

EU-IRAN RELATIONS AFTER THE NUCLEAR DEAL

S. Blockmans, A. Ehteshami & G. Bahgat (eds.)

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Gawdat Bahgat (eds)

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Abstract

The signing of the Joint Comprehensive Plan of Action between Iran and global powers on 14 July 2015 was a major turning point in the emerging strategic landscape of the Middle East. The 'nuclear deal' led to the lifting by the EU and the US of nuclear-related sanctions and is now operational. Other sanctions remain in place, however.

Nevertheless, unhindered by US competition, European trade delegations have entered into a latter-day gold rush, led by the promise of the biggest untapped market in the world. As such, the EU has both an opportunity and a responsibility to help Iran reintegrate properly into the international system. But, faced with a system of governance where the lines of command and control are not always clear to the outside observer, Europe stands to lose if it continues to pursue its uncoordinated approach towards the Islamic Republic.

This report offers recommendations to guide the EU towards a comprehensive EU strategy for relations with Iran. It maintains that there is no other option but to keep universal values and the rule of law at the core of the emerging bilateral relationship. In fact, the protection of the economic rights of European traders and investors would allow the EU to push for wider reforms and the normalisation of relations.



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**Steven Blockmans, Anoushiravan Ehteshami and
Gawdat Bahgat (eds)**

May 2016

Executive Summary

After more than a decade of painstaking diplomatic negotiations, the Joint Comprehensive Plan of Action (JCPOA) between Iran and global powers was signed on 14 July 2015. The Iranian nuclear deal was a major turning point in the emerging strategic landscape in the Middle East. On 15 December 2015, the Board of Governors of the International Atomic Energy Agency issued a resolution ending speculation about the possible past military dimensions of Iran's nuclear programme. That resolution paved the way for the implementation of the JCPOA on 16 January 2016, the temporary lifting by the EU and the US of nuclear-related sanctions, and the start for the Islamic Republic of a process of reintegrating into the global system.

This report examines Iran's internal political, societal and economic dynamics, as well as the country's role in a changing region. An examination by several experts provides the basis for a critical analysis of the development of the European Union's relations with Iran in three key areas: trade and investment, energy cooperation and human rights. It does so within the parameters established by the current international sanctions regime which, as the contributions to this report reveal, is so far the only coordinated effort in Europe's relations with Iran. Other than that, there is no comprehensive approach that would synchronise and subordinate member state-level policies. Unhindered by competition from the US, European trade delegations are tripping over each other to secure segments of what is commonly described as the world's last big market to open up.

Europe's approach to renewing ties with Iran has so far been premised on building personal, institutional and business relations, while avoiding a confrontation with the Iranian authorities in areas where differences of opinion exist: human rights and fundamental freedoms, the arms embargo on Syria and ballistic missile tests. The main justification offered by European foreign policy officials for this stance is the overriding priority to strengthen the pro-reform camp in Iranian politics.

The dilemma for the EU is that it is faced with a state in which each branch of government, including that of the reformist President Hassan Rouhani, is under the control of a Supreme Leader who aims to secure both the legacy of the Islamic Revolution and the future of the system of government that he has helped to put in place. This means that Europe stands to lose by pursuing its uncoordinated approach. As in the case of Russia, which took the foreign policy establishment in the West by surprise when it annexed Crimea, keeping up appearances with Iran could lead to unexpected and unfavourable consequences. If the EU and its member states continue to avoid confrontation with the military business conglomerates like the

Islamic Revolutionary Guards Corps (IRGC) that support the Supreme Leader, this will not only play into the hands of the hardliners, it will also prolong the dangers for European companies of doing business in Iran. Even for smaller trade deals, enterprises are in need of EU-wide support in the form of due diligence and clear, simplified procedures for complying with EU and international law, such as anti-corruption measures and non-financial disclosure.

All this raises the question of what elements could contribute to a more effective EU policy towards Iran. This report maintains that, even from a realist standpoint, there is no other option but to maintain universal values and the rule of law at the core of the emerging bilateral relationship. Put differently: the protection of the economic rights of European traders and investors provides the wedge to push for wider reforms and the normalisation of relations. The EU is vested with both an opportunity and a responsibility to help Iran to properly reintegrate into the international system. In this respect, the determination of the EU and Iran to engage in a human rights dialogue is a welcome first step.

Complementing the agenda set out in a joint statement issued on 16 April 2016 during a visit to Tehran by High Representative/Vice President Federica Mogherini, and no fewer than seven of her fellow European Commissioners, and in an effort to inform a future comprehensive EU strategy for relations with Iran, this report makes the following key recommendations:

- The EU should focus on well-coordinated, pre-planned policies that aim to best serve Europe's collective long-term security and commercial interests, while resolutely promoting universal values. To that end, all public statements by European leaders should be coordinated with the European External Action Service. Similarly, each energy deal, trade agreement or investment pact should be carefully examined for EU-level consistency prior to its conclusion with Iran. The latter demands compliance with both the EU's internal security framework and strategic relations with its neighbours. The Commissioners' Group on External Action, chaired by HR/VP Federica Mogherini, will be instrumental in providing strategic guidance and inter-service coordination at EU headquarters, and indeed in promoting the development of a common commercial policy towards Iran (see below).
- The methods of successfully circumventing UN, EU and US sanctions, aided and abetted by corporate financial institutions, demand a deeper analysis to prevent them from being used in the future. This analysis should be a priority for the EU and be undertaken in close cooperation with US authorities. Failure to closely coordinate strategies to apply sanctions will not only harm European banks and businesses but will also encourage hardline 'principlists' in Iran to oppose international agreements and obligations. Instead, a protection strategy for European trade entities should be developed, with a quick rollback if Iran reneges upon the JCPOA or if other sanctions are imposed in the wake of further ballistic missile tests, human rights violations or sponsored terrorist activities.
- A transatlantic committee, comprising EU and US officials, should be established to detect and report energy, trade and investment deals falling under the sanctions regimes against

Iran, including the brokering, transit, or transfer of dual-use goods or technologies that could be employed to repress dissidents, sponsor international terrorist activities, or wage cyber attacks against EU and NATO members. By creating a monitoring and reporting mechanism in full coordination with the UN procurement channel, existing US requirements and the EU's directive on non-financial information disclosure, it would be easier for European businesses to comply with their obligation to report annually on how they respect rules on human rights, the environment, anti-corruption, money laundering and counter-terrorism when operating in Iran.

- Relations between Iran and the countries assembled in the Gulf Cooperation Council, led by Saudi Arabia, will be the key factor in how regional events evolve. In view of the deep scepticism on the Arab side of the Gulf about Iran's intentions in the region, it is imperative that the emerging EU relationship with Iran is not seen to be at the expense of the Arab states. The EU should refute the prevailing zero-sum attitude and encourage broad regional cooperation.
- The EU should try and make use of Iran's intimate knowledge of its neighbouring countries while engaging Tehran as a constructive actor in the region. Bilateral security interests converge in finding a peaceful settlement to the civil wars in Syria and Yemen, in countering terrorism (e.g. Daesh) and combating narco-trafficking.
- The EU should strengthen the value of intercultural dialogue and people-to-people relations initiatives. Any form of political rapprochement needs to be embedded in society. Only then can relations develop into functional ties between states and societies.
- As for the long-term prospects for bilateral economic relations, and if the situation in Iran continues to evolve favourably, both parties should envisage a revival of negotiations for a Trade and Cooperation Agreement (TCA) so as to put bilateral economic relations on a solid footing and explore further openings for businesses on both sides.

Glossary of Terms and Abbreviations

CFSP	Common Foreign and Security Policy of the EU
ECO	Economic Cooperation Organization
EEAS	European External Action Service
EIKO	Execution of Imam Khomeini's Order
EP	European Parliament
GCC	Gulf Cooperation Council
General License H	Licence issued by OFAC describing the extent to which US citizens can be involved in Iran-related activities for non-US persons
GSP	Generalised Scheme of Preferences
HRVP	EU High Representative for Foreign Affairs and Security Policy/Vice President of the European Commission
IAEA	International Atomic Energy Agency
IRGC	Islamic Revolutionary Guard Corps
IRI	Islamic Republic of Iran
ISIL	Islamic State of Iraq and the Levant
JCPOA	Joint Comprehensive Plan of Action
Implementation Day	The JCPOA became operational on 16 January 2016
LNG	Liquefied natural gas
OBOR	'One Belt, One Road' initiative of China
OFAC	US Office of Foreign Assets Control
QF	Quds Force
P5+1, E3+3, E3/EU+3	EU-facilitated diplomatic grouping consisting of France, Germany, the UK, China, Russia, and the US
SCO	Shanghai Cooperation Organization
SDN	specially designated nationals list of the US
SNSC	Supreme National Security Council
Sykes-Picot	secret 1916 Franco-British agreement defining spheres of influence and control in the Middle East
TCA	Trade and Cooperation Agreement

Part I: A Changing Iran in a Changing Region

An Introduction

Steven Blockmans, Anoushiravan Ehteshami & Gawdat Bahgat

The signing of the Joint Comprehensive Plan of Action (JCPOA) between Iran and global powers on 14 July 2015 represented a major turning point in the emerging strategic landscape in the Middle East. The JCPOA became operational on 16 January 2016 ('Implementation Day') and led to the temporary lifting by the EU and the US of nuclear-related sanctions and the start of a process of re-integrating the Islamic Republic into the global system. As such, the Iranian nuclear agreement is a big deal, but it does not represent the silver bullet for the normalisation of relations.¹

A short history of EU-Iran relations

Since the mid-2000s the controversy over Iran's nuclear programme has dominated relations between the European Union and Iran. The EU's policy goal in this dispute has always been to

*"achieve a comprehensive, negotiated, long-term settlement which restores international confidence in the exclusively peaceful nature of the Iranian nuclear programme, while respecting Iran's legitimate right to the peaceful use of nuclear energy under the Non Proliferation Treaty."*²

This declared objective is no different from that of the United States. Brussels, however, had initially adopted a different tactic from Washington.

Since the early days of the 1979 Revolution relations between Washington and Tehran have been marred by mutual hostility and mistrust. The United States has sought to isolate and contain Iran. For their part, the Europeans have taken a less confrontational approach and sought to influence Iran's domestic and foreign policies by engaging the country in commercial and diplomatic relations. In other words, the Americans played the role of 'bad cop' while the Europeans played 'good cop'. Eventually, the two roles converged at the beginning of this decade and Brussels followed Washington's lead in imposing strict economic sanctions on Iran and suspending most forms of cooperation. Since the signing of the JCPOA in 2015, however, the EU institutions and member states have vigorously sought to re-engage Iran economically and strategically, whereas the US approach has been much more restrained.

¹ See S. Blockmans, "The Nuclear Deal with Iran: Le moment suprême?", CEPS Commentary, 16 July 2015.

² Council of the EU, "Factsheet: The European Union and Iran", doc. 5555/2/12 REV2, 23 March 2012.

The difference between the American and European policies towards Iran can be explained by historical, commercial and geopolitical factors.³ Since the 1979 revolution Iranian-US relations have been marked by mutual antagonism, while those with Europe have witnessed a series of up and down episodes. Generally, however, Tehran has had warmer relations with the European Union and some individual European countries than with the United States. The EU has also been Iran's major trade partner for many years, with Iran exporting a large share of its oil and petroleum products to European markets in return for machinery, transport equipment and chemicals.⁴ There is the proximity factor: Iran and the broader Persian Gulf/Middle East region are in the EU's wider neighbourhood – whatever happens there has a deeper and more direct impact on Europe than on the United States. The recent refugee and migrant crisis is a case in point. These differences between Washington and Brussels (as well as some differences between EU member states) have provided Iran with opportunities to emerge from its international economic and political isolation.

Against this background Tehran and Brussels sought to establish cooperative relations in the aftermath of the Iran-Iraq war (1980-88). These efforts, however, were hampered by disagreements over the *fatwa* (religious ruling) against Salman Rushdie and allegations of Iranian involvement in terrorist activities. Despite these obstacles and setbacks, the Iranian and European sides initiated the so-called 'critical dialogue', which later evolved into a comprehensive one. The EU sought to use growing trade and commercial ties as well as flourishing political dialogue to change Iran's policy in four areas: human rights, the Arab-Israeli conflict, allegations of sponsoring terrorism and the proliferation of weapons of mass destruction (WMD). Gradually, the nuclear issue has dominated relations between the two sides, particularly since revelations of previously undeclared nuclear activities in 2002. The latter was coupled with two other developments. First, the US invasion of Iraq in 2003 heightened tensions in the Middle East. EU member states were deeply divided, also because of concerns that Washington might start another war against Iran, which would further destabilise the EU's neighbourhood. Second, in an effort to close ranks, in December 2003 the EU articulated a broad strategy against the proliferation of WMD, signalling a growing role for Europe.

All these developments laid the ground for European-Iranian nuclear negotiation. Diplomatic efforts were led by France, Germany and the United Kingdom (the 'E3') and started in 2003. In the following year Javier Solana, the then High Representative for the Common Foreign and Security Policy, joined the negotiation on behalf of the EU. In November 2004 the

³ The academic literature on Iran's relations with the United States and Europe is quite extensive. For official perspectives, see US Department of State, *Diplomacy in Action: Iran* (www.state.gov/p/nea/ci/ir/index.htm); European Union External Action, *The EU's Relations with Iran* (eeas.europa.eu/iran/index_en.htm); European Commission, *Trade: Iran* (ec.europa.eu/trade/policy/countries-and-regions/countries/Iran).

⁴ See the statistics compiled by the European Commission's DG TRADE (http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113392.pdf).

Europeans and Iranians signed an accord known as the Paris Agreement, under which Tehran agreed to suspend uranium enrichment and the 'E3/EU' recognised that the suspension was a voluntary confidence-building measure and not a legal obligation.⁵ This agreement did not last long. The two sides accused each other of not living up to their commitments.

Following the election of President Mahmoud Ahmadinejad in 2005, Tehran resumed its enrichment of uranium and the International Atomic Energy Agency (IAEA) referred Iran to the United Nations Security Council. In 2006 and 2008 Solana presented offers for a negotiated solution of the nuclear dispute that included several economic and diplomatic incentives.⁶ These incentives fell short of Iran's expectations and demands, however.

It is within this context that the United Nations Security Council issued four resolutions (1737 of December 2006, 1747 of March 2007, 1803 of March 2008, and 1929 of June 2010). These resolutions imposed strict and comprehensive economic sanctions on Iran. In parallel, the EU took a similar stance to that of the US and adopted a raft of autonomous sanctions. The negotiating track was never completely abandoned, however. Between 2010 and 2014, EU High Representative Catherine Ashton led several rounds of negotiations with Iran in a format that became known as the 'P5+1' or 'E3+3' (France, Germany, the UK, China, Russia and the US). Her successor, Federica Mogherini and the team at the European External Action Service (EEAS) led by Helga Schmid, continued negotiating with Tehran and eventually, along with other global powers, concluded the JCPOA.⁷

Several conclusions could be drawn from this brief discussion on the relations between the EU and Iran. First, during this long process of negotiating a nuclear deal with Iran the EU has successfully maintained a unified voice. Occasionally, some minor disagreements arose between individual European negotiators, but eventually Iran was presented with a coherent EU policy. Indeed, some EU analysts have hailed the outcome of the negotiations with Iran over its nuclear programme as a success for the EU diplomatic structures that were put in place after the entry into force of the Lisbon Treaty in 2009.⁸

Second, the conclusion and implementation of the JCPOA suggest that a new chapter in Iran-EU relations is about to be written. One could argue that the EU, with its proven record as a major economic player, is well-positioned to substantially increase investment and trade ties with Iran.⁹ During a recent visit to Tehran of High Representative/Vice-President Federica

⁵ www.iaea.org/sites/default/files/publications/documents/infircs/2004/infirc637.pdf

⁶ See W. Posch, "Iran and the European Union", in R. Wright (ed.), *Iran Primer*, USIP Press, 2015 (<http://iranprimer.usip.org>).

⁷ In this last phase, the EU insisted on yet another acronym to brand its role in what the rest of the world referred to as the P5+1: the 'E3/EU+3'.

⁸ Cf. the contribution by Fernando Garcés de los Fayos to this report.

⁹ See T. Cronberg, "The Great Balancing Act: EU policy choices during the implementation of the Iran deal", Non-Proliferation Papers No. 50, April 2016; and E. Geranmayeh, "Engaging with Iran: A European Agenda", ECFR Policy Brief No. 139, July 2015.

Mogherini and no fewer than seven of her fellow European Commissioners, the EU and Iran mapped out a broad agenda for bilateral cooperation encompassing, inter alia, political, human rights, macro-economic and finance dialogues, as well as cooperation on agriculture and the agri-food industry, transport, the environment, science, education and culture.¹⁰ Such cooperation is likely to give badly needed momentum to Iran's economic growth. Yet the level of expansion of such bilateral economic relations will depend on the investment climate and infrastructure in the Islamic Republic, and indeed Tehran's compliance with the terms of the JCPOA, among other factors.¹¹

Third, both the EU and Iran are paying a heavy price for regional conflicts and instability in several Middle Eastern and South Asian states, including Afghanistan, Syria, and Iraq.¹² The implementation of the JCPOA is likely to facilitate and enhance strategic cooperation between Brussels and Tehran, as seen in the Geneva talks on Syria.

Regional security

One of the most striking developments in the Middle East is the strong stance adopted by Saudi Arabia, the United Arab Emirates and Qatar.¹³ The roots of this assertiveness go back to the 2003 US invasion of Iraq, which upset the regional balance of power to the detriment of the Gulf Cooperation Council (GCC) states. In Arab eyes, the toppling of Saddam Hussein provided Iran with an opportunity to expand its influence in the entire Middle East and South Asia region. Recent developments, including the civil wars in Syria and Yemen, have further intensified GCC states' suspicions of Iran. The signing of the JCPOA has further undermined US credibility and raised alarm that a rapprochement with Iran might be at the expense of relations with Arab states. These perceptions have convinced Arab leaders to be more proactive in pursuing their own regional national security objectives.

A key question to be considered in this regard is whether the approach that Saudi Arabia and other GCC states have taken is in fact sustainable. Factors that speak for the GCC states include a degree of internal legitimacy, supported by continued relative domestic stability and accumulated financial reserves. The significant military assets at their disposal could be used to provide military assistance or allow the GCC states to undertake their own interventions.

But there are also a number of limitations that must be considered. One, the financial tools available to the GCC states are not necessarily open-ended. The fall of oil prices cost the region

¹⁰ Cf. the 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, Tehran, 16 April 2016, reproduced in the annex to this report.

¹¹ See the contributions by Azadeh Zamirirad, Senén Florensa, Enrico Ponzzone, Jay Modrall, Arnaldo Abruzzini, Majid Golpour and Nima Rashedan to this report.

¹² Cf. the contribution by Roger Kangas to this report.

¹³ Cf. the contribution by Christian Koch to this report.

\$380 billion of lost revenue in 2015 alone,¹⁴ at the same time that domestic and regional commitments increased. Two, the GCC states' military track record has not been encouraging, as the current conflict in Yemen proves. Plans announced for the creation of a joint Arab army have so far not advanced significantly. The facts remains that when it comes to hard security, the US remains the indispensable ally, despite all the misgivings of recent years.

In the foreseeable future, relations between Iran and the GCC, led by Saudi Arabia, will be key to how regional events evolve. The question here will be whether the two sides will be able to seize the opportunity of the nuclear deal to also advance regional ties and escape the sectarian narratives that have become increasingly prevalent. While Iranian President Hassan Rouhani and his Foreign Minister Mohammed Javad Zarif have called for cooperative relations, there is deep scepticism on the Arab side of the Gulf about Iran's actual intentions. Within this context, it is imperative that growing European relations with Iran are not seen to be at the expense of the Arab states. The EU should refute the prevailing zero-sum attitude and encourage broad regional cooperation.

Energy cooperation

Energy security is a major concern for the EU institutions and member states alike. As a bloc, the EU is heavily dependent on foreign oil and gas supplies. In 2013, i.e. prior to the destabilisation of Ukraine by Russia, it accounted for only 5.8% of the world's energy production and 12% of its consumption. The EU imported 39% of its natural gas from Russia, 29.5% from Norway and 12.8% from Algeria. For crude oil, 33.5% came from Russia, 11.7% from Norway, 8.6% from Saudi Arabia, and 8.1% from Nigeria. Overall in 2013, the EU's import dependency for all energy products was at 53.2%, rising to 65.3% for natural gas alone.¹⁵ Within this context, importing oil and gas from Iran would reduce the EU's over-dependency on Russia and contribute to the diversification of energy imports.¹⁶

Iran's gas production has increased by over 550% since 1990,¹⁷ according to the Energy Information Administration. This is due to the dramatic increase in production brought about by the inauguration of several phases of the South Pars field, the largest gas structure in the world. Gas output has further been prioritised as part of the "Iran's 20-Year Outlook Document" issued in 2003, and augmented by "Iran's Energy Outlook on the Horizon of 2025" and "Iran's 20-Year Energy Grand Strategy Document".¹⁸ Together, these policy and strategy documents chart the country's energy roadmap, planning to make Iran the third-largest gas

¹⁴ See M. Smith, "\$380 Billion in Upstream Projects Delayed as Oil Keeps Tanking" (www.oilprice.com/Energy/Energy-General/380-Billion-In-Upsteam-Projects-Delayed-As-Oil-Keeps-Tanking.htm).

¹⁵ European Commission, EU Energy in Figures Statistical Pocketbook 2015 (<http://ec.europa.eu/energy/en/news/energy-statistics-galore-new-eu-energy-pocketbook>).

¹⁶ Cf. the contribution by Anoushiravan Ehteshami to this report.

¹⁷ Energy Information Administration, Country Brief: Iran (www.eia.gov).

¹⁸ See M. Houshisadat, "The Role of Iran's Future Liquid Natural Gas Supply in the EU's Energy Security", *Asian Affairs*, Vol. 46, No. 3, autumn 2015, pp. 458-475.

supplier in the world by 2025. Looking forward, Tehran has already announced various oil and gas industry projects worth \$185 billion and has welcomed foreign (European) investment in many of these projects.

The growing energy cooperation between Europe and Iran incites intense competition from other major oil and gas importing nations. Iran's return to the energy market is resented in Moscow, but greeted with enthusiasm in Asia, particularly in China, which has announced a grand 'silk road' vision that aims to unite Eurasia around Beijing's economic agenda. As the United States becomes increasingly energy self-sufficient, China has moved in the opposite direction. The bulk of its new supply is likely to come from the Middle East. Similarly, Japan has a growing interest in Iranian energy and will be keen not to fall too far behind China. India and South Korea are two other major Asian importers of Iranian oil and gas. Unlike Europe and Asia, the United States' energy ties with Iran are likely to remain at a very low level. Still, Washington is likely to remain keenly interested in the export direction of Iranian oil and gas and the EU's ability to mitigate the continuing risk of exposure to Russian supplies. Meanwhile, the EU will have to balance economic relations with Iran against relations with Iran's Arab neighbours and their politico-security ties with the US. In short, the way forward holds both opportunities and risks.

The way forward

The signing of the JCPOA in 2015 established a new strategic framework for relations with Iran. Brussels can engage Tehran in a strategic partnership to fight Daesh and other extremist organisations, to find a peaceful settlement to the civil wars in Syria and Yemen, and to mitigate the impact of the refugee and migrant crisis. The EU has several mechanisms at its disposal to continue its gradual rapprochement with Iran. Within this context, 'Brussels' – in particular the European External Action Service and the European Commission – can play a major role in spearheading and coordinating economic and strategic cooperation with the Islamic Republic.

Iran's New Centrism – A Tactical Retreat for Factional Re-formation

Azadeh Zamirirad

With the election of Hassan Rouhani in June 2013, the pragmatist faction of Iran's political elites reclaimed the executive branch, for the first time in nearly 16 years. The return of pragmatism has been particularly evident in Iran's foreign policy, where after more than a decade of unsuccessful talks, the Islamic Republic was able to reach an agreement with the E3/EU+3 on its nuclear programme. Solving Iran's most challenging foreign policy crisis since the war with Iraq through diplomatic means was a formidable success for the new President and his Foreign Minister Javad Zarif. It was also a sign of Iran's willingness and capability to compromise on a most sensitive political subject and to further engage with the international community, particularly with the European Union.

