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Edited by Paolo Magri, Annalisa Perteghella

# POST-VOTE IRAN GIVING ENGAGEMENT A CHANCE

ISPI



**POST-VOTE IRAN  
GIVING ENGAGEMENT  
A CHANCE**

Edited by Paolo Magri, Annalisa Perteghella

**ISPI**



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# Contents

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Introduction.....	7
<i>Paolo Magri</i>	

## **Section I - Iran: An Identity Card**

1. The Struggle for Iran: Rouhani's Difficult Path to Reform.....	15
<i>Pejman Abdolmohammadi</i>	
2. Not for the Price of Watermelons: Is It Possible to Reform the Iranian Economy?.....	33
<i>Eugenio Dacrema</i>	
3. Security Spoiler or Political Broker? Iran's Role in the Middle East.....	53
<i>Annalisa Perteghella</i>	

## **Section II - A Fateful Triangle: Iran, the EU, and the US**

4. Under Pressure: US-Iranian Relations in the Age of Trump.....	79
<i>Sanam Vakil</i>	
5. EU-Iran Relations: Building Bridges in Stormy Waters.....	103
<i>Rouzbeh Parsi</i>	
6. Squaring the Triangle: The EU Between Rouhani and Trump.....	121
<i>Cornelius Adebahr</i>	
Conclusions and Policy Recommendations for the EU....	139
The Authors.....	145



# Introduction

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2017 marks a milestone in recent Iranian history. In January, while the Joint Comprehensive Plan of Action (JCPOA) entered the second year of implementation, in Washington the new hawkish Administration took office, with the promise to “renegotiate a disastrous deal”. In May, in Tehran, the incumbent president Hassan Rouhani won re-election by a wide margin. In the same month, the US – although reluctantly – renewed the much-awaited waivers lifting the US sanctions, as agreed in the JCPOA.

The events of the first half of the year draw a clear-cut picture of the current situation.

In Tehran, a pragmatic and moderate government is keeping up with its commitments under the JCPOA, while making an effort to open up its country to new economic and political actors. As president Rouhani put it, he will keep up the promise of a “constructive engagement”. These efforts have been widely acknowledged and rewarded in the February 2016 legislative election, as well as in the May 2017 presidential election, thus signalling the desire of the Iranian population to re-engage with the world.

Unfortunately, the same is not true of Washington, where the Trump Administration keeps sending contradictory signals. While the State Department has renewed the waivers and certified Iran’s compliance with the JCPOA, new sanctions are under scrutiny in the US Congress, finally freed from the veto threat of Barack Obama. Not to mention US President Trump’s first foreign trip to Israel and Saudi Arabia, the two staunchest enemies of the Iran deal. Trump’s alignment with the “Sunni side” of the Gulf can only raise new fears in Tehran.

Against this backdrop, an actor is increasingly at unease with the revamped cold war between Iran and the US: the European Union. With the signing of the JCPOA in July 2015, the EU – and its Member States – could breathe a sigh of relief as finally sanctions against Tehran were removed. Good news for the EU businesses which had been deeply penalized by the sanctions. On top of this, the mediation role played by the European External Action Service was widely recognized and praised. A diplomatic success for an actor like the EU – often described as an economic giant but a political dwarf. It comes as no surprise that, in the aftermath of Trump's election, the EU HR/VP Mogherini made a vow to protect the JCPOA. And, ever since, she has repeatedly pointed out that the EU remains strongly committed to the implementation of the deal. Indeed, EU-Iran relations have improved since the signature of the deal, as the number of state visits between Iran and numerous European countries demonstrates. Moreover, the leading role played by Iran in the region – “a neighbour of our neighbours” – clearly calls on the EU to strengthen the dialogue with Tehran with the aim of stabilizing a wide arc of crisis which extends all around its Southern borders.

Bearing this in mind, this Report intends to trace what lies ahead for Iran after the May 2017 Rouhani's re-election. The analysis builds upon the assumption that Iran does not act in a vacuum: the US, as well as the EU actions, will inevitably help define the future trajectory of the country. A trajectory which is set domestically also by the generational transition Tehran is going through, with its Supreme Leader, Ayatollah Ali Khamenei, looking for a successor. The inter-factional struggle affecting Iran since the early years of the Revolution is now revived by what is actually at stake: the very future of the Islamic Republic.

Pejman Abdolmohammadi opens the Report by investigating how Iranian political factions have repositioned themselves after the elections. While Rouhani's victory has certainly tilted the balance of power in his favor, it has also incited the Conservatives' and the Hardliners' counteroffensive. Will the

president be able to implement his policies or will the system push back? Indeed, beyond the electoral and the day-to-day political dynamics, a question lies deep: can the revolutionary state sustain itself amidst a growing number of domestic and regional challenges? A key passage will definitely be the succession to the Supreme Leader Ali Khamenei. This chapter addresses this issue too by exploring if and to what extent Rouhani will be able to set the stage for a “pragmatic” succession to Khamenei, or rather if the Hardliners and the other actors representing the “deep state” – namely the Islamic Revolutionary Guard Corps (IRGC) – will succeed in reclaiming the reins of power.

In this process, a crucial topic is the future of the Iranian economy. Indeed, the economy of the country has always played a leading role in setting the condition of the country’s political developments. Rouhani’s electoral victory, in both 2013 and 2017, made no exception: in 2013, it was exactly the promise to bring to an end the Ahmadinejad’s era of economic hardship that brought Rouhani to power. In this year’s electoral round, it was the promise of capitalizing on the benefits stemming from the sanctions relief. However, the country’s economy suffers from structural problems that ultimately hamper its full recovery. Eugenio Dacrema reviews the achievements and the shortcomings of the last two governments, highlighting some structural constraints, such as the overexpansion of the state sector. The author also tries to gauge the real impact of sanctions relief on the Iranian economy: which results have been achieved so far? What remains to be done? Which obstacles are still there for international investors? How does the Iranian economy affect politics (and vice versa)?

The third chapter, by Annalisa Perteghella, shifts the spotlight to Tehran’s role in the region. The signing of the JCPOA, as well as Rouhani’s re-election, have been greeted as an ultimate success for the moderates, who, the argument went, once empowered would have broadened their agenda of moderation to include cooperation on thorny regional issues. However, if we look at the last years’ regional developments – the revamping

of the Syrian crisis, as well as the often-forgotten Yemeni war – Tehran has not always played a cooperative game. This is due to a plurality of factors, which are scrutinized in this chapter, which ultimately intends to assess whether Iran can be considered more of a spoiler or a security broker in the region.

But, needless to say, any analysis of Iran's role in the region, as well as of Iran's future, cannot forgo to take into account the traditionally complicated – if not openly conflictual – relationship between Iran and the United States. In the fourth chapter, Sanam Vakil analyses the possible implications of the November 2016 election of Donald Trump to the White House for the future of the JCPOA. By acknowledging that much of the hostility between the two countries is due to a mutual lack of understanding, the author presents both “the view from Washington” and “the view from Tehran”. After a wide review of the points of friction between Iran and the US, Vakil sheds a light on what to expect in the near future, by sketching out a number of scenarios which put together the US-Iranian relations and the wider regional and international developments.

In the fifth chapter, Rouzbeh Parsi looks at the European shore of the Atlantic, trying to assess what lies ahead for EU-Iran relations. By analysing the downsides of the sanctions policy for the EU as a whole and its Member States, the author recalls the stages that ultimately led to the negotiations as well as the opportunities effectively opened by the signing of the JCPOA in 2015. In addition, the chapter traces the evolution of the EU-Iran dialogue over the last two years and offers deep insights on how the EU could benefit from its successful role as a diplomatic actor in the Iranian dossier to bolster its autonomy and ability to act on the international stage.

Finally, in the sixth chapter, Cornelius Adebahr looks at the three apexes of the triangle – Iran, the US and the EU – by analysing the implications of the renewed Iran-US hostility for the EU-US relationship. In particular, the author explores the possible actions that the EU could take in order to “protect” the much-suffered and hardly-awaited deal. Indeed, while the

Europeans have made it clear that they would not reopen the nuclear file or embark on new sanctions – unless triggered by Iranian noncompliance – it would not be easy for them to resist a U-turn in Washington’s Iran policy.

By paraphrasing John Donne’s poem, in our much-interconnected world, no country is an island. Brussels has no interest in going back to the old US-sponsored policy of containment. Thus, it should act to preserve the JCPOA, as well as the delicate policy of engagement with Iran. The Report also offers policy recommendations to this aim.

The Iran deal achieved in 2015 was a diplomatic success and a potential stepping stone to improve security in the Middle East, by removing the spectre of a nuclear-armed Iran and the risk of regional proliferation. The last two years seem to confirm that the deal is working, and that – though slower than expected – change is actually happening. Endangering Rouhani’s actions would mean shifting the Iranian domestic balance of power towards Conservatives and Hardliners, thus bringing the clock back to the old policy of confrontation. In a world that looks more and more chaotic and uncertain and that so easily goes up in flames, this is time for cooler heads to prevail.

Paolo Magri  
*ISPI Executive Vice President and Director*





## **Section I**

### **Iran: An Identity Card**



# 1. The Struggle for Iran: Rouhani's Difficult Path to Reform

Pejman Abdolmohammadi

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In the next two decades, Iran could exercise a crucial role in the stability and the peace process in the Middle East. First, because of its significant geographical collocation (between the Caspian Sea and the Persian Gulf and between Asia and Europe), Iran has the makings to act as both mediator and peace builder within and between the Middle East and the West. Second, Iran is one of the major powers in the Middle East in terms of economic and military resources. Its foreign policy and the strategies it will adopt in the next two decades will influence the balance of power in the region significantly. Third, Iran has an important symbolic role, as it represents the major Islamic Shiite political system in the Middle East and consequently exercise relevant influences in its strategic areas, which are somehow affiliated to the Islamic Republic of Iran. Tehran has a voice in the matters of countries such as Lebanon, Yemen, Bahrain, Syria, and Iraq.

Finally, on the domestic level, Iran represents an important “political laboratory” for the democratization process in the Middle East. The modern political history of this country shows that, since the early Twentieth century, there had been significant socio-political movements which demanded constitutionalism and modernity and moved towards the creation of a pluralistic political system. It is worth to note that the first Constitutional Revolution in the Middle East happened in Iran in 1906 and the 1979 Revolution, under the leadership of Ayatollah Khomeini, and the consequent institution of an Islamic Republic in Iran, have been anticipating the rise of political Islam, which started to gain importance after the “Arab Spring” in 2010-2011.

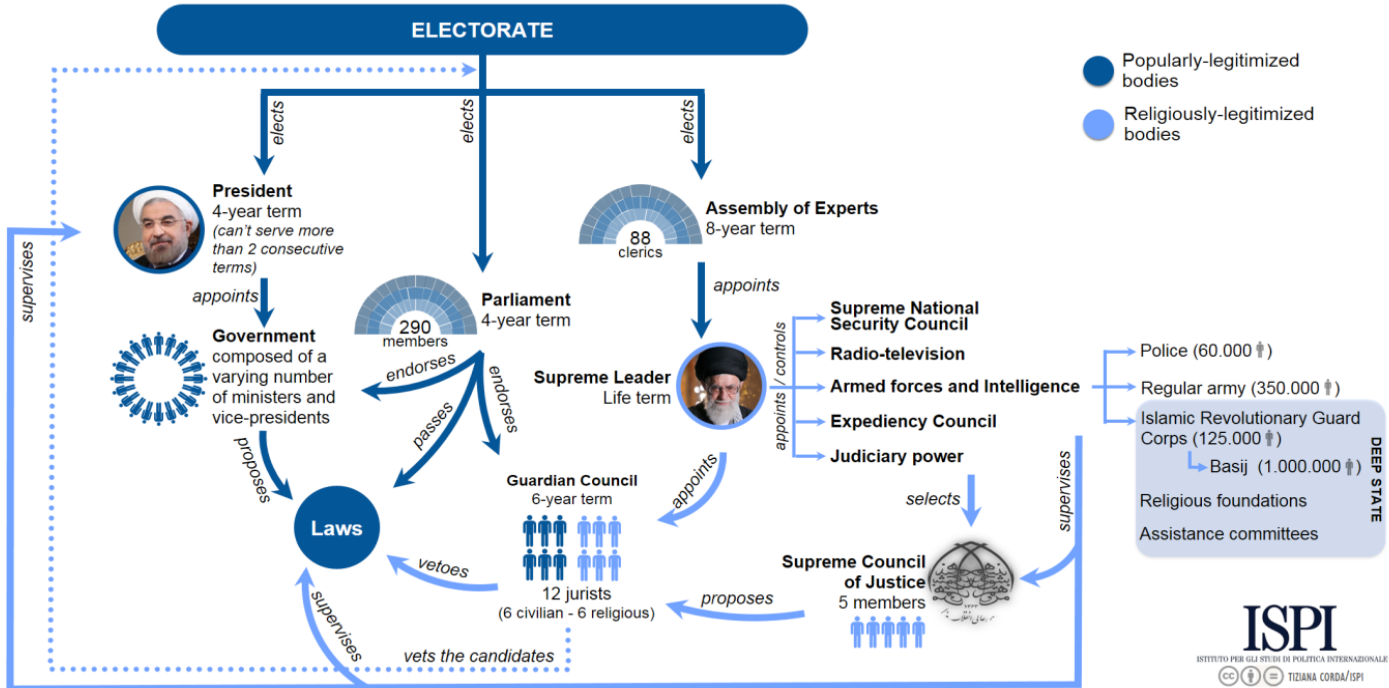
A thorough analysis of Iran's domestic politics, highlighting its main internal factions and players, is thus key. The Islamic Republic of Iran is a sophisticated political system which is neither a pure authoritarian system nor a pluralistic political regime. According to this paper, the Islamic Republic is a peculiar hybrid regime which combines Islamic principles with Republican ones. It means that Iran's political system is composed of institutional bodies which are the expression both of the Islamic and the Republican sides. It can be seen as a sort of cohabitation between two worlds: the Institute of the Supreme Leader, the Council of Guardians, the Assembly of Experts, the Expediency Discernment Council, and the Judiciary represent the body of the Islamic State, while the President of the Republic and the Parliament constitute the heart of the Republic.

In such a complicated institutional system, the political factions and players have played a relevant role in determining the internal balance of power within the Islamic Republic. The various political players coming from the religious, military, paramilitary, and economic spheres of the society made several alliances and alignments during the last 38 years of the Islamic Republic's life, influencing both the Iranian domestic politics and its foreign policy.

In such context, the last presidential election in May 2017 could be seen as one of the most important moments in the political history of the Islamic Republic. The victory of the incumbent President Hassan Rouhani with almost 24 million votes represented an important moment in the Iranian political life. The main outcome of such victory has been the confirmation of Rouhani's foreign policy based on the pragmatic idea of opening the country to free market and liberalization. Moreover, the Iranian voters pinned once again their hopes on a government which promised economic progress and development. To better understand the importance of the last election, this paper will devote a brief section to the electoral process.

# The Islamic Republic of Iran

## a complex mechanism



## The Iranian presidential election of 2017

Iran's presidential election took place last 19 May, and President Hassan Rouhani was re-elected for a second mandate.

Five official candidates ran for the presidency, all of whom were preselected by the Council of Guardians from among 1,653 registered candidates. This means that, according to the Council of Guardians, these five candidates had all the requirements, in accordance with the Constitution, to eventually become the President of the Islamic Republic. It also meant they had met with the approval of the Supreme Leader, Ayatollah Ali Khamenei.

The President of the Republic is the second highest official after the Supreme Leader, who functions as the country's head of state. The Supreme Leader (*rahbar-e mo'azzam-e enghelab-e eslami*) is the most important constitutional body of the Islamic Republic. It was introduced into the Iranian legal system in order to guarantee the application of *sharia* (Islamic law) in the Islamic Republic of Iran.

The President of the Islamic Republic is the head of the government. The executive power is responsible for implementing the Constitution and maintaining order among the three branches of the state. During the first nine years of the Islamic Republic, the Prime Minister exerted the greatest influence on the executive branch. However, following the revision of the Constitution in 1988 and the abolition of the office of Prime Minister, the President became the highest office of executive power, absorbing all the authority previously shared with the Prime Minister. After the constitutional amendment, almost concurrent with the death of former Supreme Leader Ayatollah Ruhollah Khomeini, the office of the President became the fundamental center of power of the institutional framework of the country after the Supreme Leader. The President appoints and supervises the Cabinet and the Vice Presidents who, by appointment, oversee the ministries they are assigned. In terms of foreign policy, the President can sign treaties, conventions, and

international agreements, subject to approval by the Parliament. On a domestic level, the President determines government policies, in consultation with the ministers. The Council of Guardians is the institution tasked with preselecting presidential candidates and verifying their requirements to participate in the elections. Iran has universal suffrage, and the President must obtain an absolute majority of the votes. If no candidate obtains it, there will be a runoff between the two candidates who received the highest number of votes in the first round. The elected President must receive the approval of the Supreme Leader before entering the presidential office<sup>1</sup>.

The last electoral competition was quite challenging, particularly between the conservative front and the pragmatist one.

The five candidates who competed for the presidency were: the incumbent, President Hassan Rouhani; Ebrahim Raisi; Eshaq Jahangiri; Mostafa Mirsalim; and Mostafa Hashemitaba. The last three were not among the main competitors as they were lesser known figures or quite marginalized within the main factions of the Islamic Republic. Mirsalim, for example, comes from a traditional conservative front and served as Minister of Culture and Islamic Guidance in the mid-1990s. Hashemitaba comes from a more pragmatist front; he was the Minister of Industries and Mining in the 1980s and head of the National Olympic Committee of Iran. Jahangiri's candidacy was more strategic and likely on behalf of Rouhani, as he is one of his main allies. He was supportive of Rouhani during the electoral campaign, particularly during the televised debates as the candidates challenged each other in front of the public. Jahangiri performed well during the television debates and supported President Rouhani against the conservative front.

The real challenge has been between Rouhani and Raisi, who were the main competitors. Rouhani comes from the pragmatist faction of the Islamic Republic, while Raisi comes from

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<sup>1</sup> See P. Abdolmohammadi and G. Cama, "Iran as a Peculiar Hybrid Regime: Structure and Dynamics in the Islamic Republic", *British Journal of Middle Eastern Studies*, vol. 42, no. 4, pp. 558-578, 2015.



the conservative front. Rouhani also had the endorsement of the reformist front and the support of a part of the opposition groups which are open to a negotiated and gradual political change, the so-called Melli-Mazhabi (Religious-Nationalist) faction, which is affiliated with the unrecognized *Nezhat-e Azadi* (Freedom Movement) party. Moreover, Rouhani relied on certain traditional conservatives who are supportive of his foreign and economic policies.

Rouhani enjoys a high standing among both international and domestic audiences since he negotiated the nuclear deal with the United States and five other countries in 2015, and some Iranian voters support him for this. However, the economic crisis in Iran has also grown during his first term as has the gap between the rich and the poor, while inflation and unemployment are still high. Moreover, Rouhani did not keep his electoral promise to increase civil liberties in Iran. These issues could have damaged his popularity in the last election and lead to a lack of consensus among Iranians compared with the 2013 election. However, the result of the 2017 election showed that Rouhani's policy had success among Iranians as almost 24 million citizens voted for his reconfirmation.

Rouhani's campaign tried to emphasize that the economic initiatives of his first term would be realistically felt by the population in the long term, and not in the short term, and that during his second term he would focus on guaranteeing more civil liberties and creating a more open society. It will not be easy for him to stake out this position as a part of the population is living in poverty, and society continues to experience limitations on civil liberties.

On the conservative front, Raisi had different affiliations and supporters. Raisi is supported by the so-called deep state and has close ties with Khamenei. He is among the most loyal clergy of the Supreme Leader, has taken relevant positions within Iran's judiciary system, and has filled strategic roles in the national security apparatus. Finally, Raisi was appointed as head of one of the most important and wealthy religious foundations, *Astan-e*

Quds-e Razavi, in Mashhad, with responsibility to oversee the country's holiest Shia shrine of Imam Reza.

Moreover, Raisi had and continues to have the endorsement of the conservatives and hardliners of the Shia clergy in the holy cities of Qom and Mashhad. He is also supported by a part of the Islamic Revolutionary Guard Corps (IRGC) and the Supreme Leader's office. However, Raisi has not been a very public figure in recent decades, and for this reason not many Iranians know him well. Furthermore, his public image was damaged by his conduct as an Islamic judge in the so-called death commission during the 1980s: he was responsible for sentencing to death many political prisoners opposing the Islamic Republic.

The victory of President Rouhani in May 2017 election has been very significant. Two crucial elements set the 2017 presidential election apart from the previous one.

First, the candidacy of former President Mahmoud Ahmadinejad was blocked by the Council of Guardians. Ahmadinejad registered as a presidential candidate, together with one of his loyal collaborators, Hamid Baghaei, ignoring the recommendation of Ayatollah Khamenei, who had suggested that he should not run in this election. Khamenei had warned him not to create tension in the Iranian political arena with his candidacy, but Ahmadinejad did not listen. The Council of Guardians, determined by Khamenei, stopped Ahmadinejad from running because his candidacy represented a challenge on two levels: it would reveal a deep fissure within the elite of the Islamic Republic, particularly among the IRGC and part of the conservative Shia clergy; and it would have proved that the Supreme Leader's power has diminished, as normally no politician in the Islamic Republic ignores his public recommendations.

The second element is the deep state's support for Raisi. In the last 20 years, the deep state supported the incumbent President, assuring his election for a second term, as a re-election was likely perceived as enhancing the stability of the Islamic Republic, both in terms of domestic and foreign policy.

Starting with ayatollah Khomeini's death in 1989, the three Presidents – Rafsanjani, Khatami, and Ahmadinejad – were all re-elected regardless of their political affiliation. The establishment did not promote challengers to impede their re-elections. In 2009, the candidacy of Mir Hossein Mousavi and Mehdi Karroubi against Ahmadinejad was not promoted by the deep state, but by the pragmatist and reformist fronts together, which were trying to stop Ahmadinejad's re-election. In that occasion, Ahmadinejad was supported by the establishment and the Islamic Republic was also ready to pay a heavy cost to guarantee his re-election. The Green Movement protests following the 2009 election were only the outcome of the intra-elite struggle between the establishment (made up of the Supreme Leader's office, the IRGC, and the National Security Council) and their rivals from the pragmatist and reformist fronts, at that time represented by Rafsanjani.

The situation on the last presidential election was different. Rouhani is a pragmatist and the establishment promoted a conservative competitor such as Raisi. As stated, Raisi had the endorsement of the office of the Supreme Leader, together with the support of an important part of the Shia conservative clergy and part of the IRGC. This made the election more sensitive and less predictable than previous contests.

Certainly, the recent death of the former President Ayatollah Ali Akbar Hashemi Rafsanjani, a balancer for the domestic politics of the Islamic Republic, has increased the internal conflicts of interest among the factions.

However, this current scenario could be influenced and exacerbated by two exogenous shocks.

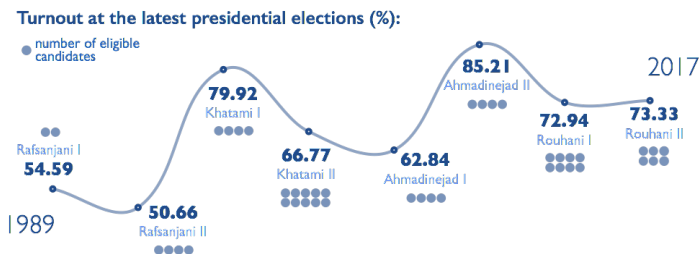
The first is the paradigm shift in global policy promoted by President Donald J. Trump in the United States, which will also influence Iran's domestic political balance of power. The opening of former President Barack Obama and his Secretary of State, John Kerry, toward Tehran strengthened the pragmatist position in the Islamic Republic and consequently allowed Rouhani to increase his power. Now, with Trump in office, the

pragmatists might suffer and become less successful in dealing with conservative challenges. Furthermore, should Trump increase pressure on the Assad regime in Syria and on other allies of the Islamic Republic in Yemen and Lebanon, the Iranian establishment might feel threatened and decide to support a more conservative President as a reaction to the new US foreign policy in the Middle East.

The second is the health of the Supreme Leader and its implications for the 2021 presidential election. Even though the news concerning Khamenei's health problems have been circulating in the media for several years, according to different internal sources it seems that his health is failing quickly. If true, this might justify the establishment promoting the candidacy of Raisi, who is a trusted ally of Khamenei. There are also several hypotheses confirming that Raisi might be one of the possible candidates to succeed Khamenei as Supreme Leader. If Khamenei were to die relatively soon, then it would be important for conservatives to have the presidency of the Islamic Republic in their pocket, since it would help them better handle the transition of power to a new Supreme Leader. Having a pragmatist in charge might be seen as an obstacle to guarantee a peaceful transition of power on behalf of the conservatives.

The election of Rouhani has been increasing the concern of the conservative front to guarantee a peaceful transition of power in case of death of the Supreme Leader between 2017-2021.

Last but not least, a portion of the population normally does not vote in presidential elections as an expression of protest toward the Islamic Republic. Normally, this oppositional portion of the Iranian electoral body has been around 30% of voters, which is quite significant. Surprisingly, a high percentage of this block decided to go to the polls and they likely voted for Rouhani, following the logic of supporting the "lesser of two evils". This has been helpful to Rouhani in his challenge against Raisi and the conservative front.



The result of this election will influence significantly the domestic and foreign policies of Iran in the coming years. Following Rouhani's victory, Tehran would likely continue its opening toward the West, particularly on the economic level, while it will not be clear the effect over Iran's involvement in the Middle East crisis. The role of Russia and China would be weakened as global allies, and the opening toward the West would increase significantly. On the economic front, there will likely be more attention on liberalizations and privatizations.

To better understand the guidelines of Rouhani's pragmatist faction, I will devote a paragraph to the pragmatist front of Iran.

## The pragmatists: Rouhani's main political base

The Executives of Construction Party (*Hezb-e kargozaran*) is the main pillar of this political group. It was established in 1995 by Ali Akbar Hashemi Rafsanjani, one year before the end of his second presidential term.

This was the first party within the Islamic Republic that was established with the support of the incumbent President, his Vice Presidents, and about ten cabinet Ministers. Rafsanjani's move was actually aimed at countering the rise of the conservative right and at creating a new political space in which he could strengthen his power. After Khomeini's death, it was precisely because of Rafsanjani's support inside the Assembly of Experts that Khamenei was appointed as Supreme Leader; nevertheless,

after eight years, Rafsanjani's alliance with Khamenei was already eroded, and he could not rely anymore on the initial synergy with the Supreme Leader. Over time, Khamenei began to act independently, breaking the original alliance: thus, Rafsanjani knew that he needed to enhance his political and economic position, and the creation of the Executives of Construction Party was part of this new strategy.

In addition to Rafsanjani, other leading figures of the Executives of Construction Party are Faezeh Hashemi, daughter of the former President, Hossein Mar'ashi, Qolamhossein Karbaschi (former Mayor of Tehran), Mohammad Atrianfar, Mohammad Ali Najafi (Education Minister of Rouhani's government), and Eshaq Jahanghiri (current Vice President of Rouhani). Their main slogans are the fulfilment of Islamic greatness, the continued renewal of the country, and the achievement of prosperity in Iran<sup>2</sup>.

This party is marked by a technocratic approach that affects all its policies. Economically, it supports a less statist view, in favor of an open market and liberalizations. In terms of regulatory policies, it is willing to accept cautious openings in the field of civil rights and to tolerate certain exceptions on social customs. Ultimately their foreign policy is open to diplomatic ties with the Western Countries<sup>3</sup>.

The electoral base of the pragmatists is composed of a section of the *bazaris* with more modern political views; part of the urban middle class, including some foundations such as the Astan-e Qods-e Razavi in Mashhad; private banks such as Karafarin, Parsian, Pasargad etc.; a minority within the militias and the Army, and part of the intellectual class, including professors, journalists, and writers in line with the regime.

Unlike the conservative and the reformist front, the pragmatists have not yet experienced internal divisions and the group,

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<sup>2</sup> A. Shadlu, *Ettela'ati darbare-ye Ahzab va Jenab-haye Siasi-ye Iran-e Emruz* (*Information about Parties and Factions in Contemporary Iran*), Gostareh, Tehran, 1379/2000, p. 309.

<sup>3</sup> *Ibid.*

until 2016, was still well centered on the figure of Rafsanjani and the Executives of Construction Party. After the death of Rafsanjani on January 2017, this front lost its main leader and founder. This will likely weaken this political faction within the Islamic Republic.

The presidential elections in Iran are not only a ritual, as it could happen in other authoritarian systems, but they represent an unexpected moment of changing, which could influence and even relatively change the internal political balance of power among the various factions and also influence the evolution or involution of the Islamic Republic.

