit companies from other countries than the US) in place, it is difficult to envisage how Iran can secure even 10 per cent of this investment in the medium-term. It is notable, however, that public debate in Iran is addressing these questions more openly and frankly than before.

There is also an overall realisation that the key sources of the country's economic malaise are corruption, patronage and mismanagement – i.e. home-made problems. Fighting corruption is thus a priority for the Rouhani administration. But the fight against corruption has always been directed at political opponents of a sitting government. For a comprehensive anti-corruption campaign to take place, stronger and more consistent cooperation between the three branches of government is needed. This, however, is often thwarted by pressure groups who even go as far as to send death threats to parliamentarians, as recently happened in the run-up to the vote on a bill directed against terror financing and money laundering.<sup>29</sup> The existence of these pressure groups – often tacitly backed by the radical elements of the Principlist camp – has significantly slowed the process to pass legislation to ensure Iran's banking and finance sector is in line with the standards set by the Financial Action Task Force (FATF), the international body overseeing action against money laundering and terror financing. After parliament passed the bill and the Guardian Council rejected it, it is now up to the Expediency Council to resolve this standoff. The Rouhani government argues that Iran needs to be FATF-compliant in order to avoid being completely isolated from the international banking and finance sector. Opponents argue, with reference to the JCPOA crisis, that such international regulations are never to the benefit of the Islamic Republic. The US withdrawal from the JCPOA and violation of UNSCR 2231 has certainly played into the hands of FATF opponents in Tehran. It is the assessment of the author that the bill will eventually be approved. Even so, however, it speaks volumes of the difficulties the Rouhani government encounters in overcoming

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29. "Iranian MPs Pass Anti-Terror Funding Bill Despite Death Threats", in *Al-Monitor*, 8 October 2018, <http://almon.co/349y>.

domestic criticism to its pragmatic course. It has taken a heated year-long internal debate, death threats to parliamentarians and an impeachment attempt against Foreign Minister Zarif (who publicly and openly accused those standing against the bill of benefiting from money laundering) to get to the point of passing the legislation.<sup>30</sup>

Apart from the incomplete effort to fight corruption, Iran's political leadership has so far failed to engage a younger generation of technocrats in the attempt to modernise the country's economic structure. President Rouhani may have invited a high number of technocrats into his cabinet. Most of them, however, had already served in the 1990s and seem to have outdated concepts of economic recovery and sustainable development. It can be sensed among ordinary Iranians that new faces are sorely needed. It matters less and less whether these new faces represent the Reformist, Moderate or Principlist camps. What is relevant is the sense that this person is a technocrat, and able to fulfil the task he/she is mandated with.

A good example is the current Minister of Information and Communication Technology (ICT) Mohammad Javad Azari Jahromi. As a 37-year-old he is by far the youngest member in Rouhani's cabinet and has already proven to be extraordinarily responsive to ordinary Iranians on Twitter and other social media outlets.<sup>31</sup> Azari Jahromi was largely praised when he published a full list of leading cell phone importers who bought 20,000 iPhones using the official exchange rate of 42,000 rials per dollar in order to sell them using the (then) free-market rate of 79,000 rials per dollar.<sup>32</sup> Exposing those entrepreneurs in such an open fashion was unprecedented and is certainly seen by the public as the least officials can do to regain trust in the political establishment.

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30. "Iran Hard-line MPs Gird to Impeach Zarif", in *Al-Monitor*, 27 November 2018, <http://almon.co/350x>.

31. See the official Twitter account of ICT Minister Azari Jahromi: <https://twitter.com/azarijahromi>.

32. "Iran's Youngest Minister Becoming Symbol of Transparency Drive", in *Al-Monitor*, 27 June 2018, <http://almon.co/32nj>.

### **3. A new social contract to navigate through times of crisis**

While discontent is rife among Iranians, there are no indicators that a wave of protests is about to take place, let alone a general uprising. The almost two weeks of continuous protests in December 2017 and January 2018 may have spread throughout the country, yet they were small in scale. In most of the 85 cities where protests took place, the number of people who took to the streets did not go beyond hundreds, and as these protests turned violent they failed to attract solidarity beyond regime-change advocates outside Iran. More importantly, the reactions by officials showed that they have learned their lesson from the 2009 protests, when millions took to the streets after Ahmadinejad's re-election was marred by widespread allegations of rigging. Back then every official statement criminalised the protest movement in its entirety. In reaction to the early 2018 protests, in contrast, progressive and conservative voices alike stressed that it was important to differentiate between legitimate demands of people facing economic hardship, and acts of vandalism, which have to be condemned and punished.<sup>33</sup> While acknowledging the people's grievances is far from solving them, this "softer" response by the state has helped to deescalate and calm the overall situation.

#### **3.1 Rallying around the flag in times of heightened tensions**

In the course of 2018, particularly after the US withdrawal from the JCPOA, the Islamic Republic has slowly returned to "crisis mode". It is important to note that this is the modus operandi Iran's leadership can best work with. The Iranian state elite is composed of people who have been part of the establishment ever since the foundation of the Islamic Republic in 1979. For

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33. "Iran Stages Pro-Government Rallies, Cleric Urges Firm Punishment for Protest Leaders", in *Reuters*, 5 January 2018, <https://reut.rs/2m0BUAK>; "Ayatollah Khatami in Friday Prayer in Tehran: Rioters Betrayed the Nation..." (in Farsi), in *Fars News*, 5 January 2018, <https://www.farsnews.com/news/13961015000395>.

them, US pressure and an ever-more-intense sanctions regime are business as usual. The actual exception was the years 2014 to 2017, when some sanctions were lifted and others were waived. It was during those years that factional infighting among Iran's political camps and power centres intensified significantly, and made life tremendously difficult for Rouhani's governmental goals, ranging from social and political reform to the modernisation of Iran's business environment. To a large extent, this infighting was caused by actors with vested interests who were concerned that their uncontested share in Iran's economy would be threatened by a more transparent and competitive market. Furthermore, serious anxiety existed among some clerical heavyweights that a rapprochement with the US was in the making. The very same clerics were relieved when Trump loomed on the horizon. Indeed, the US president perfectly embodies the "evil" that Iran's political establishment has tried to sell to the Iranian population for almost four decades, concerning the nature of US policies. This is seen by the elites as an opportunity to close ranks with an increasingly unsatisfied population, which is now facing even more economic hardship.

The solution to this situation lies in the quest to redefine the "social contract" and revise state-society relations. As outlined above, a trend can be observed that for average Iranians factional politics is becoming increasingly irrelevant. As long as a person can offer tangible solutions to an existing problem, it will not matter whether he/she is a Reformist, a Moderate or a Principlist. The case of ICT Minister Azari Jahromi shows that his good performance as minister washed away most of the scepticism over his background in the intelligence services and apparent involvement in repression of popular dissent.<sup>34</sup> The challenges seem to have become too urgent in nature to allow ordinary citizens to dream of political revolutions. Practical solutions are needed more urgently than ever to address economic hardship, environmental challenges, social and cultural

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34. Azar Jahromi worked in the Ministry of Intelligence and Security from 2002 to 2009.

issues, as well as the overall security and stability of the country. The violent protests that erupted in 2017–18, albeit small in size, have made Iranians as anxious as the terror attacks in Tehran on 7 June 2017 and in Ahvaz on 22 September 2018. Looking at how mass protests have turned out in Libya, Egypt and Syria, Iranians fear to see their country descending into similar chaos. Iran's leaders bank on this sentiment to dampen any potential appetite for large-scale protests.

### 3.2 The perfect mix of security, economic relief and entertainment

The priorities of Iran's population as well as their voting behaviour in the past four elections<sup>35</sup> can be traced to a host of reasons. One that is underexplored is Iran's age structure. Iranians between 25 and 54 years old account for 48.9 per cent of the population.<sup>36</sup> This means that roughly 40.5 out of 83 million Iranians are of an age where most have settled with families, have a job and try to secure a decent living with as little trouble as possible. These 40 million furthermore constitute approximately 72 per cent of the 56.4 million eligible voters, which can be seen as one reason why candidates who ran on a ticket of moderation in all elected bodies were most successful in all elections since 2013.

With Rouhani's government unable to deliver on key demands regarding economic relief, slogans of "moderation" alone will no longer do. That said, populist hard-line politicians will also have a hard time convincing voters that they are the right choice for running the government, as that would raise fears of conflict and increased tensions. If the Islamic Republic's establishment manages to preserve security and stability in the country,

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35. That is, for the 2013 presidential elections, the 2016 parliamentary and assembly of experts elections, as well as for the 2017 presidential and municipal council elections.

36. See The World Factbook website: *Iran: Age Structure*, last updated 8 January 2019, <https://www.cia.gov/library/publications/the-world-factbook/geos/ir.html#field-anchor-people-and-society-age-structure>.

the key demand of this largest electoral group will be met. As demonstrated by economist Djavad Salehi-Isfahani, while economic hardship certainly is a reality, Iran is still far from phenomena like “bread protests”.<sup>37</sup> Through a broad network of welfare institutions the Islamic Republic has so far been able to provide economic relief to those in dire need. But there is a downside to this welfare network. While it feeds the hungry, it falls short of empowering them. Too little is done in terms of capacity-building in order to reduce the dependency of the poorest strata of Iran’s society on the state and its welfare network. Yet, these initiatives have still prevented economic grievances from exacerbating even further.

Iran’s leadership seems to increasingly understand that the push for social and cultural freedoms will not only not go away, but will actually grow stronger. This is where recent trends have been truly ambivalent. While there are more concerts, theatres, exhibitions and book festivals than ever before in the Islamic Republic, crackdown on artists, journalists and students continues. This is a typical symptom of a context in which a strong push for more cultural and social space is backed by reform-leaning actors and rejected by more conservative and authoritarian elements.

In this regard, it is important to contextualise progress in pace and scope. In June 2018, women and men were allowed into the Azadi Stadium to jointly watch the Iranian national football team’s World Cup matches. This was followed by the decision to allow a limited number of women into a regular football match in October and November in the very same Azadi Stadium.<sup>38</sup> Developments like these matter, because they hint at how Iran’s state elite may try to keep state–society relations intact. Ensuring that Iran’s cities remain safe and stable, providing welfare services to those in most urgent need and daring to

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37. Djavad Salehi-Isfahani, “Food Consumption of the Poor in Iran”, in *Tyranny of Numbers*, 2 August 2018, <https://wp.me/ptGKe-183>.

38. “Iran Lets Hundreds of Women Attend Asian Champions League Final”, in *Middle East Eye*, 11 November 2018, <https://www.middleeasteye.net/node/74283>.

open up social and cultural spaces to a limited extent could be seen as the recipe to prevent cracks in the country's social and political order. All of this is much easier said than done, however. Apart from the necessary revenues, managerial skills and a sound assessment of societal realities are needed. The author holds the view that the political class of the Islamic Republic is well-equipped to succeed in the quest for a new social contract that keeps the population at ease with the state while it allows the establishment to maintain its grip on power. This path is a far cry from what would be needed for the country's sustainable development, let alone economic growth. This constitutes the actual tragedy of the looming JCPOA collapse: the Islamic Republic will manage to survive, but it will not have the chance to grow and evolve. If any reform takes place it will most likely be cultural and social – not political – and have more to do with contingent decisions to avoid social unrest than with any real reform process. Such reforms (or liberalisation steps) will only go as far as necessary in order not to endanger the political order or the leadership's grip on power. One may summarise the underlying tacit agreement as “live and let rule” and, respectively, “rule and let live”.

It will help if the remaining parties to the JCPOA, particularly the EU and its member states, manage to safeguard some channels of transaction and trade with Iran – for instance through the Special Purpose Vehicle (SPV). In particular, they would maintain newly established paths of knowledge exchange and transfer, which in addition to industrial goods are urgently needed to keep up prospects of development in Iran. The latter, along with economic growth, is what the Iranian population had been hoping to see as the dividend of the nuclear agreement. A total breakdown of the JCPOA would constitute another experience of Western non-delivery despite Iranian compliance in the eyes of Iranians. It may well take another full eight-year presidential cycle (2021 to 2029) before an Iranian leader will be willing to advocate the normalisation of ties with the West.

## Conclusion

The Rouhani government's four-step approach towards normalising the Islamic Republic's foreign relations has been critically undermined by the US withdrawal from the JCPOA. The *institutionalisation* of relations with world powers has met its limits, as even a UN Security Council resolution could not ensure compliance by a Security Council permanent member. Iran has learned the hard way that the *finalisation* of a multi-lateral agreement does not guarantee its proper *implementation* by all parties. Apart from the shortcomings on the side of the E3/EU+3 (particularly the US), Tehran has had to realise that reforming its own banking and financial sector is a much tougher task than expected due to the pushback from actors with vested interests. The *de-securitisation* of sensitive political issues, which seemed to be on track with direct channels between the Iranian and US foreign ministers, and the E3/EU+3 format proving to be an increasingly comfortable zone for Iran to discuss nuclear-related affairs, has also failed. With the US withdrawal from the JCPOA reflecting a highly hostile position towards Tehran on the part of the Trump administration, the Islamic Republic is fully "securitised" again. This will hamper President Rouhani's foreign policy approach, which is mainly based on diplomacy and outreach. Rouhani (and Foreign Minister Zarif) can be expected to change course and adopt a more hard-line and deterring position in Iran's foreign affairs - in fact, this is already happening.

Challenges posed by socioeconomic hardship in Iran may occasionally lead to unrest. Its scope will remain limited, as the Islamic Republic has decades-long experience in providing economic relief to the most deprived strata of society. The political establishment is furthermore likely to grant limited breathing space socially and culturally in order to prevent discontent from passing a critical threshold. The state elite has already proved capable of keeping cohesion when needed. This, in addition to reliance on trade with Eastern powers and some regional neighbours, will ensure the survival of the Islamic Republic in spite of "maximum pressure" from the US. However,

survival does not mean growth and development – at least not in the short and medium term.

For sustainable growth and development, relations with Europe are indispensable. European products to modernise Iran's industry and increase its efficiency are as much on the wish list as knowledge transfer and capacity-building to improve the country's managerial capabilities. While frustration over European inability to withstand US pressure is widespread, limited hope remains that European-Iranian trade relations can be kept alive through the SPV, albeit in a limited manner. While the future of Europe-Iran relations will have only limited impact on the domestic power balance in Iran, these relations will certainly affect Iran's foreign policy conduct. Apart from the elite's orientation again becoming increasingly anti-Western, public sentiments opposing outreach to Europe will grow stronger. This trend is not only to the detriment of Europe's security and economic interests in the Middle East but also of its soft power among a nation of 82 million citizens.

The opportunity to turn the SPV into a functional track safeguarding limited trade relations with Iran should, therefore, not be missed. Shared interests in the fields of energy, migration, drug trafficking, extremism and environmental issues continue to provide numerous areas of meaningful and mutually beneficial cooperation. Europe is neither in the position to abandon the transatlantic bond, nor has it the luxury of side-lining relations with Iran – a regional power with formidable influence in the Middle East.



## 2

# REGIONAL GEOPOLITICAL RIVALRIES IN THE MIDDLE EAST: IMPLICATIONS FOR EUROPE

ELLIE GERANMAYEH

The Middle East faces a fragile and turbulent decade ahead. A forceful obstacle to sustainable peace and development in the region has been the heated rivalry unfolding between Iran and those countries opposed to it – led by Saudi Arabia, the United Arab Emirates (UAE) and Israel, and strongly supported by the US. The Donald Trump administration's aggressive stance on Iran is likely to fuel the regional tensions. European actors need to delicately navigate the region's geopolitical tensions and use the limited leverage they have to push against the current trend towards greater instability and perhaps greater conflict.

Over the last two decades the region has undergone a series of military conflicts; failing economies and state structures; poor governance; revolutions and civil uprisings; natural and man-made humanitarian disasters; rise in extremist groups; nuclear proliferation threats and the use of chemical weapons; and the mass migration of people. The Syrian crisis and the consequent surge in terrorism and refugee flows have had serious implications for Europe, thus demonstrating that insecurity in the Middle East is directly connected to European internal stability.

The trajectory ahead looks bleak. Yemen and Syria remain stuck in military conflicts and require enormous humanitarian aid, stabilisation and reconstruction efforts – the demand for which will continue well into the period after violence eventually subsides. Iraq and Lebanon grapple with extensive political

tensions and economic deficiencies and could relapse into violence as a result of civil unrest, terrorist insurgency, spill-over effects from the conflict in Syria and growing inter-state tensions across the Middle East.

Other countries, including Iran, Saudi Arabia and Israel, face domestic problems and are locked into a perilous geopolitical environment where maximalist positions drive politics and hard power is idealised. Regional powers seem to have little appetite for engaging in inter-state war. Yet their assertive approach and personalised foreign policy have already played out to the detriment of third parties such as in Syria, Yemen, Lebanon and Qatar, creating the conditions that fuel intra-state conflicts. With inter-state relations becoming ever more strained, the risk of military escalation increases by the day. Meanwhile, Turkey, while not geographically in the Middle East, is increasingly playing the role of a regional power through its shared borders with Iraq and Syria, thus adding to the complexity of the Middle East's predicament.

While global powers such as Russia and the US remain active in the Middle East, regional protagonists are implementing their own foreign policy. Moscow and Washington have at times been unable or unwilling to shift their regional partners away from pursuing greater confrontation. European actors have been increasingly blindsided by events and marginalised on important political tracks, particularly on the Syria file.

Nevertheless, there are certain areas, such as Iran policy, where there is an appreciable European influence and stake to impact calculations of certain regional actors. There are also examples, such as in Lebanon, where the timely intervention by European governments has contributed to security in the Middle East. Going forward, European actors should pursue policies that help reduce political polarisation, violence and risk of military confrontation in the region.

## 1. Understanding the position of regional protagonists

In the past five years, relations between Europe and key players in the Middle East have notably changed. This has primarily been the result of shifts in the foreign policy of regional actors that are increasingly feeling confident to act on their own, often by adopting a zero-sum reading of regional developments. Iran, Saudi Arabia, Israel and Turkey are engaged in a complex set of conflicts in the Middle East and each pursue an assertive and hard-power-driven policy to cement what they perceive as their strategic interest in the region. One important intersection of these regional protagonists is over Iran.

### 1.1 Regional geopolitical tensions centred over Iran

Like most states, regional protagonists largely justify their actions in the Middle East as a necessary and effective response to defend against critical security threats. For Iran, there is an immediate and active insurgency threat from terrorist groups on and near its borders with countries that have long struggled with security, such as Afghanistan, Iraq and Pakistan.<sup>1</sup> More broadly across the Middle East, Iran assesses security threats predominantly through the prism of the hostile action of the US and Israel, its most powerful enemies whose conventional military forces are vastly superior to Iran's.

To address this imbalance, Iran has sought to expand its missiles programme primarily to deter and minimise the impact of aggression.<sup>2</sup> Iran has also embraced asymmetric tactics using allies such as Hezbollah in Lebanon, the Houthis in Yemen and

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1. See for example: "Iran Guards Say They Killed 10 Militants Near Iraq Border", in *Reuters*, 11 August 2018, <https://reut.rs/2B1vth1>; Nicholas Cappuccino, "Baluch Insurgents in Iran", in *The Iran Primer*, 5 April 2017, <https://iranprimer.usip.org/node/3931>.
  2. For background see: Michael Elleman and Mark Fitzpatrick, "Are Iran's Ballistic Missiles Designed to Be Nuclear Capable?", in *IJSS Analysis*, 28 February 2018, <https://www.ijss.org/blogs/analysis/2018/02/iran-missiles-nuclear-capable>.

militias in Syria and Iraq to solidify its regional role, as well as by establishing a direct presence on Israeli borders that could deter Israeli military strikes inside Iran.

Since the 1979 revolution, Iran has expended time and resources on its regional policy through cultivating networks of state and non-state actors and more importantly remaining present on the ground. The US-led invasion of Iraq in 2003 presented Iran with an opening to improve relations with the Shia majority government in Baghdad after a long period of conflict with Iraq. Like in Lebanon, Iran was able to use soft power and long-established links to Shia communities to cultivate loyalty within both political and militia forces. In 2014, as Iraq lost territory to the Islamic State (ISIS), Iran was the first country to meaningfully assist the Iraqi government and Kurdish forces in confronting ISIS forces.<sup>3</sup> Iran was thus able to bolster an already strong presence in Iraq.

