

PEACE AND SECURITY

ONE YEAR AFTER THE RE-IMPOSITION OF SANCTIONS

Perspectives on the strategic implications of the US
»maximum pressure« campaign against Iran

Achim Vogt and David Jalilvand (eds.)
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US sanctions are taking a huge toll on Iran but have failed to extract concessions from Tehran. A year after re-imposition of US sanctions, Washington's strategic end-game remains unclear.



The US »maximum pressure« campaign has incited Iranian bellicosity in the short term and, over the longer term, has weakened the position of those in Tehran calling for engagement in foreign and economic affairs.



Europe is becoming less and less relevant to both Tehran and Washington. Although a European-Iranian foundation is lacking on which to build a joint strategy to salvage the agreement, there are steps Europe could take in order to advance its interests in the context of the nuclear deal.

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INTRODUCTION

In November 2019, it will be one year since the United States fully re-imposed its nuclear sanctions against Iran. It also marks one and a half years of Washington's »maximum pressure« campaign against the country. This campaign was launched in May 2018, when the Trump administration decided to stop implementing the nuclear deal, the Joint Comprehensive Plan of Action (JCPOA). Since then, the US has not only re-imposed all sanctions waived under the JCPOA, but has also added numerous further sanctions.

The ambition of the United States, in the words of President Donald Trump, is to implement the »highest sanctions ever imposed on a country«,¹ going beyond economic measures. Among other things, the Trump administration also added Iran's foreign minister to its sanctions list and designated the Islamic Revolutionary Guard Corps (IRGC) a terrorist organization. This is unprecedented.

Sanctions are clearly taking their toll on Iran. Since the United States launched its »maximum pressure« campaign, the country's oil exports have plummeted, inflation has soared, the Rouhani administration is facing growing opposition from hard-line factions and the Iranian people are suffering economic hardship, besides many other challenges.

In May 2019, Tehran changed its strategy. Having remained in full compliance with the JCPOA for an entire year after the US withdrawal from the deal, Iran upped the ante. What was described by Iranian officials as »strategic patience« was replaced with a gradual and »reversible« reduction of JCPOA implementation on the part of Iran. President Hassan Rouhani set conditions on which his country would return to full compliance, including the resumption of oil exports and the normalization of banking relations.

In parallel with this, the security situation in the Persian Gulf region deteriorated. In June 2019, Iran shot down a US drone. Furthermore, over the summer there were attacks on several oil tankers leaving or anchoring in the Arabian Peninsula, as well as on oil refineries and pipelines in Saudi

Arabia. Western governments have accused Iran of perpetrating most of these incidents, which Tehran denies. At any rate, the attacks call to mind earlier statements by President Rouhani, who in December 2018 warned that »[i]f one day they want to prevent the export of Iran's oil, then no oil will be exported from the Persian Gulf«.²

Now, eighteen months after the US withdrawal from the JCPOA and twelve months after the full re-imposition of all US nuclear sanctions, Iran and the Middle East are experiencing three interlinked crises: an *economic crisis* (most profoundly in Iran but with geopolitical spillovers to other countries), a *non-proliferation crisis* and a deepening of the region's *geopolitical crisis*.

TOWARDS THE STRATEGIC IMPLICATIONS OF SANCTIONS AND »MAXIMUM PRESSURE«

The three crises are making headlines all over the world. Developments surrounding the JCPOA, Iran, sanctions and the situation in the Middle East are discussed widely and prominently, both among experts and in the media. What typically receives less attention in the hectic cycle of breaking news are the longer-term effects of the US withdrawal from the JCPOA, effects that resonate beyond the short term and are likely to shape the course of Iran-related events for the months and years to come.

Against this backdrop, the passing of a year since the full resumption of US nuclear sanctions offers the opportunity to assess the strategic implications and consequences of Washington's »maximum pressure« campaign.

The present *FES Analysis* attempts to contribute to this quest. Bringing together a distinguished group of experts, its ambition is to discuss the long-term ramifications of the »maximum pressure« campaign. Over five chapters, Iran's domestic situation, economy and policy towards the Middle

¹ <https://www.whitehouse.gov/briefings-statements/remarks-president-trump-prime-minister-morrison-australia-bilateral-meeting/>

² <https://www.reuters.com/article/us-oil-iran/if-iran-cant-export-oil-from-gulf-no-other-country-can-irans-president-says-idUSKB-N1030MI>

East are studied, alongside a discussion of US policy towards Iran and European–Iranian relations.

Examining Iran’s domestic sphere, *Azadeh Zamirirad* argues that the current sanctions regime will have long-term effects on Iran’s socio-political framework and foreign-policy decision-shaping, weakening those in Tehran advocating engagement in foreign affairs. Analysing the impact of sanctions on the Iranian economy, *Bijan Khajepour* makes the case that while sanctions cause profound damage in the short term, they are pushing Iran towards enhancing local capabilities, which might benefit the country in the long run. Discussing Tehran’s engagement in the Middle East, *Rouzbeh Parsi* notes that the US »maximum pressure« campaign has fostered Iranian bellicosity and effectively prevented the JCPOA from helping to change Iran’s view of the region and the world. Scrutinizing US policy towards Iran, *Barbara Slavin* concludes that Washington’s strategic endgame remains unclear as sanctions, while hurting ordinary Iranians, have failed to deprive Tehran of the capability to produce a nuclear weapon or change its regional posture. Breaking down the interplay between Europe and Iran, *Adnan Tabatabai* argues that the convergence of interest that helped in finalizing the JCPOA appears to be insufficiently robust to act as a foundation on which to build a European–Iranian strategy to salvage it.

The topics discussed in this *FES Analysis* are highly relevant to all matters related to the JCPOA. Nevertheless, the discussion obviously remains incomplete. Important issues such as the impact of sanctions on Iran’s environment, the country’s relations with Asian countries and Russia, as well as many other topics will need to be discussed elsewhere. However, within its confines, it is hoped that this publication can contribute to the debate on sanctions and Iran.

EUROPE IN SEARCH OF A ROLE

This debate is of particular relevance to policy-makers in Europe. Even after a year of sanctions, the EU and its member states are still searching for ways – that is, policies – to salvage the JCPOA and to defuse the crises in the Middle East.

From the outset, Europe has been a staunch defender of the JCPOA. After all, three European countries – France, Germany and the United Kingdom (the »E3«) – initiated diplomatic talks in 2003, which after twelve years led to the nuclear deal. Following the change in the White House from Barack Obama to Donald Trump, Europe committed early on to defending the accord. On the ground, though, the European efforts were to no avail: Europe was unable to keep the United States in the JCPOA, effectively counter US sanctions after Washington violated the deal or halt the further descent of the Persian Gulf region into crisis.

Over more than a decade, Europe’s role was central to the developments that resulted in the JCPOA. Now, Europe is increasingly relegated to the side-lines. In Iran, dissatisfaction with the Europeans is growing. Decision-makers in Tehran are disillusioned about the European ability to meaningfully mitigate the damage caused by Washington’s sanctions. In the United States, the Trump administration’s disdain for the European Union is no secret. With regard to Iran, Washington has effectively snubbed the EU and its member states by withdrawing from the JCPOA after forcing Europe into a negotiation effort to save the deal based on what proved to be a duplicitous deadline at the beginning of 2018.

As the European position is increasingly less relevant to both Tehran and Washington, the question of how Europe can realize its interests in the JCPOA (and beyond) is gaining importance.

Where could Europe make a difference? It is beyond the scope of this publication to offer a conclusive assessment, but the contributions to this *FES Analysis* offer some ideas. For instance, as Iran’s political system remains highly dynamic, the current radical shift is not permanent. Europe’s case for engagement can still resonate in Tehran, if backed by concrete measures. French President Emmanuel Macron’s proposal of a €15 billion credit line package, which has been welcomed by Iranian officials, could be turned into a genuine E3/EU initiative. Efforts to effectively launch INSTEX, the financial Instrument in Support of Trade Exchanges, could be fast-tracked so as to at least recover a portion of the European–Iranian trade volume prior to the imposition of sanctions. In several areas, such as agriculture, the environment, pharmaceuticals or water and energy efficiency, even under the current circumstances there are plenty of opportunities for European small and medium-sized enterprises in Iran. Both within and outside the framework of INSTEX, the EU could help to unlock this potential. These measures would help to underline the European commitment to, in the words of the E3 leaders, »ensuring the continuing economic benefits to the Iranian people that are linked to the agreement [JCPOA]«.³

Europe could also improve its standing with both Tehran and Washington if it were to strike a realistic balance between, on the one hand, European demands and objectives (Iranian JCPOA compliance, waiving of US secondary sanctions and so on) and, on the other hand, European action on the ground. Alternatively, where it is not possible to strike such a balance, the EU and its members may scale down demands towards others. If the JCPOA-related experience since 2018 is any guide, the pressing of illusory demands is only likely to result in further erosion of the European position.

³ <https://www.gov.uk/government/news/joint-statement-from-prime-minister-may-chancellor-merkel-and-president-macron-following-president-trumps-statement-on-iran>

Whether steps in this direction would suffice to realize Europe's overarching objectives – salvaging the JCPOA and defusing tensions in the Middle East – is doubtful. Nevertheless, besides assessing the strategic implications of the US »maximum pressure« campaign, the contributions in this publication also show that there are steps the EU and its member states could take after all to advance important European interests.

Achim Vogt and David Jalilvand

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MISSING THE TARGET

The Impact of the US »Maximum Pressure« Policy on Iran's Domestic Sphere

Azadeh Zamirirad

One year after fully re-imposing nuclear sanctions against Iran, the United States has yet to achieve the political results it was hoping for. So far, Tehran has neither given in to demands regarding the nuclear deal nor been willing to scale back its ballistic missile programme or regional engagement. The coercive measures taken by Washington are part of a »maximum pressure« policy containing an unprecedented set of sanctions against the Islamic Republic, targeting nearly all critical sectors of the Iranian economy. While the sanctions regime has pushed the Islamic Republic into deep recession, it has failed in its aim to bring Iran's economy to its knees.

Yet, the sanctions regime has not left Iran unscathed. It is not the economy, however, but rather the political and social sphere in which »maximum pressure« has caused the most harm. It has been widely noted that US policy has brought more radical voices to the fore in Iran. But an upper-hand enjoyed by hardline forces would neither be a new development nor particularly noteworthy in a political system in which radical shifts in the factional balance of power are the norm, rather than an exception. This chapter argues that the US maximum-pressure policy has long-term ramifications beyond factional lines, affecting the socio-political framework and foreign policy decision-shaping in the Islamic Republic as a whole.

THE DIMINISHING ROLE OF THE GOVERNMENT

»Maximum pressure« has hampered the government's ability to implement fundamental economic reforms. After taking office in 2013, president Hassan Rouhani set out to replace his predecessor's redistribution-oriented approach with a developmental one, based largely on economic growth. This required, among other things, reforming the outdated banking system, strengthening the private sector, increasing transparency and attracting much needed foreign direct investment. To create a business-friendly environment in which international companies would be willing to invest, the role of unaccountable power centres in Iran's economy had to be curbed, including religious foundations and the paramilitary Islamic Revolutionary Guard Corps

(IRGC). While in the early stages government initiatives showed promising results, with inflation falling to single digits, the trajectory changed rapidly after Washington decided to pull out of its commitments under the nuclear deal in May 2018. With a new economic crisis at hand and harsh criticisms directed at the president for failing to deliver on economic promises, the government lost significant political ground. Rouhani's second term has been dogged by regular demands to impeach him and other members of his cabinet. In the aftermath of Washington announcing its withdrawal from the nuclear deal, four key economic officials were replaced, including the Minister of Economic Affairs and Finance and the Minister of Labour and Social Affairs. Two ministers lost their jobs through impeachment, with the other two resigning before they could be impeached as well.

While the government has remained under constant pressure, other power centres in Iran have been less affected and, in some instances, have even been strengthened by the sanctions regime. This is most notably the case with regard to the IRGC. With sanctions weighing heavily on Iran's economy and its oil exports in particular, the government's initial objective of increasing transparency in Iranian business transactions has become unfeasible. The US objective of reducing Iranian oil exports to zero has pushed Tehran into irregular trade channels to secure its most significant source of hard currency income. A higher dependency on black markets has been observed in similar sanctions situations in the past. In Iraq, a long-standing sanctions programme fostered a wide network of smugglers and a vast underground market to circumvent sanctions, turning those economic actors into powerful players in the state.¹ As the IRGC is not only widely engaged in Iran's economy – from the energy market to communications, agriculture and transportation – but also controls Iranian borders, it is well positioned to oversee smuggling and profit substantially from sanction evasion measures. US sanctions are not only enriching the IRGC, however; they are also contributing to the government's retreat from parts of the economy, allow-

¹ Mazaheri, Nimah (2010): »Iraq and the Domestic Political Effects of Economic Sanctions«, in: *Middle East Journal*, 64(2) (Spring), 253–268, 267.

ing actors such as the IRGC to take over.² The Rouhani government has reluctantly given up government control in some economic areas, well aware that this would strengthen the role of a competing power centre both economically and politically.

With unofficial trade channels on the rise, other reform projects have also been affected. The Rouhani government has proposed legislation that would bring Iran up to the standards set by the intergovernmental Financial Action Task Force (FATF). Two out of four initial bills are still in limbo. Tehran has yet to ratify the convention on Combatting the Financing of Terrorism (CFT) and the United Nations Convention against Transnational Organized Crime (Palermo Convention). Although parliament has approved the bills, the Guardian Council has refused to accept them. The government has faced harsh criticism from political opponents, such as the hardline »Velayi faction«, which has rejected the proposed CFT and Palermo conventions as »most dangerous« tools of Western actors in their »economic war« against Iran.³ With increasing demand for unofficial trade channels to bypass sanctions, the likelihood of the bills' passing has further decreased.

