

In the shadow of Trump: EU-Iran relations

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Abstract: Donald Trump has exited the Joint Comprehensive Plan of Action (JCPOA) and threatened Iran with economic warfare - the ultimate goal is regime change. Iran is still adhering to the JCPOA, their goal is increased trade with the European Union (EU). Belatedly the European Union is trying to save the JCPOA by protecting its trade with Iran despite American sanctions. As the EU is one of the main architects of this non-proliferation victory, maintaining it is crucial for its credibility. This is of about the EU's strategic autonomy, its ability to conduct an independent foreign policy. Domestic Iranian political developments will be set back by the United States sanctions and the pressure on other countries to follow suit. But this will hurt the population more than the political elite.

Trump: short term gains, long term losses

From the very outset of his presidential campaign, Donald Trump was quite candid about his conviction that the United States (U.S.) often ends up with the proverbial short end of the stick in international politics and trade. As president, he has emulated the transactional tactics that have characterised his business endeavours while manoeuvring in international politics. The repercussions of this unorthodox way of both viewing and conducting international politics have been severe. While rule-breakers abound in international politics, the magnitude of the consequences is on a totally different level when the culprit is one of the creators and enforcers of the rules.

What the first 16 months of this presidency has shown is that there is a consistency to this rule-breaking and unreliability: the U.S. cannot be considered a fixed actor on the international scene, its constructive participation cannot be taken for granted, and through this constant shifting of positions and use of Twitter to hint/announce/vacillate over these positions, everyone is kept on their toes.¹ Nowhere has this been more clear than in how the administration has handled the P5+1 (permanent five members of the UN Security Council and Germany) nuclear agreement with Iran (resulting in the Joint Comprehensive Plan of Action - JCPOA). All of the top contenders for the Republican nomination were very critical of the agreement, but President Trump has gone about wrecking the JCPOA in his own peculiar way. His first strategy was to use his media presence to constantly question the validity of the agreement and more importantly to state that he was considering not signing the ongoing

sanctions waivers which are part of what the U.S. is obligated to do under the agreement every 90–120 days. He thus destroyed the reliability of the U.S. commitment to the agreement and shortened the time frame of predictability – the convention of continuity in legal commitments across administrations has been discarded, leaving everyone on the edge of their seats every 90 days. In essence the economic pillar of the agreement was being weakened, which in turn started sapping away at the political life of the JCPOA. This was keenly felt both in Tehran and in Europe, which has had the fastest recovery in trade with Iran of all the actors involved in negotiating the agreement. A three-month window for a return on investment makes anything but the most transactional sale/purchase of goods unfeasible. Besides hurting the Iranian economy, the more strategic aim of these actions was to try and provoke Iran into leaving the agreement.

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For those who want the JCPOA dead, that will always remain the first choice for very simple legal and political reasons. Without Iran there is simply no agreement, and in order to ensure compliance without having to contend with other United Nations Security Council (UNSC) veto powers, especially Russia and China, the Obama administration insisted, successfully, on a snap-back mechanism in the JCPOA. In short, if Iran is found in material breach of the JCPOA, the UNSC resolution that suspends international sanctions against Iran will become null and void and all the sanctions will automatically be reinstated. Thus, the quickest and most cost-effective way to re-isolate Iran is to have it violate or

leave the agreement, which by definition makes it incumbent on all UN members to again abide by sweeping UN sanctions against Tehran. The Rouhani administration was, however, well aware of this game plan and did not let itself be provoked into any rash reactions. While Tehran complained to the Europeans about the detrimental effects of all this noise from Washington on trade, it did not up the ante.