## **The hardliners strike back**

The re-election of Rouhani has basically strengthened the pragmatist front and weakened the conservative one. This has been provoking a relatively harsh reaction from the hardliners who are trying to increase tensions within the Islamic Republic and to obstacle the new Rouhani government. One of their first moves has been the arrest of Hossein Fereydoun, brother of the President, to undermine his second term in office. According to the Guardian: “The brother of Iran’s moderate President, Hassan Rouhani, has been arrested amid escalating tensions between the government and the country’s hardline judiciary ahead of his swearing-in ceremony”<sup>4</sup>.

The hardliners’ reactions against Rouhani is also made apparent by the IRGC increased involvement in the region and their harsh statements against the West. For example, they issued a statement trying to deny credit to Rouhani for the missile attacks against the Islamic State in Syria on 18 June 2017.

According to the Islamic Republic News Agency (IRNA) “[...] the Leila Olqadr (Night of Power) operation was carried

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<sup>4</sup> K. Dehghan, “Hossein Fereidoun, Brother of Iran’s President, is arrested”, *The Guardian*, 16 July 2017 <https://www.theguardian.com/world/2017/jul/16/hossein-fereidoun-hassan-rouhani-brother-iran-arrested>

out according to military's hierarchical command system and per orders of the Commander-in-Chief of the Armed Forces [Supreme Leader Khamenei]"<sup>5</sup>. It is not yet clear why the statement was published three days after the missile attacks. Hours earlier, President Hassan Rouhani had reiterated that the IRGC's missile attacks were ordered by the Supreme National Security Council (SNSC) that he presides over. The operation was announced as retaliation for the June 7 terror attacks targeting the mausoleum of the founder of Islamic Republic, Ayatollah Rouhollah Khomeini, and the Iranian Parliament in Tehran. The Islamic State group claimed responsibility for the attack.

While hailing IRGC's missile attacks as "correct, timely and necessary", President Rouhani emphasized that it "is not a decision made by one individual or a military organ, but such decisions are made in the Supreme Council of National Security" and he added that the council had given even more authority to the armed forces to retaliate against "terrorists"<sup>6</sup>.

According to Ahmad Majidiyar, another example of the high tension between Rouhani and a part of the IRGC is the chief commander of the Islamic Revolutionary Guards Corps' rejection of President Hassan Rouhani's criticism of the IRGC's involvement in Iran's economy and defence of his forces' track record. "According to IRGC-affiliated Tasnim News Agency, Major General Mohammad Ali Jafari said it was inappropriate for government officials to 'delegate difficult tasks with minimal profits to Sepah (IRGC) and boast about projects executed by Sepah [...] but at the same time speak unfairly against Sepah'. Jafari made the remarks after Rouhani said last week that 'part of the economy was in the control of a government without a gun, and we gave it to a government with a gun – this is not economy and privatization'. Rouhani's comments referred to the Ahmadinejad

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<sup>5</sup> "Anti-Daesh operation successful: IRGC spokesman", Islamic Republic News Agency, 19 June 2017, <http://www3.irna.ir/en/News/82569807/>

<sup>6</sup> "IRGC Contradicts Rouhani - Missile Attack Was Ordered By Khamenei", Radio Farda, 22 June 2017, <https://en.radiofarda.com/a/iran-irgc-contradicts-rouhani-missile-attack-is/28571762.html>



Administration, which transferred the ownership of government assets and projects to the IRGC under a privatization scheme. Without naming Rouhani, Jafari blasted the President's remarks and emphasized that the IRGC is the main guarantor of Iran's security and stability. 'A government without a gun is humiliated and ultimately forced to surrender', he said, adding that the Iranian people need the IRGC's help now more than ever<sup>7</sup>.

Another element has been the pressure of Ayatollah Khamenei on Rouhani's government over the adoption of the UNESCO's Global Education 2030 Agenda. According to the official website of the Leader office, during this meeting, Ayatollah Khamenei stressed that the Islamic Republic of Iran would not surrender to UNESCO's Global Education 2030 Agenda.

Khamenei added, "The UNESCO 2030 education agenda and the like are not issues that the Islamic Republic of Iran could surrender and submit to"<sup>8</sup>. Ayatollah Khamenei slammed the superpowers' dominance over the United Nations by saying, "Why should a so-called 'International' community – which is definitely infiltrated by the superpowers – have the right to make decisions for the nations of the world with various cultures?". The Leader said that Iran would not sign such documents and added, "This is wrong per se. That we sign an agenda and begin to carry it out secretly is wrong. It is not permitted at all. I declared it". The Leader of the Islamic Revolution went on to express grievances of the Supreme Council of the Cultural Revolution for neglecting to supervise the signing of the document, further stating that, "I am disappointed by the Supreme Council of the Cultural Revolution. They should have taken care of it and prevented it from getting to where it is now, so that I would not have to take action and prevent it. It is the Islamic Republic here!"

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<sup>7</sup> A. Majidiyar, *I.R.G.C. Commander Rejects Rouhani's Criticism about Guards' Role in Iran's Economy*, Middle East Institute, 27 June 2017, <http://www.mei.edu/content/io/irgc-commander-rejects-rouhani-s-criticism-about-its-role-iran-s-economy>

<sup>8</sup> "Iran won't submit to agendas like UNESCO 2030: Ayatollah Khamenei", Office of the Supreme Leader, 7 May 2017, <http://english.khamenei.ir/news/4796/Iran-won-t-submit-to-agendas-like-UNESCO-2030-Ayatollah-Khamenei>

As Rouhani, at first, was supportive of the adoption of the UNESCO Global Education 2030 Agenda, the direct criticism of Khamenei emphasises tensions between the conservatives and the pragmatists within the Islamic Republic.

At last, it should be pointed out that Rouhani's second term will likely be weaker; he might not be able to implement its main domestic and foreign policy objectives. In other terms, Rouhani will govern for another four years, but without the power he had in his first term. In the meantime, the hardliners might prepare a hegemonic takeover of the presidency in the 2021 election. This scenario would become more likely should Iran perceive an immediate military threat, coming, for example, from the new US Administration or one of the Gulf Cooperation Council (GCC) countries such as Saudi Arabia, or if the Islamic Republic should come under some significant and immediate economic sanctions.

According to this analysis, if Rouhani will not be able to impose his agenda against the conservatives, there is the real chance that they could gain hegemony over the Islamic Republic in the next four to eight years. Up to this point, the Islamic Republic guaranteed a kind of turnover within its own political elite and factions. After Rafsanjani's death, such balance of power is seriously at risk of being undermined. His passing might weaken both the reformists and the pragmatists, thus opening space for the conservatives to take control. This will paradoxically create a polarization in the Iranian political system, potentially marginalizing the reformists and the pragmatists alike.

The consequences of this shift within the Islamic Republic, in combination with some changes at the international level such as the election of President Donald J. Trump in the United States, could also end up influencing Iran's foreign policy in the next four to eight years. First, the opening of Rouhani's government toward the West will be halted and the Islamic Republic, at least in the short term, could reinvigorate its anti-Western and anti-Israel orientation. The economic opening of Tehran toward the West might suffer a backlash. Such backlash will be

limited in the next four years as Rouhani has just been re-elected. Second, Tehran will reinforce its strategic alliances with both China and Russia. The economic ties with Beijing would likely grow and the security and military alliances with Russia could be reinforced. If Russia abandons Iran in order to build a new alliance with the United States, however, there could be a total alliance of Iran with China. Third, Iran would increase its support for Shia factions in the region and the proxy war against Saudi Arabia might intensify. Finally, the politics of the Islamic Republic in the Gulf region could become more security-oriented and tensions with the GCC states, particularly Saudi Arabia, could escalate.

### **Conclusion: a precarious balance of power**

The range of institutional and social actors moving within the Iranian political system is very diverse and heterogeneous. Its main components are institutional actors who are included for various reasons into the state structure and social actors such as foundations, banks, and the class of *bazari*, which constitute one of the social pillars of the Islamic Republic. In particular, the military organizations and the system of semi-public foundations described above, denote the range of these components: in contemporary Iran, a large number of pro-system actors and power groups compete for power, sometimes joining their forces and sometimes colliding, but always within the limits outlined by the Islamic regime.

This apparently heterogeneous reality guarantees the longevity of this political system: each actor, beyond the differences and conflicts of interest that may arise, support in various forms the “system” (*Nezam*), and take part in its activities, including control and repression, obeying its laws and directives, and supporting it also economically. Like many other complex systems, Iranian politics is animated by political alliances and competition among different political factions. These are heterogeneous political realities, united by fundamental interests and common values.

Three are the main fronts that characterise Iranian contemporary political landscape: the conservatives, the pragmatists, and the reformists.

On economic issues, the conservatives and reformists have a more statist orientation, while the pragmatists' views are more free-market oriented. Then again, when it comes to civil and political rights the conservatives are extremely intransigent, whereas the pragmatists and the reformists are more inclined, albeit with different nuances, to cautious openings. On the foreign policy level, the attitudes of the conservatives and many reformists are strongly anti-Western and anti-American, whereas the pragmatists have open and less sectarian views. Nevertheless, the ever-changing alliances and conflicts among these main political fronts continue to shape the political process. Currently, for instance, the government rests upon the alliance of the most moderate factions of these three political groups. In different historical moments, other coalitions emerged, such as the one headed by Khatami (between the reformists and the pragmatists) or the one headed by Ahmadinejad, dominated by the conservatives.

The alternation of these alliances is crucial in shaping the country's major public policies both internally and internationally. These pro-system factions are relevant to guarantee the equilibrium of the Islamic Republic.



## 2. Not for the Price of Watermelons: Is it Possible to Reform the Iranian Economy?

Eugenio Dacrema

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Iran's economy has always been a key element in setting the condition of the country's political developments. As it often is the case, the outcomes and trends of its economy have always been a matter of political dispute between supporters and opponents of the current regime<sup>1</sup>. Western observers have tended to focus on the numerous shortcomings of the post-revolutionary regime's economic management. However, since its foundation, the current regime has spent considerable effort on propaganda to advertise and glorify its achievements in the economic field, especially in the struggle against poverty and social inequalities.

A significant number of slogans throughout the 1979 Revolution reflected the Shah regime's mismanagement of the economy and the unfair distribution of national wealth. Hence, since 1979, the economy has become a central focus of the new regime that, along with the instauration of the *Velayat e-faqih* political model, had promised the inauguration of a fairer and prosperous Islamic economic model.

However, while the *Velayat e-faqih* had been carefully crafted by Ayatollah Ruhollah Khomeini, no one in the new regime knew how to shape an Islamic economic model, apart from reiterating the usual rhetoric on poverty and inequality<sup>2</sup>. Khomeini himself used to dismiss the technicalities of

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<sup>1</sup> D. Salehi-Isfahani, "Oil wealth and economic growth in Iran", in A. Gheissari (Ed.), *Contemporary Iran: Economy, Society, Politics*, Oxford, Oxford University Press, 2009.

<sup>2</sup> J. Amuzegar, *The Islamic Republic of Iran: Reflections on an Emerging Economy*, Abingdon, Routledge, 2014.

economic management. He was quoted as saying: “Economics is for donkeys” and “We did not make a Revolution to cut the price of the watermelons”<sup>3</sup>. Hence, especially after the end of the Iran-Iraq war, this became soon a matter of contention between the main groups competing for political primacy within the Islamic Republic and their different visions of the measures to be undertaken to develop the national economy.

Due to historical reasons and the demographic of the country the Iranian economy has always been relatively more diversified than those of other Gulf states. However, although several models of economic development have been applied since 1979, no unified method of economic management has proved able to cut Iran’s dependency on oil revenues. The economic performance has always been correlated with the oil price fluctuations, often with dramatic effects on the government’s ability to improve living conditions and spur the creation of jobs. During the last decade, economic issues became of primary importance within the domestic political debate. The high degree of economic mismanagement of the Ahmadinejad Administration, coupled with the new heavy round of sanctions – including an oil embargo – applied by the international community in 2011, led to deep imbalances and skyrocketing inflation despite the prolonged period of high oil prices, causing great hardship and discontent among the population. Thus, the economy has become one of the main issues in determining the electoral results that brought to power the moderate government of Hassan Rouhani and in inciting popular support for his moves on the international arena – namely the 2015 Iranian nuclear deal – aimed at easing the tension with the international community<sup>4</sup>.

This chapter starts with summarizing the achievements and shortcomings of the Islamic Republic’s economic management

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<sup>3</sup> G. Wawro, *Quicksand: America’s pursuit of power in the Middle East*, New York, The Penguin Press, 2010.

<sup>4</sup> H. Hakimian, *Iran’s Long Economic Journey*, Project Syndicate, 24 May 2017, <https://www.project-syndicate.org/commentary/iran-rouhani-election-economy-by-hassan-hakimian-2017-05>

from 1979 to present. The second part reviews the main models applied in the management of the Iranian economy from the Revolution onwards. The third part focuses on the economic performance of the Ahmadinejad Administration, whose effects are crucial to understanding the following political developments both at the domestic and at the international level. Finally, the fourth part reviews the achievements of the Rouhani Administration as of now, especially in the wake of the Iran nuclear deal and the partial lifting of the international sanctions.

## **A general assessment of the post-revolutionary era**

The economy was one of the main issues in the protests that led to the 1979 Revolution. The government of the Shah was accused of opening the country to foreign influence, developing a manufacturing sector heavily focused on assembly parts and dependent on foreign inputs, overexploiting the hydrocarbon resources, neglecting rural productions, and, in general, of favoring a Western model of development against the national interest and responsible for widening the wealth and income gaps between the different economic strata<sup>5</sup>. Such accusations of mismanagement were translated by the religious opposition into accusations of transgressions against the nation's morality: the government was pushing the population toward a Western-style, consumeristic, and unfair model and suffocating its spirituality and virtue<sup>6</sup>.

Therefore, once in power, the new regime began promoting an economic vision based on egalitarian distribution, state ownership, self-sufficiency, and religious values of community and austerity, which were also embedded in the text of the new

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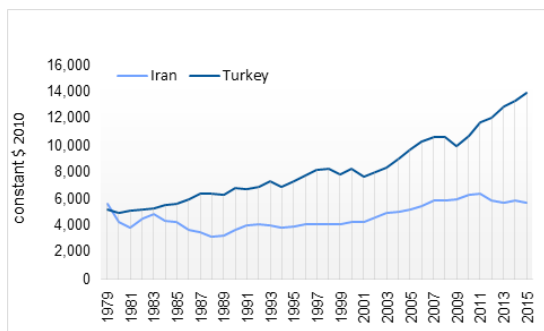
<sup>5</sup> J. Amuzegar (2014).

<sup>6</sup> The idea that the West was a source of impure morality and habits was particularly widespread, especially after the clandestine publication in 1962 of the novel *Occidentosis: A Plague from the West* by the novelist Jalal Al-e-Ahmad who coined the term “Gharbzadegi” (“Westoxification”, or “Intoxication of the West”).



Constitution<sup>7</sup>. Not being able to translate such values into a working economic structure, subsequent governments experimented with various economic models, often including measures similar to those adopted by the Shah's regime, based on liberalization and the attempt to attract foreign capital. However, the inability to follow a coherent model of development and the continuous experimentations led to the overall stagnation of the economy. Per capita income is today only slightly higher than it was in 1979. Even factoring in the effects of the long war with Iraq and the international sanctions, the outcome is disappointing, especially compared to other countries that, in 1979, had a similar GDP per capita. See, for instance, Turkey: in 1979, it had almost the same GDP per capita as Iran and, in the 1990s, it went through a long period of tension and civil war in the east of the country. Furthermore, although Turkey was never targeted by international sanctions, unlike Iran it was neither endowed with enormous natural resources. Nevertheless, due to a more coherent economic policy, especially since the 2000s, Turkey's per capita GDP today is more than double compared to that of Iran.

FIG. 1 – GDP PER CAPITA

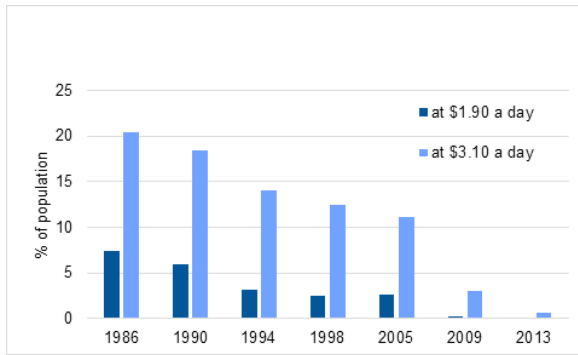


Source: World Bank

<sup>7</sup> *The Constitution of Islamic Republic of Iran*, Iran Chamber Society, <http://www.iranchamber.com/government/laws/constitution.php>

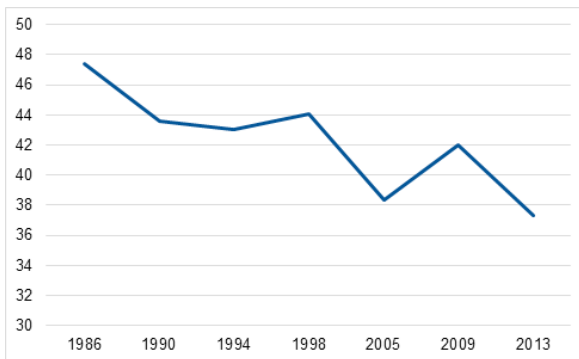
The post-revolutionary regime has achieved more remarkable results in its struggle against poverty and inequality. While in 1986 the percentage of people living on less than 2 dollars a day was above 7%, today's figure calculated at 2010 PPP value stands at less than 1%. Also, the GINI index – the most adopted measure of economic inequality – witnessed a significant reduction from 47.4 in 1986 to 37.3 in 2013.

FIG. 2 - POVERTY HEADCOUNT RATIO (2011 PPP)



Source: World Bank

FIG. 3 – GINI INDEX



Source: World Bank

## **The first decade: looking for an Islamic economic model**

The 1979 Revolution was not just a revolution in name only. It deeply changed the political and social order of the country, creating new elites and hierarchies and deposing the old ones. During the first ten years, the economy was subject to a similar wave of change involving both the social groups empowered in its management and the principles applied to its development. The few months that preceded the spark of the Iran-Iraq war were characterized by thousands of expropriations and substitutions at the top of state-controlled and private industries and in the main economic institutions. Western-educated managers and owners close to the Shah's regime were expelled or expropriated without compensation and substituted with young and loyal revolutionaries or religious figures close to the new regime. Their properties were transferred to *ad hoc* religious institutions, charitable foundations (*bonyads*) charged with the administration of the country's industries and financial institutions according to the precepts of Islam. The economic policies were still influenced by the alliance between Marxists and Shiite clergy that characterized the inception of the Revolution and that ended with the progressive elimination of the former and the domination of the latter. The vaguely Marxist doctrine of Abolhassan Bani Sadr, President until 1981, and the "Islamist Marxism" of Mir Hossein Mousavi, Prime Minister from 1981 to 1989, went hand in hand with the firm religious principles of Ayatollah Khomeini, who consolidated his position as Supreme Leader of the country until his death in 1989. The economic policies of Prime Minister Mousavi during the war (1981-1988) planted the seeds of the current economic structure of the country, including its main shortcomings. War-related measures such as rations were accompanied by the introduction of nationalizations, price controls, and substantial food and fuel subsidies that still burden the state budget and fuel political disputes. Overall, the first decade after the

Revolution was marked by a dramatic worsening of all the main economic indicators. The first post-revolutionary years saw the substitution of the old economic management with a new one, often lacking the essential skills to run industries and financial institutions, thus leading to a temporary stall followed by a slow recovery. However, the eight-years conflict with neighboring Iraq had a major role in preventing economic consolidation for several more years. The economic policies adopted during this period probably represent the only real attempt to build an authentic alternative to the Western-style development encouraged by the deposed Shah. They were based on the principles expressed by the two main currents that sparked and led the Iranian Revolution at its beginning: the Marxist left and the Shiite clergy. However, even after the end of the conflict with Iraq, the positive results remained limited, leading to a new economic course inaugurated at the beginning of the 1990s by the Rafsanjani presidency.

## **The years of pragmatism**

The beginning of the 1990s marked a significant change in the country's economic policy. Such a change was made possible by three main factors: first, the devastation left by the war against Iraq and the economic mismanagement of the first decade had made the population tired of the strict ideological approach of the first revolutionary period and keen to support the introduction of radically new measures. Second, the death of Ruhollah Khomeini had left more room for power sharing within the leadership. The new Supreme Leader, Ali Khamenei, did not enjoy the same degree of charisma and favor among the population as his predecessor and, at the beginning of his presidency, he was too weak to stop other figures within the regime, such as the President, from having a more independent and prominent role. Third, the war had enormously strengthened the new paramilitary organizations within the regime, such as the Islamic Revolutionary Guard Corps (IRGC) and the *Basij*, which after

the end of the conflict were looking for new fields to exert their recently-acquired influence and power.

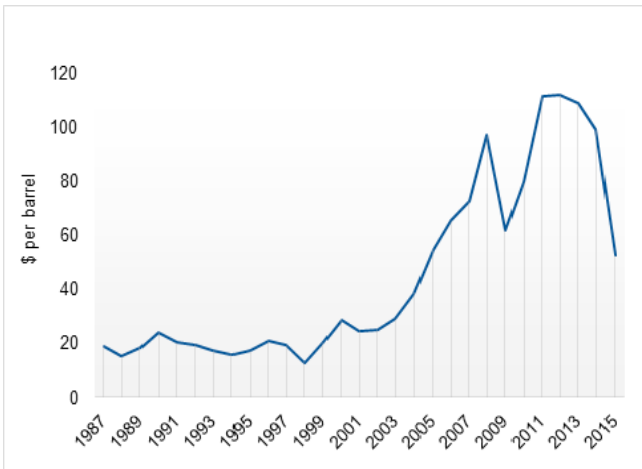
The year 1989 marked the rise to power of the “pragmatic” wing of the Shiite clergy led by Ali Akbar Hashemi Rafsanjani and the launch of the first Five-Year Economic Development Plan, which included measures of structural adjustment to revive the private sector, liberalizations, and openings to foreign investments in clear contradiction with past emphasis on self-sufficiency. However, after a few years, the ability of the government to predict and control the effects of the new policies proved insufficient. Both state and private consumption rose significantly more than forecasted, causing imbalances in the national balance of payments and drying the country’s foreign reserves. Furthermore, in 1993, the government unified the different exchange rates of the rial into one floating rate (1600 rials for 1 US dollar instead of the pre-Revolution exchange of 70 rials for 1 dollar), a decision that proved catastrophic for the country’s financial stability: the government was not able to keep the consequent financial outflows under control. After a few months from its introduction, the government found itself compelled to reintroduce foreign trade and exchange restrictions. The repercussions of these short-sighted first attempts to liberalize the Iranian economy reverberated in the following years and led to a dramatic increase in the inflation, which reached the highest peak of the entire post-revolutionary era during the last year of the Rafsanjani presidency.

Although Rafsanjani remained a prominent personality in the national political scene, his failure to revive the national economy determined the demise of his government and the electoral victory in 1997 of the reformist Mohammad Khatami, who promised to accompany economic reforms with more political openness both domestically and internationally.

The economic performance of Khatami’s government was helped by the significant increase in oil prices during his term. In order to better administrate the abundant oil revenues, the new Administration created a new financial institution, the Oil Stabilization Fund, which was meant to become the recipient

of excess revenues during high-price periods. These excess revenues would be put to use during periods of low prices to balance the state budget. Thanks to the new more favorable conditions and a more cautious approach, the new government was able to successfully unify the foreign exchanges and to join the International Monetary Fund in 2002. Trade tariffs and restrictions were rationalized, and a new law for the attraction of foreign investments was approved. Some legislative advancements also occurred in other economic spheres such as budgetary policies – with the issuance of debt certificates – and the permission for state banks to set deposit and loan rates.

FIG. 4 - BRENT PRICES (ANNUAL \$)



Source: World Bank

However, these advancements proved insufficient to spur the economic modernization promised by the government<sup>8</sup>: in fact, it failed to carry out the planned privatizations and modernize the obsolete subsidy system with a new and more efficient

<sup>8</sup> A. Siddiqi, "Khatami and the search for reform in Iran", *Stanford Journal of International Relations*, vol. 6, no. 1, 2005.

system of social safety nets. State expenditures increased significantly, and the resources of the Oil Stabilization Fund were often employed to stabilize the budget even during periods of high oil prices. Moreover, the lack of significant advancements in the simplification of the regulatory system and the highly bureaucratic fiscal system, coupled with the ongoing lack of transparency, failed to attract a significant amount of foreign investments, despite the introduction of the new law. The targets outlined in the government's Third Economic Development Plan were therefore widely missed, thus leading to a loss of popularity for the Khatami Administration. In the same years, the country's major problems of public corruption, drug addiction, and criminality started to emerge in the public debate, smoothing the way for the rise of a radically different approach to the national economy and, in general, to the leadership of the country. A new approach that, in the 2005 election, was embodied by Mahmoud Ahmadinejad.

## **Mahmoud Ahmadinejad, or the second generation**

It is not possible to understand the factors that led to the signing of the 2015 deal on the Iranian nuclear program without analysing the effects of Ahmadinejad policies on the country's economy and society. Like his approach to domestic politics and international relations, his economic policy can be better understood by looking at Ahmadinejad's personality.

Mahmoud Ahmadinejad has been, first of all, a populist leader. Born in a modest family and raised in poverty, he was given a chance to advance in society thanks to his membership in the revolutionary regime's newly formed paramilitary organizations (specifically, he militated in the *Basij's* ranks). Since their foundation, these organizations have had their main recruiting pools in the countryside's lower-medium classes and the deprived urban youth. During and after the Iran-Iraq war they progressively developed powerful networks of contacts deeply

entrenched in all levels of political power<sup>9</sup>. The IRGC- and *Basij*-associated networks started developing economic interests in several sectors such as constructions, real estates, and telecommunications. Their newly-acquired influence coupled with the highly-respected role they enjoyed within the regime allowed several of their members, including those of the humblest origins, to be elected to prestigious political posts. This was the case for Ahmadinejad who, before running for the presidency, had been Mayor of Tehran. In this respect, Ahmadinejad represented the successful son of the Islamic Revolution: a simple and pious believer elevated to the highest ranks of national politics thanks to his faith and service to the homeland. But Ahmadinejad also perfectly embodied the most zealot regime rhetoric, both domestically and internationally. Domestically, he fought against inequality and poverty through bold fiscal and social housing policies while giving increasing economic power to the enterprises close to the IRGC and the *Basij*. On the international level, he escalated the confrontational stance against the regime's traditional enemies such as Israel and the US and increased the Iranian projection in the Middle East region.

Ahmadinejad's economic policies reflected, for a big part, his background and beliefs, coupled with a complete lack of trust in the rules of the mainstream economic science. This led him to follow more his intuitions and his likeminded advisors than independent economic experts.

His management of the economy can be summarized in two main trends: "economic populism" and the "militarization of the economy". By the end of his second term, such trends had brought the country's economy to its knees.

### Economic populism

Ahmadinejad's two terms as President were characterized by a dramatic increase in the fiscal budget, from 1,590,000,000

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<sup>9</sup> F. Wehrey et al., *The Rise of the Pasdaran: Assessing the domestic roles of Iran's Islamic Revolutionary Guards Corps*, RAND Corporation, 2009.



million rial in 2005 to 7,280,000,000 million in 2013<sup>10</sup>. This expansion was supported by a significant increase in oil prices during the same years and, above all, by a dramatic increase in the liquidity provided by the Central Bank.

The new liquidity was utilized to finance the subsidy and social housing programs that were at the core of Ahmadinejad's political message. New buildings for low-income families were built in the peripheries of the biggest urban centers, while banks were compelled to grant risky loans to enterprises for projects that were supposed to spur employment. However, the potentially positive effects of these interventions were curbed by the measures undertaken by the government to cope with the inflation caused by the huge increase in liquidity. In utter disregard of the basics of fiscal management, the government put in place a policy of price control and artificially high foreign exchange rates that led to a fast and dramatic deterioration of the economy's fundamentals instead of controlling public spending and allowing exchange rates to adjust to a sustainable level. The government kept the interest rates at low (when not negative) levels causing massive capital outflows, a stiff decrease in saving rates, and an increase in consumption. In the short term, the artificially high value of the national currency imposed by the government boosted the poor's purchasing power of primary goods. In the long term, however, it ended up redirecting consumption toward cheaper imported goods, thus damaging the domestic companies' ability to compete in the domestic market, let alone in the international one, with dire consequences for the industrial sector's ability to spur (and even maintain) employment.