Over time, Tehran's influence over the security apparatus and political dynamics in Iraq has grown sufficiently to put it on a par with the US. This was demonstrated in October 2017 when Iran played a crucial role in calming the waters between Iraqi and Kurdish forces in the aftermath of the independence referendum in Iraqi Kurdistan.<sup>4</sup>

In Syria, Iran has stood by its long-term ally Bashar Al-Assad over the seven years of conflict, providing him with economic, military and political backing despite the compounding costs at home and abroad. During the course of the conflict, and especially after Russian President Vladimir Putin sent in air, naval and special forces in support of Damascus in September 2015, Iran and Hezbollah have gained superiority on the ground. In

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3. Martin Chulov, "Iran Sends Troops into Iraq to Aid Fight against ISIS Militants", in *The Guardian*, 14 June 2014, <https://gu.com/p/3q58h>. For background see: Dina Esfandiary and Ariane Tabatabai, "Iran's ISIS Policy", in *International Affairs*, Vol. 91, No. 1 (January 2015), p. 1-15, <https://www.chathamhouse.org/node/16657>.

4. Raya Jalabi, "Iran Seen as Winner After Iraq's Kurds Lose Referendum Gamble", in *Reuters*, 31 October 2017, <https://reut.rs/2zmsONr>.

combination, Iran and Hezbollah have proved to be an effective military partner for Assad and the Russian army.

Over the past decade, an expanding ground presence in Iraq, Syria and Lebanon has provided Iran with considerable leverage over the future power balance in the Middle East. Tehran's growing influence is vigorously opposed by its foes and has become a source of concern for European governments that are long-term partners of Iran's regional rivals, Saudi Arabia and Israel.

Traditionally, Iran has not viewed Saudi Arabia as an imminent security threat, but rather as a force that executes US foreign policy in the region. In recent years this calculation has somewhat altered due to Saudi Arabia's extensive media and political campaign against Iran, its support to opposition groups fighting against Iranian-backed forces in Syria, and its general pressure campaign against Hezbollah. Since 2015, relations between Iran and Saudi Arabia have precipitously worsened. The Saudi Crown Prince Mohammad Bin Salman has been particularly outspoken in his criticism, depicting Iran as an existential threat to the Kingdom.<sup>5</sup>

Yemen, which borders Saudi Arabia and has been engulfed in conflict and civil war since 2011, presented Iran with an opportunity to distract both Saudi Arabia and the UAE away from the Syrian conflict. Since March 2015, the Saudi-led coalition has been engaged in a costly war in Yemen. Western officials largely believe that Iran has spent relatively minimal resources to create unfavourable military conditions for Saudi Arabia.<sup>6</sup>

Iran has made a habit of optimising opportunities presented to it by the mistakes or misfortunes of others. For example, Teh-

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5. See for example: Ben Hubbard, "Saudi Crown Prince Likens Iran's Supreme Leader to Hitler", in *The New York Times*, 15 March 2018, <https://nyti.ms/2FJmA9N>.
  6. Off-the-record interviews with European and US officials, January–June 2018. See: UN Security Council, *Final Report of the Panel of Experts on Yemen*, 26 January 2018, <http://undocs.org/S/2018/594>.

ran was quick to reach out to Turkey's President Recep Tayyip Erdoğan to offer support in the aftermath of the failed 2016 coup attempt.<sup>7</sup> The frictions between the US and Turkey following the coup, including recent US sanctions against Ankara, have created more space for Iran and Turkey to cooperate on regional security and economic policies.

Due to its perceived immediate security threats, Ankara has shifted its priority in Syria away from weakening Assad to containing Kurdish groups, whose aspirations for independence in bordering areas constitute the major concern for Turkey. This has created more bargaining space for Iran and Turkey to resolve their difference in Syria through the trilateral format with Russia.

While Turkey has sought to maintain strong ties with both Iran and Saudi Arabia, the softening of relations with Iran has dealt a significant blow to Saudi Arabia's attempts to form an allied Sunni front against Iran. Saudi Arabia has also been unsuccessful at forming an "Islamic military alliance" or a united front among Gulf Cooperation Council (GCC) states to oppose Iran. After the Saudi-led boycott of Qatar in 2017, Iran moved swiftly and successfully to deepen its economic and political relation with Doha.<sup>8</sup> Tehran has also managed to remain engaged with Oman and has attempted to thaw relations with Kuwait.<sup>9</sup>

Despite Iran's gains in the region, Tehran also faces significant constraints. In both Syria and Iraq, political forces have at times distanced themselves from Iran to maintain control over security apparatuses and reduce the perception by their own population that they are Tehran's puppets. During the last elections

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7. "Regional Rival Iran Expresses Support for Turkey over Coup Attempt", in *Reuters*, 16 July 2016, <http://reut.rs/2a0DYIJ>.

8. Declan Walsh, "Qatar Restores Full Relations with Iran, Deepening Gulf Feud", in *The New York Times*, 24 August 2017, <https://nyti.ms/2vtkGnE>.

9. See for background: Sanam Vakil, "Iran and the GCC. Hedging Pragmatism and Opportunism", in *Chatham House Research Papers*, September 2018, <https://www.chathamhouse.org/node/37521>; Bozorgmehr Sharafedin, "Iran Urges Gulf States to 'Seize the Opportunity' of Rouhani", in *Reuters*, 14 February 2017, <http://reut.rs/2kNOp92>.

in Iraq, both Prime Minister Haider al-Abadi and opposition figure Moqtada Sadr downplayed relations with Iran and reached out to Saudi Arabia as a means to mark their independence from the Islamic Republic.<sup>10</sup>

Israel has sought to limit Iran's presence in Syria through a series of military strikes inside Syria that have targeted Iranian military hardware and forces.<sup>11</sup> Free from the limitations placed on it by the former Obama administration, Israel has stepped up its military interventions in Syria to target Iran and Hezbollah. In 2018 there have been a number of incidents between Israel and Iranian-backed forces that could have escalated into a wider conflict. Russia, which is Iran's military partner in Syria, has stepped in to try and ease tensions. Yet Russia has also turned a blind eye to these strikes and in the past has been unwilling to shield Iranian-backed forces from opposition attacks in Aleppo.<sup>12</sup>

Israel's Prime Minister Benjamin Netanyahu has clearly outlined to both Washington and Moscow that ultimately Israel seeks to force all Iranian presence out of Syria and in that vein has shown little appetite for halting escalatory military strikes over the course of 2018. Yet neither Moscow nor Damascus seem willing to support this approach and there is no indication that Israel, absent US military backing, will shoulder the burden of deploying a full-scale military offensive required to completely roll back Iranian presence in Syria.

Perhaps the biggest constraint facing Tehran's ambitions has been that its regional role has helped galvanise cooperation

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10. See: Firas Maksad and Kenneth M. Pollack, "How Saudi Arabia Is Stepping Up in Iraq", in *Foreign Affairs Snapshots*, 21 August 2017, <https://www.foreignaffairs.com/articles/middle-east/2017-08-21/how-saudi-arabia-stepping-iraq>. There have been a number of high-level visits between Iraqi and Saudi leaders; for example see: "Iraqi-Shiite Leader Sadr Makes Rare Visit to Saudi Arabia", in *Reuters*, 30 July 2017, <http://reut.rs/2tPxXXQ>.
  11. See for example: Loveday Morris, Ruth Eglash and Louisa Loveluck, "Israel Launches Massive Military Strike against Iranian Targets in Syria", in *The Washington Post*, 10 May 2018, <https://wapo.st/2rydp67>.
  12. See for example: Arash Karami, "Iranian Officials Blame Aleppo Cease-fire Violations for Military Casualties", in *Al-Monitor*, 10 May 2016, <http://almon.co/2nox>.

between Israel on the one hand, and Saudi Arabia and the UAE on the other, which in combination have proved to be exceptionally influential in the Trump White House.<sup>13</sup> Despite significant tensions over the issue of Palestinian statehood, the common enmity towards Iran has created the conditions for a new alignment in the Middle East.<sup>14</sup>

For the anti-Iran front, the Islamic Republic poses immediate and longer-term challenges. In the aftermath of the 1979 revolution, Saddam Hussein's eight-year war with Iran, in combination with US sanctions, somewhat neatly boxed Iran into a corner. Yet over the past decade, since the toppling of Saddam Hussein in Iraq and the weakening of Egypt's role in the Middle East, Iran has gained ascendancy in the region. Notwithstanding its much weaker economic position relative to Israel and Saudi Arabia, Iran has effectively utilised its ground presence, political and security links with both state and non-state actors to gain a dominant hand in the region.

Saudi Arabia repeatedly contends that the Shia theocratic leadership established in Tehran by the revolution is driven primarily by an ideological and sectarian ambition to become the hegemon of the region. Israel asserts that Iran poses an existential threat given the hostile rhetoric of the Iranian leadership against Israel's statehood and its strong ties with Hezbollah, which has confronted Israel and continues to pose direct threats to its borders with Lebanon and Syria.

Under the Obama administration, a major source of concern for the anti-Iran front was that through reaching the nuclear

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13. See for example: Adam Entous, "Israeli, Saudi, and Emirati Officials Privately Pushed for Trump to Strike a 'Grand Bargain' with Putin", in *The New Yorker*, 9 July 2018, <https://www.newyorker.com/news/news-desk/israeli-saudi-and-emirati-officials-privately-pushed-for-trump-to-strike-a-grand-bargain-with-putin>.
  14. See for background: Moshe Yaalon and Leehe Friedman, "Israel and the Arab States", in *Foreign Affairs Snapshots*, 26 January 2018, <https://www.foreignaffairs.com/articles/israel/2018-01-26/israel-and-arab-states>; Jonathan Marcus, "Israel and Saudi Arabia: The Relationship Emerging into the Open", in *BBC*, 3 April 2018, <https://www.bbc.com/news/world-middle-east-43632905>.

agreement, relations between Iran and the United States would gradually thaw. The eventual economic integration of Iran with the West, as originally envisaged by the lifting of sanctions under the nuclear deal, posed a longer term threat for the anti-Iran front. Iran's potential economic growth, with its educated population of over 80 million, promises competition for the likes of Saudi Arabia and the UAE, which are struggling with economic challenges at home.

Unsurprisingly, the anti-Iran front has focused its efforts on denying Iran the economic benefits anticipated by the Joint Comprehensive Plan of Action (JCPOA), the nuclear agreement signed in 2015 between Iran and a group of six countries (Britain, China, France, Germany, Russia and the US) plus the EU. The anti-Iran front was able to advance its agenda by providing backing to Trump's decision to exit the agreement and re-impose the wide-ranging sanctions that had been suspended pursuant to the deal. This includes US secondary sanctions aimed at significantly reducing Iran's global oil exports – on which Iranian revenues remain heavily dependent.

Israel and Saudi Arabia have pressed Europe to adopt similar economic sanctions against Iran and have supported the US effort to significantly reduce Iranian oil exports globally. In parallel, they have tried to place a spotlight on the financial cost of Iran's regional conduct, which is the subject of increasing vocal scrutiny inside the country, as a number of scattered but recurring anti-government protests since December 2017 attest.<sup>15</sup> The anti-Iran front, which may now count on a growing legion of Iran hawks in the Trump administration, is seemingly supportive of regime change in Tehran.<sup>16</sup>

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15. Interviews with officials from Saudi Arabia and the United States, January–June 2018. See also: Asa Fitch, "Iran's Spending on Foreign Conflicts Raises Protesters' Ire", in *The Wall Street Journal*, 2 January 2018, <https://www.wsj.com/articles/irans-spending-on-foreign-proxies-raises-protesters-ire-1514920398>.

16. See for example: Yonah Jeremy Bob, "Ex Mossad Official: Israel, U. S. , Saudis Can Help Regime Change in Iran", in *Jerusalem Post*, 15 May 2018, <https://www.jpost.com/Middle-East/Ex-Mossad-official-Israel-US-Saudis-can-contribute-to-change-in-Iran-556502>.

The anti-Iran front faces significant political, strategic and military constraints in how far it can roll back Iranian gains in the region. It has nevertheless been re-energised by the Trump administration's aggressive posture towards the Iranian leadership, including an openly stated policy goal of fostering Arab-Israeli cooperation and establishing an Arab NATO to confront Iran.<sup>17</sup>

## 1.2 Role of external players

Even if economic powerhouses China and Europe have some influence in the Middle East, Russia and the United States remain the dominant external players in a region where hard power rules. Through its military intervention in Syria, Russia has established itself as a credible external power in the region. One of Moscow's primary objectives in Syria has been to prevent the US from toppling another regime opposed to US foreign policy designs, as it did with Saddam Hussein's Iraq in 2003. The Middle East forms part of the Kremlin's larger vision of a multipolar international order and its opposition to Western-led regime change policies. Russia's rise in the Middle East has in part been due to its ability to interact and bargain with all regional players through a largely transactional relationship.

This pragmatic approach has enabled Russia to be viewed as a political brinkman between Iran, Israel and Turkey, with the ability to use its access to de-escalate some hazardous instances of military tensions. Moscow and Tehran have formed a strategic relationship across military, security and political levels in Syria. While this falls short of an alliance structure or a deep partnership, the Iran–Russia military relationship is clearly more advanced compared to their respective ties with other regional actors. While Russia has showcased its self-confidence in entering the Syrian conflict, it remains uncertain if it

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17. Yara Bayoumy, Jonathan Landay and Warren Strobel, "Trump Seeks to Revive 'Arab NATO' to Confront Iran", in *Reuters*, 27 July 2018, <https://reuters/2OoO7C7>. Also see: Hassan Ahmadian, "Why Iran Isn't Concerned over US Plans for Arab Nato", in *Al-Monitor*, 9 August 2018, <http://almon.co/33cq>.

has the resources and capacity to bring the civil war to an end and foster stability in the country.

Meanwhile the Trump administration, through its decision to sabotage the JCPOA, has definitively closed the limited channels for dialogue with Iran that had opened up after the signing of the deal. Aside from the withdrawal from the JCPOA, President Trump's other actions have also created political shockwaves across the Middle East, fuelling escalation. For example, his initial stance in support of the Saudi-led blockade of Qatar contributed to a breakdown of relations within the GCC that continues till this day. Trump's decision to move the US embassy from Tel Aviv to Jerusalem in May 2018 was an act of provocation that helped fuel Palestinian despair, also contributing to renewed violence in the Gaza Strip that revived international and regional attention to the conflict and caused unnecessary headaches for Washington's Arab allies in Amman, Cairo and Riyadh.<sup>18</sup>

## **2. Bleak trajectory ahead**

There is little to indicate that tensions between regional players will ease in the near future. Going forward, the priority for the anti-Iran front and the US administration is likely to remain the weakening of the Iranian leadership through international isolation and sanctions. While President Trump seems disinterested in increasing the US military footprint in the Middle East, the recent wave of new appointments inside the administration could drive policy towards a more active pushback against Iran in places like Syria and Yemen. Yet, it is unclear what this confrontational policy on Iran means for the region, especially in Iraq, Syria and Lebanon where both Iran and the US have considerable assets.

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18. Nidal al-Mughrabi and Jeffrey Heller, "Israeli Forces Kill Dozens in Gaza as U. S. Embassy Opens in Jerusalem", in *Reuters*, 14 May 2018, <https://reut.rs/2rJmEQW>.

In Lebanon, the political shock following Prime Minister Saeed Hariri's widely reported forced resignation and detention in Saudi Arabia seems to have calmed after an intervention by France and the UK to ease the situation.<sup>19</sup> For now the fragile system holding Lebanon together continues, but could verge towards collapse if another similar incident takes place. Lebanon is vulnerable to further political, economic and security instability as it grapples with a large refugee flow from Syria. In addition, the country continues to be trapped in a cycle of tensions between Israel and Hezbollah. Israeli government officials have warned that, should it come to war with Hezbollah, they will consider the whole of Lebanon a legitimate target.

Iraq, which borders Iran, Saudi Arabia and Turkey, is particularly exposed to regional rivalries and the conflict in neighbouring Syria. US policy towards Iran has had unintended consequences for Iraq despite repeated calls by Haider al-Abadi to keep Iraq insulated from US-Iran tensions.<sup>20</sup> Yet recent US sanctions against Iran have placed economic strain on Iraq and created political friction between Baghdad and Tehran in ways that could be detrimental to maintaining Iraq's neutrality.<sup>21</sup> Moreover, there are reports that Iran has increased its transfer of ballistic missiles to Iraq – a possible signal to the United States that Iran is bolstering its ability to target US forces in the region.

In Syria, current dynamics remain ripe for further military exchanges between Israel and Iran. The situation has slightly eased following Russian talks with Israel, and the Helsinki Summit in July during which Presidents Putin and Trump seemingly found some important convergence on Syria. Over the

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19. For example: David Ignatius, "Saudi Arabia Forcibly Detained Lebanon's Prime Minister, Sources Say", in *The Washington Post*, 10 November 2017, <http://wapo.st/2zxlPzt>.
  20. Maher Chmaytelli and Saif Hameed, "Iraq Says Will Stay Clear of U. S. -Iran Tensions", in *Reuters*, 11 February 2017, <http://reut.rs/2lulqJ0>.
  21. See: Tamer El-Ghobashy and Mustafa Salim, "U. S. Sanctions on Iran Hit an Unintended Target: Ordinary Iraqis", in *The Washington Post*, 14 August 2018, <https://wapo.st/2B6NFps>.

summer, US policies in Syria edged closer to Russia's goals, with Assad forces retaking opposition-held Daraa and Iranian-backed forces retreating from Syria's borders with Jordan and Israel.<sup>22</sup> The US administration has been highly critical of Russia's planned offensive in Idlib and has vowed to militarily respond to any use of chemical weapons. In a surprising move Trump praised Russia, Iran and Syria for suspending the military offensive.<sup>23</sup>

Major questions remain as to whether the US administration has appetite for building a broader consensus with Russia over Syria, and the extent to which Moscow is willing, or even able to press Damascus and Tehran to implement a US-Russian-brokered arrangement. Two NATO allies, Turkey and the US, are also vastly opposed to one another on the role of Kurdish forces in Syria, with no meaningful effort on either side to resolve this standoff. More worryingly still, Syria could enter into a new spiral of conflict because of missteps or overreach by either Israel, Iran, or possibly Turkey and the United States.

The regional rivalry between Iran and Saudi Arabia has also created instability amongst GCC member states. For smaller GCC states such as Oman and Kuwait, it is increasingly difficult to maintain their relatively balanced position. Such positions have proved helpful in providing discreet conflict-resolution channels between Iran and its foes, including the special role played by Oman in facilitating back-channel talks between Tehran and Washington in 2013.

It is possible that US-waged economic warfare against Iran will harden Tehran's policy towards the region and further in-

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22. Dana Khraiche, "Iran-backed Forces Retreat from Golan, Jordan Border, Group Says", in *Bloomberg*, 21 June 2018, <https://www.bloomberg.com/news/articles/2018-06-21/iran-backed-forces-retreat-from-golan-jordan-border-group-says>.

23. See remarks by President Trump at the United Nations Security Council meeting on Maintenance of International Peace and Security, New York, 26 September 2018, <http://undocs.org/S/PV.8362>.

crease the risk of instability. So far, there is little to indicate that there has been any strategic change in Iran's regional policy. Iran's current leadership may feel that it can weather the current storm and especially the US's sabotage of the JCPOA, as after all the Islamic Republic has survived four decades of US sanctions, eight years of war with Iraq and an international oil embargo. In light of this, it is unlikely that the anti-Iran front can pressure Tehran to reorient its regional policy so long as thousands of US troops remain stationed in Iraq, Syria and Afghanistan and a policy of regime change seemingly remains the inspirational objective of the US-supported anti-Iran coalition.

### **3. What should Europe do?**

Since President Trump took office, European governments and the EU have largely engaged in damage control when it comes to the Middle East. Their toughest challenge is how to safeguard the JCPOA. European governments have also attempted to keep the Israeli-Palestinian peace process on life support, cool intra-GCC tensions and protect Lebanon from a major political crisis by facilitating Hariri's return to Lebanon.

