Iran-Europe Relations: 
After the Sanctions were Lifted

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The nuclear agreement with Iran, which was followed by the lifting of sanctions, marked the beginning of a new chapter in Iran’s relations with Europe, in which both sides set out to rebuild their political and economic relations. The Iranian economy is in need of major investments, particularly in the infrastructure, transportation, energy, and civil aviation sectors. European companies, for their part, view Iran as a large market that was opened to them after years of being denied entry. The potential presented by the opening of the Iranian market has thus far been manifested in a long list of new agreements. Moreover, European countries regard progress in economic cooperation as a means of strengthening Rouhani’s relatively moderate camp against conservative and radical elements, which prefer to isolate the country and strengthen the economic monopoly enjoyed by the Revolutionary Guards. Relations with Europe have assumed even greater importance in Tehran in light of the Trump administration’s policy against Iran, particularly given the US decision to withdraw from the nuclear agreement and re-impose sanctions, which is a measure that Europe vehemently opposes.

Iran has historically enjoyed close ties with European countries, grounded in economic, trade, political, and cultural relations. Iran’s extensive relations with Europe remained intact following the Islamic Revolution, when Iran
viewed relations with Europe as a substitute for its relations with United States, which were severed immediately following the rise of the new regime in Tehran. A severe crisis in relations occurred in 1992, after the assassination of four Kurdish-Iranian regime opponents at the Mykonos restaurant in Berlin. In the long, drawn-out trial, it was shown unequivocally that senior Iranian officials had authorized the assassinations, and an international arrest warrant was issued against Iran’s minister of intelligence. Consequently, European countries recalled their ambassadors from Iran; this diplomatic quarrel lasted for approximately one year, until the ambassadors returned to Iran in 1997, which was followed by a subsequent thaw in relations. This dynamic gained momentum with the election of Reformist candidate Mohammad Khatami as President of Iran in 1999.

With regard to the Iranian nuclear project, which was publically exposed in 2002, Germany, Britain, and France (the EU-3) played a central role in the negotiations with Iran launched in 2003. They also succeeded in reaching agreements whereby Iran froze its nuclear program for a brief period, although it then reverted to operating all aspects of the program. This resulted in the European countries’ support of the US demand of the International Atomic Energy Agency to transfer the Iranian case to the Security Council (December 2005). This was the first step in a process that continued for a number of years, culminating in the imposition of severe sanctions on Iran. The result was the second serious crisis between Europe and Iran, which followed the Europeans’ decision to cease importing oil from Iran and to sever all banking ties with the country.

**Relations following the Nuclear Agreement**

The conclusion of the nuclear agreement (JCPOA) between the P5+1 countries and Iran in July 2015, and even more so the beginning of the agreement’s implementation and the lifting of sanctions (January 2016), marked the beginning of a new chapter in Iran-Europe relations. In this framework, the European Union engaged in an extended discussion regarding recommended policy on Iran. The strategy document issued by the European Parliament (October 2016) regarding Iran in the era following the nuclear agreement and the lifting of sanctions expressed support for the expansion of economic cooperation, investments, and trade between European countries and Iran, as well as for Iran’s joining the World Trade Organization (WTO), emphasizing that the Iranian economy is the world’s largest economy that is not part of
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this organization. The document also noted that the European Union was Iran’s largest trading partner, and that the scope of trade between these parties was expected to increase four-fold in the coming two years. At the same time, the strategy document did not ignore problematic issues pertaining to human rights in Iran. It also stipulated that the lack of freedom of expression on the internet, the surveillance and monitoring of internet traffic, and the absence of digital freedom constitute obstacles to the advancement of trade with Iran and injury to human rights.6