FACTIONAL REALIGNMENT

As the role of the government has declined, the factional alliance between Rouhani's pragmatic conservative camp and the reformists has also suffered. The alliance, currently organized in the parliamentary »Faction of Hope«, has proved successful in various elections, winning Rouhani two presidencies. Relations have been tense for years, however. Many reformists have been disillusioned by their cooperation with the pragmatists, complaining that it has yet to yield tangible results. Top reformist figures have largely been passed over for senior positions in Rouhani's cabinets and hardly any progress has been made on the socio-political front. Reformist demands for greater political freedoms and for ending the house arrest of two leaders of Iran's protest movement of 2009 have not been met. The rift became evident in October 2018 when a majority of prominent reformist figures boycotted a meeting with the president that was supposed to mend the relationship, slamming it as nothing more than a show.⁴ Meanwhile, Rouhani has displayed a far stronger inclination to side more closely with traditional conservatives around parliamentary president Ali Larijani. Rouhani's turn away from the centre to the right has mainly been motivated by his presidency. Having served two terms, he cannot run a third time. Aligning himself with more conservative forces is his best chance of securing a political future in the face of ongoing criticism by hardline conservatives, who are his most fervent political opponents.

2 <https://foreignpolicy.com/2018/10/04/irans-revolutionary-guard-corps-wont-suffer-from-stronger-u-s-sanctions-theyll-benefit-irgc-trump-sanctions/>

3 <https://www.farsnews.com/news/13971105000714/>

4 <https://etemadonline.com/content/236493/>

The sanctions regime has further burdened the already strained relationship between pragmatists and reformists. As »maximum pressure« has put Iran into economic crisis mode and the nuclear deal failed to fulfil the expectations of the Iranian population, the Faction of Hope will have little to bring to the table in the parliamentary elections of February 2020. With hardly anything to show for on the economic or the political front, reformists stand to lose the most. Even prominent reformist figures such as former president Mohammad Khatami have cast doubts on their ability to mobilize voters under the present circumstances.⁵ The mass protests of 2017/2018 also showed that many Iranians no longer distinguish between the two major political currents, chanting »reformists, principlists, the game is over!«. Fewer and fewer Iranians seem to see reformists or pragmatists as a viable alternative or as an effective platform through which to demand change.

Lacking the capacity to mobilize what used to be their base and subject to a vetting process that discriminates against moderate factions to begin with, reformists and pragmatists are at a clear disadvantage in the upcoming elections. The effects could spill over to the presidential elections of 2021 as well. Meanwhile, hardline forces can point to a failing nuclear deal that has produced few positive results for the Iranian economy. Offering additional cash handouts and falling back on populist promises could prove to be a powerful mobilization tool. Given the current conditions, radical or more traditionally conservative factions have the best prospects of reclaiming a majority in the parliament. While factional shifts are nothing new in Iranian politics, current changes in the balance of power come at a sensitive time. As the question of succession is looming, given the age of the incumbent Supreme Leader, and factional positioning plays a role in determining his successor, the outcome of the upcoming elections of 2020 and 2021 will potentially affect Iranian politics well beyond the four-year parliamentary and presidential terms.

SHRINKING SPACES IN THE SOCIAL SPHERE

Broad sanctions regimes such as the current one being imposed on Iran do not differentiate between political actors and the general population. As US »maximum pressure« goes far beyond targeting political decision-makers and state entities, it is hurting the well-being of average Iranian citizens. As in past rounds of international sanctions against Iran, the current sanctions regime has discouraged humanitarian trade, limiting Iran's access to much-needed medicine and pharmaceuticals. Although the US Treasury has authorized exemptions for humanitarian goods in principle, international companies have shied away from selling medical or pharmaceutical products to Iran, fearing consequences on the US market. This has contributed to additional

5 <https://farsi.euronews.com/2019/03/06/former-iranian-president-khatami-says-he-doubts-people-participation-in-future-elections>

shortages of essential products, such as paracetamol or even cancer medication in an already tight market.⁶ According to the Statistical Centre of Iran, the cost of health and medical services went up nearly 19 per cent in spring 2019 compared with the previous year.⁷ Other living expenses rose as well. Housing costs increased by nearly 20 per cent and the price of meat went up 57 per cent, making meat products unaffordable for many lower income households.

By targeting the economy as a whole, »maximum pressure« has also contributed to high inflation and deep recession. While sanctions are not the only source of economic woes in Iran,⁸ they have aggravated existing problems. With the Iranian Rial losing more than 60 percent of its value on the free market by August 2018, the purchasing power of Iranian households plummeted. Many members of the middle class have seen their assets and savings erode. At the same time, larger segments of Iranian society have become increasingly dependent on welfare services provided by the state apparatus, as well as by religious foundations, further consolidating their power. Similar developments were observed in other sanctions cases, such as Iraq, where international sanctions de facto strengthened the Iraqi government as the state played a larger role in people's daily lives.⁹ High prices have also impacted the cultural and media sphere. A clear example of this is the cost of paper, which has increased dramatically, leaving several publishing companies on the brink of bankruptcy. Even major news outlets such as Hamshahri have had to scale back their publications due to paper shortages and high prices.¹⁰ The impact has been most harshly felt by smaller outlets and associations, making it more difficult for many novelists, journalists or anyone else who wants their work published in print to participate in public discourse. With fewer resources available across the board, Iran's vibrant social and cultural activity is constrained on a very practical level.

While there seems to be an expectation in Washington that economic pressure on the Iranian population will lead to further unrest and protests against the state, research rather suggests that economic sanctions often hurt oppositional groups and have little impact on the coercive capacity of the state.¹¹ Overall, empirical evidence does not support the idea of an automatic link between economic hardship and political change, particularly in states with limited political freedoms.¹² Looking at the case of Iran, the sanctions regime seems to have confined the space of societal actors, in

part by undermining the economic base of the Iranian middle class, the backbone of Iranian civil society. Furthermore, sanctions that aim at destabilizing the target state's economy generally increase its threat perception, often-times leading to a higher degree of state repression.¹³ In Iran, further securitization of the domestic sphere has been a by-product of the sanctions regime. Increased threat perceptions have been particularly visible in the treatment of dual nationals who have been accused of spying time and again. This has gone hand in hand with several arrests and parliamentary campaigns to exclude dual nationals from higher administration posts.

With the state tightening its control and basic economic needs taking centre-stage, Iranians have been hesitant to take to the streets. Many worry about a Syrian or Libyan scenario, in which Iran could end up in an endless civil war with no clear path to resolution. All these factors seem to have hampered larger protest movements. Demonstrations and social unrest, while still present all over the country, have thus lacked momentum. While dissatisfaction with their own government is still high, the international community has become an additional source of frustration for Iranians. As Washington has not taken active steps to shield ordinary civilians from the sanctions fallout, »maximum pressure« has been perceived largely as punishment rather than support. Entering into a nuclear agreement has not improved the lives of ordinary Iranians and the aftermath has in fact made their situation worse. Many not only blame their own government but also the United States for its draconic sanctions regime and Europeans for their inability to prevent US action or at least provide relief.

IMPLICATIONS FOR FOREIGN-POLICY DECISION-SHAPING

While the decision to enter into a nuclear agreement was taken by all significant power centres in Iran, most importantly the Supreme Leader, negotiations were the responsibility of the government. Solving Iran's nuclear crisis, regarded by many as the biggest foreign policy challenge since the war with Iraq,¹⁴ was a huge win for the Rouhani government, proving that a pragmatist foreign-policy approach based on engagement could be successful. However, US withdrawal from the nuclear deal has rendered that approach ineffective. Iran's economic and security environment has not improved and in fact has worsened significantly, making it hard for many in Tehran to imagine that Iran could have been any worse off if it had not agreed to a nuclear compromise in the first place. The experience of

6 Galibafian, Mithra/ Hemmati, Shabnam/ Bouffet, Eric (2018): »The Silent Victims of the US Embargo against Iran«, in: *The Lancet*, 19(11) (1 November).

7 https://www.amar.org.ir/Portals/1/1_Consumer%20Price%20Index%20in%20the%20Month%20of%20farvardin%20of%20the%20Year%201398.pdf.

8 <https://www.al-monitor.com/pulse/originals/2019/04/iran-economy-sanctions-mismanagement-tax-evasion-impact.html>

9 Mazaheri (2010), 257.

10 <https://www.bbc.com/persian/iran-features-48256698>

11 Peksen, Dursun/Drury, A. Cooper (2009): »Economic Sanctions and Political Repression: Assessing the Impact of Coercive Diplomacy on Political Freedoms«, in: *Human Rights Review* 10, 393–411.

12 Allen, Susan Hannah (2008): »The Domestic Political Costs of Economic Sanctions«, in: *Journal of Conflict Resolution*, 52 (6) (December): 916–944, 937.

13 Wood, Reed M. (2008): »A Hand upon the Throat of the Nation: Economic sanctions and State Repression, 1976–2001«, in: *International Studies Quarterly*, 52, 489–513, 491.

14 Mousavian, Seyyed Hossein (2012): *The Iranian Nuclear Crisis. A Memoir*, Washington, D.C.: Carnegie Endowment for International Peace.

the nuclear deal has far-reaching consequences for Iran's foreign policy calculations. It has undermined Iran's already limited trust in Western actors, as well as in international regimes and norms. While mistrust towards the United States in particular has been a constant in Iranian political discourse for the past four decades, the question of engagement was still open to debate.

Agreeing to a nuclear deal that involved the United States as an essential party was a test case for Tehran to assess the potential for further interaction. Seen from this perspective, the nuclear agreement was much more than an instrument for economic relief; it was a fundamental foreign-policy experiment. With Washington pulling out of the deal despite Iran's full compliance, critics of the nuclear accord and a policy of engagement were confirmed in their long-standing belief that this was an experiment doomed to fail. This is what distinguishes the current political environment from the climate before the nuclear deal, making it impossible to restore the status quo ante. This has severely undermined the ground for a pro-active engagement policy in Iran for years to come, regardless of which political faction will be in power.

The experience of the nuclear deal has shifted Iranian political discourse towards a common sentiment that engagement does not pay off, neither for Iranian society nor the state. This impression becomes even stronger in light of Iran's foreign-policy approach in the region. Iran's regional engagement in countries such as Iraq and Syria has not only broadened Tehran's political room to manoeuvre, but has also created economic opportunities. This is notably the case in Syria where Tehran is looking to see economic returns on its political and military investments of recent years. Moreover, Tehran's decision of May 2019 to follow a tit-for-tat-policy based on partial suspension of nuclear commitments and gradual escalation in the Persian Gulf has so far paid off. Tehran has not faced a direct military response from the United States, the tone of Iran's Arab Gulf neighbours has changed noticeably and the EU has not taken any formal action against the Islamic Republic for no longer fully implementing the nuclear deal. Meanwhile, Tehran has managed to continually build up leverage. Thus, through its tactical shift, Iran has reclaimed more political ground within a few months than during an entire year of pursuing a policy of »strategic patience«, which was based on the seemingly vain hope that Europe would be able to provide compensatory economic relief.

If both »maximum pressure« and Iran's high-risk policy continue in this vein, with no credible off-ramps provided by Washington and no major setbacks for the Islamic Republic, a military escalation becomes more likely. As of now, the overall lessons that Tehran has learnt are threefold: (i) that agreements with the United States are not sustainable; (ii) that Europe lacks the capacity to withstand US policies or provide the political support and economic relief that Iran needs; and (iii) that pursuing a confrontational policy with regard to its nuclear commitments and in the Persian Gulf yields better results than a policy of engagement.

TAKE-AWAYS AND CONCLUSIONS

The US sanctions regime is affecting Iran but not in the way intended. It is not harming the economy as much as the socio-political sphere. Although »maximum pressure« is not the root cause of economic, political or social hardship in Iran, it has aggravated existing problems. The impact of sanctions can be felt in a number of ways. For one thing, they affect the environment in which moderate and radical forces compete for power. This comes at a particularly sensitive time in Iranian politics, when strong factional positioning might soon translate into determining the next Supreme Leader, thus shaping the Islamic Republic for decades to come.

Furthermore, under the broad sanctions regime, irregular trade channels become more important, giving rise to unaccountable power centres in parts of the economy beyond government control. This obstructs necessary structural reforms in Iran and weakens elected political institutions. Moreover, »maximum pressure« changes the conditions under which Iranian society interacts with the political system. Larger segments of the population have become dependent on the state to make ends meet. Meanwhile, the foundation of the Iranian middle class is being undermined and space for social action is shrinking. This contradicts the idea that US sanctions would incentivize public action.

On the foreign-policy front, »maximum pressure« is paving the way for long-term disengagement from the West. The experience of the failed nuclear deal has been detrimental to Iran's foreign-policy discourse and thus decision-shaping. By incentivizing an escalatory policy of confrontation that has so far proved successful for Iran, the US sanctions regime could have a far-reaching impact on what Tehran will consider effective foreign-policy tools in the future.

These problems notwithstanding, the Islamic Republic remains a highly dynamic system that does not lend itself to simple predictions. Despite the current shift towards the radical, Iran's social and political sphere remains a place of ongoing contestation. This leaves room for external actors such as the EU to continue making the case for engagement. The negative effects of Iran's experience with the nuclear deal can be mitigated as long as there is a clear path to mutually beneficial talks and economic relief, provided that they are supported by both sides of the Atlantic. Political compromise under such circumstances would not only be possible, but likely as Tehran is looking for ways to use the leverage it has created in recent months to improve its economic conditions. In the long run, an engagement policy that is able to produce tangible results on the economic and security fronts offers the best chance for de-escalation and would send a strong message to the Iranian people that their well-being has not been forgotten.

3

IMPACT OF US SANCTIONS ON THE IRANIAN ECONOMY

Bijan Khajepour

INTRODUCTION

When the United States withdrew from the Joint Comprehensive Plan of Action (JCPOA) in May 2018 and then re-imposed all secondary nuclear sanctions in August and November 2018, there was an expectation among US decision-makers that the Iranian economy would collapse within months. But while the sanctions regime has indeed severely undermined the Iranian economy, there are no signs of its imminent collapse. While plagued not only by sanctions but also by a number of structural deficiencies, such as mismanagement and corruption, the Iranian economy remains resilient, grounded in its diversity and resourcefulness.

To fully appreciate how external sanctions and pressure are impacting the Iranian economy, one needs to distinguish between macroeconomic and sectoral impacts, and also attend to how the consequences are creating new realities and trends in such areas as government finances, business climate, domestic capacity-building and changing trade patterns. In addition, it is crucial to understand the short-term, as well as longer term impacts of external pressures. Furthermore, one needs to appreciate the socio-economic implications of these sanctions and their medium- to long-term effects on the economy.