Today, the EU and Iran are engaging in new rounds of talks on a "broad and comprehensive agenda for bilateral cooperation". The conditions for enhancing relations have never looked so good since the 'Comprehensive Dialogue' took a back seat to the negotiations on Iran's nuclear programme, with Germany, France and the UK assuming a decisive role in establishing and maintaining communication channels with the Islamic Republic to solve the issue diplomatically. The political environment in post-sanctions Iran appears to be more moderate; the nuclear deal and the recent setback to hardline principlism¹⁹ at the February parliamentary and Assembly of Experts elections were perceived as a logical continuation of a process that started with the return of pragmatism to Iran's executive. Factional divisions seem to have blurred and lost their significance, noticeably in the last elections where some candidates' names could be found on all electoral lists. Centrism has been on the rise in Iran, projecting an image of a more pragmatically oriented political elite. Given the emergence of this new centrism, however, the factional convergence on the political middle ground is not so much a product of political moderation or competing factions overcoming differences, as a result of the strategic choices made by those factions.

Political margins eroding

The current political scene is mainly the outcome of three domestic developments in Iran. The first was the strategic decision of the reformist faction to subordinate their own political agenda to other moderate forces within the political elite. Their willingness to form a new alliance of convenience with the pragmatists was the direct result of a marginalisation process; branded as "seditionists" by their conservative adversaries in the aftermath of the 2009 presidential elections, the initial 2nd of Khordad reformist movement was systematically excluded from the process of political opinion-making and marginalised within the factional

¹⁹ 'Principlists' (usulgarayan) form a major political wing in Iran, claiming the necessity to recommit to what they consider revolutionary and religious principles.

sphere. Reformists responded by largely boycotting the parliamentary elections of 2012. Only a year later, however, they abandoned their protest-through-boycott approach and attempted a political comeback during the presidential elections, when their goal to remove the principlists from the executive branch was deemed attainable. Nominating Mohammad Reza Aref as their candidate, they soon withdrew their own nominee in favour of the pragmatist Rouhani in order to increase the chances of the moderate camp to beat principlist opponents. Later considered as a first step towards their political comeback, the reformists proclaimed “the second step” during the February 2016 elections as a slogan and title of an electoral list collectively assembled with the pragmatists. The close and outspoken alliance of the moderate factions aimed to break the dominance of the principlist camp in parliament and within the Assembly of Experts. For the reformists, breaking that dominance essentially meant the removal of one of the main obstacles to their attempt to reassume their position in the factional system.

Second, the principlist camp underwent rapid fragmentation. Where the moderates succeeded in forming a unified and competitive bloc, the principlist camp largely failed. Initially devised as an attempt to counterbalance the rise of the 2nd of Khordad movement in the late 1990s, the principlist project to unify the political right fell apart, particularly during the second term of their political frontman, Mahmoud Ahmadinejad. Factional infighting over spheres of influence and access to resources, and differing views on the necessary means to preserve the political order, led to gradual disintegration and even open conflict. Irreconcilable differences also appeared during the nuclear negotiations, when prominent proponents of the principlist camp gave up their initial position on Iran’s nuclear diplomacy and advocated compromise on sensitive issues such as limiting enrichment activities. Other vocal principlists remained resistant to the idea of a comprehensive solution and were decidedly opposed to the JCPOA. Their categorical rejection of a diplomatic solution caused the moderate conservatives among the principlists to distance themselves from the outer margin of their camp, reorienting towards the centre of the political spectrum. While the diplomatic approach of the pragmatist government and the prospect of a nuclear deal with the E3/EU+3 enjoyed broad support among the Iranian population, the ‘Worried Movement’ and its proponents in parliament fundamentally objected to compromise and increasingly gave the impression of obscurity and agitation. Thus, many moderate conservatives considered it a necessity to keep this part of the principlist camp at a distance.

Third, in the aftermath of the presidential elections of 2009, a strategic shift among Iran’s leadership occurred, caused by a severe domestic crisis. When people took to the streets to protest against the declared election results, giving rise to the ‘Green Movement’, parts of the political elite supported the protesters in accusing the government of electoral fraud and manipulation. While the demonstrations were eventually dissolved, partly by violent right-wing interference, the domestic crisis unleashed by the unexpected events intensified during the second term of Ahmadinejad’s already contested presidency, when the factional infighting of the political right reached its peak. Developments showed that domestic challenges could not only stem from popular dissatisfaction but from the factional sphere itself, and were

capable of posing an existential threat to the political order – either by aligning with social unrest or by transgressing the prevalent norms of inter- and intra-factional power struggles. In an attempt to diminish this potential threat in a top-down fashion, the political leadership deemed it necessary to contain those parts of the political right that were prone to using violence and to lay the ground for political moderation in a less strained factional environment.

Ongoing quest to reclaim lost ground

Against this background, Iran's new political centre is a product of convenience rather than conviction and not per se indicative of overall political moderation. However, the newly found middle course has been seen as a promising starting point by the current government, aspiring to set in motion a shift of power that can be sustainable. At this point, the hope for durability is met by challenges from both sides of the political spectrum. The reformists backed Rouhani in the presidential elections of 2013, expecting him to make political concessions in return. Their calls to strengthen civil rights and enforce the constitution have so far borne little political fruit, however. Backing the President and the pragmatists once more in the February elections contributed to a relative decline of principlist power in parliament and the Assembly of Experts, yet the reformist support of pragmatism has not resulted in a substantial political comeback. Actual reformist representation in the newly elected parliament is still comparatively low. Having gained little from sacrificing their distinctive political profile, their pressure on Rouhani will increase with the presidential elections of 2017, where once again he will be in need of their support. The reformists are not the only faction to have to re-evaluate their political agenda and approach. The principlist factions will weigh up their prospects for reorganising the political right to prevent pragmatists from further expanding their political influence far beyond the parliament and the governmental realm. Making use of their dominance in essential political sectors such as the judiciary, they will continue to limit Rouhani's room for manoeuvre.

These developments are nothing new. Balancing and counterbalancing dynamics have been an integral part of Iran's highly contested and factionalised political sphere, which has been neither static nor linear in its progression. After 16 years of the executive branch being ruled by the outer margins of the political spectrum, the Islamic Republic has arrived at the political centre. A centre that is more suggestive of factional compromise and moderation but one that is fundamentally a tactical retreat for factional re-formation. Notwithstanding the nuclear deal, political engagement and the electoral success of moderate forces, Iran's factional sphere remains rivalrous enough for its future to take more than one political direction.

Internal Transformation and Changing Mentalities: Impact on the Iranian Regime

Senén Florensa

Relations between the West and Iran have often been difficult, even painful, but the JCPOA concluded on 14 July 2015 in Vienna between Iran, the five permanent members of the UN Security Council plus Germany and the European Union opened up a path that may allow for evolutionary change in all of the societies involved in the deal's implementation. After nearly four decades of international isolation following the 1979 Revolution and the economic sanctions endured by the country and its citizens, this evolution has become especially visible in Iran. Analysing Iran's foreign policy in relation to the country's internal transformation and the readjustment of mind-sets that has occurred in Iranian society, we can see how this has brought about a progressive, if limited, transformation of the regime itself. These changes have allowed for a convergence with global powers' positions on the nuclear issue.

Evolving positions

All societies undergo a constant evolution of character and internal organisation, in slow processes that often go unnoticed within the social fabric. Unlike abrupt changes to the power structure, such as the Arab uprisings five years ago, or the Revolution of the Ayatollahs in 1979 in Iran, or a *coup d'état*, there are more fundamental changes that consolidate over time and finally create a feeling of acceptance in the social conscience.

The change in position adopted by Iran since it embarked on the last round of negotiations in 2013 has been widely debated. Some experts²⁰ consider it to be the result of the economic situation in the country since the economic sanctions began. One simple fact sums up the problems: the economic forecast of the World Bank placed Iran's growth rate at 3.8 positive points for 2011, which then plummeted to 6.6 *negative* points for 2012. It was described as a "perfect economic storm", with the price of oil at historic lows amid the regime of international sanctions, and without the possibility of diversifying into other sectors because of a lack of investment and funds. According to this thesis, the regime should have felt forced to relent and to some extent give up the nuclear arms race in exchange for a reduction of sanctions. This does not mean that there cannot be a new regression if Iran contravenes the JCPOA, although for now there is acceptance of the demands of the international community. Other analysts²¹ defend the existence of a strategic, slow but fundamental change in Iran's internal policy. After three and a half decades of international isolation Iran is now facing pressure to reform and

²⁰ See Karim Sadjadpour, "Iran and the U.S.: After the Nuclear Deal", Asia Society, New York, July 2015.

²¹ See Michael Singh, "Where does the U.S. – Iran Nuclear Deal Go Now?", Miller Center, University of Virginia, September 2015; and James Bowen and Karim Sadjadpour, "After the Nuclear Deal, Which Iran Will Flourish", IPI Global Observatory, August 2015.

modernise. New reformist or moderate leaders should begin to prioritise the country's national interests over the revolutionary ideology on which the regime was founded.

In fact, we are dealing with a combination of the above-mentioned theses. The gradual internal change in Iranian society resulted in the election in 2013 of President Rouhani, one of the drivers of the nuclear negotiations. Meanwhile, the eruption of regional conflicts and the complex situation experienced by neighbouring Syria and Iraq have changed the rules of the game for Iran.²² The expansion of the terrorist organisation Daesh has put al-Assad, one of the few allies of the Ayatollahs' regime, in an awkward position. Moreover, interventions by world powers such as Russia, the US or the EU in Iraq and Syria indicate a set of convergent, if conflicting interests and have resulted in a tentative rapprochement with Iran over the last three years.

To analyse the change of thinking within the regime itself, let us first accept the hypothesis of strategic change. Not only because it is promising for Western countries insofar as it brings greater stability to the region, but also because there are multiple factors that indicate this direction.

The foundations of the revolution and the Islamic regime

The Islamic Revolution in Iran in 1979 surprised the world, not only because of the success of a popular subversive movement that put an end to a system that boasted a 2,500-year history, but because it was the first movement that so notably exploited the political use of (Shia) Islam. As is known, in reality many more ideological movements and sectors of Iranian society participated in the 1979 Revolution, such as the democrats, liberals or nationalists. However, the greatest triumph was attributed to the Shia religious leaders and to Ayatollah Khomeini, above all. From there a rapid erosion of the existing secularism led to a growing influence of Shia-inspired 'principlism'²³ in Iranian civil life and the eradication of free market liberalism in big business and industry, thereby inaugurating a socialising trend (mainly in favour of the allies of the regime) mixed with 'bazar capitalism' in the economic field.

These two factors – the religious and political revolution led by the clerical class against the shah's secular elite and the shift of economic power from the old capitalists to the alliance between the revolutionary guards (see below) and the 'bazar' community – are fundamental to understanding and setting out the interests and social struggle that developed in Iran since the early 1980s. These two pillars of the regime illustrate how the abrupt social changes brought about in Iran by the Revolution created many supporters of the new system, but many other opponents as well.

²² See the contribution by Christian Koch to this report.

²³ See the contribution by Azadeh Zamirirad to this report.

Power and the balance of interests

After almost 40 years of the Islamic regime, is there reason to think that at the heart of Iranian society there is a gradual reformist transition that can give way to a more liberal system and improve relations with Europe and Western countries? An analysis of recent events might suggest that much of this is due to the presidency of Rouhani and the skills of Javad Zarif as Minister of Foreign Affairs. But they are only the visible face of this change; logically the process has not only had the consent of Ayatollah Ali Khamenei but also other fundamental actors in Iranian society.²⁴

The social stability achieved under the Ayatollahs since the Revolution has largely been possible thanks to their ability to manipulate religious belief and patriotism in favour of constructing a united and more solid regime. The Supreme Leader also has a security network in the Islamic Revolutionary Guards Corps (IRGC), an élite military corps formed by over 150,000 soldiers with the main objective of preserving Islamic revolutionary values. In exchange, these ‘Guardians of the Islamic Revolution’ or ‘pasdarans’ have a privileged position with respect to, for example, the regular Iranian army. This position has largely resulted in the control and development of a conglomerate of companies with high acquisitive power and influence in key sectors of the economy, such as oil.

Although the IRGC is merely an implementing body within the Iranian government system, they play a very important role and are still faithful to the original mandate of the Islamic Republic with all the consequences that this entails, including poor relations with Western countries. The achievement of internal political stability has also allowed them to focus their efforts and consolidate their position in other areas, such as the economy. Oil exports have for many years been crucial in relations between Iran and other (non-Western) governments. But problems arise when economic and political interests clash, as happened when sanctions were imposed in 2012. This inevitably involves the need to take a decision and prioritise. We should therefore ask if the Guardians of the Islamic Revolution, who are economically interested in strengthening the capacity of their industrial conglomerates, will always give precedence to the Islamic Revolution with an ossified regime or whether their own commercial and security interests will also play an important role. So far they have been a conservative force within the system in order to preserve their privileges.

There is also the theory that political and economic liberalisation will directly affect the regime’s economic structure, especially if there is a massive influx of foreign capital, as recent events and discussions in economic fora indicate.²⁵ This change could also be to the detriment of the economic power in areas controlled by the IRGC. If they cannot prevent or compete efficiently with the entry into the market of competitors these newcomers could threaten their monopoly in various industrial or commercial fields.

²⁴ See the contributions by Azadeh Zamirirad and Majid Golpour to this report.

²⁵ But see the contributions by Enrico Ponzzone, Arnaldo Abruzzini and Anoushiravan Ehteshami to this report.

Internal transformation and modernisation of mentalities

Another more profound factor concerning the evolution of the regime in Iran is linked to the internal transformation experienced by civil society. Thirty-seven years after the Revolution, there is an inevitable generational change that translates into a gradual transformation of values and mentalities in the country and therefore somehow in the Islamic system. Some specialists and authors describe this as a 'midlife crisis' in relation to the theory by the historian Crane Brinton known as the 'seven stages of revolution'.²⁶ It is argued that Iran has gone through the first six stages of its revolutionary cycle and is currently in a period of recovery from the 'revolutionary fever' led by actors other than those who carried out the first stages. They are new generations with a different set of priorities from those of their predecessors, in which advocacy of civil Islam undoubtedly exists but moderation and the introduction of reforms are also deemed necessary. Approximately 60% of the population in Iran is under 30 while most of the political instruments of power are still in the hands of the revolutionary leaders, most of whom are over 70. Logically, as long as such control remains with them, it would be absurd to expect substantial changes in the regime's system in the short term. Moreover, dialogue between the extremes is complex due to the generation gap.

But let us first characterise the new Iranian generations and later focus on their capacity to create reformist trends and how these have an impact, or not, on the regime. Iran's young people share many of the religious values that their parents, the national education system and the other mechanisms of the regime endeavour to instil in them. They are Shiites, proud of their origin and their beliefs. Yet many factors differentiate them from their parents, such as easier access to academic training in schools and universities.

There are also elements that mark out and distance most of the population from the political class. Iranian citizens do not speak about nuclear weapons. They are concerned with maintaining their families, keeping their jobs and being able to cover basic needs, and would tend to oppose the sanctions imposed as a result of the nuclear arms race. There are issues of general interest but in this respect their order of priorities is different from that of their political representatives and military officers.

Over 4.5 million young Iranians currently study at university – 5% of the total population.²⁷ This is without taking into account primary and secondary school pupils. There are also over 50,000 students who have chosen to study abroad and they are representative of the Iranian diaspora. However, youth unemployment was over 25% in 2015. Combined with the financial difficulties they face in accessing higher education, this provokes great unease. Consequently, their vision of Iran and their personal or collective interests may be decisive for the country's future, especially for the design of its social and economic reform policies.

Iran's civil society and its young people in particular have always advocated for their rights and interests. Many historical episodes have shown the capacity and power of Iranian students

²⁶ See C. Brinton, *The Anatomy of Revolution*, revised ed., New York: Vintage Books, 1965.

²⁷ Cf. the data presented in the contribution by Enrico Ponzzone to this report.

once they join popular movements. The 1979 Islamic Revolution was itself partially based on the mobilisation of Iranian urban society and students were key to how events played out through the pressure exercised on Reza Pahlavi before he left the country.

Another example was the peaceful student demonstrations in 1999 following the closing of the reformist newspaper *Salam*, which were forcefully repressed. This finally led to the confluence of students and unemployed youths in the main cities such as Tehran, Mashhad and Shiraz, with violent confrontations with the regime's law enforcement bodies. The response from the 'principlists' was to step up repression and control when faced with what they saw as attacks against the regime. However, a seed had been sown that would sprout just one decade later.

The 2009 'Green Revolution', although initially linked to candidate Mir Hossein Mousavi's campaign to the presidential elections of 12 June that year, soon went beyond its primary purpose to become a reformist social movement with subversive undertones that questioned the results of the elections won by Ahmadinejad. Moreover, it coincided with the commemoration of the student protests held ten years before. This time, however, there was a new element that strengthened the movement: the internet and social media. The use of new communication technologies by the activists and participants meant an exponential increase in their ability to achieve their purpose. The influence that such a movement may have had on other Middle Eastern and North African countries just two years later is debatable, however.

At present what interests us in the Green Revolution is not so much the question of whether it resulted in specific political change but rather a reflection on its very nature. Must we understand the Green Movement as a specific phenomenon in a particular historical moment or is it the result of the transformation experienced by Iranian society? This is not a trivial issue, because the latter thesis would mean that it is simply a matter of time before new Iranian generations seek to create social movements to reform the regime inspired by their predecessors, as happened in 1999 or 2009.

Younger Iranian generations are highly distanced from their revolutionary grandparents. Access to global communication media has played a major role in the development of a two-speed Iran. While the political and economic representation of the country has endured international isolation for almost 40 years, its youth has never had so much international contact. Surveys on the numbers of internet users in Iran vary wildly, but it seems safe to assume that between 30 and 40% of the population use the internet (i.e. 23 to 31 million people).²⁸ Despite the restrictions and page-blocking of the top 500 most visited websites (Facebook, Twitter, Google, Yahoo...), in many cases these sites continue to be accessible to everyone experienced in computing. And this is just one example of the gradual rapprochement to the Western world, the modernisation of attitudes. It nevertheless shows the influence it has on the evolving vision and critical spirit of Iranian youth, which, together

²⁸ Cf. B. Pourghadiri, "The Bewildering Maze of Internet Usage Statistics in Iran", 24 August 2014 (www.netbina.com/blog/2014/8/8/internet-usage-in-iran#sthash.q8twOT8P.dpuf).

with their involvement in social issues through political instruments, results in a push for necessary reforms to the regime.

The thesis that cyclical trends within Iranian society lead to organised social movements also means accepting a clear reformist trend. One consequence is partly the election of President Rouhani, a moderate cleric who to a large extent has had the support of younger Iranians. And the recent nuclear agreement has resulted in a direct rise in his popularity and that of his party in the last round of general elections. However, there has been much attention given to the power of the Guardian Council over the candidates for election and the influence of the Ayatollah or the Expediency Discernment Council, the administrative assembly appointed by the Supreme Leader to revise the Constitution. Out of over 3,000 reformist candidatures submitted, only 30 (i.e. 1%) were approved in the first cut established by the Council. Thus, only insofar as the new generations can take on a more significant role in the political field will major reforms within Iran's regime be possible.

Defining a future European position

The Islamic Republic of Iran is at a crossroads: the coming months will be fundamental to understanding the future of the country and its role in the region. The recent elections are just a first step, but the population seems to have advocated a moderate reformism that may introduce social, political and economic improvements within society. This will help Rouhani in his efforts to propose a gradual external opening and will give him and his people the opportunity to continue working in the same direction as led them to sign the nuclear agreement.

A feasible political strategy for the EU, despite it being a risky one,²⁹ would have to be based on advocating the idea of Rouhani as the legitimate political actor to engage in dialogue. Despite his long career in the regime and his occasional iron fist with the progressive social movements, the reformist leader has been Europe's main guarantor of a nuclear agreement through dialogue. It is a risky agreement because the Ayatollah Ali Khamenei and the IRGC still have the greatest political influence.³⁰ But recent international successes should mean an increase in popularity for Rouhani and ensure further steps towards a gradual transition. The current President has the support of the younger generations, a wide electoral base, and has been fearless in his talks with the Guardians of the Islamic Revolution, without presenting himself as an antagonist to their power.

This offers some hope for the West but it also poses a challenge: we must be ready to extend our hand to Iran, with which there has been limited understanding in recent decades. We have the possibility to support Iran on its path to an internal and external transformation, not only because it is a unique opportunity that can easily be closed off but because it is the best way to confront the regional and global challenges that unite us more than divide us. We should proceed with caution.

²⁹ Cf. the contributions by Azadeh Zamirirad and Nima Rashedan to this report.

³⁰ Cf. the contribution by Majid Golpour to this report.

The Opening Up of a Latter-Day Eldorado?

Enrico Ponzzone

Much has been said about the importance of the JCPOA, which came into force on 16 January 2016 – so-called Implementation Day. A flood of European delegations have been vying for the attention of the Iranian authorities ever since and many MoUs have been signed and promises made. When it comes to the crunch, however, these promises are yet to deliver. And this is a cause of great concern for the Rouhani government as it tries to fend off mounting criticism from opposition hardliners.

Iran's government is under pressure to deliver growth and jobs. Now that nuclear sanctions have been lifted, it can sell oil, access long-frozen assets and invite foreign investment into an economy in dire need of a modernising boost. There are, however, still many things it cannot do.³¹ The remaining US sanctions mean that dollar transactions through the US system are still forbidden and 'U-turn transactions' are not allowed (these are cleared through a US bank even though the money does not originate or stay in the United States). There is now growing evidence of pressure being brought to bear by US financial companies on European peers, strongly discouraging them to do business with Iran.

For Iranian supporters of the JCPOA, the window of opportunity is very small. President Rouhani is faced with two major deadlines: the US elections this autumn could dramatically change relations with the US, and in June 2017 his own electorate will decide whether or not to re-elect him, assessing the impact of 18 months of post-sanctions benefits.

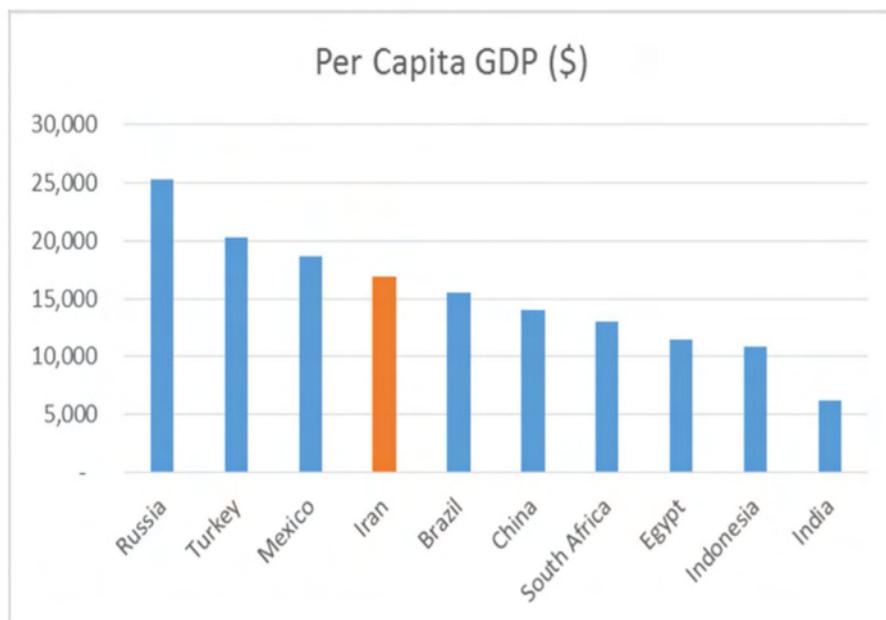
Facts vs fiction

For all the excitement about the potential of the Iranian market – often described as the world's last big economy to open up – not much is known about its key characteristics. Little research has been carried out in recent years and investors are only now scrambling to conduct due diligence investigations into the market.

As yet, there are no trade agreements with the EU. Iran exited the GSP (Generalised Scheme of Preferences) in February 2014 due to having been classified by the World Bank as an upper middle income country for three consecutive years. GDP per capita figures reveal that the country is in fact a middle income country, positioned between Mexico and Brazil. Even under sanctions, Iran's GDP is comparable in size to G20 economies. Iran's economy is also more diversified than other regional oil exporters.

³¹ For more details, see the contribution by Jay Modrall to this report.