Such measures in the domestic sphere were accompanied by a tough international stance against the West and Israel and heavy investments in the country's nuclear program which, in 2011, led to the imposition of the toughest sanctions ever endured by the country. By blocking the country's oil exports – the only significant source of hard currency – and most of the domestic banking system's connections with the outside

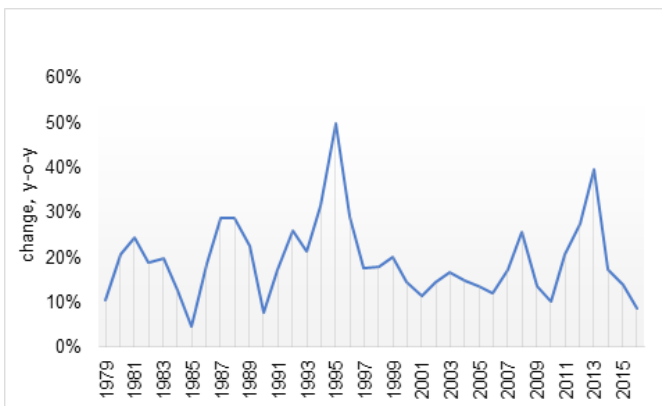
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<sup>10</sup> J. Amuzegar (2014).

world, the new round of sanctions inflicted the final blow to the Iranian currency and to all the measures put in place to keep it artificially strong. In 2013, the inflation rate reached 34.4%, hitting the population's purchase power harshly.

The stiff and rapid effect of a set of sanctions imposed only two years before is explainable only by looking at the general economic mismanagement that preceded their imposition, which had deeply deteriorated the country's economic fundamentals. Furthermore, their effect would have been probably even stronger if, in the previous years, the economy had not enjoyed unprecedented levels of oil prices. The collapse of the economy and the people's purchasing power caused both the fall of the government's popularity and Ahmadinejad's loss of credibility among the conservative front, including the Supreme Leader. Khamenei's support for a new government – less confrontational and more cautious in the management of the economy – was decisive for Rouhani's election and for the successful outcome of the negotiations that led to the signing of the Joint Comprehensive Plan of Action (JCPOA) which, in exchange for the freezing of the country's nuclear program, brought to the lifting of most international sanctions.

FIG. 5 - INFLATION



Source: World Bank

## The militarization of the economy

The dramatic increase in the IRGC and *Basij*'s influence in the economy – and consequently in politics – is the second decisive outcome of the significant effects still exerted by Ahmadinejad's tenure on today's Iranian political scene<sup>11</sup>.

As mentioned earlier, after the Revolution the IRGC rapidly took the regular army's place at the top of the Iranian military organizations; during Rafsanjani's tenure, they also became important players in the economic field. But it is only under Ahmadinejad that they acquired a *de facto* dominant position. His cabinet included several previous members of both the IRGC and the *Basij* whose influence soon translated into major participations of their business networks in the new big public projects inaugurated by the Administration. Construction and engineering firms linked to the business circuits became suppliers of several public services and the main winners of the state's tenders for the realization of new projects. IRGC and *Basij*-linked enterprises were also among the top-benefiter of the massive amount of loans conceded by the banking sector during this period.

The economic distortions created by Ahmadinejad and the self-reliant economy imposed by the 2011 sanctions benefited dramatically these organizations, which also supported the President's hawkish foreign political stance. The vested interests developed by these organizations during Ahmadinejad's presidency constitute one of the biggest challenges that the current Administration is facing in order to liberalize the economy and attract the investments of foreign companies that could potentially endanger their dominant position.

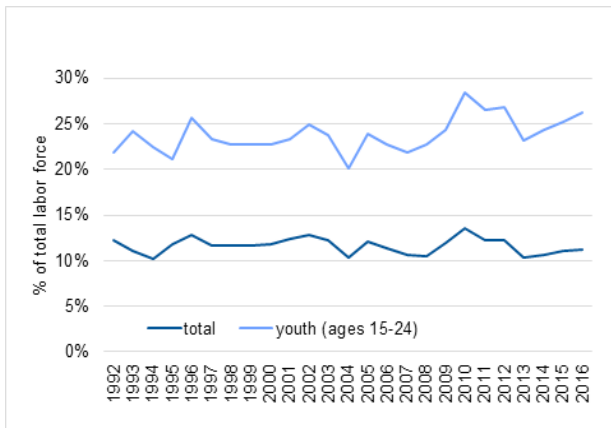
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<sup>11</sup> A. Basiri, "Iran and the Revolutionary Guards' Economic Powerhouse", *Forbes*, 29 March 2017, <https://www.forbes.com/sites/realspin/2017/03/29/iran-and-the-revolutionary-guards-economic-powerhouse/#6fb56d26cf4e>.

## Rouhani's election and the challenges of the post-JCPOA period

When Hassan Rouhani was elected President in 2013, he was tasked by the electors and the Supreme Leader with two primary goals: first, to stabilize the economy, in particular by keeping the skyrocketing inflation under control; second, to boost the depressed job market, whose decline was taking its toll on the youth and, in general, on the regime's popularity.

FIG. 6 - UNEMPLOYMENT (MODELED ILO ESTIMATE)



Source: World Bank

Obtaining the lifting of the sanctions that had hit hard Iran's exports of oil and gas and had reflected on the state's ability to accumulate foreign reserves to stabilize the currency was key to achieve such goals. Furthermore, access to significant amount of foreign financial inflows – now subject to the sanctions' banking embargo – was considered the only way to attract the necessary investments to renew the country's crumbling infrastructure and spur economic growth and job creation.

These factors might explain the widespread popular support for the JCPOA negotiations and the Supreme Leader's favorable stance toward the agreement, which hushed up the opposition of the regime's hardliners. The agreement, signed on 14 July 2015, led to the lifting of the nuclear-related sanctions in January 2016.

The signing of the JCPOA was strongly welcomed by the Iranian population, whose expectations for quick and visible improvements in the country's economy grew rapidly<sup>12</sup>. Such expectations have constituted a double-edged sword for the Rouhani Administration. In the short run, the signing of the JCPOA has boosted the government's popularity, although the difficulty to match such high expectations was feared to produce a "Khatami-like effect", i.e., the disillusionment of the more moderate and progressive voters leading to massive vote abstention and the election victory of a conservative-populist government as it already happened with Ahmadinejad.

This scenario was particularly dreaded in occasion of the 2017 presidential election<sup>13</sup>. Since the lifting of the sanctions, Iran's economic performance did not meet the expectations of the population and the most optimist observers. The failure to sufficiently revive the economy and create jobs was exploited by the conservative opposition, also favored by the Supreme Leader. During his campaign, Rouhani's opponent, Ebrahim Raisi, promised "populist" economic measures similar to those that had granted Ahmadinejad two terms in office<sup>14</sup>. In addition to these domestic difficulties, since the end of 2016, the President has also had to face the increasing confrontational stance of

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<sup>12</sup> M. Khalaji, "Great Expectations: Iran after the Deal", *Washington Quarterly*, Vol. 38, No 3, Fall 2015, pp. 61-77.

<sup>13</sup> P. Hafezi, "Iran reformists to back Rouhani re-election, though some voters grow cool", *Reuters*, 4 May 2017, <http://www.reuters.com/article/us-iran-election-rouhani-rights-idUSKBN1802J3>.

<sup>14</sup> S. Peterson, "The Iran election, lackluster economy opens door to a populist push", *The Christian Science Monitor*, 17 May 2017, <https://www.csmonitor.com/World/Middle-East/2017/0517/In-Iran-election-lackluster-economy-opens-door-to-a-populist-push>.

the new American Administration. However, Rouhani's re-election by a large margin shows that the population is still keen to give him a chance to revive the economy and to implement his reform agenda. But the spectre of a new rise of the conservatives – either to the presidency or even to the Supreme Leader's post in case of the increasingly probable death of Khamenei – still looms on Iran's re-opening to the world and the nuclear agreement.

In the last year and a half, Rouhani's government has had to face two main economic challenges that are likely to be central also during his second term: first, his Administration is faced with the need to stiffly increase the oil and gas production in order to accumulate precious resources necessary to revitalize the economy. During the sanctions period, the Iranian oil production fell under 2 mb/d due mainly to the restrictions imposed on its exports but also to the increasingly deteriorating oil and gas infrastructure. Foreign investors could not invest in its renewal nor in the explorations necessary to substitute the numerous fields close to maturation. After the sanctions' lifting, production rapidly increased, surpassing 3.5 mb/d by the end of 2016. However, the potential positive effects of the production rise were curbed by the low oil prices. Furthermore, this rapid rise is slowing down due to the infrastructure's shortcomings and the difficulties of attracting foreign firms to provide the necessary technological and financial support. After several stop-and-goes, in 2016 a new framework for energy contract, the Iran Petroleum Contract (IPC), was approved by the Iranian Parliament (*Majlis*), allowing investing foreign firms to obtain profits based on production and not on fixed prices, as the conservative wing tried to impose – a measure that would have discouraged most foreign oil companies. In June 2017, Total signed a \$5bn contract for the development of South Pars gas field, the biggest in the world (shared by Iran and Qatar)<sup>15</sup>. It represents the first major agreement in the energy sector since

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<sup>15</sup> “Total marks Iran return with South Pars gas deal”, *Reuters*, 3 July 2017, <http://www.reuters.com/article/us-iran-total-southpars-idUSKBN19O1IO>.

the lifting of the sanctions. Total could finally give full commitment only after reassurances from the US Administration that its investment would not have been subject to the US sanctions still in place. Reassurances had to be also given to the American airplane-maker Boeing, which in April signed a \$3bn contract for supplying Iran Air with new aircraft<sup>16</sup>.

In fact, the still applied American sanctions – the primary ones and the secondary non-nuclear related ones, which forbid international companies to carry out transactions in dollars with Iranian entities or to deal with them if one member of their board is an American citizen, constitute the main external obstacle for attracting foreign investments. This is the second greatest challenge for Rouhani's government. The fact that no American financial institution is allowed to interact with Iranian entities or with other banks interacting with Iranian banks poses a great barrier for most major financial institutions worldwide wishing to deal with Iran. A problem that will require time in order to create alternative paths for the financial inflows.

However, American sanctions are only one of the main problems that Iran faces in attracting foreign capital. Domestic regulations and laws are equally challenging. While the government has set the ambitious goal of reaching \$35bn in foreign investments per year, observers consider the goal highly improbable due to the likely political obstacles that the Administration will find in the Parliament to update the 2003 investment law and all the regulations related to foreign investments<sup>17</sup>. The attraction of foreign investments is key to revive the economy, and especially to spur job creation in a country where youth unemployment has grown steadily in the last decade, and the general unemployment rate has been at two digits since the 1990s.

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<sup>16</sup> J. Holzer, "Boeing's Iran deal puts Trump in tough spot", *Foreign Policy*, 26 May 2017, <http://foreignpolicy.com/2017/05/26/boeing-iran-deal-puts-trump-in-tough-spot/>.

<sup>17</sup> F. Rezaei and S. Khodaei, "Iran needs foreign investment. But they're not making it easy", *The National Interest*, 28 February 2017, <http://nationalinterest.org/feature/iran-needs-foreign-investment-theyre-not-making-it-easy-19621>.

Social frustration caused by unemployment and economic hardship is particularly worrisome for the long-term survival of the current regime and constitutes one of the primary sources of potential instability for the country. Despite the significant economic growth witnessed in the last years (especially compared with the last period of Ahmadinejad's Administration), the measures adopted during Rouhani's first term have failed so far to spur significant growth in the private sector and have favored mainly state-connected entities and the IRGC business networks<sup>18</sup>. Furthermore, in order to appease such networks, the government has allocated a major part of the new oil revenues to the military budget, which witnessed a 145% rise<sup>19</sup>.

In fact, the greatest problem is represented by the vested interests accumulated during the previous Administrations by the business networks linked to the military apparatus – in particular the IRGC. Such networks and their representatives in the *Majlis* and in other institutions of the Islamic Republic are expected to exert the greatest influence in order to protect their interests and impair the potential economic successes of the Administration, trying to lure electoral support by proposing, instead of economic liberalization, a new round of populist economics. As never before, the future of Iranian politics is therefore deeply entrenched to the country's future economic performance.

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<sup>18</sup> Y. Torbati, B. Sharafedin and B. Dehghanpisheh, "After Iran's nuclear pact, state firms win most foreign deals", *Reuters*, 19 January 2017, <http://www.reuters.com/article/us-iran-contracts-insight-idUSKBN15328S>.

<sup>19</sup> A. Majidyar, *Rouhani says Iran's military budget increased by 145 percent during his term*, Middle East Institute, 18 April 2017, <http://www.mei.edu/content/io/rouhani-says-iran-s-military-budget-increased-145-percent-during-his-term>.





### 3. Security Spoiler or Political Broker? Iran's Role in the Middle East

Annalisa Perteghella

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#### Two roads diverged in a wood

When in July 2015 Iran and the P5+1 reached the Joint Comprehensive Plan of Action (JCPOA), two different interpretations emerged as for the consequences for the Middle Eastern region. Indeed, the two interpretations reflect a broader issue at stake: the future of Iran, the big question being “will Iran moderate” (as betted upon by Barack Obama’s pivot to Tehran)? Or will it simply free-ride, benefitting from the sanctions relief and the reintegration in the world order, without relinquishing anything in exchange?

Actually, this kind of reasoning bears an inner fallacy: in dealing with Iran – as well as other countries – pundits often tend to think of the country they would want to deal with, not of the country they are actually dealing with. As an International Crisis Group report puts it “If world powers hope to progress on areas of concern and common interest, they must engage Iran as it is, not the Iran they wish to see”<sup>1</sup>.

But, as former President Barack Obama acknowledged in an interview in April 2015 (three months before reaching the JCPOA), “We want Iran not to have nuclear weapons precisely because we can’t bank on the nature of the regime changing [...] If suddenly Iran transformed itself into Germany or Sweden or

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<sup>1</sup> *Iran after the nuclear deal*, International Crisis Group, Report no. 166, 15 December 2015, <https://www.crisisgroup.org/middle-east-north-africa/gulf-and-arabian-peninsula/iran/iran-after-nuclear-deal>

France, there would be a different set of conversations about their nuclear infrastructure”<sup>2</sup>. Actually, the deal was focused only on the nuclear program, without pressing for regime reform, which is something that would have definitely prevented the formation of a consensus in Tehran and thus nullified the possibilities of reaching a deal.

In any case, as for the consequences of the JCPOA on Iran’s foreign policy – and especially on its role in the region – proponents of the deal argued that – by strengthening the moderates – it would have encouraged Iran to engage further with the West and to lessen its aggressive behavior in the region. Actually, this would have worked in both ways: the regional moderation would have strengthened the moderates and, at the same time, the strengthening of the moderates would have opened room for cooperation in the region and brought about a less aggressive behavior.

More broadly, Obama’s Iran policy was linked to a comprehensive strategy regarding the Middle East and the US role in it, the ultimate goal being the creation of a concert system of states – resembling, in the best scenario, a security complex of regional cooperation in which responsible and stable countries would have worked together in order to settle the regional disputes and contrast the regional challenges.

Indeed, these ideas seemed to rest upon the recommendations provided by the 2006 report by the Iraqi Study Group – the so-called Baker-Hamilton Commission – a bipartisan commission of foreign policy experts asked to provide recommendations on resolving the conflict in Iraq, at that time in the midst of a worsening security situation and deepening sectarian divide<sup>3</sup>. The Commission’s final report acknowledged the need

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<sup>2</sup> “Transcript: President Obama’s Full NPR Interview On Iran Nuclear Deal”, NPR, 7 April 2015, <http://www.npr.org/2015/04/07/397933577/transcript-president-obamas-full-npr-interview-on-iran-nuclear-deal>

<sup>3</sup> The Commission was led by former Secretary of State James A. Baker III and former Indiana Democratic Congressman Leo Hamilton, and was coordinated through the United States Institute for Peace (USIP), <https://www.usip.org/>

to engage adversaries and enemies – with specific reference to Iran and Syria – in order to try to resolve conflicts and differences consistent with US' own interests, thus recommending the active engagement of Tehran and Damascus in a diplomatic, no-preconditioned, dialogue. The final aim was to obtain their cooperation to constructive policies towards Iraq and the region (as, in the case of Iran, already happened in the post-2001 cooperation in Afghanistan)<sup>4</sup>.

Among Obama's closest foreign policy advisors was Benjamin Rhodes. Rhodes, working with Leo Hamilton as the chief note-taker for the Iraqi Study Group, ended up helping in shaping the Report's conclusions, and soon became one of the staunchest advocates of US diplomatic engagement with Iran<sup>5</sup>.

A similar approach guided the EU, which played a decisive role in reaching a final agreement, both through its diplomatic arm (the European External Action Service, EEAS) and through the comprehensive sanctions regime that provided the EU with political clout during the negotiation<sup>6</sup>. In the peaceful and negotiated resolution of the Iranian nuclear dossier, which had monopolized EU-Iran relations since 2006, the EU saw the possibility of de-securitizing the dialogue with Tehran and, instead, opening up room for the normalization of economic relations as well as for cooperation on security issues of mutual concern, such as the fight against terrorism and the re-composition of a stable order in the Middle East<sup>7</sup>.

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[publications/2009/03/iraq-study-group](#)

<sup>4</sup> *The Iraqi Study Group Report*, Vintage Books, 2006, [https://www.usip.org/sites/default/files/files/USIP-full\\_iraq\\_study\\_group\\_report.pdf](https://www.usip.org/sites/default/files/files/USIP-full_iraq_study_group_report.pdf)

<sup>5</sup> “The Aspiring Novelist Who Became Obama's Foreign-Policy Guru. How Ben Rhodes rewrote the rules of diplomacy for the digital age”, *The New York Times*, 5 May 2016, <https://www.nytimes.com/2016/05/08/magazine/the-aspiring-novelist-who-became-obamas-foreign-policy-guru.html>

<sup>6</sup> *Brussels Briefing with S. Riegraf, R. Parsi, and C. Adebahr*, *The EU and the Iran Nuclear Deal*, DGAP - Deutsche Gesellschaft für Auswärtige Politik e.V, 29 September 2015, <https://dgap.org/en/node/27182>.

<sup>7</sup> E. Geranmayeh, *Détente with Iran; how Europe can maximise the chances of a final nuclear deal*, European Council on Foreign Relations, 3 June 2014, <http://www>.

Opposed to this broader view, skeptics and critics of the deal argued that any hope of moderation should be abandoned when dealing with Iran. Iran already had a reformist President and a reformist Parliament (in the 2000-2004 period): if these were the ingredients required for political change, it would have already happened. Instead, the temporary presence of Hassan Rouhani and his smiling, Western-educated, aides would only serve as the attractive, charming face of the Islamic Republic, put in power by Khamenei and his inner circle with the only purpose of reaching the deal; once their transactional role is fulfilled, their “utility will disappear”<sup>8</sup>.

Another argument put forth by the opponents of the deal was that, given the term-limitedness of the agreement (the sunset clause), once it expires Iran will be free to resume its nuclear-related activities, thus “becoming like Japan”, with the difference that – the argument goes – Japan is a peaceful and democratic state that can be trusted, while Iran is a rogue state which can’t be offered such forbearance<sup>9</sup>.

Most of all, critics argued that the billions of dollars in sanctions relief would have ended up not reviving the Iranian economy and surely not helping ordinary people. Instead, the rewards of sanctions relief would have been reaped by the security-military complex, which – by means of their entrenchment in the Iranian economy – would have been given the numerous competitive advantages originating from the opening of the economy<sup>10</sup>. And, again, this additional money would have been used to fund proxies and allies in the region, thus expanding

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ecfr.eu/publications/summary/detente\_with\_iran\_how\_europe\_can\_maximise\_the\_chances\_of\_a\_final\_nuclea309

<sup>8</sup> R. Takeyh, *Evaluating Key Components of a Joint Comprehensive Plan of Action with Iran*, Statement before the Committee on Foreign Affairs, United States Senate, 25 June 2015, [https://www.foreign.senate.gov/imo/media/doc/062515\\_Takeyh\\_Testimony.pdf](https://www.foreign.senate.gov/imo/media/doc/062515_Takeyh_Testimony.pdf), p. 5.

<sup>9</sup> *Ibid.*

<sup>10</sup> “Iranian nuclear deal set to make hardline Revolutionary Guards richer”, Reuters, 6 July 2015, <http://www.reuters.com/article/us-iran-nuclear-economy-insight-idUSKCN0PG1XV20150706>

Iranian influence in the region and leading to greater instability.

To sum up, it was a debate between those – like the Obama Administration, the EEAS, and the other states that participated in negotiations – arguing that a nuclear deal with Iran would strengthen the moderates in Tehran and reassure the country of a less bold US approach in the region, thus producing a less fearful and therefore less aggressive Iran, ultimately leading to greater stability, and those arguing that a less constrained Iran would turn more aggressive, ramping up its support for terrorist and proxy groups in the region, thus leading to greater instability, and a major threat to American and US allies' interests in the region<sup>11</sup>.

But the debate took place – and continues to do so – also in Iran. Far from being a unitary regime, Iranian politics are complicated, and this is why the next section will try to shed a light on this multi-level complexity. Indeed, as Jeffrey A. Stacey pointed out, one of the fallacies that the opponents of the deal fell in, was “considering the Iranian state structure as a unified regime and seeing any bad behavior as necessarily representative of the regime as a whole”<sup>12</sup>.

Recently re-elected President Hassan Rouhani has shown a commitment to pursuing a pragmatic agenda in foreign policy, as highlighted in his campaign platform: in his view, Iran should continue down the road of “constructive engagement” with the Western world and should reduce regional conflict, with the aim of prioritizing the economic recovery of the country and the well-being of its people over the safeguard of ideological, revolutionary pillars. But will Rouhani be able to implement his vision? This chapter will analyse the structural as well as institutional barriers to his success, thus trying to assess whether one of the many bets surrounding the JCPOA (namely, empowering the moderates in order to moderate Iranian behavior) can actually play out.

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<sup>11</sup> K.M. Pollack, *Iran's regional policy after a nuclear deal*, Brookings, 2 March 2015, <https://www.brookings.edu/blog/markaz/2015/03/02/irans-regional-policy-after-a-nuclear-deal/>

<sup>12</sup> J.A. Stacey, “Strengthen Iran's Moderates before it's too late”, *Foreign Affairs*, 2 March 2017, <https://www.foreignaffairs.com/articles/iran/2017-03-02/strengthen-irans-moderates-its-too-late>

## Who determines Iran's foreign policy? It's complicated

While its definition escapes political scientists' taxonomies, the Islamic Republic can be best described as a unique and complex state system<sup>13</sup>. The intertwining of institutional complexity (different and competing organs coexisting and struggling for power, the so-called "dual state") with political factionalism, which has intensified after Ayatollah Khomeini's death in 1989, makes it impossible to speak of a unified regime.

This multi-level complexity also applies to foreign policy, which might somehow be perceived as schizophrenic or Janus-faced.

According to Iran's Constitution, the Supreme Leader is in charge of delineating the general policies of the Islamic Republic, as well as supervising their proper execution. He is also commander-in-chief of the armed forces and has the power to declare war and peace, as well as to appoint the chief commander of the Islamic Revolutionary Guard Corps (IRGC) and the supreme commanders of the armed forces. So, the general definition of foreign policy according to the Constitution lies with the Supreme Leader.

At the operational level, security-related issues are discussed by the Supreme National Security Council (SNSC), established by art. 176 of the Constitution. The Council, whose aim is "to safeguard the national interests and preserve the Islamic Revolution, the territorial integrity, and national sovereignty", is charged with the responsibilities of:

- Determining the defence and national security policies within the framework of general policies determined by the Leader;
- Coordinating activities in the areas relating to politics,

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<sup>13</sup> H.E Chehabi, "The Political Regime of the Islamic Republic of Iran in Comparative Perspective", *Government and Opposition*, vol. 36, no. 1, January 2001, pp. 48-70.

- intelligence, social, cultural, and economic fields in regard to general defence and security policies;
- Exploiting the materialistic and intellectual resources of the country for facing internal and external threats.

The Council is headed by the President, who appoints the Secretary, who also acts as a representative of the Supreme Leader. Other members of the Council include the head of the legislative branch (the Speaker of the *Majles*) as well as members affiliated with both the President and the Supreme Leader. Members of the former camp are the Ministers of Foreign Affairs, Interior, and Intelligence; the Head of Management and planning organization and – depending on the agenda of the meeting – another minister related with the subject. Members of the Supreme Leader's camp include the Head of the Judiciary, the Chief of the General Staff, the Chief of the Army, the Chief of the Islamic Revolutionary Guard Corps, and two Supreme Leader representatives (one of which is the Secretary of the Council). The Supreme Leader oversees the activities of the SNSC.

Elected organs, too, have a say in the definition of Iranian foreign policy, albeit with many caveats. Non-security related issues are handled by the President and his cabinet, especially the Ministry of Foreign Affairs. The President is the second-highest ranking official in the country but, as seen above, the Constitution limits his authority by subordinating it to the Supreme Leader. An example of this is that the President's choice for his Minister of Intelligence and Security (MOIS) must receive the approval of the Supreme Leader. Furthermore, once appointed the MOIS answers directly to the Supreme Leader: the President cannot remove him without the Supreme Leader's approval. However, this does not mean that the President does not matter in the definition of the country's foreign policy. If it were so, there would not have been different foreign policy orientations between the Presidents.

The Parliament has a very indirect role in foreign policy: article 77 of the Constitution limits its role to the ratification



of international treaties and agreements. So, even though the February 2016 elections delivered a victory for Rouhani and his pragmatist allies, there is no indication that this gain will result in any shift in regional foreign policy.

Finally, off the radar of Constitutional assignments, an increasing role in foreign policy is played by the IRGC.

Established in 1979 by Ayatollah Khomeini as a loyal and ideological force that would protect the newborn Islamic Republic, the IRGC was given the Constitutional task of defending the country against foreign attacks; fighting counterrevolutionary forces disrupting internal security; gathering intelligence on threats to the regime; and supporting global liberation movements (article 150). Following contingent factors – in particular, the “reconstruction era” inaugurated by former President Rafsanjani following the end of the Iran-Iraq war – its involvement in the consolidation of the Iranian state grew exponentially, in particular in the economic sector: the demobilized Guards were granted reconstruction contracts that allowed them to gain significant stakes in virtually every sector of the Iranian economy. Their role grew even more during Mahmoud Ahmadinejad term in office (2005-2013), when they were awarded billions of dollars in new, no-bid government contracts, thus consolidating a quasi-monopoly position in the Iranian economy<sup>14</sup>.

In parallel, they expanded their role also in the security sector. During the Iran-Iraq war, they gained extensive experience on the field in asymmetric warfare, and soon the IRGC activities dwarfed the army's.

Today, they can count on about 150,000 operatives, and their activities are largely detached and independent of the army. The IRGC is the regime's primary security force both for domestic and external operations. The Quds Force, an elite subdivision responsible for extraterritorial operations, which helped training and organizing Hezbollah in 1982-1985, is today in charge of implementing Tehran's security policies in the region.

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<sup>14</sup> See chapter 2 in this volume.

This often results in an apparently schizophrenic situation in which President Rouhani's calls for "constructive engagement" and "cooperation between states"<sup>15</sup> clash with the IRGC calls for "resistance to US influence in the Middle East" and distinguishes itself for the brutal operations carried out on the field.

Indeed, the IRGC has not sparred criticism of Rouhani's foreign policy positions, on the basis that they could open the door to foreign intrusion in the country, as well as decrease their role in the regime. When President Rouhani calls for international cooperation – that, in the President's view, would de-securitize Iran's role in the region in a way that it is no longer seen as a threat – the IRGC perceives it as a threat to their role as a bulwark against the menace of Western intrusion.

The pervasiveness of the IRGC in the country's economic and security complex, as well as the special relationship it enjoys with the Supreme Leader, makes it extremely difficult for Rouhani or his fellow proponents of a "moderate" foreign policy to reign in their power and impose their own agenda of moderation.

Actually, the contrary is true: the IRGC informal power in foreign policy dwarfs that of the elected moderates, and this makes it possible for them to carry out a proper sabotage of Rouhani's agenda, by means of provocations such as the testing of ballistic missiles carrying the writing "Israel must be wiped out" (see section below).

In conclusion, although foreign policy decisions are made by the Supreme National Security Council, they are actually the result of a multi-level decision-making process which sees the Supreme Leader in a preeminent position, in a synergy of interests with the IRGC. This results in a highly compartmentalized foreign policy, with differing messages emerging from different parts of the political establishment. In particular, Rouhani's

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<sup>15</sup> "President of Iran Hassan Rouhani: Time to Engage", *The Washington Post*, 19 September 2013, [https://www.washingtonpost.com/opinions/president-of-iran-hassan-rouhani-time-to-engage/2013/09/19/4d2da564-213e-11e3-966c-9e4293c47ebe\\_story.html?utm\\_term=.cb2e6458b262](https://www.washingtonpost.com/opinions/president-of-iran-hassan-rouhani-time-to-engage/2013/09/19/4d2da564-213e-11e3-966c-9e4293c47ebe_story.html?utm_term=.cb2e6458b262)

agenda of international cooperation and moderation in foreign policy seems to be restricted to particular issues – such as the improvement of Iran’s economic situation and the subsequent opening to the West. More security-related issues, such as the events in the Levant, are exclusive domain of the IRGC. However, even Rouhani’s efforts to improve Iran’s standing with the aim of reviving the economy and re-gaining a seat in the regional and international *fora* can be viewed with suspect by the Guards, which are not keen to permit an opening of the system that could eventually lead to its crumbling. The ultimate aim of regime survival – and the safeguard of its vested interests – drives the Supreme Leader’s and the IRGC’s behavior in domestic as well as in foreign policy.

