I. INTRODUCTION

In an effort to block Iran’s path to nuclear weapons, the Joint Comprehensive Plan of Action (JCPOA) was agreed to between Iran, the P5+1 (China, France, Russia, the United Kingdom, the United States and Germany) and the European Union (EU) on 14 July 2015. Commonly known as the ‘Iran deal’, the agreement is expected to ensure that Iran’s nuclear programme is entirely peaceful and that all avenues to nuclear weapons are closed.

In the aftermath of the deal, critical debate has polarized over whether the agreement is good or bad and whether a better deal could have been achieved. Supporters of the accord maintain that it is better than any realistic alternative, while its detractors claim that a better deal could have been achieved and, if not, that ‘no deal is better than a bad deal’. No party views the pact as ideal.

International reactions to the agreement have been mixed. According to US President Barack Obama, the deal blocks all Iranian pathways to developing nuclear weapons and represents a good deal, whereas Israel’s Prime Minister, Benjamin Netanyahu, has branded the accord ‘a stunning historical mistake’. China has praised the deal, saying it ‘also shows all parties that we could solve a major international dispute through dialogue and negotiations’. European countries have been supportive, and Russian President Vladimir Putin expressed confidence that ‘the world today breathes

with a sign of relief.\(^4\) Iranian Supreme Leader Ali Khamenei has not praised the deal itself, but he has lauded the Iranian negotiators in his approval of the agreement.

The merits of the deal cannot be decided on the basis of the JCPOA text alone and the final result can only be judged in 10–15 years from now after implementation of the deal has ended.\(^5\) Furthermore, the result will depend not only on the conditions of the deal and Iranian behaviour, but also on what kind of policies each of the negotiating partners will apply to Iran.

The objective of this paper is to look at the policy concerns of the EU during the implementation years and assess how the EU can facilitate the implementation of the Iran deal and achieve its own strategic objectives in the process. The EU has much at stake: the case of Iran is viewed as a test of the EU’s capacity to become a global actor and is the first time that it is establishing itself as a non-proliferation actor on the global scene.\(^6\)

The outcome, however, is not in the hands of the EU but rests with Iran’s supreme leader—or rather the political balance in Iran. Regional turmoil and military threats by Israel or the possible imposition of new sanctions by the US Congress will no doubt have an impact, but only through the domestic political actors. The main two national influential parties will be the conservatives and the moderates in Iran. The influence of the EU will lie in balancing these actors and constructively using the existing opening to enhance cooperation between Europe and Iran.

This paper presents the EU’s role in the Iran negotiations and comments on the domestic politics of Iran in relation to the nuclear issue, including the latest election results of 26 February 2016. It then discusses EU policy choices and concerns in relation to three conflict scenarios where fundamental controversies may be expected to potentially endanger the success of the deal.

II. THE ROLE OF THE EU, 2003–15

The EU both initiated and later coordinated the process of the 12 years of negotiations from 2003–15. During the process, the role of the EU evolved from the main negotiator to a facilitator of US–Iran bilateral negotiations. With the exception of the first phase, discussions were carried out by a multilateral ‘coalition of the willing’ defined either as the P5+1 underlining the role of the permanent members of the Security Council plus Germany, or as the E3/EU+3 highlighting the participation of the EU and its three big member states (France, Germany and the UK) over the three superpowers—China, Russia and the USA (+3). The negotiations consisted of four phases.\(^7\)

1. The initiative phase (2003–2005). The foreign ministers of France, Germany and the UK took the initiative, travelled to Tehran and started negotiations at a time when the USA was at war in Iraq and clandestine nuclear facilities in Iran had been exposed. In addition to preventing Iran from gaining a nuclear weapon capacity, the goals of the visit were: (a) to build unity in the EU after Iraq; (b) to search for a global role for the EU; and (c) to prevent military action in Iran. Results were obtained as Iran agreed to suspend its uranium enrichment and implement the Additional Protocol, although voluntarily and only for a limited time. In 2005 the European delegations were close to reaching a deal but were ultimately derailed by US pressure to refer Iran to the United Nations Security Council.

2. The Security Council phase (2006–10). The USA, and later Russia and China, joined the negotiations as Iran was referred to the Security Council under Chapter VII of the UN Charter as a ‘threat to world peace’. Over the period 2006–10, a number of UN resolutions were approved including the permanent suspension of uranium enrichment in Iran, sanctions on technology transfer to Iran related to the nuclear programme and restrictions on a number of designated individuals and entities. Iran opposed the referral to the Security Council and increased its uranium enrichment and centrifuge production activities.

3. The ‘dual-track’ phase (2010–13). When Obama reached out to the Iranian Government following his assumption of the US presidency, the lack of response

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\(^4\) ‘Putin says world can breathe sigh of relief after Iran deal’, Reuters, 14 July 2015.

\(^5\) Implementation is already underway following the deconstruction of elements of the Iranian nuclear infrastructure and the shipment of enriched uranium to Russia, in accordance with the preconditions for the lifting of sanctions.


\(^7\) The analysis is based on the present author’s forthcoming book: Cronberg, T., Nuclear Multilateralism: The EU’s Nuclear Dance with Iran.
from President Mahmoud Ahmadinejad provoked the USA to pursue a ‘dual-track’ strategy of combining diplomacy with ‘crippling’ sanctions. In the aftermath of the UN sanctions, the USA and the EU agreed to unilateral sanctions to block Iran’s oil exports and access to financial markets. Both China and Russia opposed these unilateral sanctions. Subsequent negotiations between Iran and the P5+1 failed to produce any results.