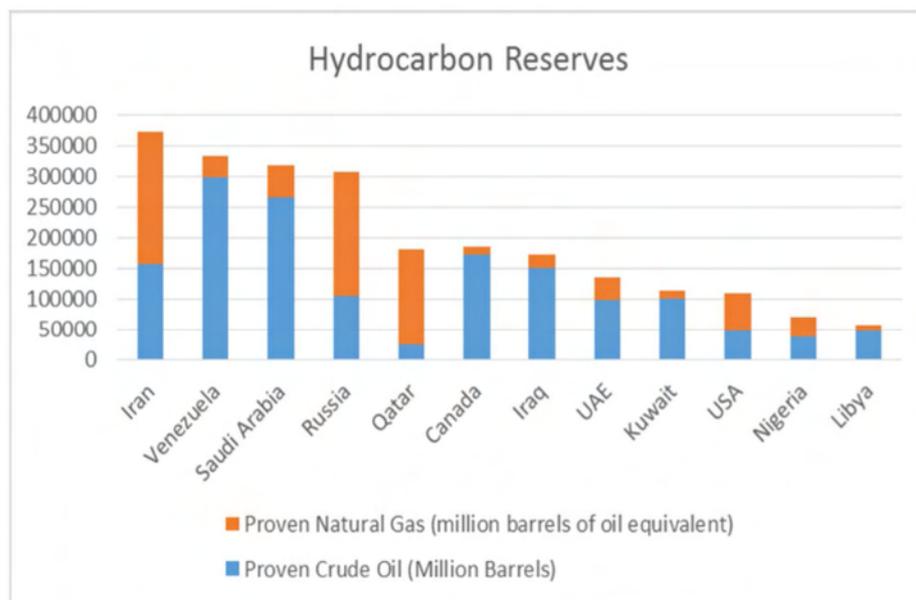
Figure 1. Iran's comparative GDP per capita



Source: IMF

While Iran has the world's largest natural gas reserves and fourth largest oil reserves, only 14% of its revenues come from oil exports. The lifting of sanctions is expected to lead to resumed growth in the GDP rate, of around 6% per annum over the next two years.

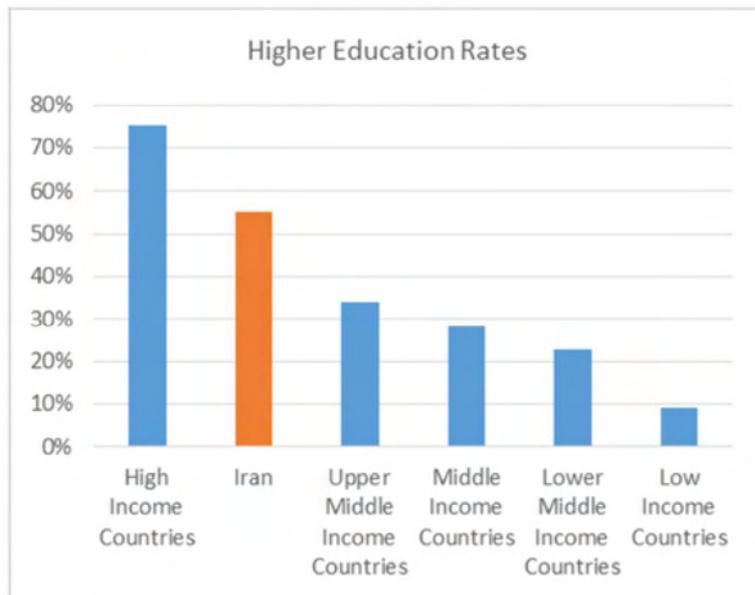
Figure 2. Iran's reserves of natural gas and crude oil



Source: BP Statistical Review

Iran has a young and well-educated population. At 80 million, it is the 19th largest in the world, and 65% of this population is under 35 years of age. The literacy rate in Iran is much higher than that in other emerging markets and neighbouring countries: 87% nationwide and 99% amongst the population aged 15-24 years. A legacy of its rich and cultured history, Iran is 7th in the world in terms of the number of publications in pure sciences, 16th in applied sciences, and 3rd in terms of engineering graduates. Iran has the highest rate of scientific and vocational education in the world: 47% of Iranian university students are studying science, engineering, manufacturing or construction.

Figure 3. Comparative uptake of higher education



Source: UNESCO

Apart from its wealth of natural resources, the country has a very low level of debt, as shown in the chart below. By dramatically reducing consumer choices, sanctions may also have contributed to the country's high savings ratio, which is close to 40%, according to the IMF. Interest rates are of course the main explanation for this high rate – an Iranian resident with funds invested at a local bank can now obtain an interest rate of between 20-25% – coupled with the historically high level of inflation, which stands at 14% (down from 40%).

Figure 4 a & b. Government debt and national savings rates

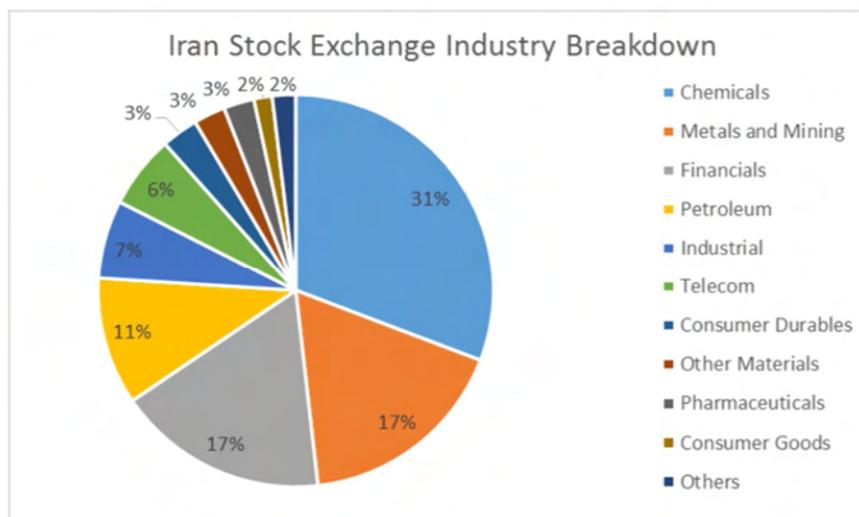


Source: IMF

Years of isolation and government interference have produced a highly fragmented banking sector with a high level of bad debt. Most Iranian banks need to be recapitalised and the availability of frozen foreign assets could usefully contribute to this end.

For such a large country with a highly diversified economy, the stock market is fairly representative of its economy. Other frontier markets are generally dominated by the financial or natural resources sectors with very minimal sector diversification. This is not the case for Iran, which has a highly diversified industry breakdown.

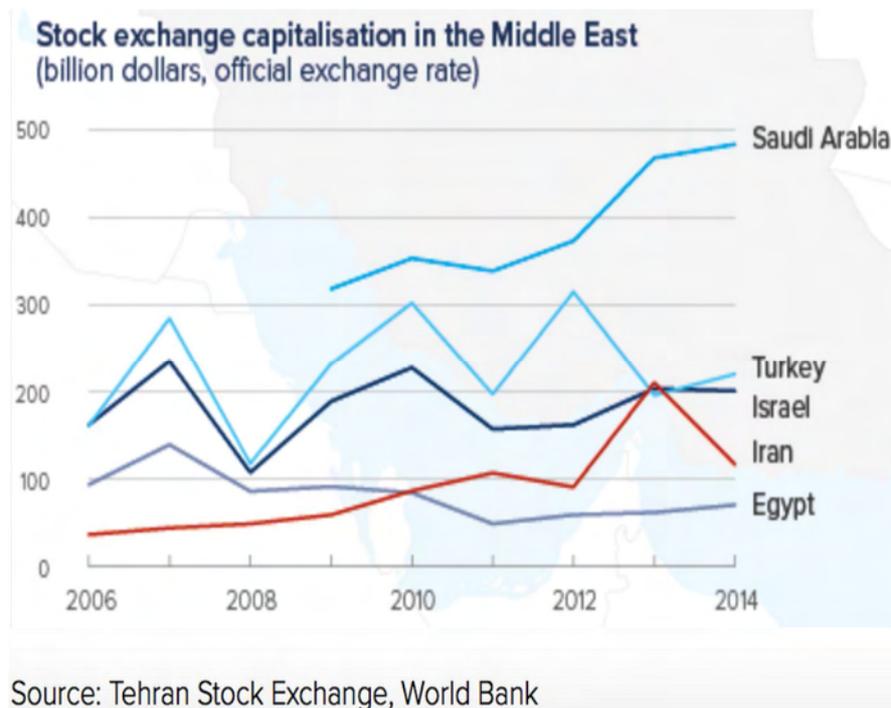
Figure 5. Industry break-down in Iran's stock exchange



Source: Tehran Stock Exchange.

Capitalisation stands at close to \$180 billion, similar to that of Poland, with a free float of about 18%. Capitalisation is still relatively modest, as shown by the chart below, which sets it against other key Middle Eastern markets such as Turkey and Saudi Arabia. As a percentage of GDP, Iran's market stands at 19% compared with Turkey at 21%, Brazil at 31%, Russia at 38% and China 61%.

Figure 6. Stock exchange capitalisation in the Middle East



Conclusion

All the current enthusiasm for Iran may prove to be short lived if certain issues are not clearly understood and dealt with. Financing is one of them. After years of hardship, Iranian companies lack capital and desperately need to modernise. The current system favours state companies over private sector operators and this does not encourage foreign direct investment because investors need to navigate the intricacies of Iran's domestic market. To cap it all, everything moves very slowly. Many MoUs are signed every time a new foreign delegation visits Tehran, but there are so far very few tangible contracts as a result of these memoranda.

Iranians are expecting Europeans to transfer know-how and to create jobs. European companies are keen to enter the market but are reluctant to rush in. They need to understand this new market, to conduct accurate due diligence to avoid the remaining US sanctions, to find partners they are comfortable with and to get the green light from their banks, which in most cases are still wary about establishing links with Iran.

Whatever the reason for caution up to now, Iran is arguably a unique proposition for investors today – the last great frontier/emerging market for business and investors alike. It offers a relatively mature economy, developed market infrastructure, a well-educated work force and extremely attractive macroeconomic fundamentals. Political will on all sides is all that is needed.

Regional Security: A View from the Arab Gulf States

Christian Koch

One of the most important geopolitical shifts to have occurred in the Middle East in the past few years is the activist foreign policy pursued by the Arab Gulf states, with Saudi Arabia, Qatar and the United Arab Emirates (UAE) taking the lead. This new foreign policy stance is not a sudden development but has its roots in the 2003 US invasion of Iraq, which upset the regional balance of power to the detriment of the GCC states and initiated a series of developments that weakened the region's security. Since 2003, the Arab Gulf states feel that they have been pushed into a new role that would not necessarily be of their own choosing. Nevertheless, they are ready to take on the mantle and are not about to shy away from any confrontation or disagreements that such a role entails.

The evolving role of the GCC states needs to be understood as being grounded in three factors. First, there is the domestic level, where both a leadership and a generational change is occurring within the Arab Gulf countries, namely in Qatar, the UAE, Bahrain and Saudi Arabia. Kuwait and Oman will experience something similar soon. There is also a transition underway within the wider society, in which the upper and middle echelons of state authority are being filled by new and better empowered nationals. Government-led efforts to build greater institutional capacity to underpin independent decision-making, which is quite visible in the UAE, can be said to be bearing fruit.

In the context of this empowerment, there is a high degree of confidence about the ability of the GCC states to chart their own course; a conviction that as mature states they can be proactive in matters of direct concern to their security. As well as this bold sense of reserve to confront difficult situations, there is a clear realisation that inaction and waiting for others to determine regional developments is in fact dangerous. The regional element in foreign policy discourse is thus taking on a distinct shape in the Gulf.

Second, over the past decade a series of developments has greatly increased the geostrategic threats facing the GCC states. From the perspective of GCC capitals, the main issue is the persistence of Iran's hegemonic regional agenda, which questions the GCC's legitimacy at a fundamental level. The assessment of recent developments is that Iran both contributes to and profits from the regional turmoil by supporting non-state actors (i.e. Daesh, the Kurds etc.) that challenge the state structures in the region. Iran is also profiting from such turmoil by seeing its influence spread in the wider region. As things stand, the Arab Gulf states do not see in the Islamic Republic a partner with whom a security arrangement for the Middle East can be reached. For this, Iran would need to change its policies and engage with the GCC states on an even footing.

Outside of Iran, other regional challenges include the rise of militant Salafist/Takfiri movements such as al-Qaeda and Daesh; the emergence and persistence of militias and

various non-state actors in Iraq, Syria, Libya and Yemen; the subsequent fragmentation of the same states with diminishing options for resolution of these conflicts. There is also the populist street revolt stemming from the Arab Spring, which fundamentally questions the existing social contract in place throughout the region. On all these fronts, the GCC has put forward policy suggestions that have not been heeded by the wider international community. The failure to listen to and accommodate GCC concerns has added to a conviction within the Arab Gulf that independent policies are necessary.

The third factor pushing the GCC states to pursue an activist foreign policy is the increasing sense of disappointment and doubt about US policies (and to a certain degree European policies) in the region. Here, the legacy of the 2003 Iraq invasion, despite GCC warnings, has opened a Pandora's Box of unintended consequences. But these consequences have been exacerbated by the policies of the Obama administration and its precipitous withdrawal from Iraq in 2009; the failure to follow through on stated red lines in Syria; and the perception that the US is shifting towards Iran as a result of the JCPOA on the nuclear issue. As it stands, there is simply no confidence among the GCC states that the US will continue to be the status quo power that for decades provided for similar points of view among their Arab Gulf allies. President Obama's reference³² to internal threats rather than the threat from Iran has further cemented this scepticism. In essence, the message being received is that 'if you want something doing, you have to do it yourself'.

Under current circumstances, the GCC states will see themselves as having little choice but to pursue their foreign policy activism further. This means an intense determination to push back on Iran's interventionism, to solidify relations among the Arab Sunni states, and to engage diplomatically with countries like Russia, Turkey, China, as well as key European states. In exchange for its support for the JCPOA, GCC countries such as Saudi Arabia and the UAE expect the US to acquiesce to the new Gulf assertiveness as a *quid pro quo*. This includes support for military interventions in, for instance, Yemen.

The way forward: strengths and weaknesses

Yet, for all their determination, there remains a key question about the real sustainability of the role taken by Saudi Arabia and the other GCC states. Factors that speak for the GCC states include a high degree of internal legitimacy supported by continued domestic stability, continued financial and economic strength, the significant military assets at their disposal that could provide military assistance or allow the GCC states to undertake their own interventions, and the increasingly accepted view among states in the region that the Arab states need to act together.

But a number of limitations must also be considered. For one, the financial tools available to the GCC states are not necessarily open-ended. The fall of the oil price has cost the region \$380 billion in lost revenue in 2015 alone, at the same time that domestic and regional commitments

³² See Obama's interview with Thomas Friedman (www.nytimes.com/2015/04/06/opinion/thomas-friedman-the-obama-doctrine-and-iran-interview.html).

have increased. Second, the GCC's military track record has not been encouraging, as the current conflict in Yemen underlines. Plans announced for the creation of a joint Arab army have so far not advanced significantly. The fact remains that when it comes to defence matters, the US remains the indispensable ally, despite all the misgivings noted above.

Other limitations for the GCC include their relatively weak institutional capacity and the continuing internal differences of opinion. The GCC states are not a monolithic bloc and the member states have been at odds with one another just as much as they have been in agreement on the necessity for an Arab front. Only in 2014 were there suggestions that the GCC was on the verge of a split due to the disagreement with Qatar over support for the Muslim Brotherhood. And there continue to be significant differences in opinion about how to promote regional security, with the Sultanate of Oman at times being isolated in its position from the rest of the GCC.

As such, it is too soon to conclude that a new era of GCC/Saudi leadership is here to stay. While in the near term there may be some successes, such as having the Houthis join the Yemeni political process or seeing increased military pressure on Syrian President Assad through better Saudi Arabia/Qatar/Turkey coordination, the opposite may also occur, with the GCC finding itself increasingly bogged down in a conflict in Yemen whose outcome it cannot determine, or seeing the extremist groups in Syria empowered and ultimately turning their attention to the monarchies in the Gulf. The result for the GCC states is a mix of confidence and anxiety.

One key in terms of GCC success will be how other regional relationships are managed – with Egypt, with Turkey, and more importantly with Iran. Iran-Saudi and Iran-GCC relations will be the decisive factor in how regional events develop – positively or negatively. The question here will be whether the two sides will be able to utilise the opportunity presented by the nuclear deal to also advance regional ties and escape the sectarian narratives that have become increasingly prevalent. While Iranian President Hassan Rouhani and his Foreign Minister Mohammed Javad Zarif have called for cooperative relations, there is deep scepticism on the Arab side of the Gulf about actual Iranian intentions. Particularly in light of the events at the start of 2016 when the attack on the Saudi embassy in Tehran led to the break-off of all diplomatic relations by the kingdom with Iran, the outlook for a near-term improvement in relations is not very good. Given the mind-set in the region and the decades-long enmity that has existed between the two sides, the situation is such that unless Iran makes a genuine effort to bridge the differences with their Gulf neighbours – be it on Yemen, on Syria, on Iraq or on issues that Saudi Arabia and the other GCC states see as really signalling Iranian intent, the GCC states will continue on their more confrontationist course. As it stands, the current zero-sum mentality in the region prevails, with little indication that this will change.

The Impact of the Iranian Nuclear Deal on Central Asia

Roger Kangas

The JCPOA has been viewed variously as ‘historic’, a ‘game-changer’, a ‘way to reintegrate Iran into the community of nations’, or the ‘worst deal for security in the region’, depending upon one’s perspective. Whatever the viewpoint, the nuclear deal signalled the end of one process and the start of another that could build confidence among the participating states. Of course, other countries in the wider Middle East will feel the effects of this deal. Although not directly part of the negotiations, a number of them were often kept abreast of the negotiation’s general progress to include the points of contention. More often than not, officials and commentators in Turkey, Israel, Saudi Arabia, Iraq, Afghanistan, and Pakistan readily voiced their support for/opposition to the process. These were usually framed in terms of their own views on Iran as a critical neighbour. To a lesser extent, the Central Asian states were also made aware of the ongoing process.

This contribution examines the implications for Central Asia of the JCPOA. Is it a positive step? What are the potential challenges? And what might be the unintended consequences for Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan?

Pragmatism and opportunism

Over the past 25 years, Iran has played a curious role for the countries of Central Asia. Despite the alarm raised by the Islamic Revolution in 1979, relations between Iran and the then Soviet Central Asian Republics have generally been characterised by pragmatism and opportunism. Only one of the five countries shares a land border with Iran, Turkmenistan, and that state has had limited cross-border road and rail traffic since the 1990s. In 1996, a railroad was built between Sarakhs, Turkmenistan, and Mashhad, Iran, with a more substantive line established between the two countries (including a northern route up to Kazakhstan) in December 2014. Rail traffic is planned to increase from 3 million to 10 million tons per annum, with the potential to exceed 20 million tons by 2020. Tajikistan, the country with a closer ethnic and linguistic affinity to Iran, has also had longstanding ties that include economic, trade, and political links. Iran was a viable venue for peace negotiations during the concluding years of the Tajik Civil War (1992-97) and has maintained a relatively strong interest in economic investment in that country. Transportation, aluminium mining, hydropower investment, and commerce are the key elements of bilateral trade that is to exceed \$300 million a year by the end of this decade. Kazakhstan has periodically explored robust cross-Caspian energy deals with Iran, more in the form of oil swaps with its southern (and equally energy-rich) neighbour, and is part of the aforementioned transportation link involving Turkmenistan. Finally, Uzbekistan and Kyrgyzstan have been more distant from Iran, mainly due to a lack of real common interests, but also because at times these states were actively supportive of the United States and NATO during the Afghanistan campaign, indirectly affecting their ties with Iran.

One fundamental belief unites the Central Asian states on any agreement that would restrict the development of weaponising nuclear technology and, hence, the JPCOA: all five states are part of the Central Asia Nuclear Weapons Free Zone (CANWFZ). This agreement, which was signed on 8 September 2006 in Semey (Semipalatinsk), Kazakhstan, formalised the Tashkent declaration of 15 September 1997. At that event, the Foreign Ministers of the Central Asian states announced that they would not pursue nuclear weapons technology, or have such weapons located on their territories. This is particularly prescient, as four 'neighbours' possess such weapons – Russia, China, India, and Pakistan. Overall, the statements by political actors and media from Central Asia on any progress towards limiting nuclear technology in a neighbouring state are positive, so the JPCOA is seen as welcome news. Indeed, the government of Kazakhstan hosted two key rounds of the negotiations in July 2013 in Astana that were part of the sequence of events leading to the final agreement. Kazakhstan's own troubled history with nuclear weapons explains the country's keen interest in such a negotiation. The Oblast (region) of Semipalatinsk was the traditional Soviet test site for nuclear weapons. Public sources indicate that the Soviet government conducted 456 nuclear tests from the 1950s to the 1980s in the region, including sites near population centres. Along with Belarus and Ukraine, Kazakhstan has the distinction of being a country that gave up the nuclear arsenal on its territory after independence, with the last weapon removed in April 1995.

It is no surprise, then, that public statements by the respective governments in the region were generally supportive of the steps leading up to the JPCOA. Of course, the same countries recognised that the larger global actors ultimately play the key roles in any negotiation with Iran, and that their own status and influence is limited.

From the Central Asian perspective, several observations can be drawn from what has taken place since the actual signing of the JPCOA. First, it appears that many of the actors in the nuclear deal process have already moved ahead. Delegations of Europeans are visiting Iran in droves, hoping to strike lucrative agreements in the coming years. Thus, Central Asian businesses and governments are keen to see where they might take advantage of this new situation as well. Second, while American approval of such a deal remains unclear, that might not be as important if other key actors in the world ramp up their own engagement strategies. Because the threat of sanctions-derived penalties still loom, other countries will keep an eye on American actions, but perhaps less so than in the past. As with others, the Central Asian governments are monitoring this situation. Third, how Iran might want to move in the coming months and years is less certain and will be a key sign to the Central Asian countries as to what they can ultimately do in the new environment. Does Iran want to engage more fully east and northward, or are the security challenges to its west (such as Iraq and Syria) so critical that focus remains in that direction? Will the energy output from Iran help integrate Central Asian energy flows, or will these be in direct competition? These second- and third-order effects of the JPCOA and a probable integrated post-sanctions Iran fall into three general areas: security, economics, and politics.

Security

The security implications of the Iran deal are generally viewed most positively in Central Asia. During the worst of the tensions between the US, Israel, and Iran, there were fears that any military conflict would potentially draw in the Central Asian states. This was because the US still had military bases in Central Asia: the Karshi-Khanabad Airbase in Uzbekistan (2001-05) and the Manas Transit Center in Kyrgyzstan (2002-14) were essential facilities for US and NATO operations in the Afghanistan campaign. With the end of the ISAF mission in 2014, and also because of pressure from the Kyrgyz legislature and outside powers such as Russia and China, the Kyrgyz government requested the closure of the Manas Transit Centre in the summer of 2014. While these facilities were never part of a 'grand scheme' to encircle Iran or launch attacks on that country, popular rumours and conspiracy theories suggested otherwise. This narrative was fuelled by rhetoric coming out of Washington towards the end of the Bush administration suggesting that military actions should, or would, be taken against Iran. During that time, Central Asian experts feared that these very same 'Afghan-focused' bases would be used to launch attacks against Iran, allowing it the opportunity to retaliate against them. With these concerns overcome, and with a de-escalation of tensions between the US and Iran, the security dynamics appear to be moving in a positive direction.

In terms of state-on-state conflict, there is little discussion in Central Asia of a possible US-Iran war. The real challenges remain the very issues that have legitimately troubled the region: transnational terrorism and trafficking of narcotics, precious materials, and persons, to name a few. Statistically, these have been major problems in the region, with over 25% of opium trafficking from Afghanistan coming through Central Asia. A similar percentage comes through Iran, and onward to Turkey and Europe. Therefore, the ability for the states of Central Asia to cooperate more robustly with Iran on counter-narcotics efforts could create conditions to stem these flows. This would be especially appealing as Western-based counter-narcotics programmes could now be applied to this broader swathe of territory. For the first time, Iran could find itself part of trans-regional counter-terrorism and counter-narcotics efforts that include Western partners through existing UN Office on Drugs and Crime and EU programming.