### **A nation or a cause? The determinants and principles guiding Iran’s foreign policy**

In his interview with the *Financial Times* in May 2008, Henry Kissinger reiterated the need for the United States to have comprehensive negotiations with Iran, recalling what he had already stated in his 2001 book *Does America Need a Foreign Policy?*. He then wrote, “There are few nations in the world with which the United States has less reason to quarrel or more compatible interests than Iran”<sup>16</sup>. In 2008, however, he added the famous quote “Iran must decide whether it’s a nation or a cause”<sup>17</sup>.

Indeed, when dealing with Iran as a whole, and with its foreign policy in particular, the debate whether revolutionary ideals or national interests prevail is one of the most inflamed.

Even if attempts at exporting the Revolution ended with the death of Ayatollah Khomeini and the subsequent factional readjustment – and revamping –, the revolutionary ethos

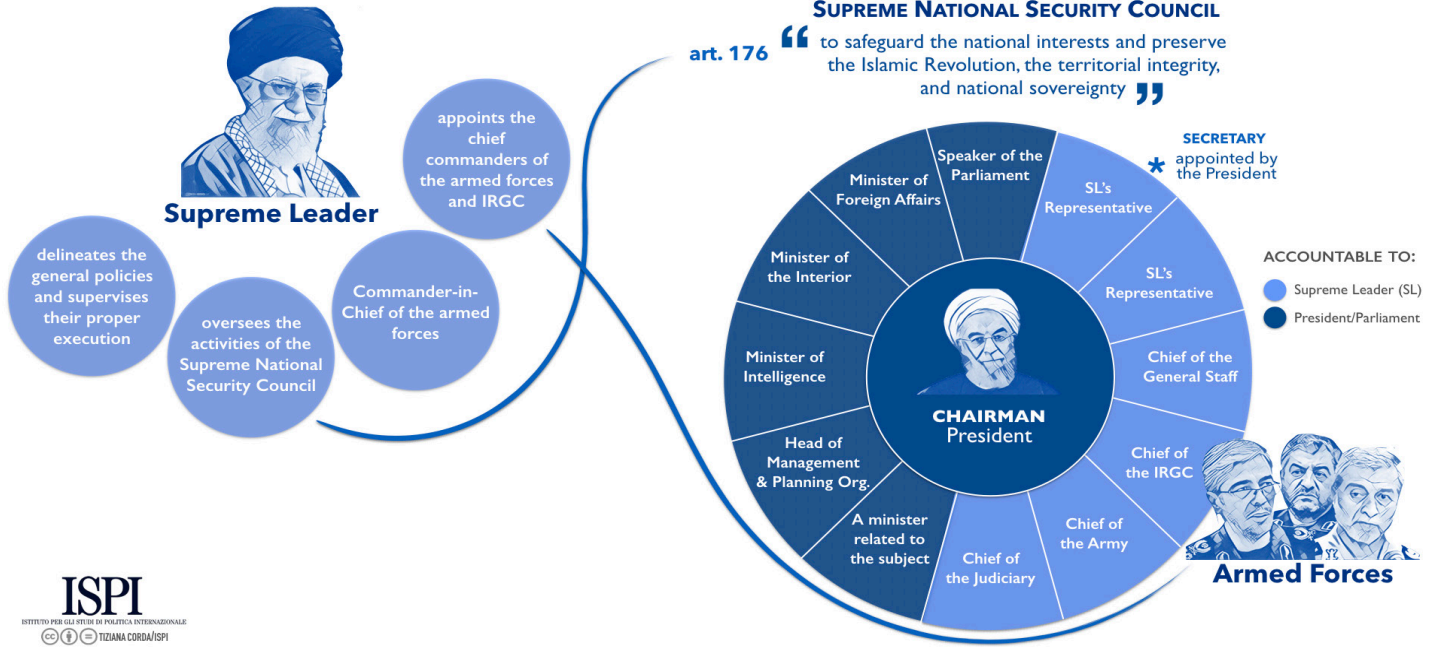
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<sup>16</sup> H. Kissinger, *Does America Need a Foreign Policy?: Toward a Diplomacy for the 21st Century*, Simon and Schuster, New York, 2001

<sup>17</sup> “Lunch with the FT: Henry Kissinger”, *Financial Times*, 24/25 May 2008 <http://www.henryakissinger.com/interviews/FinancialTimes240508.html>

# Iran's Foreign Policy

## Supreme National Security Council



survived, at least as a means to keep the Revolution alive in the face of a gradual acknowledgment of its shortcomings and failures to meet its expectations<sup>18</sup>. The factional infighting, as well as the growth of multiple centers of power and foreign policy decision-making, only complicated the situation. Make no mistake: all the political actors moving on the Iranian arena are loyal soldiers of the Revolution, deeply committed to the Islamic Republic's values and survival; anyway, in this revolutionary fervor, there is room also for national interests.

Indeed, we could say that much of this revolutionary fervor is subordinate to the ultimate national interest: the survival of the Islamic Republic. As Khomeini himself stated in his January 1988 edict on the "interest of the state" (*maslahat*), his ultimate legacy was the message that the interests and the survival of the Islamic Republic should have had the precedence over any other issue<sup>19</sup>.

In Iranian foreign policy, thus, ideology and national interests are deeply intertwined. As Kaveh Afrasiabi and Abbas Maleki argue<sup>20</sup>, the Iranian definition of pragmatism is different from the Western one: rather than seeing it as a dichotomy, for Iranian officials pragmatism and ideology are not mutually exclusive. Ideological goals and national interests, far from being a zero-sum game, can be pursued in parallel, with one mutually reinforcing the other.

Before entering into the details of how revolutionary principles coexist with *realpolitik* and pragmatic purposes – and which these principles are –, it is useful to review the main determinants shaping Iranian foreign policy.

The first determinant is Iran's geopolitical situation<sup>21</sup> which, in the course of centuries, has given birth to an enduring sense

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<sup>18</sup> A. Ehteshami, *After Khomeini. The Iranian Second Republic*, Abingdon, Routledge, 1995.

<sup>19</sup> D. Brumberg, *Reinventing Khomeini. The Struggle for Reform in Iran*, The University of Chicago Press, 2001.

<sup>20</sup> K. Afrasiabi and A. Maleki, "Iran's Foreign Policy After 11 September", *Brown Journal of World Affairs*, vol. 9., no. 2, Winter/Spring, 2003, pp. 263-264.

<sup>21</sup> R. Redaelli, *Why Selective Engagement? Iranian and Western Interests are Closer than You Think*, The Stanley Foundation, June 2008, <https://www.stanleyfoundation.org/publications/pab/RedaelliPAB608.pdf>.

of “strategic loneliness”, the perception of being alone in a fundamentally hostile and profoundly alien world. There is no need to visit Iran’s martyrs’ shrines to understand how the legacy of the 1980-1988 Iran-Iraq war – the “sacred defence” or the “imposed war” in Iranian war lexicography – still unfolds today. The perception of being encircled by hostile neighbors, and of having been abandoned to its own destiny (except for Hafez al-Assad’s Syria) still resounds in Iranian officials’ words and still shapes Iranian self-perception in the region. This sense of siege was given new strength in the first 2000s, when the US intervention in Afghanistan and then in Iraq brought the United States right at the door of the Islamic Republic. This perception was reinforced by George W. Bush (in)famous discourse on the “axis of evil”, through which the then-President, rather than building upon Iranian cooperation and goodwill showed in Afghanistan, put Iran on the black list, raising fears of a prospective regime change. If it is true that with their 2003 intervention in Iraq the US inadvertently delivered a gift to Tehran – freeing it of its arch-rival Saddam Hussein – it is equally true that American interventionism in the region ringed a bell of alarm in Tehran, which suddenly felt encircled by the US military or by their allies.

The second determinant, linked to the first, is Iran’s profound nationalism – deriving from a sense of religious-cultural uniqueness and historical greatness – and translating into a deep attachment to national sovereignty and independence. The sense of being the heir of one of the most sophisticated civilizations (recalling the Achaemenid *Eranshahr*) shapes Iran’s self-perception of its peculiar historical and cultural identity<sup>22</sup>. Yet, the fact of having been subjected to the hostile or antagonistic behavior of its neighbors, as well as that of foreign powers interfering in Iranian domestic affairs – often with predatory aims – reinforces Iran’s strategic loneliness and sense of encirclement, thus bringing it to demand the acknowledgment of its independence and its “role among the nations” as one of the

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<sup>22</sup> *Ibid.*

pillars of regional security. In other words, Iran claims the right to be recognized as a major power in the region.

These two determinants, which we could say represent the Iranian *zeitgeist* and the lenses through which it sees itself, its neighbors, and the world, translate into foreign policy principles – or constants – that are intertwined among them and that further translate into actual foreign policy decisions.

These principles – dating back to the Revolution – are ideological in form, and yet they contain the seed of pragmatism as conceived in the Iranian view. They are – namely – justice, independence, and resistance.

The revolutionary goal of social justice (*‘adl*) – which was Ali Shariati’s main (perhaps involuntary) contribution to the construction of the Khomeinist ideology – was presented during the Revolution as the never-ending struggle between the oppressors and the oppressed. The depiction of Mohammad Reza Shah Pahlavi as Caliph Yazid, the usurper *par excellence*, found its complement in the depiction of the oppressed and disinherited Iranian masses as thousands of Imam Hossein. The invitation to rebel, to stand up for their rights, in other words, to abandon “black shiism” and paint it red, became one of the central themes of the Revolution, giving birth to a call for a new political – and economic – structure which would have avenged the traditionally oppressed people (*mostaz‘afin*) against the permanent oppressors (*mostakbbarin*)<sup>23</sup>. This latter category, in Khomeini’s re-reading of Shariati’s work, included heterogeneous segments of people, such as the Capitalists, the Communists, the Zionists and – more broadly – all the perceived enemies of the Revolution. The principle of justice as a universal value was enshrined in the article 154 of the Islamic Republic Constitution, which states that “The Islamic Republic of Iran [...] considers rule of justice and truth to be the right of all people of the world”.

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<sup>23</sup> A. Shariati, *Red Shiism (The Religion of Martyrdom) vs. Black Shiism (The Religion of Mourning)*, Iran Chamber Society, [http://www.iranchamber.com/personalities/ashariati/works/red\\_black\\_shiism.php](http://www.iranchamber.com/personalities/ashariati/works/red_black_shiism.php)

The day-to-day translation of this principle of justice in the foreign policy of the Islamic Republic takes form in the Iranian support for those people perceived as “oppressed”, namely the Palestinians and the Shiites living as underrepresented and disadvantaged minorities in many countries of the region. Yet, Iran pays very much attention to not presenting itself as a sectarian, pan-Shia power, looking only after the interests of its fellow co-religionists. And here we find the “pragmatic” side of this revolutionary, ideological, principle of social justice: by presenting itself as the defender of Palestinians’ rights, Iran aims at winning the favor of the Arab masses (a kind of soft power that anyway has deeply been eroded as a consequence of Iran’s support of Bashar al-Assad’s slaughtering of its own people<sup>24</sup>). Indeed, by means of its support for Sunni Arab groups such as Hamas and Palestinian Jihad, Iran aims at rebutting critics who portrait it as pursuing a sectarian agenda. More broadly, by attacking the regional “oppressors”, i.e. Israel and the Arab regimes, Iran attacks the hierarchy of powers in the international system.

The second principle is that of independence. Stemming from the above-mentioned Iranian nationalism, the strong emphasis on independence has grown stronger through the years, in particular as a consequence of the political developments originated in the late XIX century. Although it was never subject to formal colonialism, in the early 1800s Persia found itself at the center of the “great game” between the Russian and British empires<sup>25</sup>. Anglo-Russian rivalry in central Asia translated into what was a *de facto*, though “informal”, colonialism, with London and Moscow literally trying to buy the favor of the Qajar Shahs in order to bring Persia into their own sphere of influence. Whether through actual war<sup>26</sup> or through trade

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<sup>24</sup> M.R. Djalili and T. Kellner, “Scramble for Syria”, *The Cairo Review of Global Affairs*, Summer 2017, <https://www.thecairoreview.com/essays/scramble-for-syria/?platform=hootsuite>

<sup>25</sup> A. Wynn, *Persia in the Great Game – Sir Percy Sykes: Explorer, Consul, Soldier, Spy*, London, John Murray, 2003.

<sup>26</sup> Following the first Russo-Persian war of 1804-1813, which ended with the



concessions, Russian and British interference in Persian affairs was widespread, thus inciting public anger (which ultimately led to the 1906-1911 Constitutional Revolution).

The sense of interference into their own affairs continued even after the demise of the Qajar dynasty and the end of Anglo-Russian informal colonialism. Actually, many of the injuries still alive in the nation's collective imagination can be traced back to the XX century. The memory of the 1953 US-UK sponsored coup, which removed Prime Minister Mohammad Mossadeq – as well as his dream of nationalizing Iran's oil industry – is very much alive in today's Iran and can help explain its resistance to let foreign investors in, as well as the much-heated debate on the new petroleum contracts. The special relationship between the Pahlavi dynasty and the US, especially in the 1960s – that culminated in the so-called “capitulations” allowing US citizens residing in Iran a privileged, over-the-law, status – further exacerbated this sense of subjugation.

It was by means of the encounter with these perceived imperial powers – Russia, Britain, and the US – that Iran developed its claim for independence, which during the 1979 Revolution culminated in the “Neither East nor West, only Islamic Republic” slogan. In addition, Iran started blaming its shortcomings and underdevelopment on foreign powers, especially Britain and the US.

The principle of independence is enshrined in Articles 2, 3, and 153 of Iran's 1979 Constitution, stating that Iran explicitly rejects any form of submission to “oppressors”, highlighting

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treaty of Gulistan, Iran was forced to cede most of its Caucasian territories, among which modern day Georgia, Dagestan, and most of Azerbaijan. Following the second Russo-Persian war of 1826-1828, which ended with the Treaty of Turkmenchay, Persia lost territories in the Southern Caucasus, in modern day Armenia, as well as the remaining territories in Azerbaijan. With the Anglo-Persian war of 1856-1857, Persia was forced to surrender its claims over Herat (in modern day Afghanistan), which – though formally part of Persia – had declared its independence and placed itself under the protection of the British in India. E. Abrahamian, *A History of Modern Iran*, Cambridge, Cambridge University Press, 2008

its quest for “self-sufficiency” and, most of all, forbidding “any form of agreement resulting in foreign control over the natural resources, economy, army, or culture of the country, as well as other aspects of the national life”.

Indeed, the translation of the principle of independence in Iranian foreign policy manifests itself in Iran's strong calls against foreign dominance both at the regional and international level, as well as in its strong emphasis on self-reliance in the security realm. The latter often mixes up with the IRGC shows of force, such as ballistic missiles tests. However, the same principle of independence is also called upon by more pragmatic factions, which express the desire to participate in international *fora* and for Iran to be recognized as a major power in the region.

Going hand-in-hand with the principle of independence is the principle of resistance, mainly called upon by more radical factions and institutions such as the IRGC, the hardline media, as well as by the Supreme Leader himself. Resistance against what? This principle is directed mainly against foreign interference, bringing the principle of independence to an upper level: resistance is applied first of all against Israel, seen as the emblem of imperialism and foreign occupation, and then against foreign meddling in the region. Once again, by pursuing its ideological agenda of resistance against Israel, Iran reinforces one of its main revolutionary pillars while developing, at the same time, instruments of regional influence – namely, its proxies in the region (see the section below), that provide it with diplomatic leverage.

## **The main geopolitical axes**

In this section, I will analyse how the two previous sections combine in shaping today's Iranian foreign policy. With this aim, I will examine the primary axes of action and the Rouhani executive's actual room for manoeuvre.

## The Saudi-Iranian rivalry

Although often depicted in religious terms as a Sunni vs. Shia ancient conflict, the bitter rivalry that has literally divided the Middle East into two camps – in a sort of “Cold War” or “Proxy war” – is very little religious in nature and very much geopolitical. Indeed, it is this geopolitical rivalry that over the last years has exacerbated ethno-religious hostilities, thus bringing about a new wave of sectarianism<sup>27</sup>. While Riyadh sees Iranian expanding influence in the region as a threat, Iran sees Riyadh as obstructing its claims to an acknowledgment of its leadership – or at least interlocutor’s – role in the region. This rivalry plays out in practically every battlefield in the Middle East, from Syria to Yemen, with Riyadh and Tehran supporting opposing sides. However, Rouhani has made the easing of tensions with Saudi Arabia one of its key foreign policy goals, in a sense giving continuity to former Presidents Rafsanjani’s (1989-1997) and Khatami’s (1997-2005) policies of seeking some form of pragmatic engagement with Riyadh with the aim of improving Saudi-Iranian relations. The timing, anyway, is not on Tehran’s side. The transition of power in Saudi Arabia, with the young and bold newly-appointed Crown prince Mohammad bin Salman preparing to become king, as well as Washington’s recent realignment with Riyadh, has emboldened Saudi Arabia’s confrontational approach *vis-à-vis* Tehran. On the Persian side of the Gulf, this is playing into the hands of the conservatives and those opposing Rouhani’s pragmatic engagement with Saudi Arabia. The age-old Iranian perception of Saudi Arabia as stirring internal unrest in Iran by supporting ethnic insurgents and terrorist groups has recently been revived following the June 2017 Tehran attacks: the IRGC has promptly blamed the Saudis for the attacks, specifically pointing to the fact that they happened soon after US President Trump’s visit to Saudi

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<sup>27</sup> U. Makdisi, “Understanding Sectarianism in the Middle East”, *The Cairo Review of Foreign Affairs*, 12 July 2017, <https://www.thecairoreview.com/uncategorized/understanding-sectarianism-in-the-middle-east/>

Arabia. Trump's reaction to the attacks – ultimately blaming Iran itself for its “role of sponsoring terrorism”<sup>28</sup> – gave further ammunition to the Guards, thus reinforcing the confrontational approach at the expenses of the pragmatic policy of engagement. This demonstrates that the enduring reason for Saudi-Iranian rivalry is their continued reciprocal lack of trust and perception of “mutual threat”. But with the shifting balance of forces on the ground, i.e. actual Iranian expanded influence in the region, as well as the shifting geopolitical landscape, i.e. Washington's realignment with Saudis, both actors should understand that they have much to gain from toning down their competition, which undermines the long-term interests of both countries and the region.

### The Levant: Israel, Syria, Lebanon and the axis of resistance

As outlined above, Iran has long sought – and still seeks – to portray itself as the champion of resistance against Israel, perceived as the emblem of Western imperialism and interference in the region. This also gives it the possibility to portray itself as the champion of Palestinians' rights. Thus, Iran has developed a number of methods, the main being the support to Palestinian opposition groups (mainly Hamas, even though, after the Arab Spring and the inception of the Syrian crisis, Iranian support has shifted more towards minor groups such as Palestinian Islamic Jihad, PIJ), as well as the traditional support to Hezbollah, the Lebanese political and paramilitary organization which allows Iran to exercise deterrence on Israel. In this context, Syria has traditionally been Iran's main ally, permitting Tehran to overcome that sense of “strategic loneliness” and giving it strategic depth, by maintaining an Arab ally in the heart of the Middle

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<sup>28</sup> *Statement by the President on the Terrorist Attacks in Iran*, The White House, Office of the Press Secretary, Washington, DC, 7 June 2017 <https://www.whitehouse.gov/the-press-office/2017/06/07/statement-president-terrorist-attacks-iran>

East and by ensuring its arms-transfer routes to the Levant. In addition to traditional diplomatic, military, and economic relations between Tehran and Damascus (and Hezbollah), the events unfolding after the Arab Spring, especially in Syria, have brought Tehran to rely more and more on proxies and foreign militias in order to keep Assad in power. The IRGC, and especially the Quds force – responsible for extraterritorial operations – are tasked with carrying out this “Resistance strategy”, which aims at keeping the Tehran-Damascus-Beirut axis alive. However, once again, beyond the operational, on-the-ground, level, there is a parallel diplomatic level: Tehran, till 2015 excluded by the Geneva Syrian peace talks, has always sought a *status* as a partner in negotiating a political solution to the Syrian crisis. The Iranian endgame in Syria remains the preservation of Syria – or at least of a useful part of it – as a strategic bridge into Lebanon to reach Hezbollah, with the aim of maintaining geostrategic depth and deterrence *vis-à-vis* Israel. The inclusion of Iran among the stakeholders of the peace process, however, is essential in order to implement what already in 2014 Aron Lund advanced as the only realistic way out of the Syrian impasse: “foreign states to try to gradually impose a series of deals that would draw in enough credible actors on both sides to dampen the fighting and isolate radical holdouts, then try to consolidate this under some form of live-and-let-live political arrangement”<sup>29</sup>.

As far as Israel is concerned, it is worth pointing out that, despite the Conservatives’ aggressive rhetoric, Rouhani and his government have attempted to tone down the rhetoric and adopt a less confrontational stance toward Tel Aviv. Examples in this sense are Rouhani’s and Zarif’s condemnation of the Holocaust (in contrast to Ahmadinejad’s regular Holocaust denial), Zarif’s happy *Rosh Hashanah* greetings to Jews, as well as his controversial expression of willingness to recognize Israel as a legitimate

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<sup>29</sup> A. Lund, *Iran’s Unrealistic Endgame in Syria*, Carnegie Middle East Center, 11 April 2014, <http://carnegie-mec.org/diwan/55323>

state if it were to achieve a peace deal with the Palestinians<sup>30</sup>. However, as is the case for other sensitive dossiers, Rouhani and his cabinet's pragmatic declarations will continue to incite a pushback from Khamenei and the conservative security establishment, which remain fundamentally hostile to Israel. One of the latest examples of this was the IRGC's last March launching of missiles carrying the slogan "Israel must be wiped out"<sup>31</sup>.

### Iraq and the fight against Daesh

Bearing in mind the formative and traumatic experience of the Iran-Iraq war, Tehran's foremost objective in Iraq since 2003 has been ensuring that Iraq never again poses a similar threat as under Saddam Hussein's rule. By benefitting from the vacuum of power created by the US 2003 intervention, Iran has since expanded its influence in the country. Fast forward to today's necessity of rolling back the Islamic State from the land between the two rivers – dangerously close to Iranian borders – and we find a *de facto* cooperation with the other actors fighting Daesh, including the Global Coalition. However, Iranian policy in Iraq – which is carried out by Quds Force commander Qassem Soleimani directly on behalf of Supreme Leader Khamenei – seems today aimed at reinforcing the "axis of resistance", by creating a land corridor to the Mediterranean, stretching from Tehran to Baghdad, Damascus, and Beirut. Moreover, the extensive presence in today's Iraq of Tehran's trained Shiite militias fighting under the Popular Mobilization Units (PMU) banner raises serious concerns for the future of the Iraqi state's sovereignty and integrity. If we add the element of the religious competition between Qom and Najaf to two different models of authority – the traditional, "quietist", Ayatollah Sistani's, and

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<sup>30</sup> L. Rozen, "What Iran's Foreign Minister told German TV about Israel, Iran", *Al-Monitor*, 6 February 2014, <http://www.al-monitor.com/pulse/originals/2014/07/iran-zarif-palestine-israel-phoenix-netanyahu-recognize.html>

<sup>31</sup> "Iran fires two missiles marked 'Israel must be wiped out'", *The Independent*, 9 March 2016, <http://www.independent.co.uk/news/world/middle-east/iran-fires-two-ballistic-missiles-marked-israel-must-be-wiped-out-a6920741.html>

the revolutionary, Khomeinist merge of religious and political authority – we can assume that Iran is in for the long haul.

### **Yet, room for cooperation and “constructive engagement”**

As the argument went, the JCPOA would have empowered Rouhani at home and provided him with more leverage also on foreign policy issues. Although it is not possible to ascertain any direct cause-effect phenomenon, the re-election of Rouhani in May 2017 seems to confirm the “empowering moderates” mantra. However, as discussed above, Rouhani did not change Tehran’s foreign policy dramatically, and neither has the power to do it. The final say on crucial policies – namely, the most linked with the revolutionary pillars of the state – is up to the Supreme Leader and his allies within the IRGC. Moreover, changing the core principles of Iranian foreign policy would mean in some way diluting the pillars on which the regime’s legitimacy rests: it would be tantamount to admitting the failure of the Revolution.

Thus, Iranian foreign policy under Rouhani’s Administration will continue to adopt a schizophrenic appearance: in many dossiers, it will likely reflect core positions that have endured since the 1979 Revolution. However, in other dossiers, there could actually be a relaxing of tensions and the opening of new room for cooperation. While key foreign policy issues such as the relations with Israel and Iranian politics in the Levant will likely remain under control of the Supreme Leader and the IRGC, the Rouhani government will remain in charge of specific foreign policy portfolios, such as improving relations with Europe and attempting a relaxing of tensions *vis-à-vis* Saudi Arabia. Even in these portfolios, however, the Rouhani executive will have to face the internal opposition of conservatives who are unlikely to change their views on the core principles of Iranian foreign policy.

With this aim, it is worth remembering that – willy-nilly – Iran is crucial to stabilize a wider arc of crisis that today extends from the Levant to the Gulf of Aden. Equally important, it is worth remembering that past containment strategies not only did not bear any success, but they also ended up playing into the hands of the Conservatives and the Hardliners, undermining reformist and pragmatic executives' efforts at engaging their regional partners and the West.

On the contrary, a cooperation focusing on aspects of common interest could mitigate Iranian insecurity and sense of encirclement – both at the rhetoric (cf. Trump's aggressive rhetoric against Iran) and the operational level. It is worth remembering, in fact, that it is Iran's sense of encirclement, isolation, and threat perception that ultimately favors the hardliners. As outlined above, “despite often projecting an uncompromising stance, regime survival, not ideology, is paramount for the country's theocratic elite”<sup>32</sup>. Continuing the policy of engagement with the aim of reducing regional insecurity could actually benefit the pragmatists, helping them to overcome the multiple constraints outlined above.

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<sup>32</sup> K. Sadjadpour, “How relevant is the Iranian street?”, *The Washington Quarterly*, vol. 30, no.1, Winter 2006-2007, p. 160.





## **Section II**

### **A Fateful Triangle: Iran, the EU, and the US**



## 4. Under Pressure: US-Iranian Relations in the Age of Trump

Sanam Vakil

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The November 2016 election of Donald Trump to the White House reset the tone and direction of US policy towards the Islamic Republic of Iran away from Barak Obama's eight-year efforts of pragmatic engagement back towards the traditional and longstanding US policy of Iranian containment. In the absence of meaningful diplomatic relations with profound ideological differences separating Tehran and Washington, containment has long been Washington's go-to Iran policy. This shift comes amidst the region's interconnected conflicts that include multiple actors and goals such as the counterterror fight against ISIS and al-Qa'i-da, the Syrian civil war involving Russia, Turkey and proxies, the war in Yemen, instability in Iraq, and ongoing Saudi-Iranian tensions where the potential for US and Iranian confrontation has increased as the two countries have opposing objectives in most if not all arenas. Moreover, this shift has put in jeopardy the survival of the Joint Comprehensive Plan of Action (JCPOA), the nuclear deal signed in July 2015 between Iran and the E3/EU+ 3 (France, Germany, the United Kingdom, Russia, China, and the US) which yielded constraints to Iran's nuclear program in exchange for international sanctions relief. In the current regional climate, President Trump's policy, while not unexpected, reverses hopes that the nuclear agreement could yield stronger relations between the two countries and brings Washington on a direct and dangerous collision course with Tehran.

Stemming from limited diplomatic contact and deep ideological differences between Washington and Tehran since the early days of the 1979 Iranian Revolution, both sides ultimately seek to limit the other's influence in the region of the Middle

East. For Washington, the Islamic Republic has long been a destabilizing force and an aggressor in the Middle East as a sponsor of terrorism and an opponent of Israel and other US regional allies. Iran's use of ballistic missiles and reliance on asymmetrical proxy groups along with its appalling domestic human rights record only add fuel to Washington's anti-Iranian fire. Its revolutionary, religious ideology has moreover alit the dangerous flame of regional sectarianism alive.