4. The political will phase (2013–15). Elected President of Iran in 2013, Hassan Rouhani—a former nuclear negotiator and a pragmatist—promised to solve the economic problems of the country, including sanctions relief. The political will of the presidents of Iran and the USA created conditions conducive to reaching a final deal that was eventually achieved in bilateral negotiations mediated by Oman. The deal was approved in three phases: (a) the interim Geneva agreement (the JPOA) in November 2013; (b) the framework agreement in April 2014; and (c) the final agreement, the JCPOA, in July 2015.

III. IRANIAN DOMESTIC POLICIES

The Islamic regime is widely considered authoritarian although it provides for elected institutions, checks and balances, and diversity of opinion among leaders. The supreme leader is not directly elected by the population but chosen by an all-elected body (the Assembly of Experts). The president and the majlis (parliament) are publicly elected (see box I).

The president has limited powers and is clearly subordinate to the supreme leader who has control over both the judiciary and the military. Presidential authority, particularly on matters of national security, is also disputed by key clerics, allies of the Islamic Revolutionary Guard Corps (IRGC) and other powerful institutions.

Religion plays a major role in Iranian politics. All laws approved by the majlis are reviewed for their conformity with Islamic law and may be rejected by the Guardian Council of the Constitution. The Guardian Council also vets election candidates by evaluating that each candidate demonstrates, among other things, knowledge of Islam and loyalty to the Islamic system of government.

The IRGC is the guardian of the Islamic and revolutionary culture and Iran’s most powerful security and military organization. It also dominates the civilian economy in fields such as energy, construction, telecommunication, the automotive industry and even banking and finance. Furthermore, the IRGC is linked to companies that appear to be private but are run by IRGC veterans.

Iranian politics are highly factional. Parties—of which there are a great number—and candidates operate in loose alignments within two main coalitions, the conservative (osool-garayan) and the reformist (eslah-talaban), both of which originated from the former single-party Islamic Republic Party. Since 2014 the reformist coalition has been called the ‘moderates’.

The conservatives, also called principalists or hardliners, advocate for Islamic values and the values of the revolution. They see the Western values as a cultural threat and are strong supporters of the leadership of the guardian jurist (vali-e-fagih), entrusting the supreme leader with the highest authority. The conservative coalition is not homogenous but includes both more moderate and more radical groups. Members are found in the IRGC and the paramilitary Basij—a voluntary ‘morality police’ established under the IRGC during the revolution in 1979. The majority in the current majlis is conservative. While the supreme leader is seen as a hardliner, his standpoints are moderated by the need to balance the different factions and protect the regime.

The reformists/moderates uphold republican values, individual freedoms and rights, and support civil society. They work for reforms within the constitution of the Islamic Republic and can also be divided into more moderate and radical factions. Since the uprising in 2009, the radical reformists/moderates have been marginalized and the leaders continue to be under house arrest. The president and the government are considered to be moderates. The growth of the middle class is widely seen as tipping the balance of power towards the moderates at the expense of the conservatives.8 When calculating election results, a group of independents were seen to support the reformists/moderates.

The nuclear programme has been the unifying force in Iranian politics, supported by all parties and the general population. However, with the deal concluded this force will disappear. Following agreement of the deal, the Minister of Culture sent guidelines from the Supreme National Security Council addressed to

national media and editors outlining how to talk about the deal in the media. The recommendations included:

(a) supporting achievements of the nuclear talks;
(b) avoiding damaging national hope and enthusiasm;
(c) avoiding spreading doubt or creating uncertainty or disappointment;
(d) emphasizing US extremists and Israeli opposition to the deal;
(e) avoiding printing news or analysis that would polarize society;
(f) non-promotion of confrontation between officials with differing views; and
(g) including the response by an Iranian official when quoting a Western official.

A spokesman for the Ministry of Culture defended the guidelines at a press conference in July 2015, stating: ‘The nuclear negotiations are not negotiations between one political party with a foreign country, but rather it is an important topic under the supervision of the supreme leader and the implementation of the three branches of government, and it cannot be inappropriately criticized.’


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10 Karami (note 9).
In spite of the guidelines, critical voices have been heard from conservatives in the parliament as well as from the IRGC and Basij. The criticism has mainly addressed specific ‘red lines’ that were crossed by the negotiators and not the whole nuclear agreement. Overall, the target has been the president not the Iran deal itself.

To both the majlis and the Assembly of Experts, the elections of 26 February 2016 represented the first time that Iranians could express their support or opposition to the nuclear deal. In its analysis of the preliminary results of the elections, British newspaper The Guardian claimed that a new divide in Iranian politics had emerged between the supporters and the opponents of the nuclear deal. Meanwhile, the traditional divide between the hardliners and the moderates appears to be in question with Ari Larijani—a hardliner and the Speaker of the majlis—supporting the moderate President Rouhani and Larijani, in turn, supported by the hardline General Qassem Soleimani, head of the IRGC’s overseas Qods brigade.\(^{11}\)

The preliminary results indicate a victory for the moderates. Many of the moderate and reformist candidates were not vetted by the Guardian Council, but conservative candidates were also rejected with almost half of the 12,000 candidates disqualified from running overall.\(^ {12}\) In these elections the hardliners, fearful of support for the president’s reform policies, were campaigning for people not to vote at all. Hardliner-controlled Iranian State TV aired unusual interviews with people who intended not to vote—although the supreme leader had appealed for a high turnout.