Another central issue for EU policy concerns the death penalty and executions in Iran. Iran is known as the country that carries out more executions than any other country in the world given its population size, including the execution of minors, mostly on charges of selling drugs. EU policy states that in light of Europe’s resolute opposition to the death penalty, this issue is of major importance for European human rights policy and foreign policy. Thus, EU policy emphasizes that the issue of the death penalty in Iran will be brought up in the political dialogue, and in the first stage, the EU will request an immediate suspension of the implementation of the death sentences that were already imposed. It calls on the Iranian parliament to amend the section of its penal code that permits the death penalty in the
case of minors (under the age of 18). Moreover, the European Union has urged Iran to change its legislation that permits the death penalty for the sale of drugs, as this would dramatically decrease the country’s executions. The issue has sparked a vigorous discussion between the Iranian executive branch, i.e., the Rouhani government, and the Iranian judiciary, whose head is appointed by the Supreme Leader; he is known for his extreme opinions, and has stated that the EU has no authority to dictate what happens in Iran. Conservative elements have also accused the EU of attempting to intervene in internal Iranian affairs. However, during the year that elapsed following the adoption of the new EU policy, changes were made in this area, and the Iranian parliament is currently engaged in making changes and adapting the legislation.

At the same time, the efforts by Iran and European countries to rebuild their mutual relations continue. Prominent in this context is the backing that the countries of Europe, headed by the European Union, have given to the nuclear agreement. In the first six meetings of the Joint Commission charged with overseeing the nuclear agreement, which includes representatives of the P5+1, Iran, and the European Union, the European foreign ministers emphasized their support for the continued implementation of the nuclear agreement and the development of economic relations with Iran, clarifying – largely to the President of the United States – that as long as Iran is committed to the agreement, the countries of Europe would not support its annulment. At the July 21, 2017 meeting of the Joint Commission, EU High Representative for Foreign Affairs and Security Policy Federica Mogherini stressed the agreement’s importance for international stability and the parties’ commitment to the agreement:

Two years after the deal with Iran was reached, we see and we breathe a very different atmosphere in global affairs…The deal with Iran does not simply belong to the parties that worked on it and made it possible. Certainly it does not belong to one or two countries alone. It belongs to the entire international community. The deal has made the region and the whole world more secure.

The renewal of relations with Britain, after four years when relations were severed due to the attempted seizure of the British embassy in Tehran by an Iranian mob, is a prominent accomplishment in the renewal of relations with Europe. The height of this process has been the European support shown
for Rouhani, evident in the attendance of heads of state, led by Mogherini, of Rouhani’s inauguration ceremony for a second term in office.\textsuperscript{12}

The importance of Europe’s support of the JCPOA assumed greater importance in late 2017 and 2018, prior to President Trump’s decision to withdraw from the nuclear agreement and reinstate sanctions. Against the background of Trump’s decision to allow Europe to formulate changes to the JCPOA and to add Iran’s missile program to the agreement, the United States and the EU-3 formed a working group in an effort to reach understandings.\textsuperscript{13} The French Foreign Minister’s visit to Iran (March 2018) was motivated by an effort to obtain Tehran’s agreement primarily on Iran’s missile program and regional policy,\textsuperscript{14} and in April, President Macron made an official visit to Washington, when the issue was heavily debated. At the same time, thinking is underway in Europe regarding ways in which it will be possible to bypass American sanctions, given President Trump’s decision to withdraw from the agreement. It also appears that a number of European states are planning to extend lines of credit to Iran for trade in euros.

**The Development of Economic Relations**

The major goal of the first Rouhani government when it entered the negotiations over the nuclear agreement was the lifting of sanctions as an essential step in rehabilitating the Iranian economy. Now, with the formation of his second government following his reelection as president in May 2017, Rouhani assigns major importance to European investments in the Iranian economy as an essential step in Iranian economic progress. Rouhani also maintains that the changes he is advancing in the structure of the Iranian Foreign Ministry are based on the important role he views this ministry as playing in promoting Iran’s economic agenda.

Immediately upon the achievement of the JCPOA, even before the lifting of sanctions, senior European leaders and businesspeople began visiting Iran to lay the groundwork for investments and economic cooperative efforts.\textsuperscript{15} The largest deal between Iran and a European party was signed in June 2017 with French oil giant Total, in cooperation with a Chinese company and an Iranian company, to develop the South Pars gas field. The gas that will be produced by this project beginning in 2021 is designated for local Iranian consumption.\textsuperscript{16} Another major deal was the purchase of 118 passenger planes from the French company Airbus. For Iran, the deal with Airbus is highly significant, as it marks the first acquisition of planes
since the Islamic Revolution in 1979 and could greatly improve Iran’s outdated fleet of passenger planes. It also marks a breakthrough given that its implementation requires American authorization.\textsuperscript{17} Renault has also returned to Iran, where it was very active prior to the sanctions.\textsuperscript{18} Lloyd’s of London, the major British insurance market, likewise returned to Iran after ceasing its operations there for a number of years. Lloyd’s return is expected to reduce the cost of Iranian exports, which in recent years were forced to contend with high rates due to the refusal of insurance companies to insure Iranian cargo.\textsuperscript{19}