Against this backdrop, Tehran's perspective is conversely defensive in orientation. The Islamic Republic ultimately seeks to reduce America's footprint in the Middle East. Political elites in Tehran have long been suspicious of American intentions towards the Islamic Republic, never having received the respect or legitimacy they have long sought since their overthrow of the US-supported Pahlavi monarchy. Their hostility is predicated on decades of American meddling throughout the region and longstanding US hopes for a change of regime in Tehran.

While both sides successfully negotiated a resolution towards Iran's nuclear standoff, wider regional tensions, domestic ideological political constraints in Tehran and Washington and a diplomatic trust deficit continue to obstruct prospects for long-term rapprochement between the two capitals. Because of these multiple issues, the Trump Administration put "Iran on notice" and has begun a comprehensive review of its Iran strategy with the aim to increase pressure on Tehran on multiple fronts.

This comes after an intense presidential political campaign in Tehran resulting in the May 2017 re-election of centrist candidate Hassan Rouhani. The election was widely perceived as a referendum on the nuclear deal and the future direction of Iran's domestic politics. Winning 57% of the vote against hardline conservative clerical candidate Ebrahim Raisi, Rouhani promised to build on the momentum of the nuclear deal to promote greater economic growth and foreign investment, along with improved civil liberties. Rouhani's win sparked hope among the electorate and the international community that his plans for economic rehabilitation and pragmatic engagement would

continue leading to a more open, pragmatic Iran.

In the climate of increased US posturing, President Rouhani faces an impossible battle to moderate policies, promote economic liberalization and simultaneously balance against hard-line conservative politicking against his vision. The Trump Administration's plans to increase pressure on Iran while adhering to the nuclear deal will be an equally difficult balancing act. These tensions bring to light the deep ideological, domestic, and historical divide separating Tehran and Washington. How these interconnected themes and policy challenges play out will have enduring consequences for Tehran's domestic political opening, wider Middle Eastern stability, and prospects for US-Iranian relations in the years to come.

## **The view from Washington**

In the 2016 US presidential election campaign, both Donald Trump and Democratic candidate Hillary Clinton were decisively critical of the Islamic Republic indicating early on that a shift in Iran policy was in the offing. This policy would undo the efforts of the Obama Administration to reorient and moderate American opposition to the Islamic Republic. After decades of no official diplomatic contact, Obama called for "engagement [with Tehran] that is honest and grounded in mutual respect"<sup>1</sup>. He sought to kick-start secret diplomatic efforts that would resolve outstanding issues between the two countries. The nuclear portfolio was among the most sensitive and pressing for both Tehran and Washington. Iranian opacity and obstruction on its nuclear program had resulted in a number of United Nations Security Council resolutions condemning Iran's activities and pressuring Iran through economic and financial restrictions<sup>2</sup>.

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<sup>1</sup> Barack Obama, "Message to the Iranian People", 20 March 2009, <https://obamawhitehouse.archives.gov/blog/2012/03/20/nowruz-president-obama-speaks-iranian-people>.

<sup>2</sup> Resolution 1696 was passed on 31 July 2006 demanding that Iran suspend

Additional EU sanctions resulted in an oil embargo in 2011 that further pressured Iran to the negotiating table.

Secret negotiations mediated through the Omani government began in 2013<sup>3</sup>. The result led to a more open discussion on the nuclear file with greater trust and confidence emerging between the US and Iranian counterparts. The election of centrist candidate Hassan Rouhani to the presidency that year created an opportunity for greater momentum to build among the parties. Rouhani had campaigned on the promise of resolving the nuclear dispute and removing international sanctions that were dramatically strangling the economy and the livelihood of the Iranian population.

The result of protracted negotiations was a first agreement known as the Joint Plan of Action (JPA) signed in November 2013 followed by a Framework Agreement concluded in April 2015. The final JCPOA was concluded in July 2015 culminating over three years of negotiations. Under the terms of the agreement, Iran agreed to curtail uranium enrichment, convert facilities that

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all enrichment-related and reprocessing activities and threatening sanctions. Resolution 1737 passed on 23 December 2006 made mandatory for Iran to suspend enrichment-related and reprocessing activities and cooperate with the IAEA, imposed sanctions banning the supply of nuclear-related materials and technology, and froze the assets of key individuals and companies related to the program. Resolution 1747 passed on 24 March 2007 imposed an arms embargo and expanded the freeze on Iranian assets. Resolution 1803 passed on 3 March 2008 extended the asset freezes and called upon states to monitor the activities of Iranian banks, inspect Iranian ships and aircraft, and monitor the movement of individuals involved with the program through their territory. Resolution 1929 was passed in June 2010 and required UN members to block the transfer of technology related to either missiles or nuclear weapons and cut off commercial access to uranium mining or nuclear materials production in their territories. It also imposed new restrictions on travel for Iranian officials associated with proliferation. It targeted Iranian shipping lines affiliated with Iran's Revolutionary Guards and called on member states to refuse them financial and insurance services. Finally, resolution 1929 called on member states to block new branches of certain Iranian banks in their territories.

<sup>3</sup> J. Limbert, "The Obama Administration", in R. Wright (Ed.), *The Iran Primer*, United States Institute of Peace (USIP), 2010.

were thought to have potential use for nuclear weapons production, and allow stringent inspections by the International Atomic Energy Agency (IAEA), the United Nations nuclear watchdog. In return, Iran's frozen assets were released, and financial and energy sanctions were lifted. Oil and gas exports – severely restricted since the end of 2011 – were resumed, and foreign investment was once again free to flow into the country.

The US agreed to recommence sales of commercial aircraft and parts, but an arms embargo would remain in place until 2023. US secondary sanctions would be lifted through executive orders. US businesses and citizens, however, still subject to primary US-imposed human rights and terror sanctions, would be prevented from engaging in any commercial enterprise with the Islamic Republic<sup>4</sup>. This latter provision, along with the possibility of snapback sanctions should the agreement unravel, has impacted the smooth implementation of the deal. Importantly, all sides agreed to implement the agreement “in good faith and in a constructive atmosphere, based on mutual respect, and to refrain from any action inconsistent with the letter, spirit and intent of this JCPOA that would undermine its successful implementation”<sup>5</sup>.

For the Obama Administration, the nuclear deal was considered an opportunity to translate such gains stemming from a direct contact into political shifts in Tehran. Moreover, Obama believed that trust and communication between Tehran and Washington would reduce tensions in a number of Middle East issues. These hopes for long-term change were scuttled in both capitals though. In Washington, criticism of the nuclear agreement and Obama's perceived leniency towards Iran mounted in Congress, as opponents feared the deal would bolster Iran's regional influence and destabilizing power. Regional opposition to the nuclear agreement also emerged among US allies Saudi Arabia and Israel who

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<sup>4</sup> Joint Comprehensive Plan of Action, 14 July 2015, [http://ceas.europa.eu/archives/docs/statements-ceas/docs/iran\\_agreement/iran\\_joint-comprehensive-plan-of-action\\_en.pdf](http://ceas.europa.eu/archives/docs/statements-ceas/docs/iran_agreement/iran_joint-comprehensive-plan-of-action_en.pdf).

<sup>5</sup> *Ibid.*



believed the deal would legitimize the Islamic Republic and bolster Tehran's authority in the Middle East.

Against this backdrop, this Trump Administration's shift in policy is not surprising. Thirty-eight years after the 1979 Iranian Revolution, American policymakers and the US electorate still bear hostility towards the Islamic Republic. Considering this, both Democratic candidate Hillary Clinton and Donald Trump took harder positions towards Iran throughout the American election campaign. Reflecting the historical arch of American suspicion towards Tehran, dating from the Revolution and the subsequent hostage crisis, both candidates were staunchly critical of Iran's expanding regional influence, support for terror, and proxy groups throughout the Middle East, its ballistic missile program, and human rights record.

With the exception of the Obama Administration, all US governments since 1979 have employed some policy of containment when dealing with the Islamic Republic<sup>6</sup>. Containment was the age-old US strategy articulated by US Cold War strategist George Kennan to rollback Soviet influence in the aftermath of World War II. Soviet containment would protect against "the extremes of conflict and appeasement" through the development of a "third path" or policy option. This policy would ward off war and gradually stave off Soviet expansionism. After the 1991 dissolution of the Soviet Union, this policy was perceived as a successful model to be used against other threatening states that did not seek peaceful relations with the US, including post-revolutionary Iran.

In the absence of a wider American commitment towards engagement or regime change in Tehran or any other alternative, the containment policy has endured for decades as an effective, low-cost strategy. Different US Administrations have used more passive or active forms of containment against Iran using a basket of sanctions, diplomatic efforts of isolation, covert actions, and military deployments to the Persian Gulf to pressure Tehran<sup>7</sup>.

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<sup>6</sup> K. Pollack, "Containing Iran", in R. Wright (Ed.), *The Iran Primer*, United States Institute of Peace (USIP), 2010.

<sup>7</sup> "George Kennan's Cold War policy of Containment," *The Economist*, November 2011.

After numerous attempts at interfering in the Revolution followed by failed engagement with the new regime in Tehran, the Carter Administration settled on a policy of containment to prevent the impact of the Iranian Revolution to spread beyond Iran's borders. This policy was perpetuated under the Reagan Administration despite the Iran-Contra negotiations<sup>8</sup>. President Bush, despite initial interest in engagement with Tehran, was never able to translate this initial interest into a tangible policy shift. The Clinton Administration, however, more stringently implemented a "dual containment" policy towards both Iran and Iraq, resulting in the imposition of tough Congressional sanctions against Tehran and pressuring international companies from investing in Iran through the use of extraterritorial sanctions<sup>9</sup>.

Despite tentative diplomacy between the George W. Bush Administration and Iran after the 9/11 terror attacks, containment was again employed as no alternative policy to deal with competing interests and outstanding issues could be found. In 2002, revelations regarding Iran's covert nuclear weapons program elevated the need for a new policy that would move beyond containment to prevent Iran's nuclear gains<sup>10</sup>. President Bush employed a "carrot and stick" approach to coax and pressure Iran to change its behavior, followed by Obama<sup>11</sup>. Increased sanctions, coupled with diplomatic openings as discussed above, opened the door to the JCPOA.

Throughout the Obama Administration, Washington policy elites remained critical of the nuclear deal believing that the agreement was not strong enough and too limited in scope to contain or change Iranian behavior. In the context of changing regional dynamics, Republicans generally believed that the nuclear deal empowered Tehran, resulting in larger Iranian influence

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<sup>8</sup> K. Pollack (2010).

<sup>9</sup> S. Vakil, "Obama's Iranian Gamble", *The International Spectator*, vol. 49, no. 3, 2014.

<sup>10</sup> S. Sinha and S. Campbell Beachy, "Timeline on Iran's Nuclear Program," *New York Times*, 2 April 2015. In 2002, Iranian opposition group, the Mujahedin-e-Khalq, revealed that Iran had a covert nuclear program.

<sup>11</sup> *Ibid.*

outside of its borders. Rather than moderate Iranian activity in the region after the deal, Tehran has increased its proxy network and stepped up its menacing behavior in the Persian Gulf. Overt Iranian support for Syria's Bashar al-Assad, Lebanon's Hezbollah, Iraqi militia groups, and Yemen's Houthis contribute to this thesis. CIA Director Mike Pompeo has echoed these sentiments stating, "Today, we find [Iran] with enormous influence, an influence that far outstrips where it was six or seven years ago. Whether it's the influence they have over the government in Baghdad, whether its increasing strength of Hezbollah and Lebanon, their work alongside the Houthis in Yemen, the Iraqi Shias that are fighting along now the border in Syria – certainly the Shia forces that engaged in Syria. Iran is everywhere throughout the Middle East"<sup>12</sup>. In light of this context, President Trump's swing back to the traditional Iranian containment strategy as the default American position is not surprising.

The Trump Administration has indicated that they may be moving beyond a standard containment strategy. A new series of sanctions, coupled with hostile statements from members of the cabinet, all indicate that the Administration intends to increase pressure on Tehran. Secretary of State Rex Tillerson has stated, "our policy towards Iran is to push back on [its regional] hegemony, contain their ability to develop, obviously, nuclear weapons and to work towards support of those elements inside of Iran that would lead to a peaceful transition of that government"<sup>13</sup>. Tillerson's remarks suggest that regime change is under review as a policy option. Secretary of Defence James Mattis has echoed these sentiments as well<sup>14</sup>. The inclusion of Iranian citizens in President Trump's travel ban has further inflamed tensions<sup>15</sup>.

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<sup>12</sup> "CIA Director Warns of Iran's Regional Role," Radio Farda, 26 June 2017, <https://en.radiofarda.com/a/cia-pompeo-iran-regional-influence/28578224.html>.

<sup>13</sup> Secretary of State, Rex Tillerson, told House Foreign Relations Committee on Wednesday, 14 June 2017.

<sup>14</sup> T. Fischer, "Defense Secretary Mattis Interview with the Islander", *The Islander*, 20 June 2017.

<sup>15</sup> The Trump travel ban has imposed strict travel restrictions on nationals from six nations including Iran limiting their travel to the United States for a ninety-day

Despite labelling the nuclear deal as the worst deal in history, in May and July 2017 the US Administration reaffirmed Iran's compliance with the nuclear deal forcing a reluctant President Trump to renew the JCPOA sanctions waivers<sup>16</sup> and institutionalizing what has become a contradictory Iran policy. Congressional Republicans with the backing of the Trump Administration have imposed a number of new sanctions on Iran. Since early 2017, the circle of individuals and entities sanctioned for supporting Iran's ballistic missile program has been expanded<sup>17</sup>. Congress has also introduced half a dozen bills designed to sanction enablers of Iran's ballistic missile program, designating the Islamic Revolutionary Guard Corps (IRGC) a state sponsor of terror and targeting Iran and Russian support for Bashar al-Assad's regime in Syria<sup>18</sup>. When these sanctions pass, they too will increase economic pressure on Tehran and test the willingness of all parties to maintain their JCPOA commitments alongside wider regional goals. While Tehran has expressed its intent to support the agreement, the shift in tone and search for a tougher policy in Washington reveals the depth of mistrust dividing both capitals and the challenging path ahead.

## The view from Tehran

The Iranian policy perspective is equally important to consider when assessing future prospects for US-Iranian relations. Tehran's worldview is ingrained in its post-revolutionary history

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period. "Trump Travel Ban Comes into Effect for Six Countries", *BBC News*, 30 June 2017, <http://www.bbc.co.uk/news/world-us-canada-40452360>.

<sup>16</sup> A. Mohammad and Y. Torbati, "U.S. extends sanctions relief under Iran nuclear deal," Reuters, 17 May 2017, <http://www.reuters.com/article/us-iran-nuclear-usa-idUSKCN18D1W6>.

<sup>17</sup> This includes seven Iranian and Chinese organizations.

<sup>18</sup> E. Borden and S. Maloney, "Will the Iran Nuclear Deal Survive? Time and Sanctions Will Tell", Brookings Institution, Markaz Blog, 30 May 2017, <https://www.brookings.edu/blog/markaz/2017/05/30/will-the-iran-nuclear-deal-survive-time-and-sanctions-will-tell/>.

and experience. The impact and interpretation of this history have colored factional politics exacerbating tensions between hardliners and centrist politicians. Understanding this worldview and experience is necessary to contextualize President Rouhani's contemporary political and economic challenges both of which are connected to US-Iranian relations.

Iran's 1979 Iranian Revolution was predicated on the concept of independence. The revolutionary slogans of "independence, freedom and the Islamic Republic" and "neither East nor West" were emblematic of this ideology and vision. Ayatollah Ruhollah Khomeini, the revolutionary founding father of Iran's new political system, captured this philosophy stating, "If we cannot live up to the tough measure of "neither East nor West" and have not made Iran truly independent, then we have not achieved anything"<sup>19</sup>.

For almost four decades now, independence has driven Tehran's economic, political, and regional relationships. This single-minded vision has often affected its own internal stability and leads it to pursue asymmetrical regional alliances that unconventionally protect and advance its national and economic interests.

Drawing from historical fears of foreign interference in Iranian affairs dating back to the mid-XIX century, Khomeini sought to protect the newly created Islamic Republic from the mistakes of the past. He condemned the United States and the Soviet Union along with Israel as countries working against Iran's indigenous interests. Consequently, a major foreign policy goal from the time of the Revolution has been to preclude all forms of political, economic, and cultural dependence on neither West nor East. In contemporary terms, Iran has maintained unmoving hostility towards the United States but has sought to diversify its regional, economic, and international relationships with ties to China, Russia, India, and European countries too.

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<sup>19</sup> Quoted in R. Farhang. "Why Alone?", in T. Juneau and S. Razavi (Eds.), *Iranian Foreign Policy since 2001: Alone in the World*, Abingdon, Routledge, 2013.

Part of Iran's quest for independence is bound to the belief that the US presence and involvement in Iran and the wider Middle East have been decidedly negative and designed to contain Iran. From Tehran's perspective, this is evidenced in the unstable outcome of the main regional wars such as the 1980-1988 Iran-Iraq war, 1990 first Persian Gulf war, the 2001 Afghan war, the 2003 Iraq war, the 2012 Libya campaign, and support for the 2015 GCC-led Yemen war<sup>20</sup>. Based on this interpretation of regional history, Middle Eastern security should be managed from within the region rather than through US interference and balancing efforts<sup>21</sup>.

To offset for the increased American regional presence evidenced most recently in the 2001 war on terror and 2003 Iraq war, Iran has worked through a strategy of diplomatic, economic, religious, and military support for state and non-state actors. Because Iran has a limited conventional military capability, it has cultivated a network of partners and proxies to buffer against its perceived regional threats. While Tehran views this "forward defence strategy" as protective, Iran's neighbors see Tehran as expansionist and aggressive, thereby increasing regional tensions<sup>22</sup>.

This ideological context can help explain the fluctuating events of the past three decades, including the impact of the 1980-1988 Iran-Iraq war and its consequences, the post-war effort at economic integration, the reform movement, President Ahmadinejad's politics of confrontation, and Rouhani's election. While not providing a complete picture of Iran's domestic politics, these turning points highlight the factional divisions that emerged and solidified within the Iranian elite. Taken

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<sup>20</sup> S.H. Mousavian, "What Trump Needs to Know About Iran", *Huffington Post*, 6 January 2016, [http://www.huffingtonpost.com/entry/trump-iran-facts\\_us\\_586fb7bae4b02b5f85886829](http://www.huffingtonpost.com/entry/trump-iran-facts_us_586fb7bae4b02b5f85886829).

<sup>21</sup> Saudi Arabia by contrast sought US regional protection as a counterweight to Iran.

<sup>22</sup> A. Vaez, "Trump Can't Deal with Iran if He Doesn't Understand It", *Foreign Policy*, 23 February 2017, <http://foreignpolicy.com/2017/02/23/trump-cant-deal-with-iran-if-he-doesnt-understand-it/>.

together, these historical inflection points reveal a divided country: those seeking to reform the system pitted against those wanting to preserve the *status quo*.

The impact and effect of Iran's war with neighboring Iraq have had monumental consequences for Tehran, its worldview, and regional relationships. While the war did help the young revolutionary regime consolidate its power, it also passed on a profound sense of vulnerability that can be felt still today among Iran's political elite and the war generation. Regional tensions with Iran's neighbors and the profound sense of isolation, paranoia, and encirclement fueled Iran's security anxieties setting its asymmetrical foreign proxy support for groups such as Lebanon's Hezbollah in motion and explain Iran's use of ballistic missiles to push threats away from its borders.

## Domestic dynamics

Unimpeded factionalism and political competition between conservatives and reformist politicians have dominated domestic Iranian politics since the death of Ayatollah Khomeini in 1989. These tensions, which remain ongoing, are a defining feature of domestic politics. The differences among factions over economic and regional policies affect Iran's relations with the wider world.

The dispute between hardline conservative and pragmatists lies at the heart of the ideological divide splitting Iran's political elite. Both groups seek the shared ends of stability and security of the Islamic Republic but have different means of obtaining their goals. Hardliners ultimately seek to protect the Islamic Republic but through the preservation of the *status quo*. Pragmatists such as President Rouhani, on the other hand, have long argued that only through transformation and liberalization can the system survive economic and political pressures. The nuclear deal, for Rouhani, was an opportunity to promote economic change and revitalize Iran's languid economy.

Dating back to the presidency of Hashemi Rafsanjani (1989-1997) these issues have divided Iranian politics bringing

factional disputes and ideological disagreements to the surface. After the Iran-Iraq war, Rafsanjani sought to promote economic reconstruction and international reintegration – a two-pronged policy of rehabilitating Iran’s image and economy. In this environment, which included a period of greater cultural openness, disillusioned political elites who believed that Iran’s Revolution had lost its way gave birth to Iran’s reformist movement. Reformism was anything but unified in interpretation but in general espoused “reform” or liberalization of the political and social spheres. The overwhelming popular support for reformist President Mohammad Khatami seen in the 1997 and 2001 elections proved threatening to the conservative political elite who believed that Khatami’s presidency would weaken the Islamic Republic. The reformist spring and “dialogue of civilizations” advocated by Khatami came to an abrupt end with the election of the populist, conservative Mahmoud Ahmadinejad (2005-2013).

Ahmadinejad altered the tenor and tone of Iranian domestic, economic, and foreign policy spearheading a more confrontational rather than concessionary approach to Iran’s covert nuclear program and relations with the international community<sup>23</sup>. Regional engagement in the context of the 2001 Afghan and 2003 Iraq wars also sought to advance Iranian interests while protecting Tehran from US regional encirclement<sup>24</sup>. The 2009 Green movement protests amidst rising international pressure on Iran for its nuclear obstruction, led to a heightened political atmosphere and a stringent domestic crackdown.

Rouhani’s 2013 election sought to rebuild bridges among the elite and between state and society after the dramatic rupture of 2009. The economic pressure of nuclear sanctions and the prospect of improved domestic politics resulted in almost uniform

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<sup>23</sup> For more details on President Ahmadinejad’s tenure and politics see A.M. Ansari, *Iran under Ahmadinejad: The Politics of Confrontation*, Adelphi Book, IISS, 2007.

<sup>24</sup> V. Perthes, “Ambition and Fear: Iran’s Foreign Policy and Nuclear Programme”, *Survival*, vol. 52, no. 3, June-July 2010, pp. 95-114.



support for Rouhani's nuclear negotiations. The divided political elite recognized the necessity of compromise for national interest purposes. However, in the aftermath of the deal, old divisions have been laid bare leaving the Iranian elite to face the options of continuity or change. Once the deal was signed, hard-line opponents of President Rouhani began to criticize the nuclear deal as a massive concession and demonstration of Iranian weakness. During the negotiations, Iran's Supreme Leader Ali Khamenei had supported this compromise and demanded factional unity from Iran's feuding political groups. This unity had benefitted Rouhani's negotiation team and blanketed internal dissent albeit temporarily. Upon conclusion of the agreement, hardliners resumed their criticism of both the President and the contents of the agreement. Ayatollah Khamenei lead the charge stating, "The nuclear deal, as an experience, once again proved the pointlessness of negotiating with the Americans, their bad promises and the need not to trust America's promises"<sup>25</sup>. Hardliners have long been suspicious of Western influence, arguing instead that Iranian independence and non-alignment as pursued since 1979 should be maintained. For them, compromise with the West and particularly the United States is a sign of weakness that would invite further meddling in internal Iranian affairs, the consequence of which would be the dissolution of the Islamic Republic.

To balance against these domestic ideological pressures, Hassan Rouhani's government has prioritized liberalization and foreign investment as the key to bolstering growth and promoting employment. In addition to negotiating the JCPOA, the Rouhani Administration has successfully reduced inflation to single digits, provided greater exchange rate stability, increased tax revenue, and reduced subsidies. With sanctions relief and the resumption of oil exports, economic growth has equalled pre-sanctions levels<sup>26</sup>. However, multiple economic and political

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<sup>25</sup> "Iran's Khamenei renews criticism of nuclear deal", Reuters, 1 August 2016, <http://www.reuters.com/article/us-iran-nuclear-khamenei-idUSKCN10C2LH>.

<sup>26</sup> "IMF Executive Board Concludes 2016 Article IV Consultation with the

issues have limited Rouhani's effectiveness in this arena. Having renewed his four-year mandate at the ballot box, Rouhani has a small window of opportunity to build on his diverse array of campaign promises that include greater economic growth, tackling corruption, addressing issues of gender discrimination, and opening the Internet. To address these challenges, Rouhani will have to wade into the waters of the factional disputes and relations with the international community.

The Rouhani Administration has experienced significant obstacles to attracting investment. Long before the deal was penned, Iran's economy was heralded as the "last emerging market to emerge"<sup>27</sup>. To improve economic conditions as well as diversify its energy-dependent economy, Rouhani's Administration announced the goal of seeking \$150bn in investment across multiple sectors to promote growth, create employment, improve technical skills, and increase access to technology. Seeking to capitalize on these economic opportunities, European and Asian investors courted Iran and commenced a wave of provisional agreements and Memorandums of Understanding (MoU). While a number of these agreements translated into concrete investment deals, including those with Boeing, Airbus, Total, Peugeot, Volkswagen, Glaxo Smith Kline, and Vodafone to name a few, wider scale Iranian investment, as promised by the Rouhani government, has been obstructed. Domestic economic and political challenges coupled with the erratic position of the Trump Administration's Iran policy have constrained the nuclear deal dividend.

American opacity has been but one obstacle in limiting Iran's economic gains. Risk averse companies and banks have been reluctant to enter the Iranian market fearing the impact of renewed US sanctions. Companies are additionally concerned about inadvertently breaching US regulations including

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Islamic Republic of Iran", International Monetary Fund, 27 February 2017.

<sup>27</sup> I. Black, "Post sanctions Iran could be the best emerging market for years to come," *The Guardian*, 6 July 2015, <https://www.theguardian.com/world/2015/jul/06/iran-sanctions-emerging-market-business-free-market>.

prohibitions in transacting in US dollars and investing with sanctioned entities and individuals associated with financial or terror crime in Iran. International banks, fearing similar penalties as those imposed on French bank BNP Paribas who was fined close to \$9bn for violating US sanctions, are particularly reluctant to underwrite investment deals leaving multinationals struggling to find investment support<sup>28</sup>. These obstructions are seen as violations of the JCPOA. An important provision of the deal is that all sides should “refrain from any policy specifically intended to [...] affect the normalization of trade and economic relations with Iran” and implementing the JCPOA “in good faith and in a constructive atmosphere”<sup>29</sup>. Iranian politicians complain that US policy towards Iran and ambiguity around the nuclear deal has in fact challenged this principle.

This has, in turn, weakened Rouhani’s domestic platform. Rouhani’s vision is tied to an economically, regionally, and internationally integrated Iran. Strengthened diplomatic and bilateral relationships would benefit Iran commercially as well as strategically. Hardliner conservative opponents of the President, ranging from the IRGC to affiliates of the Supreme Leader who have built an expansive network of religious and military entities along with vast economic interests, are sceptical of this approach fearing that integration would invite foreign interference in Iranian affairs. Such interference would eventually result in a transformation of the Islamic Republic ultimately diluting hardliner political control as well as forcing their economic divestiture.

For Rouhani, the IRGC’s political and economic influence is a thorn in his side. Because members and economic entities are sanctioned by the US for their support of terror activities,

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<sup>28</sup> N. Raymond, “BNP Paribas sentenced in \$8.9 billion accord over sanctions violations”, Reuters, 1 May 2015, <http://www.reuters.com/article/us-bnp-paribas-settlement-sentencing-idUSKBN0NM41K20150501>.

<sup>29</sup> Joint Comprehensive Plan of Action, 14 July 2015, [http://ceas.europa.eu/archives/docs/statements-ceas/docs/iran\\_agreement/iran\\_joint-comprehensive-plan-of-action\\_en.pdf](http://ceas.europa.eu/archives/docs/statements-ceas/docs/iran_agreement/iran_joint-comprehensive-plan-of-action_en.pdf).

many international companies are wary that their Iran related investments will bring them into contact with sanctioned businesses and individuals. To address these issues, Rouhani has struggled to limit IRGC banking relationships as well as push back the Guards' economic influence through behind-the-scenes agreements. Rouhani publically addressed the Guards authority stating that "A part of the national economy is in the hands of a government that does not have military might and has been handed over authority by a government that does"<sup>30</sup> pointing to the factional tensions at the heart of his Administration.

After the Iran-Iraq war, the IRGC became an active player in the Iranian economy. According to the Iranian Constitution, it acts as the "guardian of the Revolution", a clause that has given them greater political, military, and economic influence. Today, their economic conglomerate Khatam al-Anbia has invested heavily in telecommunications, infrastructure, energy, automotive, and the services sector to name a few<sup>31</sup>. Through preferential contracts and government connections, they have grown in economic and political influence with some estimates placing their economic control at over 60%<sup>32</sup>. During the period of nuclear sanctions, the IRGC's business interests received preferential contracts benefiting from the absence of international rivals. Under Rouhani, while they remained supportive of the nuclear agreement, they have often worked to undermine the President as a means of protecting their sphere of influence. Their opposition to the new Iran Petroleum Contracts (IPCs) is one such example where they initially opposed the new, more attractive terms offered to foreign firms<sup>33</sup>. Only when the IRGC

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<sup>30</sup> A. Alsalmi, "IRGC Commander Attacks Rouhani Policies, Boasts about Military Might", *Al-Sharq al-Awsat*, 28 June 2017.