As of March 2016, the interim election results to the majlis showed a 62 per cent turnout and 222 (out of 290) seats decided. The remaining seats will be decided in a run-off in April, because no candidate received the required 25 per cent of the votes. Of the 222 seats, the conservatives and the pro-Rouhani moderates each won 80–90, with the remaining decided seats going to the independents.\(^ {13}\)

Although the composition of the majlis will only be known in April, the results show support for the policies of the moderates and the Iran deal, including the lifting of sanctions. Thus President Rouhani could be dealing with a more supportive parliament in the future and he might push ahead with further economic reforms. This could include curbing the influence of the cleric-controlled foundations and the IRGC-controlled conglomerates.\(^ {14}\)

**IV. THE THREE SCENARIOS**

This section discusses three areas where the Iran deal will challenge the balance among the political groupings in the country. Its implementation will strengthen the arguments of one side or the other and fundamentally decide what type of country Iran will be in fifteen years’ time when most of the requirements of the JCPOA expire. Ultimately, the question is whether post-deal Iran will still be interested in pursuing a nuclear weapon capability or whether it will deem nuclear weapons to be counter to its interests. The three scenarios are as follows.

1. **The nuclear programme itself.** Iran will be subjected to rigorous inspections that challenge the sovereign decision-making power of the state. Here access to military non-nuclear facilities and Iranian defence capabilities will constitute the sensitive issues. The main actors in this process are the International Atomic Energy Agency (IAEA), the E3/EU+3, the Iranian negotiators and the UN Security Council.

2. **The economy after the sanctions.** Lifting the sanctions is expected to open the economy to foreign investors. Will the existing structure survive? Who are the winners and the losers? The main actors in this process are the institutions managing sanctions, in particular the US Treasury Department and the Sanctions Policy Division of the European External Action Service (EEAS), as well as foreign investors and banks, Russian and Chinese interests and the economic structures in Iran, particularly the IRGC.

3. **Isolation or integration into the international society.** Regime change is not on the table but Iranian society and culture will be challenged by a potential transformation. The outcome of combating the ‘infiltration’ of Western values while concurrently opening up the economy to foreign investors will by no means be a given. The main actors are the Iranian people searching for their identity in a climate of

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13 Katzman, K., ‘Implications of Iranian elections’, CRS Insight IN10457, 4 March 2016. The exact numbers will only be available later.
14 Katzman (note 13).
political tension between the conservatives and the moderates.

Each scenario consists of three parts: (a) the definition of EU interests; (b) the political controversy inside Iran and its possible outcomes; and (c) EU policy concerns and choices.

These scenarios do not constitute the only possible narratives and it should be noted that since all three present a conflict area, the outlook given here is more pessimistic than the general picture. Nevertheless, they represent the arenas in which the content of the JCPOA will be tested with great consequences for the internal political balance of Iran, and consequently for the political will to develop nuclear weapons in the future. It is also here that a well-considered and robust EU strategy on Iran could potentially make a significant difference to the success of the JCPOA.

It should be noted that the analysis is limited to the dynamics between the implementation of the JCPOA and Iranian domestic politics. External developments such as the current tensions between Iran and Saudi Arabia or the impact of the US presidential elections will no doubt have an impact but are not included.

**Scenario 1: inspections challenge state sovereignty**

**EU interests**

The 2003 EU Security Strategy defined the EU’s security environment and underlined the proliferation of weapons of mass destruction (WMD) as one of the greatest threats to EU security.\(^\text{15}\) Published in conjunction with the EU Security Strategy, the EU Strategy against the proliferation of WMD stated: ‘Meeting this challenge must be the central element in the EU’s external action. The EU must act with resolve, using all instruments and policies at its disposal. Our objective is to prevent, deter, halt and where possible, eliminate proliferation programmes of concern worldwide.’\(^\text{16}\)

Non-proliferation is about inspections. It is about ensuring that a non-nuclear weapon state party to the Non-Proliferation Treaty (NPT) follows the rules and has no military intentions for nuclear technology. The IAEA verifies this by declaring that no fissile material has been diverted from civilian to military purposes.

Today, the inspections take place on two levels. The first is the Safeguards Agreement that aims to verify that the fissile materials declared by a state are not diverted to military uses. The second is the Additional Protocol adopted after the failure to detect a nuclear weapon programme in Iraq in 1990–91. The Additional Protocol focuses on undeclared facilities and all aspects of the fuel cycle and gives the IAEA increased rights of access to nuclear facilities and to environmental sampling.

Iran has ratified the Safeguards Agreement but not the Additional Protocol. It voluntarily implemented the Additional Protocol in 2004–2005 as a result of negotiations with the EU. Iran has not fully followed the rules of the safeguard system and has a history of clandestine nuclear facilities.

A number of sensitive nuclear activities have been admitted to only after the fact. Iran's non-compliance has often been brought to the attention of the IAEA by intelligence agencies or Iranian opposition groups. While some of these claims have been confirmed as non-compliance, some have been contested by both Iran and weapon inspectors.\(^\text{18}\)

The JCPOA not only requires Iran to implement and ratify the Additional Protocol but also introduces a third, more rigorous level of verification not in use elsewhere (see box 2). There is a permanent prohibition on certain weaponization-related activities. Iranian uranium mines and mills will be monitored for 25 years and Iranian centrifuge production facilities for 20 years. Code 3.1 will be applied permanently.\(^\text{19}\)

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\(^\text{19}\) Code 3.1 of Iran’s Subsidiary Arrangements to its IAEA Safeguards Agreement requires Iran to provide design information for new nuclear facilities ‘as soon as the decision to construct, or to authorize construction, of such a facility has been taken, whichever is earlier’. See Under a Microscope: Monitoring and Verification in an Iran Deal, Arms Control Association, Issue Briefs, vol. 7, issue 7 (29 Apr. 2105).
**Box 2. The Joint Comprehensive Plan of Action (JCPOA) requirements for Iran’s nuclear programme**

**Limitations on uranium enrichment**

In order to prevent the capacity to build nuclear weapons, the JCPOA limits the number and type of centrifuges for the enrichment process as well as the allowed stockpile of enriched uranium at any one time in Iran.