Germany, once Iran’s largest trading partner, has also returned to the Iranian market, and the scope of trade between the countries stands at $3 billion. A number of German companies have signed major deals with Iran, including Simmons’ upgrade of the country’s railway system and the return of the Volkswagen automobile company to Iran. In a meeting with Iranian Foreign Minister Mohammad Zarif (June 27, 2017), German Economy and Energy Minister Brigitte Zypries emphasized that Germany was willing to expand its banking relations with Iran and provide it with credit guarantees for exports, particularly in the realm of energy projects.\textsuperscript{20} Similarly, in late January 2018 the CEO of the French investment bank Bpifrance indicated that it was considering the possibility of providing specific guarantees in euros for Iranian buyers of French goods and services, with no linkage to the United States in terms of currency or any other condition.\textsuperscript{21} According to a banking source, Italy, Austria, and Belgium are also working on mechanisms aimed at protecting their companies from US sanctions. These are major steps for the Iranian economy, as credit guarantees from a European country could be helpful in terms of the American obstacles regarding dollar trade with Iran.

Finally, it appears that at the end of a year of contacts and discussions, recent months have witnessed the beginning of paving the road to European investments in Iran in the realms of energy, transportation, and aviation. Although economic relations have not yet been completely restored, European Foreign Minister Mogherini noted on August 5, 2017 that approximately 80 percent of the trade between the parties returned to its pre-sanctions levels.\textsuperscript{22}
Relations with Europe in Light of the Political Struggle with Iran
The renewal of economic and political relations with Europe has helped fuel the ongoing struggle between the reformist and conservative camps within Iran. Rouhani’s government has taken resolute action to improve Iran’s relations with Europe, which it views as a necessary partner in improving its international status and rebuilding the Iranian economy. This interest intensified after Trump’s election, following his threats to withdraw from the nuclear agreement, and against the background of the law promoted by Congress and approved by the President, to impose new sanctions on Iran. In response, Rouhani spoke out (July 19, 2017) against the American measures: “We are pleased that while the Americans are working unilaterally, its allies in the P5+1 remain committed to the nuclear agreement and are defending it.” The statement of Iranian parliamentary Energy Commission member Hossein Amiri Khamkani following the signing of the agreement with Total, whereby the deal “breaks the taboo of American sanctions and opens the way for other companies,” lays even greater emphasis on the importance that the Rouhani government assigns to the improvement of relations with Europe, not only for revitalizing the Iranian economy but also as a counterweight to US policy, which continues to grow increasingly stringent.

However, the measures aimed at advancing relations with Europe have also sparked internal disagreement and intensified the confrontation between the political camps in Iran. This stems, inter alia, from increasing concern among conservative circles that deepening relations with Europe will open a window to Western ideas that could ultimately destabilize the regime. This concern also underlies the conservative institutions’ opposition to the EU’s request to open an office in Tehran. The conservative camp fears that independent EU representation would be a magnet for human rights causes in Iran; a senior Iranian official maintained that such an embassy would be a “house of corruption,” and he would not allow its establishment.

In addition, elements within the conservative camp voiced staunch opposition to the massive deal with Total, primarily citing its harmful impact on local Iranian companies. As part of this opposition, media outlets associated with the conservative camp launched a campaign against the deal. For example, the conservative daily Kayhan, which is recognized as a mouthpiece of the Supreme Leader, published a sharp editorial denouncing the deal with Total and argued it was not beneficial to the Iranian people, as
it provided an opening for the corruption of the overall system and handed over all the profits to foreign companies as opposed to Iranian companies (the Iranian company that was party to the agreement received only a small segment of the deal, some 19.9 percent). The Student Basij also issued a stinging letter opposing the deal, emphasizing that Total was one of the first corporations to leave Iran following the imposition of sanctions. In addition, it warned that within the framework of the agreement, the Rouhani government was conveying classified information regarding the country’s oil and gas reserves. The conservative Fars News Agency, associated with the Revolutionary Guards, likewise published an editorial titled “Ten Doubts regarding the Deal with Total,” which poses ten questions to the Iranian Ministry of Energy regarding the signed deal.