Economics

Another important area for growth is trade and commerce. As noted earlier, such activity takes place to a limited extent, and the potential for further expansion is being explored. While opportunities will increase, it will ultimately be up to the individual countries as to whether they want to agree to trade and commerce deals with each other and with Iran. Opaque and difficult business environments remain in place, limiting the success of any transnational venture. For the foreseeable future, trade will most likely be in the areas of raw materials and hydrocarbons, and perhaps some level of re-exporting of commercial goods that transit through Central Asia onward to Iran and beyond (or, perhaps in the other direction). Transparency International, for example, ranks all parties involved in the region in the lower-half of national economies in terms of "ease of doing business." And when it comes to trade

volumes, the overall percentages will be modest, primarily because contracts for such goods are already in place going over existing routes, especially to and through Russia and China. Given the suggested lower transit costs through Iran, the medium and long-term trends could be more favourable, however.

A possible framework for this growth could be the Economic Cooperation Organization (ECO), an organisation founded in 1965 by Turkey, Iran, and Pakistan, and later joined by Afghanistan, Azerbaijan, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan in 1992. Over the quarter-century, the ECO has been moribund in terms of substantial and meaningful activity. One reason for this is that with Iran as a key member, the ECO was limited in terms of broader regional and global trade. Sanctions, as well as investment priorities of other ECO members in other directions prevented any true effort to invest in this collective structure. However, the strengthening of the Iranian economy and its gradual integration into global markets could indirectly help to revive the organisation. Indeed, in the past year, meetings have been held in Tehran and Shiraz promoting Iranian investment opportunities. While exact figures are not readily forthcoming, there appears to be a commitment on the part of ECO-sponsored events to promote cross-border trade and the transit of raw materials and commercial goods in coming years.

It is important to raise two concerns amid the overall positive feelings about an Iranian economic 'reintegration'. First of all, could the various 'silk roads and belts' go past Central Asia and focus on Iran itself? The ECO, for example, could also be used to promote Turkish-Iranian-Afghan-Pakistani trade, bypassing the Central Asian states completely. With respect to trans-Afghanistan proposals, there is a credible logic, particularly in light of the transit hub capabilities of the Iranian port of Chabahar and the Afghan city of Herat. If the bureaucratic hurdles in the Central Asian states themselves remain difficult, international traders might find reason to simply decrease the number of border crossings and bilateral agreements in favour of a simpler routing. At present, there is no reliable data on this point, but such speculation will be part of the commercial discourse in the region as Iran moves away from the sanctions regimes in place.

The same logic applies to the field of energy, in which one has to ask: is Iran a competitor, or a colleague? Iranian oil and gas would presumably enter the global energy market in the coming years. Even with depressed prices at this time, Iran's relatively inexpensive oil would reach international markets more readily, ultimately competing with Central Asian oil. In terms of gas supply, Iran and Turkmenistan possess 34 and 14 trillion cubic meters of gas, respectively. As much of Turkmen gas is now committed to the Chinese market, the additional Iranian gas production would not damage those routes. However, as Turkmenistan plans to exploit more fields and develop such routes as the TAPI pipeline (Turkmenistan-Afghanistan-Pakistan-India), the Iranian supply may be an impediment. With respect to TAPI, the less expensive and more secure IPI (Iran-Pakistan-India) route could be the preferred option to the South Asian consumer market. Most international gas experts suggest that the gas market could accommodate both suppliers, depending upon the chosen export routes. Moreover, as Iranian consumption is quite high, that country's production actually has to satisfy the local

market. Turkmenistan, with a population of just over 5 million people, is dwarfed by the consumption needs of nearly 80 million Iranian citizens. With some skill, Turkmen gas could actually be used to supply northern Iranian cities, as those routes could prove to be cost effective.

Politics

Finally, the political implications of a re-integrated Iran should be positive for bilateral relations. The countries do not have a history of animosity or territorial disputes, except for the Caspian-wide disagreements over the delimitation of that body of water. However, because the Caspian Sea also includes Azerbaijan, Russia, and Kazakhstan, other cross-border disagreements overshadow any Turkmen-Iranian ones.

Curiously, it is in the area of international organisations that change could be felt. Without question, if Iran is admitted as a full member of the Shanghai Cooperation Organization (SCO), this security architecture would shift. Admission is primarily a political decision, although it was declared in 2001 that countries under sanction could not become full members. Perhaps this earlier decision was a way to slow down any decision on Iranian admission; as sanctions are now being lifted, Iran's full membership returns as a credible topic of discussion. Add to the fact that India and Pakistan are on track to be full members, the SCO is poised to radically change in terms of its focus and perhaps its very identity. Since the organisation's inception in 1996 as the Shanghai Five, the SCO has had a largely Eurasian character, with Kazakhstan, Kyrgyzstan, Tajikistan, and Uzbekistan wedged between Russia and China. The possible inclusion of India, Pakistan, and Iran would give the organisation a more Asian character, shifting the economic centre southward, given the potential power of the Indian economy. Having three of the five BRICS as well as the newly integrated Iranian economy in the SCO would distort the percentages of each contributing state. This expansion would weaken Russia's presence in the organisation, let alone that of the four Central Asian members. Two, Kyrgyzstan and Tajikistan would become statistically negligible, and Uzbekistan would have a difficult time keeping up with the new, larger entrants. Only oil-rich Kazakhstan would be able to hold its own in terms of relative economic power.

Conclusion

In sum, the JPCOA is welcome news to Central Asia and there is no question that the progress of its implementation will be followed closely in the region. While its impact will be positive for the respective Central Asian states, it is worth noting that as Iran integrates into the global economy, it could be a competitor and not simply a transit state for Central Asian goods. Of course, if the deal is scuttled – whether because Iran fails to abide by the terms or a member of the E3/EU+3 chooses not to support it – the status quo *ante* strategies would quickly return. Challenges could arise, as the Central Asians would once again find themselves on the 'front line' of any conflict with Iran. Ultimately, this only underscores the limited roles these five states can play in the larger arena of Iranian and global geopolitics.

Part II: The EU and Political and Economic Reform in Iran

In Search of an Effective EU Policy for Iran

*Fernando Garcés de los Fayos**

The long game

The European Union warmly welcomed the JCPOA agreed on 14 July 2015. This is no surprise because the EU, through its High Representative for Foreign Affairs and Security Policy/Vice President of the European Commission (HRVP), and the European External Action Service (EEAS) that she leads – had actively participated in the long and difficult negotiation process and facilitated its success. For its part, the European Parliament (EP) provided political support and impetus to the negotiations. While this may have raised questions about the coherence of the Union’s external representation in this process, a unified EU voice has so far been successfully maintained.

From the outset of the process in 2003, three EU member states (France, Germany and the UK, the so-called E3), along with three successive EU High Representatives (Javier Solana, Catherine Ashton and Federica Mogherini), were at the front-line of nuclear negotiations with Iran. For years they were a rather lonely group, however, having the additional responsibility of bridging with the other interested parties, including the USA. The E3+3 group was constituted in 2006 (the E3 group plus China, Russia and the USA), but negotiating with Iran under the radical conservative presidency of Mahmoud Ahmadinejad was no easy task.

With the election of Hassan Rouhani as President in 2013 and the critical telephone call between him and US President Barack Obama, a robust final round of negotiations between the E3+3 and Iran began. This time the negotiations were relaunched under a precise framework (the Joint Plan of Action) and with tangible confidence-building measures adopted by each side. The negotiations were based on the concepts and ideas initially developed by the E3 and Iran, and were often tense, but when there was a real risk of rupture the EU group consistently maintained hope and favoured extensions to the self-imposed deadlines.

When in April 2015 a provisional framework agreement was reached, and in July the JCPOA was finally agreed, the EU rushed to endorse the agreement. Thereafter, against all political odds, the important consecutive deadlines included in the JCPOA were respected, and on each occasion the EU contributed to and welcomed the new success. First, the immediate endorsement at the UN Security Council, and then the approval (or non-objection) of the US Congress and Iranian Majilis, which enabled ‘Adoption Day’ on 18 October 2015. More importantly, as a result of the verification by the International Atomic Energy Agency (IAEA)

* The opinions expressed in this article are solely of the author and do not necessarily represent the positions of the European Parliament.

that Iran had fulfilled its initial JCPOA engagements, 'Implementation Day' was also achieved on 16 January 2016 – triggering the lifting of UN, EU and US nuclear-related sanctions.

EU analysts tend to see the JCPOA as a test case for the functioning of EU diplomacy after its substantial reshaping in the 2009 EU Lisbon Treaty. The performance of the EEAS and the feasibility of flexible EU diplomatic formats were also under scrutiny. However, for the EU – a supporter of multilateral processes such as nuclear non-proliferation – the JCPOA is also important evidence that diplomatic means can be successful, even in a particularly sensitive area. Indeed, the JCPOA is an international reference and a good deal – strong, durable and verifiable.

The EU, like the UN and the US, has fulfilled its engagements to lift nuclear-related sanctions as a result of reaching 'Implementation Day'. In other words, an acceptable level of trust has been re-established between the EU and Iran after so many years of disagreements. As an expression thereof, HRVP Mogherini led a high-level delegation to Tehran on 16 April 2016 to explore different sectors of cooperation with Iran. The delegation included EU Commissioners Elżbieta Bieńkowska, in charge of Internal Market and Industry, Violeta Bulc, for Transport, Miguel Arias Cañete, in charge of Climate Action and Energy, Carlos Moedas, for Research, Science and Innovation, Tibor Navracsics, in charge of Education, Culture, Youth and Sport, Christos Styliandes, for Humanitarian Aid and Crisis management and Karmenu Vella, in charge of Environment, Maritime Affairs and Fisheries.

Future engagement

Although the EU is not so naïve as to forget previous disenchantments with Iran, it regards the JCPOA with hope, as it can open up other avenues of cooperation. In the US – deeply immersed in its electoral year – the JCPOA is however often used as a political weapon between the rival parties and their presidential candidates, reflecting the historically unusual phase of extreme political polarisation in the country. The other two JCPOA parties have different priorities in their approaches to relations with Iran. For Russia, the resolution of the Syrian crisis on its terms, and the urgency to see a rise in the world's hydrocarbons prices are key elements. For China's pragmatic foreign policy, chiefly inspired by economic gains, the crucial questions are whether or not its ambitious 'One Belt, One Road' (OBOR) initiative is still affordable after the unexpected slowdown in growth that it is experiencing and what precise role Iran – located between Pakistan / Central Asia and the Middle East – should assume in the project.

In principle, the EU has a good chance of swiftly reinstating economic ties with Iran in this complex scenario, particularly increasing trade and investment flows. It would be logical to expect that in the medium term the volume of EU-Iran trade would go back to the relatively high levels of the 1970s. Nevertheless, a significant Iranian contribution to the EU's energy security will probably not come as quickly as the EU would like, particularly in view of the large infrastructure development required in Iran.

Once the Iranian economy becomes more open and efficient, it should reach spectacular annual growth rates.³³ The big challenge for the authorities would then be to ensure that the whole Iranian population benefits from this growth and not just those linked to the regime, i.e. that the economy and that the society modernise in parallel to growth. This is critical, not least because Iran has a very young population whose aspirations need to be addressed.³⁴ For this endeavour, the EU can be a suitable partner, with a proven record of valuable contributions across the globe.

The January visit of President Rouhani to Italy and France – just a few days after Implementation Day – was of real significance. The rush of EU member states' ministers, accompanied by representatives of the private sector visiting Iran since last summer, is also noteworthy. All of this is logical since the EU has a comparative advantage: US companies worry about the uncertainty caused by the extent of their country's non-nuclear related sanctions and the possibility of these being amplified – something that indirectly also affects EU firms.³⁵ However, in this type of economic environment there is an obvious risk of falling into 'competition traps', with the potential of weakening the E3+3 common stand and jeopardising the JCPOA's credibility. The risk even extends to the unity of action among EU member states. Additional risks to reinstate sound economic relations with Iran emanate from the country's internal situation, with signs of worrying and opaque finances, uncertain judicial decisions and, above all, high levels of corruption – which increased faster during the international sanctions.

Regional aspects

The area of regional cooperation with Iran is of major importance for the EU, but it should also be for Iran – particularly given the present turmoil in the Middle East. The JCPOA presents Iran with a unique opportunity to demonstrate that it is an important and responsible actor on the international stage, applying restraint in its tense relations with Saudi Arabia and working constructively with other regional and international powers to seek peace in Syria, Iraq and Yemen. The continuous suffering of the Syrian population is unacceptable and all parties, directly or indirectly involved in this longstanding conflict, have the moral obligation to make mutual concessions to seek workable agreements that can be accepted by all parties. Iran's participation in the Syrian talks is certainly a positive step here. 'Frozen conflicts' at the core of the Middle East can escalate globally at any moment and no-one would want such an outcome. The respect of international borders of all states in the Middle East is a basic condition, as rightly stressed by Foreign Minister Javad Zarif in his recent February visit to the EP; but this principle should also imply Iran's recognition of all existing states and its support for the two-state solution for the Israeli-Palestinian conflict. The EU and Iran should closely cooperate in the stabilisation of Afghanistan, at a time when the Afghan authorities are facing

³³ For a word of caution, see the contribution by Enrico Ponzzone to this report.

³⁴ Cf. the contribution by Senén Florensa to this report.

³⁵ Cf. the contribution by Jay Modrall to this report.

an upsurge in insurgency. Both the EU and Iran share some of the painful consequences of the Afghan conflict, notably increased drug trafficking and an influx of refugees.

The role of the European Parliament

The EP has also played an important role in attaining the JCPOA and in promoting its implementation. This, however, has not been achieved without a degree of strain. On 3 April 2014 the EP expressed its firm support for the nuclear negotiations and formulated its wishes about how Iranian politics could evolve to improve bilateral and regional relations. This EP resolution was badly received by the Iranian authorities. They complained that the resolution's call "to mainstream human rights in all aspects of EU-Iran relations", and the statement that Iran had a record of "continued, systematic violation of fundamental rights" was an unacceptable interference in Iran's sovereign affairs. For Foreign Minister Zarif, accusations about human rights abuses were simply fabricated by groups close to 'Zionists'. Visits of EP delegations to Iran were frozen for over a year, cutting off any dialogue between parliamentarians on both sides. However, the resolution also touched upon many other areas that were unfortunately relegated to second place by Iran as a result of its sensitivity to human rights criticisms. For example, the EP said that, subject to substantial progress in the nuclear negotiations:

- EU-Iran relations should be extended to cover economic development, trade agreements, the rule of law and issues of regional concern, such as the civil war in Syria and the fight against all forms of terrorism and its causes;
- the EEAS should carry out the preparatory work for opening an EU Delegation in Tehran; and
- the Council of the EU should discuss a future contractual framework for bilateral relations, which would include the development of civil society and private sector in Iran, the fight against narcotic drugs (while ensuring that suspects receive a fair trial and are not subjected to the death penalty); environmental cooperation; technology transfer; infrastructure development and planning; education and culture; and child protection and health.

In the same resolution, the EP:

- expressed concern about the worsening environmental situation in Iran, in particular water shortages, desertification and air pollution, and invited the EU to facilitate cooperation between EU and Iranian research institutes, environmental organisations and cities;
- called for a concerted effort to empower and develop civil society in Iran and to increase the number of exchanges for students, artists and other visitors, as well as cultural and academic exchanges, and to promote youth participation and civic engagement; and
- called for the EU to pursue a more independent policy towards Iran, while coordinating with allies and partners.

In other words, the Iranian authorities' extreme sensitivity about human rights criticism impeded any parallel talks about post-JCPOA areas of cooperation. Even now, during the recent visit of Zarif to the EP – in a much warmer political environment – he forewarned that the EP should understand that human rights issues should be discussed “in a spirit of mutual respect and without preaching”.

Currently, the EP's Foreign Affairs Committee is preparing a new resolution, calling for a comprehensive EU strategy for relations with Iran. The rapporteur is MEP Richard Howitt (S&D, UK) and the plenary may approve it before the summer break. The resolution will certainly look forward to improved and constructive relations with Iran, retrieving many of the proposals formulated in the 2004 resolution and probably adding new ones. But the Iranian authorities should also understand that the EP could never put aside its concerns about human rights violations in its proposals for relations with any third country. The protection of human rights is a fundamental principle of the EP – and of the EU as a whole. Furthermore, mature and friendly relations between international actors in the 21st century cannot be hindered by taboos.

Iran Sanctions Compliance after 'Implementation Day'

Jay Modrall

For many in the European business community, 'Implementation Day,' 16 January 2016, was welcomed for the EU-Iranian business opportunities that were expected to flow from the Joint Comprehensive Plan of Action (JCPOA). The announcement was followed closely by a wave of European-Iranian delegations and conferences and announcements of planned transactions. Meanwhile, for US companies, the impression was that little or nothing had changed, and that they would be left out in the cold while European companies snapped up new opportunities.

The truth is more complex, however, both for European, US and other business groups. The JCPOA was and remains essentially a limited sanctions agreement, not a trade promotion agreement. Companies wishing to do business with Iran must still take great care in any transaction involving Iran. Importantly, the JCPOA related only to sanctions imposed in relation to Iran's nuclear programme; sanctions relating to Iran's ballistic missile programme, and support for terrorism and suppression of human rights, are unaffected. Even for transactions in sectors where sanctions have been lifted there are still conditions and limitations that must be scrupulously observed.

Indeed, doing business after Implementation Day is more complex, not less; while any transaction involving Iran was prohibited before Implementation Day, afterwards even permitted transactions required carefully designed compliance policies and procedures.

US sanctions

Much of this complexity derives from the way in which the US relaxed its nuclear-related 'secondary sanctions,' which are directed towards non-US persons for specified conduct involving Iran that occurs outside US jurisdiction. Specifically, the United States lifted secondary sanctions on the following sectors or activities:

- 1) financial and banking-related sanctions;
- 2) sanctions on the provision of underwriting services, insurance, or re-insurance in connection with activities consistent with the JCPOA;
- 3) sanctions on Iran's energy and petrochemical sectors;
- 4) sanctions on transactions with Iran's shipping and shipbuilding sectors and port operators;
- 5) sanctions on Iran's trade in gold and other precious metals;
- 6) sanctions on trade with Iran in graphite, raw or semi-finished metals such as aluminium and steel, coal, and software for integrating industrial processes, in connection with activities consistent with the JCPOA;
- 7) sanctions on the sale, supply, or transfer of goods and services used in connection with Iran's automotive sector; and
- 8) sanctions on associated services for each of these categories.

Even in the sectors where sanctions were lifted, however, this relief is subject to strict limitations,³⁶ including the following:

- non-US companies cannot enter into certain significant transactions with Iranian persons still on the US list of so-called ‘specially designated nationals’ (the ‘SDN’ list), including the Islamic Revolutionary Guard Corp. (IRGC) and its designated agents or affiliates (designated IRGC on the SDN list) and other persons designated as SDNs in connection with Iran’s proliferation of weapons of mass destruction or Iran’s support for international terrorism (designated IFSR on the SDN list). The SDN list still contains several hundred people and continues to be subject to change (including a number of additions on the day after Implementation Day); and
- non-US companies cannot engage in transactions with Iran that involve the export or re-export of US goods or services. Such exports or re-exports continue to require a licence from the US Office of Foreign Asset Control, or OFAC (subject to a few exceptions, such as certain aviation products).

Meanwhile, the so-called ‘primary’ nuclear-related sanctions on activities subject to US jurisdiction remain in place, in addition to sanctions outside the scope of the JCPOA. In practice, that includes transactions involving US citizens and green card holders, transactions involving US companies, transactions involving persons located in the United States and transactions passing through the US financial system, such as wire transfers of US dollars.³⁷

These primary sanctions can be significant, even for non-US companies. For example, many European companies have US nationals on their boards, or in senior management roles, who could not be involved in the negotiation or approval of transactions involving Iran. Even European nationals working for European companies could run afoul of US primary sanctions, for instance if they participate in the negotiation of Iran-related transactions via a conference or during a trip to the United States. OFAC has adopted a general licence, known as General License H, describing the extent to which US citizens can be involved in Iran-related activities for non-US persons, in particular in assisting in developing compliance policies and procedures, but this licence is very limited.³⁸

³⁶ A collection of documents published by the State Department and another published by the Treasury Department is available at www.state.gov/p/nea/rt/jcpoa/index.htm and www.treasury.gov/resource-center/sanctions/Programs/pages/iran.aspx.

³⁷ For a detailed summary of the status of US sanctions as from Implementation Day, see the “Guidance Relating to the Lifting of Certain US Sanctions Pursuant to the Joint Comprehensive Plan of Action on Implementation Day”, published by the US Department of the Treasury and the US Department of State on 16 January 2016, in annex to this report.

³⁸ See “General License H Authorizing Certain Transactions Relating to Foreign Entities Owned or Controlled by a United States Person”, published by the Office of Foreign Assets Control of the Department of the Treasury on 16 January 2016, in annex to this report.

EU sanctions

The EU never imposed secondary sanctions comparable to those of the US, so the situation in the EU is somewhat simpler, but EU sanctions must also be considered. As of Implementation Day, EU amendments to Council Decision 2010/413/CFSP and Regulation (EU) No 267/2012 (Regulation)) discontinued asset freezes on certain individuals and entities and permitted a wide range of trade and associated services in respect of Iran and Iranians, including:

- oil, gas and petrochemicals: import and other transactions in relation to crude oil, petroleum products, petrochemical products and natural gas from Iran; supplies of previously restricted equipment and technology relating to the oil, gas and oil, gas and petrochemical sectors; investment in Iranian sectors of oil, gas, and petrochemicals;
- shipping and shipbuilding: supplies of previously restricted naval equipment and technology; design, construction and repair of cargo vessels and oil tankers; the inspection, testing and certification of marine equipment; conduct of surveys, audits and visits and issuance of certificates and documents of compliance; provision of vessels for transport or storage of oil and petrochemical products; provision of flagging and classification services;
- precious metals and currency: transactions relating to gold, other precious metals and diamonds; supplies of newly printed or unissued Iranian-denominated banknotes and minted coinage;
- financial transfers and banking activities: financial transfers to and from non-listed Iranian entities; the establishment of relationships with Iranian banks and branches, offices or subsidiaries in Iran; the opening of branches, subsidiaries or representative offices of non-listed Iranian banks in EU member states;
- financial services: the provision of insurance and reinsurance to non-listed Iranian entities; the supply of specialised financial messaging services for non-listed Iranian financial institutions; transactions in public or public-guaranteed bonds with Iranian non-listed entities; and
- cargo flights operated by Iranian carriers or originating from Iran have access to EU member states' airports.

As in the US, however, sanctions outside the scope of the JCPOA remain in place, and transactions involving Iranian citizens not removed from the asset freeze lists continue to be prohibited.³⁹

³⁹ See the “Information Note on EU sanctions to be lifted under the Joint Comprehensive Plan of Action (JCPOA)”, published by the EEAS on 23 January 2016, in annex to this report.

Snapback for violations

Parties entering into agreements involving Iran will also need to give careful consideration to the risk of sanctions ‘snapping back’. Under the JCPOA, sanctions can be reinstated automatically, or snap back in the event of a breach by Iran. Both the US and the EU have said that in the event of a snapback they will not retroactively sanction conduct engaged in between Implementation Day and the date on which the snapback takes effect. However, that does not mean that continued performance of a contract entered into during that period will be permitted.

The risk of a snapback may not be too significant in the case of one-off transactions such as a purchase or sale of goods. In the case of open-ended relationships like joint ventures, however, negotiating termination provisions that protect Western companies in the event that sanctions are re-imposed will likely be complex.

Conclusion

Implementation Day represented a major turning point in relations between Iran and the rest of the world. Broadly speaking, the lifting of certain EU sanctions and US secondary sanctions opens the door for European and other non-US companies and individuals to explore business opportunities that were previously foreclosed.

However, non-US companies proposing to do business in Iran must be very careful to put in place appropriate policies and procedures to avoid inadvertent sanctions violations.

In particular, before considering any potential transaction involving Iran, European companies will need to put in place procedures to ensure that US primary sanctions are not violated, for instance if US nationals are involved or European nationals are involved while travelling in the United States. They will also need to ensure that performance of any Iran-related contracts will not entail prohibited exports or re-exports of US goods or services.