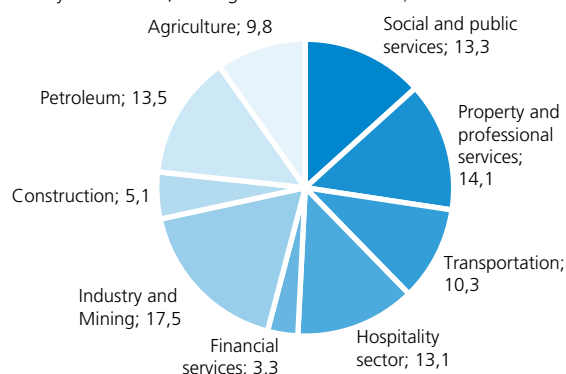
Evidently, for reasons of space this chapter will not be able to address all of these issues in depth. The focus will therefore be on assessing the macroeconomic and sectoral trends that have been triggered by the re-imposition of sanctions, which will probably shape the Iranian economy for the foreseeable future. It should also be noted that the economy cannot be decoupled from political developments and that many projections for the Iranian economy will depend on the outcomes of internal and external political processes, which will be discussed in other contributions to this volume.

BACKGROUND ON THE IRANIAN ECONOMY

In contrast to many other oil exporting countries, especially in the Persian Gulf region, Iran has a rich and diverse economy. As Figure 1 indicates, more than half of the country's

GDP is services-based, which makes the economy resilient towards occasional fluctuations in other sectors, namely petroleum, industry, agriculture and construction. Statistically, the petroleum sector contributes only about 14 per cent to GDP, although it continues to be the most important industry in terms of hard currency generation. Indeed, crude oil, condensate, natural gas, various petroleum and petrochemical products, all of which are derived from the petroleum sector, are key export items for Iran. Furthermore, a significant segment of industrial development is dependent on the availability of inexpensive natural gas and electricity. The energy sector, while not the dominant contributor to GDP, is the backbone of the economy. Incidentally, the low contribution of the petroleum sector to GDP can partly be explained by the fact that all fuels and energy carriers in Iran are subsidized (which in turn creates vulnerabilities in government finances, which will be explained below).

Figure 1
Sectoral contribution to GDP – in percentage terms, for the Iranian year 2017/18, ending on 20 March 2018)



Source: Central Bank of Iran report (September 2018); accessed on 13 September 2019: <https://www.cbi.ir/page/17304.aspx>.

The Iranian economy is also characterized by three ownership categories, namely government, semi-state and private sector. While the government remains the largest employer, the other two sectors are growing in significance, especially the semi-state sector, which consists of religious, revolutionary and military foundations, pension funds and large cooperatives.

ECONOMIC IMPACTS OF US SANCTIONS

Evidently, the limitations caused by US measures have left a heavy footprint on multiple dimensions of the Iranian economy. Below we will take a closer look at some of the key consequences.

Macroeconomic Trends and Developments

In the wake of the JCPOA, economic development in Iran was characterized by economic growth and falling inflation. In fact, the country's GDP grew by 13.4 per cent in the Iranian year that ended on 20 March 2017 and 3.7 per cent in the following year. This impressive growth was followed, however, by an economic decline of close to 6 per cent in the year that ended on 20 March 2019. It should be noted that the petroleum sector played a key role in both developments. The impressive growth in 2016 was due to massive expansion of the petroleum sector in the post-JCPOA period and the decline in 2018 was a consequence of pressure on the same sector. In fact, in the last financial year, non-oil GDP contracted by only 2.4 per cent.¹

Table 1 summarizes some of the projected indicators for the current year, as well as projections for the next two years.

Table 1
Projection of key economic indicators

Indicators	1398* (21.03.19 to 20.03.20)	1399* (21.03.20 to 20.03.21)	1400* (21.03.21 to 20.03.22)
GDP growth (real in Rial)	-5.5%	+0.2%	+0.9%
GDP (nominal in US\$ at median exchange rate)	\$486 bn	\$495 bn	\$515 bn
GDP per capita (nominal)	\$5,927	\$5,963	\$6,123
Government net borrowing (% of GDP)	4.0%	4.0%	5.0%
Current account balance (% of GDP)	-0.4%	-0.6%	-0.8%
Inflation (official)	37.0%	31.0%	29.0%
Unemployment (official)	10.8%	11.5%	11.0%

Note: * Solar hijri year. Author's projections.

Sources: Statistical Centre of Iran, Central Bank of Iran, World Bank.

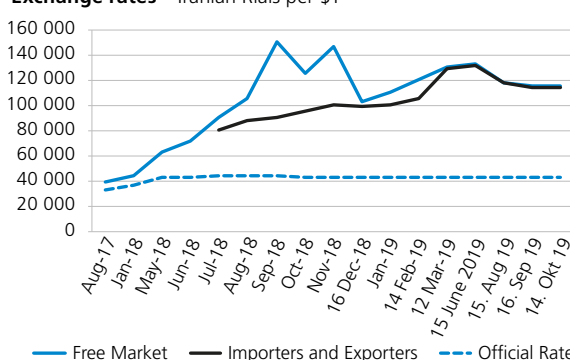
As can be seen from Table 1, according to World Bank data² the Iranian economy will return to modest growth in 2020, which is a clear indication that the economy has adjusted to new circumstances. Nonetheless, high inflation, loss of purchasing power and unemployment will persist and it will take the country a few years before it can return to some degree of economic stability.

The severity of the negative impact of US sanctions can best be seen in the value of the national currency, the rial. As Figure 2 indicates, the rial has lost significant value since the

announcement of the US violation of the JCPOA in May 2018. The degree of vulnerability was so high in early 2018 that a government plan to unify the existing exchange rates not only failed, but led to the creation of an additional rate, which means that the economy effectively had to deal with a three-tiered exchange rate system. In the meantime, after more than 18 months of turbulence and uncertainty, a certain degree of stability has returned to the market. Furthermore, the two higher exchange rates (the free-market rate and the so-called »Nima« rate) are almost equal, which effectively means there is a two-tiered mechanism. Nonetheless, the continued multi-tiered exchange rate policy is the main platform for corrupt practices,³ which should compel the government to overhaul its foreign exchange policies.

Figure 2

Exchange rates – Iranian Rials per \$1



Sources: CBI, sanarate.ir, bonbast.com.

Another negative consequence of the re-imposition of US sanctions has been inflation. One of the key achievements of the Rouhani administration's first term was the containment of high inflation. As Figure 3 outlines, the government had managed to reduce inflation to single-digit figures. By 2017, however, external and internal factors, including the devaluation of the national currency, pushed inflation above 30 per cent. Although the outlook shows a decline in inflation, it will remain above 25 per cent and will continue to eat into the purchasing power of Iranian families.

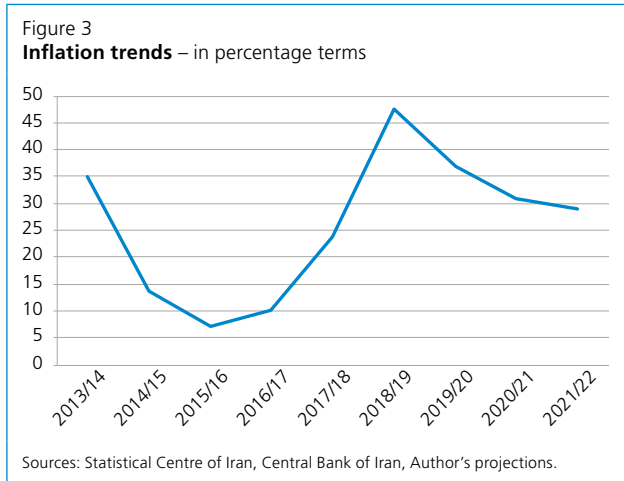
Economic decline and high inflation have led to stagflation – the parallel occurrence of economic stagnation and inflation – which has put further pressure on the labour market. Incidentally, the latest labour market statistics suggest that, as of June 2019, unemployment had improved, standing at 10.8 per cent. Other trends, however, such as youth and women's unemployment show worrying trends.⁴ While it should be noted that unemployment in general was not necessarily a consequence of external sanctions, it is reasonable to argue that Iranian society and government had high hopes that the post-JCPOA economic upturn would create

1 See <https://lobelog.com/is-irans-economy-sliding/>

2 <https://www.worldbank.org/en/country/iran/publication/economic-update-april-2019>

3 The scheme offers those who have access to preferential exchange rates the opportunity to profit from sales on the free market. This is to the detriment of the economy as the preferential exchange rates intend to promote specific things, such as education (for students going abroad) and imports of much needed goods, such as medicine and spare parts.

4 <https://www.al-monitor.com/pulse/originals/2019/08/iran-improved-employment-women-youth-left-behind.html>



new and needed jobs for the economy. What is certain at this stage is that high inflation will continue to impose economic pressure and have a negative impact on poverty reduction and employment.

In the medium term, it can be expected that inflation, the budget deficit and a gradual devaluation of the rial will continue to reinforce each other, sustaining the inflationary environment.⁵ This disturbing outlook can only be addressed through fiscal discipline and appropriate economic and legal reforms. This will be difficult to achieve because the government is overstretched by the task of containing the negative impact of sanctions and providing the necessary stimulus to create jobs and economic growth. In fact, the authorities need to make sure that government investments remain intact, increasing the budget deficit.

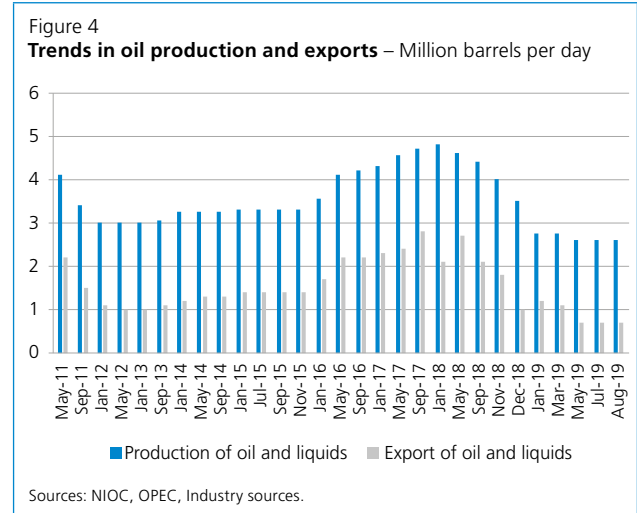
Impact on the Petroleum Sector

Iran's oil and gas sector has been the main target of US sanctions in various waves of measures against the country (both directly through sanctions against the energy industry and indirectly through, for example, sanctions against Iranian banking sector which affect the repatriation of oil revenues). In fact, a number of US officials have stated that their goal is to bring Iran's oil exports down to zero.⁶

After the lifting of the previous round of sanctions in January 2016 – that is, after JCPOA implementation – Iran had successfully rehabilitated its crude oil production and recaptured some of its lost share of the international oil market. Nonetheless, oil exports suffered a heavy blow as a result of the re-imposition of sanctions.

As Figure 4 indicates, production of crude oil and condensates peaked in January 2018 at 4.8 million barrels per day (mbpd). This level of production was even higher than the peak prior to the last wave of sanctions in 2011. The additional growth was achieved by growing capacity in the

production of gas condensates facilitated through the development of the giant South Pars gas field in the Persian Gulf. In the meantime, all those achievements have been overshadowed by the re-imposition of US sanctions. According to OPEC,⁷ Iran's crude oil production has fallen to below 2.2 mbpd, which puts overall crude and condensate production at between 2.6 and 2.7 mbpd.



The collapse of Iranian exports is not the only negative consequence of the current US sanctions. More significantly for Iran's long-term development, these measures have also limited its access to modern technologies to develop its vast oil and gas resources, as well as other sectors of the economy, especially industry and mining. In fact, in the aftermath of the JCPOA, the Ministry of Petroleum developed a plan to attract some \$200 billion in new investments into the petroleum sector.⁸

The restrictions imposed on oil and gas exports have hit the ability of the petroleum sector to finance existing and future projects, but have also undermined the government's overall financial position (see below). In the meantime, officials have considered a number of remedies to reduce the negative impact of these sanctions on the economy. These include:

- expanding domestic refining capacity through so-called mini refineries in order to produce and export petroleum products. So far, since the re-imposition of sanctions, Iran has added 150,000 barrels per day (bpd) of refining capacity and another 100,000 bpd are planned by March 2020;⁹

⁵ For a discussion of the interplay between these factors, see <https://www.al-monitor.com/pulse/originals/2019/09/iran-interplay-exchange-rate-inflation.html>

⁶ <https://www.scmp.com/news/world/middle-east/article/3007118/china-could-be-target-sanctions-us-ends-waivers-iran-oil>

⁷ <https://momr.opec.org/pdf-download/>

⁸ <https://www.ft.com/content/9db5e152-a5a9-11e6-8b69-02899e8bd9d1>

⁹ <https://www.irna.ir/news/83368666/%D8%A7%D9%81%D8%B2%D8%A7%DB%8C%D8%B4-%DB%B2%DB%B5%DB%B0-%D9%87%D8%B2%D8%A7%D8%B1-%D8%A8%D8%B4%DA%9%D9%87-%D8%A7%DB%8C-%D8%B8%D8%B1%D9%81%D8%B8%D8%AA-%D9%BE%D8%A7%D9%84%D8%A7%DB%8C%D8%B4%DB%8C-%D8%AA%D8%A7-%D9%BE%D8%A7%DB%8C%D8%A7%D9%86-%D8%B3%D8%A7%D9%84>

- utilizing the Iran Energy Exchange as a platform for the sale and export of crude oil and petroleum products (with limited success so far);
- increasing energy efficiency in the production, distribution and consumption of energy with the objective of generating value without increasing production or exports;
- rationing petrol with the objective of reducing the financial burden of energy subsidies; and
- empowering domestic companies to act as prime contractors in oil and gas projects. On 14 September 2019, the Ministry of Petroleum announced two investment projects that have been signed with local firms.¹⁰

All in all, similar to the macroeconomic consequences, the short- to medium-term impact of these sanctions on the petroleum sector have been severe. There are, however, responses on the Iranian side that could generate greater domestic capacity, which could facilitate long-term economic development.