Given the dominant military role played by Russia and the US, Europe carries limited influence with regional protagonists. Nevertheless, as outlined below, Europe enjoys some political and economic leverage that may help move current confrontation in the region towards a more constructive path. European policy in the Middle East should focus on protecting core interests: namely preventing further instability in the region, which creates direct security threats to Europe in the form of proliferation of nuclear and chemical weapons and terrorism, as well as challenges such as mass migration flows and energy and trade disruptions. The EU and member states should prioritise damage control, conflict de-escalation and prevention measures, such as:

(1) Sustain the Iran nuclear deal

- If Iran were to expand its nuclear programme, this would add further fuel to instability in the Middle East. As participant and stakeholder in the nuclear deal with Iran, Europe must prioritise its efforts to prevent this outcome. European governments should maintain their unified stance in support of the JCPOA despite US pressures to renege on their commitments. In return for a continued Iranian commitment to the deal, European governments should accelerate efforts to implement measures that provide Iran with at least some visible and tangible economic dividends. The snap-back of US secondary sanctions has already prompted an exodus of European companies from the Iranian market.<sup>24</sup> If Iran sees little economic or security value in sustaining the JCPOA, it may begin to loosen restrictions on its nuclear programme or even walk away from the deal altogether. This scenario would present Europe with risks of an expanded Iranian nuclear programme that would likely be met with US and/or Israeli military strikes, with considerable ramifications for EU interests and the broader stability of the region.
- By clearly distinguishing its policy on the JCPOA from that of the US, and keeping high-level political channels open with Iran, Europe can provide Tehran with some political incentive to implement the agreement while talks progress over viable economic solutions to the threat of US primary and secondary sanctions. Europe should continue to compartmentalise its differences with China and Russia, the co-parties to the JCPOA, to work on practical measures that can minimise the impact of US unilateral sanctions targeting Iran's oil and banking sector.<sup>25</sup> Non-JCPOA parties, such as India, Oman and Turkey, could also play an important role in providing economic incentives to Iran.

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24. "Factbox: European Companies Respond to Latest Iran Sanctions", in *Reuters*, 8 August 2018, <https://reut.rs/2vScPCG>.

25. See further: Ellie Geranmayeh, "Three Years Later: Europe's Last Push on Iran Nuclear Deal", in *ECFR Commentaries*, 16 July 2018, [https://www.ecfr.eu/article/commentary\\_three\\_years\\_later\\_europes\\_last\\_push\\_on\\_iran\\_nuclear\\_deal](https://www.ecfr.eu/article/commentary_three_years_later_europes_last_push_on_iran_nuclear_deal).

- Europe's more realistic option at this point is to create the legal and practical conditions for small and medium-sized enterprises that are less exposed to the US market to continue business with Iran. For example, the decision to update the EU's Blocking Regulation creates some legal cushion for European companies that are willing to do business with Iran.<sup>26</sup> Yet these companies still lack the practical conditions to make trade with Iran cost-efficient and worthwhile. European governments must act more assertively push back against US pressure on European banks and the SWIFT financial messaging service to preserve at least some limited payment channels to and from Iran. In September, the EU announced that European countries would support the creation of a "Special Purpose Vehicle" to facilitate trade with Iran (including the sale of oil).<sup>27</sup> A coalition of European governments, beyond Germany, France and the UK, should participate in operationalising the necessary framework.
  - Iran can also do far more to improve the general business conditions to attract European companies, for example by cooperating on due diligence and compliance, and processing the necessary domestic legislation to enhance Iran's banking sector in line with the Financial Action Task Force roadmap.
- (2) Avoid measures that destabilise Iran domestically and at the same time engage Tehran to ensure that its regional role does not create further tensions and instability in the Middle East
- European governments will continue to face pressure from the US administration and regional allies to move closer to the anti-Iran front. Maximalist economic pressure on Iran, as championed by these actors, could result in significantly

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26. For background see: Ellie Geranmayeh and Esfandiyar Batmanghelidj, "How Europe Can Block Trump", in *Foreign Policy*, 16 May 2018, <http://bit.ly/2KsZ6HV>.

27. European External Action Service, *Remarks by HR/VP Mogherini following a Ministerial meeting of E3/EU+2 and Iran*, Brussels, 24 September 2018, <https://europa.eu/!pT48RP>.

undermining the Iranian economy, destabilising state institutions and fuelling civil unrest in a country of 80 million people. The Iranian leadership may also increasingly securitise the country in response to US pressure and take more aggressive steps on both domestic and regional policy.

- The EU and member states should resist attempts by the US aimed at restricting space for political engagement with Iran.
- European governments should take a more nuanced position and pursue diplomatic avenues with Iran, Saudi Arabia and Israel to press for conflict resolution. The scope of their engagement with Iran should expand extensively beyond the JCPOA and economic issues. This European diplomatic effort can build on the series of talks already started with Iran across 2018 led by the EU, France, Germany, the UK and Italy to address contentious regional security files, notably Syria and Yemen. The primary objective of this European diplomatic initiative should be to develop a more concrete understanding of Iran's regional ambitions, red lines and areas where Iranian concessions are possible. With greater diplomatic effort this process can help reduce violence and military escalation in active conflict theatres through piecemeal agreements. This European effort could eventually create a platform to facilitate negotiations between the US and Iran over regional issues.

(3) Create channels for de-escalation of regional tensions and support fragile states

- European countries should step up their role in the Middle East by pressing regional players to end the violent conflicts in Yemen and Syria notwithstanding the odds and slim chances of success. However, through both high-level political outreach and supporting track II efforts with all regional actors, the EU and its member states may be able to create channels for de-escalation of violence and cool political tensions.
- France and the UK, which are most engaged in supporting the Saudi-led coalition in Yemen, can deploy greater polit-

ical leverage to press Saudi Arabia and Iran to take important steps to ease humanitarian conditions and reduce violence through localised ceasefires between the Saudi-led coalition and Houthi forces.

- In Syria, Russia is the only actor that is actively reaching out to Iran, Israel and Turkey. By combining forces, a coalition of European governments could attempt a similar role through which they can shape developments on the ground, particularly by using their active diplomatic channels with all actors to facilitate greater humanitarian access. Both Israel and Iran may be interested in engagement with Europe on Syria, as a means of balancing out relations with Russia and also to improve their standing with Europe on other issues where they look for support, for example for Israel on the Palestinian file, and for Iran on the JCPOA and possible reconstruction assistance in post-conflict Syria.
- European governments should also look to protect smaller countries in the region from falling prey to regional tensions. In the case of Lebanon, European actors can provide greater economic support and resilience-fostering measures to maintain and possibly eventually leverage their relatively balanced position in the regional confrontation between Iran and Saudi Arabia.

### 3

## IRAN AND THE INTRA-GCC CRISIS: RISKS AND OPPORTUNITIES

LUCIANO ZACCARA

The Gulf Cooperation Council (GCC) crisis that started in late May 2017 has reached a stalemate, after several mediation attempts by the United States and Kuwait failed to break the deadlock between Qatar and its Arab neighbours. The two GCC summits held since the crisis started, in Kuwait in December 2017 and Riyadh in December 2018, also ended in failure.<sup>1</sup> Moreover, events surrounding the last Asian Football Cup held in January–February 2019 in the United Arab Emirates (UAE) demonstrated how continued divisions between GCC governments have today seeped deeper into the rest of society. News coverage of the events and the way the public behaved during the Qatar–Saudi Arabia and Qatar–UAE matches, as well as the Cup final between Qatar and Japan, demonstrated that the rift would take longer than expected to heal, and may even not be resolved at all.<sup>2</sup>

Against this backdrop of a prolonged intra-GCC confrontation, new dynamics were established among regional actors, who

1. While Qatar's Emir Tamim Al-Thani attended the Kuwait summit, neither the rulers or heirs of Saudi Arabia and UAE did so. In Riyadh, Qatar refrained from participating.
2. Some Saudi and Emirati newspapers did not even mention Qatar in the news titles. See, for instance, "Japan lose Asian Cup final" (in Arabic), in *Al Bayan*, 1 February 2019, <https://www.albayan.ae/sports/asia-cup/2019-02-01-1.3476241>; Ashwani Kumar, "Unlucky Japan Lose AFC Asian Cup Final", in *Khaleej Times*, 2 February 2019, <https://www.khaleejtimes.com/unlucky-japan-lose-afc-asian-cup-final->. Moreover, hundreds of tweets and videos that circulated via WhatsApp showed the misbehaviour of the local public throwing objects towards the Qatari players, as well as Omani attendants celebrating the Qatari victory despite Emirati opposition, with some Qatari flags confiscated violently by the police.

were forced to adapt both discourses and actions in order to ensure gains and minimise losses in the delicate strategic balance that resulted from the Arab Spring uprisings which were the main trigger for the Gulf crisis of 2017.

Although not a main actor in the intra-GCC dispute, Iran was among the key justifications in the initial Saudi accusation against Qatar, and it had – and still has – an essential role as one of the main supporters of Qatar in overcoming the blockade. Due to the broader yet overlapping regional confrontation between Iran and Saudi Arabia, and the fact that Iranian influence is perceived as a threat by certain regional state actors, the Iranian stance regarding the GCC crisis has been closely scrutinised. This chapter analyses Iran's policies vis-à-vis Qatar and Arab Gulf states, addressing the mixture of gains, losses, opportunities and risks for Iran in the context of the ongoing intra-GCC crisis.

## **1. The Iranian scapegoat for the current GCC crisis**

One of the main arguments advanced by this analysis is that Iran was an instrumental factor in building the accusation of the four blockade countries – Saudi Arabia, the UAE, Bahrain and Egypt – against Qatar in May 2017. The diplomatic rift was directly related to the comments allegedly made by Qatar's Emir Tamim Al-Thani at a Police Academy graduation ceremony. As subsequently posted on the Qatar News Agency (QNA) website, in one of these statements Al-Thani allegedly referred to Iran as “a big power in the stabilisation of the region” while criticising renewed tensions with Tehran.<sup>3</sup>

The Qatari government denied the authenticity of the comments, claiming that the QNA website had been hacked, pre-

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3. “Qatar Says State News Agency Hacked After Report Cites Emir Criticising US”, in *BBC News*, 24 May 2017, <https://www.bbc.com/news/world-middle-east-40026822>; Kristian Coates Ulrichsen, “What's Going On with Qatar?”, in *Monkey Cage*, 1 June 2017, <https://wapo.st/2rbWjfd>.

sumably by the Emirates. US intelligence officials later confirmed these hacking allegations.<sup>4</sup> Scholars such as Marc Owen Jones have also extensively documented the massive virtual campaign conducted using tweeter bots and trolls that spread thousands of fake news reports, surveys and tweets against Qatar beginning in May 2017.<sup>5</sup> Among those, a report reposted by the news sites of blockading states alleged the presence of Iranian revolutionary guards in Qatar to protect the emir's palace.<sup>6</sup> This, according to them, proved that Qatar had abandoned the common Arab Gulf front against Iran and therefore deserved to be denounced and punished.

Following the initial withdrawal of the Arab quartet's<sup>7</sup> ambassadors from Doha and the support coming from US President Donald Trump via Twitter in May 2017, a first list of 13 demands was released by the blockading countries on 23 June. The first of these directly addressed Iran by requesting that Qatar "scale down diplomatic ties with Iran and close the Iranian diplomatic missions in Qatar, expel members of Iran's Revolutionary Guard and cut off military and intelligence cooperation with Iran. Trade and commerce with Iran must comply with US and international sanctions in a manner that does not jeopardise the security of the Gulf Cooperation Council".<sup>8</sup>

4. Karen DeYoung and Ellen Nakashima, "UAE Orchestrated Hacking of Qatari Government Sites, Sparking Regional Upheaval, According to U. S. Intelligence Officials", in *The Washington Post*, 16 July 2017, <http://wapo.st/2tvcnXx>.
5. Marc Owen Jones, "Propaganda, Fake News, and Fake Trends: The Weaponization of Twitter Bots in the Gulf Crisis", in *International Journal of Communication*, Vol. 13 (2019), p. 1389-1415, <https://ijoc.org/index.php/ijoc/article/view/8994/2604>.
6. Mohamed Abdel Maguid, "Sheikh Tamim Seeks Protection from IRGC, Deepening Gulf Rift", in *Egypt Today*, 24 July 2017, <http://www.egypttoday.com/Article/2/13376/Sheikh-Tamim-seeks-protection-from-IRGC-deepening-Gulf-rift>.
7. The "blockading quartet" became the usual way for local and international media to refer to Saudi Arabia, the United Arab Emirates, Bahrain and Egypt, the four countries that decided to cut relations with Qatar and block the country's communications by air, land and sea.
8. See the list of 13 demands at: "Arab States Issue 13 Demands to End Qatar-Gulf Crisis", in *Al Jazeera*, 12 July 2017, <http://aje.io/mwal>. See also "The 13 Demands on Qatar from Saudi Arabia, Bahrain, the UAE and Egypt", in *The National*, 23 June 2017, <https://www.thenational.ae/1.93329>.

The other demands included a serious accusation against Qatar regarding its alleged ties with “terrorist, sectarian and ideological organizations, specifically the Muslim Brotherhood, ISIL, al-Qaeda, [Nusra Front in Syria] and Lebanon’s Hezbollah”, and Qatar’s meddling in the internal affairs of Arab states by supporting the activities of these groups while providing leaders and ideologues safe haven in Qatar. In addition, one of the demands specifically took aim at Qatar’s famous news channel *Al Jazeera*, which the blockading countries demanded to be closed. Taken together, these demands represented, according to the Arab quartet, the justifications for the decision to blockade Qatar.

While the specific demand regarding Iran disappeared in the following “six principles” list released on 19 July by the quartet,<sup>9</sup> the scapegoat role played by Iran is undeniable. This request clearly evidenced the coincidence of positions between Saudi Arabia, the UAE, Bahrain and the United States regarding Iran, something that was later also confirmed in the Warsaw conference, convened by US Secretary of State Mike Pompeo and hosted by the Polish government in February 2019.<sup>10</sup> Attended by representatives of 70 states but without the presence of Iran, Turkey, Russia, China and Qatar, and with a merely symbolic European representation, the summit called for a common front to isolate Iran and prevent its perceived destabilising activities in the Middle East. The tweet posted by Israeli Prime Minister Benjamin Netanyahu, claiming that the gathering was a fundamental step to advance “the common interest of war with Iran” – then subsequently changed to “combating Iran” – again demonstrated how Iran is the main target of these states.<sup>11</sup>

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9. See the six principles list at: Taimur Khan, “Arab Countries’ Six Principles for Qatar ‘A Measure to Restart the Negotiation Process’”, in *The National*, 19 July 2017, <https://www.thenational.ae/1.610314>.

10. See, for instance, Alex Ward, “The US Held a Global Summit to Isolate Iran. America Isolated Itself Instead”, in *Vox*, 15 February 2019, <https://www.vox.com/world/2019/2/15/18225218>; “Warsaw Conference: Gulf Ministers Slam Iran in Leaked Video”, in *Al Jazeera*, 15 February 2019, <https://aje.io/hhaex>.

11. Eli Lake, “Netanyahu Accidentally Tells the Truth”, in *Bloomberg*, 14 February 2019, <https://www.bloomberg.com/opinion/articles/2019-02-14/netanyahu-accidentally-tells-the-truth-about-war-with-iran>.

The Trump administration had already made its intentions clear with its goal of creating a Middle East Strategic Alliance, an initiative originally mentioned during President Trump's first foreign visit, in Riyadh in May 2017, and officially launched in July 2018. Known as the "Arab NATO", the initiative's declared goal is to strengthen the military assets and preparedness of Gulf and Middle East countries to counter Iran's regional policies and missile threat.<sup>12</sup> The recent designation of the Islamic Revolutionary Guard Corp as a foreign terrorist organisation by the US administration, the first time that an entire military structure of a foreign country has been added to that list, only serves to reaffirm the US objective of containing Iran, working to minimise Iranian influence in accordance with the avowed policy of "maximum pressure" towards that country.<sup>13</sup>

However, these efforts by the United States seem to neglect the fact that the current GCC spat is preventing possible long-term strategic alignments between the six GCC members. Indeed, the departure of Qatar from the Organisation of the Petroleum Exporting Countries (OPEC) in December 2018 and the new cooperation framework, the Saudi-Emirati Coordination Council, created in 2016 and enhanced in June 2018 with the signature of 44 new partnership projects including security and foreign policy initiatives,<sup>14</sup> may even point to a possible dissolution of the GCC in the not too distant future.<sup>15</sup>

12. Yasmine Farouk, "The Middle East Strategic Alliance Has a Long Way to Go", in *Carnegie Articles*, February 2019, <https://carnegieendowment.org/publications/?fa=78317>.
13. White House, *Statement from the President on the Designation of the Islamic Revolutionary Guard Corps as a Foreign Terrorist Organization*, 8 April 2019, <https://www.whitehouse.gov/briefings-statements/statement-president-designation-islamic-revolutionary-guard-corps-foreign-terrorist-organization>.
14. Saudi Arabia Ministry of Economy and Planning website: *The Saudi-Emirati Coordination Council*, [https://www.mep.gov.sa/en/Pages/KSA\\_UAE.aspx](https://www.mep.gov.sa/en/Pages/KSA_UAE.aspx); and "UAE, Saudi Announce Strategic Partnership in 44 Projects", in *Khaleej Times*, 7 June 2018, <https://www.khaleejtimes.com/region/saudi-arabia/uae-saudi-announce-strategic-partnership-in-44-projects>.
15. Nikolay Kozhanov, "Qatar's Exit from the OPEC: Economically Driven, Politically Determined", in *Gulf Insights*, No. 5 (January 2019), [http://www.qu.edu.qa/static\\_file/qu/research/Gulf%20Studies/documents/gulf%20insights%205%20Nikolay%20Kozhanov.pdf](http://www.qu.edu.qa/static_file/qu/research/Gulf%20Studies/documents/gulf%20insights%205%20Nikolay%20Kozhanov.pdf).

## 2. Iran-Qatar relations

It is fair to say that Qatar-Iran relations were not at their best before the current crisis, not least since the two countries tend to support opposing factions in regional conflicts. While Qatar maintained that the Iranian-backed Hezbollah movement in Lebanon is a terrorist organisation,<sup>16</sup> Iran shared the Saudi accusation regarding Qatar's sponsorship of extremist groups in Syria that are fighting against the Iranian-backed Assad regime, for instance the Nusra Front.<sup>17</sup> During several informal conversations held in Tehran in 2017, Qatar was always mentioned as a country whose regional policy was perceived as hostile towards Iranian interests.

Qatar's traditional deference towards Saudi Arabia – for instance in participating in the Saudi-led coalition in the Yemen war, or reducing diplomatic relations with Iran in 2016 after the Saudi embassy storming in Tehran – are generally highlighted as examples in Tehran. However, when the GCC crisis erupted after the May 2017 Riyadh Summit with Donald Trump, Iran quickly decided to prioritise its confrontation with Saudi Arabia, moving to support Qatar in the intra-GCC dispute in order to weaken Riyadh and enhance Tehran's regional leverage.

In this context, following the blockade, there were several direct communications between Iranian and Qatari officials, which not only made Iranian support explicit but also enhanced bilateral relations. On 23 August 2017, Qatar announced that its ambassador would be sent back to Tehran with the “aspiration to strengthen bilateral relations with the Islamic Republic of Iran in all fields”.<sup>18</sup> This took place soon after a phone call between the two foreign ministers, Qatar's Mohammed bin Ab-

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16. Hugh Naylor, “In Jab at Iran, Gulf Arab States Declare Hezbollah a Terrorist Group”, in *The Washington Post*, 2 March 2016, <http://wapo.st/1VQc2XY>.

17. “Qatar ‘Maybe’ Supported Al-Qaeda in Syria, Says Former PM”, in *Middle East Eye*, 30 October 2017, <https://www.middleeasteye.net/node/66993>.

18. Qatar's Ministry of Foreign Affairs, *Qatar Announces Return of Its Ambassador to Tehran*, 23 August 2017, <https://www.mofa.gov.qa/en/all-mofa-news/details/2017/08/23/qatar-announces-return-of-its-ambassador-to-tehran>.

dulrahman Al-Thani and Iran's Mohammad Javad Zarif. During the conversation, they discussed "bilateral relations and means of boosting and developing them as well as a number of issues of common concern".<sup>19</sup>

By the end of August, President Hassan Rouhani had held a phone conversation with the Emir of Qatar, expressing Iran's willingness to strengthen relations and affirming that "the Islamic Republic of Iran believes that what is being imposed on Qatar is unjust and it leads to more tension among countries of the region".<sup>20</sup>

The Iranian government's support for Qatar went beyond political statements, however. Since the very beginning of the crisis, Iran clearly showed staunch support and expressed its willingness to prevent the blockade on Qatar, its economy and population. Tehran was very swift in setting up new time slots to expedite the use of Iranian airspace by Qatar Airways, which was hit hard by an airspace ban by blockading countries and therefore compelled to explore new routes.<sup>21</sup> Apart from this, Iran sent planes carrying food to Qatar, helping the import-reliant Gulf state to deal with the air, sea and land blockade imposed by its neighbours.