For US-based corporate groups, the possibilities are even more restricted. As noted, since the JCPOA did not lift any primary sanctions, US companies continue to be prohibited from doing business in or with Iran or Iranian nationals. In principle, non-US subsidiaries of US corporate groups can engage in business in or with Iran to the same extent as other non-US companies. In US-based corporate groups, however, designing policies and procedures to ensure that the transaction does not involve US persons, commodities, technology, services, or the US financial system (except as permitted by General License H) will likely be even more challenging.

From the Iranian perspective, the main purpose of the JCPOA was no doubt to reintegrate Iran into the global economy. From the European and (especially) US perspectives, however, the JCPOA was and remains a targeted and conditional agreement designed to curtail Iran’s nuclear ambitions more effectively than sanctions had done so far. Any increase in trade was incidental. Indeed, the JCPOA provides no increased flexibility for US individuals or companies (as distinct from their non-US subsidiaries), except to assist in sanctions-compliance policies and procedures. The continuing application of EU and US sanctions

regimes may delay the growth of Iranian-EU trade and disappoint European business people, as well as Iranians. Given that the EU and (especially) the US government are more interested in reining in Iranian nuclear ambitions than in promoting trade, however, it should come as no surprise that Implementation Day under the JCPOA has created a complex legal and business landscape.

Renewed EU-Iranian Economic Relations: Opportunities and Pitfalls

Arnaldo Abruzzini

Regaining lost ground

Under the JCPOA agreed by the E3+3, along with the High Representative of the EU and the Islamic Republic of Iran in June 2015, five milestones were laid out to guide the suspension and termination of international sanction measures towards the Islamic Republic of Iran.

One important milestone was reached earlier than expected, in January of this year: Implementation Day. Upon certification by the International Atomic Energy Agency (IAEA) that Iran had complied with its nuclear related commitments under the JCPOA, the lifting of a substantive amount of sanctions by the US and the EU was made possible.⁴⁰

This gave the green light that many European businesses had been hoping for, either to expand and seek new business opportunities in a thriving Iranian market, or to renew old business partnerships that had been interrupted by the sanctions regime.

Enthusiasm on the part of European businesses is understandable because after years of isolation Iran's vast market will re-join the global economy; a country of 80 million people with an economy in dire need of revival and the new cutting edge technologies that Europe can provide.

Chambers of Commerce and Industry have seized upon the new opportunities by building bridges with the Iranian business community, be they through the bilateral Chambers of Commerce or the newly founded EU-Iranian Business Alliance. Chambers across the EU have also embarked on a series of large-scale national and regional business missions to Iran, accompanied by entrepreneurs from different sectors. As such, Chambers are prime movers within the EU business community in facilitating new opportunities in Iran, also for highly competitive small and medium sized enterprises (SMEs).

European business dealings with Iran have changed greatly since the sanctions regime kicked in. Europe's former position as Iran's number-one trading partner has been challenged by its competitors. As a consequence of the sanctions, EU exports to Iran fell by 51% between 2006 and 2013, from €11.3 billion to €5.4 billion. During the same period, US exports increased from US\$ 85.9 million to US\$ 312.8 million, and other mainly Asian countries have significantly increased their share of Iran's imports during this period. China, too, has become a key trading partner with Iran and is now a strong competitor for EU companies on the Iranian market.

⁴⁰ For the EU, see Council Decision (CFSP) 2016/37 of 16 January 2016 concerning the date of application of Decision (CFSP) 2015/1863 amending Decision 2010/413/CFSP concerning restrictive measures against Iran, Official Journal L 11I, 16.1.2016, p. 1.

Yet, EU and European companies have an excellent reputation in Iran and have the capacity to respond to the task of regaining market shares.

The opportunities

The potential of Iran's economy is significant. It is the biggest market in the Middle East, and has a vast amount of natural resources, comparable to those of Russia.⁴¹ Its population is highly educated, with tech-savvy consumers and 92% of its adult population having bank accounts. Consumer expenditure is expected to reach over \$170 billion this year, with predictions of 6% for Iran's GDP growth for this Iranian calendar year, which starts in March.⁴²

Given that the political situation in Iran is evolving favourably, the timing is right for EU business to make a move. After elections to the Iranian Parliament and the Assembly of Experts this February, President Rouhani and fellow reformists gained ground on the conservatives and hardliners, thus reinforcing their scope to liberalise the Iranian economy, increase privatisation and create attractive opportunities for foreign investment across different sectors.

Of these sectors some merit highlighting, given the opportunities they present for EU business. One of those is – unsurprisingly – the oil and gas sector. Iran is home to the fourth-largest proven crude oil reserves and second-largest natural gas reserves. According to experts, the oil sector alone needs up to \$200bn to make up for a decade of under-investment and companies such as ENI or TOTAL have already seized on some of those opportunities in deals signed during a recent visit by President Rouhani to Italy and France. Yet many more opportunities remain, also for SMEs to function as intermediary suppliers to big energy corporations when supplying the Iranian market.

EU manufacturing companies, especially those in the automotive, aerospace, technology and industrial sectors are also expected to gain. The automotive sector, the biggest in the Middle East and Iran's biggest non-oil employer, had been particularly affected by the sanctions, making the sector likely to be a substantial *profiteur* from the lifting of sanctions, as more foreign investment pours in, combined with increased possibilities for companies to import parts and machinery. Among those companies is Peugeot Citroen, which signed a deal worth over \$430 million for a joint venture with Iranian carmaker Khodro to manufacture cars in Iran when President Rouhani visited France in January. The deal will see the production of 200,000 cars annually, which is expected to start in late 2017. The preliminary agreement to produce and sell trucks in Iran by the large German manufacturer Daimler is another case in point.

The transportation sector is the other major industry that will benefit from the lifting of sanctions. The aircraft industry, for instance, can expect a big boost, as it is estimated that Iran needs \$7.5bn to renew its aviation fleet. In this regard, Iran already agreed to buy 118 Airbus aircraft, worth approximately \$25 billion.

⁴¹ See the contribution by Anoushiravan Ehteshami to this report.

⁴² For more details, see the contribution by Enrico Ponzzone to this report.

As for the long-term prospects for bilateral economic relations, and if the situation in Iran continues to evolve favourably, both parties should envisage a revival of negotiations for a Trade and Cooperation Agreement (TCA) so as to put bilateral economic relations on a solid footing and explore further openings for businesses on both sides.

The pitfalls

While the opportunities in Iran are undoubtedly numerous, business ventures in the Iranian market are not risk-free, as certain challenges and obstacles remain, for which businesses and policy-makers need to find common solutions.

Iran still ranks 119th out of 189 countries in the World Bank's 'ease of doing business' index, and 136th out of 175 countries in Transparency International's Corruption Perceptions Index.

Most of the economic sectors are controlled and owned by the Iranian state, so doing business can be challenging. Structural problems, including high levels of bureaucracy, have also impacted the economy unfavourably and been exacerbated by corruption and the continued involvement of the Revolutionary Guards in economic activities, adding to the potential obstacles foreign investors and domestic private sector companies must seek to overcome when doing business with Iran.

One of Iran's major economic priorities in the short to medium term will be to tackle youth employment in the country. This is an all too familiar problem – also in the EU – and European Chambers have extensive experience to offer in terms of training, developing and deploying the skills of young people seeking to join the workforce. A bilateral dialogue track devoted to this issue between the EU and Iran would already be a welcome first step in this direction.

The continuing fear over sanctions

When deciding whether to invest in Iran, companies will need to take into account that sanctions could 'snap back' at any point, should Iran violate its nuclear commitments. It is therefore crucial for authorities to make it very clear to businesses which investments would be targeted, what guarantees apply and how companies can prepare for such an eventuality before they decide to invest. In this regard, the comprehensive set of guidelines prepared by the EEAS for businesses is a very good first step forward.⁴³ However, they will need to be accompanied by further communication campaigns, especially targeting SMEs, which might not have the same know-how as big corporations.

An additional element of risk is the uncertainty about the United States' future Iran policy and the potential for US unilateral actions to undermine increased EU investments in Iran.⁴⁴ While guarantees have been given by the current US administration that it will refrain from policies that might adversely affect economic relations with Iran, it is unclear how future US

⁴³ See the "Information Note on EU sanctions to be lifted under the Joint Comprehensive Plan of Action (JCPOA)", published by the EEAS on 23 January 2016, in annex to this report.

⁴⁴ See the contribution by Jay Modrall to this report.

legislation, particularly under a new President, might impact EU business. It would become particularly problematic if any future US measures would have an extra-territorial effect, such as the counterterrorism laws that were enacted by Congress last December that excluded Europeans who travel to Iran from the US visa waiver programme.

To minimise risks for EU business, it remains imperative for the EU and US authorities to coordinate their respective policies on Iran to the greatest extent possible and, where measures diverge, Europe must stand united to prevent US unilateral measures from undercutting EU benefits. Where needed, the Europeans should also make use of the majority in the Joint Commission set up under the JCPOA to mediate disagreements by both sides before they can pose significant threats to the agreement and consequently to any EU investment made in Iran as a consequence of the lifting of sanctions.

Energy Cooperation between the EU and Iran

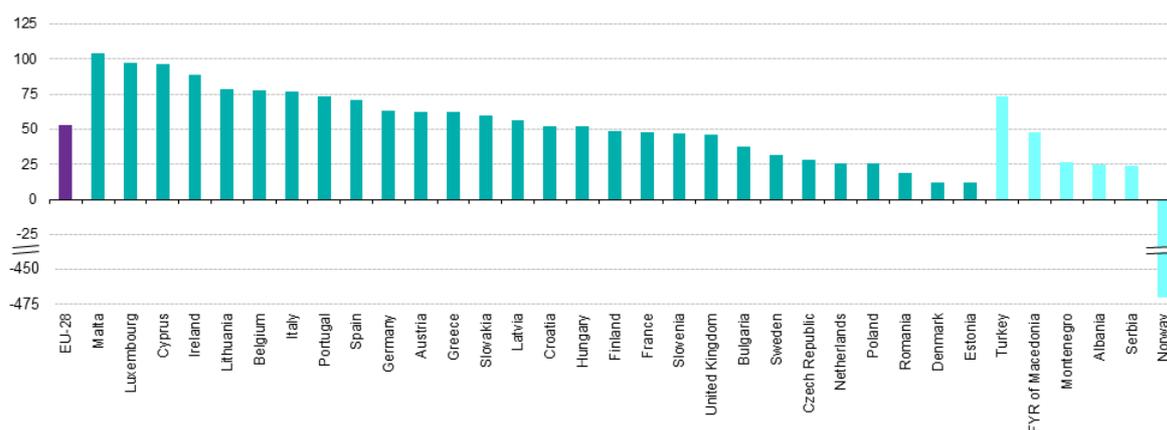
Anoushiravan Ehteshami

The EU's energy concerns

The EU is, rightly, concerned about energy, particularly its member states' long-term access to an affordable supply of hydrocarbons. Energy security has thus been on the EU's political agenda since at least 2005 with the adoption of the March 2006 Green Paper proposing an energy security strategy. Following this, the Lisbon Treaty went on to provide a legal basis for EU energy policy, which eventually led to the adoption in 2010 of the EU Energy Strategy for 2020.⁴⁵

Energy security for a vibrant market of 28 countries and a population of 509 million is critical. Since the EU holds less than 1.3% of proven global gas reserves and a negligible quantity of global oil reserves, it is dependent on external sources of hydrocarbons for 56% of its energy mix. The EU's natural gas consumption is around 15.5% of world demand and this is the energy source earmarked for growth, alongside renewables. To put natural gas in context, its share in Europe's total primary energy demand grew from 18% in 1990 to 24% in 2009 and could rise to 30% by 2030. What is more, the EU will be a proverbial 'Gulliver in chains' on the basis of it being the world's largest gas importer by 2030. Indeed, the Union's gas import dependency is expected to rise from 64% in 2009 to over 80% by 2030.

Figure 7. European energy dependency



Source: Eurostat (online data code: tsdcc310)

Supply routes complicate matters further, with the EU importing as much as 85% of its gas through pipelines and LNG, mainly from Russia, Norway and Algeria, and receiving smaller

⁴⁵ See (<https://ec.europa.eu/energy/en/topics/energy-strategy/2020-energy-strategy>).

LNG volumes from Qatar, Oman, Libya and even as far afield as Trinidad and Tobago. A number of well-recognised challenges face gas imports via pipeline, however, such as transit risks, Russia's domination of the regional gas market, delays in the construction of new gas pipelines and, last but not least, the absence of a fully coherent European energy foreign policy.

Nevertheless, interest in LNG has been growing steadily and in this regard a former European Commissioner for Energy in the European Commission has envisaged that the volume of imported LNG will grow by up to 24% in less than five years from now – marking a 60% increase compared to 2010. Consequently, a high number of new LNG import terminals have been proposed for the EU (which currently has 31 LNG terminals in existence, under construction or under consideration). Some 24 of these facilities are situated in Spain, the UK, France and Italy, ranking fourth, seventh, eighth and tenth respectively in the league of global importers. In addition, LNG ports offer greater resilience than pipelines as they can receive from different suppliers. Since the 2000 Green Paper “Towards a European strategy for the security of energy supply”,⁴⁶ the diversification of LNG suppliers has been seen as essential to improving the Union's security of gas supply and easing the supply risks mentioned above. It is also notable that in an unpublished study in preparation for the Green Paper the European Commission made the point that “competition with Japan, China, India, etc. over oil and gas from the Persian Gulf and Russia will become tougher in future”. This is where Iran comes in: as a supplier and also as one tempted by the open and opening markets of Asia.

Iran as energy supplier⁴⁷

Iran is a strategic hydrocarbons state that straddles Western and Central Asia's hydrocarbons reserves but is itself a major player, with 17.7% of the known global reserves and the world's second biggest natural gas reserves, along with nearly 10% of the world's oil reserves. British Petroleum (BP), moreover, has placed Iran's natural gas reserves at the top of world rankings with an estimated 17.9% of the global deposits.⁴⁸ Major natural gas fields include South Pars (which accounts for about 35% of Iran's total gas production), North Pars (adjacent to South Pars), Kish, Forouz, Lavan, Golshan, Ferdowsi, and with sizeable generation coming from Kangan and Tabnak. According to BP's data, 61% of the Middle East's gas deposits are situated in the South Pars field, this being a single off-shore giant field shared between Qatar and Iran. Crucially, this is in fact the world's largest non-associated natural gas field (non-associated fields are developed with the primary objective of producing natural gas; associated fields produce gas as a by-product of crude oil production). But according to energy sources, 62% of these deposits remain unexploited or underdeveloped; what is accessed is mostly for domestic use. It is noteworthy that Iran's gas reserves are predominantly located offshore (almost 61%)

⁴⁶ COM(2000) 769 final.

⁴⁷ For data and links, see M. Houshisadat, “The Role of Iran's Future Liquid Natural Gas Supply in the EU's Energy Security”, *Asian Affairs*, Vol. XLVI, No. III, 2015, pp. 458-475.

⁴⁸ See BP's graph on ‘Hydrocarbon reserves’ reproduced in Enrico Ponzzone's contribution to this report.

and are non-associated, followed by onshore associated and onshore non-associated, each with 19%. Be that as it may, the potential for gas production in Iran is huge.

Iran's gas production has increased by over 550% since 1990, according to the country's Energy Information Administration, which places Iran as the fourth global producer and as the Middle East's largest gas producer today. This dramatic increase is due to the enlarged production from the sixth, seventh and eighth and also inauguration of the ninth and tenth phases of the above-mentioned South Pars field. Gas output has further been prioritised as part of the 'Iran's 20-Year Outlook Document' issued in 2003, and augmented by 'Iran's Energy Outlook on the Horizon of 2025' and 'Iran's 20-year Energy Grand Strategy Document'. Together these policy and strategy documents chart the country's energy roadmap to make Iran the third largest gas supplier in the world, raising its current 1% share to 8-19% of the global market by 2025. Iran's 'Fifth Five-Year Development Plan (2010-2015)' further reinforced the '20-Year Outlook Plan (2005-2025)', as the country's blueprint for long-term sustainable growth.

On the basis of these plans, Iran's current and expected growth in gas pipeline networks and LNG projects assumes that the Europe Union will be a major destination for Tehran's LNG and the Rouhani administration has been reminding European leaders that the EU is regarded as a strategic partner for Iran and could become again Tehran's largest trading partner (which it was prior to the sanctions imposed in 2012). Then, the EU accounted for a third of all Iranian exports, 90% of which were energy related. Iran stood as the EU's sixth largest energy supplier.

Looking forward, Iran has already announced its various oil and gas industry projects worth \$185 billion and has welcomed foreign (European) investment in many of them. French and Italian energy companies are already leading the European march and more opportunities will present themselves as Iran embarks on its transformation from an emerging market into an emerging economy with a major industrial base, quality manufactured exports and a sophisticated workforce.⁴⁹ To realise its ambitions the country has to rely on hydrocarbons as the spark for this economic revolution, which expects to absorb over \$50 billion in direct foreign investment. It is not surprising then that Iran has announced its plan to increase its oil output, despite soft oil prices. Indeed, Barclays has said that it expects Iran to produce almost 700,000 barrels per day (bpd) more oil in the fourth quarter of 2016 than over the same period in 2015. Tehran also aims to raise crude exports by 1 million bpd within six months of the sanctions being lifted, according to the government. To meet these targets, and more, Tehran looked closely at the old 'buyback system', which would not allow international firms to 'book' reserves or take any stake in Iranian firms and has replaced it with the much more attractive Iran Petroleum Contract (IPC). The IPC allows for (limited) 'booking' of reserves and also reduces the risk of investment by increasing the length of agreements to (a maximum of) 25 years, potentially raising the margins on investments quite substantially. Nevertheless, there is still little transparency

⁴⁹ See the contribution by Arnaldo Abruzzini to this report.

regarding contracts; it is unclear how contracts will be awarded and implemented and how the element of risk will be calculated.⁵⁰

Geopolitics

Iran's return to the energy market has also been greeted with enthusiasm in Asia, particularly by China, which has introduced a grand 'silk road' vision that aims to unite Asia around Beijing's economic agenda. The key link to West Asia is, of course, hydrocarbons, as Michael Singh notes:

"China's commercial ambitions in the Middle East are expanding. As the United States becomes increasingly energy self-sufficient, China has moved in the opposite direction. It is projected to overtake the United States as the world's largest energy consumer by 2030, as its demand for imported oil grows from six million barrels per day to 13 million by 2035. The bulk of its new supply is likely to come from the Middle East, which China also needs for tapping new markets to produce its goods, invest its capital, and secure new labor. It is in this context that China has articulated its Middle East strategy, focusing on areas like energy cooperation and infrastructure investment. It has sought to integrate the region into its One Belt, One Road initiative, which Xi announced in 2013 and which would connect China with Eurasia".⁵¹

China, in this geopolitical context, is Europe's direct competitor. But Japan is increasing its interest in Iranian energy and will be keen not to fall too far behind China, which continued to cultivate links with Tehran throughout the sanctions period. In 2010 Japan cooperated with Iran on several major projects, and at its height annual trade between the two states exceeded \$11 billion. The volume of Iran-Japan trade stood at about \$2.5 billion before the imposition of sanctions against Tehran, but fell to \$240 million in later years. Japan therefore feels that it has a lot of catching up to do.

Then there is Iran's own interest in deepening its hydrocarbons presence in South Asia and India's vast market. But Iran will have to compete with Saudi Arabia, among others, in these markets.

On the other side of the geopolitical equation is the US, which is likely to be excluded from the changes in Iran's energy landscape. Richard Mallinson makes the point here:

"the reality is that for U.S. oil and gas firms, even after the JCPOA is implemented, it will be almost impossible to do any business in Iran. And this is the case for most U.S. firms. The reason is that the JCPOA will not lift sanctions or restrictions on U.S. banks from allowing dollar-based transactions with Iranian businesses and that creates significant limitations and problems that particularly apply to U.S. businesses but could also affect other Western firms considering a return to Iran. So, the JCPOA lifts a significant number of sanctions that are directly linked to Iran's nuclear program but

⁵⁰ See Economist Intelligence Unit (2016), "All that Glitters: Assessing Opportunities and Risks in Post-sanctions Iran".

⁵¹ See M. Singh, "China's Middle East Tour", *Foreign Affairs*, 24 January 2016.

what it leaves in place is a whole infrastructure of U.S. and UN sanctions that relate to other issues and other disputes between Iran and the international community. And that means that companies will still have to navigate a complex landscape in terms of compliance, in terms of legal restrictions and that landscape is much less appealing for U.S. businesses".⁵²

But Washington is likely to remain keenly interested in the direction of travel of Iranian oil and gas and the EU's ability to mitigate the continuing risk of exposure to Russian supplies.

In conclusion

Iran is poised to return as a major player in the Asian and European energy markets, and will exploit its comparative hydrocarbons advantage (particularly in terms of natural gas), despite soft prices. While this strategy will raise tensions with other producers in OPEC and also with its key security partner, Russia, Iran's return to the energy markets has nonetheless been warmly received by the EU and the main East Asian consumers (China, Japan, South Korea) and India. If the Rouhani administration can continue to remove or neutralise the barriers to Iran's reintegration in the global system of investment, production and exchange, then energy will provide the underpinning of close economic relations between the Islamic Republic and the European Union. Both sides have much to play for in the permissive post-JCPOA environment, but only as long as the EU is able to put politics after economics when it comes to its dealings with Iran. And in this, as in all their dealings with Iran, EU countries will have to balance their economic relations with Iran against relations with Iran's Arab neighbours and their politico-security ties with the United States. Where there is opportunity, there is also a degree of risk.

⁵² See R. Mallinson, "The IPC Terms Demonstrate a Big Improvement on Old Oil Contract Model", *Iran Review*, 16 January 2016.

Building a Long-Term EU-Iran Strategic Relationship... and Putting Fundamental Human Rights back on the Agenda

Majid Golpour

Ushering Iran's reappearance onto the world stage

The Joint Comprehensive Plan of Action (JCPOA) permits a strictly civilian nuclear energy programme for the Islamic Republic of Iran (IRI). But the treaty is not intended to rubberstamp Iran with legitimacy in other domains. In fact, the sanctions relating to terrorism, corruption and human rights are still in place.⁵³

During the negotiations leading up to the JCPOA, it was understood that human rights would not be on the table as a bargaining chip. Predictably, the fact that Iran was negotiating with the world made no dent whatsoever in its disastrous human rights record. Sadly, 2015 was a bumper year for executions, among many other abuses across all demographics of Iranian society. As the world now jostles to do business with Iran, enabled by the progressive lifting of economic sanctions, the question remains: how will human rights be worked into these new relationships over the coming 15 years of the JCPOA implementation?

Business delegations from EU member states are jetting in and out of Tehran, but since the treaty was signed there has been little sign of a common EU framework or roadmap for the normalisation of diplomatic and business relations with Iran, or interaction within the region, or indication of how the EU will actively support civil society within these processes. The implementation of the JCPOA presents an opportunity for the EU to demonstrate leadership and guide Iran to improve its business and governance processes, regional relationships and the fundamental human rights of its people – while affording both parties win-win business partnerships.

But does Iran want these advances? If not, how then will relations with the democratised world progress? The IRI is faced with an important decision: whether to continue with an aggressive, hegemonic policy, or move towards a policy of détente.

For its part, Europe cannot expect to conduct business successfully with Iran without regional support or major changes in procedure and process within the country. In the coming months, the various protagonists of the JCPOA will need to merge their strategic policies into solid operational frameworks – including human rights, which should be negotiated to find common positions based on shared values, and agreed through purely legal (non-theological) interpretation. To this end, however, a correct reading of Iran's domestic political set-up is essential.

⁵³ See the contribution by Jay Modrall to this report.

Understanding Iran's inner workings

For 37 years, based on the ideological capital of Khomeinism, Iran's revolutionary rent-takers have monopolised power, propagating a messianic vision in defiance of the modern world. This has resulted in an Islamic Republic with four heads operating according to a polycephalous logic, with democracy in the pure sense of the word playing a minor role, under the absolute authority of the Supreme Leader:

- 1) **The central head:** the Supreme Leader, the IRI's key power which includes numerous foundations and conglomerations⁵⁴, the ministries of national security, justice and the Guardian Council of the Constitution.
- 2) **The expatriate head:** the Islamic Revolutionary Guard Corps (IRGC) in charge of the defence of the Islamic revolution and international expansion, especially in the Middle East and North Africa (MENA) through the Quds special forces. Controls/owns most publicly traded companies (transport, energy, and telecommunications, banking...). An investment portfolio estimated at 22% of the Tehran Stock Exchange's value, which partly funds the expatriate activities.
- 3) **The head of enforcement:** the Basiji or 'people's militia' - a flexible and engaged force of 20 million people who lead normal lives until they are mobilised to suppress public meetings, expression and police the population. They also rely on an established power base within the clergy, operating across 72, 000 mosques and 10,500 shrines.
- 4) **The decorative head:** the President and parliament, which are partially elected institutions.