Government Finances

As already mentioned, the decline in oil and gas export revenues has had direct and indirect negative consequences for government finances. Last year, when the sanctions hit, the government faced an unprecedented budget deficit, equalling about \$10 billion for the nine months from April to December 2018.¹¹ In the current Iranian year, the authorities have resorted to a number of remedies to reduce the fiscal vulnerabilities and balance the budget. A number of reforms have been initiated, including a reduction of the dependence on oil revenues, a shift to performance budgeting, an increase in tax revenues and a revamp of subsidies.¹² It is quite likely that the government will engage in these reforms to improve its financial position. Nonetheless, similar to many other reforms, the key bottleneck will be the low capacity of the country's bureaucratic structure to implement reforms.

While the abovementioned reforms will require a few years to improve the government's financial position, a number of short-term remedies have been applied that will help the authorities. These include adjustments to the implementation of the tax code, such as the imposition of non-cash transactions in professions that have historically evaded taxes (such as doctors and pharmacists). Interestingly, the tax to GDP ratio in Iran is about 9 per cent,¹³ compared with about 25 per cent in developed economies. Furthermore,

the government has drawn down on the country's hard currency reserves to fill some of the financial gap.¹⁴

In addition, the government has engaged in a new wave of privatization, focusing on selling its stake in a number of large companies.¹⁵ The downside of such transactions is the fact that the buyers are mainly from the semi-state sector, as the genuinely private sector lacks the funds for larger acquisitions. This means that while the government's role is declining in the economy, the non-transparent semi-state sector is gaining in overall influence over economic activity. In the meantime, the Guardian Council has ruled that the sale of the remaining shares owned by the government would clash with the original privatization laws that obliged the government to maintain a minimum of 20 per cent in all privatized companies.¹⁶

Finally, the recent financial bottlenecks have compelled the authorities to focus on financial, administrative and governance efficiency in order to make up for the decline in revenues. This has translated into a campaign against corruption. The fact that the process has coincided with the appointment of 2017 presidential contender Ebrahim Raisi as head of the judiciary has increased the visibility of this campaign.

It is too early to measure the success of all of the above processes. However, at the current juncture, improving the government's financial position is significant not only in terms of reducing the inflationary impact of the budget deficit, but also because the government will have to introduce redistributive policies in order to make up for the loss of purchasing power in the lower income classes.

Changing Trade Patterns and Domestic Capacity-Building

Historically, the backbone of Iranian industry was based on Western technology and equipment. It is evident that the current sanctions have limited the country's access to such technology. Against this backdrop, there is a push to identify substitutes, either by finding new international partners or by building domestic capacities.

The Iranian business community and industry are resourceful and can benefit from a large diaspora across the world. At the same time, powerful constituencies in Iran are hesitant to allow diaspora members to play an active role in key industries, as reflected in the arrests of many innocent dual citizens by the IRGC Intelligence Unit.¹⁷

¹⁰ <https://www.reuters.com/article/us-iran-gas/iran-signs-440-million-deal-with-local-firm-to-develop-gulf-gas-field-idUSKCN-1VZ038>

¹¹ <https://www.voanews.com/middle-east/voa-news-iran/irans-central-bank-announces-unprecedented-budget-deficit>

¹² For a comprehensive review of these initiatives, see <https://www.al-monitor.com/pulse/originals/2019/07/iran-budget-reform-dead-end.html>

¹³ <https://www.al-monitor.com/pulse/originals/2019/07/iran-budget-reform-dead-end.html>

¹⁴ <http://www.baharnews.ir/news/175364/%D8%A8%D8%B1%D8%AF%D8%A7%D8%B4%D8%AA-%DA%86%D9%86%D8%AF-%D9%85%DB%8C%D9%84%DB%8C%D8%A7%D8%B1%D8%AF-%D8%AF%D9%84%D8%A7%D8%B1-%D8%AF%DB%8C%DA%AF%D8%B1-%D8%B0%D8%AE%D8%A7%DB%8C%D8%B1-%D8%A7%D8%B1%D8%B2%DB%8C>

¹⁵ <http://otaghiranonline.ir/news/28861>

¹⁶ <https://car.ir/news/16826-irankhodro-saipa-privatization-ruled-out>

¹⁷ For an account of the dual citizens jailed in Iran, see <https://www.bbc.com/news/uk-41974185>

The push to build up domestic capacities is best reflected in the oil and gas sector. The fact that modern technology is not available has compelled Iranian industry to develop its own capacities. Domestic resources do not always achieve the highest technological standards but do create new capacities and jobs in the process.

In addition, domestic capacity-building is further diversifying the Iranian economy and attracting investment into previously underdeveloped sectors, such as tourism (including health tourism), IT start-ups, agriculture and processing industries, mining and processing of mining products and transit. The growth in tourism, which may be undermined by increased tensions, could potentially generate much needed hard currency for the economy, but also increase cultural interaction between Iran and other nations.

One factor facilitating these developments is the depreciation of the national currency, which has made Iranian exports more competitive on regional and international markets. Consequently, it can be expected that Iranian companies will expand their presence in regional markets as exporters, as a result of which the country will trade more extensively with immediate neighbours and developing economies.

The downside of the current sanctions with regard to Iran's trading patterns is a growth in smuggling.¹⁸ This phenomenon is empowering the informal segments of the Iranian economy and corrupt networks to the detriment of the regular economy. In fact, domestic industry is one of the main victims of the growth in smuggling activities. As long as the government remains in the current crisis mode, it will be difficult to see an end to activities such as smuggling, money laundering and related corrupt practices.

Socio-economic and Psychological Impacts

Parallel to the negative economic impacts, sanctions have certainly also had direct and indirect socio-economic consequences. Much has been written about the shortages caused as a result of the sanctions, especially shortages in the medical and pharmaceutical sector.¹⁹ Experts believe that an increased sense of uncertainty and vulnerability has driven many Iranians to opt for migration. In the past, Iran has suffered extensively from brain drain and the current conditions have clearly intensified the phenomenon.²⁰

One of the reasons for the intensity of negative socio-economic impacts in the most recent wave of sanctions is the fact that these sanctions followed a period of hope and high expectations due to the signing of the JCPOA. In the

words of one Iranian analyst, what emerged after the re-imposition of US sanctions was »despair after hope«, which has hit Iranian society harder than the previous periods of unfulfilled expectations.

It is outside the scope of this chapter to offer a comprehensive assessment of the negative socio-economic consequences. Suffice to say that these impacts will leave a scar on Iranian society for a long time and further deepen the anti-Western sentiments that were generated during the Iran–Iraq war due to Western support for the Saddam Hussein regime. As such, it is not mistaken to refer to the current sanctions regime as »economic warfare«, as does the Iranian government. This implies similar socio-economic consequences to what Iran experienced in the 1980s, including, as a political result, deeper hatred towards the United States and Europe as the main culprits.

While it is too early to measure the overall consequences of the current economic war, it can be argued that the real economic impact at the current juncture is much lower than the economic destruction during the Iran–Iraq war. However, while the post-war reconstruction of the 1990s could be measured through physical progress, it will take a long time to address some of the socio-economic consequences, such as unemployment, poverty, brain drain and despair.

CONCLUSIONS

As outlined above, the re-imposition of US sanctions has led to an economic downturn in Iran. According to Eshagh Jahangiri, first vice president, Iran's strategy in response to the US maximum pressure has been to offer »pro-active resistance«. Jahangiri believes that the initial shocks have been overcome and that economic indicators show a positive outlook.²¹ Though it is too early to say, it is valid to argue that a relative degree of stability has been achieved after 18 months of turbulence and uncertainty.

In the meantime, in the absence of European incentives, one can expect a gradual decline in the role of Western companies in Iran, which will likely be accompanied by a growing role of Russia, China and other Asian countries as trading and technology partners. In line with its regional strategy of increasing interaction with its immediate neighbours, Tehran will also expand trade and investment relations with these immediate neighbours, mainly Iraq and Turkey, but also pay growing attention to the Eurasian Economic Union, with which it has signed an agreement.

¹⁸ For a comprehensive discussion of smuggling flows, see <https://www.al-monitor.com/pulse/originals/2018/10/iran-smuggling-for-foreign-exchange-Rial-devaluation-sanctions.html>

¹⁹ For a comprehensive study on this issue, see <https://www.atlantic-council.org/blogs/iransource/how-us-sanctions-hinder-iranians-access-to-medicine/>

²⁰ <https://en.radiofarda.com/a/top-cleric-admits-brain-drain-is-a-problem/29815433>

²¹ <https://jsnews.ir/%D8%A2%D8%AE%D8%B1%DB%8C%D9%86-%D9%85%D8%B7%D8%A7%D9%84%D8%A8/%D8%86-%D9%85%D8%B7%D8%A7%D9%84%D8%A8/%D8%83%DB%8C%D8%A7%D8%B3%DB%8C/%D8%AC%D9%87%D8%A7%D9%86%DA%AF%DB%8C%D8%B1%DB%8C-%D8%AA%D8%B9%D8%AC%D8%A8-%DA%A9%D8%B1%D8%AF%D9%85-%DA%A9%D9%87-%D8%A2%D9%82%D8%A7%DB%8C-%D8%A8%D8%B7%D8%AD%D8%A7%D8%A6%DB%8C-%D9%87%D9%88%D8%B3-%D9%85/47878/>

There is no doubt that the combination of measures adopted by Tehran in response to sanctions will lead to new economic and trade dynamics in Iran and also potentially change the political outlook in the country. Fact is that Iran's top priorities will remain economic and technological development, as well as job creation. It is also certain that the government will continue to use its hard currency reserves to invest in labour-intensive sectors, such as agriculture and construction. As such, the expected growth in these sectors will help Iran to return to positive GDP growth in the next two years. Given that the agricultural sector remains free of sanctions, there is a huge potential for European companies. Fields such as agriculture, food, water, energy used in the agricultural sector and so on offer plenty of potential for European-Iranian co-operation even under the current political circumstances.

One other area that could offer ample opportunities to retain a degree of engagement for European business in Iran is energy efficiency. In general, Iran will focus on efficiency growth as a means of compensating for economic gaps. Europe has a lot to offer in various fields of efficiency and it needs to promote such cooperation proactively.

In conclusion, it can be argued that external pressure will slow down, but not stop Iranian developments; one should expect Iran to readjust and utilize its enormous resource potential and return to growth by 2021. In the long run, the main developments will make the Iranian economy more resilient and also build increased domestic capacity and regional connectivity.

In brief, the short-term impact of US sanctions on the Iranian economy has been disastrous, but there is a strong likelihood that the medium- to long-term consequences of these sanctions will make Iran economically and strategically less vulnerable.

4

THE US WITHDRAWAL FROM THE JCPOA AND THE POLITICS OF IRANIAN REGIONAL ENGAGEMENT

Rouzbeh Parsi

It has now been almost 18 months since the United States re-imposed its pre-JCPOA sanctions, in May 2018. Since then it has successively added new ones to the point that there seems to be little in or from Iran left to sanction. The stated policy is to exert »maximum pressure« on the Iranian economy in order to extract better concessions in a new future deal or, at a minimum, to box Iran in and curtail its regional activities. The notion that Iran has been emboldened by the JCPOA in its regional meddling has been a constant refrain of the critics of the deal, so often repeated that it eventually seemed self-evident.

This chapter will critically evaluate this proposition and how the US withdrawal from the agreement has affected Iranian regional policies, including by examining Tehran's approach to the Middle East in its proper historical and political context. The chapter argues that, rather than weakening and reducing Iran's footprint in the region, the US withdrawal from the JCPOA has fuelled Iranian bellicosity, which Tehran views as deterrence to counter Washington's »maximum pressure« campaign.

BACKGROUND: REVOLUTION, REALPOLITIK AND FADING IDEOLOGY

In 2019 the Iranian revolution had its 40th anniversary. Like all previous revolutions it has been a disappointment in a number of crucial, if predictable ways. Over time the fury and fire of the revolution have to a large extent subsided. During the 1980s the Islamic Republic and the people of Iran learned the hard way why revolutionaries tend to be a lonely bunch. Tehran alienated the United States, kept the Soviet Union at arm's length and challenged the neighbouring Arab monarchies, leaving it with no real allies and barely any country even willing to sell it arms. The 1980s was the hot phase of the revolution, when ideology and ideational purity were expected to, and quite often did, win out against pragmatism and hard-nosed realism. But inevitably the revolutionaries got comfortable and preferred predictability, re-evaluating the need for allies and working relationships with neighbours and the great powers.

Over the years the Islamic Republic has become more pragmatic, although at times it has compensated for this by turning up the revolutionary rhetoric. The relationship with Syria, which began as a marriage of convenience over shared hostility to Saddam Hussein's Iraq, has survived and flourished beyond what might be expected of two states with diametrically opposed ideological positions. Iranian support for Bashar al-Assad during the Arab Spring indicates the lengths to which Tehran is willing to go to safeguard allies that provide a strategic edge to its own defence. Syria's importance for Iran has grown as the latter's ambitions have gone beyond merely being able to sustain Hezbollah as an instrument of Iranian power projection directly in the Levant, especially towards Israel.

In short, the Islamic Republic is primarily guided by pragmatism rather than by ideology in pursuit of its goals. Its regional policy and ambitions are about securing its own survival and enhancing its position in the neighbourhood.¹ This does not mean that ideology² is irrelevant, but rather that the use of it, and the interplay of the producer and consumers of ideology, make a more complicated picture. Thus ideology should be viewed as an element that at times influences the perception of both its proponents and those who the ideologues consider enemies and allies. In this sense hardliners in Iran, who ostensibly have a very ideological view of the enmity with the United States, reinforce the ideological enmity of American hardliners for Iran. Their respective positions help reinforce their own identity and positioning within their respective political systems.

However, for those who think of ideology as a kind of political DNA that determines behaviour, the actual behaviour of states in general and Iran in particular becomes difficult to compute. In practice, ideology is one of many tools in the

¹ For an academic analysis in a similar vein see Barzegar and Rezaei (2017), »Ayatollah Khamenei's Strategic Thinking«, in: *Discourse: An Iranian Quarterly*, 11 (3) (Winter), 27–54.

