



CENTRO STUDI  
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# The Future of the Iran Deal without the United States

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On Tuesday, May the 8th, President Donald Trump announced the withdrawal of the United States from the Joint Comprehensive Plan of Action (JCPOA), the deal signed with Iran in 2015 for the reconfiguration of its nuclear research program. Coming earlier than the deal's official implementation deadline, which had been set for the 12th of May, Trump's decision is the seal of the current Administration's aversion towards the deal. The nuclear deal was considered ineffective not with regards to technically limiting Iran's nuclear capability as much as for curbing Iran's growing political influence in the region. Such a retreat will now pave the way for a restoration of the regime of sanctions which was imposed on the Islamic Republic until 2016, with the aim of striking key strategic sectors for the Iranian economy thus halting technological and industrial advancements together with the country's economic growth.

Trump's decision alone, however, does not nullify the JCPOA, as the agreement was also signed – US aside – by China, Russia, Germany, France, the United Kingdom and the European Union. Unanimous disappointment for Trump's withdrawal came from both Brussels and the so-called EU3 group immediately after the President's speech. The round of visits to the White House from French President Emmanuel Macron, German Chancellor Angela Merkel and UK Foreign Secretary Boris Johnson in early May highlighted the common position of France, Germany and the UK with regards to saving the deal with Iran. This convergence of interests, also remarked in a public statement by High Representative of the EU Federica Mogherini, reiterates how the support for the agreement incarnates Europe's willingness to pursue a path of reconciliation with the Islamic Republic, as the relationship had somewhat frozen during the last years of former President's Mahmoud Ahmadinejad last mandate and as the nuclear agreement allowed to find renewed opportunities for positive confrontation.

Indeed, it is precisely European engagement which could now be the key variable in ensuring the endurance of the current cooperative framework in the near future. Even before the imposition of sanctions from Europe, in 2010, the EU was Iran's main commercial partner and, although the levels of the past have not yet been reached, Iran's exports to Europe have increased of 347% between 2015 and 2016. In 2017 alone, trade volume between the two amounted to €30 billions. European investments in strategic sectors such as hydrocarbons, green technology, automotive, infrastructures and industrial machinery demonstrate the Old Continent's vivid interest in its Persian

interlocutor. Already at the end of last year, growing critiques of the nuclear deal from the White House had urged the European countries to elaborate a way to secure their relationship with Teheran. The most puzzling part of these negotiations has always been the unconditional reflex that existing US sanctions exerted on European firms and banks, which ultimately discouraged and disincentivized a return to a full-exchange regime with Iran. Albeit the country's bank system was reconnected to the SWIFT<sup>1</sup> system in early 2016, fear of incurring in penalties, together with difficulties in obtaining a visa for the U.S. after visiting the Islamic Republic, prevented European banks and firms from accelerating the economic engagement with the Iranians. In an attempt to bypass this obstacle, some European countries, included Italy, signed bilateral financing agreements with Teheran between credit institutions, whereby one part would act as a guarantor for the type of risk to which the other part was exposed, so to allocate the necessary resources for the realization of common projects<sup>2</sup>.

Europe's capability to stick to the arrangements laid out in the deal and, consequently, its capability to reassure the Iranian government on the absence of economic sanctions, represents the key variable for the deal's future development. Indeed, as reiterated by Foreign Minister Javad Zarif, such capability will determine whether Iran will remain within the cooperative framework outlined in the JCPOA or, else, whether it will step back and give up on its commitment to curb its nuclear program. Iran's stance has its *raison d'être* in the importance that was always attributed to the nuclear deal by the government of current President Hassan Rouhani. The leader of the pragmatist front has made of the re-opening process towards the International Community the cornerstone of his two mandates. Of this process, the JCPOA was meant to be a key facilitator. The bet placed on the negotiate comported a significant political effort for Rouhani, who found himself in the position to justify, before the eyes of the opposition and the ultraconservatives, the decision to trust the historic US enemy in an attempt to revamp the economy. The meagre gains obtained so far in

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<sup>1</sup> SWIFT is the acronym of Society for Worldwide Interbank Financial Telecommunications and is based in Belgium. It designates a messaging system utilized by banks all over the world to exchange information and instructions concerning worldwide money transfers. The exclusion from the SWIFT system means the impossibility for the banks of a country to manage flows of money from and towards other countries. Iran was excluded from that network in 2012.

<sup>2</sup> In the case of Italy, Invitalia has signed an agreement for a financing framework (Master Credit Agreement) with the Bank of Industry and Mine and with the Bank of Middle East, for the funding of partnership and projects to be realized in Iran by companies from both countries. The Italian firm will grant the two banks the opening of credit lines for a maximum value of €5 billions, for individual investment projects only. The Iranian government is to cover with a sovereign warranty for each of them.



terms of growth and betterment of life quality, even after the removal of the sanctions, have put in a predicament the current executive, for which it has become increasingly harder to circumvent the internal critiques, together with that populist rhetoric which blames the President for having been too remissive in giving way to pressures from the outside. Moreover, the reignited dialectic of antagonism with the United States, following the abrupt change of attitude of the current Administration as opposed to the previous one – both with regards to the relationship with Teheran and with regional rivals – has further fueled a climate of uncertainty, which in turn contributed to destabilize the already precarious economic conditions.<sup>3</sup>

For Rouhani's Government, thus, the step back of the United States represents a paramount challenge which could have repercussions on the internal front both in terms of credibility to the eyes of public opinion and, in particular, in terms of freedom of maneuver with regards to those hard-liners who have always considered the country's strategic interests as antithetic to the ones of the United States. In order to prevent the long sought after deal from turning into a double-edged sword, Teheran now looks at Europe in an attempt to find the support that is needed to demonstrate that the US withdrawal has neither emptied the deal of its significance nor it has nullified the efforts towards the reconstruction of a relationship with the West that is built on mutual trust.