- Only 5060 operating IR-1 centrifuges for 10 years.
- Over 13 000 centrifuges dismantled and stored, under International Atomic Energy Agency (IAEA) monitoring.
- Maximum enrichment to 3.67% of uranium-235, a stockpile of under 300kg for 15 years and excess sold, shipped abroad for storage or diluted.
- No production of additional IR-1 centrifuges for 10 years, with limited ability to replace worn out centrifuges in years 11–15.
- Enrichment only taking place at Natanz for 15 years.
- Fordow, a subterranean enrichment facility, will be converted, in cooperation with Russia, to a research facility for isotope production. Only 1044 IR-1 centrifuges will remain; no uranium is allowed at the facility for 15 years.
- Uranium enriched up to 20% will be blended down or shipped out of the country.
- Limited centrifuge research allowed. Single IR-4 to IR-8 centrifuges allowed for research purposes for 8.5 years, after which Iran may also test a limited number of advanced centrifuges (without rotors).
- The Joint Commission will review and approve changes to research and development plans for 10 years.

**The heavy water reactor in Arak**

The reactor will be modified in order not to allow for the production of plutonium.

- The original core of the reactor is to be replaced in order to reduce weapons-grade plutonium output, certified by the Joint Commission.
- No heavy water accumulation or heavy water reactors in Iran for 15 years.
- Permanent commitment to ship out spent fuel for 15 years; no reprocessing of spent nuclear fuel.
- Construction of hot cells or shielded glove boxes (of certain specifications) will be subject to approval by the Joint Commission.

**Monitoring and verification**

- Full implementation of the roadmap as agreed with the IAEA in the final report on 15 Dec. 2015.
- Continuous monitoring of Iran’s uranium mines and mills for 25 years.
- Continuous monitoring of Iran’s centrifuge production facilities for 20 years.
- The IAEA is allowed to inspect undeclared sites under the Joint Commission’s oversight for 15 years.
- Implementation and eventual ratification of an additional protocol to Iran’s Safeguards Agreement.
- Permanent prohibition of certain weaponization-related activities.
- Purchase of dual-use materials to be approved by a Joint Commission working group for 10 years.
- Permanent implementation of the modified Code 3.1 of the Subsidiary Arrangements to the Safeguards Agreement.

**The Joint Commission**

- To be established, consisting of representatives from China, France, Germany, Russia, the European Union, the United Kingdom, the United States and Iran (8 voting members), holding meetings quarterly (or on request) to oversee the Iran deal for 25 years.
- The JCPOA establishes a dispute resolution mechanism over 35 days: 15 for the Joint Commission, an optional 15 for ministerial review and/or arbitration from a 3-member panel, followed by 5 days to review the arbitration.
- In a case of ‘significant non-performance’, the issue, if unresolved, can be treated as grounds to cease carrying out JCPOA commitments. The complaining party will notify the United Nations Security Council.

The most radical demand under the JCPOA is access to undeclared sites, both military and civilian, under the monitoring of a joint commission. The IAEA may request access to any site. In cases where access has been denied, the request will be dealt with by a joint commission, consisting of eight members (China, the EU, France, Germany, Iran, Russia, the UK and the USA) and where decisions are made either by consensus or by majority vote. If five members support the request, access will be awarded within 24 days. Opponents of the deal claim that this time period is too long and Iran would be able to clean up any site within 24 days. Experts, however, assess that if nuclear material is involved this will not be possible.

The Joint Commission, chaired by the EU, was a compromise and a challenging innovation in the process. The Commission has the delicate task of balancing the requirements of the JCPOA with Iran’s legitimate defence and security interests. Seen from the Iranian point of view, the advantage is that no individual country can bully Iran. From the EU’s perspective, its four votes imply that if the EU is unified, the Joint Commission cannot countervail an EU position. EU unity will be tested. On the other hand, China and Russia have to convince at least some European members in order for their view to carry the vote.

Given the composition and the procedures of the Joint Commission, the EU will be in a position to mediate situations when disagreements emerge and to create new practices in conflict situations, with potential applications also in future proliferation cases.

**Inside Iran: inspections versus sovereignty**

Iran has accepted that the rigorous inspection programme and sanctions relief will depend on its fulfilment of the Iran deal. It is expected to fulfil its obligations otherwise the sanctions will ‘snap back’. The deal makes it extremely unlikely that Iran will be able to restart covert nuclear activities during its implementation. Nevertheless, the scene is set for continuous confrontations and interpretations. Will Iran respect all the detailed requirements? Will there be false alarms from political opponents? Will access to non-nuclear military facilities lead to political controversies with subsequent withdrawal from the JCPOA and even the NPT?

Just three months after the deal, the *Jerusalem Post* reported that Iran’s stock of low-enriched uranium had grown rather than diminished. According to a senior Western diplomat this is simply a question of a normal fluctuation and not a breach of the agreement. This kind of ambiguous information is likely to be common in the coming years. The Prime Minister of Israel has clearly stated that the deal is not binding for Israel and that Israel will act as a watchdog to detect any deviances from the JCPOA. In this it will be assisted by Iranian opposition groups outside the country.

Access to military sites has been a contested issue both by the supreme leader and the Iranian factions opposing the deal. In June 2015, a month before the deal, the majlis passed a law that would ban access to military facilities and scientists—a law that is in obvious conflict with the requirements of the deal (the Joint Commission decides access, on the request of the IAEA). Furthermore, when talking to military commanders in May 2015, the supreme leader stated that Iran would resist ‘coercion and excessive demands’ and refuse access to military sites and scientists: ‘The impudent and brazen enemy expects that we allow them talk to our scientists and researchers about a fundamental local achievement but no such permission will be allowed’.