<sup>31</sup> A.R. Nader, "The Rise of the Pasdaran: Assessing the Domestic Roles of Iran's Islamic Revolutionary Guards Corps," *RAND National Defense Research Institute*, 2009, p. 55.

<sup>32</sup> *Ibid.*

<sup>33</sup> D. Ramin Jalilvand, "What's Fueling New Opposition to Iran's New Oil Contracts?", *Al-Monitor*, 25 May 2016, <http://www.al-monitor.com/pulse/originals/2016/05/iran-petroleum-contract-framework-delayed.html>.

was offered the first IPC did they remove their obstructionism.

As part of their economic reform plan, Rouhani's government has advanced a diversification program aimed at reducing long-term reliance on the energy sector and converting the Iranian economy to serve as a regional manufacturing hub. To accomplish this, though, Rouhani's government must address a number of interconnected challenges such as attracting foreign investment and technology and training to bolster other sectors. Much needed macroeconomic change including banking, regulatory, and labor market reform, which will also be critical to stabilize the economy and provide transparency and accountability for investors. Rolling back the economic influence of the IRGC and state sector in the economy is another more challenging political objective for the President.

Unemployment remains the principle economic test for the Rouhani team. Despite the JCPOA, the Iran population has yet to feel the benefits of the nuclear deal dividend. The Statistical Centre of Iran put the number of Iranians out of work at 2.5 million in the past Iranian calendar year 1394 ending 20 March 2016. That figure amounts to 11% of the workforce, and shows a 0.4% increase compared with the previous Iranian year. Official data also shows that the unemployment rate that year was 9.3% and 19.4% for men and women, respectively<sup>34</sup>. However, unofficial statistics suggest that unemployment, especially among the youth, hovers around 40%. To date, the government has failed at promoting job creation but must attempt to meet its promise of creating one million jobs annually in order to be accountable to the electorate<sup>35</sup>.

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<sup>34</sup> "Statistical Centre Announces Unemployment Rate," April 6, 2016, [www.Tabnak.ir](http://www.Tabnak.ir)

<sup>35</sup> M. Bizaer, "Fed Up with Talk, Iranians Demand Action on Jobs", *Al-Monitor*, 3 July 2016, <http://www.al-monitor.com/pulse/originals/2016/07/iran-unemployment-job-creation-rouhani-final-year.html>.

## The regional nexus

Similar factional and international challenges exist on Iran's regional frontiers.

Here, Rouhani is facing a shifting regional landscape that threads together sectarian tensions and terrorism. Through the support of proxy and militia groups, Tehran has come to the aid of the Iraqi government in its fight against the Islamic State (IS), supported Bashar al-Assad in the Syrian Civil War, and strengthened its longstanding relationship with Lebanon's Hezbollah, all in an effort to push regional conflicts away from Iranian borders. In pursuing this defensive policy, however, Iran's neighbors, ranging from Saudi Arabia to Israel, have assembled in anti-Iranian unity to challenge Tehran's influence and ambitions. The Trump Administration has entered into the fray working with its allies to rein in Iranian regional interventionism.

The age-old regional tensions between Iran and Saudi Arabia have an important place in this story. Iran and Saudi Arabia have long been at the competing ends of regional as well as global interests ranging from oil policy, relations with the United States, and maintaining the helm of religious leadership, all together proxies to the common ambition of regional political leadership<sup>36</sup>. Since the 1979 Iranian Revolution and more acutely since the 2011 Arab Spring protests, such divisions have exacerbated Saudi-Iranian relations. Diplomatic relations were officially ruptured in January 2016 after the Saudi embassy in Tehran was attacked in response to the Saudi execution of a Shia cleric, Nimr al-Nimr. Despite Iranian efforts to bridge the divide between the two countries, Riyadh has consistently rebuffed recent diplomatic overtures remaining suspicious and contemptuous of Iran's regional activities and support of Assad among others.

The signing of the July 2015 nuclear agreement resulted in a shift from the Saudi *status quo* containment policies towards Iran. From Riyadh's perspective, the nuclear deal legitimized

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<sup>36</sup> M. Milani, "Iran and Saudi Arabia Square Off", *Foreign Affairs*, 11 October 2011.

Iran's regional policies and return to the international economy at the expense of its own and wider Sunni interests. Unwilling to tolerate Iran's economic return to the international arena and claiming that Tehran underwrites regional terrorism, Riyadh has actively sought to challenge Iranian regional influence<sup>37</sup>. By doing so, however, this strategy has reinforced sectarian divisions and regional tensions.

Such policies have played out in Iraq, Lebanon, Syria, Bahrain, and Yemen where Iran's hardliners believe that asymmetric, proxy level relationships successfully protect Iran's regional position. The IRGC strategy is designed to advance a two-pronged goal of acting as a strategic buffer and advancing Tehran's interests at the local level. Meanwhile, Iran's foreign ministry promotes bilateral diplomatic relations at the top *strata*<sup>38</sup>.

Syria is the most dangerous arena of a conflict pitting Iran against the US, and Saudi Arabia, and Israel. Since the 2011 outbreak of the Syrian Civil war, Tehran has sided with the Assad regime. Together with Lebanese Hezbollah, Tehran has provided military, financial, and logistical support for Assad against the Saudi funded opposition. Tehran used the fight against IS-sponsored terrorism to justify its regional presence. Through the years, Iran along with Russian intervention in the Syria campaign helped to bolster Assad's control. With IS gradually in retreat, on the ground conditions have shifted, sparking fears of a long-term Iranian footprint in the Levant through a land bridge connecting Tehran to the Mediterranean<sup>39</sup>.

This was made possible because in Iraq too, Iran has sponsored the creation of Popular Mobilization Units (PMU) composed of local religiously inspired militias that, with Iranian funding and training, have come together to fight IS as well.

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<sup>37</sup> A. al-Jubeir, "Can Iran Change?", *New York Times*, 19 January 2016, <https://www.nytimes.com/2016/01/19/opinion/saudi-arabia-can-iran-change.html>.

<sup>38</sup> A. Vaez (2017).

<sup>39</sup> M. Chulov, "Iran Changes Course of road to Mediterranean coast to avoid US forces", *The Guardian*, 16 May 2017, <https://www.theguardian.com/world/2017/may/16/iran-changes-course-of-road-to-mediterranean-coast-to-avoid-us-forces>.

Iranian media has reported that Iraqi and Syrian Shiite militia groups are joining along the shared border between the two countries. Longstanding support for Hezbollah in Lebanon provides Tehran with significant influence there as well. To counter this strategy, foreshadowing an arena of increased conflict, the US military has conducted three airstrikes in the area sending stark messages to the Syrian government and to Tehran to respect American red lines. Failing to do so would result in wider military escalation<sup>40</sup>.

To balance against conflicting regional and American pressures, the Rouhani Administration has looked to offset the US-led efforts to contain Tehran through a diversification plan. Iran's strategy is directed to drive a wedge between the United States and major European powers such as Germany, France, and Italy. The three have restored commercial relations with Iran and as supporters and signatories of the nuclear deal believe in preserving the agreement. This divide-and-conquer strategy also extends to Moscow and Beijing, both of whom seek to protect the JCPOA and their strong commercial and strategic ties with Tehran.

## **What to expect going forward?**

In light of these growing tensions, a number of scenarios could unfold impacting US-Iranian relations and wider regional and international linkages. The first foreseeable option is the gradual collapse of the nuclear agreement. Either coming from the result of US withdrawal or in response to US sanctions, the JCPOA's vulnerability is readily apparent. While neither Tehran nor Washington wants to be held responsible for the deal's failure, continued pressure, sanctions, and ambiguity from the Trump Administration could accelerate its defeat. Here, Iran's

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<sup>40</sup> A. Majidyar, "Rouhani takes credit for enhancing Iran's Military capabilities", *MEI Observed*, 12 July 2017, <http://www.mei.edu/content/io/rouhani-takes-credit-enhancing-iran-s-military-capabilities-aiding-iraq-and-syria>.



calculated response is critical. Should Rouhani remain committed to the deal despite an American breach, Tehran could maintain the moral high ground, protect its economic investments and retain European, Russian, and Chinese economic and diplomatic ties. This would be the best option for Tehran but would require significant restraint of hardliners who would be looking to capitalize on this opportunity. In an alternative reaction, Tehran could equally recommence its nuclear program – a move that would rally international support against Iran thereby accelerating a return to Iranian isolation and sanctions.

A second scenario could result in military escalation between Tehran and the US on the Syrian frontier. While not deliberate, a series of exchanges or missteps could snowball into a wider confrontation. In this sequence of events, Tehran would struggle to de-escalate the conflict and the US would likely see this as an opportunity to weaken and roll-back Iran's presence. Seeing the Syrian conflict in zero-sum terms, Tehran will mitigate against this possibility by respecting American red lines while simultaneously participating in the Russian-led Astana peace process. Despite Tehran's current diversification tactics, the chance of escalation and military missteps still exists.

The third possibility would see the maintenance of the *status quo* relationship. Political obstacles and lack of decision making within the Trump Administration could prolong the current state of affairs between Tehran and Washington. Distracted by multiple internal political issues, as well as occupied with foreign policy challenges in Europe and Asia, Washington could remain indecisive about its Iran policy. This would result in continued American verification of the nuclear deal but also in an increased anti-Iranian rhetoric, sanctions, and prolonged ambiguity surrounding future policy steps. While this seems like the most plausible option, uncertainty does not bode well for Rouhani's economic engagement plans.

A final option includes a large-scale negotiation designed to resolve the outstanding issues between Tehran and Washington. President Rouhani indicated during his election campaign that

he intended to negotiate the removal of wider sanctions against Iran. To arrive at such an end, both sides would need the political will, factional unity, and momentum to engage in long rounds of negotiation. In the current climate, none of these conditions exist. While this scenario is less likely, it is ultimately necessary for long-term Middle Eastern stability.

Each of these four scenarios suggests that a myriad of domestic, economic, and international tensions loom on the Iranian horizon. Going forward, Rouhani's grand ambitions will be tested by the two-pronged challenge of domestic factional tensions and the shift in policy from Washington. How the President navigates this perfect storm of internal and external pressure will be critical for Iran's future domestic evolution as well as for regional stability. While the outcome of his manoeuvring is far from certain, what is clear is that this is a moment of consequence for the Rouhani Administration, Iran, the United States, and the wider Middle East.



## **5. EU-Iran Relations: Building Bridges in Stormy Waters**

Rouzbeh Parsi

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Europe and Iran have a long history of interaction, enmities, and alliances. In the last two hundred years, Europe as the preeminent continent of imperial powers has played a significant part in the construction and constitution of modern Iran. In the post-1945 world, Europe was in some ways replaced by the United States and Iranian bureaucrats, professionals, and students turned their attention across the Atlantic. The relationship between Washington and Tehran, the United States and Iran, is both competitive and co-dependent insofar that they use each other as a foil to project their fears and prejudices. This is much less true of the EU-Iran relationship, which lacks the melodramatic flair of that between Washington and Tehran, but has proven to be quite resilient and significant for both parties. Thus, exactly because the relationship between European capitals and Tehran has been less binary, whenever the latter has reached out to the world it has more often than not started with Europe. Conversely, the European approach to the Islamic Republic has always been influenced by the transatlantic relationship and, as that has varied and is currently changing significantly, Europe needs to ask itself what kind of relationship it wants to have with a close regional power like Iran.

### **Background: History of Iran-EU relations**

Most Western European countries had a good relationship with the Pahlavi monarchy. This was both due to the general alliance with the United States and against the Soviet Union, but

also because of the Shah's eager purchase of European goods and technology. The Revolution changed all of this, and the shock and disappointment with the Islamic Republic were as much about the cruelty of "revolutionary justice" as it was about the ostensible contradiction of a religious Revolution. Iran went from being a model example of modernization and Westernization to what seemed to be a paradoxical experiment in medieval political thought wrought on a society undergoing progress as understood in the West. On the other side of this expanding divide, the revolutionaries also liked to define themselves as the very opposite of the West (primarily the US but also European countries). For some, this stance was primarily informed by the Islamist ideology, for others it was about anti-imperialism. Both strands were welded together by the group around Khomeini that took the reins of power after having eliminated their former comrade in arms on the left. Khomeini's motto "neither East nor West" came out of a quasi-colonial experience stretching back a century but was also a harbinger of a defiant positioning that increasingly was about the outside world not wanting to go near Iran more than the other way around. Thus, the revolutionaries may have used this banner to signal their willingness to upend all the rules of international order and behavior but they soon discovered the immense cost of such disruptive politics and rhetoric. The war initiated by Saddam Hussein's Iraq in September 1980 lasted for eight years, and the willingness of the world to look on sanguinely left a deep mark of suspicion and resentment among decision makers in Tehran. They learnt the hard way (and often totally ignoring the role their own actions played in creating this isolation and exposure) not to trust or expect help from anyone – especially the West.

The end of the war in 1988 and the death of the father of the Revolution Ayatollah Khomeini in 1989 opened up the space to reflect and discuss what this Islamic Republic should become and thus also its relations with the outside world. The outreach by the newly elected President Ali Akbar Hashemi Rafsanjani

to Europe (and to some extent also to the US) became an opportunity for individual Western European countries to start rebuilding some kind of relationship with Tehran. But equally important was that this also took place within the framework of the European Union itself. In a sense, the vagaries of trying to have some kind of relationship with Iran has been one of the several experiences that have informed and shaped the mechanisms and idiosyncrasies of a European foreign policy.

For the EU, this was a challenge: Iran was still a pariah state with a reputation for being a serial human rights abuser and a revolutionary state upsetting a regional order which the United States and Western Europe were heavily invested in. Thus, the critical (1992-1997) and comprehensive (1998-2003) dialogues were born. At this point, the EU could not envision the kind of institutionalised collaboration that it initiated with other states (such as Trade and Cooperation Agreements, TCAs), hence the dialogue format. The issue, however, was that Iran could be made into a neutral, even a collaborative, actor through an engagement that did not elide from the pre-existing disagreements but would also not let these preclude the ability to cooperate. Thus, the EU discussed both human rights and trade with Tehran. While decision makers in Tehran balked at the idea of having to discuss what they considered their internal affairs (civil liberties and political rights) the truth is that the external pressure coincided with forays in the same direction that was being taken from inside the country. Both among religious thinkers and veteran revolutionaries there was a discussion, an appraisal of both the legacy of the Revolution and the future of the Islamic Republic<sup>1</sup>. No matter the Iranian rhetoric on human rights then and now, the issue has become integrated

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<sup>1</sup> For an early analysis of the discourse in the early 1990s see M. Boroujerdi, "The encounter of post-revolutionary thought in Iran with Hegel, Heidegger and Popper" in S. Mardi (Ed.), *Cultural Transitions in the Middle East*, Leiden, E.J. Brill, 1994. The effect of the human rights discourse is also evident in the publication of *Islamic Views on Human Rights: Viewpoints of Iranian Scholars* by the Organisation for Islamic Culture and Communications in Tehran in 2001.

into the Iranian political discourse – even those critical of the concept claiming it is a kind of Western discursive imperialism still feel obliged to study and discuss it.

Detractors of these initiatives in the EU believed them to be futile exercises – revolutionary governments cannot be reformed, and Iran would only take advantage of the European Union's willingness to reach out. The detractors in Iran, on the other hand, were afraid that this forging of new ties and building of bridges would do exactly that – mellow the Revolution at home and abroad and bring Iran closer to the international order they detested.

Thus, while it may seem almost as ancient history the debates, positions, and agonies of the 1990s are not entirely dissimilar to the discussions we have now about Iran, where it is going, and its relations with the outside world in general and the EU in particular.

The election of Mohammad Khatami in 1997 was a very positive surprise and showed that if not the system then at least the electorate could be a source of momentum for further reforms. While the hope that Khatami could fulfil all the unrealistic expectations had faded by the beginning of his second term (2001-2005), the engagement with the EU had progressed to such an extent that a TCA could be envisioned further down the road. In the ensuing derailing of the whole process, two miscalculations stand out. First, the EU assumed that the reformists would continue to succeed at the ballot box regardless of the slow pace of negotiations with Brussels on closer economic ties. The expectation was that the cunning Rafsanjani would return to implement what Khatami had been too soft to push through Iran's slow moving and unresponsive political system. This lazy calculation, where somehow Iranians would continue to be willing to support reforms regardless of actual tangible dividends, proved to be erroneous. The second miscalculation of note was the Iranian belief that the EU had invested sufficiently in this relationship that it would not fall prey to the relationship most European capitals and Brussels have with Washington, DC. In

fact, the very divisive war against Iraq that George W. Bush initiated in 2003 was seen in Europe as a reason to mend fences with the United States rather than assert independence from it. Thus, when the nuclear issue came to the forefront in 2002, the gravity of the issue and the context in which it was embedded was not sufficiently appreciated by the Iranian side. This notwithstanding, Khatami's team spearheaded by Hassan Rouhani managed to maintain a decent negotiation line with Brussels and the three negotiating partners (the United Kingdom, France, and Germany, also known as EU3). The deterioration and break came with the election of Mahmoud Ahmadinejad in 2005.

## **Sanctions and isolation**

The EU3 negotiations with Iran were difficult for several reasons that echo into the present. The EU wanted Iran to completely give up its nuclear enrichment program, something that made Tehran even more determined to keep it as a way of asserting its sovereignty. What was meant to be a research program quickly bloomed into an industrial scale one, partly in response to the increasingly aggressive demands for its suppression. In return, the EU could offer Iran a closer trade and cooperation relationship but this was done in the looming shadow of the Bush Administration's unwillingness to play along. In the aftermath of the quick victory against the remnants of Saddam Hussein's military in Iraq, the prospect of an American continuation against Iran seemed real enough. But security guarantees from Washington would require acknowledging that Tehran was a legitimate interlocutor, something the self-assured Bush Administration could not bring itself to do. Thus, on the one hand, the EU3 acted as one and EU foreign policy was partly formulated on the international scene through this negotiation process with Iran. On the other hand, during the same negotiation process, the EU was not able to deliver the one thing that Tehran really needed in order to take a step back from its obstinate insistence on nuclear enrichment: American security guarantees.



The candidate Ahmadinejad had promised to take the West to task on many issues but especially on the nuclear program – gone were the negotiations based on good faith and the futile expectations that the Europeans might stand up to Washington. Once elected, Ahmadinejad made good on his bold promises and made nuclear enrichment a national issue, embellishing his own position internationally by constantly challenging the United States and the EU.

The EU3 tried through several agreements to slow down the Iranian program and freeze the stand-off in order to create the space and time for a more lasting final agreement. These attempts failed because of the American unwillingness to commit, which in turn played into the failure of the reformists to keep the presidency in Iran. Thus, from 2006 onwards, it became a game of positions between an increasingly synchronised US-EU position versus the Iranian insistence on its own reading of the Non-Proliferation Treaty. Brussels and Washington leveled new sanctions on Iran and managed to get the UN Security Council to explicitly demand an end to Iran's nuclear enrichment program in December 2006 (UNSCR 1737). Tehran, in turn, produced more centrifuges and more low-enriched uranium to show its defiance and independence. The Obama Administration followed the same line but was more successful in getting Russia and China on board for further sanctions. Washington systematically forced its trade partners to choose between Iran and the United States and used its secondary sanctions to intimidate companies from trading with Iran. In this endeavor, the EU cooperated and in essence ceded the Iranian market to its foremost competitor, China. The crucial part played by the EU is exactly due to its relationship and trade with Iran. The EU does not have to contend with a Congress that is inherently anti-Iranian, nor with a publicly and politically strong lobby group like the American Israel Public Affairs Committee (AIPAC). The fact that it has had relatively good trade relations with Iran means that it can be flexible and both enhance and decrease its interaction with Iran. In 2011-2012

it used this leverage to increase the pressure on Iran. In early 2012, the EU ended its oil imports from Iran inflicting a blow to Iranian exports. Later the same year it took advantage of the fact that the world's leading banking transfer system, SWIFT, is run by a bank association registered in Belgium, to exclude all Iranian banks from the system. This meant that transfers to and from Iran suddenly became significantly more cumbersome as the protocols and transfer system now rejected Iranian entities. Again, while these seem like specific and tailor-made actions, they have long term repercussions that go beyond the individual case of Iran.

### **The breakthrough: the Joint Comprehensive Plan of Action (JCPOA)**

Ahmadinejad was a lame duck in the last year of his presidency, and it had become clear to decision makers in Tehran that they needed to break the impasse. Negotiations during Ahmadinejad's presidency had not gotten anywhere, and the mutual mistrust had had a paralysing effect on their ability and willingness to rethink the entire situation. Already in 2012, there were contacts between the US Administration and Tehran and the conclusion from both sides was that their counterpart was serious and could deliver. What made the behind-closed-doors communication into an actual political process was the election of Hassan Rouhani to President in June 2013. While the positive interaction between Secretary of State John Kerry and Foreign Minister Javad Zarif was tremendously important for the negotiation process, the foundation of the final agreement signed in July 2015 is the relationship between the EU and Iran. The Obama Administration had understood that the old demand of zero enrichment in Iran was not going to be achievable and they instead needed to concentrate on confining the program as much as possible. The incentive for Iran was the lifting of sanctions to allow its economy to grow again. But it was clear that the Obama Administration would never get the

US Congress to agree to the lifting of American sanctions. The best Washington could offer was, therefore, a systematic waiving of secondary sanctions inhibiting non-American (primarily European) businesses from returning to the Iranian market. The actual rebuilding of the Iranian economy would be done in co-operation with Europe, the old trading partner.

Thus, it is clear that regardless of whether the purpose has been to pressure or incentivise Tehran the variable of the equation has been the European Union. The United States, after all, is a machine with only two gears when it comes to Iran: lots of pressure and somewhat less pressure.

## Prospects after the sealing of the JCPOA

With the jump start of negotiations in the autumn of 2013 (the Joint Plan of Action, JPA, was signed in November), optimism for a resuscitation of the Iranian economy grew. The subsequent negotiations were thorny, and it took until July 2015 for the final deal to be sealed. The Iranian economy has grown since then, but not nearly as fast as the Rouhani Administration, that has staked its political future on the deal, needs. In essence, the economic clock ticks slower than the political clock<sup>2</sup>. There are several reasons for the slow uptick in the economy. Domestically, Iran's banking sector is in need of a major overhaul before major foreign investments can be made. There are issues of transparency, for instance in terms of actual ownership and possible connections to entities tied to the Islamic Revolutionary Guard Corps (IRGC). The Iranian banking system has been sealed off from international banking for well over a decade, which means that they lag behind on practices and standards. These issues, in turn, make it difficult to ascertain their solvency and health and thus their reliability as partners in financing business ventures.

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<sup>2</sup> For an indepth survey of the economic landscape see R. Parsi, *Great Expectations. The Iranian Economy after the Nuclear Deal*, Friedrich Ebert Stiftung, December 2016, <http://library.fes.de/pdf-files/iez/12987.pdf>

As part of the attempt to solve this, Iran initiated a process with the Financial Action Task Force (FATF) to tackle money laundering and terrorism financing. There is now an Action Plan and since June 2016 (renewed in June 2017), the FATF has suspended its countermeasures against Iran while monitoring the progress on the outstanding issues related to financial institutions<sup>3</sup>.

The government has also made battling inflation a priority. The inflation was brought down from 34% (peak) in 2013 to single digit for the first time in decades in 2016 (8.9%). Since then, it has risen to 11.2% but remains well below the historical average. The success was partly achieved by implementing austerity measures such as downsizing investments and cutting state budget allocations. Thus, structural investments of the kind that generates jobs and in turn attracts foreign investments have been delayed. While Foreign Direct Investments (FDI) do not immediately translate into jobs, they are part and parcel of the political package and the public perception of economic change. Thus, the Rouhani government has been trying to tout its success on this front, but the public that has seen little change in their everyday economic life remains unconvinced<sup>4</sup>. While the FDI has risen in absolute numbers, it only constituted 0.52% of Iran's GDP in 2015 (recent high was 2002, 2.74%), and the projections of the government have yet to be fulfilled<sup>5</sup>.

The major bottleneck outside of Iran is the continued uncertainty of how Washington will honor its commitments under the JCPOA. The election of Donald Trump has significantly increased the arbitrariness of the US policy towards the Middle East and the return of hawkish and neoconservative thinking

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<sup>3</sup> FATF, "Public Statement - 24 June 2016", <http://www.fatf-gafi.org/publications/high-riskandnon-cooperativejurisdictions/documents/public-statement-june-2016.html>.

<sup>4</sup> For an example of how the government views the economic development see Javad Zarif's speech at the Iran international exhibition of exchange, bank and insurance, 2017, "Three gains from the agreement for the Iranian economy", 16 April 2017, <http://www.eghtesadnews.com/>.

<sup>5</sup> World Bank data, <http://data.worldbank.org/indicator/BX.KLT.DINV.WD.GD.ZS?end=2015&locations=IR&start=1970&view=chart>

in the new Administration has considerably worsened the situation. In such a climate, even if Trump continues to sign the waivers as stipulated under the JCPOA, European companies will be very hesitant to invest in Iran. On top of this, the US Congress is trying to undo the JCPOA itself by implementing new sanctions on Iran<sup>6</sup>. The Trump Administration itself can use the grey-zone tools at its disposal; slowing down the Office of Foreign Asset Control's licensing process that issues licences to companies wanting to do business with Iran, or signalling disapproval on business interaction with Iran (which is a violation of the JCPOA)<sup>7</sup>. While candidate Trump (like many Republicans) made it sound as if the JCPOA was an agreement between the United States and Iran, he has probably been made aware that this is a multilateral agreement where a unilateral American withdrawal will leave it isolated rather than Iran. In essence, unless Washington can show clear Iranian violations of the agreement, an American withdrawal will not necessarily mean the collapse of the JCPOA, since all other parties are still committed to it. Thus, the Administration's approach is to kill the agreement through a thousand paper cuts: the economic dividends for Iran are the primary motivation and line of defence for the JCPOA. If these dividends were to dwindle, defending the agreement will become even more difficult for the Rouhani government, whose fate is tied to this opening towards the West. In such a scenario, the Trump Administration would, in essence, aim to provoke Iran into formally abrogating the JCPOA. Iranian Foreign Minister Javad Zarif has gone on the record stating that if the United States continues to violate the JCPOA, Iran might consider leaving the agreement<sup>8</sup>.

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<sup>6</sup> T. Cullis, "New Iran Sanctions Bills Could Kill the Nuclear Deal, Pave the Way to War", *LobeLog Foreign Policy*, 1 April 2017, <https://lobelog.com/new-iran-sanctions-bills-could-kill-the-nuclear-deal-pave-the-way-to-war/>

<sup>7</sup> R. Marashi and T. Cullis, "Trump Is Violating The Iran Deal", *HuffPost*, 14 July 2017, [http://www.huffingtonpost.com/entry/trump-is-violating-the-iran-deal\\_us\\_5968cd05e4b03389bb16ccdb](http://www.huffingtonpost.com/entry/trump-is-violating-the-iran-deal_us_5968cd05e4b03389bb16ccdb).

<sup>8</sup> For a confirmation of this outline see P. Baker, "Trump Recertifies Iran Nuclear Deal, but Only Reluctantly", *New York Times*, 17 July 2017, <https://www.nytimes>.

Despite these structural and immediate problems, the Rouhani Administration had success in the parliamentary election in February 2016 and won the presidential election in May 2017 with a greater margin than 2013. This is a strong indication that a majority of the electorate want to continue the opening and bridge building with the world and Europe in particular – despite the lacklustre economic dividends so far from the JCPOA.

EU trade with Iran has grown, and several Member States have been trying to make up for lost time. Germany and Italy have leveraged their good reputation in Iran and the traditionally close industry ties to increase business. France has had a very strong role in the Iranian automotive industry and recently Total pushed through with their ambitions to be a major player in the rejuvenation of the Iranian oil & gas industry<sup>9</sup>. The major stumbling blocks (the problems in Iran are enumerated above) on the European side are primarily related to the United States and its secondary sanctions. Major European banks have their assets spread across the globe, and the United States is a big part of the portfolio. The structure of global banking is also very much tied to the dollar and thus subject to US law. The large banks are therefore predisposed to taking political sensitivities in the US very seriously – and, if forced to choose between the lucrative American market and the prospective Iranian market, the answer is easy.

Yet it is imperative for the EU and the survival of the JCPOA that European trade and investments in Iran grow and grow significantly<sup>10</sup>.