The criticism voiced against the economic measures undertaken by the Rouhani government reflects the mounting internal tension stemming from the processes advanced by the Rouhani government to bring foreign companies into economic realms that until recently were the sole domain of government elements, most prominently the Revolutionary Guards. This tension is based on both ideological and political concern within the conservative camp regarding the possible loss of its influence and economic centers of power. Yet despite the complexity of the Iranian regime’s relations with Europe, these relations lack the potential to undermine the foundations of the Islamic Republic. During the most recent wave of protests in Iran (December 2017-January 2018), European countries under EU leadership tended to act with a degree of restraint and did not convey defiant messages against the regime and in favor of the protestors. A declaration by the European Union and statements by the foreign ministers of Germany and Britain primarily called for restraining violence on the different sides. This ran counter to the messages sounded from Washington, which fully supported the demonstrators. The European countries’ failure to take a stand during these demonstrations implies their reluctance to test their delicate relationship with Iran, their preference being to focus their efforts on the economic realm.

The Significance for Israel
The unfolding relationship between European countries and the European Union as a body on the one hand, and Iran on the other, reflects shared interests, particularly in the realm of economics and trade. The Iranian economy is
in need of major investments, particularly in infrastructure, transportation, energy, and civil aviation, and European companies regard Iran as a large market that has been opened up to them after years of being denied entry. Moreover, European countries also regard progress in economic cooperation as a means of strengthening Rouhani’s relatively moderate camp against conservative and radical elements, which prefer to isolate the country and strengthen the economic monopoly of the Revolutionary Guards.

A major challenge to these processes is posed by the policy of President Trump, who seeks to upset the nuclear agreement, and particularly the economic benefits with which it provides Iran. In addition to American designations of specific Iranians and other individuals and entities as elements involved in Iran’s missile program, Congress has authorized new sanctions in areas unrelated to the nuclear program. Even before Trump’s final decision on the JCPOA and additional sanctions, European companies – particularly those with investments in the United States – evinced concern regarding involvement in the Iranian market.

The position of the European countries who are party to the nuclear agreement, in addition to those of Russia and China, will be of great importance for the JCPOA. If President Trump indeed reinstates the American sanctions, including the sanctions on all parties around the world operating in Iraq, the result will be a clear rift between the United States and Europe. In such a situation, European countries, and especially European companies, will face a tough dilemma. The Iranians have already announced that if all other parties to the agreement sustain it – meaning, fulfill their role in the continuation of economic cooperation – Iran will also not violate the agreement. However, despite the desire in Europe to continue with business with Iran as usual, some of the companies with extensive business dealings in the United States will refrain from entering the Iranian market, and those that have already done so are liable to freeze their operations there.

The continuation of these developments will have negative implications for Israel, which is perceived as the party encouraging the Trump administration to take action against Iran, in complete contradiction to the position of all the countries of Europe. Moreover, a crisis between the United States and Europe regarding the nuclear agreement does not serve Israel’s interests and plays into the hands of Iran, as the success of sanctions in the past was largely the product of cooperation between the United States and Europe and their joint measures against Iran. Now, in the absence of European agreement
with the United States, European countries may continue cooperation with Iran. The transatlantic crisis will be clear for all to see and could have a negative impact on European countries’ relations with Israel, as well as on their attentiveness to Israel’s positions regarding Iran’s regional policy.

It would be preferable for Israel to avoid focusing on the JCPOA. Instead, it would do well to present the countries of Europe with concrete issues in its conduct with Iran that do injury to Israel’s national security, and demand clear positions regarding the continued development of the Iranian missile program, the presence of Iran and its proxies in Syria, and Iran’s assistance to Hezbollah and Hamas.

Notes
6 “EU Strategy towards Iran after the Nuclear Agreement,” European Union website, October 25, 2017.
16 “Total Marks Iran Return with South Pars Gas Deal,” Reuters, July 3, 2017, https://reut.rs/2GHgF4C.