Iran tends to view these inspections as endangering the security of the country. It should be noted that while the deal diminishes the risk of military strikes, the military option has by no means been abolished, especially if Iran decides to exit the deal for any reason. While all information gathered during

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23 Reuters, ‘Iran begins dismantling uranium-enrichment equipment, UN watchdog reports’, *Jerusalem Post*, 18 Nov. 2015.

24 The Iranian opposition group Mojahedin-e-Khalq (MEK or MKO) has been responsible for many of the revelations concerning Iran’s clandestine activities.


27 Following the nuclear deal, the US military option is being reconstructed, see e.g. Samore, G. and Kam, E., ‘What happened to the military option against Iran?’, Belfer Center for Science and International Affairs, 29 Sep. 2015, &lt;http://iranmatters.belfercenter.org/blog/what-happened-military-option-against-Iran&gt;.
inspections by the IAEA is confidential, the risk of leaks and intelligence gathering is ever-present.

Rigorous inspections and differences in the interpretation of the JCPOA rules may lead Iran to threaten to withdraw from the deal in a wide array of situations, including the following.

1. The hardliners claim that the intrusive inspections of military facilities are a threat to Iran’s ability to defend itself and that the inspections are only aimed at intelligence gathering on Iranian defence facilities.

2. Inspections show that Iran has carried out nuclear activities in research and development (R&D) not allowed according to the JCPOA. The conflict-solving mechanism of the Joint Commission does not result in an agreement and the case is referred to the Security Council, which decides that the sanctions ‘snap back’.

3. Israel undertakes the policing function of the JCPOA supported by Iran’s oppositions groups. This results in continuous additional inspections and conflicts on interpretations in the Joint Commission.

EU policy concerns and choices

1. With the EU countries combined representing the critical vote (four out of eight) in the Joint Commission, it should define a common position on inspections—particularly in regard to sensitive military sites in order to avoid politicized case-by-case decisions and discord within the EU.

2. Over the past 12 years the EU has been able to prevent military strikes on Iran by creating an accepted and respected framework for negotiations. In the implementation phase there is a need to continue this policy, which will require careful mediation in critical situations where Iran may threaten to pull out of the deal, or the USA or Israel threaten military action.

3. Success in the implementation of the Iran deal will be critical for the future of the NPT and for how to manage nuclear non-proliferation in the future. The Iran model of hedging to a nuclear weapon capability based on peaceful uses of nuclear technology is already contemplated by a number of other countries in the Middle East. The EU should not see the Iran case as isolated but rather as one where the EU can define its role as a non-proliferation actor in the future.

Scenario 2: sanctions relief challenges the ‘resistance economy’

EU interests

The JCPOA entails the lifting of sanctions as Iran fulfils its obligations under the contract. This has created widespread expectations of new commercial opportunities within the European business community. Trade delegations had already begun to establish business relations with Iran following the interim deal in November 2013. With the removal of EU sanctions earlier this year on ‘implementation day’, 16 January 2016, the interest in trade with and investments in Iran are even higher.

Prior to the imposition of sanctions, Germany was second only to the United Arab Emirates as Iran’s main trading partner. It was also one of the biggest losers when exports to Iran were halved during 2011–12. Today, German industry is expecting a recovery with the German Chamber of Commerce and Industry forecasting that exports will reach five billion euros within a couple of years, and double this figure in the long run.28 Italy also has plans to become a major trading partner with Iran.

Iran has been subject to an array of sanctions since its revolution.29 While the majority of the sanctions imposed by the UN and EU were lifted on implementation day, the remaining sanctions by the USA will continue to limit foreign investment and trade with Iran. Following agreement of the JCPOA the sanctions regime stands at the following.

1. UN sanctions. Defined in UN resolutions, these sanctions target individuals and organizations directly involved in the nuclear programme, limit technology transfers to the nuclear sector, and establish an arms embargo and restrictions on missiles. UN Security Council Resolution 2231 endorsing the JCPOA terminated all previous resolutions targeting Iran’s nuclear programme.30 An arms embargo will remain in place for five years and restrictions on missiles for eight years. In case of non-compliance with the JCPOA, the sanctions will snap back if the Security Council does

not adopt a resolution to continue the termination. After 10 years the UN will close the Iran file.

2. EU sanctions. These are unilateral sanctions approved by the EU limiting financial and banking transactions, Iran’s oil and gas sector, insurance, energy, shipping and automotive sectors as well as trade in gold and precious metals. In targeted sanctions, the EU also specified individuals and entities. All provisions of the EU Regulation related to Iran’s nuclear programme were terminated and individuals and entities removed from the list on implementation day. The EU refrains from reintroducing sanctions or any policies adversely affecting the normalization of relations.

3. US Sanctions. The US sanctions regime is a complex web of interrelated restrictive measures issued since the Iranian revolution in 1979. Among other restrictions, these deal with terrorism, human rights and missiles and include a trade ban. The USA approved of unilateral sanctions, defined as nuclear-related, coordinated with the EU sanctions (see above).

The USA has ceased the application of sanctions related to Iran’s oil and banking sector and has removed certain individuals and entities from the sanction list. A few exceptions were agreed to the trade ban: passenger aircraft, carpets and certain luxury goods. After eight years the USA will seek legislative action to terminate or modify nuclear-related sanctions. All other sanctions will remain in place and the USA can impose new sanctions for non-nuclear issues.

According to the agreement, US secondary sanctions (sanctions targeting foreign firms dealing with Iran) are expected to be lifted. These sanctions have been extremely costly for European banks. Nevertheless, US sanctions will still target some parts of the IRGC and affiliated entities, and secondary sanctions may apply to firms dealing with these actors. Furthermore, foreign firms selling arms and WMD technology to Iran will be subject to secondary sanctions.