Although economic diversification away from the oil and gas sector has always been part of its national strategy, Qatar sensed the key importance of non-hydrocarbon trade in light of the blockade. Hence, there was a surge in non-oil trade with Iran, and Iranian businesses began to tap into growing

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19. "Qatar to Reinstate Ambassador to Iran", in *The Peninsula*, 24 August 2017, <https://www.thepeninsulaqatar.com/article/24/08/2017/Qatar-to-reinstate-ambassador-to-iran>.

20. Iranian Ministry of Foreign Affairs, *Tehran Ready to Cement Ties with Qatar/ Iran Willing to Help Muslim Countries of Region Deepen Relations*, 31 August 2017, <http://air.ir/Zsq2Szp>.

21. According to one Hamad International Airport technician consulted, the normal time allocated between aircrafts to cross the Iranian airspace was three minutes, which the Iranian authorities reduced to two minutes to accommodate Qatar's needs.

opportunities in Qatar, which sought new trading partners to replace links with Saudi Arabia and the UAE. Iranian producers and business delegations have visited Doha since June 2017 with an aim to establish permanent links with the Qatari market.

In November 2017, Qatar's Economy Minister Ahmad bin Jasim Al-Thani travelled to the Iranian capital for talks with government ministers on business links between the two countries, including the Minister of Industry, Mines and Trade, Mohammad Shariatmadari, and Foreign Minister Mohammad Javad Zarif. Following the talks, Shariatmadari said trade between the two countries was currently worth around 1 billion US dollars per year, but noted that Qatar wanted to boost this five-fold to 5 billion US dollars annually.<sup>22</sup>

It is not clear how this may be achieved, but economic activity has grown sharply this year and there is certainly more potential. Data from the Iran Customs Administration show that Iran exported 139 million US dollar worth of non-oil goods to Qatar in the seven months from April to late October – a timeframe that covers both pre- and post-boycott periods. This was equivalent to a 117.5 per cent increase over the previous year.<sup>23</sup>

Major Iranian shipping companies have started transport services to Qatar and most Iranian shipping lines have changed their services, moving from Dubai and Muscat to Doha in an effort to meet the new needs of the Qatari market.<sup>24</sup> Iran's biggest confectionery company, the Shirin Asal Food Industrial Group, with a turnover of 5 billion US dollars per year, decided to enter the Qatari retail market and aims for a long-term sup-

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22. "Iran FM, Qatari Minister Call for Promotion of Business Ties", in *Iran Front Page*, 26 November 2017, <https://ifpnews.com/?p=87554>.
  23. Dominic Dudley, "How Qatar Is Being Pushed into the Arms of Iran by Saudi Arabia and Its Allies", in *Forbes*, 27 November 2017, <https://www.forbes.com/sites/dominicdudley/2017/11/27/qatar-pushed-into-arms-of-iran-by-saudi>.
  24. "Iran, Turkey, Qatar Sign Deal to Ease Doha Blockade", in *Financial Tribune*, 27 November 2017, <https://financialtribune.com/node/76877>.

ply contract to meet the growing Qatari demand for Iranian goods.<sup>25</sup>

The main export goods were food, agricultural products and bitumen. In addition to this, Iran, Turkey and Qatar signed a transportation agreement to boost trade among the three countries. As per the deal, goods from Turkey and Azerbaijan can be transported by land through Iran, reducing costs by about 80 per cent compared to airfreight charges.<sup>26</sup> There has also been a gain for Iran from the rerouting of Qatar Airways flights, which are no longer able to fly through the airspace of Bahrain, Saudi Arabia or the UAE. That means they have to take longer paths to get to the Americas and parts of Europe and Africa, and Iran has been happy to offer its airspace, gaining substantial overflight fees in the process.

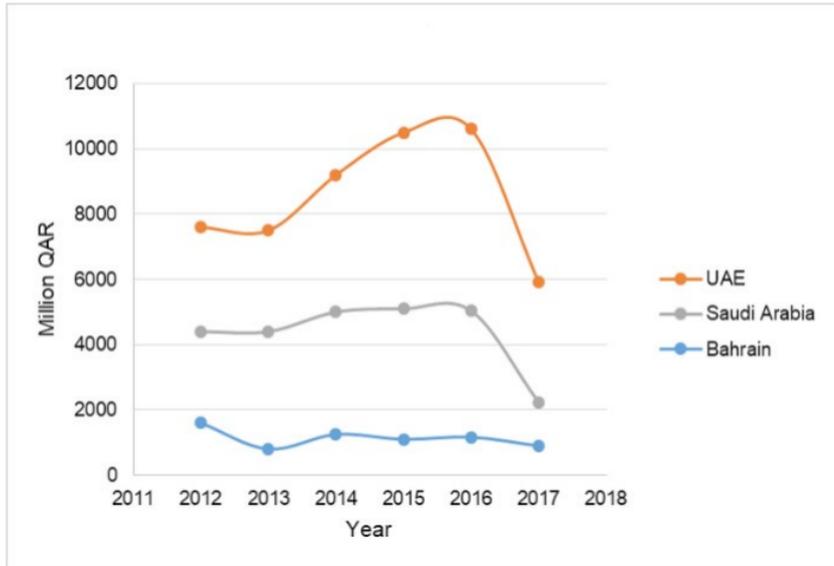
Iran's role during and after the blockade has also resulted in an improvement of popular perceptions of Iran among the Qatari population. A survey conducted by Qatar University's Social and Economic Survey Research Institute (SESRI) between April and May 2018 and consisting of 1,502 respondents (733 Qataris and 769 expatriates), showed how perceptions improved among Qataris, with Iran, Turkey, Kuwait and Oman considered Qatar's biggest supporters during the blockade among both nationals and non-nationals in the country.<sup>27</sup>

Figure 1 below shows yearly import data for Qatar from the UAE, Saudi Arabia and Bahrain. The dip in 2017 is quite noticeable and is directly linked to the blockade against Qatar. The drop in UAE imports from 2016 to 2017 was about 1.1 billion US dollars and the drop in Saudi based imports was about 824 million US dollars.

25. "Iran Confectionery Giant Makes Inroads Into Qatar Market", in *Financial Tribune*, 29 October 2017, <https://financialtribune.com/node/75193>.

26. "Turkey, Iran and Qatar Sign New Trade-Transport Agreement", in *Middle East Monitor*, 27 November 2017, <https://www.middleeastmonitor.com/20171127-turkey-iran-and-qatar-sign-new-trade-transport-agreement>.

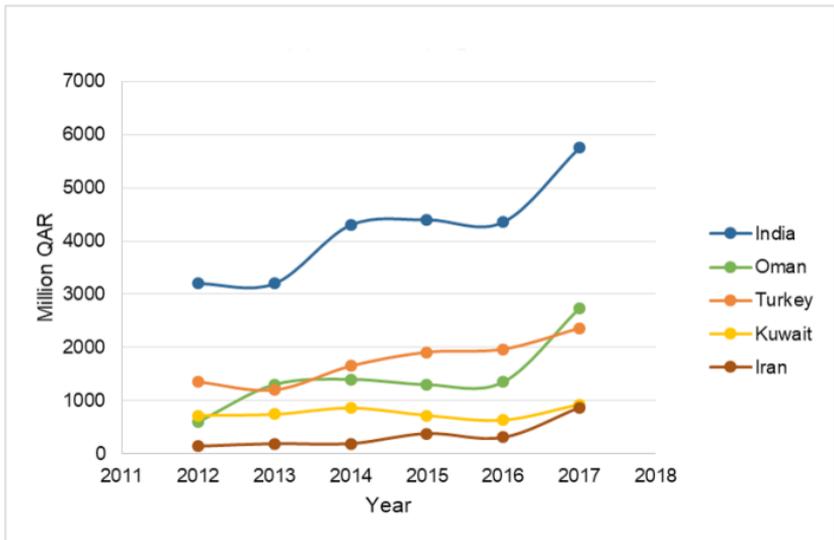
27. Justin Gengler and Buthaina Al-Khelaifi, *Qatar against the Blockade (2nd Wave)*, report of the SESRI 2018 Omnibus Survey, August 2018.

**Figure 1 | Qatar imports from UAE, Saudi Arabia and Bahrain, 2011–2018**

Source: Estimates obtained from CEIC Insights data.

Figure 2 shows imports from other countries to Qatar. The imports from Oman increased significantly from about 357 million US dollars in 2016 to 770 million in 2017, which is an increase of about 103 per cent. Kuwaiti imports also increased from 174 million US dollars in 2016 to 257 million in 2017. Interestingly, imports from Iran remained low comparing 2016 to 2017 at about 82 million US dollars. Turkey also increased its exports to Qatar by about 20 per cent from about 541 million US dollars in 2016 to 660 million in 2017.

According to a leading Qatari English daily, *The Peninsula*, Iranian exports to Qatar have surged significantly since the crisis began. Iranian exporters have dispatched a total of 624,840 tons of goods valued at over 119 billion US dollars to Qatar since March 2017, which amounts to an increase of more than 81 per cent compared to figures for the same period over the previous year provided by the Iranian Customs Administra-

**Figure 2 | Qatar imports from other countries, 2011–2018**

Source: United Nations COMTRADE data.

tion.<sup>28</sup> The chairman of Iran's Chamber of Commerce also predicted that exports to Qatar would rise further to 300 million US dollars in 2018–19 and highlighted the growing trade relationship between Iran and Qatar.<sup>29</sup>

It must be noted that soon after the blockade Qatar reinstated its ambassador to Iran. Mohammed bin Hamad Al Hajri became the newly appointed Qatari ambassador, moving to restore diplomatic relations with Iran previously cut off by Qatar in solidarity with Saudi Arabia when the latter accused Iran of interference in the domestic affairs of Gulf and Arab countries. In 2016, Iranian protestors ransacked the Saudi Embassy

28. Irfan Bukhari, "Iran's Exports to Qatar Surge Significantly", in *The Peninsula*, 21 November 2017, <http://www.thepeninsulaqatar.com/article/21/11/2017/Iran's-exports-to-Qatar-surge-significantly>.

29. Economist Intelligence Unit (EIU), *Iranian Exports to Qatar Continue to Rise*, 25 January 2019, <https://country.eiu.com/article.aspx?articleid=87579392>.

in Tehran after Saudi Arabia executed senior Shia cleric Sheikh Nimr al-Nimr along with several others on charges of terrorism and for being an outspoken critic of the Saudi regime. This resulted in all Gulf states breaking off diplomatic ties with Iran, with Qatar withdrawing its ambassador from Tehran following the embassy assault.

### **3. Are Iranian gains short-lived?**

The intra-GCC crisis has resulted in a number of positive outcomes for Iran especially with regard to its bilateral relations with Turkey and Qatar. However, these benefits for Iran will not last long if the intra-Gulf conflict is resolved abruptly, or if it further worsens in coincidence with enhanced regional and international pressure on Tehran. Despite a surge in trade links that has resulted in Iranian exports to Qatar increasing five-fold compared to the previous year, countries like China, the US, India, Japan and Germany continue to be Qatar's key trading partners. More than 74 million US dollar worth of goods were shipped from Iran to Qatar in the first quarter of the Persian year, up 214 per cent from the same period in the previous year, while China, the US and India exported goods worth 272, 265 and 219 million US dollars respectively.

Though Iranian gains may seem overwhelmingly positive, they are not that different from the trade profits made by other countries on which Qatar had to rely in the wake of the blockade. Thus, this circumstantial reliance on Iran could be cut short should the crisis be resolved and the blockade lifted, although this option remains so far unlikely due to the lack of improvement exhibited in December 2018 GCC summit and April 2019 Arab League summit, in which no direct contact was established between the rulers involved in the spat.<sup>30</sup>

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30. The December 2018 GCC Summit in Riyadh was not attended by the emir of Qatar. Previously, the rulers of Saudi Arabia and the UAE had refrained from attending the December 2017 Kuwait Summit. Finally, the April Arab League summit in Tunisia witnessed the sudden departure of Tamim Al-Thani dur-

The Qatari and Iranian governments have been very proactive in promoting bilateral visits of businessmen. Yet, efforts to establish an Iranian-Qatari Chamber of Commerce have been successful in Iran, but have thus far not materialised in Qatar.<sup>31</sup> Moreover, while it is true that since June 2017 Iranian goods – mainly fruits, vegetables, dairy products, dry fruit and other food items – have become more visible in Qatari supermarket chains, it is also true that these products need to travel relatively small distances compared to other non-oil products such as construction items, which are coming from Turkey and Azerbaijan. In other words, perishable products are more likely to come from Iran because of the short distance and reduced price compared with other origins.

Businessmen interviewed in Iran expressed that several Qatari delegations visited different factories in several locations. The aim was to demonstrate Iranian readiness to adapt production lines according to Qatari requirements, producing goods for its market. However, so far no agreements have been reached. While Iranian producers seem to look for Qatari investments in their factories, their Qatari counterparts are more interested in establishing factories inside Qatar, meaning that the main investment effort should originate from the Iranian side. This request seems logical, since Qatar's previous dependence on external food production, mainly from Saudi Arabia and the Emirates, should not be replaced by a dependence on Iran, a country still considered a threat in the GCC context.

Thus, long-term expectations of consistent and permanent trade agreements between Iran and Qatar are not likely to be fulfilled. Moreover, and even though Saudi-Qatari relations are currently in a deep freeze, interviewed Qatari officials at the Ministry of Foreign Affairs argue that the situation will not per-

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ing the inaugural speech. These absences prevented any potential contact among the leaders of the blockading states and Qatar.

31. Interviews conducted in Iran and Qatar in January 2019 with Iranian businessmen and members of the Iranian Chamber of Commerce.

sist indefinitely. An eventual reconciliation with Saudi Arabia would necessarily affect any long-term agreement with Iran, and surely Qatar does not want to give the Saudi government justification for its concerns regarding Doha's close relations with Iran.

The fact that it is difficult to find concrete data or information regarding the actual amount of bilateral trade between Iran and Qatar, and that few people are willing to be quoted on the record on these matters, is also a demonstration of how sensitive the topic is for all actors involved.

Bilateral agreements, therefore, seem to be a necessary but circumstantial mechanism to guarantee the provision of goods to Qatar, from Iran and elsewhere. The main aim is to diversify providers, making Iran the main delivery route to Doha. Data from the Ministries of Trade have not yet been published, and nor have data from international organisations such as the World Trade Organisation or the World Bank. However, one can presume that trade between Qatar and Turkey has increased in absolute terms much more than Qatari-Iranian exchanges; and that, in any case, trade volumes with Iran are likely to reach similar levels as Qatar had with Saudi or the UAE before the blockade started in June 2017.

#### **4. Iran's regional role and future prospects**

Iran has long competed for power and influence in the Persian Gulf region. This competition is intertwined with territorial conflicts and cultural differences, and, after the Islamic Revolution in 1979, an ideological component. As a matter of fact, a common aspect derived from the analysis of Iranian foreign policy well before 1979 reveals an aspiration to become a key player not only in the Persian Gulf but also the wider Middle East and Central Asia. Under Shah Mohammad Reza Pahlavi (1941-1979) Iran deployed several foreign policy initiatives, such as the "independent national policy" that used hard-power tools, includ-

ing direct military involvement in regional scenarios, to exert the role of regional power and gendarme of the Gulf.<sup>32</sup>

Yet, beyond a given states' aspirations, capabilities and achievements, a decisive factor for the categorisation of a state as a regional power is its acceptance by others within this regional system or sub-system as well as those extra-regional actors, or global powers, who continue to determine the rules of the game within the region and at the broader international level as well.<sup>33</sup>

In the Iranian case, such an acceptance was invisible until the Joint Comprehensive Plan of Action (JCPOA), the Iran nuclear deal, was signed in 2015. Prior to this, Iran was excluded from all regional dialogue frameworks relating to security issues, an aspect that prevented Iran from normalising its relations with Persian Gulf states or key international actors.

However, under President Hassan Rouhani, Iranian foreign policy towards GCC states changed in orientation. With several diplomatic initiatives aimed at improving relations – especially with smaller states, like Qatar, Kuwait and Oman – Iran sought to gain trust in its foreign policy. As luck would have it, the 2017 intra-GCC crisis provided Iran an opening to depict Saudi Arabia as the real threat to regional stability and sovereignty, using the crisis to expand its influence in Qatar and Lebanon for example. In other words, the crisis provided Iran the opportunity to demonstrate that Tehran is not the “bad guy in the neighbourhood”, pointing to Saudi Arabia instead.

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32. Luciano Zaccara, “Iran’s Permanent Quest for Regional Power Status”, in Jacqueline Braveboy-Wagner (ed. ), *Diplomatic Strategies of Nations in the Global South. The Search for Leadership*, New York, Palgrave Macmillan, 2016, p. 181-211.

33. Detlef Nolte, “How to Compare Regional Powers: Analytical Concepts and Research Topics”, in *Review of International Studies*, Vol. 36, No. 4 (October 2010), p. 881-901, [https://www.giga-hamburg.de/sites/default/files/publications/how\\_to\\_compare.pdf](https://www.giga-hamburg.de/sites/default/files/publications/how_to_compare.pdf).

Despite Iranian concerns regarding Qatari support to groups opposed to Iranian interests, Iran sided with Qatar, using a very pragmatic approach that prioritised long-term confrontation with Saudi Arabia. Iran showed its readiness to help in any way possible, and swiftly expressed its strong support to the Qatari emir, as well as mobilising all productive forces to guarantee the provision of fresh goods in the first weeks of the blockade.

The crisis has also helped Iran move away from the traditional sectarian dichotomy since Tehran has strengthened its relations with Sunni states such as Qatar and Turkey despite their rivalries in Syria and other regional issues. On the other hand, Qatar maintained a very different approach towards Iran compared to Saudi Arabia not only because they share the biggest gas field in the world<sup>34</sup> but also due to the fact that Qatari authorities do not share with Saudi Arabia the same threat perceptions about Iran.

Again, pragmatism seems to be the main driver of the current bilateral relations between Doha and Tehran. One of the facts that shows this is an interview with the former Qatari Prime Minister Hamad bin Jassim Al-Thani on *France24*, where he urged the Trump administration to resolve its differences with Tehran in a peaceful way, and also stressed that the GCC needed to engage in a serious dialogue with Iran.<sup>35</sup>

The fact that Qatar hosts the Al Udeid airbase, the regional headquarters for the US Central Command (CENTCOM) with almost seven thousand soldiers, puts both states in a very sen-

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34. The South Pars–North Dome gas field is divided between the territorial waters of Iran (3,700 km<sup>2</sup>) and Qatar (6,000 km<sup>2</sup>). According to a 2018 International Energy Agency (IEA) report, the field holds an estimated 51 trillion cubic meters of natural gas and some 50 billion barrels of natural gas condensates, totalling almost as much recoverable reserves as all the other fields combined. See IEA, *World Energy Outlook 2008*, Paris, IEA, November 2008, p. 298, <https://www.iea.org/publications/freepublications/publication/weo-2008.html>.

35. Marc Perelman, "Saudi Crown Prince 'Not Well Advised', Former Qatari PM Tells France 24", in *France24*, 17 September 2018, <http://f24.my/3crB.T>.

sitive situation, bearing in mind Qatar's cordial relations with Iran and the accusations that President Trump levied against Qatar at the beginning of the crisis in late May 2017. Also sensitive is the fact that the recently re-imposed US sanctions against Iran, and the third round expected in May 2019, will definitively have an impact on Qatar-Iranian relations.

It is undeniable that US-Qatar relations are essential for the survival of the Emirate at a military level, and the Qatari government would not risk losing US support because of its lack of compliance with US sanctions. On the other hand, Iran now represents the only air and sea exit and entry to Qatar, and its government is not willing to risk the withdrawal of Iranian support while the Saudi-led blockade continues.

## Conclusion

Iran has been used as a scapegoat for the intra-GCC crisis, since the Islamic Republic is portrayed as a threat by Saudi Arabia as well as by the US Trump administration and Israel. The instrumentalisation of the Iranian threat has been useful since 1981 and has become a source of several policies aimed at containing Iranian regional influence since the signature of the JCPOA and the Trump administration's disavowal of the deal, including the abovementioned Middle East Initiative, the Warsaw Summit or the recent designation of the Iranian Revolutionary Guard Corps (*Sepah-e Pasdaran*) as a terrorist organisation. However, the current crisis can be interpreted as a side effect of the Arab Spring, as a result of the different approaches the GCC states used to tackle the effect of the revolts in their own countries, and the conflicting identification of threat perceptions for regime survival that resulted from the spread of popular unrest. Iran has been clearly identified as one of the main threats by Saudi Arabia, due to the perceived negative role Iran played in regional scenarios such as Yemen, Syria and Bahrain. Thus, Tehran's relations with Qatar became part of the problem as seen from Riyadh or Abu Dhabi.