The second Trump strategy was to pressure the European Union (EU) to agree to new stringent demands on non-nuclear issues where both Brussels and Washington find Tehran's behaviour highly problematic (ballistic missiles, Syria, etc.). The idea was again to show Tehran and the Iranian public that regardless of the nuclear agreement, their country was still a pariah state. The request by Trump was both an invitation to the E3 (Great Britain, France and Germany) to push back against Tehran, but also an ultimatum – without this amendment (a political selling point not a legal possibility) of the JCPOA the U.S. would leave the agreement. By the time this second strategy had evolved two key members of Trump's cabinet had left. The exit of National Security Advisor H.R. McMaster and Secretary of State Rex Tillerson meant that Secretary of Defense James Mattis was no longer part of a team buoying a more realist view of world politics within the administration. Mattis is now a lone voice contending with two very ideological hawks, John Bolton and Mike Pompeo, who channel Trump's perception of the importance and power of the U.S. in the world much better. This new wave is strengthened by Trump's relationship with Israeli Prime Minister Binyamin Netanyahu and Crown Prince Mohammad bin Salman in Saudi Arabia. Both Tel Aviv and Riyadh have been looking for ways to undo the JCPOA and push back hard on Iran in the region. This understanding of Middle East dynamics is very much shared by Trump and his new foreign policy team.



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At this point, the E3 committed what can be called a conditioned tactical mistake.² They continued to assume that the U.S., under President Donald Trump, was both a rational actor and a steadfast ally, and that there thus was a common baseline for how risk, gain, and collateral damage could be assessed and managed between the two powers that have built the post-World War II and Cold War international system. Thus, there would be measures that could be taken against Iran that would save the fraying transatlantic common understanding of the world. This newly accrued political capital could then be used to sway President Trump to stay in the nuclear agreement.³ This was an error exactly because that transatlantic ally which is predictable along common lines of rationality does not exist any longer – whatever can be agreed upon will have to be transactional because that is President Trump’s frame for understanding politics. The chances of swaying Trump were, then, very slim and by supplicating him to remain the E3 undermined their own credibility vis-à-vis their counterpart, without whom there can by definition be no deal – Tehran. The government in Tehran watched as the E3 tried to win over Trump using the old formula that had not worked before serious negotiations began in 2013 for the JCPOA – demands on Iran backed by threats of pressure and sanctions without any actual dialogue and thus no incentives for compliance with those demands.

In the end, the E3 got nothing for their efforts to accommodate Trump’s demands. The U.S. exited the agreement with a speech⁴ very much bearing the imprimatur of National Security Advisor Bolton. An ultimatum to

Tehran, a dismissal of multilateralism and a clear message of refusing to acknowledge the Islamic Republic as a legitimate state actor, instead appealing to the population to change their system of government. Trump repeated a number of falsehoods about the JCPOA – what it was supposed to regulate and what it has given Iran in return – and made clear that the U.S. would now apply the harshest sanctions possible on Iran and their trading partners. He thus made clear that his agenda is in effect a diktat with which the EU was expected to comply. The shock and consternation in European capitals was deep, as it was becoming clear that the Trump administration’s approach to this particular issue was not an anomaly but part of a wider pattern. For some holding on to the ideal of the transatlantic partnership, the feeble hope was that Secretary of State Mike Pompeo would lay out exactly how the Trump administration intended to achieve its goal of a “better deal”: he would in essence deliver the substance. But Pompeo’s speech at the Heritage foundation was if possible even more problematic. In it he presented what he claimed was tangible steps Tehran could, and must, take in order for Washington to deign to negotiate with it. Pompeo gave a list of demands comprising everything Washington faults the Islamic Republic for going back to its inception. In essence, he demanded an unconditional surrender: no involvement in Syria, Yemen, Iraq, no Hezbollah, no missile program, a cessation of all nuclear enrichment activities, etc. Meanwhile, the U.S. will wage economic warfare against Tehran until it either gives in or, preferably, implodes. Here he followed up Trump’s speech by reiterating that the Iranian people deserve better and should affect a regime change from within.

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EU manoeuvring and abilities

The nuclear agreement with Iran is a very European victory; it proves the usefulness of multilateralism and is a huge step forward for global non-proliferation. As a signature achievement of the union its survival is therefore not just crucial for what it has achieved, but also important to defend as a means of maintaining EU foreign policy credibility. Belatedly the EU is now waking up to the fact that it needs instruments to safeguard foreign policy achievements and goals of this kind. And since trade is an integral part of the incentive that keeps Iran in the agreement, it is also salient for the conduct of foreign policy. High Representative Frederica Mogherini has consistently defended the JCPOA and vocally pushed back against the Trump administration. For some time, it seemed that Brussels was much more forward-thinking than the E3 for instance. But as it has become clear that Washington is not really interested in resolving the issue, both Donald Tusk and other heavyweights within the EU system as well as member state representatives have voiced their dismay and frustration with the Trump approach. What gives the issue urgency is not only shoring up support for the multilateral achievement of the JCPOA in general, but also to deflect the effects of new and old US sanctions on trade with Iran. The embattled Rouhani administration needs a vigorous and concrete European defense of the JCPOA in order to be able to counter the narrative of the hardliners and shore up increasingly pessimistic public opinion.