In August 2015 Adam Szubin, the US Treasury’s Acting Undersecretary for terrorism and financial intelligence, stated in written testimony to the Senate Banking Committee: ‘A foreign bank that conducts or facilitates a significant financial transaction with Iran’s Mahan Air, the IRGC-controlled construction firm Khatam al-Anbiya, or Bank Saderat will risk losing its access to the US financial system, and this is not affected by the nuclear deal.’

Iran will remain cut off from the US financial system and will not have access to transactions cleared in US dollars. Therefore, bigger European banks have been avoiding deals with Iran, creating frustration on the Iranian side. There are also other risks: the USA may impose new ‘non-nuclear’ restrictions on Iran as demonstrated by the issuance of sanctions by the US Treasury Department on a number of new entities following Iran’s recent missile test. With the lifting of sanctions proving a complicated issue, particularly between the EU and the USA, the Sanctions Policy Division of the EEAS has requested clear guidelines from the US Treasury Department on which sanctions will remain in place and how they will be applied.

In the rush to the Iranian market, Russia and China will have a competitive advantage due to trade relations built during the sanctions regime and that they are more immune to potential US secondary sanctions. Russia, for example, expects to compensate for the lower oil prices—a potential result of the deal—and for the lifting of Western sanctions (which have protected Russian exports) by increased arms sales to Iran. China already has large-scale infrastructure projects in Iran.

US sanctions will no doubt prevent many European companies from conducting activities in Iran. The long-term questions affecting the interests of the European business community are what kind of economy Iran will be in the coming 15 years, and how the removal

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32 French bank BNP ParisBas paid €8.9 billion in fines and was banned from conducting US dollar transactions for its oil and gas trade-finance unit for a year. See Taghavi, R., ‘The irrational exuberance about the Iranian economy’, Foreign Policy, 26 Feb. 2016.
33 Iran Tracker (note 31).
of sanctions will affect the structures of the Iranian economy.

Inside Iran: an open or a closed economy

Iran’s ideological answer to sanctions has been the so-called resistance economy as laid down by a 24-article plan introduced by Supreme Leader Khamenei in February 2014 following a ban on benzene exports to Iran. According to the proclamation, the resistance economy is ‘an indigenous and scientific economic model that projects an Islamic and revolutionary culture’.39

The resistance economy is about reduced imports, increased exports, economic growth and social welfare. It is not a socialist model, although social injustice and the oppressed are in focus. Capital markets exist but should be coordinated. Consumers are important and a change in their habits is critical for the new (resistance) economic structures. The core concepts are an indigenous and scientific capacity with a reliance on domestic resources as a priority. Foreign support is questioned as exemplified by IRGC General Mohammad-Reza Naghdi, head of the Basij paramilitary force: ‘Inside Iran there are many people who can help in the solution of economic and unemployment problems. Officials must keep the doors of their offices open to them and not to European teams who have until now been sanctioning us and even now are not willing to end the sanctions. They are coming because they have their own economic shortcomings.’40

The IRGC is the gatekeeper to the Iranian economy, forms the core of the resistance economy and protects its revolutionary values. Firms conducting business in Iran will have to deal with the IRGC, which controls most of the critical sectors. While the IRGC has benefited from international sanctions and Iran’s economic isolation, its domestic and foreign business competitors have suffered, and the IRGC has further taken advantage of its national security authority to extend its control. For example, the IRGC prevented a Turkish company from building the Imam Khomeini international airport in 2004 on national security grounds.41

The current conservative view favours the use of state-backed companies (closely related to military organizations or religious foundations) in trade deals and large-scale investments with foreign companies. Government involvement can avoid problems with the US unilateral sanctions still in force. The first reports of post-sanctions trade deals confirm that state-backed conglomerates and their affiliates have been the beneficiaries of deals made with European companies. Meanwhile, smaller private companies have experienced difficulty in accessing financing as international banks are cautious due to the US sanctions.42

An issue closely linked to the general economic outlook, and intimately linked to the nuclear programme, is the question of a knowledge-based economy. In the supreme leader’s view, mastering science and technology leads to the self-reliance that is a precondition for political independence.43 The supreme leader interprets the limitations on the nuclear programme not only as efforts to prevent Iran from developing a nuclear weapon capacity, but also as obstruction of scientific progress in Iran: ‘It is hard for the global arrogance to accept that the talented Iranian nation has been able to take great strides in the field of science and technology, especially in the field of nuclear technology. They want Iran’s energy to be always dependent on oil, since oil is vulnerable to the policies of world powers. They aim to control other nations with invisible ropes.’44

The resistance economy is a very powerful narrative on nationalism, independence and self-reliance. The nuclear programme has come to symbolize the resistance economy and embody Iran’s vision for its future: the quest for influence in the region, resistance to superpowers and their intervention, the mastery of advanced technology and indigenous R&D.

The nationalistic sentiments attached to the nuclear programme are not only shared by the political elite, both the hardliners and the moderates but also by


44 Sadjadpour (note 43), p. 23.
The general population. In a survey of public opinion conducted by Tehran University in cooperation with the University of Maryland following the Geneva interim agreement in 2013, strong majorities rejected the idea that Iran’s nuclear research activities should be limited or that Iran should halve the number of its centrifuges. At the same time, the majority of the respondents were willing to cap the enrichment to five per cent and to support an agreement with a strict control regime.\footnote{Newsom, N., ‘Iran’s narratives of independence and nuclear development’, \textit{Fair Observer}, 21 Nov. 2014.}

For Iranian officials nuclear development ‘is a political statement in itself, conveying a message of defiance and self-reliance’ and they often frame Iranian nuclear development as an act of Third World leadership, demonstrating how the ‘oppressed’ states can liberate themselves and become technologically advanced.\footnote{Commentary by Warnaar, M. in Newsom (note 45).} Iran thus sees itself as pioneering a multipolar world order based on equality among nations rather than ‘imperialist bullying’.