Iranian gains during the crisis have been visible in terms of strengthening bilateral relations as well as trade exchanges with Qatar. However, these may be short-lived, since dynamics affecting international relations in the Gulf prevent Iran from being recognised and accepted as a normal state with regional power aspirations. Without this formal recognition, any long-term agreement that can include foreign investments, joint ventures or strategic partnerships between Qatar and Iran are highly unlikely. In the eventual, although so far unlikely, scenario of Saudi-Qatari reconciliation, it is very likely that the relation with Iran would be sacrificed for the sake of intra-GCC stability and unity. In this respect, refraining from signing long-term commitments with Tehran will likely make it less problematic for Doha to eventually re-enter the GCC fold.

On the other hand, regional actors with similar aspirations of being regional powers in a zero sum game, such as Saudi Arabia or Israel, will not share their power with a state which is perceived as the main security threat for their own state and regime. Moreover, with the change in Washington's orientation since Donald Trump assumed office, the pressure is now concentrated towards containing Iran, rather than achieving a regional settlement or dialogue that can accommodate the concerns and interests of all actors.

To sum up, Iran has emerged as a temporary winner in the ongoing cold war with Saudi Arabia since the intra-GCC crisis began. Although the siege countries calculated that Qatar would be forced to cut off diplomatic ties with Iran as an outcome of the blockade, the state of affairs has turned these initial hopes on their head. Iran's efforts have led it to improve relations with both Qatar and Turkey, with Tehran entering into long-term agreements on various bilateral and multilateral issues with both states.

Nevertheless, acknowledging Iran as a regional power has little consensus among many countries, including Qatar. While Saudi Arabia's mission is to curb Iranian domination in the Persian Gulf and across the region, US President Donald Trump is

intent on doubling down on his country's policy of "maximum pressure" towards Iran, withdrawing from the Iran nuclear deal, re-imposing sanctions on Iran and ratcheting up regional and international pressure on Tehran. Thus, as the intra-GCC crisis continues, so do anti-Iranian sentiments across the Gulf, further weakening Iran's claim to regional leadership and legitimacy in the Persian Gulf and broader region.



## 4

# SHAPING THE POLITICAL ORDER OF THE MIDDLE EAST: THE ROLE OF GLOBAL ACTORS

RANJ ALAALDIN

The Middle East has undergone a radical transformation since the 2011 Arab uprisings. In multiple cases, post-Arab uprising states have either become severely weakened or have collapsed while territorial boundaries are fragile and no longer impervious amid devastating, far-reaching transnational conflicts. Once the exception, proxy warfare has become the norm, exacerbating humanitarian crises in the process and diminishing accountability mechanisms that could otherwise constrain the space for conflict and human rights abuses. Regional actors have augmented their military capacity since the war on the Islamic State in Iraq and Syria (ISIS) started in 2014 and have reverted to old geopolitical rivalries and inter-state confrontations, as manifested by ongoing tensions between Saudi Arabia and Iran and internally within the Gulf Cooperation Council (GCC). Moreover, additional layers of tensions and disputes have emerged, as portrayed by Turkey's tensions with Saudi Arabia and the United Arab Emirates, which has, in turn, enabled a critical geostrategic alliance between Turkey and Qatar since the intra-GCC crisis erupted in 2017.

These rivalries and tensions could result in fresh conflagrations amid an ongoing contest to shape the future of the regional order. Saudi Arabia's increasingly assertive and belligerent approach towards Iran, together with Iran's own belligerency and strategic gains across the region, have intensified the battle for the future of the Middle East and the regional order that is emerging from the ruins of conflict in Iraq and Syria. While Iran has become a dominant but still vulnerable power in Iraq

and Syria, its Arab rivals have doubled down on their efforts to contain its ascendancy, most notably in Yemen but also by reinforcing their relationship with the US and the expanding of diplomatic channels with Israel. Amid this regional contest, a reawakened and resurgent Russia has disrupted what was previously a US-enforced and -shaped regional security architecture. Russia's resurgence in the Middle East also comes alongside an increasingly assertive China. Its global ambitions to challenge the Western-led international order have manifested through the inroads Beijing has made into cash-poor Middle East countries through investment and reconstruction packages within the ambit of China's "One Belt One Road" vision.

This paper examines the extent to which the Middle East has been and will continue to be shaped by great power rivalries, drawing on the historical supremacy of the US in what has traditionally been regarded as a US (or Western) backyard or area of overwhelming US pre-eminence, to appraise the extent to which this has been challenged by Russia and China. It analyses the multiple alliances and conflicts that underpin the region's political and security challenges, looking at how these have enabled opportunity structures for alternative authorities on the ground but also alternative powers at the international level.

## **1. The rise and decline of US influence**

At the end of World War II, the United States found itself in a position of economic pre-eminence, accounting for 60 per cent of global GDP; its oil and steel production accounted for 70 and 64 per cent of the world total, respectively.<sup>1</sup> US military capacity at that time surpassed that of other Allied powers, as well as the Soviet Union. Its economic, technological and military advancement ushered in a US-shaped and -enforced interna-

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1. Xue Li and Cheng Zhangxi, "Will China Replace the US Global Role?", in *The Diplomat*, 28 April 2018, <https://thediplomat.com/?p=134192>. See also David Frum, "The Real Story of How America Became an Economic Superpower", in *The Atlantic*, 24 December 2014, <https://www.theatlantic.com/article/384034>.

tional order. In the Middle East, the US was not necessarily an uncontested force, rivalled as it was by colonial powers such as the British and the French. However, as was also true for these powers, US influence and engagement with the region was underscored by the necessity of ensuring the free flow of natural resources and the protection of allies to sustain this energy imperative, even deploying the use of force where necessary.

This included intervening after military coups in the 1950s in the context of the rise of Egypt's charismatic, anti-Western Gamal Abdel Nasser, which threatened a region-wide domino effect. In 1958, Iraq's Western-aligned monarchy fell, triggering the deployment of US forces to Beirut to prop up the government of Christian leader Camille Chamoun, while the British sent paratroopers to support King Hussein in Jordan. Iraq, under the monarchy, was the only Arab country to join the Baghdad Pact, which aimed to establish the region's equivalent of NATO to contain Soviet influence amid the fall of Western-enabled monarchies and the ascendancy of Arab socialist factions and movements. Other interventions included Anglo-American support for the infamous 1953 coup d'état in Iran that ousted the democratically elected Mohammed Mosaddeq (who had nationalised Iran's oil industry) and restored the pro-US Reza Shah Pahlavi to power.

For much of the 20th century, US interests in the region were secured through the so-called "Twin Pillars" strategy whereby Iran and Saudi Arabia were empowered and identified as pillars of regional security and beneficiaries of US military equipment – a strategy that was boosted by the rapid increase in oil revenues that followed the 1970s oil boom. After the Arab-Israeli War in October 1973 (Yom Kippur War), US-led efforts to reconcile Israel and its Arab neighbours provided the basis for what has been referred to by Bruce Reidel as a "Pax Americana", centred around Washington's attempts to pull Egypt away from Soviet influence.<sup>2</sup> The first Gulf War and the collapse of

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2. Bruce Jones (ed. ), *The New Geopolitics of the Middle East: America's Role in a Changing Region*, Washington, Brookings Institution, January 2019, <https://brook.gs/2FdR330>.

the Soviet Union in 1991 later heralded the advent of US military expansionism in the region, furthering a presence begun in the 1980s following the 1979 Revolution in Iran and the Soviet invasion of Afghanistan, which saw tens of thousands of US troops deployed in the Gulf.<sup>3</sup>

Since the invasion of Iraq in 2003, more recent challenges include intra-state conflict, asymmetric warfare and violent extremism in the Middle East, which have largely eclipsed the risk of inter-state conflict and the prospect of a war of ideologies and supremacy between the US and Russia. The instability posed by these threats also has knock-on impacts for the US and its allies in Europe. For example, the complicated civil war and rise of ISIS in Syria has led to massive refugee flows to Europe, exacerbating the domestic economic, political and security issues facing European states. These threats have maintained US military deployments in the region, even if there has been substantial distaste toward US interventionism as a result of domestic aversion to major military engagement in the Middle East following the Iraq war of 2003.

Even under the conflict-averse former US president Barack Obama, the US carried out more drone strikes in the then president's first year than former President George W. Bush carried out during his entire presidency, including a total of 563 strikes.<sup>4</sup> The US now has approximately 50,000 troops in the Middle East, including troops in key Arab Gulf states, Iraq, Syria, Jordan, Turkey and Egypt, in addition to a sizeable infrastructure of sophisticated, technologically superior fighter planes, surveillance aircraft and unmanned drones.<sup>5</sup>

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3. Micah Zenko, "US Military Policy in the Middle East. An Appraisal", in *Chatham House Research Papers*, October 2018, <https://www.chathamhouse.org/node/37843>.
  4. Jessica Purkiss and Jack Serle, "Obama's Covert Drone War in Numbers: Ten Times More Strikes than Bush", in *The Bureau of Investigative Journalism*, 17 January 2017, <https://www.thebureauinvestigates.com/stories/2017-01-17/obamas-covert-drone-war-in-numbers-ten-times-more-strikes-than-bush>.
  5. Heritage Foundation, "Middle East", in *Global Operating Environment. 2019 Index of U. S. Military Strength*, October 2018, p. 153-171, <https://www.heritage.org>.

## 2. The breakdown of the old order

Since the 2011 Arab uprisings, the Syrian civil war and the emergence of ISIS, the future of Arab statehood in the Middle East has taken an uncertain turn. The Arab state system has been engulfed by crisis and tested like never before in its modern history. As institutions declined or collapsed in the run-up to and during the course of political tumult and conflict, so too did the relationship between citizen and state, resulting in the emergence of powerful sub-state actors who have capitalised on socio-economic grievances, the breakdown in security and the collapse of political and institutional orders.

The decline of the Arab state shifted power away from those who had traditionally wielded it, the political and military elites that historically suppressed challenges to the state from dissidents and rebel groups, using both persecution and coercion. Armed non-state actors, at times enabled and empowered by these same state actors, thus emerged as important wielders of authority and have since exacerbated and exploited ethnic and sectarian divisions to produce far-reaching, bloody and transnational conflicts that have destroyed the fabric of societies across the region.

In 2014, ISIS even declared the end of the nation-state system established a century earlier from the ruins of the Ottoman Empire by the colonial powers, France and Britain. For more than three years, despite the sustained efforts of global powers and their allies to contain and defeat it, this ragtag force established and managed its own proto-state and rendered meaningless the once unshakeable, sacrosanct borders of Syria and Iraq.

During the same period, Shiite militia groups in Iraq organised into the umbrella militia organisation known as the *Hashd*

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itage.org/node/7757425. Qatar, for example hosts the biggest US military base in the region, while the US 5<sup>th</sup> Fleet is stationed in Bahrain.

*al-Shaabi* or Popular Mobilisation Units (PMUs). Its 100,000 strong fighters filled the vacuum left by the collapse of the US-trained Iraqi army after ISIS seized Mosul in June 2014. In both Iraq and Syria, but also other countries like Libya and Yemen, armed non-state actors have supplanted the state in the provision of services and security, in partnership with other grassroots actors such as tribes, civil society and clerics. In each of these countries, it is irregular militia groups that have undertaken the fighting, be it in the war against ISIS or intra-state conflict between different factional groups, sometimes on the basis of ethnicity or sect. This includes the PMUs that fought on the frontlines of the war against ISIS in Iraq, or the tens of thousands of militia personnel mobilised by Iran who have fought alongside the Assad regime and, conversely, the tens of thousands of rebel fighters who have sought the fall of the Assad regime with outside support from the GCC and Turkey.

These actors have traditionally been defined as non-state or anti-state. However, *they are becoming the state*. Local, grassroots actors have been critical to ensuring the survival of national identities and the resilience of their state's borders. They have transitioned from grassroots actors that wield support and legitimacy at the local level to actors that can decisively shape politics and power at the national level. It is still unclear what form of state will emerge in the conflict-ridden countries of the Arab world. Local and national actors will grapple over power, resources and post-conflict power-sharing. Armed groups that end up integrating into the state will aim to reconfigure the state according to their own ideologies and world-views. Since there are no longer clear divides between state and non-state actors, and because the state will continue to be weak, armed groups that do not integrate into state institutions will continue to weaponise state resources, identity and sovereignty.

Fundamentally, the contestation over the state is unfolding in radically transformed military theatres. While it was once the exception, it is now the norm for states to outsource security to unaccountable proxies that are far less, if at all, constrained

by the laws and norms of the international system. Since the multiple civil wars in the region first began, transnational networks have expanded, as have shared inter-state rivalries and the availability of capable armed groups looking for willing patrons. Syria's civil war may have produced winners in Iran and its allies, and losers in the Arab world and the West, but that does not mean the end of the contestation. Regional actors, who have augmented their military capacity since the war on ISIS almost five years ago, are reverting to old geopolitical rivalries and inter-state confrontations could result in a fresh conflagration.

## 2.1 Russia's moment?

Amid the recently emerged politics of conflict, intra-state wars and the collapse or weakening of state institutions, alongside the weakening or demolition of the old regional order of grand authoritarian bargains reinforced by Western actors, opportunity structures have enabled alternative powers to either contest or replace the US as the preeminent force in the region. Since Russia's 2015 intervention (with the help of Iran) in Syria reversed the course of the war there in favour of the regime of President Bashar al-Assad, Moscow has asserted itself as a credible alternative to the US through arms sales, economic deals and diplomatic manoeuvring. For example, Saudi Arabia's King Salman travelled to Moscow in October 2017, the first ever visit by a Saudi king, which resulted in more than 15 cooperation agreements worth billions of dollars.<sup>6</sup> Similarly, with Russian influence in Syria on the rise and the US commitment to staying the course in the country's north-east wavering, Israel has sought Russia's support to curtail Iranian influence in the country.

Russia has attempted to keep and possibly expand its reach in the region since the 1970s, when the US managed to pull Egypt out of Soviet influence and place it squarely into the Western

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6. Patrick Wintour, "Saudi King's Visit to Russia Heralds Shift in Global Power Structures", in *The Guardian*, 5 October 2017, <https://gu.com/p/7b7fj>.

camp. But it is only in the last 15 years that Russia's economic revival and reinvigorated foreign policy assertiveness in a region that has otherwise been considered a US backyard has seen it exploit and capitalise on geopolitical and economic openings. After the Obama administration suspended some arms sales to Egypt in 2014 over human rights abuses, Russia stepped in to sell fighter jets and attack helicopters.<sup>7</sup> Similarly, in Iraqi Kurdistan, a longstanding and staunch US-aligned region, Russia has capitalised on the void that has resulted from US disengagement with Iraq but also the decline in US-Kurdistan Regional Government (KRG) relations, most notably since the US refused to back the KRG-promoted independence referendum in September 2017 and failed to oppose Baghdad's military deployment against Kurdish Peshmerga forces.<sup>8</sup>

Just days before the Kurdish independence referendum, Russia's energy giant Rosneft took ownership of Kurdistan's oil export pipelines to Turkey, in return for 1.8 billion US dollars, despite objections from Baghdad.<sup>9</sup> The deal effectively cemented Russia's political influence in Iraq, if not the region as a whole. In Libya, Russian military officials have established a close relationship with Libyan warlord Khalifa Haftar. At the same time, Moscow has signed oil agreements with the UN-backed rival government in Tripoli, whereby Russia could position itself as a critical arbiter of peace between the country's competing factions.<sup>10</sup> Libya could, therefore, empower Russia's negotiating hand against the West, not least since a standoff and instability in Libya could allow Russia to use mass migration from Libya as leverage against Europe.

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7. Oren Dorell, "Russia Offers Egypt No-Strings-Attached Arms Deal", in *USA Today*, 13 February 2014, <https://eu.usatoday.com/story/news/world/2014/02/13/russia-egypt-arms-deal/5459563>.

8. Maher Chmaytelli and Raya Jalabi, "Iraqi Forces Complete Kirkuk Province Takeover after Clashes with Kurds", in *Reuters*, 20 October 2017, <https://reut.rs/2yGk5En>.

9. Dmitry Zhdannikov, "The Great Russian Oil Game in Iraqi Kurdistan", in *Reuters*, 19 April 2018, <https://reut.rs/2qldy7k>.

10. Boriz Zilberman and Romany Shaker, "Russia and Egypt Are Growing Closer", in *The American Interest*, 6 June 2018, <https://wp.me/p4ja0Z-L8n>.

In other words, in the span of less than a decade, the Middle East has gone from a region in which the United States was overwhelmingly predominant to one in which Russia is viably positioned to contest US power. In addition to its status recognition since the Syria conflict erupted, Russia has seen its geostrategic gains matched by its soft power projection. For example, government mouthpiece broadcaster Russia Today has an Arabic service which ranks as one of the three largest networks in the Middle East, along with Al Arabiya and Al Jazeera. Since 2009, the channel has grown 26-fold, attracting an average of 6.3 million users per month. In Morocco, Egypt, the UAE, Saudi Arabia, Iraq and Jordan, Russia Today is watched by 6.7 million people, while its overall audience in the Middle East, North Africa and Arab diasporas in Europe, according to its own sources, spans more than 350 million viewers.<sup>11</sup>

Of course, the US continues to enjoy unrivalled military prowess and its presence is almost always amplified by its sizeable, unrivalled and uncontested military infrastructure in the region. In Syria, for example, despite having only 2,000 troops and a limited presence in the skies, the US has controlled and protected territories in the east that have long been coveted by its rivals, including Russia. Regime-aligned forces learned this the hard way in February 2018, when 500 pro-regime forces – including Russian mercenaries – attacked US forces but were then met with US warplanes, including Reaper drones, F-22 stealth fighter jets, F-15E strike fighters, B-52 bombers, AC-130 gunships and AH-64 Apache helicopters. In the end, 200 to 300 of the pro-regime fighters were killed.<sup>12</sup>

Perceptions matter, however. The US may enjoy economic, technological and military supremacy, but Russia has bur-nished its credentials as a decisive actor, one that stands by its

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11. Maxim A. Suchkov, "Russia Turns to Soft Power in the Middle East", in *Al-Monitor*, 24 April 2015, <http://almon.co/2f2u>.
  12. Thomas Gibbons-Neff, "How a 4-Hour Battle Between Russian Mercenaries and U.S. Commandos Unfolded in Syria", in *The New York Times*, 24 May 2018, <https://nyti.ms/2GMKOj0>.

allies and delivers on what it sets out to achieve. In the case of Syria, Russia has secured Assad's survival, while in Iraq it has brazenly ignored objections from Baghdad over the pipeline agreement with the KRG. Russia does have a military strategy for the region but it is primarily focused on the Mediterranean according to observers, who also consider Moscow's engagements in the Middle East as being ad-hoc and opportunistic.<sup>13</sup> Syria's geostrategic position provides an entry into the region and access to the Mediterranean – it is Moscow's most important foothold in the Arab world and its closest ally, an alliance with roots in the Soviet era when Hafez al-Assad signed a series of bilateral treaties with Moscow after taking power through a military coup in 1970. Russia's naval facility in Tartus is its only naval foothold in the Mediterranean and was expanded in 2017 following a deal with the Syrian regime, which also granted Russian warships access to Syrian waters.<sup>14</sup>

## 2.2 China's growing visibility

China engages the Middle East with little historical baggage and does not have the colonial legacy and footprint of the West and Russia. During the 1970s, Beijing did back Yasser Arafat and the Palestine Liberation Organisation (PLO), which embraced Maoist revolutionary ideology and received military support from Beijing. This relationship saw the PLO establish an embassy in Beijing in 1974 and China's recognition of the self-declared independent state of Palestine in 1988. In recent years, Beijing has backed motions that condemn the Israeli occupation. In 2012 it supported Palestine's bid to become a UN non-member observer state and it has also pressured Israel to unconditionally implement UN resolutions demanding Israeli withdrawal from Palestinian territories.<sup>15</sup>

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13. Liz Sly, "In the Middle East, Russia Is Back", in *The Washington Post*, 5 December 2018, <https://wapo.st/2GbOnEL>.