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[com/2017/07/17/us/politics/trump-iran-nuclear-deal-recertify.html](https://www.reuters.com/2017/07/17/us/politics/trump-iran-nuclear-deal-recertify.html)

<sup>9</sup> “Total marks Iran return with South Pars gas deal”, Reuters, 3 July 2017, <https://www.reuters.com/article/us-iran-total-southpars-idUSKBN19O11O>

<sup>10</sup> A. Ramezani, “Europe must adopt long-term vision for trade with Iran”, *Al-Monitor*, 6 July 2017, <http://www.al-monitor.com/pulse/originals/2017/07/iran-europe-trade-post-sanctions-era-conditions-trade-invest.html>

## **The personality and the policies: the United States beyond President Trump**

For obvious reasons, the greatest attention has been paid to President Trump and his antics. His many erratic statements on policy, domestic and foreign, have left many bewildered, concerned, and horrified. His opinions and statements seldom amount to a policy nor, in any case, to a discernible and reliable line of action. This is particularly evident in his forays on the Middle East and the relationship with Saudi Arabia and Israel. Yet, the strategic and long term dangers are not tied to the person of Donald Trump. The uncertainty and unreasonableness in American politics are not tied to a single individual but rather to the transformation of the Republican Party. The party of George Schultz, Brent Scowcroft, and Colin Powell, hard-nosed realists with a willingness to use American power (in all senses) but within the framework of alliances and institutions, is gone. The present Republican Party is defined by the religious right (the rise of evangelicals in American politics dates to the late 1970s)<sup>11</sup> and the Tea Party, a highly ideologically charged group that prefers purity of purpose over pragmatic solutions. Their domestic agenda is very radical, while their understanding of foreign policy is fundamentally contradictory in nature. There is an isolationist inclination, a belief that America has helped the world but owes it nothing, that is difficult to reconcile with the continued belief in American global supremacy as an inherent value that must be maintained. Thus, they want to have their cake and eat it too: for them, America should look inward and care for its own interests, and yet global issues and decisions must be taken with the United States in the lead, because it is indispensable.

The radical departure in American foreign policy personified by Trump has structural causes with repercussions far beyond

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<sup>11</sup> See ch. 7 in F. Lamberts, *Religion in American Politics: A Short History*, Princeton University Press, 2008, and Andrew Preston, *Sword of the Spirit, Shield of Faith: Religion in American War and Diplomacy*, Anchor Books, 2012.

the fate of his presidency. This is easily illustrated by considering the ideological positions of those in line of succession should Trump in any way be incapacitated to continue exercising his mandate. The Vice President Mike Pence is a Christian fundamentalist in favor of a hawkish foreign policy, especially in the Middle East. If he too were to be incapacitated, the third person in line of succession is the Speaker of the House Paul Ryan, a *bona fide* member of the Tea Party who opposed the JCPOA as vigorously as all the other heavy weights in the Republican Party.

The relevance of this radical departure and deterioration in how the American political elite understands the world and their own role in it for the issue of EU-Iran relations is quite straightforward. Western Europe during the Cold War and the EU after the fall of the Soviet Union has considered the transatlantic relationship to be the bedrock on which European security and foreign policy rests. In fact, the EU-US relationship is the centerpiece of the international order they built together after World War II<sup>12</sup>.

In essence, EU relationships to regional powers like Iran, especially when these have a dubious standing in the world, are a function of its relationship to Washington<sup>13</sup>. The Iranian case is, of course, extra-sensitive, since the Islamic Republic and the US have a very public antagonistic relationship. Iran wants the United States to leave the Middle East, and Washington has done its best in the last three decades to isolate and marginalise Iran.

This means that the EU-Iran relationship has seldom been considered from either side on its own merits. Brussels always sees it in the shadow of Washington, instead of taking into account the importance of maintaining a specific kind of

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<sup>12</sup> A.M. Dorman, J.P. Kaufman (Eds.), *The Future of Transatlantic Relations*, Stanford University Press, 2010, and for a case study, P. Müller, *EU Foreign Policymaking and the Middle East Conflict: The Europeanization of national foreign policy*, Abingdon, Routledge, 2011.

<sup>13</sup> R. Parsi, "That Other Track, That Other Partner: The EU and Iran", *Iran: Turmoil at Home, Assertiveness Abroad?*, Woodrow Wilson Center Occasional Paper series, Winter 2011.



relationship with a regional power in a region of great consequence for Europe. Iran has perhaps been a bit more able to appreciate its relationship with Europe on its own merits, but even here the focus has often been on the US (threat, competition, need for recognition). Europe has either been a stepping stone towards *détente* with Washington or a “natural” partner too much under the spell of Washington to know what is in its own interest.

### **The Iran file as precedent and template**

While it is easy to portray the nuclear file of Iran as an exception, the fact is that the saga of this nuclear program has spawned and enhanced a number of policy tools and perspectives. Sanctions on such a scale as those levied against Iran, a functioning state, are unprecedented. Secondary sanctions, previously very much considered an infringement of sovereignty, have come to be accepted by many states when faced with the US trying to punish Iran. What the EU refused to accept when the US adopted the Iran Libya Sanctions Act in the 1990s, Brussels acquiesced to in the late aughts when it followed the American lead to force Iran to abandon its nuclear enrichment program. The point is that all these tools may seem tailor-made for Iran but, in fact, they are now available for other cases as well. The US, in particular, has been quite enthusiastic and aggressive in extending its justification with regard to a number of criminal violations far beyond its own borders. The US court system is now an American battlefield that many actors in the world must learn to orientate in, as many other sovereign states has acquiesced and acknowledged US claims to try purported crimes that have taken place outside of the United States.

Thus, Iran was a mid-way point in a development that preceded its nuclear program crisis and will most likely continue and extend beyond this specific case, which has been settled through the JCPOA.

## Strategic autonomy: bolstering the EU's ability to act on the international stage

When Donald Trump was elected President of the United States, the line in Europe was to wait and see, to react to what the President would do rather than pre-emptively take positions on what the candidate had said during the campaign. This is a prudent approach that might have worked under more normal circumstances and on issues where there are a strong consensus and institutional foundation (as the NATO article 5 debacle shows, the usual assumptions of steadiness of alliances are in jeopardy). These are not, however, normal circumstances. The chaotic *modus operandi* of the Administration and the political nature of the JCPOA requires a more proactive and robust approach. European leaders (e.g. Angela Merkel and Emmanuel Macron) have learnt this in the last couple of months and have stated their support for multilateral cooperation in general, and HR/VP Federica Mogherini has, on numerous occasions, reiterated the EU's adherence in the JCPOA specifically. Her insistence on the importance of maintaining the JCPOA given that Iran has fulfilled its obligations under the agreement is an important counterweight to the Washington rhetoric<sup>14</sup>. Yet it would be naive to believe that this is sufficient. The JCPOA is a political agreement to a much larger degree than it is a legal document; thus, its viability is dependent on a political consensus beyond the letter of the clauses of the legal text. The agreement is a victory for non-proliferation but also a useful tool for Europe in its attempts to stabilise the Middle East. In short, Iran is one of the “neighbours of our neighbours”<sup>15</sup> in a very unstable

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<sup>14</sup> European Union External Action Service (EEAS), *Speech by the High Representative/Vice President Federica Mogherini at the 2017 Carnegie Nuclear Policy Conference*, Washington, 20 March 2017, [https://eeas.europa.eu/headquarters/headquarters-homepage/23056/high-representativevice-president-federica-mogherini-2017-carnegie-nuclear-policy-conference\\_en](https://eeas.europa.eu/headquarters/headquarters-homepage/23056/high-representativevice-president-federica-mogherini-2017-carnegie-nuclear-policy-conference_en)

<sup>15</sup> “Communication from the Commission to the Council and the European Parliament on strengthening the European neighbourhood policy”, COM(2006)726, 12 April 2006, <http://eur-lex.europa.eu/legal-content/EN/>

neighborhood which is of vital relevance to the European Union and therefore forging a more strategic relationship with Tehran is prudent<sup>16</sup>. As mentioned previously this growth is the primary incentive with which the proponents of a rapprochement have been able to win over sceptics and build support among the population at large for the negotiations and the final agreement. Thus, the continued support for adherence to the agreement will very much depend on the actual realization of these economic dividends. This is where there is a significant and dangerous disconnect between the European and Iranian position. The EU sees the agreement in political terms and tries to encourage European businesses to trade with Iran without antagonising or challenging Washington too much. Tehran expects European political powers to more actively push their respective businesses communities in this direction because they believe, quite correctly, that the American shadow looms too large. As Foreign Minister Zarif put it, Tehran wants the “agreement to be the foundation and not the ceiling” of a renewed relationship<sup>17</sup>. In short, the different understandings are based on a too compartmentalised view of the whole agreement<sup>18</sup> and the future it makes possible. At first, encouraging trade with Iran might seem to make more political than economic sense, at least as long as the European banking community is in fear of the United States and doubts the ability and willingness of the European political establishment to stand up for them should push come to shove.

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[TXT/HTML/?uri=CELEX:52006DC0726&from=EN](http://www.europarl.europa.eu/RegData/etudes/IDAN/2016/578005/EXPO_IDA(2016)578005_EN.pdf)

<sup>16</sup> R. Parsi and D. Esfandiary, “An EU Strategy for relations with Iran after the nuclear deal”, EU Parliament Policy Department report, June 2016, [http://www.europarl.europa.eu/RegData/etudes/IDAN/2016/578005/EXPO\\_IDA\(2016\)578005\\_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/IDAN/2016/578005/EXPO_IDA(2016)578005_EN.pdf)

<sup>17</sup> J. Heilbrunn, “Exclusive: Iran’s Foreign Minister Warns Donald Trump That Tehran Can Abandon the Nuclear Deal”, *The National Interest*, 17 July 2017, <http://nationalinterest.org/feature/exclusive-irans-foreign-minister-warns-donald-trump-tehran-21565>.

<sup>18</sup> For a similar understanding of this issue see E. Batmanghelidj, “We Shouldn’t Defend the JCPOA at the Expense of the Iran Deal”, *Lobelog Foreign Policy*, 14 July 2017, <http://lobelog.com/we-shouldnt-defend-the-jcpoa-at-the-expense-of-the-iran-deal/>

Leaving aside the specifics of the Iranian case, this points to the need for the EU to assert greater independence in order to safeguard its own version of national interest. As discussed above, the classic assumptions of the transatlantic alliance are in serious doubt, and regardless of the fate of the Trump presidency, they will not be restored anytime soon. It is therefore imperative for the EU to pursue the strategic autonomy mentioned in the global strategy document published in June 2016<sup>19</sup>. Strategic autonomy does not mean pursuing multilateral solutions but rather to create and maintain the ability to chart a more independent course when necessary<sup>20</sup>. This is perhaps most often assumed to be about defence capabilities, but in reality, it is more likely to be needed for the more mundane foreign policy issues – long before friction becomes conflict. In order to have strategic autonomy, the Union needs to develop tools that allows it to act independently but also to not have to act when pushed. The paradox is that in a globalised world where most multilateral institutions have been built on a consensus (at times not so harmoniously as it might be perceived in hindsight) between Europe and the United States, the tools required for European strategic autonomy must be containable within Europe itself. This in order to avoid extraterritorial legislation of the kind that, for instance, the United States has developed. A prime example of this is the banking sector, where most sizeable European banks have assets across the globe and peg transactions to the US dollar and are therefore subject to US laws. Both for Iran and for the long term European ability to use trade as part of its foreign policy with less impediments, it would make sense to have a medium-size European bank with assets limited to euro and Europe. Such a bank would be much easier to protect from secondary sanctions and other transitory regulations beyond Europe.

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<sup>19</sup> *Shared Vision, Common Action: A Stronger Europe. A Global Strategy for the European Union's Foreign And Security Policy*, June 2016, [http://ec.europa.eu/archives/docs/top\\_stories/pdf/eugs\\_review\\_web.pdf](http://ec.europa.eu/archives/docs/top_stories/pdf/eugs_review_web.pdf)

<sup>20</sup> H.P. Bartels, A.M. Kellner and U. Optenhögel (Eds.), *Strategic Autonomy and the Defence of Europe. On the Road to a European Army?*, Dietz Verlag, 2017.

## **Conclusion**

The EU has invested a lot in the attempt to solve the problem of the Iranian nuclear enrichment program. While the initial sanction approach may have yielded some results, in the end it was the acceptance of the existence of a program that allowed for a successful breakthrough in the negotiations. Since the signing of the JCPOA, Brussels has stood by the agreement, which is both a landmark in non-proliferation and a constitutive experience for a common European foreign policy. While Iran might value Europe's participation and support to the agreement, Tehran believes that Europe will need to do more to offset the attempt by the Trump Administration to undermine and destroy it. This will require further political acumen in European capitals to more proactively strengthen the political resilience of the agreement, all the while ensuring the European business community that they have the necessary political backing to trade with Iran. The JCPOA is in Europe's interest not only because of its non-proliferation dimension but also because it allows it the forging of a more enduring relationship with a regional power like Iran in a highly volatile region.

## 6. Squaring the Triangle: The EU Between Rouhani and Trump

Cornelius Adebahr

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Europe's relations with Iran are a function of a broader triangular relationship: that of the United States, Iran, and the EU and its Member States. For the past 70 years, the transatlantic bond has been the bedrock not only of European security but also of a rules-based order. Meanwhile, relations between Tehran and Washington, DC, have been fraught with enmity for nearly four decades. European-Iranian affairs, in contrast, have been comparably less developed and, in effect, open to influence from the other two sides of the triangle. The nuclear deal of July 2015 is at the core of this triangular relationship, marking the only unifying political issue for the three parties.

Against this backdrop, it came as no surprise that the election of President Donald Trump in November 2016, who on the campaign trail had promised to “dismantle the disastrous deal with Iran”<sup>1</sup>, shook people's minds in European capitals. Six months later, in May 2017, EU policymakers were eagerly watching the much shorter presidential election campaign in Iran in which the incumbent, Hassan Rouhani, banked his success on the perceived economic benefits that the nuclear deal of 2015 had brought (and would, as the argument went, continue to bring under his leadership). Indeed, the moderate won in Tehran by promising to continue his policy of opening the country to Europe. Meanwhile, an unrelenting Iran hawk entered the White House threatening to undermine the foundations of Europe's security and prosperity more broadly.

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<sup>1</sup> S. Begley, “Read Donald Trump's Speech to AIPAC”, *TIME Magazine*, 21 March 2016, p. 34, <http://time.com/4267058/donald-trump-aipac-speech-transcript/>

Both these elections, different as their outcomes are, have an impact on the implementation of the deal and thus on the foundation on which the EU and Iran want to build a more comprehensive and cooperative set of relations. Yet, Iran's foreign policy besides the nuclear issue continues to put the European interests in the Middle East at stake. In this situation, the EU needs to face up to both vertices of the triangle: to Washington, when it comes to the JCPOA, as well as to Iran with regard to its regional power projection. In fact, by taking a firm approach on a matter of global political importance – maintaining the nuclear deal while contributing to crisis management in the Persian Gulf – the EU could prove its qualities as a foreign policy actor beyond the realm of its bilateral relations with Iran.

This chapter will first look at EU-US relations as a determinant of Europe's approach to Iran, which will be treated in the second part. Based on this two-fold analysis, it will put forward a number of recommendations on what the EU can do to maintain the deal and slowly improve the regional outlook.

## **Persisting transatlantic disagreements about Iran**

EU-US policy cooperation was instrumental in bringing about the Joint Comprehensive Plan of Action (JCPOA) signed by Iran and the E3/EU+3 (France, Germany, and the United Kingdom as well as the EU plus China, Russia, and the United States). That said, such transatlantic agreement on how to deal with Iran has been the exception rather than the rule. More often than not, policymakers in European capitals were at odds with their counterparts in Washington over how to treat the regime in Tehran. Disturbingly, the two partners seem to be heading towards another period of estrangement, including over Iran policy.

Ever since Iran's 1979 Islamic Revolution, the United States has been much more confrontational towards Iran than its European allies. Where the latter sought to incrementally nudge Tehran towards a less ideological course by maintaining diplomatic ties and investing in trade, Washington pursued a policy

of isolation and economic sanctions. To come together across the Atlantic in what came to be called a dual-track approach during the second term of President George W. Bush, each side had to give up one of its planks: after the 2002 revelations of Iran's clandestine nuclear program, the EU warmed to the idea of toughening its diplomatic efforts with multilateral sanctions, while the United States agreed to back up its decades-old sanctions with a concerted push for negotiations that included both China and Russia<sup>2</sup>.

In other words, Washington abandoned its isolationist position in 2006 when it entered the nuclear negotiations the Europeans had started in 2003, whereas the EU reduced its economic engagement and eventually, by 2012, agreed to a stinging sanctions regime<sup>3</sup>. Building on a gradually strengthened United Nations sanctions regime, this broad international consensus would eventually bring about the July 2015 agreement that curtailed Iran's nuclear activities in exchange for economic respite.

Such near-universal consensus notwithstanding, the immediate aftermath of the negotiations showed how differently each side of the Atlantic viewed the outcome: European governments welcomed the deal and immediately explored commercial relations with Iran, whereas a heated domestic debate began in the United States (just as it did in Iran). It was only in the absence of a vote of disapproval from Congress, which the Democratic minority could block on procedural grounds, that US President Barack Obama could sign the deal and begin implementing it through executive orders<sup>4</sup>.

This lack of statutory power as a law passed or a treaty was approved by the US Congress was unavoidable given US domestic

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<sup>2</sup> R. Alcaro, "Learning From a Troubled Experience – Transatlantic Lessons from the Nuclear Standoff with Iran", *The International Spectator: Italian Journal of International Affairs*, vol. 46, no. 4, December 2011, pp. 115-136.

<sup>3</sup> C. Adebahr, *Easing EU Sanctions on Iran*, Washington, DC, Atlantic Council Iran Task Force, June 2014.

<sup>4</sup> J. Steinhauer, "Democrats Hand Victory to Obama on Iran Nuclear Deal", *The New York Times*, 10 September 2015, <http://www.nytimes.com/2015/09/11/us/politics/iran-nuclear-deal-senate.html>.



realities, yet it contains one of the JCPOA's central weaknesses: it hinges on the goodwill of the US President alone (just like it depends on the continuous though conditional support of the Supreme Leader in Iran)<sup>5</sup>. Consequently, a number of contenders for the 2016 US presidential race, including Donald Trump, vowed to scrap the deal “on day one”<sup>6</sup>. With Trump now in office, he can make good on his contradictory promises to variously undo, renegotiate, or strictly enforce what he sees as the “dumbest” deal<sup>7</sup>.

That the US President has so far refrained from breaking up the deal is of little comfort. The apparent dysfunctionality of his Administration makes the development of a coherent, even if confrontational, policy towards Iran much harder. This – and a generally more fitful posture towards Tehran – risk creating a spiral of provocations that could lead to the unintentional unraveling of the deal. As recently as in May 2017, Foreign Minister Javad Zarif threatened to walk away from the deal if the United States were to fall foul of its commitments<sup>8</sup>.

In response to the election of President Trump, the EU and its member states confirmed their commitment to uphold this landmark deal<sup>9</sup>. For the Europeans, the JCPOA represents the

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<sup>5</sup> J. Bellinger, “The New UNSCR on Iran: Does it Bind the United States (and future Presidents)?”, Lawfare blog, 2015; K. Katzman and P.K. Kerr, *Iran Nuclear Agreement*, CRS Report, Washington, DC, Congressional Research Service, 20 November 2015.

<sup>6</sup> E. Abrams, “Unraveling the Iran Nuclear Deal on ‘Day One’”, CFR Blog, 20 July 2015, <http://blogs.cfr.org/abrams/2015/07/20/unraveling-the-iran-nuclear-deal-on-day-one/>; K. Zezima, “Donald Trump, Ted Cruz headline Capitol rally against Iran nuclear deal”, *The Washington Post*, 9 September 2015, <https://www.washingtonpost.com/news/post-politics/wp/2015/09/09/donald-trump-ted-cruz-to-headline-capitol-rally-against-iran-nuclear-deal/>.

<sup>7</sup> N. Wadhams, “Shredding Iran Nuclear Deal May Be Harder Than Trump Thinks”, Bloomberg, 2 December 2016, <https://www.bloomberg.com/news/articles/2016-12-02/shredding-iran-nuclear-deal-could-prove-harder-than-trump-thinks>

<sup>8</sup> A. Majidiyar, “Javad Zarif: Iran ‘Completely Ready’ to Resume Nuclear Program”, Middle East Institute *IranObserved*, 21 March 2017, <http://www.mei.edu/content/io/javad-zarif-iran-completely-ready-resume-nuclear-program>

<sup>9</sup> Council of the European Union, *Conclusions on Iran*, Press Release 654/16, 14

best alternative to either another war in the Middle East or an Iranian nuclear bomb, threatening both the global non-proliferation regime and neighbors like Israel. Preserving it by ensuring full compliance from all sides in both its letter and its spirit is in the EU's genuine interest<sup>10</sup>. On the first anniversary of the JCPOA's implementation, Federica Mogherini, the High Representative of the EU's Foreign Affairs and Security Policy and Vice President of the European Commission, recalled that "the JCPOA is working for all"<sup>11</sup>.

The Europeans have also made it clear that they would not reopen the nuclear file or embark on new sanctions, unless triggered by Iranian noncompliance<sup>12</sup>. As Mogherini confirmed in a mid-December 2016 interview, "there is no way the agreement can be reopened bilaterally"<sup>13</sup>. As it happens, this position concurs with that of the American people (if not their government): nearly two-thirds of Americans oppose the withdrawal from the deal and instead prefer to keep it "as long as Iran continues to comply with the terms"<sup>14</sup>. However, the Europeans cannot uphold the JCPOA by themselves.

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November 2016, Bruxelles, General Secretariat of the Council.

<sup>10</sup> European Union External Action Service (EEAS), *Remarks by High Representative/Vice President Federica Mogherini at the end of the informal dinner of the EU Foreign Ministers*, Bruxelles, 14 November 2016.

<sup>11</sup> European External Action Service (EEAS), *Statement by Federica Mogherini on the first Anniversary of the Implementation of the JCPOA*, Bruxelles, 16 January 2017.

<sup>12</sup> C. Lynch and D. Luce, "In Private Meeting, Euro Diplomats Beseech Trump Team to Uphold Transatlantic Pacts", *Foreign Policy*, 16 November 2016, <http://foreignpolicy.com/2016/11/16/in-private-meeting-euro-diplomats-beseech-trump-team-to-uphold-transatlantic-pacts/>; L. Norman, "Europe Hopeful Trump Will Stick With Iran Nuclear Deal", *The Wall Street Journal*, 13 December 2016, <http://www.wsj.com/articles/europe-hopeful-trump-will-stick-with-iran-nuclear-deal-1481661689>

<sup>13</sup> L. Norman and J.E. Barnes, "Federica Mogherini, Top EU Diplomat, Says Bloc Is Prepared for Trump", *The Wall Street Journal*, 14 December 2016, <http://www.wsj.com/articles/federica-mogherini-top-eu-diplomat-says-bloc-is-prepared-for-trump-1481740445>

<sup>14</sup> University of Maryland, *Most Americans Oppose Withdrawing From Iran Deal*, Washington, DC, Program for Public Consultation (PPC), 6 January 2017.

In fact, even before the election of Donald Trump, the deal had run into domestic difficulties in the United States. From the need for official licensing of trade agreements with Iran by the US Treasury to the persisting restrictions on financial transactions through non-nuclear sanctions, a number of obstacles remain<sup>15</sup>. The difficulties to re-establish business ties between Iran and Europe are testament to this conundrum as a majority of US policymakers believe trade with Iran to be tantamount to strengthening the Iranian regime. Instead, members of Congress from either party want to force Iran to its knees with new sanctions over its missile program and its regional activities (cf. next part).

In addition, there is the necessity to re-issue presidential waivers on a regular basis to suspend US statutory sanctions. Those are in effect for a specified duration, generally 120 or 180 days<sup>16</sup>. The first test case was in mid-May 2017, two days before the Iranian presidential election, when a first set of waivers – signed by the outgoing Obama Administration on its last day – was due to expire. In what is no small detail, Washington extended the necessary sanctions waivers to fulfil its part of the deal<sup>17</sup>. However, the waiver renewals will come up again every couple of months, hanging like Damocles’ sword over the deals European companies do with their Iranian partners.

Similarly, the US President has to confirm to Congress every 90 days that Iran is in compliance with the JCPOA<sup>18</sup>. The most recent confirmation, on July 17, came “only reluctantly”, as news reports confirmed: despite having no tangible complaint

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<sup>15</sup> C. Adebahr, “The Linchpin to the Iran Deal’s Future: Europe”, *The Washington Quarterly*, vol. 38, no. 4, 2016, pp. 115-131.

<sup>16</sup> US Department of the Treasury and US Department of State, *Guidance Relating to the Lifting of Certain U.S. Sanctions Pursuant to the Joint Comprehensive Plan of Action on Implementation Day*, Washington, DC, 16 January 2016.

<sup>17</sup> “U.S. Extends Iran Nuclear Sanctions Relief, Adds Other Sanctions”, Radio Free Europe/Radio Liberty Iran Blog, 2017, <https://www.rferl.org/a/us-extends-iran-nuclear-sanctions-relief/28494069.html>

<sup>18</sup> K Katzman and P.K. Kerr, *Iran Nuclear Agreement*, CRS Report, 20 November 2015, Washington DC, p. 32.

and notwithstanding all his advisors pressing him to acknowledge Iranian compliance, President Trump for a long time insisted that “he did not want to” do so<sup>19</sup>. Yet had he not issued this certification, the US Congress could have immediately slapped sanctions on Iran, thus putting the United States in violation of the deal. This continuing hair-trigger situation puts the JCPOA in serious jeopardy every couple of months, thus raising the risk of its undoing.

Not only the necessity for consistent suspension of existing sanctions poses a problem, but also the prospect of newly imposed ones. Even if these are explicitly non-nuclear in nature, they can look like the old ones terminated under the JCPOA. Generally speaking, new sanctions must not take away the precise economic gains that Iran has received in return for mothballing a large part of its nuclear program. Re-enacting nuclear-related sanctions as non-nuclear-related sanctions would lead not only Tehran but also other JCPOA signatories such as China and Russia and, possibly, the EU to claim that the United States was violating the deal.

In June 2017, the US Senate passed new sanctions legislation, pending House confirmation, which mainly targets Iran’s missile program and its domestic human rights abuses<sup>20</sup>. In a hopeful sign, lawmakers apparently worked closely with former Administration officials with intimate knowledge of the deal in order to make the new measures “JCPOA-proof”. Ironically, the senators had not displayed such care during the previous term, when they could be certain that then-President Obama would veto anything that clearly violated the deal. Now, with no such safeguards in place, they have to be more careful not to make Washington the ultimate deal-breaker<sup>21</sup>.

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<sup>19</sup> P. Baker, “Trump Recertifies Iran Nuclear Deal, but Only Reluctantly”, *The New York Times*, 17 July 2017, <https://www.nytimes.com/2017/07/17/us/politics/trump-iran-nuclear-deal-recertify.html>

<sup>20</sup> US Senate, *S. 722: An Act – To provide congressional review and to counter Iranian and Russian governments’ aggression*. Washington, DC, Government Publication Office, 2017.

<sup>21</sup> J. Pecquet, “Senate tones down Iran sanctions bill after input from Obama

Equally worrying has been the linkage of sanctions and issues by the US Congress. Lawmakers tied a set of sanctions against Russia (which they feared President Trump could veto) to a toughening of measures against Iran (in line with his approach)<sup>22</sup>. While this may make sense on the domestic political scene, it does not help to incentivise Iran to comply with any of the American demands, as these would be legally tied to Moscow's action in Ukraine (over which Tehran has no control). In the past, Congress has proved to be chronically unable to undo its own sanctions laws<sup>23</sup>.

Any increase in sanctions addressing non-nuclear issues such as Iran's regional policies in Syria, Iraq or Yemen, or its missile program, would thus have to be carefully calibrated. Moreover, there is no credible international sanctions leverage to force Iran into new concessions, as a former state department official has pointed out<sup>24</sup>. Those who went along with US extraterritorial sanctions in the past now are not without choice when it comes to deciding whether to abide by them or not. Washington would, therefore, have to win over its allies and partners, in particular from the E3/EU+3 group but also beyond. The question will be whether Trump has the patience for such an approach.

Instead, the US President seems to have opted for a new

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team", *Al-Monitor*, 25 May 2017, <http://www.al-monitor.com/pulse/originals/2017/05/senate-tone-down-iran-sanctions-bill-obama-team.html>

<sup>22</sup> P. Zengerle, "U.S. Senate votes near unanimously for Russia, Iran sanctions", Reuters, 15 June 2017, <http://www.reuters.com/article/us-usa-sanctions-idUSKBN1962AU>

<sup>23</sup> Moreover, the fact that Congress plans to impose secondary sanctions on European companies investing in the Nord Stream 2 gas pipeline connecting Russia to Germany but linked those to the advancement of US exports of liquefied natural gas to Europe, smacked of trade promotion rather than smart sanctioning ("US bill on Russia sanctions prompts German, Austrian outcry", *DW Online*, 15 June 2017, <http://www.dw.com/en/us-bill-on-russia-sanctions-prompts-german-austrian-outcry/a-39270624>).