However, while Iran aspires to be a leader in nuclear technology, the technology limitations of the JCPOA undercut these aspirations through restricting nuclear-related R&D activities. The Joint Commission will review and approve of changes to the R&D plan for 10 years. All dual-use nuclear-related technology transactions will require approval by a working group of the Joint Commission, where each member has the right of veto.

In summary, the potential political conflicts related to Iran’s economic development are explosive. The population is expecting major improvements with immediate visible returns. At the same time, the closed state-centred economic structures currently benefiting from sanctions relief are the same that have benefited from the sanctions.

The country’s main economic actor, the IRGC and entities dealing with it, will still be sanctioned by the USA (and to a limited extent by the EU). Technological development will be restricted in the very field that has been the source of Iranian pride—nuclear technology. While the supreme leader and the government agree on opening the Iranian economy to foreign investors, adjustment to a more open economy is a long-term project (at least in terms of the ideology of the resistance economy and the quest for indigenous science and technology development).

The JCPOA, with all its restrictions, was approved by Iran in order to lift sanctions, improve the economic situation and give the people hope. If no benefits reach the population, this will no doubt profit the hardliners: it will be easy to argue against the policies of the government and to push the moderates into a corner. If the deal is seen as a success, this will enable the government to continue its policy of opening the economy, including in later phases to private, non-state controlled actors.

\textit{EU policy concerns and choices}

1. The EU’s main policy instrument will be an EU–Iran Cooperation and Trade Agreement (CTA). An agreement was already under discussion during the early negotiations in 2003–2004 but suspended due to the nuclear issue. A CTA should reflect the dynamics between the ‘old’ economic structures and a new more private sector-oriented model, defining a balanced space for cooperation.

2. Given the focus on indigenous science and technology development, there is a need for an EU–Iran technology policy that balances EU support for domestic Iranian science and technology capacities with technology transfers enabled by the JCPOA. An array of EU instruments such as research programmes, technology cooperation agreements and scientific exchanges should be coordinated to form a comprehensive package.

3. International cooperation in the nuclear field will include building nuclear power plants and light-water reactors. As the JCPOA includes strong limitations on nuclear R&D as well as restrictions on dual-use technologies, there is a need to coordinate the future activities of the member states into an overall EU approach in the nuclear field.

4. Youth employment will be one of the economic priorities of a post-nuclear deal Iran. The EU should create a dialogue and a pilot scheme for youth employment including advanced science and technology exchange programmes in non-nuclear fields (e.g. health sciences, environmental technology and information and communication technology).
Accordingly, the EU has much at stake in the success of the Iran deal. This has been the test of its role as a global actor and its ability to promote effective multilateralism. The possibility of Iran exiting the deal, for reasons that are not a result of its own non-compliance, should be prevented through mediation and conflict resolution. The EU must be a mediating factor in opening Iran’s path to the international community while also respecting the will of the country’s people and decision makers. Here the EU has both a special interest and a special responsibility as the chair of the Joint Commission.

Inside Iran: a ‘normal’ or a revolutionary country

The political situation in Iran polarized immediately after the deal. The hardliners, who have control of the media and the judiciary, imprisoned journalists. The government was criticized in Friday prayers for not having actualized the ‘resistance economy’ and for failing to end the country’s dependence on foreigners. President Rouhani in turn has criticized the conservative media for acting as an ‘undercover police’ and for enjoying impunity from the judiciary.51

The contours of the after-the-deal identity fight are already visible. On the one hand, there are those, particularly within the current government, who support increased international openness and engagement, and a transformation from a revolutionary to a ‘normal’ country. On the other hand, there are those within the conservative opposition who see this as foreign infiltration and seek to protect the revolutionary values.

The current government, with President Rouhani and Foreign Minister Javad Zarif, is clearly in favour of a transformation. As President Rouhani stated in his address to the UN General Assembly: ‘I am speaking on behalf of a nation that, two years ago, again voted for constructive engagement with the world . . . I can now proudly announce that today, a new chapter has started in Iran’s relations with the world.’52

According to Rouhani, this could even herald the start of a new relationship with the USA. In an interview with the Italian newspaper Corrida della Sera, Rouhani indicated the potential for embassies to be opened between the two countries: ‘One day these embassies will re-open but what counts is behaviour
and the Americans hold the key to this . . . If they modify their policies, correct errors committed in these 37 years and apologise to the Iranian people, the situation will change and good things can happen.  

He dismisses the idea that Iran has two options before the world—either to submit to it or defeat it—and instead defines ‘a third way, of constructive cooperation with the world in a framework of national interests’.  

Supreme Leader Khamenei seems to be in opposition to this, or at least balancing the hardliners. Khamenei approved of the deal, including the final bilateral negotiations with the USA. Nevertheless, he has already made clear that negotiating with the USA on other issues is out of the question as it remains the enemy, the ‘Great Satan’. There are those in Iran who refer to historic religious figures such as Imam Ali and Imam Hussein, the first and third imams in Shiite Islam. Both imams negotiated with their enemies. Khamenei’s counterargument in the Iranian debate is that they did not negotiate with the opposing side but rather ‘advised them to fear God’. Khamenei’s fear is that the USA wishes to impact Iranian public opinion with respect to the revolution, religion and nationalist interests, specifically targeting young people. According to Khamenei, negotiations with Europe differs from the USA because ‘negotiating with America means to open the path for influence in the fields of economy, culture, politics and security’.  