² For a brief discussion of the difficulties involved in defining ideology see Michael Freedon (2006), »Ideology and Political Theory«, *Journal of Political Ideologies*, 11 (1), 3–22.

toolbox³ available to states and political elites and its use is never straightforward. It can justify decisions (or the lack thereof) and be employed tactically to engage and mobilize groups at home and abroad in order to further a specific objective. But it can also be allowed to fade into the background in order to allow political elite more leeway in pursuing political goals.

THE NATURE OF THE BEAST: IRANIAN POLITICS AND REGIONAL POLICIES

The issue at hand is what impact the JCPOA has had on Iranian regional politics, and what subsequent impact the US withdrawal and undermining of the same agreement has had on Tehran's regional behaviour. Many critics of the JCPOA have levelled three arguments against it with regard to its impact on Iranian foreign policy in the region:

1. They argue that the Obama administration ignored Iran's regional behaviour in order to be able to keep negotiating the JCPOA with Tehran.
2. They claim that once the deal was sealed it proved a financial windfall for Tehran, which in turn generated more destructive Iranian behaviour in the region.
3. Finally, in order to rectify this, the sanctions were re-imposed, which 18 months later begs the question: has Iran's regional behaviour been curtailed by means of US economic sanctions?

These arguments rest on a number of contradictory fallacies.⁴ First, they assume that Iran by definition wants to wreak havoc in the region. Second, that this, as it were, innate behaviour is directly correlated with Iran's financial situation, thus assuming that its relationship with various groups in the Middle East is purely transactional. Third, if Iran is not wreaking havoc it is seeking regional hegemony and thus anything less than a full-throttled boxing-in operation will leave Tehran opportunities to extend its influence and power in the region.

The principal problem with these fallacious assumptions is that they rest on a refusal to acknowledge the existence of politics in Iran. If there is no politics and political dynamics on the inside, then it can also not produce any logical, varied and nuanced politics for the external world. Thus, while Iran has regional ambitions and its own threat perceptions, and itself threatens others in various ways, none of these are due to an innate or ideologically driven set of characteristics that remain unchanged regardless of the passage of time.

Iranian actions are strongly influenced by power politics inside the system (*nezam*), for example, by how various elite groups in Tehran perceive threats against themselves and the system they are part of, both domestic (other elite groups) and external, such as from the United States. By and large, systemic threats and opportunism are more influential on Iranian policymakers than money. The consequences of the US withdrawal from the JCPOA on Iran's engagement in the Middle East needs to be examined against this backdrop rather than on the simplistic assumption that financial troubles constrain Tehran's involvement in the region.

If Tehran is affected by politics rather than innate compulsions and principles, so is Washington. The Obama administration did not give Iran a free hand in the region as a payoff for negotiations. President Obama tried to rethink how to deal with the Middle East in an attempt to extricate the United States from the costly conflicts in Iraq and Afghanistan. In order to do this, he needed to address the unrealistic expectations of both Israel and Saudi Arabia on what kind of resources the United States was willing to expend on maintaining the status quo in the region.

Hence Obama stated that US allies in the Persian Gulf and Iran »need to find an effective way to share the neighbourhood and institute some sort of cold peace«.⁵ Thus the long painful debate inside the administration on intervening in Syria was about what could be achieved and the risk of getting bogged down in a never-ending conflict with many losers and no clear winner. Deferring to Tehran did not come into the picture.⁶

REGIONAL DYNAMICS: CHANCE AND STRATEGY

The Islamic Republic has consistently stated that all regional issues should be resolved by the countries of the region themselves. This has obviously been aimed at the US alliance with several Arab countries, which after the 1991 war with Iraq also entailed the presence of US forces in the Persian Gulf. Today Iran is in many ways surrounded by US bases of various kinds and sizes in neighbouring countries. This Iranian position has never been accepted by any of the Arab states with good relations with the United States and will not be for the foreseeable future.⁷ That being said, it is clear that any kind of regional détente will have to entail both components: comprehensive participation by all Persian Gulf states (unlike the GCC that coalesced around a common enmity with Iran, and later Iraq) and support and buy-in from global actors such as the United States, Russia and China. The EU could be added to this group if it manages to coalesce around a focussed and consistent policy

³ The toolbox metaphor is used by Ann Swidler in her classic article on culture, but is equally relevant here. See Ann Swidler (1986), »Culture in Action: Symbols and Strategies«, *American Sociological Review*, 51(2), 273–286.

⁴ On the structural problems of »reading Tehran« in Washington, see <https://www.jadaliyya.com/Details/39946>

⁵ <https://www.theatlantic.com/magazine/archive/2016/04/the-obama-doctrine/471525/>

⁶ Ben Rhodes (2019), *The World as It Is. A Memoir of the Obama White House*. Random House.

⁷ See <https://www.iai.it/en/pubblicazioni/uneasy-balance>

and enforce discipline among the member states (especially the larger ones) in pursuit of it.

Iranian positions and lofty ambitions aside, the single most important thing that has enhanced Tehran's position in the region is the aftermath of the US invasion of Iraq in 2003. At the beginning of the invasion Tehran was seriously worried that it would be next on the American list. High ranking US officials said as much.⁸ But the swift military victory was followed by an incredibly amateurish and clumsy management of the occupation of Iraq and the many missteps of the US occupation authorities created vacuums on all kind of levels in Iraqi society and state institutions. This provided Tehran with an opportunity to both aid the Iraqi Shi'a opposition groups it had hosted and supported during the 1980s and 1990s as they returned to Iraq, as well as forge new relationships with other potential contenders in the increasingly free-for-all power game in Baghdad and elsewhere. Simply put, Tehran had its favourite horses in this race but tried where possible to make a bet on all contenders, the idea being that whoever was to succeed in Iraq would have a relationship with Tehran. This would all but guarantee that there would be no new strongmen in Baghdad embarking on military adventures against Iran. The many ups and downs of the political developments in Iraq do not allow for a simple binary assessment of this strategy, but more than 15 years after the US invasion it is clear that Iran has established enough links with various Shi'a and Kurdish groups that its positions and wishes cannot be ignored in Iraqi politics. To be clear: this is not a simple top-down and clientelist relationship in which Iran always gets its way or owns all the various militias that now dot the Iraqi geographical and political map, but it is undoubtedly the single most influential outside player in the game.

STRATEGIC DEPTH BEYOND IRAQ: SYRIA AND YEMEN

The heavy involvement in the Syrian conflict since 2011 has meant that regular Iranian forces are now active in Syria, directly facing not only a set of Syrian rebel groups of varying Islamist persuasions, but also Israel. This may have been tactically opportune but could turn out to be strategically costly because it puts Iran in direct military confrontation with Israel. The Israeli leadership has stated that it will not tolerate an Iranian presence close to its border and has followed through by bombing targets inside Syria and killing Iranian military personnel. There are also strong indications that Israel is actively attacking Iranian-backed militias in Iraq, thus making both Syria and Iraq potential battlegrounds for a direct confrontation between the two countries.⁹ Conversely, the question is how far Tehran is willing to accept

such Israeli attacks before a lack of response to them undermines Iranian credibility.

In addition, Syria has grown in importance in Iranian domestic politics. Syria is, especially since the beginning of the Arab Spring, part of an IRGC portfolio that they rhetorically – and politically in the fight with the Rouhani administration – have elevated to one of existential magnitude for the Islamic Republic.

Iran is now heavily and intimately involved in the whole chain of Syria's military capacities and organizations. This has also had two subsequent consequences whose full effects are yet to be seen. The Syria endeavour has required the IRGC to go beyond its already proven tactics of supporting militias and to engage in guerrilla warfare. Thus in the medium term the war in Syria might turn out to have provoked an evolution of military thinking in Iran. Whether this can overcome the military hardware and technology disadvantage that Iran still suffers from remains to be seen. The other consequence is the much closer and open cooperation with Russia. When it was revealed in August 2016 that Russian jet fighters had used the Hamadan air base for refuelling during missions in Syria this caused consternation and furore in political circles in Tehran.¹⁰ While the cooperation with Moscow in Syria was openly acknowledged at that point, the idea of Russian – or foreign in general – military units operating from Iranian soil was very sensitive as it evoked twentieth-century dependencies on Russia, Great Britain and the United States (§146 of the 1979 constitution of the Islamic Republic forbids the establishment of foreign military bases in the country). Iranian military officials quickly retreated and assured the public and parliamentarians that this would not be repeated. In early 2017 it was, however, acknowledged that Russian military aircraft had been allowed to use Iranian air space on their way to Syria. In 2019 a memorandum of understanding on joint naval exercises was signed between the two countries. The military dimension of the cooperation between Russia and Iran is thus deepening (while Moscow is certainly hedging its bets in the Middle East, deepening relations with all relevant players).

The Yemen conflict shows that Iran is capable of applying its strategy of confronting enemies on their own doorstep rather than its own to its regional competitor Saudi Arabia. But it is also clear that decision-makers in Tehran underestimated the influence of Muhammad bin Salman and Muhammad bin Zayed on Trump and the synergy effect of this constellation for the confrontation between Tehran and Washington. The May and June incidents in the Straits of Hormuz and the attacks on Saudi oil installations in September 2019 were instructive concerning the interplay between the different actors. Tehran exhibited its deterrence capabilities by using mines against vessels and shooting

⁸ David Hastings Dunn (2007), »Real Men Want to Go to Tehran: Bush, Pre-Emption and the Iranian Nuclear Challenge«, *International Affairs* (Royal Institute of International Affairs 1944–), 83 (1).

⁹ <https://www.al-monitor.com/pulse/originals/2019/08/israel-us-iran-iraq-gulf-states-airplane-deal-sunni-shiite.html>

¹⁰ <https://www.dw.com/en/russian-jets-using-iranian-air-space-for-strikes-into-syria/a-37509688> , <https://www.al-monitor.com/pulse/originals/2016/08/iran-russia-syria-hamadan-airbase-fighter-jets.html>

down an advanced US drone. Whether it was behind the September attacks against the Saudi installations is almost moot – they are certainly believed to be the culprits.

The technological and military sophistication of this latest attack fits a pattern in which Tehran tries to indicate to Trump that continued confrontation and pressure on Iran could lead to war and that this would be costly for the United States, despite its conventional military superiority. This deterrence could be, and often is, read as escalation, which in this case would usually have triggered an equally kinetic US reaction. For some parties, for example, former US National Security Advisor John Bolton, this would be the desired response – whether he believes it would lead to fully fledged war or an Iranian full retreat. In this regard Bolton probably had supporters in Riyadh and Abu Dhabi,¹¹ but Trump's relatively muted reaction¹² and his earlier impromptu retreat from Syria has made clear to even his closest allies that he is anything but steadfast in his thinking and positioning. Abu Dhabi in particular has therefore pulled back from the brink of full confrontation with Iran by changing its stance in the Yemen conflict and by reaching out to Tehran. This has so far resulted in meetings on multiple levels which hopefully indicates that the outreach to Tehran is serious and being taken seriously there.¹³

The attacks on Saudi oil installations and refineries show that the Saudi deterrence, involving massive spending on US military equipment, is not effective and that with relatively cheap hardware Iran and/or the Houthis are able to cripple Saudi oil production and market credibility.

As a show of Iranian capabilities and deterrence the intended effect is likely to strengthen Tehran's hand in any upcoming attempts at negotiations between them and Washington. The actual effect might just as well be that it is seen as a provocation that requires a robust response, including military force. In short, one party's deterrence is read as an escalation by the other party. Even when trying to avoid war they may, inadvertently, make one more likely.

The withdrawal from Syria, especially the abrupt abandonment of the Kurds and Arabs in the north-eastern part of the country and Trump's unwillingness to confront Iran, come what may, indicate that he is still intent on keeping his election promise of not getting the US involved in more military conflicts in the Middle East. While he is willing to use economic means and covert operations of various kinds, he understands the involvement of US troops in the Middle East to be a serious danger to his chances of being re-elected President. In this sense he is keen to avoid getting entangled in an actual war with Iran, and much more interested in »besting«

Obama by reaching a »better deal« with Tehran. The problem is of course that he is seriously underestimating the damage he did to American credibility by breaking the JCPOA and just how unreliable he is considered to be as president, both in Tehran and elsewhere. The withdrawal from Syria made clear to US allies in a very brutal way that Trump's decision-making is based solely on his own priorities and that they would repeatedly be left to assess the fall out and repercussions of these decisions for themselves.

SANCTIONS, THE STYMIED MONEY FLOW AND IRANIAN FOREIGN POLICY

As already mentioned, one of the main complaints about the JCPOA (often repeated by Trump and others) is the supposed financial windfall for Iran subsequent to signing and that this windfall would enhance Iran's regional activities.

There is, however, little evidence that the JCPOA acted as a political incentive or financial enabler of Iran's regional political and military activities. The commitments to Syria and Iraq preceded the negotiations and signing of the agreement and are strategic in nature. Being an indispensable player in the ever-volatile Iraqi political game has been a key objective of Tehran since the US invasion of Iraq in 2003. Iran's investment, politically and financially, in Iraq precedes and supersedes the JCPOA. Iraq represents strategic depth for Iran apart from everything else and the relationships and investments made are in many ways now self-sustaining.

The Trump administration's attempt at economic warfare has had a severely negative effect on the Iranian economy, particularly on the state's ability to make a profit from exports, that is, in hard currency. Undoubtedly, this has to some degree also percolated through to what it can contribute to its regional allies such as Syria and Hezbollah.

But the 16 billion¹⁴ USD that the US State department claims Iran has spent on Syria and other theatres since 2012 does not amount to much compared with the Iranian state's overall financial capabilities. To this should be added that, besides the Iranian state, there are also religious foundations and IRGC financial assets that invest in Iraq and Syria, irrespective of the pressure on the state.

Thus one could conclude that US policy is seriously hampering Iran's regional policies only based on the faulty premise that these allies are wholly financially dependent on Iran and that this Iranian commitment has been severely weakened. Assad still rules what are now the desolate ruins of Syria and would not have been able to do so without Tehran's help.