What Iran expects

The hardliners in Iran who were against the agreement from the beginning (just like their equivalents in Washington) have now gotten their narrative about the devious Americans and spineless Europeans confirmed. The U.S. cannot be trusted; it has reneged on its commitments in the JCPOA, and so far the Europeans have not come together

to neutralise this threat to the viability of the agreement. New American sanctions and the threat of regime change favours the hardliners exactly because it confirms their worldview, helps enforce internal elite cohesion and provides ample excuses for the securitization of society.⁵ This in turn allows the more conservative elements in the Islamic republic to ignore and marginalize the wishes of the overwhelming majority for a more open society with better relations with the West.

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The Iranian economy has improved since the JCPOA but obviously not as fast or much as the government and the population might wish. The major achievements are also more of a macroeconomic kind, which means that the average citizen has not reaped them yet. Unemployment is still very high and the austerity measures the government have implemented in order to bring down inflation have also meant much less public spending and investment. Add to this a lack of a systemic redistributive policy, i.e. economic growth is not being redirected in any meaningful way towards more vulnerable sectors of society, and it becomes clear that the general population was not sure it was getting much from the deal as it was, let alone now when it is coming apart at the seams due to President Trump.⁶

Thus, the economy was already suffering from the uncertainty created and fanned by Trump over the last 8 months and the certainty of new sanctions will undoubtedly weaken it further, but as important right now



is the psychological impact.⁷ There is now a sense in Iran that the expectations of what the nuclear deal would bring to the country and its citizens, economic benefits and greater interaction with Europe, are being quashed in a definitive sense. Once again, the country is under siege and its economic and political future of the country uncertain. On May 23 the Supreme Leader, Ali Khamenei, responded to Pompeo by issuing his own list of demands – though not to the U.S., but to Europe. While some of his conditions are as hyperbolic as Pompeo's, others were at least a good indication of where politicians in Tehran stand at the moment. He stated that Europe might have been able to avoid this calamity if it had stood up to Trump earlier in the process. Of the E3 he said, "they are not our enemies, but we do not trust them." For Europe to hold up its end of the bargain, Khamenei said, now requires that they guarantee the sale of Iranian oil and do not bring up Iran's missile defence system.⁸ While the latter is unrealistic, it shows how Iran has adapted its stance to the circumstances. Before the threat and actual exit of the U.S. from the agreement, Tehran had signalled a certain willingness to discuss other issues. Now, with the American withdrawal and Pompeo's demands, that is no longer politically feasible – agreeing to negotiate a new agreement on sensitive defence issues after the U.S. violated the first agreement is unacceptable and would be seen as weakness.

Khamenei also stated clearly that he does not believe that Europe and the nuclear agreement is the road Iran needs to take to rebuild its economy. While there is an element of old third-worldist rhetoric in this, there is also an understanding that the U.S. is the isolated party and even if Europe fails to rise to the occasion, neither China nor Russia is going to shy away from doing business with Iran. This however also requires a lot of self-restraint from Tehran, both in rhetoric and action. While the government understands

this the big question is to whether they will be able to convince political hardliners and the hawks in the IRGC to go along with this approach.⁹

What can the EU do?

For the EU to be able to save the JCPOA it will have to work along two levels: 1) counteracting US secondary sanctions and 2) safeguarding trade with Iran.