<sup>24</sup> R. Nephew, "Want to renegotiate the Iran deal? Much harder than it looks", Markaz Blog, 9 December 2016, <https://www.brookings.edu/blog/markaz/2016/12/09/want-to-renegotiate-the-iran-deal-much-harder-than-it-looks/>

American-Sunni(-Israeli) axis. From the Arab perspective, Donald Trump's visit to Riyadh in May 2017 (the first port of call on his maiden foreign tour) represented an important, and not merely symbolic, return to old lines of conflict: the US President announced a \$110bn arms deal with the Kingdom and denounced (Shia) Iran as the leading state sponsor of terrorism in front of a gathering of mainly Sunni leaders from more than 50 Arab and Islamic countries<sup>25</sup>. He also declared jointly with Saudi King Salman that "the nuclear agreement with Iran needs to be re-examined in some of its clauses"<sup>26</sup>.

This policy change along the US-Iranian edge of the triangle not only affects transatlantic relations, as the Trump Administration did not consult with its European partners prior to it. While a certain re-balancing of the perceived courting of Iran by the Obama Administration at the expense of traditional Arab allies would have been expected even under a Clinton presidency, the complete reversal witnessed by fully aligning with the Saudi view of the regional power relations at the expense of America's own interests or that of its allies did indeed surprise the latter. This also has immediate effects on the EU's relations with Iran.

## A careful warming of EU-Iran relations

Clearly, the arrival of President Trump at the White House has got Iranian officials think twice about their country's main predicament: its strategic loneliness<sup>27</sup>. One possible partner that

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<sup>25</sup> *President Trump's Speech to the Arab Islamic American Summit*, The White House, Office of the Press Secretary, Washington DC, 21 May 2017.

<sup>26</sup> Joint Statement Between the Kingdom of Saudi Arabia and the United States of America, The White House Office of the Press Secretary, Washington, DC, 23 May 2017.

<sup>27</sup> B. Slavin, "Strategically Lonely" Iran Exploits Opportunities for Regional Influence, Washington, DC, Atlantic Council of the United States, 2011, <http://www.atlanticcouncil.org/?id=5653:issue-brief-launch-strategically-lonely-iran-exploits-opportunities-for-regional-influence-3-25-11-transcript>.

Tehran is finding a renewed interest in is the European Union. Though central to the decade-long negotiation efforts that brought about the JCPOA<sup>28</sup>, Brussels has been clearly of little relevance to Iranian policymakers focused on bilateral relations with EU Member States.

The EU has been eager to use the JCPOA as a stepping-stone to develop broader relations with Iran. Both Brussels and the Member States see Tehran as a key player in the Middle East that must be engaged, not isolated, despite objecting to its regional activities. Therefore, the EU does not only aim to increase economic ties but also collaborate on energy issues, migration challenges, and educational exchanges. This is mirrored in the assignment of the EU's Iran Task Force manned by the European External Action Service (EEAS). It supervises the implementation of the JCPOA, develops the EU's bilateral relations with Iran, and engages in policies to promote regional cooperation.

At the center of the EU's work on implementing the deal is its chairing of the meetings of the Joint Commission established under the JCPOA. This body, comprising representatives of the eight signatories (China, the EU, France, Germany, Iran, Russia, the United Kingdom, and the United States), is tasked to oversee the agreement's implementation over its entire duration<sup>29</sup>. Given that the Joint Commission's members have equal voting rights, Americans and Europeans together hold five out of eight votes.

So far, Iran has broadly fulfilled its obligations under the JCPOA. The International Atomic Energy Agency (IAEA), the UN watchdog tasked with supervising the implementation of the agreement, has confirmed this in its regular reports beginning in January 2016<sup>30</sup>. More importantly, the violations that

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<sup>28</sup> C. Adebahr, *Europe and Iran: The Nuclear Deal and Beyond*, Abingdon, Routledge, 2017.

<sup>29</sup> European External Action Service (EEAS), *Press Release on the outcome of the first Joint Commission on the Joint Comprehensive Plan of Action (JCPOA) on the Iranian nuclear programme*, Vienna, 19 October 2015.

<sup>30</sup> In April 2017, also US Secretary of State Rex Tillerson acknowledged Iran's

the IAEA did detect were minor infringements in the amount of heavy water that Tehran was allowed to produce<sup>31</sup>. While the Joint Commission was able to resolve these issues fairly quickly, it will have to consider each alleged case on its merits. Crucially, the Joint Commission not only has to adjudicate on possible violations of the letter of the accord but has to uphold its spirit too.

This is increasingly difficult in a hostile environment in which the United States and Iran accuse each other of material breaches. The re-election of President Rouhani provides some breathing space, as his campaign was a *de facto* referendum on whether Iran would stick to its nuclear deal. However, his domestic opponents continue to criticize him and his team including for their conciliatory position on the nuclear file<sup>32</sup>. In the end, both Iran and the United States are capable of – and apparently willing to – “rock the boat”. This leaves the EU in the middle: trying to preserve an international agreement while carefully expanding cooperation with Iran to provide an environment conducive to its implementation.

To explore areas of EU-Iran cooperation – the second focal point – a high-level EU delegation, including Mogherini and seven other commissioners, visited Tehran in April 2016<sup>33</sup>. It was a visible expression of the Europeans’ intent to develop a broad and comprehensive agenda for bilateral cooperation

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compliance with the JCPOA in a report to the US Congress, though without using those words and instead headlining the note with “Iran Continues To Sponsor Terrorism” (Press Statement by Rex W. Tillerson, Secretary of State, Washington, DC, US Department of State, 18 April 2017). See also, International Atomic Energy Agency (IAEA), *Verification and monitoring in the Islamic Republic of Iran in light of United Nations Security Council resolution 2231 (2015)*, 2 June 2017, GOV/2017/24, Wien.

<sup>31</sup> International Atomic Energy Agency (IAEA), *Verification and monitoring in the Islamic Republic of Iran in light of United Nations Security Council resolution 2231 (2015)*, 9 November 2016, GOV/2016/55, Wien.

<sup>32</sup> R. Faghihi, “Rouhani faces unprecedented attack by Iranian hard-liners”, *Al-Monitor*, 27 June 2017, <http://www.al-monitor.com/pulse/originals/2017/06/iran-rouhani-quds-day-american-sheikh-hardliner-attacks.html>

<sup>33</sup> European Commission, *EU visit to Iran: cooperation envisaged in various sectors*, European Commission Press Service, Bruxelles, 16 April 2016.



between the EU and Iran. Such partnership should include “economic relations, energy, environment, migration, drugs, humanitarian aid, transport, civil protection, science and civil nuclear cooperation, as well as culture”<sup>34</sup>.

This is in line with the European Parliament’s resolution outlining an “EU strategy towards Iran after the nuclear agreement” of 2016<sup>35</sup>. It proposed ‘a dialogue of the four Cs’: comprehensive in scope, cooperative in fields of mutual interests, critical, open and frank in areas of disagreement, and constructive in tone and practice. Importantly, the resolution made the further developing of EU-Iran relations conditional on the continuous and full implementation of the JCPOA.

As if to confirm this approach, EU-Iran trade nearly doubled throughout 2016 following the JCPOA’s entry into force, compared to the previous year<sup>36</sup>. However, the current trade volume of €13,7bn still stands at only half of its 2011 value. Importantly for Iran, exports to the EU more than tripled, though from a very low base due to the post-2011 European oil embargo. Yet even this was not easy to achieve, as the example of the first Iranian tanker reaching Europe a full year after sanctions were lifted shows: even with formal restrictions gone, the issues of re-classing, flagging, insuring, and certifying Iranian vessels bogged down the export of Iranian crude<sup>37</sup>.

At the moment, much of the European-Iranian trade honeymoon is on-and-off, as most companies are waiting for clarity

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<sup>34</sup> European External Action Service (EEAS), *Joint statement by the High Representative/Vice President of the European Union, Federica Mogherini and the Minister of Foreign Affairs of the Islamic Republic of Iran, Javad Zarif (Tebran, 16 April 2016)*, Bruxelles, 2016.

<sup>35</sup> European Parliament, *European Parliament resolution of 25 October 2016 on the EU strategy towards Iran after the nuclear agreement (2015/2274(INI))*, Strasbourg, 2016.

<sup>36</sup> European Commission, *European Union, Trade in goods with Iran*, Directorate-General for Trade, Bruxelles, 2017.

<sup>37</sup> D. Jalilvand, “Resumption of Iranian oil shipping off to slow start”, *Al-Monitor*, 2017, <http://www.al-monitor.com/pulse/originals/2017/02/iran-oil-tanker-shipping-nitc-sanctions-nuclear-deal-spain.html>

from the US government about its Iran policy<sup>38</sup>. Technically, the remaining US sanctions only forbid American firms from re-entering the Iranian market, whereas European companies are in principle free to trade and invest again under the nuclear deal. However, a mixture of real obstacles and perceived threats prevents them from doing so. One difficulty consists of companies being unable to do US dollar transactions involving Iran, or to find global banks providing credit for Iran-related business<sup>39</sup>.

Moreover, European companies need to obtain licenses from the US Treasury for certain commerce if more than a tenth of the product in question is made in the USA (as are Airbus aircraft, for example)<sup>40</sup>. Should the responsible Treasury office decide to toughen the rules, this would further deter European companies from doing business with Iran. In the United States itself, the \$16bn deal selling eighty aircraft to state-owned Iran Air – an explicit exception to the US trade ban stipulated in the JCPOA<sup>41</sup> – is under heavy fire from Congress<sup>42</sup>. This is a bad omen for future orders and possibly even for the wholesale execution of existing ones<sup>43</sup>.

With the signing of an agreement to promote nuclear safety in Iran in April 2017, the two focal points of the EU's

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<sup>38</sup> G. Motevalli, "European Companies Flocking Into Tehran Widen Divide With Trump", Bloomberg News, 5 July 2017, <https://www.bloomberg.com/news/articles/2017-07-05/european-companies-flock-into-tehran-widen-divide-with-trump>

<sup>39</sup> Y. Torbati and J. Schechtman, "For European banks, U.S. assurances on Iran come with asterisks", Reuters, 18 May 2016, <http://www.reuters.com/article/us-usa-sanctions-iran-idUSKCN0Y92WI>

<sup>40</sup> US Department of the Treasury and US Department of State (2016), p. 38.

<sup>41</sup> E3/EU+3 and Iran, Joint Comprehensive Plan of Action, Vienna, 14 July 2015; and European Commission (2017).

<sup>42</sup> S. Lane, "GOP chairman pans 'disappointing' Boeing sale to Iran", *The Hill*, 12 December 2016, <http://thehill.com/policy/finance/310065-gop-chairman-pans-disappointing-boeing-sale-to-iran>

<sup>43</sup> In addition, companies also face Iran-related factors such as political instability, lack of transparency and the rule of law, and widespread corruption. This extends to an uncertainty whether Iranian business partners actually have the cash to pay for their acquisitions.

post-JCPOA approach converge. Through its instrument for nuclear safety cooperation, the EU will support the work of the respective Iranian authorities<sup>44</sup>. The aim is to develop a nuclear regulatory framework, to undertake stress tests at the Bushehr nuclear power plant, and to support Iran's accession to international conventions such as the Convention on Nuclear Safety. This should help alleviate the more rational fears of Iran's neighbors regarding the possibility of an accident creating a nuclear disaster in the Persian Gulf region.

The geopolitical side of regional cooperation and competition – its third task – is much harder for the EU to resolve. This is not least due to Iran's own regional policies such as its backing of Hezbollah and Syrian President Bashar al-Assad and its ongoing ballistic missile program. Israel and the neighboring Persian Gulf states see Tehran's support for Shiite militias in Lebanon, Syria, Iraq, and Yemen as a threat. They believe the problem with the JCPOA does not lie in temporary restrictions on the Iranian nuclear program (indeed, they support this restriction) but in the elevation of Tehran's status in the region's politics following successful negotiations with the Obama Administration.

Given that the EU has not traditionally been a strong player on security and only partly a driver in the Middle East Peace Process, it is hard for the Europeans to build up a profile on regional cooperation in the confrontational Persian Gulf environment. This marks a formidable foreign policy challenge for the EU and its Member States.

## **What the EU can – and should – do**

The contingencies outlined above highlight the significance of the EU-Iran-US triangle: one side (EU-Iran) cannot prosper if the other (Iran-US) deteriorates. As it happens, with the arrival

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<sup>44</sup> K. Geropoulos, "EU, Iran ink nuclear deal", *New Europe*, 24 April 2017, <https://www.neweurope.eu/article/cu-iran-ink-nuclear-deal/>

of Trump at the White House, even the third leg (EU-US) is shaken to its foundations. The JCPOA is, on the one hand, the only international agreement that binds the three sides together; it is also, on the other, an extremely vulnerable link in this chain.

The EU's incredibly difficult task is to preserve the nuclear deal in a time of uncertainty. Even so, the Iran deal, crucial as it is, will most likely not be the biggest bone of contention between the Europeans and the Trump Administration; larger issues include maintaining the transatlantic alliance itself and confronting Russia (or not); dealing with the Middle East more broadly and the Syrian and Israeli-Palestinian conflicts in particular; and saving the global compact on climate change.

Although Rouhani's re-election means that the rapprochement between Europe and Iran will continue (provided Iran continues to uphold its JCPOA obligations), tensions with the United States are likely to increase. While the United States itself is unlikely to pull out of the actual agreement, it (deliberately) runs the risk of endangering the deal with its provocative rhetoric and new non-nuclear measures. The Iranian institutions surrounding the Supreme Leader are likewise opposed to the deal, making an uncontrolled escalation likely.

Still, the EU has a number of options at its disposal.

As the JCPOA's "guardian", the EU needs to enlist the backing of the other two more sanguine signatories (China and Russia) to keep the two more confrontational partners (Iran and the United States) on board. The first half of 2017, with the new US Administration extending the sanctions waivers and the Iranians re-electing their incumbent President, was already a test case for the deal's survival. In this sense, both High Representative Mogherini and leaders of the E3 should remind all parties of their obligations related to the letter and the spirit of the deal, avoiding any provocation among each other.

Expanding bilateral relations in the face of American resistance will demand courage and farsightedness from the EU. Europe demonstrated both these qualities when it began nuclear talks with Iran in 2003. It is, however, difficult to imagine

Europe opposing the United States on a key security policy issue. The EU's steps are thus likely to be more incremental.

Since Washington is unlikely to make concessions on the remaining US sanctions *de facto* hampering legitimate business activities, the EU must take the initiative to further promote EU-Iran trade. It could do so, for example, by providing financing and payment channels or exercising due diligence to verify that Iranian business partners are not affected by existing sanctions.

The EU should use the Joint Commission process to deal with even minor violations, as has happened in the past over Iran's excess production of heavy water and US Congress's extension of its sanctions legislation. To avoid giving hardliners of the Islamic Republic the opportunity to renege on the deal in response to the United States allegedly breaking it, the benchmark for unwarranted sanctions should be whether the envisaged measures would receive approval from the Joint Commission or not.

Speaking of sanctions: the JCPOA does indeed allow for sanctions to counter non-nuclear activities such as the financing of terrorism or gross human rights violations. The difficulty would be to not simply repackage previous legislation on the nuclear program (for example, by relisting the exact firms and persons that have benefited from the lifting of sanctions). While this instrument in principle is available also to the EU, Brussels is unlikely to use it against Iran under current circumstances.

Going beyond merely refusing to support new (unwarranted) US sanctions against Iran and threatening to actively object to such measures would be a risky adventure, though. Indeed, the EU's blocking regulation, which dates back to previous transatlantic disputes over Iran (and Libya as well as Cuba) policy and forbids EU companies to observe US sanctions, is still in the books and could technically be reactivated<sup>45</sup>. Politically,

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<sup>45</sup> A. Vaez, *President Trump and the Art of the Iran Nuclear Deal*, ICG Statement, 23 November 2016, <https://crisisgroup.org/middle-east-north-africa/gulf-and-arabian-peninsula/iran/president-trump-and-art-iran-nuclear-deal>

however, this threat would be difficult to follow through on, as Washington would not back down easily. Moreover, threatening to take the United States to the World Trade Organization over sanctions (as the EU did in the late 1990s) would be futile if Trump is ready to start a trade war with no respect for the global trading system.

Whereas President Trump apparently has, for the time being, settled on waiting for Iran to violate the deal rather than killing it himself, the EU needs to be on guard. When necessary, it should quickly step up its diplomatic engagement in defence of the Iran deal. This would include concerted, back-channel efforts at the level of heads of state or government. In the public domain, if Washington were to seriously ponder its exit from the JCPOA (again), the EU's Foreign Affairs Council could task the High Representative with developing a plan to safeguard the deal. Merely discussing European options to possible US policy changes would increase the EU's preparedness – and send a stern message to the Administration in Washington early on.

If President Trump was to focus on renegotiating the deal, the EU should direct his attention to medium-term, not short-term adjustments: rather than trying to get a better deal now, which really cannot be done because the one in place already works, the dealmaker President should set his eyes on the JCPOA's eight- and ten-year benchmarks when the deal's stipulations on nuclear-capable missiles and uranium enrichment in Iran expire. Finding ways to ensure that Tehran does not revert to an industrial-size nuclear program in the mid-2020s is a worthy goal indeed. This is what a recent report called “good-faith attempts to improve” the deal<sup>46</sup>.

Ultimately, the EU's response depends on two main elements, besides its own political will, each relating to the other two vertices of the EU-Iran-US triangle: whether the Trump Administration is open to any of the aforementioned arguments and whether Iran would continue to uphold its obligations

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<sup>46</sup> *Implementing the Iran Nuclear Deal: A Status Report*, International Crisis Group, Report 173, Washington/Bruxelles, 16 January 2017.

under the JCPOA even in the face of a US policy change. There is little the Europeans can do if one of the two most important partners of the nuclear deal goes “rogue”.

Preserving the Iran deal goes beyond maintaining an international agreement that reduces the risk of a regional arms race and nuclear competition. For the Europeans, it also means preserving both their diplomatic achievement and the authority of the rules-based order without which they cannot thrive. At the same time, a weakened transatlantic relationship would shake the whole building. This makes the EU-Iran-US triangle a delicate construct in need of continuous rebalancing.

## Conclusions and Policy Recommendations for the EU

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The re-election of Hassan Rouhani in May 2017 was greeted with favor both inside the country, where he won a second term with more than 23 million votes to Ebrahim Raisi's 15.8 million –, and outside the country, where international actors that during his first term had become partners, or returned to be such – like the Europeans – were reassured of Iran's intention to honor its commitments under the JCPOA.

After the signing of the July 2015 JCPOA, Iran witnessed a gradual reintegration into both the economic and diplomatic arenas, in a sense actualizing Hassan Rouhani's calls for “constructive engagement”, as he outlined in an op-ed in the *Washington Times* soon after his first election in 2013<sup>1</sup>.

Despite a number of obstacles – thoroughly analyzed in chapters 4 and 5 – EU-Iran relations went on a honeymoon with an increase in official state visits, the signing of MoUs, and the gradual engagement in a multi-level dialogue carried out by the Iran Task Force set up by the European External Action Service (EEAS). The EEAS, and especially its HR/VP Federica Mogherini, has periodically confirmed its commitment to the JCPOA and to dialogue and constructive engagement with Tehran; this held true also in particularly “tense” moments, such as soon after the election of President Trump in the US or the 7 June Tehran attacks.

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<sup>1</sup> President of Iran Hassan Rouhani: Time to engage, *The Washington Post*, 19 September 2013, [https://www.washingtonpost.com/opinions/president-of-iran-hassan-rouhani-time-to-engage/2013/09/19/4d2da564-213e-11e3-966c-9c4293c47ebe\\_story.html?utm\\_term=.1bc1ccb815d6](https://www.washingtonpost.com/opinions/president-of-iran-hassan-rouhani-time-to-engage/2013/09/19/4d2da564-213e-11e3-966c-9c4293c47ebe_story.html?utm_term=.1bc1ccb815d6)



However, it would be naïve to take the EU-Iran engagement for granted. The new US Administration took office in January 2017 and, since then, it has shown nothing but a deep hostility towards Iran, as exemplified by the many calls for the renegotiation of the deal, as well as by the new sanctions' bills that are being discussed by the Congress. This hostility has been coupled with an ambiguous – at times even contradictory – behavior. The US Administration has since renewed twice the waivers guaranteeing the lifting of US secondary sanctions, and it has certified before Congress Iran's compliance with the agreement. Yet, the deal is far from safe. The looming scenario is “death by a thousand cuts”, as stated by former Deputy Secretary of State William J. Burns, who had helped negotiate the agreement<sup>2</sup>.

Till now, President Trump's harsh rhetoric has not succeeded in provoking Tehran. President Rouhani has so far denounced US actions while, at the same time, promising that Tehran would continue to respect the deal<sup>3</sup>. However, at the same time, Iran is calling on the West to reconsider its policies if the Iran deal is to survive<sup>4</sup>. But, as highlighted in chapter 1 and chapter 3, Iran is far from a unitary regime. Rouhani has already come under fire from conservatives and hardliners, as exemplified by the arrest of his brother Hossein Fereydoun – officially on financial crimes charges – on 16 July.

As already happened in the past, the US aggressive rhetoric and behavior risk playing into the hands of hardliners, ready to capitalize on Rouhani's failure and to demonstrate that “America cannot be trusted”.

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<sup>2</sup> The Iran Nuclear Deal Faces ‘Death by a Thousand Cuts’, Bloomberg, 29 June 2017, <https://www.bloomberg.com/news/articles/2017-06-28/after-surviving-trump-day-one-iran-deal-risks-a-lingering-death>

<sup>3</sup> *Iran skips opportunity to upset nuclear deal over U.S. sanctions: sources*, Reuters, 21 July 2017, <http://www.reuters.com/article/us-iran-nuclear-usa-idUSKBN1A6248>

<sup>4</sup> As outlined in this Op-Ed by Ali Akbar Salehi, vice-president of Iran and Head of its Atomic Energy Organization, who helped negotiate the deal. Ali Akbar Salehi, If the Iran deal is to survive, the west must change course, The Guardian, 23 June 2017, <https://www.theguardian.com/commentisfree/2017/jun/23/iran-nuclear-deal-survive-west-change-course-engagement>

Moreover, the American foreign policy in the Middle East – though far from clear – has till now showed a renewed siding with traditional allies, namely Israel and Saudi Arabia, thus fueling Iran’s fears and sense of encirclement, which ultimately spurs a more aggressive behavior, as outlined in chapter 3. Despite the fact that Tehran is actually “winning” in Syria (and in Iraq) – with the establishment of a land corridor connecting Tehran, Baghdad, Damascus, and Beirut – its sense of encirclement and lack of acknowledgment of its role as a regional power may lead to more aggressive policies, which go at the detriment of stability in the region. Once again, it’s the typical self-fulfilling prophecy: by attempting to rolling back Iran’s influence in the region by means of aggressive rhetoric and behavior, the US and its traditional allies in the Middle East end up with stirring more conflict.

So, how to break the impasse?

There actually is a right way to talk to Iran, which is by no means an irrational, ideological, and suicidal, regime. As demonstrated by the success of the JCPOA negotiations, the right way is diplomacy.

Unfortunately, the EU is now alone in pursuing this path – as far as the so-called Western world is concerned. As outlined in chapter 6, Brussels now finds itself between a rock and a hard place, and – should the US go through their promise of a more aggressive behavior – the EU would risk finding itself back to the early 2000s, when it gave up its policy of engagement with Tehran and aligned itself with the US policy of containment, allowing the nuclear dossier to monopolize its relationship with Iran.

Except that this time things are different: a nuclear deal is in place and it is working. There is literally no reason to renege on the deal and to jeopardize such a diplomatic success, allowing the politics of confrontation to replace that of engagement.

Iran is a crucial partner for the EU, at the economic, political, and diplomatic level: “A neighbour of our neighbours”, as outlined in chapter 5, an actor that – willy-nilly – has a say in

literally every issue in the enlarged Middle East, from Syria to Afghanistan. If the EU wants to play a constructive role in stabilizing its neighborhood and putting an end to humanitarian and security crises whose effects spill directly onto its borders, the dialogue with Iran is crucial.

This is not the time for weakness. Such serious and difficult times require a strong and bold leadership. The EU should be prepared to act in its interests – which coincidentally and fortunately overlap with those of its Member States.

What follows are a series of policy recommendations that the EU should implement to save the deal, preserve engagement, and continue to build upon this rapprochement in order to confront other important issues<sup>5</sup>.

**Hope for the best but prepare for the worst:**

**Prepare contingency plans and put in place measures to shield European businesses from new US sanctions**

Following through the promise of a renewed economic engagement will be essential in order to permit Rouhani to deliver on his promises, as well as to create enduring bonds tying Iran and the EU together. In this way, a sort of path dependency would be created, thus reducing the incentives on both sides to renege on their commitments. Should the US put in place new sanctions, the EU should signal its willingness to follow through on its commitments under the JCPOA in the form of economic packages allowing its businesses to operate in Iran. In order to do this, the EU should find a proper way to protect its businesses by entering into a serious dialogue with the US signaling that it will not yield to further sanctions, whose extra-territoriality is ultimately illegal. At this end, the EU should raise the possibility of reviving the EU “Blocking Regulation”, which would forbid compliance with US extra-territorial sanctions lacking the consent of the Joint Commission (*Council Regulation no.*

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<sup>5</sup> The author would like to thank the other contributors for their precious suggestions that have helped laying out this section.

*2271/96 of 22 November 1996 protecting against the effects of the extra-territorial application of legislation adopted by a third country, and actions based thereon or resulting therefrom*<sup>6</sup>). At the Member States' level, the Ministries of Economic Affairs should prioritize issuing guidelines and clarifications about sanction-relief technicalities, reassuring companies that wish to do business with Iran – especially the small and medium sized enterprises, as they usually do not benefit from diplomatic and economic shields such as bigger, state companies.

**Continue engaging Tehran and seeking a broader dialogue, by talking to Iran as it is, not as you would want it to be**

Iran and the EU already hold regular high-level talks on different sets of issues, from “soft ones” such as business, energy, education, and academic cooperation, to tougher ones such as human rights and regional crises. These meetings actually encourage trust-building while at the same time providing the occasion to raise issues of concern. However, equally important to what is discussed, is the way in which these meetings are carried out. The EU should not convey the message that it is following the “empower the moderates” mantra. Although it is crucial to take advantage of the window of opportunity represented by the presence of a pragmatic Iranian delegation, the EU should abstain from giving ammunition to Iranian hardliners who are fearful and suspicious of Western attempts to favor soft regime change. In particular, the EU should abstain from a patronizing approach on human rights, which could only backfire as it already happened in the past. This does not mean that the EU should renounce the ethos of a civilian power, only that the dialogue should not be pre-conditioned and, most of all, should not raise the suspicion that the nuclear agreement was no more than a Trojan horse to change Iran from within. Indeed, one of the most important lessons we learned from the nuclear

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<sup>6</sup> <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:31996R271:EN:HTML>

negotiations is that change can really happen only if a broader consensus among different factions is reached (and with the backing of the Supreme Leader, performing its balancing function among factions).

### **Institutionalize the relationship: it is high time for the EU to open a delegation to Tehran**

As in all relationships, the actual moment of truth is represented by its institutionalization. If the EU and Iran want to shield and nurture the seeds of dialogue, they should move forward with high-level talks and explore the possibility of integrating them into a broader diplomatic engagement, in the form of the opening of an EU delegation to Tehran. Actually, the debate on this issue goes back in time: already in 2002, the EU had proposed the embedding of an EU representative – who would have switched every six months from one Member State’s embassy to another – but the fanciful proposal was soon abandoned as the nuclear dossier began monopolizing EU-Iran relations. In 2013, just before the signing of the Geneva interim agreement (Joint Plan of Action, JPA), the proposal was revived in the form of the embedding of an EEAS diplomat at one of the existing EU countries’ embassies in Tehran. Although, on the one side, this gradual, soft, approach would prevent the perception of the EU’s entrance in Iran as a kind of revived colonialism, on the other side the seriousness of the moment is such that it requires bold actions. Since 2016, an EU liaison team has been present in Tehran, temporarily hosted by the Dutch embassy. Now it is high time the EU softly but firmly engaged in negotiations with Iran for the opening of a permanent delegation. Only by framing their relationship into the context of a permanent operational forum, Iran and the EU will be able to actually expand their dialogue and foster trust-building and mutual knowledge.

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