Looking at this opaque political system it becomes clear that the EU will need to establish strategic deals, not just with one faction - that of President Rouhani - but with the power factions above and around him, i.e. the actors representing the unelected 'institutions' which constitute the more hostile and rigid core of the political system.

Arguably, the European Union is also a complex polity; one which enjoys less visibility in Iran's 'decision-making' centres than Russia, China, and the US. To close this gap and to safeguard its own interests, the EU should not only envisage opening a diplomatic delegation in Tehran. It should also work towards the appointment of an independent, legally competent body with a 'Head' of JCPOA implementation, to support European businesses on the status and workings of the sanctions mechanisms and the related penalties (which are tied to financial governance and human rights criteria), and to analyse the legal obstacles to business operations, and draft the necessary policy to deal with them.

For the EU to succeed in building secure and lasting multilateral relationships and counterbalance factional rhetoric, strategies must be targeted to the realities of Iran's inner

⁵⁴ The property of the firm 'Setad Emam' alone is valued at circa \$100bn (see www.reuters.com/article/us-iran-nuclear-setad-insight-idUSKCN0RF0E920151021).

workings and regional position – influencing at all levels, while visibly supporting progress and benefit for Iranian civil society.

Deciphering Iran's current political climate

Since 2009, power has been monopolised at the regime's summit by the groups and stakeholders of the inner ideological circle. The Guardian Council of the Constitution, which is the regulatory authority of 'democracy' in Iran, is composed of 12 people who decide the validity or not of all electoral candidates and laws. Six members of this council are elected directly by the Supreme Leader and six are appointed by the Minister of Justice, himself appointed by the Supreme Leader.

It is no coincidence that political parties have not thrived, despite the so-called 'reformist' gains over the last two decades. Neither the most recent legislative elections of February 2016 nor the second round of elections to the Islamic Assembly in May gave the necessary majority to the President, but allowed a timid return of the reformists and independents.

The underlying issue of legitimacy has lingered on from the 2009 elections, as fundamentalist, conservative and moderate or reformist factions continued their battle for power. This bartering and positioning will continue at least until the presidential election of 2017. The regime is more than ever embedded in internal crisis, which reduces any real capacity to develop medium and long-term strategy.

Add to this the uncertainties about the succession for the Supreme Leader and the Rouhani government's desperate need for international finance to pull the country out of recession, pay its debts and fund renewal of its dilapidated infrastructure, strangled by corruption.

To offset this triple crisis of legitimacy, economy and governance, the Rouhani government's priority will be to get out of recession, reduce mass unemployment, and end the corruption and economic domination of the Revolutionary Guards over a heavily indebted country eager to see its frozen capital returned. The Supreme Leader's priorities, on the other hand, will be to refocus all factions of the moderate conservative wing to strengthen the legitimacy for the appointment of the future guide. He must anticipate any changes in the domestic and regional environments and commit all the resources of his immense financial and ideological empire into the hands of the future guide.

At present, the institutions are repositioning themselves to refocus the conservatives at the expense of the ultra-conservative wing of the regime. If enough undesirable elements are successfully side-lined, thus shifting the balance of power, the thorny question for the reformists will be what economic and structural reforms they propose and how they can be actually kick-started within the coming months. This is where the EU can and should step in.

A unique window of opportunity for EU leadership

EU leadership on the Iranian question remains disjointed, hesitant and cautious. Member states prefer to quietly arrange bilateral business deals instead of actively promoting good governance and human rights. Yet, depending on the faction whose president is elected in the

2017 Iranian election, and on the outcome of the US presidential election, an about-face could occur both internally and in the geopolitical situation. The US, which effectively oversees the international sanctions regime against Iran, has made it clear that the JCPOA could be cancelled and all sanctions reinstated if Iran does not respect its engagements. What if the next US president takes a harder line than Mr. Obama, or if Iranian hardliners get a candidate into the 2017 president's seat?

These months in the run-up to the 2017 presidential elections present a unique and limited window of opportunity for the EU to leverage the differing interests, particularly those of the Rouhani government, to gain some ground in governance and human rights.

Knowing that most of the power is in the hands of unelected institutions, with more than 60% of publicly traded Iranian companies controlled or owned by the Revolutionary Guardians and thus remaining under US sanction restrictions for any foreign transactions, EU companies need to be much more informed than is currently the case.⁵⁵ They need to be able to correctly identify the main actors, sources and funding behind Iran's key companies and transactions, and firmly secure their interests. The EEAS' 'Information Note' is a first step in this direction.⁵⁶ But more is needed.

The EU's responsibility to encourage human rights in Iran

National and European NGOs regularly report on the dire human rights situation and have condemned Iran for executing minors. However, explanations for the underlying causes or the structural obstacles are not provided – nor are strategic solutions proposed.

At this unique juncture in time, it is human rights that must be put back onto the agenda and it is for the EU to develop and propose reasonable and targeted human rights initiatives. There may not come another time in the near future when Iran is this receptive to the rest of the world.

The EU must therefore take this opportunity to assert its attachment to universal human rights values. Human rights are not a political discourse, but fundamental issues that span all political parties, cultures and nations. The nuclear agreement, with its complex system of sanctions, can facilitate a strategic dialogue with the one faction of the regime that is working more in the national interest and for a successful JCPOA implementation.

Many of Iran's human rights abuse mechanisms are neither written into the constitution nor the law, but are upheld by illegal mass repression by the Basiji militia and other pressure groups that do not answer to the national judiciary. These issues could be investigated by the dedicated JCPOA implementation team's legal experts (including at least one expert in Iranian human rights), in order to help launch targeted human rights initiatives. They would analyse and report on human rights in Iran, and propose policy and practical initiatives to be

⁵⁵ See the contribution by Arnaldo Abruzzini to this report.

⁵⁶ See the annex to this report.

negotiated with Iran during the JCPOA implementation, while helping to deconstruct the rhetoric and unfounded arguments of fundamentalists.

The insights and initiatives of this group of experts could be coordinated with the EU's Special Representative for Human Rights Stavros Lambridinis, the European Commission's Special Envoy for the promotion of freedom of religion or belief outside the EU Jan Figel, and Ahmed Shaheed, the UN Special Rapporteur on the situation of human rights in the Islamic Republic of Iran.

The EU, above and beyond its member states, can and should speak confidently on 'national and mutual interests,' the fundamental rights of all humans, particularly for women and children, and freedom for all organisations and foundations of social legitimacy. Similarly, the EU could legitimately apply pressure regarding the house arrest, without charge, of bona fide opposition leaders since 2009, such as Mr. Karabhi and Mr. Moussavi, or negotiate the release of imprisoned human rights lawyers such as Mr. Soltani and Ms. Soutedeh.

Take the example of Switzerland, which agreed a 'road map' for further talks on the ratification of a trade accord with Iran. Both parties announced that "it had been agreed to launch a dialogue on human rights as part of planned political consultations." This demonstrates how President Rouhani and Minister Zarif can act as conduits of reasoned foreign pressure back into the Iranian security services and judiciary - opening doors that have been closed for decades.

The coming year brings historic opportunities for Europe to take positive leadership with Iran, and help bring economic and humanitarian well-being to Iranians. This is a chance the EU cannot afford to miss.

Towards an EU Strategy for Iran

*Nima Rashedan*⁵⁷

A critical examination of public statements by EU officials, and indeed a reading of the preceding contributions to this report, is testament to the lack of strategic imperative in EU-Iran negotiations during the post-JCPOA period. Furthermore, they do not reveal any coordinated effort in the European Union's relations with Iran, or a planned approach that would synchronise and subordinate member state-level policies. This lack of a pan-European strategy, in spite of the coordinating instruments at the EU's headquarters,⁵⁸ should be analysed in conjunction with the idea of establishing a transatlantic committee, comprising EU and US officials, to focus on the role of the Islamic Revolutionary Guards Corps (IRGC) and combat corruption, money laundering and the sponsorship of terrorism.

The abuse of European public diplomacy for Iranian consumption

The Islamic Republic of Iran maintains full control over television and radio stations in the country and print media is subjected to heavy censorship. Any critical debate among Iranian intellectuals or the wider public on issues such as the IRGC's involvement in Syria and Yemen is successfully muzzled by the state. Therefore, despite a significant growth of internet users and the penetration of British and American-based satellite channels, it is very difficult to come across independent debates by Iranians who feel safe and assured of the necessary levels of freedom of speech to provide useful commentary in those dialogues.⁵⁹

Iran's military apparatus, in particular, is based on a purely ideological and solid command structure that was established over time by the Supreme Leader and developed into interdependent and parallel configurations within different Iranian military organisations. Taking into consideration the nature, modus operandi, hardware and historical record of the IRGC and its activities, this organisation is unlikely to act constructively on regional stability. These facts should not be denied or politicised, for risk of sudden, uncertain and counter-productive outcomes on both sides.

When comparing Europe's benevolent perception of its changing relationship with Iran with the one between the EU and Russia, which was characterised during the 2000s by partnership and cooperation but changed abruptly with the annexation of Crimea by Russia, there are

⁵⁷ The author wishes to thank John Duhig at the European Foundation for Democracy for his suggestions on an earlier version of this contribution.

⁵⁸ See S. Blockmans and S. Russack, "The Commissioners' Group on External Action - Key political facilitator", [CEPS Special Report No. 125](#), 17 December 2015.

⁵⁹ See the contribution by Senén Florensa to this report.

signals that, once again, illusions entertained by European policy-makers are clouding their judgement about measurable realities and outcomes.⁶⁰

Statements emanating from the EU (issued either by the High Representative, the EEAS or (Members of) the European Parliament)⁶¹ about regional security cooperation with Iran are a case in point. It is unclear whether security professionals were consulted prior to issuing these statements and, if so, how their evaluation of the state of the Iranian military has been considered. But when tracking reports in Farsi about statements by EU officials and Members of the European Parliament, a pattern emerges of European statements being systematically used by the Iranian state as propaganda to portray a marked shift in the EU's strategy towards Iran. As such, the impression has been created that the EU has broken with traditional allies and Sunni states in the region, in favour of an IRGC, pro-Shia presence in Syria and Iraq. Examples of the EU's alleged shift in strategy include an increase in statements that are critical of Turkey and Saudi Arabia, in particular by MEPs, against a backdrop of conspicuous silence about systemic human rights abuses in Iran, accompanied by decisions such as delisting Quds Force Commander Qasim Suleimani. All these actions are being presented by IRGC media outlets as the EU siding with the victorious Shia party in a full-scale Shia-Sunni conflict – effectively a triumph for the hardliners and a strategic victory for the IRGC's firm resistance against the West.

European public diplomacy should be able to resist or counter such propaganda. But when various European diplomats use widely diverging terms to describe the state and consequences of the large influx of Syrian refugees, who themselves regard al-Assad, Iran's IRGC and Hezbollah as responsible for ongoing atrocities and potential war crimes against the Syrian population, it is unlikely to convince observers that the EU has any coordinated strategy for de-escalation in the Middle East at all. Unfortunately, this view is held by the Sunni majority of European Muslims and will most certainly shape a strong anti-Iran Sunni alliance throughout Europe. This trend is likely to intensify if Iran continues to act on behalf of radical Shia forces outside of its national borders.

The EU has fundamental geopolitical interests in relation to more than 200 million Sunnis, nationals of countries in the southern European neighbourhood stretching from Morocco to Turkey, in addition to the Sunnis living in EU enlargement countries in the Western Balkans.

It is therefore in the Union's own interest to redress its image and clearly define for Iranian policy-makers the geopolitical dimensions of its Common Foreign and Security Policy and the importance of countries on its southern periphery, particularly Turkey and Egypt, to the EU's strategic and vital security interests. GCC countries are also important for the EU's trade and

⁶⁰ See all of the contributions to this report, but in particular those by Enrico Ponzzone and, to a lesser extent, Arnaldo Abruzzini.

⁶¹ See the contribution by Fernando Garcés de los Fayos to this report.

investment policy, and these countries are increasingly troubled by Iran's IRGC presence in different direct or proxy wars across the region.⁶²

Sanctions regime: monitoring and reporting

Iran's Supreme Leader Ayatollah Khamenei has absolute control over each branch of the state.⁶³ He consistently exerts his right to veto, from micromanagement issues such as changing a car brand name or the interior design of Tehran's international book fair, to all issues concerning foreign and defence policy.

According to public statements by Khamenei, as well as several texts written by high-ranking Iranian officials, including President Rouhani's detailed description of the official approach taken when he was head of the nuclear negotiating team from 2003 to 2005 (included in his 2011 memoir),⁶⁴ Iran has adhered to a long-term, pre-defined strategy of sowing division among the permanent members of the United Nations Security Council. Further attempts include creating a transatlantic divide followed by divisions between EU member states. This approach is similar to Russia's strategy towards the EU over the past 20 years, in which it has aimed to divide member states on contentious issues such as energy security. This strategy was further observed during the Supreme Leader Ayatollah Khamenei's meeting with Italian Prime Minister Matteo Renzi in April 2016, when he divided the EU into blocs of American 'poodle' and terror-sponsoring states, and some relatively independent ones.

A look at Iran's post-2012 sanctions circumvention strategies shows that Iran depends on the EU being divided on its policy stance.⁶⁵ The adoption of sanctions regimes is often hailed by European policy-makers as one of the few truly effective instruments of EU foreign policy. Yet, Iran's methods of successfully circumventing sanctions in the EU, aided and abetted by European financial institutions,⁶⁶ demand a deeper analysis since those same methods are currently being used to circumvent EU and international sanctions by other actors, such as Hezbollah. This analysis should be a priority for the EU and be undertaken in close cooperation with US authorities. Failure to closely coordinate strategies to apply sanctions will not only harm European financial and trade entities but will also encourage hardliners in Iran to oppose international agreements and obligations instead of complying with them.

⁶² See the contribution by Christian Koch to this report.

⁶³ For nuances, see the contributions by Azadeh Zamirirad and Majid Golpour to this report.

⁶⁴ See. H. Rouhani, *National Security and Nuclear Diplomacy* (Tehran 2011), pp. 229 and 665. Rouhani lists "creating gaps in the western front" as the second item on his list of bullet points of successes when he was the country's official nuclear negotiator.

⁶⁵ See the contribution by Jay Modrall to this report.

⁶⁶ See S. Blockmans, "Curbing the Circumvention of Sanctions against Iran over its Nuclear Programme", *Common Market Law Review*, 2013, Vol. 50, pp. 623-639.

It helps that European companies now have a mandatory reporting requirement under the EU's directive on non-financial information disclosure.⁶⁷ It obliges large undertakings to report annually on how they respect human rights, environmental, anti-corruption and bribery rules in the countries in which they operate. This will be particularly pertinent for businesses dealing with Iranian entities. But the EU should go further and consider forming a task force to create a monitoring and reporting mechanism in full coordination with existing US monitoring and reporting mechanisms and the UN procurement channel. This task force would enable the EU to detect trade and investment deals falling under the sanctions regimes, including the brokering, transit or transfer of dual-use goods or technologies that are employed in the repression of dissidents in Iran and Syria, the sponsorship of international terrorist activities, and cyber attacks against EU and NATO members.

Rule of law and human rights as the core principle of EU-Iran relations

Europe's current approach to renewing ties with Iran seems to focus on building personal, institutional and business relations while refraining from criticising the current regime for continued human rights violations. More importantly, the EU's position ignores the frequent violations by Iran of EU and international law, such as the arms embargo on Syria, UN-sanctioned ballistic missile tests and, critically, cyber attacks. The main justification offered by European foreign policy officials for this approach is the priority to strengthen the pro-reform camp in Iranian politics. As in the case of Russia, this uncalculated, simplistic approach, which does not attempt to determine the measurable strategic outcomes, can lead to unexpected and unfavourable consequences. This would result in heightened security risks for each and every member state and the EU as a whole.

The following example illustrates how a simplified pro-reform approach can create adverse outcomes. The latest legislative elections in February and April 2016 and the figures from Rouhani's presidential election portray a far more fragile, reformist majority.⁶⁸ In both elections, the participation rate and pro-reform vote were far below those achieved by President Khatami in 1997 and 2001. Also, in Iran's sixth parliamentary election in February 2000, the reformists won 222 seats out of 290 – an absolute majority. Suppression of President Khatami and his-pro reform Parliament in 2000s showed that repressive action by the Supreme Leader, IRGC hardliners and the judicial branch were capable of successfully ousting a very popular reform movement, even though it held executive and legislative branches of power in Iran. In a focused campaign, Ayatollah Khamenei's actions ranged from suppressing the 6th parliamentary reformist majority to banning dozens of reformist newspapers. And yet the authorities faced little or no internal or international repercussions. By comparison, the pro-Khatami political organisations 'Jebhe Mosharekat' and 'Sazman Mojahedin' consisted of well-organised national and provincial structures, while Rouhani has little if any systematic

⁶⁷ Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 as regards disclosure of non-financial and diversity information by certain large undertakings and groups, Official Journal, L 330, 15.11.2014, pp. 1-9.

⁶⁸ See also the contribution by Azadeh Zamirirad to this report.

support from Iranian political parties; his campaigns are largely based on public relations. Furthermore, in comparison to post-Khatami 2005 and the 2009-10 Green Movement, Rouhani can more easily be ousted from power with minimal political costs by the Supreme Leader or the IRGC once the key condition of their respective business interests is in a state that Khamenei describes as being "... resistant to foreign pressure".

In other words, if Europe continues to avoid a confrontation with the IRGC and Iranian hard-liners, this is likely to result in the crushing of the pro-Rouhani camp.

Even from a realist standpoint, there is simply no alternative other than to maintain universal values and the rule of law at the core of EU-Iran relations.⁶⁹ Any other policy option would be counter to EU and international law. As seen in recent US lawsuits against BNP Paribas and HSBC, bypassing these safeguards would pose considerable risk to EU trade and financial entities.

Protection of economic rights: opening the door to wider reforms

Currently, some of Iran's largest business entities are either related to or owned by the IRGC, the Execution of Imam Khomeini's Order (EIKO), Bonyad MFJ and the Ministry of Defence. European actors have few legal and risk-assessed options for undertaking business activities in Iran.⁷⁰ Most of those organisations are subject to multiple UN, US and EU sanctions and divestment policies as a result of Iran's involvement in Syrian atrocities; infringement of UN sanctioned ballistic missile testing, internal repression and human rights violations on a massive scale.⁷¹ Even if some European leaders decide to cooperate with those actors, despite the clear legal conflict, there is evidence that those military entities are frequently misusing their power against their economic competitors. There are many examples of the military abusing its power, such as the IRGC's deployment in 2004 of an MIG fighter jet at Tehran's IKA airport, preventing planes from landing at the site where an Austrian Turkish contractor recently completed building work because the regime thought non-Iranians were involved in the running of the airport; takeovers against competitors in the ICT sector; intimidation campaigns and summary arrests. All of these activities were supported by the Supreme Leader.

In recent years, in every major corruption scandal that went public in Iran the aforementioned military/economic conglomerations were involved, along with several European entities.⁷²

⁶⁹ See also the contribution by Majid Golpour to this report.

⁷⁰ See also the contribution by Arnaldo Abruzzini to this report.

⁷¹ See also the contribution by Jay Modrall to this report.

⁷² As reported by Reuters (see, e.g., www.reuters.com/article/us-iran-oil-scandal-idUSKCN0R41I920150904; www.reuters.com/article/us-iran-turkey-special-report-idUSBREA3S07120140429; www.reuters.com/article/us-usa-iran-zarrab-idUSKCN0WN295).

The involvement of the IRGC, the Ministry of Defence, EIKO-related organisations in Syrian atrocities, human rights violations in Iran, and the vast abuse of power, corruption and environmental damages mean that any investment or trade would be in conflict with existing EU law and with US federal and state sanctions and divestment policy.

In the past couple of years, there has been a flood of legal cases by victims of Iran's actions, and they are increasingly successful in gaining compensation. The April 2016 US Supreme Court ruling against the Iranian Central Bank shows that a new era of compensation for past actions has begun.⁷³ Unlike rulings lower down the system, political pressure cannot be brought to bear on those of the Supreme Court. Therefore, any European investment in organisations that are either involved in sponsoring terrorism or in violating human rights expose those investor companies to litigation from thousands of EU citizens who have been victims of Iran's human rights violations over the last 37 years. Public and private financial institutions could face legal action if they were to invest in IRGC, EIKO, or Bonyad MFJ-related entities, as some of the assets owned by those organisations are highly likely to have been confiscated from Iranian Jews, Baha'is, other minorities or political dissidents. In many cases, these individuals were tortured and their family members executed. Many of the victims are now European citizens capable of taking legal action against the European entities that invest in confiscated assets.

Apart from the risk of European and American litigation, there is a possibility that Syrian refugees in Europe would take legal action against the IRGC, as it is the only demonstrably visible and present foreign military ground force active in Syria, operating without any international legal mandate and in explicit violation of the aforementioned international embargo.

These considerations make the Iranian economic landscape rather problematic for investment by European entities in the longer term. Every possible reform scenario would return to the question of the rule of law, an independent judiciary and the involvement of the IRGC and EIKO in Iran's economy. Even for smaller trade deals, member states are in need of the EU-wide support in the form of due diligence and clear and simplified procedures for complying with EU and international law such as anti-corruption measures and non-financial disclosure. Monitoring and reporting, as a transatlantic effort, therefore remains crucial to resolving these issues in a coordinated fashion with the US authorities.

Conclusion and recommendations

Based on the analysis above, oversimplified and uncalculated views of future relations with Iran may lead to adverse consequences.

The EU should instead focus on well-coordinated, pre-planned strategies that aim to best serve Europe's collective long-term security and trade interests while resolutely promoting universal values.

⁷³ Case No. 14-770, Bank Markazi, aka Central Bank of Iran v. Peterson et al., 26 April 2016.

To that end, all public statements and each trade or investment pact with Iran should be carefully pre-examined and evaluated, based on the following four criteria:

- consistency with the EU's internal security framework, its strategic relationship with countries in the southern neighbourhood, the EU enlargement agenda and relations with Turkey, in particular;
- encouragement of a closer post-JCPOA transatlantic coordination and prevention of the EU from becoming a 'sanction-circumvention' territory;
- inclusion of a carefully calculated protection strategy for European trade entities, with a quick rollback trigger in case of a JCPOA snapback clause or further ballistic missile tests, human rights violations or terrorism sponsorship-related sanctions;
- maintaining respect for the rule of law and human rights as the core principle of EU-Iran relations, in accordance with a monitoring and reporting mechanism that prevents EU trade entities from investing in IRGC, EIKO and other entities involved in repression in Iran and Syria or other illicit activities.

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A previous version of this report mistakenly included a contribution by Adnan Tabatabai.

Annexes

EEAS, “Information Note on EU sanctions to be lifted under the Joint Comprehensive Plan of Action (JCPOA)”, Brussels, 23 January 2016

U.S. Department of the Treasury, General License H “Authorizing Certain Transactions relating to Foreign Entities Owned or Controlled by a United States Person”, Washington, D.C., 16 January 2016

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, Tehran, 16 April 2016

**Information Note on EU sanctions to be lifted under the
Joint Comprehensive Plan of Action (JCPOA)**

Brussels, 23 January 2016

1. Introduction

1.1. Background and outline

This Information Note¹ is published in accordance with the voluntary commitment contained in the Joint Comprehensive Plan of Action (JCPOA) between the E3/EU+3 and the Islamic Republic of Iran to issue relevant guidelines on the details of sanctions or restrictive measures which are to be lifted under the JCPOA.²

The purpose of this Information Note is to provide practical information to all interested parties on the commitments contained in the JCPOA concerning the lifting of the sanctions, the measures adopted at the EU level to meet those commitments and the various practical stages in this process.

The information provided for in this Information Note is based on the assumption that the commitments under the JCPOA will be complied with by all the Parties.

The United States (hereinafter: U.S.) have also issued equivalent U.S. Guidelines with respect to the lifting of U.S. sanctions under the JCPOA.