14. "Russia Establishing Permanent Presence at Its Syrian Bases: RIA", in *Reuters*, 26 December 2017, <https://reut.rs/2lbzBju>.

15. Samuel Ramani, "Why Palestine Supports China on the South China Sea", in *The Diplomat*, 26 July 2016, <https://thediplomat.com/?p=90127>.

However, Beijing has also bolstered its ties with Israel, causing some concern in the US.<sup>16</sup> After exchanging diplomatic missions in 1992, Chinese investments in Israel grew exponentially, from 50 million US dollars in the 1990s to 16.5 billion in 2016.<sup>17</sup> Economic relations revolve around technological innovation and the “Red-Med” Railway, a regional network of sea and rail infrastructure that aims to connect China with Europe via Asia and the Middle East. The railway would also link the two Israeli ports of Eilat and Ashdod.<sup>18</sup> Shanghai International Port Group (44 per cent owned by the Chinese government) also won a 2015 government tender to operate a new port in Haifa for 25 years, despite US objections and concerns over its security implications.<sup>19</sup>

It is not only economics and trade that have strengthened the Middle East-China nexus. Public opinion polls portray a decline of US standing in the region since the 2003 invasion of Iraq, including in US-aligned countries such as Jordan, Saudi Arabia, Egypt and Morocco. In a 2006 Arab public opinion survey, 78 per cent of respondents listed their views of the US as either somewhat or very unfavourable.<sup>20</sup> Conversely, the same poll shows favourable sentiments toward China, which came second behind France as the country that would be welcomed as the world’s only superpower.<sup>21</sup> Similarly, in a 2008 poll 40 per cent of participants approved of China’s performance as a world leader compared with 17 per cent who approved of the US.<sup>22</sup>

16. Osnat Nir, “Israeli Officials Discount U. S. Concerns Over China: ‘The Security Warnings Are a Joke’”, in *Haaretz*, 17 January 2019, <https://www.haaretz.com/israel-news/business/israeli-officials-discount-u-s-concerns-over-china-the-security-warnings-are-a-jo-1.6850841>.

17. Ramzy Baroud and Romana Rubeo, “Will China Abandon the Palestinians?”, in *Al Jazeera*, 23 October 2018, <http://aje.io/k5hzj>.

18. *Ibid.*

19. Osnat Nir, “Israeli Officials Discount U. S. Concerns Over China”, *cit.*

20. Shibley Telhami, *2006 Annual Arab Public Opinion Survey: A Six Country Study: Egypt, Jordan, Lebanon, Morocco, Saudi Arabia (KSA) and UAE*, presentation, Washington, 8 February 2007, <http://web.archive.org/web/20120531062655/http://www.brookings.edu/views/speeches/telhami20070208.pdf>.

21. *Ibid.*

22. Julie Ray, “China’s Leadership Better Regarded Outside the West”, in *Gallup News*, 29 April 2008, <https://news.gallup.com/poll/106858/Chinas-Leadership-Better-Regarded-Outside-West.aspx>; and “U. S. Leadership Approval

China's economic success and rise as an alternative to the US in the region is increasingly featured in Arab intellectual discourse, to the extent where it has in some quarters been embraced as an alternative to the US model since "its historical and social traditions resemble the Middle East's more closely".<sup>23</sup> Beijing's soft power has been amplified by growing educational and cultural links. For example, 1,500 Egyptian college students study Chinese annually, while Al-Azhar hosts 200 students of Chinese origin.<sup>24</sup> In Saudi Arabia, Chinese companies offer scholarships to Saudi citizens to study in China.<sup>25</sup>

While the US has intervened proactively in the region, both militarily and politically, to bolster friendly governments, selectively promote democratic and pro-market reforms, and counter threats to US interests, Beijing has striven to secure cordial, "baggage free" relations across the region. China has found openings to assert its presence in a region where it has never constituted a traditional power. China's exponential economic growth saw its turnover of contracted projects along the New Silk Road almost double from 30 billion US dollars to 57 billion between 2008 and 2014, prompting concerns over its "offensive mercantilism" and global "One Belt" vision.<sup>26</sup>

This growth has resulted in greater Chinese involvement in a region that provides a critical source of energy. China is currently among the top three importers from Saudi Arabia, Iraq and Iran.<sup>27</sup> The energy imperative that underscores Chinese

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Lowest in Europe, Mideast", in *Gallup News*, 2 April 2008, <https://news.gallup.com/poll/105967/us-leadership-approval-lowest-europe-mideast.aspx>.

23. Jon B. Alterman, "China's Soft Power in the Middle East", in Carola McGiffert, ed., *Chinese Soft Power and Its Implications for the United States: Competition and Cooperation in the Developing World*, Washington, Center for Strategic and International Studies, March 2009, p. 72, <https://www.csis.org/node/27046>.
24. *Ibid.*, p. 73.
25. *Ibid.*
26. Jonathan Holslag, "How China's New Silk Road Threatens European Trade", in *The International Spectator*, Vol. 52, No. 1 (March 2017), p. 57-58, <https://www.iai.it/en/node/7490>.
27. Daniel Kliman and Abigail Grace, "China Smells Opportunity in the Mid-

engagement with the region is crystallising its relations into strategic alliances, as opposed to transactional relationships. Following King Salman's March 2017 state visit to Beijing, more than 65 billion US dollars of bilateral agreements in the oil, space and renewable energy sectors were signed. China is also competing with the US and Russia in Egypt, where it has forged a new Suez Canal cooperation zone.<sup>28</sup> In Oman, Chinese capital inflows transformed a backwater fishing village into a 10.7 billion US dollar "Sino-Oman Industrial City" featuring an oil refinery capable of processing 235,000 barrels per day.<sup>29</sup>

Iran is China's top trading partner in the region, a relationship that exceeded 37 billion US dollars in 2017 and one that has deepened further since the US unilaterally ceased implementation of the Joint Comprehensive Plan of Action, the 2015 Iran nuclear agreement, and re-imposed sanctions on Tehran. Chinese state-owned investment arm CITIC Group, for example, established a 10 billion US dollar credit line for Iran after the US withdrew from the agreement, despite the threat of new sanctions putting all foreign companies under growing pressure to scale down their presence in the country. That could, however, present complications if relations between Iran and Israel deteriorate further and result in a direct military confrontation. Indeed, the growing Beijing–Tehran relationship has prompted Israel to seek out China's support for its attempts to curtail Iran's nuclear ambitions, in addition to Chinese support for Israeli efforts to suppress Iran's regional proxies such as Hezbollah in Lebanon.

Militarily, China and Iran have conducted joint naval exercises on the fringe of the Strait of Hormuz. Beijing has in the past dispatched naval forces to protect trade routes and to evacuate citizens caught in regional strife, most notably in Libya in 2011 and Yemen in 2015 when China evacuated 225 foreign nation-

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dle East's Crisis", in *Foreign Policy*, 14 June 2018, <https://foreignpolicy.com/2018/06/14/china-smells-opportunity-in-the-middle-east-s-crisis>.

28. Ibid.

29. Ibid.

als and almost 600 Chinese citizens from Yemen's southern port of Aden, the first time its military had rescued Chinese nationals in a conflict zone.<sup>30</sup> Continued investment in port infrastructure (the Strait of Hormuz, the Bab el-Mandeb strait, the Suez Canal, Haifa), and therefore strategic chokepoints, could eventually see China seek military access in the region, as it has notably done in Djibouti, where a Chinese military base has been established.

## Conclusion

The Middle East continues to be a strategically critical landscape in an increasingly inter-connected, globalised world order. It contains more than half of the world's oil reserves, abundant hydrocarbons such as natural gas and is rich in minerals. While the US has become energy independent, it still has a vested interest in protecting energy flows in a region that is vital to the global economy but also to its allies. A disruption to regional geoeconomics or attempts by US rivals to dominate the regional energy landscape could have detrimental consequences for Washington's allies.

Russia and China have both made substantial inroads into what has traditionally been portrayed as a US (or Western) backyard. However, the US still retains an expansive military infrastructure, affording it a wide-ranging and technologically superior presence that its antagonists cannot rival or contest. Russia and China have burnished their credentials amid US disengagement from the region and popular resentment toward Western expenditures that have failed to yield dividends. But Russia and China have yet to establish themselves as credible

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30. "Yemen Crisis: China Evacuates Citizens and Foreigners from Aden", in *BBC News*, 3 April 2015, <https://www.bbc.co.uk/news/world-middle-east-32173811>. Nine hundred Chinese citizens were also evacuated in Libya when fighting broke out in Tripoli in 2014. See, "Hundreds of Chinese Workers Are Evacuated from Libya", in *BBC News*, 7 August 2014, <https://www.bbc.co.uk/news/world-africa-28684555>.

alternatives, despite their growing assertiveness. That may be because of the ongoing, expansive US military infrastructure in the region, as well as the dominance of Western soft power projections, but it could also simply be an issue of time; the region has had limited social and cultural interactions with Russia and China but the current trajectory suggests this could change in the coming years, assuming Moscow and Beijing remain committed to ongoing geostrategic investment.

Indeed, geopolitics can be disruptive. The staying power of the two countries will become apparent only when Russian and Chinese engagements are tested by conflict and volatile politics. Purely commercial interactions with the Middle East may on the surface empower Beijing and allow it to adopt a panoramic, comprehensive strategy for the region, one that enables it to foster ties with both Israel and Iran for example without suffering any blowback. However, that is arguably because China remains an untested power that has not yet been in the Middle East long enough for it to suffer pushback from a region that has a pressing need for Chinese capital inflows and that has yet to fully comprehend the implications of forging a relationship of dependency on Beijing. Indeed, the Israel–Iran crisis may yet become China’s first major test as a preeminent player in the Middle East, since a direct confrontation could undermine its regional interests and objectives. Moreover, China’s internment camps for Muslims and the forced deportation of Uighurs in the Arab world, initiated at the request of the Chinese government, could have implications for Beijing’s relationship with the region and undermine its efforts to match the soft power projection of its Western rivals.<sup>31</sup>

While the West has a legacy of conflict in the region and support for autocrats, the US and its European allies have, conversely, also invested billions of dollars into the promotion of norms, good governance and civil society. Despite resentment toward Western meddling in the region, the US and its allies

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31. Nour Youssef, “Egyptian Police Detain Uighurs and Deport Them to China”, in *The New York Times*, 6 July 2017, <https://nyti.ms/2uQfDhn>.

have established themselves as top-down and bottom-up partners, pioneering values and democratic norms that the region has come to associate them with. The same cannot, and most likely will not, be said about Russia and China in the coming years, which could prove to be a disadvantage for the two countries if grassroots demands for reform and democratic values once again become powerful mobilising forces as they were in 2011.

That said, Russia and China are likely to complement and supplement each other's efforts to consolidate their presence in the region. Russia has arguably established itself, for now, as the region's principal arbiter, while China has become the largest investor in the region. The two countries are helped by antipathy toward the US in the region and what could plausibly be interpreted as the desire among both ruling elites and the street for an alternative to US dominance, which has been reinforced by the current US administration's mixed messaging and inconsistent policy making. Moreover, while the US may have unparalleled capabilities in the region, as some have pointed out, the perception of US decline in the Middle East is less about its capabilities than about its policy choices and its inability to translate capabilities into outcomes.<sup>32</sup>

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32. Marc Lynch, "Does the Decline of U. S. Power Matter for the Middle East?", in *Monkey Cage*, 19 March 2019, <https://www.washingtonpost.com/politics/2019/03/19/does-decline-us-power-matter-middle-east>.

## 5

# EUROPE AND IRAN: THE ECONOMIC AND COMMERCIAL DIMENSIONS OF A STRAINED RELATIONSHIP

CORNELIUS ADEBAHR

In merely two years, the prospects for EU-Iran economic relations turned from promising to imperilled. The US presidential election of November 2016 dealt a first blow to the euphoria following the signing of the nuclear deal in July 2015. Already at that point, the Islamic Republic's volatile business environment and the reluctance of European banks to provide finance had prevented many companies from following through on their deals. To this was added the increased uncertainty about whether and when the new US president would fulfil his election promises to tear the deal apart. The scale of business activity consequently was less than anticipated, or hoped for.

With Washington pulling out of the deal in May 2018 and fully re-imposing its sanctions by November, the EU's approach aiming to salvage implementation of the nuclear deal has hit a stone wall. That is because various US sanctions now effectively prevent any economic activity by European companies in Iran. Washington's so-called "primary sanctions" had legitimately remained under the deal, banning US companies, including banks, from engaging in nearly all non-humanitarian trade (i.e., excluding food and drugs) with Iran and in particular in any business relation with the Islamic Revolutionary Guard Corps (IRGC). Most importantly, US "secondary sanctions" are also in force again, threatening the companies of third countries – from Europe to India to South Korea and Japan – with considerable fines or a ban on access to the US market should they fail to cease their activities in Iran. What was thus considered a "warming up" period of European companies (re-)es-

tablishing relations with their Iranian counterparts soon turned decidedly cool again.

## **1. Unfulfilled expectations: EU-Iran trade after the nuclear deal**

European companies trying to resume their business ties with Iran have experienced a rollercoaster ride over the past couple of years. The beginning of the implementation of the nuclear deal, formally known as the Joint Comprehensive Plan of Action (JCPOA), in January 2016 sparked enthusiasm among corporations wishing to regain ground in a market they had deserted, as well as those seeking to become part of the new “gold rush” at the confluence of East and West. European officials, too, declared that the deal marked a new era of EU-Iran cooperation.

However, this excitement soon faded when companies realised how US primary sanctions still remaining on the books would impact financial transfers. The lifting of all nuclear-related sanctions by the United Nations, the EU and the United States failed to kickstart business, as US measures against money-laundering and terrorist financing continued to prevent banks from supporting their trade. Another low came in November 2016 when an avowed critic of the JCPOA, Donald Trump, was elected US president. The deal’s first anniversary, just a couple of days before the presidential inauguration in January 2017, was thus a sombre affair with no one knowing how long the agreement would hold. Nearly two years later, the deal is not quite dead but literally on life support.

The numbers recount this story: since the election of Hassan Rouhani as Iran’s president and the signing of an Interim Agreement in 2013, EU trade with Iran had picked up considerably. At 13.7 billion euro in 2016 (i.e., following the JCPOA’s entry into force), trade was nearly double the previous year’s total.<sup>1</sup> Even

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1. European Commission DG Trade, *European Union, Trade in Goods with Iran*,

so, the 2016 trade volume still stood at only half its 2011 value. Now, yearly trade has plateaued at around 20 billion euro for 2017 as well as 2018.<sup>2</sup> This means that EU–Iran trade had already stalled by the time Washington pulled out of the deal in 2018, and is likely to shrink given that the International Monetary Fund (IMF) expects a two-year recession in Iran this year and next.<sup>3</sup>

## 1.1 The EU’s efforts to deliver on the economic side of the deal

The EU has been eager to use the JCPOA as a stepping-stone to develop broader relations with Iran. Brussels as well as most member state capitals see Tehran as a key player in the Middle East that must be engaged, not isolated, despite objecting to its regional activities. Therefore, the EU does not even primarily aim to increase economic ties but rather to collaborate on security threats, energy issues and migration challenges. This is mirrored in the creation of the EU’s Iran Task Force within the European External Action Service, which supervises the implementation of the JCPOA, develops the EU’s bilateral relations with Iran and engages in policies to promote regional cooperation.

The EU’s policy after the signing of the deal was therefore aimed at developing a broad and comprehensive agenda for bilateral cooperation between the EU and Iran. Such partnership should include “economic relations, energy, environment,

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updated 6 November 2018, p. 3, [https://webgate.ec.europa.eu/isdb\\_results/factsheets/country/details\\_iran\\_en.pdf](https://webgate.ec.europa.eu/isdb_results/factsheets/country/details_iran_en.pdf).

2. Between January and September 2018, the EU exported goods worth 6.9 billion euro to Iran and imported goods valued at 8.5 billion euro (i.e., a total of 15.4 billion euro in the first three quarters). EU-28 exports to Iran actually decreased by 8 per cent while their goods imports increased by 18 per cent, compared with the first nine months in 2017.
3. The IMF estimates the Iranian economy to shrink by 1.5 per cent in 2018, and by 3.6 per cent in 2019. Cf. “IMF Says U. S. Sanctions Have Pushed Iran’s Economy Into Recession”, in *Radio Free Europe/Radio Liberty*, 9 October 2018, <https://www.rferl.org/a/imf-says-us-sanctions-pushed-iran-economy-into-recession-cut-oil-exports/29533226.html>.

migration, drugs, humanitarian aid, transport, civil protection, science and civil nuclear cooperation, as well as culture”.<sup>4</sup> The visit of a high-level EU delegation to Tehran in April 2016, headed by the High Representative for Foreign and Security Policy and Vice-President of the European Commission, Federica Mogherini, and composed of seven further EU commissioners, was a visible expression of this European intent.<sup>5</sup>

In the same vein, the European Parliament passed a resolution outlining an “EU strategy towards Iran after the nuclear agreement” of 2016.<sup>6</sup> It proposed “a dialogue of the four Cs”: *comprehensive* in scope; *cooperative* in fields of mutual interest; *critical*, open and frank in areas of disagreement; and *constructive* in tone and practice. Importantly, the resolution made the further development of EU–Iran relations conditional on the continuous and full implementation of the JCPOA.

In the wake of the implementation of the JCPOA, a number of important deals were struck between European and Iranian companies. While Iran mostly exported oil to its returning European customers, EU companies sold machinery, chemicals and other industrial products.<sup>7</sup> Particularly relevant in terms of its political importance was Total’s landmark deal to develop the South Pars gas field jointly with China National Petroleum Corporation and Iran’s Petropars, both minority stakeholders

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4. European Commission, *EU High Level Delegation of HR/VP Federica Mogherini and EU Commissioners to Visit Iran* (IP/16/1366), 13 April 2016, [http://europa.eu/rapid/press-release\\_IP-16-1366\\_en.htm](http://europa.eu/rapid/press-release_IP-16-1366_en.htm).

5. European Commission, *EU Visit to Iran: Cooperation Envisaged in Various Sectors* (AC/16/2143), 16 April 2016, [http://europa.eu/rapid/press-release\\_AC-16-2143\\_en.htm](http://europa.eu/rapid/press-release_AC-16-2143_en.htm). See also: European External Action Service, *Joint Statement by the High Representative/Vice-President of the European Union, Federica Mogherini and the Minister of Foreign Affairs of the Islamic Republic of Iran, Javad Zarif* (Statement/16/1441), Brussels, 16 April 2016, <https://europa.eu/!VC33Wu>.

6. European Parliament, *Resolution of 25 October 2016 on the EU Strategy towards Iran after the Nuclear Agreement* (P8\_TA(2016)0402), <http://www.europarl.europa.eu/sides/getDoc.do?type=TA&reference=P8-TA-2016-0402&language=EN>.

7. European Commission DG Trade, *European Union, Trade in Goods with Iran*, cit.

of the project.<sup>8</sup> French carmakers Peugeot and Renault increased their investments to set up production lines in Iran, whereas their German competitor Volkswagen returned to Iran's market after a 17-year hiatus.<sup>9</sup>

A particular focus was directed towards renewable energy. In April 2017, the Commissioner for Climate Action and Energy, Miguel Arias Cañete, travelled to Tehran and participated in the first ever Iran–EU Business Forum on Sustainable Energy. The Forum provided investment opportunities for renewable energy, energy efficiency and energy conservation in Iran and brought together nearly one hundred European and Iranian companies.<sup>10</sup> Notable investments in such projects include the British investment fund Quercus setting up a 600-megawatt solar power plant worth 500 million euro, making it the sixth largest such project globally.<sup>11</sup> Furthermore, the Austrian Benefit & Solar Company signed a contract worth 100 million US dollars to construct four solar power plants with a combined capacity of 70 megawatts in Southern Iran.<sup>12</sup> Finally, the Norwegian solar company Saga Energy signed a deal to invest 2.5 billion euro in the country over five years.<sup>13</sup>

Given that first-tier global banks remained absent from Iran throughout the entire “warming up” period, the financing of larger projects – in particular in the oil and gas sector – posed difficulties even before the re-imposition of US sanctions in

8. Total, *Iran: Total and NIOC Sign Contract for the Development of Phase 11 of the Giant South Pars Gas Field*, 3 July 2017, <https://www.total.com/en/node/8489>.

9. Volkswagen, *Volkswagen Starts Automotive Business in Iran*, 4 July 2017, <https://www.volkswagenag.com/en/news/2017/07/automotive-business-in-Iran.html>.