The first level is the most difficult politically and will in the short term primarily serve as a symbolic act to help clarify the EU commitment to free trade in general and the JCPOA specifically. In order to save this trade (extant contracts and projects) the EU needs countermeasures against American secondary sanctions. These sanctions punish European companies for trading with Iran even though it is legal to do so in the EU. When the Clinton administration was forced to implement such sanctions on Cuba and through the Iran Libya Sanctions Act in the 1990s the EU reacted harshly, both introducing blocking statutes to shield European business and threatening to take the U.S. to the World Trade Organization for violating trade agreements. In order to avoid this show down president Clinton issued waivers so that the larger European companies with Iranian contracts would not become spark of a trade war with the EU. As the nuclear crisis with Iran evolved after 2005-6, the EU and U.S. jointly increased pressure on Iran and thus Brussels did not insist on rejecting secondary sanctions as vigorously – in effect, it accepted the mechanism because it agreed with Washington on the end goal, economically isolating Iran. This is a tall order and not all the member states are ready for such a step.¹⁰ While the idea is to reactivate the old blocking statutes before US sanctions come into force in August, it is doubtful that the legislative route is fast enough to parry Washington and shore up confidence in Tehran.¹¹



The second level concerns safeguarding trade with Iran and requires recognising that the traditional logic of global trade is in this instance a hindrance and not a guide. Trade is part and parcel of foreign policy and in order to be able to conduct its own foreign policy the EU needs to ensure the independence of its trade. As the global financial system is predicated on free trade and the use of the dollar as the primary currency, U.S. law and politics inevitably cast a long shadow over global trade. For the EU to be able to step out of this shadow it will need to build financial instruments and institutions that are not immersed in the dollar flow of global trade. Thus banks and financial institutions must be financed solely in Euros and have no shares, investments, or stock in the U.S., and a governing board with no American citizens. Paradoxically then, in order for the EU to trade freely in the world it must also possess financial institutions that are extremely local in their provenance and make up.

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The battle over the banking transfer system SWIFT is a case in point. SWIFT is a global banking consortium legally registered in Belgium and thus under EU jurisdiction. Washington has demanded that SWIFT shut out Iranian banks, as was done in 2012 when the EU forbade interaction with Iranian banks and SWIFT had to comply, from their transfer system, This time however the EU has explicitly requested that European banks (using SWIFT) to continue interacting with their Iranian counterparts. If Washington forces the issue (there are U.S. citizens on the governing board of SWIFT) the EU has

either to stand its ground in order to save the primary financial infrastructure for business with Iran, or fold and thus lose in credibility.

In the end Euro-based instruments are not for the benefit of Iran, but necessary for European strategic autonomy – Iran just happens to be the first test case that will either induce the building of such instruments or mark the beginning of decline of European ability to act on the global scene.¹² While these kind of financial institutions may have pan-European ambitions, they do not need to be cleared by all 28 members states – an alliance of countries with sufficient monetary weight is enough. The global companies often grab the headlines and this gives the false impression that the JCPOA stands and falls with contracts with companies such Airbus and Total. Those contracts are important as much politically as economically, but in the long run the trade and exchange that Iran needs and Europe can provide comes from the SMEs.¹³ These companies are not yet invested or necessarily interested in the US market and therefore countries like Iran are relevant to their business model. For them, having a European bank large enough to underwrite their investments is crucial for daring to take the step, and that is integral to continued growth of EU-Iran trade.¹⁴

Conclusion

Iran will most likely trudge on despite Trump's attempt to destroy the country's economy. The kind of economic and political growth that the country needs for a more stable development and which many Iranians were hoping the nuclear agreement would make possible, however, cannot be realized under siege. Nor will those who champion this cause on the political battlefields of Tehran be able to maintain that narrative with Trump as American president and a vacillating Europe.

Thus, like so many times before over the last 30 years, Europe remains the buffer that



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will be able to keep the constant chafing low intensity conflict between U.S. and the Islamic Republic from escalating beyond control. Just as in the negotiations prior to the JCPOA, it is the EU's ability to partner up with both antagonists that has made diplomacy work – paradoxically, for the agreement to survive now, the union needs to stand up to one of the signatories, and it is not Iran. In Tehran this is what everyone is hoping for, against all odds, as there has never been much trust in Europe as an independent actor. For a long time, Europeans would view Iranian desire for a more independent Brussels with great suspicion, it was seen (and probably was) as an attempt to weaken the transatlantic alliance and resolve vis-à-vis Iran. Be that as it may, today that independence is necessary for Europe's own credibility and strategic benefit - it cannot afford more mayhem and war on its doorstep.



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