¹¹ Bolton's warning to Iran in this regard was made when visiting Abu Dhabi on 30 May 2019; <https://www.apnews.com/0fdeb73fd37a4ec392b67d9fec550b52>

¹² <https://www.nytimes.com/2019/06/20/world/middleeast/iran-us-drone.html>

¹³ <https://www.al-monitor.com/pulse/originals/2019/08/iran-uae-heightened-regional-tension-deescalation.html>

¹⁴ <https://www.state.gov/wp-content/uploads/2018/12/Iran-Report.pdf>

CONCLUSION

Iran's regional policies consist of more continuities than breaks (even going back to the Pahlavi monarchy¹⁵), determined by the country's geopolitical position and the decision-makers' frameworks of understanding, which do not change easily or quickly. The JCPOA was the first step in clearing a new path that in the long term would have changed Iran's position in the world and the posture and self-understanding of the Iranian political elite and population at large. In this regard it had potential that did not come to fruition because the United States violated its commitments under the agreement.

Thus the disappointment of the US withdrawal and subsequent belligerent stance of the Trump administration has done more to engender Iranian bellicosity (which they themselves view as deterrence) than the original nuclear agreement ever could. The situation is now more unstable than it was with the JCPOA intact and will likely remain so until a new *modus vivendi* can be achieved, something that is unlikely to happen with Trump as president.

For the EU the core problem is how to manage the relationship with the United States under Trump, within the framework of which the JCPOA is a key element making painfully clear just how far apart the allies are, but also how structurally dependent the EU is on the United States in terms of matching foreign and trade policy. In this regard the EU needs to step up its efforts to put stop gap measures in place in order to salvage the JCPOA to whatever extent possible, while it slowly designs and builds trade instruments that will make it more independent of the existing financial networks, which presently are wholly at the mercy of Washington.

Tehran needs to be criticized for some of its reckless regional policies, but doing this while remaining unable to defend the JCPOA effectively will further erode the EU's credibility as a foreign policy actor and make its participation in multilateral attempts to save the situation moot. The EU's credibility in Tehran has steadily declined over the past two years due to the inability of the E3 to devise and hold fast to a consistent policy of how to defend the JCPOA from US attempts at sabotage. At times it has seemed as if the larger strategic ramifications of European inability to uphold an independent trade and foreign policy on this issue have been lost. Without tangible steps with clear and immediate dividends the EU will not be able to repair this damage and shore up its political autonomy and credibility, and by extension help the parties avoid a larger conflict by returning to the negotiation table.

15 <https://lobellog.com/is-iran-abnormal/>

5

SANCTIONS IN SEARCH OF A STRATEGY – US POLICY TOWARD IRAN

Barbara Slavin

In the long history of animosity between the United States and the Islamic Republic of Iran, sanctions have been Washington's tool of choice. Less risky than military strikes, these multi-layered economic penalties have isolated Iran from the international community, reduced revenues that might have fuelled Iran's regional ambitions and distorted an Iranian economy already dominated by the state.

In terms of altering objectionable Iranian policies, however, sanctions have worked only when they have been truly multilateral and in the service of clear and limited goals. Thus US measures, combined with UN and European Union sanctions, incentivized Iran, in the lead-up to the 2015 Joint Comprehensive Plan of Action (JCPOA), to accept stringent limits on its nuclear programme. In contrast, more draconian actions, bordering on economic warfare, that have been taken unilaterally by the Trump administration since 2018 have failed to produce positive results.

The resumed US sanctions, while severely hurting ordinary Iranians, have not deprived their government of the capability to produce a nuclear weapon and have instead pushed Iran to exceed the limits laid down in the JCPOA to keep it from amassing sufficient fuel for such weapons. Coupled with other US actions, especially the 2003 invasion of Iraq, sanctions have also failed to reduce Iran's regional footprint, scale back its development of ballistic missiles or convince the Islamic Republic to treat its own population more humanely. If anything, decisions made by the Trump administration with the support of its regional allies – especially the US withdrawal from the JCPOA while Iran was in full compliance – have undermined sanctions as a diplomatic tool, strengthened those in Tehran who never believed in engagement with the United States and encouraged more aggressive Iranian policy choices.

A FOUR-DECADE HISTORY OF US–IRAN SANCTIONS

The United States first imposed sanctions on Iran on 14 November 1979, freezing Iranian government assets in the United States in response to Iran's seizure of the US embassy and US diplomats. The following April, as the hostage

crisis continued, President Jimmy Carter blocked most US trade with Iran. The trade restrictions were lifted in 1981 after the hostages were freed, but several hundred million dollars in Iranian assets remained frozen and subject to arbitration by a panel in The Hague. Other sanctions forbidding the sale of US arms or dual-use items to Iran were added in 1984, when the State Department first designated Iran a state sponsor of terrorism following bombings by Iran-backed terrorists in Beirut that killed hundreds of American and French diplomats and military personnel.

In 1995, the Clinton administration banned most US trade with and investment in Iran under pressure from Israel and its supporters in the US Congress angered by Iranian support for radical Palestinian factions that had carried out suicide bombings in Israel. While US sanctions were initially imposed through executive orders, Congress eventually codified these penalties. The first major legislation was the Iran Libya Sanctions Act (ILSA) of 1996, which threatened foreign companies investing large sums in Iran's (and at the time, Libya's) energy sector. These so-called secondary sanctions were not implemented at the time, but were resumed to much greater effect in the 2000s after Iran was found to have a more advanced nuclear programme than previously disclosed.

Major US legislation against Iran currently in force includes the Comprehensive Iran Sanctions, Accountability and Divestment Act (CISADA) of 2010, which threatens to penalize foreign banks that deal with entities connected to Iran's Islamic Revolutionary Guards Corps (IRGC) and the National Defense Authorization Act for fiscal year 2012, which extended sanctions to Iran's Central Bank, with a carve-out for oil importing countries that »significantly reduced« oil purchases over time. Hundreds of individuals and entities connected to Iran have been sanctioned as well. These designations were largely lifted by the JCPOA, but have since been re-instated and expanded.

In May 2018, parallel to its withdrawal from JCPOA, the United States began to re-impose all nuclear-related sanctions against Iran. Washington also added further sanctions in an attempt to exert »maximum pressure«. In the spring of 2019, the Trump administration announced that it would no longer grant any waivers for Iranian oil exports in an at-

tempt to impose a total embargo on Iran's main source of hard currency revenue. In addition, the administration designated the IRGC a foreign terrorist organization, the first time the military of another nation has been so stigmatized. In June 2019, the United States also sanctioned Iran's Supreme Leader, Ayatollah Ali Khamenei. In July, Iranian Foreign Minister Mohammad Javad Zarif – who presumably would be Iran's chief negotiator in any new talks with the United States – was also designated on the ground that he »implements the reckless agenda of Iran's Supreme Leader, and is the regime's primary spokesperson around the world«.

WHY TRUMP'S SANCTIONS HAVE FAILED TO ACHIEVE POSITIVE RESULTS

This millefeuille of sanctions has not yet changed Iranian policies in ways beneficial to the United States or its allies. Instead, Iran has reacted by exceeding limits set in the JCPOA, shooting down a US drone and allegedly sabotaging tankers and oil infrastructure in the Persian Gulf. It has said it would return to negotiations if the United States eased its embargo on Iranian oil exports.¹ In the absence of such relief, however, Iran has little incentive to stay within the confines of the agreement and further provocative steps are likely.

There are many reasons why US sanctions have not been effective from a diplomatic standpoint.

Confusion over US Goals

The Trump administration has enunciated a variety of objectives for sanctions; they may vary depending on who is speaking. Secretary of State Mike Pompeo, for example, has enumerated 12 demands² for Iran to behave like a »normal nation« that include an end to Iranian regional military intervention and ballistic missile development, while President Trump has at times suggested that his only concern is that Iran never be able to possess a nuclear weapon.³ Trump has shown reluctance to send US troops to the Middle East to confront Iran and its partners, leading regional allies to question Washington's resolve, while at the same time threatening Iran with »obliteration«.⁴

Trump asserts that he is willing, even eager, to talk to the current Iranian government, but his senior aides have made numerous statements supporting regime change. His former national security advisor John Bolton, a long-time Iran hawk and harsh critic of many arms control agreements, has accepted financial support from the Mujaheddin-e Khalq (MEK),⁵ a militant exiled Iranian opposition group

previously branded a terrorist organization. In 2017, shortly before he joined the Trump administration, Bolton told an MEK rally in Paris: »The declared policy of the United States should be the overthrow of the mullahs' regime in Tehran.«⁶ Under Pompeo, meanwhile, the State Department changed long-standing talking points to no longer exclude the MEK as a »viable alternative«⁷ to the current Iranian government. The State Department has also given direct support to other diaspora organizations, including a now-discontinued website, IranDisinfo, that disparaged Iranian Americans and others critical of the Trump administration's policies.⁸ Pompeo, a politically ambitious former Congressman from Kansas, is reportedly considering running for the Senate⁹ and is extremely solicitous of support from right-wing evangelical Christians, who see Iran as an implacable enemy of Israel and the United States.

Bureaucratic Merry-Go-Round

As of this writing, President Trump has already had four national security advisers and two secretaries of state, an unusual turnover in the first term of an American administration. Trump routinely disparages those who remain in his government and changes positions seemingly on a whim. Add to this the looming 2020 US presidential elections and the inquiry into a possible impeachment of the president and Iran is understandably ambivalent about re-engaging when there is a chance that Trump would renounce a new agreement even if one could be reached or that he will be removed from office.

In Iran, in contrast, Khamenei has been supreme leader for 30 years and the head of the IRGC Qods Force, Qassem Soleimani, has held that post since 1998. President Hassan Rouhani, Foreign Minister Zarif and Ali Shamkhani, the head of Iran's Supreme Council on National Security, have all held senior positions in the Islamic Republic for decades.

Fool Me Once

The experience of seeing the JCPOA shredded by the successor to the US administration that negotiated it has compounded Iranian distrust of US promises and strengthened elements in Iran that have never believed engagement with Washington would benefit the regime. Absent concrete US concessions or a change of administration in Washington, it is hard to see Iran returning to, let alone extending or expanding upon, its JCPOA commitments. Unlike Trump, Iranians see little point in talks for talks' sake; Zarif, for example, rebuffed a reported offer to meet with Trump in the Oval Office without proper preparation and promises that the United States would freeze, if not roll

1 <https://www.nbcnews.com/news/mideast/door-wide-open-negotiation-if-trump-lifts-his-sanctions-iran-n1030021>

2 <https://www.state.gov/after-the-deal-a-new-iran-strategy/>

3 <https://twitter.com/realdonaldtrump/status/1142506680300789761>

4 <https://twitter.com/realdonaldtrump/status/1143529907403788288>

5 <https://www.middleeasteye.net/big-story/Iranian-MEK-US-terrorist-halls-congress-PMOI-Iran>

6 <https://www.youtube.com/watch?v=hTMh24qlyQA&feature=youtu.be&t=4m17s>

7 <https://www.al-monitor.com/pulse/originals/2019/03/us-government-no-longer-excludes-mek-alternatives-iran.html>

8 <https://www.independent.co.uk/voices/us-iran-sanctions-journalist-exile-state-department-twitter-a8949401.html>

9 <https://www.apnews.com/fbc55a6d6e6f40eba760c8d58a720b35>

back, sanctions.¹⁰ Rouhani has also rejected repeated overtures for a North Korea-like summit with the US president. At the UN General Assembly in September 2019, Rouhani refused to participate in a three-way phone call with Trump and French President Emmanuel Macron unless Trump first announced his willingness to ease sanctions in accordance with a French plan for new negotiations.

The Role of the Sanctions »Industry«

Since the terrorist attacks of 11 September 2001, the United States has increasingly weaponized its dominance of the international financial system. The US Treasury Department created a special office to deal with »terrorism financing«. Working with the State Department and Treasury's Office of Foreign Assets Control (OFAC), the United States frequently designates individuals and entities for their alleged support of terrorism. Although Iran was not responsible for the 2001 attacks, its connections to groups on the US State Department's terrorist list, especially Hezbollah and Hamas, have put it in the crosshairs of sanctions proponents.

Several thousand Americans, with many counterparts around the world, now specialize in sanctions compliance and enforcement, part of a growing and lucrative industry. In addition, non-governmental organizations, such as the Foundation for the Defense of Democracy,¹¹ have become active participants, providing lists of new entities and individuals to designate. A revolving door between such groups and the US government creates a symbiotic relationship, whereby a pro-sanctions agenda has been promoted under both Republican and Democratic administrations. Under existing laws, however, designations can be revoked if the target changes behaviour or sanctions are no longer deemed to be in the interest of US national security.

SANCTIONS SPUR IRANIAN »RESISTANCE« AND REGIONAL INTERVENTION

One apparent goal of US sanctions is to weaken the Iranian economy and thus reduce Iran's ability to project power in its neighbourhood. The sanctions have collapsed the Iranian currency and pushed the country into recession. But Iran has compensated by dipping into hard currency reserves, producing goods at home and increasing trade with neighbours.¹² Iran is also strengthening ties with both Russia and China.

Despite sanctions – perhaps in some ways because of them – Iran has continued its intervention in four key Arab countries – Lebanon, Syria, Iraq and Yemen – as well as in its eastern neighbour, Afghanistan. Indeed, according to

sanctions and Iran expert Kenneth Katzman, Iran's regional influence has grown over the past decade despite two periods of intense US-led sanctions.¹³

Iran remains the key partner of Hezbollah in Lebanon, has helped to beat back challenges to the Assad regime in Syria, is deeply involved in Iraq and supports the Houthis in Yemen. Iran has also renewed its support for Hamas.¹⁴ Despite being the object of an arms embargo, Iran has also developed increasingly lethal weapons systems, according to the US intelligence community,¹⁵ that include advanced naval mines and ballistic missiles, small submarines, armed unmanned aerial vehicles, coastal defence cruise missile batteries, attack craft and anti-ship ballistic missiles. Iran finally took delivery of the Russian S300 air defence system in 2016 and shot down an expensive US drone in June 2019 using its own technology. Iran was also blamed for pinpoint attacks on major Saudi oil installations that temporarily disrupted more than half of Saudi oil production. In addition, Iran has developed increasingly sophisticated cyber capabilities.

Despite anecdotal evidence that some Iranian partners are short of cash, none have lost influence in their areas of operation. Indeed, as the war in Yemen has dragged on into its fifth year, the United Arab Emirates has withdrawn forces from the country, leaving Saudi Arabia as the main external adversary of Iran-backed Houthis. Iran's relations with long-time and newer partners appear to have a firmer footing than cash alone and in any event are relatively low-cost. Increasing external pressure only incentivizes Iran to firm up these alliances and encourages Iran's partners to consolidate ties with Tehran.