10. European Commission DG Energy, *Commissioner Arias Cañete in Iran for the first-ever Iran-EU Business Forum on Sustainable Energy*, 28 April 2017, <https://ec.europa.eu/energy/en/node/133229>.

11. Andrew Ward, “UK’s Quercus Plans €500m Solar Power Farm in Iran”, in *Financial Times*, 20 September 2017.

12. “Europeans Keen on Investing in Iran’s Renewable Energy Sector”, in *The Iran Project*, 24 October 2017, <https://theiranproject.com/?p=280541>.

13. “Norwegian Firms Signs \$3B Deal with Iran for Solar Panels”, in *AP News*, 18 October 2017, <https://www.apnews.com/68be3303301e458d92d02f5dd34f9c9e>.

November 2018. The unconventional use by Total of its own cash reserves to finance its Persian Gulf gas project pointed to the continuing difficulties in finding major international banks for large-scale investments in Iran. Among EU countries, Austria was most forthcoming with regard to facilitating bank transfers, with Oberbank announcing in 2017 a deal to finance up to 1 billion euro worth of projects through credits guaranteed by the Austrian Export Bank, OeKB.<sup>14</sup> Around the same time, Danish Danske Bank and French state investment bank Bpifrance declared that each would provide up to 500 million euro in annual credits for investments in Iran.<sup>15</sup>

These careful baby steps already faced a looming threat from US primary sanctions against the financing of such business deals. However, the stumbling blocks to increased European-Iranian trade were found not only on the other side of the Atlantic. Doing business in Iran is more broadly problematic for a number of reasons.

## 1.2 Always a problem: Doing business in Iran

Iran generally lags behind international financial standards. This is partly due to the opaque nature of its economy, with many business actors being tied to the state, in particular its security institutions, or to religious foundations.

One of the more notorious regime-linked entities is the IRGC, which controls between a fifth and a third of Iran's economy.<sup>16</sup> The Guards are heavily involved in construction and infrastructure, and thanks to their control of Iran's ports and airports, they even benefitted from the smuggling that flourished during the

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14. "Iran Receives First Round of Post-Sanctions Finance from European Banks", in *Financial Tribune*, 22 September 2017, <https://financialtribune.com/node/72854>.
  15. "French State Bank BPI to Fund Projects in Iran, CEO Tells Paper", in *Reuters*, 24 September 2017, <https://reut.rs/2xnMkYA>.
  16. Greg Bruno, Jayshree Bajoria and Jonathan Masters, "Iran's Revolutionary Guard", in *CFR Backgrounders*, updated 14 June 2013, <https://on.cfr.org/2kL-rtpr>.

previous sanction period. Another key actor is the Headquarters for Executing the Order of the Imam, known under its Persian acronym Setad (short for *Setad Ejraiye Farmane Hazrate Emam*). This conglomerate amassed a fortune by seizing the properties of Iranian citizens, before growing rich on its own terms through investments in real estate and companies.<sup>17</sup> Today, Setad holds corporate stakes in oil, finance, telecommunications and many other sectors of the Iranian economy, its worth being estimated at around 95 billion US dollars.<sup>18</sup>

These two entities – one (Setad) controlled by the Supreme Leader, the other (the IRGC) loyal to him – are both on the US sanctions list. Given their economic presence throughout the country, it is as hard to avoid doing business with them or their subsidiaries as it is toxic to do so for Western companies. Add to this the more “normal” economic indicators such as company registration, tax procedures, legal certainty and corporate transparency, and any company’s hesitation to do business in Iran is understandable, even before considering the sanctions question.<sup>19</sup>

With the JCPOA in place, two avenues had been envisaged (besides the lifting of sanctions) to lay the foundations for increased and more transparent trade with Iran. One was Tehran’s request for membership in the World Trade Organisation (WTO), the other its compliance with the terms developed by the Financial Action Task Force (FATF), an intergovernmental organisation tasked with fighting money-laundering and the financing of terrorism.

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17. Khosrow B. Semnani, *Where Is My Oil? Corruption in Iran’s Oil and Gas Sector*, Salt Lake City, Hinckley Institute of Politics and Omid for Iran, September 2018, [https://www.wherismyoil.org/s/WherelsMyOil\\_OmidForIran.pdf](https://www.wherismyoil.org/s/WherelsMyOil_OmidForIran.pdf).

18. Steve Stecklow, Babak Dehghanpisheh and Yeganeh Torbati, “Khamenei Controls Massive Financial Empire Built on Property Seizures”, in *Reuters Investigates - Assets of the Ayatollah*, 11 November 2013, <https://www.reuters.com/investigates/iran/#article/part1>.

19. Iran ranks 128th out of 190 countries in the most recent Doing Business report of the World Bank, coming in behind Uganda and Barbados. Cf. World Bank, *Doing Business 2019. Training for Reform*, 31 October 2018, p. 5 and 178, <http://www.doingbusiness.org/en/reports/global-reports/doing-business-2019>.

Tehran's application for WTO membership was meant to bring more transparent and enforceable rules for trade and investment. It would also bring the biggest economy outside of the organisation into the fold, which is why most of Iran's international – in particular, European – business partners would have welcomed that move. However, after significant resistance from the new US administration, the Iranian government by September 2017 had officially abandoned its hopes of joining the WTO.<sup>20</sup> This further dimmed the prospect of increased economic engagement with the Western world.

In contrast, Tehran has not (yet) given up on fulfilling the criteria set by the financial watchdog, FATF. The task force first designated Iran as a “high-risk and non-cooperative jurisdiction” in 2008 due to its institutional shortcomings in the areas of money-laundering and the financing of terrorism.<sup>21</sup> In the light of Tehran's efforts to clear up its banking system since the signing of the nuclear deal, FATF moved to suspend active counter-measures in June 2016 while maintaining the “high risk” designation.<sup>22</sup>

In early October 2018, Iran's parliament passed a law to join FATF's Combating the Financing of Terrorism pact to avoid the country's continued blacklisting.<sup>23</sup> This followed fierce debates both among the political elite more generally and between the country's pragmatic and hardliner factions in particular. Opponents of the law argued that compliance with the pact's terms would contradict national interests in foreign and defence policy as well as economic policy. Tehran would no longer be in a

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20. Saeed Jalili, “Iran Abandons Hope for WTO Accession”, in *Al-Monitor*, 28 September 2017, <http://almon.co/2xh7>.

21. Financial Action Task Force, *FATF Public Statement*, Paris, 28 February 2008, <http://www.fatf-gafi.org/countries/n-r/pakistan/documents/fatfstatement-28february2008.html>.

22. Financial Action Task Force, *Public Statement*, Busan, 24 June 2016, <http://www.fatf-gafi.org/countries/d-i/iran/documents/public-statement-june-2016.html>.

23. “Iranian Parliament Approves Bill to Combat Financing of Terrorism”, in *Tehran Times*, 7 October 2018, <https://www.tehrantimes.com/news/428273>.

position to support the “Islamic Resistance”, including groups such as Hezbollah in Lebanon, nor would it be able to collaborate with secretive individuals and institutions to circumvent international sanctions. Despite these concerns, 143 deputies voted in favour of the law, while 120 voted against.<sup>24</sup>

Full implementation of the FATF conditions would at least lessen the challenges posed by the Iranian business environment. However, and despite the EU’s efforts to implement the economic side of the deal, it is the changing US position that has done most to prevent companies from engaging in Iran.

### 1.3 Turning point: Washington’s withdrawal from the nuclear deal in 2018

With a new administration in place since January 2017, US policy towards Iran has become more and more aggressive. While the EU continues to support the government in Tehran in its efforts to open up the Iranian economy and society, the new administration would have none of this. For it, anything but active pushback against Iran smacks of condoning the leadership of the Islamic Republic; engaging in trade in particular appears tantamount to strengthening the Iranian regime.

Despite this anti-Iranian predisposition, the new US president initially upheld the commitments under the JCPOA, if only grudgingly. In October 2017 he pompously refused to certify to the US Congress that granting Iran continued sanctions relief was in the US interest, and argued that Iran was in violation of the JCPOA – regardless of all evidence to the contrary. Yet, this was a purely domestic requirement that had no direct effect on the deal’s implementation.<sup>25</sup> Even the ultimatum to Washington’s European allies in January 2018 to “strengthen” the deal

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24. Shahir Shahidsaless, “Signs of a Spectacular Policy Shift in Iran”, in *Iran-Source*, 19 October 2018, <https://www.atlanticcouncil.org/blogs/iransource/signs-of-a-spectacular-policy-shift-in-iran>.

25. US Senate, *Iran Nuclear Agreement Review Act of 2015* (H. R. 1191, Pub. L 114-17, 22 May 2015), <https://www.congress.gov/bill/114th-congress/house-bill/1191>.

– mainly through increased inspections and an extended duration as well as by including curbs on Iran’s missile programme – could be read (very benevolently) as an attempt to improve the deal rather than dismantle it.

In the end, it took the US president well over a year to “nix” rather than “fix” the JCPOA. In May 2018, the US government formally announced its withdrawal from – or, rather, the end of its compliance with – the JCPOA, brushing aside the publicly voiced concerns of its European allies. It then declared that Iran would have to fulfil 12 conditions in order to be relieved of the pressure, from abandoning its nuclear programme in its entirety, to ending support for Hezbollah and Hamas, to withdrawing from Syria.<sup>26</sup> (It later added another demand, that Iran would have to respect human rights.) If Tehran wanted to abide by these conditions, it would have to not only change its behaviour (and give up its security policy in the process) but also its “revolutionary” (i.e., anti-US) nature – which is why many observers judge the end goal of current US policy to be regime change.<sup>27</sup>

The re-imposition of US sanctions and the deepening of the transatlantic rift over Iran have harmed the already dire economic situation in Iran. This is precisely what the United States wants to exploit with its “maximum pressure” campaign.

## **2. “Maximum pressure” vs. “blocking regulation”: How Washington aims to squeeze Tehran – and how Brussels is responding**

On 5 November 2018, Washington fully re-imposed its pre-nuclear deal set of “crippling” economic sanctions against Iran. The aim is to cut the regime off from its revenue streams, in

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26. US Department of State, *After the Deal: A New Iran Strategy*, Remarks by Secretary of State Mike Pompeo at the Heritage Foundation, Washington, 21 May 2018, <https://www.state.gov/secretary/remarks/2018/05/282301.htm>.

27. Simon Tisdall, “Regime Change in Iran is Trump’s Real Motive for Siding with the Saudis”, in *The Guardian*, 18 October 2018, <https://gu.com/p/9y2f7>.

particular by banning its oil exports and by targeting its financial transactions. Oil sales account for 70 per cent of Iran's total exports, and by bringing these "as close to zero as possible",<sup>28</sup> Washington aims to cripple the regime's income.<sup>29</sup>

## 2.1 US sanctions have returned in full force

A first batch of US sanctions previously suspended under the nuclear deal came back on the books on August 7. These banned any transactions with Iran involving US dollar bank notes, precious metals, aluminium or steel, or commercial passenger aircraft. Despite a limited direct effect on the Iranian economy, major multinationals began to quickly draw down their activities in anticipation of the major sanctions taking effect three months later. So even before the old/new sanctions kicked in, European companies – from the French oil and gas supermajor Total to global carmakers such as Daimler and Peugeot to Danish shipping giant Maersk – announced that they would leave Iran.<sup>30</sup>

In October 2018, Washington also listed specific institutions related to the Basij militia of the IRGC. At least 20 banks and corporations affiliated with the Basij financial network have been named, including Bank Mellat, Bank Parsian, the conglomerate Mehr Eghtesad as well as firms like Tadbirgaran-e Atieh and Negin Sahel Royal. Their US assets have been frozen and US companies are banned from interacting with them.

The measures that took effect in early November include a worldwide oil embargo and a ban on international financial

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28. US Department of State, *Supporting Iranian Voices*, Remarks by Secretary of State Mike Pompeo at the Ronald Reagan Presidential Foundation and Library, Simi Valley, 22 July 2018, <https://www.state.gov/secretary/remarks/2018/07/284292.htm>.

29. Clifford Krauss, "Trump Hit Iran with Oil Sanctions. So Far, They're Working", in *The New York Times*, 19 September 2018, <https://nyti.ms/2NkqwWt>.

30. Ellen R. Wald, "10 Companies Leaving Iran as Trump's Sanctions Close In", in *Forbes*, 6 June 2018, <https://www.forbes.com/sites/ellenwald/2018/06/06/10-companies-leaving-iran-as-trumps-sanctions-close-in>.

transactions. Even before these sanctions kicked in, Iran's oil exports had dropped by a third: according to estimates by the International Energy Agency, they fell from 2.4 million barrels per day (bpd) in April 2018 to 1.6 bpd in September 2018. However, independent trackers assess the drop to be considerably less, given how Iran conceals its shipments through technical means as well as re-flagging. Plus, the price of Brent crude had grown too, from 70 US dollars in early May to 85 US dollars in mid-October, relaxing somewhat since then. This means that even when providing a discount on its oil, Iran could offset some of the lower sales through a higher price – in particular given that the government calculated its annual budget on the basis of 57 US dollars per barrel.<sup>31</sup>

Despite its long-held goal of bringing Iran's oil exports to zero, Washington eventually relented. For fear of rocking the oil markets, the US administration granted temporary waivers to eight countries to continue oil imports from Iran: China, India, Italy, Greece, Japan, South Korea, Taiwan and Turkey. They had to commit themselves to “drastically” scale down their crude imports from Iran in the next six months. Still, it is not clear that this would bring Iran's crude exports below the magic number of one million bpd, which was the lowest point of the internationally concerted 2012–13 embargo under the Obama administration.<sup>32</sup>

Without the restraints it faces on the oil market, Washington has been much stricter with regard to international financial transfers. Under the threat of US sanctions, Belgium-based bank messaging service SWIFT in early November decided to disconnect dozens of US-blacklisted Iranian banks from its global financial network. Rather than offering a possible waiver to this crucial financial institution, the US administration had

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31. Benoit Faucon and Summer Said, “OPEC Divided on the Right Price for Oil”, in *The Wall Street Journal*, 11 March 2018, <https://www.wsj.com/articles/opec-divided-on-the-right-price-for-oil-1520769600>.

32. Richard Nephew, “The US Withdrawal from the JCPOA: What to Look Out for Over the Next Year”, in *Columbia SIPA Center on Global Energy Policy Commentaries*, November 2018, <https://energypolicy.columbia.edu/node/3251>.

threatened penalties against the entity itself, such as a ban on US dollar transactions, amounting to virtual bankruptcy, as well as against individual board members, who include the bosses of two major US banks, Citi and J.P. Morgan.

With SWIFT bowing to US pressure to disconnect listed Iranian banks, even second- and third-tier banks now refuse to carry out any Iran-related transactions for their customers, not just dollar-denominated transactions. Washington also refused to name one Iranian bank specifically for humanitarian financial transfers, as the EU had requested. While such transactions should be legally possible through SWIFT with any non-designated entity in Iran, the reality is that payments for the delivery of food and medicine to Iran are already difficult.<sup>33</sup>

Therefore, the EU has come forward with specific measures to actively enable such legitimate trade.

## 2.2 Europe's efforts to shield its business will continue in the shadow of geopolitics

The Europeans have slowly but steadily built their own defences against the might of US sanctions. While the “blocking regulation” of August has so far been mostly symbolic, the “special purpose vehicle” (SPV) to facilitate financial transactions with Iran is meant to have some effect in the short to mid term – and may possibly help undo the dollar’s dominance in the long term.

Timed with the first batch of US sanctions in early August, the EU re-activated its “blocking statute” dating back to previous transatlantic disputes over policy on Iran (and Libya as well as Cuba) in the 1990s. This regulation forbids European companies to observe US sanctions, and offers to compensate them

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33. Erin Cunningham, “Fresh Sanctions on Iran Are Already Choking Off Medicine Imports, Economists Say”, in *The Washington Post*, 17 November 2018, <https://wapo.st/2FnLtfs>.

in case of fines being imposed for legitimate trade.<sup>34</sup> Politically, however, the ultimate threat to confiscate US assets in Europe in return for Washington fining EU companies would be difficult to follow through. Moreover, taking the United States to the WTO over sanctions (as the EU did in the late 1990s) is futile with a president ready to start a trade war without respect for global trade rules. The instrument's effectiveness, and in particular the impact of its "immunity clause", will therefore only be known once the first legal cases have been brought and the EU's courts have passed a verdict.

More prominently, the EU together with the E3 (France, Germany and the United Kingdom), China and Russia announced the creation of the SPV on the sidelines of the UN General Assembly in New York. Driven by "the urgency and the need for tangible results", the SPV is understood as a "practical [proposal] to maintain and develop payment channels" with Iran, according to a ministerial statement of the E3/EU+2.<sup>35</sup>

By allowing the settling of import and export transactions without money transfers (i.e., outside the SWIFT system), the EU would offer a sophisticated barter system to facilitate payment flows related to Iran.<sup>36</sup> Like a "clearing house", the SPV could for example settle Iranian crude exports to a French firm with Tehran's purchase of Italian manufactured goods. Concretely, the EU wants to preserve humanitarian trade with Iran

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34. International Crisis Group, "President Trump and the Art of the Iran Nuclear Deal", in *ICG Statements*, 23 November 2016, <https://www.crisisgroup.org/node/4855>.

35. European External Action Service, *Implementation of the Joint Comprehensive Plan of Action: Joint Ministerial Statement*, New York, 24 September 2018, <https://europa.eu/!qR69PP>. Among multinational corporations, SPVs are regularly used financial instruments fulfilling a specific and temporary objective. That means a parent company can utilise this separate financial vehicle to carry out (risky) tasks like strategic investments, assets transfers or property sales, which would otherwise impact negatively on the company's balance sheet or rating.

36. The mechanism is similar to the ruble-based one used by COMECON partners to settle bilateral trade transactions, or indeed to the ones employed by both China and India during the previous height of international Iran sanctions between 2011 and 2013.

(food and pharmaceuticals) but also offer payment settlement services to the eight countries that were granted temporary waivers from US sanctions for their oil imports.

The SPV would be set up as a multinational intermediary with independent legal personality and be backed by EU governments, comparable to the Luxembourg-based European Stability Mechanism. With a banking license, the SPV should also be able to provide export loans and other financial services, as well as to balance payments over time and between different trading partners.

Handling such deals by involving euros rather than dollars and without any funds traversing through Iranian hands, the SPV should avoid US sanctions. However, big multinationals with a significant exposure to the US market may fear they could still be sanctioned by US authorities precisely for engaging with Iran through the SPV. Thus, the instrument is designed to encourage small and medium-sized firms with little or no US exposure to stay in the Iranian market.<sup>37</sup>

Therefore, a realistic scenario suggests that the SPV would initially handle humanitarian and other non-sanctionable trade with Iran. By focusing on transactions that are legitimate also under US law but difficult to implement given the risk aversion of most international banks, the EU could develop a compromise that helps protect EU firms while not directly offending Washington. Ultimately, if successfully implemented, the SPV could even enhance the international role of the euro, especially with non-EU partners possibly joining as shareholders.

Even so, the practical hurdles to getting the SPV up and running are high. Although it was originally expected to be established, at least symbolically, by early November, EU member

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37. Shahir Shahidsaless, "US Treasury Identifies Channels Iran Has Used to Circumvent Sanctions", in *IranSource*, 14 November 2018, <https://www.atlantic-council.org/blogs/iransource/us-treasury-identifies-channels-iran-has-used-to-circumvent-sanctions>.

states could not find a host state for this controversial institution. Countries like Austria and Luxembourg refused the request due to significant US pressure, which has led France and Germany to share the burden.<sup>38</sup> In mid-December, then, High Representative Mogherini announced the mechanism would be ready around the turn of the year.<sup>39</sup>

Still, it is not clear how many companies would be ready to use the new mechanism, which can only work well with a certain trade volume. To be precise: to balance, say, Italy's oil imports from Iran worth 3.4 billion euro in 2017, nearly a third of all EU exports to Iran (worth 10.8 billion euro in 2017) would have to be traded through the SPV. This could only be achieved in the long term, once the mechanism has been accepted by economic operators that trust its ability to shield them from US sanctions.

Moreover, there are obvious reputational risks – and those of actual fraud – associated with Iran's status as a “high-risk, non-cooperative” country according to FATF standards. While European companies may avoid direct financial contacts with their Iranian counterparts thanks to the SPV, they are not off the hook with regard to their own due diligence to ensure that their business partners do not engage in money-laundering or terrorist financing. In turn, should one company participating in the barter exchange turn out to be, say, affiliated with the Revolutionary Guards, the outcry from the United States and Israel over EU member states' backing – and, thus, enabling – of such exchanges would be huge.