This Information Note is organised as follows:

- Section 1 introduces the structure of the JCPOA.
- Section 2 describes the timelines for the implementation of the sanctions-related commitments under the JCPOA (Implementation plan).
- Section 3 presents a detailed description of the sanctions lifted under the JCPOA on Implementation Day.
- Section 4 contains an overview of the relevant EU legislative framework.
- Section 5 details the EU sanctions or restrictive measures that remain in place after Implementation Day. This section also includes an outline of the procurement channel.

¹ It is noted that this Information Note is not legally binding and produced for illustrative purposes only.

² In the EU legal acts the term restrictive measures is used instead of sanctions. For the purpose of the present Information Note the terms "sanctions" and "restrictive measures" are used indistinctively.

- Section 6 presents EU non-nuclear related sanctions that remain in place as they are not concerned by the JCPOA.
- Section 7 is to address practical issues with regard to the JCPOA through questions and answers. Input for this section was provided by EU Member States, business community and other interested parties.
- Section 8 lists the main reference documents and provides relevant links.

1.2. Introduction to the JCPOA

On 14 July 2015, the E3/EU+3 (China, France, Germany, the Russian Federation, the United Kingdom and the United States, with the High Representative of the European Union for Foreign Affairs and Security Policy) and the Islamic Republic of Iran reached an agreement on a Joint Comprehensive Plan of Action (JCPOA). The full implementation of this JCPOA will ensure the exclusively peaceful nature of Iran's nuclear programme.

The JCPOA will produce a comprehensive lifting of all UN Security Council sanctions as well as multilateral³ and national sanctions related to Iran's nuclear programme. The JCPOA reflects a step-by-step approach and includes the reciprocal commitments as laid down in the agreement and is endorsed by the UN Security Council.⁴

UN Security Council resolution 2231 (2015) endorses the JCPOA, and urges its full implementation on the timetable established in the JCPOA. It calls upon all Members States, regional organisations and international organisations to take such actions as may be appropriate to support the implementation of the JCPOA, including by taking actions commensurate with the implementation plan set out in the JCPOA and the resolution and by refraining from actions that undermine implementation of commitments under the JCPOA.

1.3. Structure of the JCPOA

The JCPOA contains a general section addressing the main content of the agreement: preamble and general provisions, nuclear, sanctions, implementation plan and dispute

³ For the purposes of the JCPOA and this Information Note, the term 'multilateral sanctions' is meant to cover EU restrictive measures.

⁴ UN Security Council resolution 2231 (2015), adopted by the Security Council on 20 July 2015.

resolution mechanism and is supplemented with five Annexes.⁵ For this Information Note Annex II (Sanctions) and Annex V (Implementation Plan) are essential: Annex II stipulates exactly which sanctions will be lifted and Annex V describes the timing of the implementation of the JCPOA and points out on which event/moment in time the lifting of sanctions will occur.

Annex IV is devoted to the role of the Joint Commission established to monitor the implementation of the JCPOA and to carry out the functions as provided for in the JCPOA. The Joint Commission will also address issues arising from the implementation of the JCPOA. On the basis of Annex IV a Procurement Working Group and a Working Group on the Implementation of Sanctions Lifting were established. The High Representative acts as the coordinator of the Joint Commission and of both working groups.

The International Atomic Energy Agency (IAEA) has an essential and independent role and is requested to monitor and verify the implementation of the voluntary nuclear-related measures as detailed in the JCPOA. The IAEA will provide regular updates to the Board of Governors and the UN Security Council.

⁵ Annex I: Nuclear-related measures, Annex II: Sanctions-related commitments, Annex III: Civil Nuclear Cooperation, Annex IV: Joint Commission and Annex V: Implementation Plan.

2. Timelines

Annex V of the JCPOA contains the Implementation plan describing the sequence and the steps to be carried out under the provisions of the JCPOA. There are five main events to distinguish in this process: Finalisation Day, Adoption Day, Implementation Day, Transition Day and UN Security Council resolution Termination Day.

2.1. Finalisation Day

This event took place on 14 July 2015 when the negotiations on the JCPOA were successfully concluded and endorsed by E3/EU+3 and Iran. Following this event the UN Security Council adopted Resolution 2231(2015) on 20 July 2015. The Council of the European Union expressed its full support for UN Security Council resolution 2231(2015) on the same day with the adoption of Conclusions.⁶

2.2. Adoption Day

On Adoption Day, which occurred on 18 October 2015, the JCPOA came into effect. Iran started the implementation of its nuclear-related commitments. The European Union and the United States began to make the necessary preparations for the lifting of nuclear-related sanctions as laid down in the JCPOA.

The European Union adopted the necessary legal acts to lift all EU economic and financial sanctions taken in connection with the Iranian nuclear programme⁷ as laid down in the JCPOA.⁸ The EU legislative package adopted on 18 October 2015 only came into effect on Implementation Day (16 January 2016).⁹

⁶ <http://www.consilium.europa.eu/en/press/press-releases/2015/07/20-fac-iran/>

⁷ More information on EU legal acts is to be found in Section 4 on the legislative framework.

⁸ As specified in section 16.1 of Annex V of the JCPOA.

⁹ More information on EU legal acts is to be found in Section 4 on the legislative framework.

2.3. Implementation Day

Implementation Day occurred on 16 January 2016, the day on which the IAEA verified the implementation by Iran of the nuclear-related measures¹⁰ and simultaneously, the E3/EU+3 took the actions¹¹ to which they have committed under the JCPOA.

On Implementation Day, the Director-General of the IAEA presented a report to the IAEA Board of Governors and to the United Nations Security Council which confirmed that Iran had taken the measures specified in paragraphs 15.1 to 15.11 of Annex V to the JCPOA, EU economic and financial sanctions taken in connection with the Iranian nuclear programme¹² were lifted. On that same day, the European Union published in the Official Journal of the European Union a legal act and related notice intended exclusively to confirm that the legislation adopted on Adoption Day should apply.¹³ The details of the sanctions lifted are described in section 4 of this Information Note.

On Implementation Day, the limited sanctions relief provided to Iran under the 2013-interim agreement (JPOA)¹⁴ was superseded by the lifting of all economic and financial sanctions taken in connection with the Iranian nuclear programme in accordance with the JCPOA.

2.4. Transition Day

Transition Day is in 8 years after Adoption Day (18 October 2023) or at an earlier moment based upon a report from the Director General of the IAEA to the IAEA Board of Governors and in parallel to the UN Security Council stating that the IAEA has concluded that all nuclear material in Iran remains in peaceful activities (Broader Conclusion). On this day, the EU will lift proliferation-related sanctions¹⁵, including arms and missile technology sanctions

¹⁰ As specified in paragraph 15 of Annex V of the JCPOA.

¹¹ As specified in paragraph 16 and 17 of Annex V of the JCPOA.

¹² As specified in Sections 16.1 -16.4 of Annex V of the JCPOA.

¹³ Official Journal of the European Union L 274, 18.10.2015, p.1, see Article 2 of Decision (EU) 1863/2015.

¹⁴ As part of the Joint Plan of Action the EU suspended on 20 January 2014 sanctions on petrochemicals, gold and precious metals, the prohibitions on the provision of insurance and transport in relation to Iranian crude oil sales as well as vessels. The thresholds for authorising financial transfers to and from Iran were increased.

¹⁵ As specified in sections 20.1-20.4 of Annex V of the JCPOA.

and related designations. All provisions in Council Decision 2010/413/CFSP suspended on Implementation Day will be terminated on Transition Day.

2.5. UN Security Council resolution Termination Day

UN Security Council resolution Termination Day will occur 10 years from Adoption Day. On Termination Day all the provisions of UN Security Council resolution 2231(2015) will terminate and the UN Security Council will conclude consideration of the Iranian nuclear issue; the EU will lift all remaining nuclear-related restrictions and terminate the legal acts.¹⁶

2.6. Dispute Resolution Mechanism

The JCPOA provides for a consultation process if one of the participants in the JCPOA believes that the agreed commitments have not been met. The participants in the JCPOA will try to resolve the issue according to the procedures set out in the JCPOA.¹⁷ If at the end of the process the issue still has not been resolved to the satisfaction of the complaining participant and that participant deems the issue to constitute significant non-performance of the obligations under the JCPOA, it can notify the UN Security Council thereof.

The UN Security Council will – in accordance with its procedures – vote on a resolution to continue the sanctions lifting. If this resolution is not adopted within 30 days of the notification, then the provisions of the relevant UN Security Council resolutions¹⁸ will be re-imposed ("snapback"), unless the UN Security Council decides otherwise.

In the event of a reintroduction of measures, paragraph 37 of the JCPOA and paragraph 14 of UN Security Council resolution 2231 (2015) stipulates that the application of UN Security Council provisions will "not apply with retroactive effect to contracts signed between any party and Iran or Iranian individuals and entities prior to the date of the application, provided that the activities contemplated under and execution of such contracts are consistent with the JCPOA and the previous and current UN Security Council resolutions."

¹⁶ These restrictions include the procurement channel as described in section 5.2 of this Note.

¹⁷ As specified in paragraph 36 and 37 of the JCPOA.

¹⁸ UN Security Council resolutions 1696(2006), 1737(2006), 1747(2007), 1803(2008), 1835(2008), 1929(2010) and 2224(2015).

Referring to the provisions of the JCPOA¹⁹, it should be noted that all parties to the JCPOA are determined to avoid any behaviour which could be qualified as non-performance and to avoid a re-imposition of sanctions by engaging in the Dispute Resolution Mechanism.

- Reintroduction of EU sanctions ("EU snapback")

In the event of a significant non-performance by Iran of its commitments under the JCPOA and after having exhausted all recourse possibilities under the Dispute Resolution Mechanism, the European Union will reintroduce the lifted EU sanctions ("EU snapback"). An "EU snapback" will take the form of a decision by the Council of the European Union, based on a recommendation by the High Representative of the European Union for Foreign Affairs and Security Policy, France, Germany and the United Kingdom. Such a decision will reintroduce all the EU sanctions taken in connection with the Iranian nuclear programme that have been suspended and/or terminated consistent with Council declaration of 18 October 2015²⁰ and in accordance with regular EU procedures for the adoption of restrictive measures.

Sanctions will not apply with retroactive effect. In the event of the reintroduction of EU sanctions, the execution of contracts concluded in accordance with the JCPOA while sanctions relief was in force will be permitted consistent with previous provisions when sanctions were originally imposed, in order to allow companies to wind down their activities.²¹ Details about the period of time allowed for the execution of prior contracts will be specified in the legal acts providing for the reintroduction of EU sanctions.

For example, the reintroduction of sanctions on investment activities would not retroactively penalise investment made before the date of snapback, and the execution of investment contracts concluded before the reintroduction of sanctions will be permitted consistent with previous provisions when sanctions were originally imposed.

Contracts that were permitted when the sanctions regime was still in place will not be targeted by the reintroduction of sanctions.

¹⁹ See paragraph 28 of the JCPOA.

²⁰ Official Journal of the European Union C 345/01, Pb C 345, 18.10.2015, p 1.

²¹ Activities allowed while sanctions relief was in force, as further detailed in Section 3 of this Information Note.

3. Description of sanctions lifted on Implementation Day

3.1. Sanctions lifted by the European Union on Implementation Day

On Implementation Day (16 January 2016), the EU lifted all its economic and financial sanctions²² taken in connection with the Iranian nuclear programme. As a consequence of the lifting of these sanctions, the following activities, including associated services, are allowed as of Implementation Day.²³

- Financial, banking and insurance measures

The prohibition of financial transfers to and from Iran (including the notification and authorisation regimes) is lifted. Consequently, transfers of funds between EU persons, entities or bodies, including EU financial and credit institutions, and non-listed Iranian persons, entities or bodies, including Iranian financial and credit institutions²⁴, are permitted as of Implementation Day and the requirements for authorisation or notification of transfers of funds are no longer applicable.

Banking activities, such as the establishment of new correspondent banking relationships and the opening of branches, subsidiaries or representative offices of non-listed Iranian banks in Member States are permitted. Non-listed Iranian financial and credit institutions are also allowed to acquire or extend participation, or to acquire any other ownership interest in EU financial and credit institutions. EU financial and credit institutions are allowed to open representative offices or to establish branch or subsidiaries in Iran; to establish joint ventures and open bank accounts with Iranian financial or credit institutions.

The supply of specialised financial messaging services, including SWIFT, is allowed for Iranian natural or legal persons, entities or bodies, including Iranian financial institutions and

²² As specified in Sections 16.1 -16.4 of Annex V of the JCPOA.

²³ For the exact details of the permitted activities reference is made to Annex II of the JCPOA. This section describes permitted activities following the lifting of sanctions on Implementation Day (16 January 2016). It does not cover other activities that were permissible while the sanctions regime was in place and thus continue to be permitted after Implementation Day.

²⁴ With the exception of Iranian natural or legal persons, entities of bodies, including financial and credit institutions still subject to restrictive measures after Implementation Day, as set out in Attachment 2 to Annex II of the JCPOA.

the Central Bank of Iran that are no longer subject to restrictive measures as of Implementation Day.²⁵

The provision of financial support for trade with Iran such as export credit, guarantees or insurance is permitted as of Implementation Day. The same applies for commitments for grants, financial assistance and concessional loans to the Government of Iran. Other allowed activities in this context are provision of insurance and reinsurance to Iran and transactions in public or public-guaranteed bonds with Iran.

- Oil, gas and petrochemical sectors

Import, purchase, swap and transport of crude oil and petroleum products, gas and petrochemical products from Iran is allowed as of Implementation Day. EU persons are able to export equipment or technology, and provide technical assistance, including training, used in the sectors of the oil, gas and petrochemical industries in Iran covering exploration, production and refining of oil and natural gas, including liquefaction of natural gas, to any Iranian person, in or outside Iran, or for use in Iran. Investing in the Iranian oil, gas and petrochemical sectors, by the granting of any financial loan or credit to, the acquisition or extension of a participation in, and the creation of any joint venture with, any Iranian person that is engaged in the oil, gas and petrochemical sectors in Iran or outside Iran is permitted as of Implementation Day.

- Shipping, shipbuilding and transport sectors

Sanctions related to shipping and shipbuilding sectors and certain sanctions related to the transport sector, including the provision of associated services to these sectors, are lifted on Implementation Day.

Consequently, the following activities are allowed: sale, supply, transfer or export of naval equipment and technology for ship building, maintenance or refit, to Iran or to any Iranian persons engaged in this sector; the design, construction or the participation in the design or construction of cargo vessels and oil tankers for Iran or for Iranian persons; the provision of vessels designed or used for the transport or storage of oil and petrochemical products to Iranian persons, entities or bodies; and the provision of flagging and classification services,

²⁵ Persons and entities as set out in Attachment 1 to Annex II of the JCPOA.

including those pertaining to technical specification, registration and identification numbers of any kind, to Iranian oil tankers and cargo vessels.

All cargo flights operated by Iranian carriers or originating from Iran have access to the airports under the jurisdiction of EU Member States.

Inspection, seizure and disposal by EU Member States of cargoes to and from Iran in their territories no longer apply with regard to items which are no longer prohibited.

Provision of bunkering or ship supply services, or any other servicing of vessels, to Iranian-owned or Iranian-contracted vessels not carrying prohibited items is allowed; and the provision of fuel, engineering and maintenance services to Iranian cargo aircraft not carrying prohibited items is permitted.

- Gold, other precious metals, banknotes and coinage

Sale, supply, purchase, export, transfer or transport of gold and precious metals as well as diamonds, and provision of related brokering, financing and security services, to, from or for the Government of Iran, its public bodies, corporations and agencies, or the Central Bank of Iran is allowed.

Delivery of newly printed or minted banknotes and coinage for the Central Bank of Iran is permitted.

- Metals

Sale, supply, transfer or export of certain graphite and raw or semi-finished metals to any Iranian person, entity or body or for use in Iran is no longer prohibited but subject to an authorisation regime as of Implementation Day.²⁶

- Software

Sale, supply, transfer or export of Enterprise Resource Planning software, including updates, to any Iranian person, entity or body, or for use in Iran, in connection with activities consistent with the JCPOA is no longer prohibited but subject to an authorisation regime as of

²⁶ For details on the authorisation regime and the list of goods subject to it, see section 5.2 on the sanctions that remain in place after Implementation Day.

Implementation Day if the software is designed specifically for use in nuclear and military industries.²⁷

- De-listing of persons, entities and bodies

As of Implementation Day, certain persons, entities and bodies are delisted and consequently no longer subject to the asset freeze, prohibition to make funds available and visa ban. This covers UN listings and EU autonomous listings. For more information on the persons and entities that are delisted it is advised to consult Council Implementing Regulation (EU) 2015/1862 of 18 October 2015 and Council Implementing Regulation (EU) 2016/74 of 22 January 2016, implementing Regulation (EU) No 267/2012 concerning restrictive measures against Iran.²⁸

3.2. U.S. Sanctions

For the details and consequences of the lifting of sanctions in the U.S. it is recommended to consult the U.S. Guidelines with Respect to the Lifting of Sanctions on Implementation Day under the Joint Comprehensive Plan of Action (JCPOA) between the E3/EU+3 and the Islamic Republic of Iran and the FAQs.²⁹

²⁷ For details on the authorisation regime, see section 5.2 on the sanctions that remain in place after Implementation Day.

²⁸ See also section 4 on EU legislative framework.

²⁹ <https://www.treasury.gov/resource-center/sanctions/Programs/Pages/iran.aspx>.

4. Legal framework

This section contains an overview of the relevant legal framework implementing the lifting³⁰ of sanctions as specified in the JCPOA.

4.1. UN Security Council resolution 2231(2015)

UN Security Council resolution 2231(2015) was adopted on 20 July 2015. It endorsed the JCPOA, urged its full implementation on the timetable established in the JCPOA³¹, and defined the schedule and commitments to be undertaken by all parties to lead to the termination of UN sanctions against Iran.

- On Implementation Day (16 January 2016), all provisions of previous UN Security Council resolutions³² on the Iranian nuclear issue were terminated, subject to re-imposition in the event of significant non-performance by Iran of JCPOA commitments, and specific restrictions, including restrictions regarding the transfer of proliferation sensitive goods, apply.
- On UN Security Council resolution Termination Day, all the provisions of UN Security Council resolution 2231(2015) will terminate and the UN Security Council will conclude its consideration of the Iranian nuclear issue and the item will be removed from the list of matters of which the Council is seized.

4.2. EU legislative framework

It is through the adoption of legal acts providing the legislative framework for the lifting of EU sanctions that the European Union implements UN Security Council resolution 2231(2015) in accordance with the JCPOA. Although the lifting of the abovementioned sanctions took effect on Implementation Day (16 January 2016), the EU committed under the JCPOA to prepare and adopt the necessary legislation on Adoption Day (18 October 2015), but with delayed application.

³⁰ In the present Information Note the "lifting" of restrictive measures refers equally to the suspension and implementation of those measures, as appropriate.

³¹ Annex V of the JCPOA.

³² UN Security Council resolutions 1696(2006), 1737(2006), 1747(2007), 1803(2008), 1835(2008), 1929(2010) and 2224(2015).

The restrictive measures lifted in accordance with the JCPOA are those that have been imposed by the European Union in relation to Iran nuclear-related activities as set out in Council Decision 2010/413/CFSP³³ and Council Regulation (EU) No 267/2012³⁴. The implementation of UN Security Council resolution 2231(2015) in accordance with the JCPOA is mainly³⁵ accomplished through the following EU legal acts:

- Council Decision (CFSP) 2015/1863 of 18 October 2015 amending Council Decision 2010/413/CFSP concerning restrictive measures against Iran³⁶

This Decision provides for the suspension of the articles of Council Decision 2010/413/CFSP concerning all EU economic and financial sanctions as specified in the JCPOA simultaneously with the implementation by Iran, and verified by the IAEA, of the agreed nuclear measures. The Decision also suspends the application of asset freeze (including the prohibition to make funds and economic resources available) and visa ban measures for persons and entities as specified in the JCPOA. Furthermore, this Decision also introduces an authorisation regime for reviewing and deciding on certain nuclear-related transfers and transfers of certain metals and software. The Decision is implemented by two Regulations (see below), which are directly applicable in all Member States.

- Council Regulation (EU) 2015/1861 of 18 October 2015 amending Regulation (EU) No 267/2012 concerning restrictive measures against Iran³⁷

This Regulation provides for the deletion of the corresponding articles of Council Regulation (EU) No 267/2012 concerning all EU economic and financial sanctions as specified in the JCPOA, simultaneously with the implementation by Iran, of the agreed nuclear measures and verified by the IAEA (16 January 2016). Furthermore, this Regulation also implements the prior authorisation regime for reviewing and deciding on certain nuclear-related transfers and

³³ Official Journal of the European Union L 195, 27.07.2010, p.39 (http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L_.2010.195.01.0039.01.ENG)

³⁴ Official Journal of the European Union L 88, 24.03.2012, p.1.

³⁵ Referring to the sanctions to be lifted on Implementation Day (16 January 2016). The lifting of remaining sanctions on Transition Day will require separate EU legal acts, see paragraph 2.4.

³⁶ Official Journal of the European Union L 274, 18.10.2015, p.174.

³⁷ Official Journal of the European Union L 274, 18.10.2015, p.1.

transfers of certain metals and software. Council Regulation (EU) 2015/1861 also implements provisions on the proliferation-related prohibitions, like missile technology sanctions, that remain in force.

Council Regulation (EU) 2015/1861 is binding in its entirety and directly applicable in all EU Member States.³⁸

- Council Implementing Regulation (EU) 2015/1862 of 18 October 2015 implementing Regulation (EU) No 267/2012 concerning restrictive measures against Iran³⁹

This Regulation implements Council Decision (CFSP) 2015/1863 in so far as it lifts the restrictive measures applying to individuals and entities set out in Annexes V (UN listings) and VI (autonomous listings) to Decision 2010/413/CFSP simultaneously with the IAEA-verified implementation by Iran of agreed nuclear-related measures. These individuals and entities are removed from the list of persons and entities subject to restrictive measures, set out in Annexes VIII (UN listings) and IX (autonomous listings) to Regulation (EU) No 267/2012 simultaneously with the IAEA-verified implementation by Iran of agreed nuclear-related measures (16 January 2016).

- Council Decision (CFSP) 2016/37 of 16 January 2016 concerning the date of application of Decision (CFSP) 2015/1863 amending Decision 2010/413/CFSP concerning restrictive measures against Iran⁴⁰
- Notice: Information concerning the date of application of Council Regulation (EU) 2015/1861 of 18 October 2015 amending Regulation (EU) No 267/2012 concerning restrictive measures against Iran and Council Implementing Regulation (EU) 2015/1862 of 18 October 2015 implementing Regulation (EU) No 267/2012 concerning restrictive measures against Iran⁴¹

³⁸ See Article 2 of Regulation (EU) 2015/1861. Declaration No 17 attached to the EU Treaties provides that: "in accordance with well-settled case law of the Court of Justice of the EU, the treaties and the law adopted by the Union on the basis of the Treaties have primacy over the law of the Member States (...)".

³⁹ Official Journal of the European Union L 274, 18.10.2015, p.161.

⁴⁰ Official Journal of the European Union L 11I, 16.01.2016, p.1.

⁴¹ Official Journal of the European Union C 15I, 16.01.2016, p.1.

When the Council of the EU noted that the Director-General of the IAEA had presented a report to the IAEA Board of Governors and to the United Nations Security Council which confirmed that Iran had taken the measures specified in JCPOA, the Council Decision, Regulation and Implementing Regulation lifting all EU economic and financial sanctions came into effect on the same day. A legal act and related notice intended exclusively to confirm that the legislation adopted on Adoption Day⁴² shall apply were published in the Official Journal of the European Union⁴³.

Finally, the Council of the EU issued a Statement⁴⁴ noting that the commitment to lift all EU nuclear-related sanctions is without prejudice to the dispute resolution mechanism specified in the JCPOA and to the reintroduction of EU sanctions in the case of significant non-performance by Iran of its commitments under the JCPOA. However, all parties involved in the JCPOA process will engage in ensuring that the JCPOA is successfully implemented and sustained.

- Council Implementing Decision (CFSP) 2016/78 of 22 January 2016 implementing Decision 2010/413/CFSP concerning restrictive measures against Iran⁴⁵

This Decision suspended the application of the asset freeze (including the prohibition to make funds and economic resources available) for two entities which had been delisted by the UN Security Council on 17 January 2016.