SANCTIONS INCENTIVIZE CIRCUMVENTION TOOLS

The Trump administration's attempt to force the rest of the world to adopt its Iran policy is incentivizing other countries to devise ways around US sanctions. China, for example, has continued to purchase varying amounts of Iranian oil despite the US sanctioning of several of its trading companies. An economy of China's size can easily create companies that do not do business in the US market; the US–China trade war gives China an added motive to defy Trump administration diktats.

The European Union and especially the E3 – Britain, France and Germany – have also tried to salvage the JCPOA by compensating Iran for the loss of European trade. The EU has created a special vehicle called INSTEX (Instrument in Support of Trade Exchanges) to facilitate euro-denominated trade, initially in food and medicine. The effort has been

¹⁰ <https://www.newyorker.com/news/news-desk/irans-foreign-minister-invited-to-meet-trump-in-the-oval-office>

¹¹ <https://www.theatlantic.com/politics/archive/2019/08/mark-dubowitz-fdd-iran/597043/>

¹² https://www.atlanticcouncil.org/images/publications/How_Iran_Will_Cope_with_US_Sanctions.pdf

¹³ <https://www.atlanticcouncil.org/blogs/iransource/under-us-sanctions-iran-regional-influence-grows>

¹⁴ <https://en.radiofarda.com/a/iran-boosts-aide-to-hamas-to-360-million/30096338.html>

¹⁵ <https://www.dni.gov/files/ODNI/documents/2019-ATA-SFR---SSCI.pdf>

undercut by US mixed messages about possible sanctions. At a conference in Poland in February 2019, US Vice President Mike Pence harshly criticized INSTEX as »an ill-advised step that will only strengthen Iran, weaken the EU, and create still more distance between Europe and the United States«. Pence urged »our European partners to withdraw from the Iran nuclear deal and join with us as we bring the economic and diplomatic pressure necessary to give the Iranian people, the region and the world the peace security and freedom they deserve«. ¹⁶ Other administration officials have suggested, however, that they would not go after INSTEX as long as it dealt only in humanitarian goods. ¹⁷

A variety of foreign leaders, including Japanese Prime Minister Shinzo Abe and French President Macron, have tried to convince Iran to remain in the JCPOA and rejected US pressure to join in the »maximum campaign«. Zarif, visiting New York in July 2019, offered immediate ratification of the Additional Protocol permitting intrusive inspections if the United States would legislate the sanctions relief promised under the JCPOA. ¹⁸ Macron went so far as to invite Zarif to the side-lines of a G7 summit and proposed a \$15 billion credit for Iran. ¹⁹ But so far, there have been no concrete results and the escalatory spiral continues.

IRAN AS A DOMESTIC US POLITICAL ISSUE

Iran, it can be argued, has been a partisan political issue in the United States since the Barack Obama administration failed to get a single Republican vote in support of the JCPOA when it came under Congressional scrutiny in the summer of 2015. That polarization has increased since the Trump administration withdrew from the deal and began re-imposing sanctions on Iran.

Trump's domestic allies are strongly tilted in favour of the hawkish views of Israeli Prime Minister Benjamin Netanyahu, a long-time opponent of the JCPOA. US Democrats, on the other hand – including some who in 2015 criticized the JCPOA as insufficient – have largely coalesced behind the deal. Democratic candidates for president have vowed to either return to the JCPOA or to quickly enter into new negotiations with Iran. The shaky state of the deal is likely to complicate such talks, however, and success can hardly be assured.

Meanwhile, Iran will also be facing presidential elections only a few months after the inauguration of a new US president or of Trump for a second term. Even if Trump is re-elected, it will take time for him to assemble a new for-

eign policy team. Thus negotiations on a new agreement might have to wait until the middle of 2021 at the earliest. This hiatus could make the role of other countries, especially in Europe, key to maintaining dialogue with Iran and de-escalating tensions.

OUTLOOK: LESSONS LEARNED FROM THE JCPOA

The experiences of the past few years have exposed weaknesses in the JCPOA that should be addressed in future negotiations.

Reducing Reliance on Executive Orders

President Obama used his executive authority to suspend sanctions against Iran because Republicans had majorities in both houses of Congress and they presented a united front against the JCPOA. A future president, perhaps with a more favourable partisan balance on Capitol Hill, could instead introduce legislation that removes specific sanctions in return for specific Iranian concessions. This would require only a majority vote for passage, not the two-thirds majority in the Senate needed to ratify a formal treaty.

A Longer Time Frame

Many critics of the JCPOA objected to what they saw as insufficiently long-term commitments by the Iranian government to forswear large stockpiles and technologies that could allow it to quickly »break out« and develop nuclear weapons. In new negotiations, Iran could be asked to extend by another 10 years, to 2040, its JCPOA commitment to limit enrichment to under 5 per cent U235. Iran could also pledge never to reprocess plutonium, a by-product of a heavy-water reactor under construction at Arak, and never to enrich uranium at its underground facility at Fordow. In return, however, the United States would have to legislate more extensive sanctions relief, including removing sanctions on Iran's interaction with the international financial system.

A Regional Framework for Non-proliferation

Ideally, nuclear restrictions on Iran should be part of a regional framework. The United States and the rest of the P5 should encourage the creation of a regional forum on non-proliferation, which could also impose verifiable curbs on the development or acquisition of ballistic missiles capable of carrying weapons of mass destruction. Iran has long complained that it is being singled out for restrictions and that non-proliferation norms should be more widely applied. Efforts could begin among Iranians and Arabs, leaving aside, for now, Israel's undeclared nuclear weapons until and unless Iran agrees to recognize and sit down with Israeli officials.

Regional Conflict Resolution

Negotiating a JCPOA 2.0 should not exclude redoubled efforts to resolve regional conflicts, particularly the war in Yemen. The E4 (Britain, France, Germany and Italy) has already held discussions on Yemen with Iran, which can be

¹⁶ <https://www.apnews.com/edb531aeea264f5682b4ebe82bdb3414>

¹⁷ <https://www.politico.com/story/2019/07/07/trump-iran-nuclear-north-korea-1399406>

¹⁸ <https://www.theguardian.com/world/2019/jul/18/iran-nuclear-deal-trump-mohammad-javad-zarif-sanctions>

¹⁹ <https://www.nytimes.com/2019/09/02/world/middleeast/iran-france-nuclear-deal.html>

expanded to include Arab parties to the conflict, as well as the United Nations and the United States.

Bilateral Improvement in Ties

The United States and Iran should reach an agreement to swap prisoners and Iran should accept a US interests section in Tehran comparable to the one Iran has in Washington, DC. Remaining financial claims dating back to the 1979 revolution should finally be resolved.

Ultimately, the United States and Iran must move toward normalization of relations and end a four-decade period of estrangement that has hurt both countries and undermined regional stability and global peace. Negotiating a JCPOA 2.0 on a firmer footing could lead to détente, which would finally allow Iran to resume its proper place in the international community, end a destructive arms race in the Middle East and let the US scale back its large military presence on Iran's borders. Recognizing that this is an ambitious goal should not deter diplomats from trying. The alternatives are all far worse.

6

EUROPEAN–IRANIAN INTERACTION IN THE QUEST TO SAVE THE NUCLEAR AGREEMENT

Adnan Tabatabai

The Joint Comprehensive Plan of Action (JCPOA) is in a shambles. The decision by US President Donald Trump to pull the United States out of the accord in May 2018 may bring about the end of a diplomatic achievement that was not given enough time to develop and advance its political momentum. Since August 2018, the US government has been re-imposing nuclear-related sanctions, and has indeed significantly broadened the sanctions regime imposed on Iran in what it has coined the »maximum pressure« campaign.

After a year of continued full JCPOA implementation despite the US withdrawal, in May 2019 Iran decided to gradually scale down its compliance. Hopes in Tehran that continued implementation in the name of »strategic patience« would incentivize the remaining parties to ensure Iran gets its end of the bargain – namely economic relief and normalization of trade – were dashed. The logic behind Iran's strategic action since 8 May this year is that only through gradual escalation and a real risk of Iran withdrawing from the agreement would encourage Europe to put more effort into safeguarding it.

The most recent European effort to save the JCPOA is an initiative led by French President Emmanuel Macron. At its core, this initiative foresees a \$15 billion credit-line for Iran in an attempt to provide it with hard currency during a period of comprehensive US sanctions that have cut Iran's access to revenues stuck in frozen bank accounts abroad. Macron hopes to convince the Iranians to resume full implementation of the JCPOA with a credit-line that would enable them to revitalize their damaged economy. It is also hoped that this credit-line will breath life into INSTEX, a transaction channel set up in early 2019 by the E3 (Germany, the United Kingdom and France) to shield European–Iranian trade from US sanctions, focusing initially on so-called humanitarian goods. Only one \$4 million transaction has been processed through this mechanism so far – mainly because the United States has threatened to sanction not only this Germany-led entity but also any individual and company that uses this transaction channel.

But the French initiative goes beyond considerations about the JCPOA. It ultimately aims at bringing Iran and the United States to talk to one another. To this end, Macron has

laid out four key points to be pursued: (i) Iran should never possess a nuclear weapon or nuclear weapon capability; (ii) short-term efforts should be made to end the war in Yemen; (iii) talks should commence on a general security framework for the Persian Gulf region, including discussions about Iran's missile programme; and (iv) economic sanctions on Iran should be lifted.

In essence, Iran has responded positively to the four core points, and Macron has so far managed to keep President Trump on board when raising the idea of a possible deal with Iran. However, this initiative so far lacks a clear vision of how these four points can be sequenced. Iran expects sanctions to be lifted first before entering into any form of talks with the United States. For Trump this is a non-starter. But neither side has rejected Macron's four-point plan altogether, which, under the current circumstances, can be viewed as a promising sign.

One aspect which is telling, however, is that this is more of a French than a European effort. Macron certainly invited German and British leaders to join discussions with Iran's foreign minister Javad Zarif at the G7 in Biarritz. But both Iran and the United States see this initiative as being primarily a French initiative.

At a time of transatlantic rift on the JCPOA, and in a policy area to which the EU has dedicated its globally limited political weight, it would have been a much stronger signal if such an initiative had been forward at least by the E3 jointly, if not by the EU, instead of as a personal effort on the part of Macron.

Overall, when following the debates in Tehran and in European capitals one thing becomes increasingly clear: the convergence of interests related to the finalization of the nuclear agreement is far from not robust enough to develop a joint strategy to rescue it. If President Hassan Rouhani is to be believed, Europe will be given until the end of 2019 before Iran resorts to measures that will be irreversible (for example, a significant increase in nuclear research and development activities). Nor will there be any appetite left in Tehran to indicate to Europe that it is willing to return to full implementation if only all parties lived up to their obliga-

tions. The French initiative must be seen as Europe's last chance, and President Emmanuel Macron as the »last man standing«. Should this initiative, which differs from previous strategies in that it seeks US approval, fail, it might very well constitute the end of the nuclear agreement.

In order to try to understand how, in the little time remaining, Europe and Iran could successfully join forces to save the JCPOA it is important to recall what made them sign the agreement in the first place, and to recap what has gone wrong so far and why.

WHY EUROPE AND IRAN CONCLUDED THE JCPOA

On the part of Europe, four key incentives can be highlighted as the main drivers of its pro-agreement engagement:

1. Security-related considerations. In fact, Europe was worried about two related risks: an Iranian nuclear bomb and/or military intervention to thwart Iran's nuclear ambitions, which could have resulted in another war in the Middle East. A diplomatic solution to the nuclear dispute would prevent both, European leaders argued. After all, Iran would scale down the scope and increase the transparency of its nuclear program. Unlike what is often discussed, there is no sunset clause to this particular obligation for Iran. The additional protocol, which according to the JCPOA, Iran is scheduled to ratify in parliament in 2023, would ensure inspections carried out by the International Atomic Energy Agency. And the risks of military action against a country that had finalized a multilateral agreement backed by the UN Security Council were justifiably believed to be low.
2. Nuclear non-proliferation is of the utmost importance. Resolving the nuclear dispute with Iran through diplomacy would therefore strengthen the international non-proliferation regime and be seen as a blueprint for similar cases.
3. While Iran and the United States may have been the key actors within the framework of the EU/E3+3, the European Union (EU) has been ascribed the role of coordinator and arbiter of the accord. Hence, the JCPOA elevated the global relevance of the EU, which in itself has been a primary goal for Europe, one that might help to overcome the traumatic experience of Europe's irrelevance when the US invasions of Afghanistan and Iraq unfolded in the early 2000s.
4. Prospects for economic relations with Iran, while not a key priority, appeared to be promising for Europe, too. On both sides, the political class as well as the business sector had expressed the desire to deepen trade relations. Foreign direct investment in Iran appeared to be a highly beneficial enterprise given the potential of Iran's untapped market.

In Iran, meanwhile, the economic dimension has been the main incentive for Tehran to resolve the long-lasting nuclear dispute, as this would bring an end to nuclear-related sanc-

tions imposed on the country by the United States, the UN and the EU. Iran, and especially the government of President Hassan Rouhani, hoped that through the normalization of ties with Europe, economic growth and development could be achieved. With a nuclear deal and substantial economic relations with European countries, Iran would no longer depend on Eastern powers, which have exploited Iran's lack of alternatives time and again. Thanks to its important geographic location Iran would instead present itself as a transit market connecting Europe with West, Central and East Asia.

What also mattered to the Iranian leadership was the security dimension of the agreement. Resolving the nuclear dispute in a UN-backed accord with world powers, it was justifiably believed, would minimize the risks of regime-change policies being continued or military options seriously considered by the United States. Furthermore, Iran would no longer be listed in Chapter VII of the UN Security Council, which labelled Iran a threat to international peace and security. Interlocutors from Iran's policymaking community often refer to this shift in the global view of their country as the »de-securitization of Iran«. Consequently, in addition to the economic and security gains Iran believed it would ensure, there would also be political gains, as the Islamic Republic would no longer be seen as a pariah under Chapter VII.