The EU's blocking statute is hitherto untested and the SPV still needs to be put in place, yet these European measures are al-

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38. Laurence Norman, “France and Germany Step In to Circumvent Iran Sanctions”, in *The Wall Street Journal*, 26 November 2018, <https://www.wsj.com/articles/france-and-germany-step-in-to-circumvent-iran-sanctions-1543251650>.

39. Richard Bravo, “EU Sees Effort to Sidestep Iran Sanctions Ready by End of Year”, in *Bloomberg*, 10 December 2018, <https://www.bloomberg.com/news/articles/2018-12-10/eu-sees-effort-to-sidestep-iran-sanctions-ready-by-end-of-year>.

ready heavy on symbolism. While they cannot effectively protect the freedom of Europe's economic operators, both are important measures to underline the EU's principled opposition to the extra-territorial application of US sanctions. Similarly, even if the SPV initially only serves to facilitate legitimate trade such as food or drug exports to Iran, putting such a payment mechanism in place is an important step away from the dollar-dominated financial system.

### **3. Mission impossible? The EU tries to preserve relations with Iran while strengthening European autonomy**

The EU's efforts to protect the nuclear deal come at a time when some EU countries are looking to rebalance their partnership with the US, while others around the globe are seeking to diminish the reach of US jurisdiction. This lends such measures, symbolical and technical as they are, a much wider meaning, going far beyond the immediate questions of nuclear non-proliferation and trade.

If Brussels' initial reaction to Washington's withdrawal from the nuclear deal was to prevent the unravelling of the internationally recognised agreement itself, the festering dispute with the US administration has morphed into a transatlantic contest of wills: Can the EU actually decide where it wants its companies to do business? The US answer is *no*, while Tehran obviously says *yes, please*. It will be the capitals of the EU-28 that have to decide, individually and collectively, what degree of autonomy they aspire to for themselves as well as for their European community – and what price they are willing to pay for that freedom.

With the EU's 2019 in-tray already being filled with the UK's exit in March, a European election in May and a growing global trade dispute spearheaded by Washington and Beijing, its Iran policy will continue to rank in second or third place. Provided

the domestic situation in Iran does not deteriorate, the first half of the year should see a relative stabilisation of trade relations thanks to the oil waivers granted by the US and the SPV finally becoming operational. With China and Russia being equally determined to keep Tehran in compliance with the nuclear deal all while carefully expanding its business activities despite US sanctions, this muddling through could persist throughout the year – provided that Washington decides to extend the waivers for another six months in May 2019 for fear of otherwise rocking the oil markets.

The bigger question, from a European perspective, is whether the transatlantic rift over Iran will worsen or can be managed in the mid term. The assumption is for Tehran to be waiting out the current president, hoping for a less confrontational successor by 2020 – or even before, should his legal-political difficulties at home boil over. However, not only is hope not a strategy, but this focus on US-Iran enmity also does not take into account the areas of disagreement between the EU and Iran outside the nuclear-trade nexus.

In the end, the EU will have to balance its policies in two directions: towards the United States, which threatens Europe's security interest by withdrawing from the nuclear deal and following regime change policies in Iran, and towards the Islamic Republic, to whose regional activities – including its missile development and deployment, as well as its domestic situation and in particular its ominous human rights record – it objects. Europe can only achieve this balance if it develops its own autonomous approach.

## 6

# A LAST LINE OF DEFENCE: EU-IRAN RELATIONS AND THE FUTURE OF THE JCPOA

RICCARDO ALCARO AND ANDREA DESSI

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.<sup>1</sup> 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

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1. See Riccardo Alcaro, *Europe and Iran's Nuclear Crisis. Lead Groups and EU Foreign Policy-Making*, Cham, Palgrave Macmillan, 2018; Tarja Cronberg, "No EU, No Iran Deal: the EU's Choice between Multilateralism and the Transatlantic Link", in *The Nonproliferation Review*, Vol. 24, No. 3-4 (2017), p. 243-259, <https://doi.org/10.1080/10736700.2018.1432321>.

diplomacy.<sup>2</sup> 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 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.<sup>3</sup> 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.

In light of the conflictual geopolitics surrounding the nuclear deal, EU–Iran relations hang in a balance. As outlined in the

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2. European External Action Service (EEAS), *Shared Vision, Common Action: A Stronger Europe. A Global Strategy for the European Union's Foreign and Security Policy*, June 2016, pg.15-6, <https://europa.eu/!Tr66qx>.
  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>.

previous chapters, ongoing tensions with the US administration, deepening zero-sum rivalries in the Middle East, dwindling strategic patience in Tehran and the delicate geopolitical relationships with China and Russia all play a role in the EU's Iran calculus. While EU member states agree on the need to support the JCPOA, Europe's historically strong relationship with the US and continued dependence on Washington's security guarantees, may further complicate Europe's unity of intent.

Finally, with Europe now entering a political and institutional transition following the May 2019 European elections, uncertainty also pervades the future outlook of key European posts in the External Action Service, personalities that will retain a significant influence over the future direction of the EU's Iran policy.

## **1. EU-Iran relations 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.<sup>4</sup> They have placed significant

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4. Ellie Geranmayeh, "Why the Iran Nuclear Deal Still Matters for Europe", in *ECFR Commentaries*, 16 January 2019, [https://www.ecfr.eu/article/commentary\\_why\\_iran\\_nuclear\\_deal\\_still\\_matters\\_for\\_europe\\_jcpoa](https://www.ecfr.eu/article/commentary_why_iran_nuclear_deal_still_matters_for_europe_jcpoa).

limits on the number and quality of active centrifuges – the machinery needed to produce fissile material – and prevented Iran from activating its heavy-water nuclear reactor.<sup>5</sup> 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,<sup>6</sup> 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.<sup>7</sup>

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.<sup>8</sup> 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.

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5. See Arms Control Association, “The Joint Comprehensive Plan of Action (JCPOA) at a Glance”, in *ACA Fact Sheets*, May 2018, <https://www.armscontrol.org/node/6372>.

6. International Atomic Energy Agency (IAEA), *Strengthening the Non-Proliferation Treaty ahead of the Review Conference in 2020*, speech by IAEA Director General Yukiya Amano at UN Security Council, New York, 2 April 2019, <https://www.iaea.org/node/62829>.

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>.

8. Shanta Roy, “Nuclear Non-Proliferation Review Conference Could Hit A US Roadblock – Analysis”, in *Eurasia Review*, 20 May 2019, <https://www.eurasiareview.com/20052019-nuclear-non-proliferation-review-conference-could-hit-a-us-roadblock-analysis>.

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 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.<sup>9</sup> 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.<sup>10</sup>

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 Spain, Italy and Greece representing the largest customers.<sup>11</sup> Hydrocarbon exports currently account for 80 per

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9. "Iran Nuclear Deal: Key Details", in *BBC News*, 7 May 2019, <https://www.bbc.com/news/world-middle-east-33521655>.

10. Rouzbeh Parsi and Dina Esfandiary, *An EU Strategy for Relations with Iran after the Nuclear Deal*, European Parliament, June 2016, p. 12, <https://doi.org/10.2861/523804>.

11. Congressional Research Service (CRS), "Iran: Efforts to Preserve Economic Benefits of the Nuclear Deal", in *CRS In Focus*, No. IF10916 (updated 26 February 2019), <https://fas.org/sgp/crs/nuke/IF10916.pdf>.

cent of Iran's exports and returns from these sectors are estimated to fund half of the 2018–2019 budget.<sup>12</sup>

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 and 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.<sup>13</sup> 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.

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12. Ibid.

13. White House, Remarks by President Trump on the Joint Comprehensive Plan of Action, Washington, 8 May 2018, <https://www.whitehouse.gov/briefings-statements/remarks-president-trump-joint-comprehensive-plan-action>.

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.

## 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 countries<sup>14</sup> in early May 2019 and, finally, the sanctioning of Iran's metals industry, a key employer and export-oriented economic sector.<sup>15</sup> The designation of the Islamic Revolutionary Guard Corps (IRGC) as a foreign terrorist organisation has further complicated the matter.<sup>16</sup>

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14. The eight countries included: China, Greece, India, Italy, Japan, South Korea, Taiwan and Turkey.

15. Nasser Karimi and Mehdi Fattahi, "US Sanctions to Hit Iran's Metals Industry, a Major Employer", in *AP News*, 9 May 2019, <https://www.apnews.com/a899d-b23968e4c4f833b1b8a12793542>.

16. White House, *Statement from the President on the Designation of the Islamic Revolutionary Guard Corps as a Foreign Terrorist Organization*, Washington, 8 April 2019, <https://www.whitehouse.gov/briefings-statements/statement-president-designation-islamic-revolutionary-guard-corps-foreign-terrorist-organization>.

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.<sup>17</sup> Lately, US President Trump has sought to tone down the rhetoric, even announcing that he is ready for direct talks with Iran.<sup>18</sup> 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 thirteen<sup>19</sup>) demands outlined by US Secretary of State Mike Pompeo in May 2018 as pre-conditions for renewed negotiations with Iran,<sup>20</sup> 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

17. "US President Says War Would Be 'End' of Iran as Tensions Rise", in *BBC News*, 20 May 2019, <https://www.bbc.com/news/world-us-canada-48329852>.
18. Edward Wong, "Trump Administration Says it Will Negotiate with Iran with 'No Preconditions'", in *The New York Times*, 2 June 2019, <https://www.nytimes.com/2019/06/02/world/middleeast/us-iran-mike-pompeo.html>.
19. Noah Annan, "Pompeo Adds Human Rights to Twelve Demands for Iran", in *IranSource*, 23 October 2018, <https://www.atlanticcouncil.org/blogs/iran-source/pompeo-adds-human-rights-to-twelve-demands-for-iran>.
20. US Department of State, *After the Deal: A New Iran Strategy*, Remarks by Secretary of State Mike Pompeo at the Heritage Foundation, Washington, 21 May 2018, <https://www.state.gov/after-the-deal-a-new-iran-strategy>; Also see, Michael R. Pompeo, "Confronting Iran", in *Foreign Affairs*, Vol. 97, No. 6 (November/December 2018), p. 60-70.

deemed unacceptable in Tehran.<sup>21</sup> 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.<sup>22</sup>

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.<sup>23</sup> 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 inter-bank messaging across the globe, has disconnected most Iranian banks from its network for fear of incurring US sanctions.<sup>24</sup>

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.<sup>25</sup>

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21. "US Says Ready to Talk But Iran Dismisses the Offer as 'Wordplay'", in *Al Jazeera*, 2 June 2019, <https://www.aljazeera.com/news/2019/06/talk-iran-pre-conditions-pompeo-190602112556238.html>.

22. EEAS, *Statement by HR/VP Mogherini following Today's Speech by US Secretary of State Pompeo on Iran*, Brussels, 21 May 2018, <https://europa.eu/!qP43um>.

23. "Six Charts That Show How Hard US Sanctions Have Hit Iran", in *BBC News*, 2 May 2019, <https://www.bbc.com/news/world-middle-east-48119109>.

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>.

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 effects of drug abuse.<sup>26</sup>

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.<sup>27</sup> 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.<sup>28</sup> 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 high-

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

27. Kenneth Katzman, "Iran Sanctions", in *CRS Reports*, No. RS20871 (updated 22 April 2019), p. 49-50, <https://fas.org/sgp/crs/mideast/RS20871.pdf>.

28. Ibid.

ly 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.<sup>29</sup> 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<sup>30</sup> – has made European calls for strategic 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 re-

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29. Zia Weise, "Europeans Reject Iran's Nuclear Deal Ultimatum", in *Politico*, 9 May 2019, <https://www.politico.eu/article/europeans-reject-irans-nuclear-deal-ultimatum>.

30. EEAS, Remarks by HR/VP Mogherini at the Press Conference Following Ministerial Meetings of the EU/E3 and EU/E3 and Iran, Brussels, 15 May 2018, <https://europa.eu/!CB78xu>.

gion 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.<sup>31</sup> 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.

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31. Council of the European Union, *Iran: Council Adopts Conclusions*, Brussels, 4 February 2019, <https://europa.eu/!YQ77Yd>.

lic. 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.<sup>32</sup> 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.

## 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

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32. See, amongst others, President Trump’s speech outlining its administration’s Iran policy in October 2017: White House, *Remarks by President Trump on Iran Strategy*, Washington, 13 October 2017, <https://www.whitehouse.gov/briefings-statements/remarks-president-trump-iran-strategy>.

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.<sup>33</sup>

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.<sup>34</sup>

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

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33. International Crisis Group (ICG), *Iran Challenges Remaining Partners to Save Nuclear Deal*, 8 May 2019, <https://www.crisisgroup.org/node/10366>.

34. Jonathan Stearns and Helene Fouquet, "U.S. Warns Europe That Its Iran Workaround Could Face Sanctions", in *Bloomberg*, 29 May 2019, <https://www.bloomberg.com/news/articles/2019-05-29/u-s-warns-europe-that-its-iran-workaround-could-face-sanctions>.

SPV to manage oil transactions with Iran. This option would surely take longer to implement, but is the most advisable.<sup>35</sup> 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

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35. Efsandiyar Batmanghelidj and Axel Hellman, "Mitigating US Sanctions on Iran: The Case for a Humanitarian Special Purpose Vehicle", in *ELN Policy Briefs*, November 2018, <https://www.europeanleadershipnetwork.org/?p=7811>.

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.<sup>36</sup> 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

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36. Sascha Lohmann, “Extraterritorial U.S. Sanctions”, in *SWP Comments*, No. 5 (February 2019), <https://doi.org/10.18449/2019C05>.

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.<sup>37</sup> 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.<sup>38</sup>

## 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

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37. Marie-Hélène Bérard et al., "EU and US Sanctions: Which Sovereignty?", in *Jacques Delors Institute Policy Papers*, No. 22 (23 October 2018), <http://institutdelors.eu/?p=37841&lang=en>.

38. European Commission, *Towards a Stronger International Role of the Euro* (COM/2018/796), 5 December 2018, <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52018DC0796>.

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.

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.<sup>39</sup> The constraints imposed on Iran are temporary and do not include

39. AFP, "Britain, France, Germany Seek Full UN Report of Iran Missile Activity", in *Al Arabiya*, 2 April 2019, <http://ara.tv/65a4w>.

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.<sup>40</sup> 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,

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40. For a comprehensive analysis of Iran's ballistic capabilities, see Anthony Cordesman, "The Iranian Missile Threat", in *CSIS Commentaries*, 30 May 2019, <https://www.csis.org/node/52875>; and Fabian Hinz, "A Roadmap to Pragmatic Dialogue on the Iranian Missile Program", in *ELN Policy Briefs*, March 2019, <https://www.europeanleadershipnetwork.org/?p=8679>.

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.

## 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.<sup>41</sup> 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

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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.

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.<sup>42</sup>

## 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 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.

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42. Riccardo Alcaro, "On Speaking Terms: Europe-Iran Dialogue on Regional Flashpoints", in IAI Commentaries, No. 19|21 (March 2019), <https://www.iai.it/en/node/10109>.

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).<sup>43</sup> 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.<sup>44</sup>

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

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43. Joint statement from Prime Minister Theresa May, Chancellor Angela Merkel and President Emmanuel Macron following President Trump's Statement on Iran, 13 October 2017, <https://www.gov.uk/government/news/joint-statement-from-prime-minister-may-chancellor-merkel-and-president-macron-following-president-trumps-statement-on-iran>; Joint statement by High Representative of the European Union and the Foreign Ministers of France, Germany and the United Kingdom on the JCPOA, Brussels, 9 May 2018, <https://europa.eu/!Cd68nu>; Joint statement by High Representative Federica Mogherini and Foreign Ministers Jean-Yves Le Drian, Heiko Maas and Jeremy Hunt, and Finance Ministers Bruno Le Maire, Olaf Scholz and Philip Hammond, Brussels, 2 November 2018, <https://europa.eu/!gW34CK>; Joint statement by High Representative of the European Union and the Foreign Ministers of France, Germany and the United Kingdom on the JCPOA, Brussels, 9 May 2019, <https://europa.eu/!Cd68nu>.

44. On the alleged assassination plots, see Scott Peterson, "Why Europe Is Again a Battlefield for Iran's Internal Wars", in *Christian Science Monitor*, 1 May 2019, <https://www.csmonitor.com/World/Middle-East/2019/0501/Why-Europe-is-again-a-battlefield-for-iran-s-internal-wars>.

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 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.<sup>45</sup> 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.<sup>46</sup> Op-eds, interviews with the media and briefings with Washington think tanks, academic

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45. Philippe Douste-Blazy, Joschka Fischer, Javier Solana and Jack Straw, "Iran's Nuclear Policy Requires a Collective Response", in *The Wall Street Journal*, 22 September 2005, p. A16, [http://www.consilium.europa.eu/ueDocs/cms\\_Data/docs/pressdata/en/articles/86360.pdf](http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressdata/en/articles/86360.pdf); Laurent Fabius, Philip Hammond, Frank-Walter Steinmeier and Federica Mogherini, "Give Diplomacy with Iran a Chance", in *The Washington Post*, 21 January 2015, <http://wapo.st/1yKxldW>.
46. Speech by the President of the Republic, Emmanuel Macron, at the Congress of the United States of America, Washington, 25 April 2018, <https://www.elysee.fr/emmanuel-macron/2018/04/25/speech-by-the-president-of-the-republic-emmanuel-macron-at-the-congress-of-the-united-states-of-america.en>.

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.

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 this respect, one can only hope that the new leaders of European institutions – most notably the incoming High Representative for Foreign Affairs and Security Policy – carry forth this European commitment.

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.

**ABBREVIATIONS AND ACRONYMS**

BPD	Barrel per day
CENTCOM	US Central Command
CITIC	China International Trust and Investment Corporation
COMECON	Council for Mutual Economic Assistance
DG	Direction General
E3	France, Germany, UK
E3/EU+2	France, Germany, UK/EU plus China and Russia
E3/EU+3	France, Germany, UK/EU plus China, Russia and the USA
EU	European Union
FATF	Financial Action Task Force
GCC	Gulf Cooperation Council
GDP	Gross domestic product
IAEA	International Atomic Energy Agency
ICT	Information and Communication Technology
IMF	International Monetary Fund
INSTEX	Instrument in Support of Trade Exchanges
IPIS	Institute for Political and International Studies
IRGC	Islamic Revolutionary Guard Corps
ISIL	Islamic State of Iraq and the Levant
ISIS	Islamic State in Iraq and Syria
JCPOA	Joint Comprehensive Plan of Action
KRG	Kurdistan Regional Government
NATO	North Atlantic Treaty Organisation
OeKB	Oesterreichische Kontrollbank
OPEC	Organisation of the Petroleum Exporting Countries
PLO	Palestine Liberation Organisation

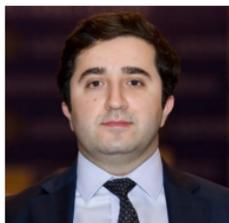
PMD	Possible Military Dimension
PMU	Popular Mobilisation Unit
QNA	Qatar News Agency
SESRI	Social and Economic Survey Research Institute
Setad	Setad Ejraiye Farmane Hazrate Emam (Headquarters for Executing the Order of the Imam)
SPV	Special Purpose Vehicle
SWIFT	Society for Worldwide Interbank Financial Telecommunication
UAE	United Arab Emirates
UK	United Kingdom
UN	United Nations
UNSCR	UN Security Council Resolution
USA	United States of America
WTO	World Trade Organisation

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The Trump administration's decision to unilaterally cease compliance with the 2015 nuclear deal and implement a policy of "maximum pressure" towards Iran has scuttled the European Union's policy of conditional engagement with Tehran. This volume – the outcome of a joint FEPS-IAI project – delves into different dimensions of the current rivalries and geopolitical tensions characterising the Middle East, addressing their implications for Europe. The analysis addresses the growing economic hardship in Iran following the re-imposition of US sanctions and the potential and prospects of EU-Iran cooperation in trade and energy domains. A final report addresses EU-Iran relations in the context of the geopolitical tensions surrounding the US's withdrawal from the nuclear deal and European interests vis-à-vis Iran and the region. Progressive recommendations targeting EU actors span multiple layers of EU-Iran cooperation, both within and beyond the nuclear domain.

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