Khamenei’s willingness to deal with Europeans is an important opportunity but an extremely challenging balancing act. If negotiating with the USA opens up a channel for influence, Europe must also navigate the challenge of negotiation without affecting the economy, culture, politics and security of Iran—a particularly difficult task for a normative, value-based foreign policy actor exporting its values of democracy, human rights and the rule of law. The confrontation is obvious and the question is, where is the middle ground?  

The supreme leader himself provides part of the answer. In a meeting with commanders and officials of the IRGC, he warned against ‘infiltration’ but made an important distinction between economic and security intrusion on the one hand and intellectual, cultural and political infiltration on the other: ‘Economic and security infiltration is not as important as cultural, cultural and political infiltration, for in cultural infiltration the enemy seeks to distort and undermine beliefs which underpin society.  

Political infiltration in turn implies that the enemy will seek to influence the decision-making centres and ‘the direction in which that country moves will be according to the will of hegemonic powers’. He urged the nation and authorities to remain vigilant in the face of enemy schemes and called for efforts to further reinforce the foundation of the Islamic Revolution and of a revolutionary way of thought, stating that this ‘is the fundamental responsibility of the IRGC’s elite and all revolutionary elite in the country’.  

Creating an open society is thus not self-evident even if the supreme leader is known to balance the political forces to keep the country together. Forces from the outside can do little good and a lot of damage. Nevertheless, the supreme leader’s more positive attitude towards Europe is an opportunity and an invitation to be an actor in the process.  

As indicated above, security and economic dialogues are not as precarious as those involving cultural and political aspects. The religious elites and the IRGC will be vigilant in policing the border between the economic/security and cultural/political ‘infiltration’. While an open economy is at least a possibility, the doors to an open society still seem to be fairly closed—despite the fact that foreign investments and economic relations create new arenas for dialogue, which in the long run also affect national values and self-image. Nevertheless, the political distinction between negotiating with the EU compared to negotiating with the USA is a competitive advantage for Europe to be exploited with great sensitivity, not only in relation to the Iranian society, but also to the transatlantic link.  

EU policy concerns and choices  

1. Engaging the Iranian people: although the supreme leader is critical of cultural infiltration this should

53 See Pullella, P., ‘Iran nuclear deal could help relations with US—if they apologise for past behaviour, says President Rouhani’, The Independent, 12 Nov. 2015.  
57 PressTV (note 56); and ‘Leader calls political and cultural infiltration highly dangerous’ (note 56).  
58 PressTV (note 56); and ‘Leader calls political and cultural infiltration highly dangerous’ (note 56).
not prevent people-to-people exchanges. Twinning activities with scientific universities, scholarship programmes and mutual exchanges in the Arts will enhance contact among young people while increased tourism will promote knowledge of Iran in Europe.

2. Revival of the official dialogues: the former reformist president, Mohammed Khatami, introduced a series of dialogues between civilizations. These were suspended in 2003 due to the nuclear issue.\(^59\) The lessons learned from these experiences should be studied and further discourse initiated to increase mutual understanding. At the time of the discussions, a parallel German–Iran dialogue on human rights was also discontinued. During an EU delegation visit to Tehran in 2013 the Head of the Human Rights Committee of the Judiciary, Mohammad Larijani, expressed Iran’s interest in renewing this cooperation.\(^60\)

3. Immediately following the deal, the EU established a presence in Tehran in the form of a special representative. This initiative should be supported by an inter-sectoral group representing possible EU instruments for project and finance coordination. Neutral fields of cooperation, such as activities to combat drug trafficking and protect the environment, should be identified and planned in close cooperation with Iranian authorities.\(^61\)

4. Where does the EU want to be with Iran in 15 years? The EU needs a strategy with regard to Iran, the lack of which has been one of the reasons why it was unable to conclude the Iran deal in 2005.\(^62\) The strategy should be based on mutual understanding and cooperation and aim at a path forward where Iran, after the 10–15 years of the implementation of the deal, will not consider acquiring nuclear weapons.

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\(^59\) Former Iranian president, Mohammad Khatami, introduced the idea of ‘Dialogue Among Civilizations’ as a response to Samuel P. Huntington’s theory of a ‘Clash of Civilizations’ after which the UN declared the year 2001 as the year of ‘dialogue among civilizations’.

\(^60\) Meeting with Larijani, M., Head of the Human Rights Committee of the Judiciary, European Parliament delegation for relations with Iran, 4th Inter-parliamentary Meeting, Tehran, 12-18 Dec. 2013.


A EUROPEAN NETWORK

In July 2010 the Council of the European Union decided to create a network bringing together foreign policy institutions and research centres from across the EU to encourage political and security-related dialogue and the long-term discussion of measures to combat the proliferation of weapons of mass destruction (WMD) and their delivery systems.

STRUCTURE

The EU Non-Proliferation Consortium is managed jointly by four institutes entrusted with the project, in close cooperation with the representative of the High Representative of the Union for Foreign Affairs and Security Policy. The four institutes are the Fondation pour la recherche stratégique (FRS) in Paris, the Peace Research Institute in Frankfurt (PRIF), the International Institute for Strategic Studies (IISS) in London, and Stockholm International Peace Research Institute (SIPRI). The Consortium began its work in January 2011 and forms the core of a wider network of European non-proliferation think tanks and research centres which will be closely associated with the activities of the Consortium.

MISSION

The main aim of the network of independent non-proliferation think tanks is to encourage discussion of measures to combat the proliferation of weapons of mass destruction and their delivery systems within civil society, particularly among experts, researchers and academics. The scope of activities shall also cover issues related to conventional weapons. The fruits of the network discussions can be submitted in the form of reports and recommendations to the responsible officials within the European Union.

It is expected that this network will support EU action to counter proliferation. To that end, the network can also establish cooperation with specialized institutions and research centres in third countries, in particular in those with which the EU is conducting specific non-proliferation dialogues.

http://www.nonproliferation.eu