The hopes and incentives outlined above were all well motivated. And yet, after the agreement was finalized, the pace of actual initiatives to turn the aspirations into meaningful cooperation was very slow. Time was too short for Europe and Iran to overcome a myriad of obstacles for hopes to be translated into action on the ground.

BARRIERS TO EUROPEAN–IRANIAN COOPERATION AFTER THE CONCLUSION OF THE JCPOA

When looking into the reasons why Europe and Iran, despite their clearly articulated will, did not enter into a new era of cooperation, one comes to the realization that the JCPOA simply was not given enough time before coming under political assault by the Trump administration.

European efforts were critically slowed down because, in many of the political and economic debates in the immediate weeks and months after the finalization of the JCPOA, there was scepticism concerning whether Iran would really abide by the deal and fulfil its technical obligations. Europeans were surprised by the extent to which the government in Tehran lived up to its obligations in the six months between finalization day and implementation day. But even that did not give sufficient assurance to the Europeans about the ability of the government of Hassan Rouhani and foreign minister Javad Zarif to deliver and sell the deal domestically. It was argued that one would need to wait and see what the parliamentary elections in 2016 – barely six weeks after implementation day – would bring. It was seen as an indicator of whether Rouhani's approach would gain ground in

Iran's political arena or rather be challenged in the elections. The result showed rock-solid backing for the Rouhani approach at that time. Almost all members of parliament who were known as opponents of the nuclear agreement were voted out of Parliament. They lost their parliamentary seats against no-names who featured in the electoral list of the reformist camp endorsed by former president Mohammad Khatami. But even this result did not reassure Europe. Many immediately referred to the presidential elections in 2017, and the question of whether President Hassan Rouhani would succeed in securing a second term. They believed that the JCPOA was closely tied to him and his cabinet, even though his main rival Ebrahim Raisi during the campaign emphasized that the JCPOA is a »national document« (*sanaad-e mellli*) he would not challenge.

These developments should have signalled to all parties to the JCPOA that the accord would have remained untouched even if Rouhani had lost the election. Instead, the »wait and see« approach was prolonged.

As for European businesses, another reason for their reluctance to enter the Iranian market right away was the simple fact that the legal lifting (or waiving) of sanctions was insufficient to exert an immediate effect. For more than three decades the Iranian market had been sanctioned. The risk-averse mind-set this generates cannot be expected to be overcome in a few weeks or months. As a result, the outcome of dozens of visits by European delegations to Iran was merely an avalanche of memorandums of understanding. That cannot be blamed on European reluctance alone.

After decades of sanctions, Iran's banking and finance sector suffered from a lack of connectivity and adaptability to international finance standards and conventions (such as FATF). The general update Iran's financial sector would have to undergo would therefore take more than just a few months, not only because of the sheer scope of it, but also because the necessary steps to implement reform were the subject of serious political infighting and, ultimately, lengthy bargaining. After all, actors with vested interests had positioned themselves in highly profitable nexus points of Iran's international trade and may have deliberately blocked Rouhani's efforts to modernize and reform Iran's business climate. Ousting these actors would have been too radical a step in many cases. So at least a gradual shift towards a more competitive and transparent market had been the goal of President Hassan Rouhani's government. But even this somewhat calibrated approach was met with a severe pushback based on economic competition and political rivalry.

As a consequence, the political rhetoric in Tehran sent mixed messages. On one hand, there were government officials and their proponents in the public and private sector who were holding conferences to invite foreign companies to enter the Iranian market. On the other hand, the notion of the »resistance economy«, an ideologically loaded term for what can be viewed as protectionism, was postulated by the Supreme Leader Ayatollah Khamenei. What can be viewed mainly as internal (political and economic) mi-

cro-management – to avoid alienating a certain segment of Iran's powerful elite – appeared to be contradictory to many external observers, and understandably so. These internal dynamics, possibly underestimated by the Rouhani government, slowed down the pace of Iran's structural adjustment.

In retrospect, it is obvious how both the European and the Iranian side would have needed much more time to, first, overcome internally grounded obstacles for meaningful outreach, and second, to successfully win over hearts and minds on the other side. Iran felt underappreciated for the efforts it undertook to fulfil its JCPOA obligations, which it viewed to be a constructive contribution to peace and stability in the Middle East.

At the same time, Europe in general, and the European Union in particular, was taken aback by Iran's objection to opening an EU mission in Tehran. What may appear a mainly symbolic diplomatic gesture would have facilitated and strengthened the JCPOA-related work of the EU. For an entity as institutionalized as the EU, a physical presence in Tehran, alongside the political mandate it would have entailed, would have significantly sped up political operations. Instead, a designated European diplomat had to coordinate EU-related affairs by navigating through the different European embassies in Tehran.

In addition to all of the above, serious allegations of failed Iranian terror plots on European soil, the overall situation in the conflicts in Syria, Iraq and Yemen, as well as the continued arrests of European-Iranian dual nationals by Iran, hampered the process towards deeper rapprochement between Europe and Iran on various levels. Such a »deeper rapprochement« would certainly have been necessary to overcome the huge challenge posed by the US position towards and ultimate withdrawal from the JCPOA. This could have led to Europe and Iran joining forces, but divergent approaches prevailed.

DIVERGENT APPROACHES AFTER THE US WITHDRAWAL FROM THE JCPOA

When Donald Trump warned in January 2018 that he might soon pull the United States out of the JCPOA, European policymakers seem to have made a significant mistake: they apparently believed that Trump's decision was based on the essence of the nuclear agreement. Hence, efforts were made to try and sell the value of the accord to President Trump. What was completely ignored (or denied), however, was the notion that Trump opposed this deal simply because it was made by his predecessor Barack Obama. Undoing this major foreign policy accomplishment was a campaign promise and Trump followed it through. Consequently, all efforts undertaken by the Europeans were to no avail. Furthermore, European leaders focused solely on trying to prevent a US pull-out, instead of reaching out to Tehran in parallel in order to try and work out strategies for what do to should the United States pull out. Their strategy seems to have been to express their shared concern about

everything that makes Iran problematic actor in their eyes, too (Tehran's regional policies, the missile programme, its enmity towards Israel), but to emphasize that these issues should be discussed separately, as the JCPOA was designed only to address the nuclear programme. But neither Trump himself nor other interlocutors in his government saw the value of compartmentalizing these issues.

Europe's political elite must be credited with the fact that never before had statements and public messaging been more explicit about a severe transatlantic rift with regard to a single policy issue, namely the JCPOA with Iran. One could go as far as to say that a paradigm shift has begun to take shape in Europe in the direction of developing a security and defence policy independent of the United States. However, a lot of time is needed for such a paradigm shift to be completed, translated into a new policy approach and the necessary new instruments, time that Iran will most likely not have, or at least not grant the Europeans. So far, it has to be realized, Europe's instruments, such as the EU's »blocking statute« are merely symbolic tools with very little operational effect. Companies would simply state reasons other than sanctions for their withdrawal from the Iranian market and European penalties would come into effect, even though the actual reason was (over-)compliance with US sanctions. Hence, the political will of European governments could not be translated into economic incentives and assurances for European businesses. In Tehran, this is read as Europe's »failure to deliver« in its attempt to save the nuclear agreement. The fact that European governments cannot simply force their economies to act in certain ways because these are not state-regulated markets is disregarded in Tehran.

For its part, in order to make it easier for the Europeans to withstand increasing US pressure on the JCPOA, Iran sent out three signals between late 2017 and early 2018. First, in November 2017, within a 24 hour period Iran's most important military figures, then commander of the Islamic Revolutionary Guard Corps Mohammad Jafari and chief-of-staff of the armed forces Mohammad Bagheri, stated that the range of Iran's ballistic missiles is limited to 2,000 kilometres, by the order of the Supreme Leader. The idea here, according to a number of interlocutors in Tehran, was to send a signal to Europe that its territory is outside the reach of Iran's missiles. Second, as Donald Trump increasingly appeared to steer the United States towards JCPOA withdrawal, Tehran signalled to Europe that it would continue to adhere to it in an attempt to give more confidence to Europe and strengthen its position in its posture towards the United States. Lastly, it was during those months that Iran agreed to hold talks with the E4 (Germany, the United Kingdom, France and Italy) on Yemen, in order to show that while the JCPOA was meant only to address the nuclear issue Iran was ready to take this diplomatic success further and broaden the discussions to regional affairs, albeit in a format that only included Europeans. Again, this was meant to provide Europe with further arguments vis-à-vis the United States in favour of the nuclear agreement. Neither of these three confidence-building signals were received as such in Europe,

in part, because Iran did not pay enough attention into how to issue those signals, and because in Europe's thinking such measures were expected from Iran anyway.

In the wake of the US withdrawal, Iran believed that it would enable the remaining parties to the JCPOA – again, mainly Europe – to shield the accord against the US assault on it by adopting the policy of »strategic patience« and continuing full implementation. It became increasingly clear, however, that there is poor understanding in Iran of what Europe's capabilities are, and of how deeply dependent – in economic, financial and security terms – Europe is on the United States. For a surprisingly long time, a romanticized view existed in Tehran that if only Europe wanted, it would be willing *and* able to stand on its own feet and reject the lead of the United States in global affairs. It was believed that it was merely a lack of will on behalf of the Europeans to be more self-reliant vis-à-vis the United States. This understanding is now being revised in light of how the first year has evolved since the US withdrawal and the re-imposition of sanctions. Europe's benefit of the doubt in Iran is waning. This view is not only held on the state level, but also increasingly by ordinary Iranians. If this trend continues it would bring about a highly unfortunate decrease of European soft power among Iran's population.

THE WAY FORWARD

The debates about how to safeguard the JCPOA, and in particular discussions about INSTEX, were overshadowed during summer and early autumn 2019 by the sequence of events in the Persian Gulf, namely the assaults on and seizures of oil tankers, as well as the attacks on Saudi Arabia's critical oil infrastructure. It has to be realized that for both Europe and Iran, maritime security in the Persian Gulf, freedom of navigation in the Strait of Hormuz and the fate of the JCPOA are interconnected. Changes in one area will have effects on another. Iran may very well have aimed to achieve that by escalating its conduct on all fronts. This certainly adds to the complexity of the tasks European policymakers have to champion when dealing with Iran. But it may also lead to a more comprehensive approach when trying to resolve ongoing tensions with Iran.

While the reasons why less attention is being paid to INSTEX are concerning, they may actually be beneficial for actual progress. Macron's initiative could help to bring meaningful life into INSTEX transactions with the envisioned \$15 billion credit line. It is broadly believed that once the size of transactions processed through INSTEX goes beyond a certain threshold, a positive precedent will have been set and more will follow. Such progress would enable the government of Hassan Rouhani in Tehran to convince the political establishment to remain in the JCPOA and reverse the recent steps in the same gradual manner as they were adopted. For that to happen, however, efforts to make INSTEX work and the input of the French initiative must be shielded from US pressure, as well as from the impact of continued escalation in the Persian Gulf and contexts such as Iraq or Syria.

Should the Macron proposal fail, however, Europe has to brace itself for Iran's full withdrawal from the JCPOA and prepare for the possibility of Tehran deciding to leave the nuclear non-proliferation treaty (NPT) as a strong sign of political defiance and resistance. What may appear too drastic a step should be viewed in light of how Iran has improved its geopolitical posture with its increasingly assertive approach since May. This has given momentum to those inside Iran who have always advocated against any form of international conventions. For them, these have only constrained Iran's capabilities without bringing any meaningful benefit to the country.

In such a scenario we would be back to the very things that inspire Europe's keen interest in a solution to the nuclear dispute: (i) the fear of an Iranian nuclear bomb and (ii) the real chance of a new and devastating war in the Middle East. In order to prevent this, Europe should use all its diplomatic sophistication in the remaining weeks and months of 2019 to ensure that the French initiative goes through and to convince Tehran to go back to full implementation of the JCPOA.

It can be expected that Iran and the United States will come together for talks. Given the experience of the JCPOA, regardless of whether it will ultimately be safeguarded or not, Tehran will probably not see much point in talks with Washington. Conversations with interlocutors in Iran suggest that Europe – or for a single European country – are no longer viewed as capable of playing a possible mediating role.

For any talks to happen, one has to expect Iran to be willing to gain more leverage in the region vis-à-vis the United States, and it goes without saying that the United States will respond. Non-attributable attacks on US allies, on one hand, and plausibly deniable attacks on Iranian assets in the Persian Gulf, in Iraq, Syria or Lebanon may therefore continue. This brings additional dangers to a region which is already mired in conflict.

Europe has had to find out the hard way over the past few years how its security is linked to that of the Middle East. It must therefore do all it can to maintain its role in efforts to keep the JCPOA alive and foster de-escalation between Iran and the United States. Both of these things merge in the French initiative, an effort all European capitals should now bank on and support.

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ONE YEAR AFTER THE RE-IMPOSITION OF SANCTIONS

Perspectives on the strategic implications of the US »maximum pressure« campaign against Iran



One year after the re-imposition of all US nuclear sanctions against Iran, this FES Analysis seeks to assess the strategic implications and consequences of Washington's »maximum pressure« campaign against Tehran. Five distinguished experts discuss the longer-term ramifications of the US withdrawal from the nuclear deal with regard to Iran's domestic situation, economy and Middle East policy, as well as US policy towards Iran and European–Iranian relations.



US sanctions are taking a huge toll on Iran, especially on the general public. Nevertheless, they have failed to deprive Tehran of the capability to develop a nuclear weapon or change its regional posture and Washington's strategic endgame remains unclear. If anything, a year after the re-imposition of sanctions, the Middle East is experiencing three interlinked crises: an economic crisis (most profoundly in Iran, but with geopolitical spillovers to other countries), a non-proliferation crisis and a deepening of the region's geopolitical crisis.



In Iran, the US »maximum pressure« campaign has incited bellicosity in the short term, but it will also have long-term effects on Iran's socio-political framework. Those in Tehran advocating engagement in foreign and economic affairs may have been lastingly weakened. Iran is doubling down on efforts to enhance domestic economic capabilities. Europe, meanwhile, is increasingly relegated to the side-lines in relation to the nuclear deal: the European position is taken less and less seriously in Tehran and Washington. Although Europe and Iran lack a basis on which to build a joint strategy to save the agreement, there are steps Europe could take in order to advance its interests in this context.

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