In this sense, a first hint seems to arrive from the meeting which took place in Rome the last 3rd of May Political Directors France, Italy, Germany and UK and Iranian Vice-Foreign Minister Hossein Jaber Ansari, and which was presided by EU External Action Service (EEAS) Secretary General Helga Schmid. Even though the key points discussed in the meeting were not made public, the timing with which the meeting was organized, together with the composition of the delegations, suggests that said meeting was a first moment of confrontation between the different parts, in order to evaluate how to proceed to safeguard the validity of the deal in the near future. Europe's complicated task is to find a point of equilibrium between the economic complications which new US sanctions will generate in the relationship with Iran and the political willingness to preserve – and indirectly endorse – the centrist political forces now in office in Teheran

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<sup>3</sup> For further discussion on the topic see: "La delicata situazione economica in Iran" <http://www.cesi-italia.org/contents/La%20delicata%20situazione%20economica%20in%20Iran.pdf>

Both sides of the coin seem to prospect a number of problems for the Old Continent, both as a Union and as individual member States. From an economic stance, it is undeniable that a possible reactivation of the sanctions from Washington will further exacerbate the problems already faced by some European banks and firms in engaging with their Iranian counterparts. It seems that measures to protect European economic actors from sanctions or retaliations from the United States, in response to their engagement with Iran, are already under construction in Brussels. In 1996, the EU had already approved some regulations preventing the extraterritorial applications of the sanctions imposed by the United States on Cuba, Iran and North Korea. Such measures would be aimed at creating a protective shield for EU firms engaging with Iran to benefit, in order to allow them to carry out their transactions in US dollars without the risk of incurring in penalties from their US counterpart. Such shield, however, might turn to be ineffective if the United States were to delineate stricter parameters, such as the exclusion of any economic actor engaging with Iran from the US financial system, or their interdiction from the domestic market. As much as some help might stem from the recent decision from Iranian authorities to utilize the Euro, and no longer the US Dollar, as the base currency for international trades, the paramount importance of the relationship with their Atlantic partner could nonetheless put the European countries in an awkward position with regards to their bilateral relationship.

From the success achieved at the economic level will also depend the chance to save the political value of the deal. Indeed, the validity of the JCPOA binds Iran to abide by its commitments to downsize its nuclear program, and is regarded by the European countries as an important framework of reference to ensure the containment of the Islamic Republic's nuclear capability. However, as the above-mentioned visit of the EU3 leaders to the White House has shown, some Member States believe it is necessary to take advantage of the dialogue opened up with Teheran to try and find some points of convergence on issues of common interest, in the hope this will, somehow, soften Washington's position on the matter. Among these issues, there is not only the limit to Persian influence in the region, but also Teheran's widely discussed ballistic program. Albeit the current position of the Iranian government does not leave room for renegotiation, the possibility that maintaining the deal could lead Iranian negotiators to consider the opening of new discussion on regional issues is not yet to be ruled out. Just as, in 2015, the convergence between Iranian and international interests on the fight against Daesh in the Middle East created favorable conditions for dialogue, also facilitating the nuclear deal process, Europe could take

the common interest with Iran to save the deal as a starting point, with the aim to find new points of negotiations regarding urgent international issues, such as the enduring war in Syria.

The European diplomacy's task to keep the dialogue with Teheran open, however, might be further complicated by the lesser degree of elasticity that seems to characterize their Iranian counterpart. As it now relies on the certifications issued by the International Atomic Energy Agency with regards to its abidance to the JCPOA, the Iranian government might adopt a less flexible approach than the one employed in the 2015 talks. On the one hand, this might well be the case as the issues on which there would be an interest to open up a dialogue have always been a prerogative not of the Ministry of Foreign Affairs but of either the Ministry of Defence (such as the ballistic program) or, alternatively, of those hardline conservative forces (such as the Islamic Revolutionary Guard Corps) which have now found a place of paramount importance in the definition of Iran's regional strategy. On the other hand, interested as it may be in preserving the agreement's validity, Rouhani's Government is now faced with the necessity to demonstrate both to the electorate and to the political oppositions that it can keep its consistency, and that it is capable of carrying out a relationship with the International Community with the goal of preserving the Country's national interest. That is why, in a moment when the calling into question of the agreement was sparked by a deliberate step back from Washington, which was in turn motivated, rather than by legitimate concerns over the military capability of the Islamic Republic, by the willingness of sending a signal of closure to Teheran, the ambition to preserve its role and its regional influence seems to have increasingly become a matter of national interest for the Iranian government.