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INSTEX: Gateway to EU strategic autonomy?

We talked to Nicolas Véron, senior fellow at Bruegel and at the Peterson Institute for International Economics, about the practical details of the new international transactions platform with Iran INSTEX, and the outlook for this European initiative.

On 31 January 2019, France, Germany and the UK set up a common platform for international transactions with Iran known as INSTEX (short for "Instrument in Support of Trade Exchanges"). This is the latest stage in the dispute over the American withdrawal from the nuclear agreement with Iran known as JCPOA (Joint Comprehensive Plan of Action). The first raft of United States sanctions came back into force last November last year but Europe wants to stick to JCPOA. European banks and companies now fear Washington will impose penalties if they make payments for commercial transactions with Iranian companies but the new channel INSTEX

may enable these dealings to take place beyond the watch of US monitoring.

Bertelsmann Stiftung: Let's start with the basics: Can you tell us what a payment system does and how international payment transactions are currently managed and overseen in Europe?

Nicolas Véron: A payment system is an intermediary in financial transactions. Payment systems are a diverse field: Some of them are public, others private entities; some of the latter are capitalist businesses, others are run on a not-for-profit basis; some are for domestic use only, some are for

international transactions. What unites them is that they typically are heavily regulated.

In the EU, the supervision of payment systems remain essentially in the purview of national authorities. This is paradoxical, because with the establishment of Banking Union we now have integrated banking supervision in the form of the Single Supervisory Mechanism. One would expect critical payments infrastructure to be supervised at an equal or higher level of jurisdiction than retail banks, but for historical reasons that is currently not the case.

Bertelsmann Stiftung: On 31 January 2019, France, Germany and the UK set up a common platform for international transactions with Iran known as INSTEX. Why was there a need for a new mechanism?

Nicolas Véron: Even though there is not yet a lot of detail available, INSTEX appears not to be a payment system but only a platform to facilitate barter transactions, at least in a first phase. This new “special purpose vehicle” based in France will apparently allow goods to be bartered between Iranian and European companies without direct financial payments being involved. The public announcement suggests that trade through INSTEX will initially focus on goods such as humanitarian, medical and farm products, exchanged against Iranian oil.

The aim appears to be to facilitate the circumvention of US sanctions, and more broadly to keep the Iran nuclear deal of 2015 alive. The public insistence on “compliance with EU and UN sanctions” suggests that INSTEX activity will focus on business that is legitimate under these but targeted by US sanctions. Of course, INSTEX cannot be a silver bullet to escape US sanctions, but it might help by adding

one layer of protection, by setting up a “screen” behind which companies conducting business with Iranian counterparts can hide from the US authorities’ sight and reach, at least partly.

That screen will presumably not be fully opaque, but it could make the unilateral enforcement of US sanctions more costly or difficult.

Bertelsmann Stiftung: What are the chances for the new exchange platform to succeed? Are European companies going to use it?

Nicolas Véron: INSTEX got off to a delayed start: Europeans had initially announced it would be in place when the US government dropped out of JCPOA, which was early November 2018. Yet the message of standing up to US sanctions is now being made clear. Creating a legal entity and appointing personnel to it is more than just cheap talk. So far, the US government has restrained from escalating the stand-off. So, it would be premature to declare INSTEX dead on arrival.

The ultimate aim of Europeans is to keep the Iran nuclear deal alive. In this regard, observing success or failure is easy: JCPOA will either live on or die. However, the specific contribution of INSTEX to that will probably be much more difficult to assess. First, the volume of transactions that are cleared through this mechanism will not be easy to observe from the outside and in real time. Companies may want to keep quiet about using the platform. In an ideal scenario from the EU’s point of view, INSTEX will be effective if transactions are made through it but nobody talks about them. Right now, of course, it is the opposite: everybody talks about it, nobody uses it. But that may not be the only criterion to assess success – possibly the mere

existence of INSTEX may help to open up other channels for interaction. Ultimately, only time will tell.

Bertelsmann Stiftung: Is INSTEX simply a one-off solution to a unique problem – in this case maintaining trade with Iran under the JCPOA? Or do you see the European initiative by France, Germany and the UK as a first step towards greater strategic autonomy of Europe?

Nicolas Véron: There is a lot of talk in Brussels about bolstering the international role of the euro, and that is partly driven by the JCPOA story. But we still don't know whether the disagreement on JCPOA is a relatively isolated case of the EU and US not seeing eye to eye on a specific issue, comparable in this to what happened for decades with Cuba or in the run-up to the 2003 invasion of Iraq, or whether we are entering an era in which EU-US interests diverge more systematically and permanently. Here again, it is too early to form a judgment, and the EU may be well-advised not to rush to premature conclusions.

Questions by **Katharina Gnath** and **Stefani Weiss**, Programme "Europe's Future", Bertelsmann Stiftung

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