- Council Implementing Regulation (EU) 2016/74 of 22 January 2016 implementing Regulation (EU) No 267/2012 concerning restrictive measures against Iran⁴⁶

This Regulation implements Council Implementing Decision (CFSP) 2016/78 by lifting the asset freeze measures applying to two entities following a decision by the UN Security Council to delist them on 17 January 2016.

⁴² Official Journal of the European Union L 274, 18.10.2015, p.1.

⁴³ See Article 2 of Council Decision (CFSP) 2015/1863 of 18 October 2015.

⁴⁴ Official Journal of the European Union C 345, 18.10.2015, p 1.

⁴⁵ Official Journal of the European Union L 16, 23.1.2016, p.25.

⁴⁶ Official Journal of the European Union L 16, 23.01.2016, p.6.

5. Proliferation-related sanctions and restrictions remaining in place after Implementation Day

This section describes the proliferation-related sanctions and restrictions that remain in place after Implementation Day (16 January 2016). These concern the arms embargo, sanctions related to missile technology, restrictions on certain nuclear-related transfers and activities, provisions concerning certain metals and software which are subject to an authorisation regime, as well as related listings which remain in force after Implementation Day.

Measures concerning inspection of cargoes to and from Iran and those related to the provision of bunkering or ship supply services continue to apply after Implementation Day in relation to items which continue to be prohibited.

5.1. Proliferation-related sanctions

- Arms embargo

A prohibition to sell, supply, or transfer, directly or indirectly, or procure arms and related materiel of all types, including weapons and ammunition, military vehicles and equipment, paramilitary equipment and spare parts for such arms and related materiel; and the provision of associated services continues to apply after Implementation Day. The EU arms embargo covers all goods included in the EU common military list.⁴⁷

The EU arms embargo stays in place until Transition Day.⁴⁸

- Missile technology sanctions

A prohibition to sell, supply, transfer, export or procure, directly or indirectly, the goods and technology listed in Annex III to Council Regulation (EU) No 267/2012 concerning restrictive measures against Iran, as modified by Council Regulation No 2015/1861⁴⁹ (hereafter: Council Regulation 267/2012 (as amended)), and any other item that the Member State determines that could contribute to the development of nuclear weapon delivery systems, and the provision of associated services continues to apply. Annex III lists all goods

⁴⁷ Link to the UE CML.

⁴⁸ As specified in Annex V, paragraph 20.1, of the JCPOA.

⁴⁹ Official Journal of the European Union L 274, 18.10.2015, p.15.

and technology contained in the Missile Technology Control Regime list. For more information on the Missile Technology Control Regime list, it is recommended to consult the Guidelines of the Missile Technology Control Regime.⁵⁰

It is to be noted that in case an item whose specific technical characteristics or specifications fall within the categories covered by both Annex I and Annex III to Council Regulation 267/2012 (as amended), the item is considered to fall within Annex III, meaning that a prohibition always applies in this situation.⁵¹

EU missile technology sanctions stay in place until Transition Day.⁵²

- Remaining individuals and entities subject to restrictive measures

Certain persons and entities (UN and EU listings) remain subject to an asset freeze, visa ban and prohibition on the provision of specialised financial messaging services (SWIFT) until Transition Day.⁵³

5.2. Proliferation-related restrictions (authorisation regimes including the Procurement Channel)

- Nuclear transfers and activities

As of Implementation Day, proliferation-sensitive transfers and activities concerning certain goods and technology, including associated services, such as technical and financial assistance and related investments are subject to prior authorisation to be granted on a case-by-case basis by the competent authorities of the Member State.⁵⁴

The lists of goods and technology subject to prior authorisation are to be found in Annexes I and II to Council Regulation 267/2012 (as amended).

⁵⁰ <http://www.mtcr.info/english/guidelines.html>

⁵¹ According to the introductory note in Annex I to Council Regulation 267/2012 (as amended).

⁵² As specified in Annex V, paragraph 20.1, of the JCPOA.

⁵³ Persons and entities as set out in Annexes VIII (UN listings) and IX (autonomous listings) to Regulation (EU) No 267/2012.

⁵⁴ Competent authorities of each Member State are identified in Annex X to Council Regulation 267/2012 concerning restrictive measures against Iran.

Annex I contains the goods and technology listed in the Nuclear Suppliers Group lists. For more information on the Nuclear Suppliers Group list, it is recommended to consult the Guidelines for Nuclear Transfers of the Nuclear Supplier Group.⁵⁵

In the case of goods and technology listed in Annex I, any transfer or related activity falls within the procurement channel as described in the JCPOA⁵⁶ and UN Security Council resolution 2231(2015)⁵⁷. Consequently, the national competent authority will have to submit a request for authorisation to the UN Security Council. The Procurement Working Group of the Joint Commission will make a recommendation to the UN Security Council on every request for authorisation. Each E3+3 State and Iran participate in the Procurement Working Group and the High Representative serves as the Coordinator.

For more information on the functioning of the Procurement Working Group, it is recommended to consult the Procurement Working Group guidelines.⁵⁸

Another group of goods and technology subject to prior authorisation on a case-by-case basis by the competent authorities of Member States is listed in Annex II to Council Regulation 267/2012 (as amended). Annex II contains other dual-use goods and technology that could contribute to reprocessing, enrichment-related, heavy water-related or other activities inconsistent with the JCPOA. In this case the authorisation is granted by the national competent authority only in accordance with the EU legal framework.

- Metals and Software

The sale, supply transfer or export of Enterprise Resource Planning software, designed specifically for use in nuclear and military industries, as described in Annex VIIA to Council Regulation 267/2012 (as amended), and the provision of associated services is subject to prior

⁵⁵ <http://www.nuclearsuppliersgroup.org/en/guidelines>

⁵⁶ Annex IV of the JCPOA.

⁵⁷ Exceptions may apply in relation to certain goods for light-water reactors or in respect of transactions necessary to implement Iran's nuclear-related commitments specified in the JCPOA or required for the preparation for the implementation of the JCPOA. For further details, consult Council Regulation 267/2012 (as amended).

⁵⁸ <http://www.un.org/en/sc/2231/restrictions-nuclear.shtml>

authorisation to be granted on a case-by-case basis by the competent authorities of the Member State.⁵⁹

The sale, supply, transfer or export of certain graphite and raw or semi-finished metals and the provision of associated services is subject to prior authorisation to be granted on a case-by-case basis by the competent authorities of the Member State.⁶⁰ The list of goods covered by this restriction can be found in Annex VIIB to Council Regulation 267/2012 (as amended).

⁵⁹ Competent authorities of each Member State are identified in Annex X to Council Regulation 267/2012 concerning restrictive measures against Iran.

⁶⁰ Competent authorities of each Member State are identified in Annex X to Council Regulation 267/2012 concerning restrictive measures against Iran.

6. Non-nuclear proliferation-related sanctions and restrictive measures

Sanctions imposed by the EU in view of the human rights situation in Iran, support for terrorism and other grounds are not part of the JCPOA, and remain in place.

Measures adopted by the EU in relation to concerns on human rights violations include an asset freeze and visa ban on 84 persons and one entity responsible for grave human rights violations, as well as a ban on exports to Iran of equipment which might be used for internal repression and of equipment for monitoring telecommunications.⁶¹

Iranian persons who are also listed under EU terrorism and Syria sanctions regimes (or any other EU sanctions regime)⁶² continue to be subject to restrictive measures under these regimes which are outside the scope of the JCPOA.

⁶¹ Please consult Annexes III and IV to Council Regulation (EU) No 359/2011 of 12 April 2011 concerning restrictive measures directed against certain persons, entities and bodies in view of the situation in Iran (<http://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX:32011R0359&qid=1452107764652>).

⁶² EU measures to combat terrorism: Common Position 2001/931 and Council Regulation (EC) No 2580/2001.

Sanctions regime in view of the situation in Syria: Council Decision 2013/255/CFSP and Council Regulation (EU) No 36/2012.

7. Questions and Answers

This section contains a description of practical issues raised by EU Member States or third States and the business community. The aim of this section is to serve as a practical tool on the implementation of the JCPOA and the uniform application of the aforementioned legal acts within the EU. Therefore, this section could be updated in light of experience on the implementation of the JCPOA and relevant legal acts. The questions are divided by main categories.

General questions

1. When is Implementation Day scheduled to occur according to the JCPOA?

Implementation Day occurred on 16 January 2016 when the IAEA verified the implementation by Iran of the nuclear-related measures as described in the relevant paragraphs of the JCPOA, and simultaneously the E3/EU+3 lifted sanctions as described in the relevant paragraphs of the JCPOA.

2. What sanctions were lifted on Implementation Day and is there a list of the sanctions that were lifted?

On Implementation Day (16 January 2016), the EU lifted all its economic and financial sanctions taken in connection with the Iranian nuclear programme. Details on sanctions which were lifted on Implementation Day are to be found in section 3 of this Information Note.

3. What sanctions remain in place on Implementation Day?

Proliferation-related sanctions which remain in place are described in section 5 of this Information Note. Restrictive measures not related to nuclear issues or proliferation, such as those related to human rights and support for terrorism, as described in section 6 of this Information Note, remain in place as they are not covered by the JCPOA.

4. What exports to Iran are permitted?

As of Implementation Day (16 January 2016), all exports to Iran are permitted, with the following exceptions:

- Prior authorisation to be granted on a case-by-case basis by the competent authority of the relevant Member State is needed for the export of goods and technology in Annexes I, II, VIIA and VIIB to Council Regulation 267/2012, as modified by Council Regulation No 2015/1861;*
- A prohibition is maintained on the export of arms as detailed in the EU Common Military List and missiles-related goods and technology as detailed in Annex III (Missile Technology Control Regime list) to Council Regulation 267/2012 concerning restrictive measures against Iran, as modified by Council Regulation No 2015/1861;*
- In addition, it remains prohibited under the Iran human rights sanctions regime to export equipment which might be used for internal repression and equipment for monitoring telecommunications since this is outside the scope of the JCPOA;*
- Finally, any export to or for the benefit of any person or entity listed under any EU sanctions regime shall remain prohibited (prohibition to make economic resources available to listed persons or entities)*

5. Are there any export control rules that apply to exports to third countries?

Any export control rules that apply independently from the sanctions taken in connection with the Iranian nuclear programme continue to apply. Any such controls apply to exports to any country outside the EU. In addition, goods and technology in Annexes I, II, VIIA and VIIB to Council Regulation 267/2012, as modified by Council Regulation No 2015/1861 are subject to specific authorisation regimes if they are for an Iranian person, entity or body in or outside Iran.

6. What does the term "associated services" mean when used in Annex II of the JCPOA?

For the purposes of Annex II of the JCPOA the term "associated services" means any service – including technical assistance, training, insurance, re-insurance, brokering, transportation or financial service – necessary and ordinarily incident to the underlying activity for which sanctions have been lifted pursuant to the JCPOA.⁶³ It is noted that the EU legal acts provide further clarity regarding the scope of lifting of sanctions on associated services for each measure.

7. Does the lifting of sanctions also include the lifting of restrictions currently in place on Iranian students?

As of Implementation Day (16 January 2016), Member States are no longer under a UN or EU imposed obligation to prevent specialised teaching or training of Iranian nationals of disciplines which would contribute to Iran's proliferation-sensitive nuclear activities and development of nuclear weapon delivery systems.⁶⁴ However, other international obligations and commitments including UN Security Council resolution 1540 and commitments of Member States under the international export control regimes concerning intangible transfer of controlled technology related to Weapons of Mass Destruction proliferation as well as non-assistance obligations under the Chemical Weapons Convention and Biological Weapons Convention continue to apply. Member States may also have additional national approval schemes that remain in place.

8. What will happen if Iran does not comply with the provisions of the JCPOA?

If Iran or the E3/EU+3 believes that the commitments under the JCPOA are not met, the issue could be referred to the Joint Commission. The Joint Commission would try to solve the issue through the dispute resolution mechanism described in the JCPOA. If at the end of the process the complaining participant believes the issue still has not been resolved to its satisfaction, and if the complaining

⁶³ Footnote 3 in Annex II of the JCPOA.

⁶⁴ Annex II, paragraph 1.5.1, of the JCPOA.

participant deems the issue to constitute significant non-performance, it can notify the UN Security Council that it believes the issue constitutes significant non-performance of the obligations under the JCPOA. The UN Security Council will vote on a resolution to continue the sanctions lifting and if this resolution has not been adopted within 30 days of the notification, then the provisions of the old UN Security Council resolutions⁶⁵ will be re-imposed, unless the UN Security Council decides otherwise.

In such an event, the European Union, following the necessary Council decision, will reintroduce ("snapback") EU sanctions taken in connection with the Iranian nuclear programme that have been suspended and/or terminated.

9. Is it possible that new sanctions on Iran will be introduced by the UN/EU/U.S.?

The EU and the U.S. will refrain from re-introducing or re-imposing sanctions that have been lifted under the JCPOA or from imposing new nuclear-related sanctions, without prejudice to the dispute resolution process provided for under the JCPOA. There will be no new nuclear-related UN Security Council sanctions, without prejudice to the dispute resolution process provided for under the JCPOA.

10. What kind of support is established for evaluating and determining if an activity is consistent with the JCPOA?

The Joint Commission consisting of the E3/EU+3 and Iran is established to monitor the implementation of the JCPOA and carries out the functions specified in Annex IV of the JCPOA.⁶⁶

For the review and recommendations on proposals for nuclear-related transfers to or activities with Iran the Joint Commission is assisted by the Procurement Working Group. As regards the lifting of sanctions the Joint Commission is assisted by a Working Group on Implementation of Sanctions Lifting. The High

⁶⁵ UN Security Council resolutions 1696 (2006), 1737 (2006), 1747 (2007), 1803 (2008), 1835 (2008), 1929 (2010) and 2224 (2015).

⁶⁶ Annex IV, paragraph 2.1.1 to 2.1.16, of the JCPOA.

Representative serves as the coordinator of the Joint Commission and both working groups.

Financial, banking and insurance measures

11. Is it permissible to access financial and banking services in Iran?

The restrictions on accessing financial and banking services in Iran (as contained in EU Council Decision 2010/413/CFSP and Council Regulation 267/2012) are lifted as of Implementation Day (16 January 2016).

12. Does the lifting of measures on banking allow the reopening of correspondent banking accounts?

As of Implementation Day (16 January 2016), banking activities including the establishment of new correspondent banking relationships with Iranian banks are allowed, provided that the Iranian financial institution is not a listed entity.

13. Can an EU person or entity use any Iranian bank for its business and engage in banking transactions? Or are there still Iranian banks listed?

Certain Iranian banks remain listed (Ansar Bank, Bank Saderat Iran and Bank Saderat plc, and Mehr Bank). Hence, due diligence should be performed to ensure that the Iranian bank is not listed as activities and transactions with these banks remain prohibited. Banking transactions or relationships with non-listed Iranian banks are permissible.

14. Is there any limitation to opening a new bank account or entering into a correspondent banking relationship with non-listed financial institutions domiciled in Iran or their branches or subsidiaries?

All restrictive measures concerning financial, banking and insurance measures are lifted and, as of Implementation Day (16 January 2016), it is permissible to open a new bank account or to enter into correspondent banking relationships with credit or financial institutions domiciled in Iran (or their branches or subsidiaries), provided that they are not listed.

15. Is there any limitation to opening branches, subsidiaries or representative offices of Iranian banks in EU Member States or of European banks in Iran?

As of Implementation Day (16 January 2016), non-listed Iranian banks are allowed to open branches, subsidiaries or representative offices in EU Member States. EU financial institutions are then permitted to open branches, subsidiaries or representative offices in Iran.

16. What sanctions on the Central Bank of Iran (CBI) and other listed Iranian financial institutions will remain?

The CBI and certain other listed Iranian financial institutions were delisted and therefore sanctions related to these entities are no longer applicable.

17. Is there any limitation for the Central Bank of Iran (CBI) to access its funds and economic resources?

The CBI was delisted on Implementation Day (16 January 2016), hence sanctions related to this entity are no longer applicable as of that day and any funds or economic resources that have been frozen pursuant to its listing were released.

18. Is there any limitation for financial institutions supplying financial messaging services for the Central Bank of Iran (CBI) and other non-listed financial institutions?

The prohibition for financial institutions to supply specialised financial messaging services used to exchange financial data applies in relation to listed entities. The CBI and certain other listed Iranian financial institutions were delisted. Therefore, financial institutions can supply financial messaging services for the CBI and other non-listed financial institutions.

19. Will financial institutions be exposed to U.S. sanctions for transacting with Iranian financial institutions if those Iranian financial institutions have banking relationships with Iranian persons on the SDN list?

This question addresses the U.S. sanction regime and for an accurate response reference is made to the U.S. Guidelines and FAQs on the OFAC website.⁶⁷

20. Are Iranian banks allowed to reconnect to SWIFT?

As of Implementation Day (16 January 2016), Iranian banks which are no longer included in the list of persons and entities subject to EU restrictive measures are allowed to reconnect to SWIFT⁶⁸. Persons and entities delisted on Implementation Day are included in the Annex to Council Implementing Regulation (EU) 2015/1862 of 18 October 2015, implementing Regulation (EU) No 267/2012 concerning restrictive measures against Iran. Additional entities delisted on 22 January 2016 are included in the Annex to Council Implementing Regulation (EU) 2016/74 of 22 January 2016, implementing Regulation (EU) No 267/2012 concerning restrictive measures against Iran

Against this background reference is made to a statement published by SWIFT⁶⁹, that banks delisted by the Implementing Regulation will automatically be able to reconnect to SWIFT on Implementation Day, following the completion of SWIFT's normal connection process (i.e. administrative and systems checks, connectivity and technical arrangements).

21. Is it permissible for EU financial institutions to clear transactions involving non-listed Iranian persons or entities after Implementation Day?

Yes, EU financial institutions are permitted to clear transactions with non-listed Iranian persons or entities. EU financial institutions will have to ensure, however,

⁶⁷ <https://www.treasury.gov/resource-center/sanctions/Programs/Pages/iran.aspx>

⁶⁸ The following Iranian banks remain listed: Ansar Bank, Bank Saderat Iran and Bank Saderat plc, and Mehr Bank. See annexes VIII (UN listings) and IX (autonomous listings) to Regulation (EU) No 267/2012.

⁶⁹ https://www.swift.com/insights/press-releases/update_iran-sanctions-agreement

*that they do not clear transactions through other financial systems, or with other entities, where such activity is not allowed.*⁷⁰

22. Is it permissible to transfer funds to and from Iran?

As of Implementation Day (16 January 2016), the prohibition to transfer funds with non-listed Iranian banks is lifted. Consequently, all limitations to transfer funds to or from Iran applicable to non-listed Iranian banks, financial institutions and bureaux de change, as well as any subsidiary or branch, cease to apply.

23. Is it still necessary to file notifications and requests for authorisations relating to the transfer of funds pursuant to Articles 30, 30a of Council Regulation 267/2012 as currently applicable? Is there any limitation in relation to the amount of funds that can be transferred?

As of Implementation Day (16 January 2016), there is no requirement to file notifications and requests for authorisations relating to the transfer of funds to and from Iran as these articles are removed from Council Regulation 267/2012⁷¹. Equally, restrictions linked to the amount of funds to be transferred no longer apply in accordance with the JCPOA.

24. Is it permissible to transfer funds to and from Iran for foodstuffs, healthcare, medical equipment, or for agricultural or humanitarian purposes?

According to the restrictions on transfer of funds to and from Iran in place before Implementation Day the transfer of funds regarding foodstuffs, healthcare, medical equipment, or for agricultural or humanitarian purposes were permitted under certain conditions. However, as of Implementation Day, the provisions regarding transfer of funds to and from Iran are lifted and the limitations to transfer funds cease to apply with the exception of transfer of funds or economic resources to listed persons or entities.

⁷⁰ <https://www.treasury.gov/resource-center/sanctions/Programs/Pages/iran.aspx>

⁷¹ Article 1 (15), Council Regulation (EU) 2015/1861 of 18 October 2015 amending Council Regulation 267/2012.

25. Is it permissible for listed person and entities to use frozen funds for extraordinary expenses?

Those persons and entities that are removed from the list have immediate access to their funds on that same day. The persons and entities remaining listed do not have access to their funds. However, exemptions to take account of in particular basic needs of targeted persons, legal fees, and extraordinary expenses remain in force and listed persons can request an authorisation from the competent authorities of Member States in order to use their funds where a valid derogation applies.

26. Is there any limitation for Iranian banks and financial institutions, bodies and entities to access their funds and economic resources?

Non-listed Iranian banks and financial institutions are not subject to any asset freeze measures by the European Union. Therefore, their funds in the EU are not frozen. On Implementation Day (16 January 2016), a number of listed Iranian banks and financial institutions were delisted followed by additional Iranian banks on 23 January 2016. Consequently, delisted Iranian banks and financial institutions had access to their frozen funds in the EU. However, a limited number of Iranian banks and financial institutions remain listed (Ansar Bank, Bank Saderat Iran and Bank Saderat plc, and Mehr Bank) and not able to access their funds in the EU, unless specifically provided for in Council Regulation 267/2012.

27. How does the lifting of sanctions provided under the EU legal acts in accordance with the JCPOA affect the provision of insurance and reinsurance for transactions involving Iran?

As of Implementation Day (16 January 2016), it is permitted to provide insurance and reinsurance to Iran or the Government of Iran or any non-listed Iranian person, entity or body acting on their behalf or at their direction.⁷²

⁷² Annex II, paragraph 3.2.3 of the JCPOA.

28. Is the purchase or sale of Iranian issued sovereign debt allowed?

The sale or purchase of public or public-guaranteed bonds issued by, for example, the Government of Iran or the Central Bank of Iran, or Iranian banks and credit or financial institutions, and providing related services thereto, is permitted as of Implementation Day (16 January 2016). The same applies to any natural or legal person entity or body acting on behalf or owned and controlled by them.

29. Are there any limitations on the provision of financial support for trade with Iran, including export credits, guarantees or insurance?

As of Implementation Day (16 January 2016), EU Member States are no longer prohibited from entering into new commitments to provide financial support for trade with Iran, including the granting of export credits, guarantees or insurance, to EU nationals or entities.

30. Is there any limitation for persons to enter into new commitments for grants or concessional loans to the Government of Iran?

As of Implementation Day (16 January 2016), EU Member States are no longer prohibited from entering into new commitments for grants, financial assistance and concessional loans to the Government of Iran, including through their participation in international financial institutions.

31. Is there any limitation to financial institutions opening a new representative office or establishing a new branch or subsidiary in Iran?

As of Implementation Day (16 January 2016), EU financial institutions are able to open representative offices, subsidiaries or banking accounts in Iran. It is also permissible to establish new joint ventures with Iranian financial institutions. However, EU financial institutions cannot engage in banking activities with those Iranian banks that remain listed under EU sanctions.

Oil, gas and petrochemical sectors

32. Are petrochemicals covered by the lifting of sanctions?

Yes, activities related to Iranian petrochemicals are covered by the lifting of sanctions on Implementation Day (16 January 2016).⁷³

33. Is it permissible to purchase, acquire, sell or market petroleum products, petrochemical products and natural gas to or from Iran?

Yes, as of Implementation Day (16 January 2016), it is permissible to purchase, acquire, sell or market petroleum products, petrochemical products and natural gas to or from Iran and to provide associated services.⁷⁴

34. Does the lifting of sanctions on Iranian crude oil, petroleum products, petrochemical products and liquefied natural gas also cover the provision of transport?

The transport of Iranian oil and petrochemical products, and the provision of insurance and re-insurance, including protection and indemnity (P&I) insurance, are permissible. As of Implementation Day (16 January 2016), the transport of Iranian petroleum products and liquefied natural gas, and the provision of insurance and re-insurance, including protection and indemnity (P&I) insurance, are also permissible. As of Implementation Day, other activities and transactions related to Iranian oil and natural gas such as the provision of financing are also allowed.⁷⁵

35. Are sanctions on entities such as the National Iranian Oil Company lifted?

All entities removed from the list are no longer subject to restrictive measures. As of Implementation Day (16 January 2016), the National Iranian Oil Company, as well as its listed subsidiaries and affiliated companies, are removed from the list

⁷³ Annex II, paragraph 3.3.1, of the JCPOA.

⁷⁴ Annex II, paragraphs 1.2.2. and 1.2.5, of the JCPOA.

⁷⁵ Annex II, paragraph 3.3.1, of the JCPOA.

of listed entities and as a consequence the sanctions on these entities are lifted and transactions are allowed.

36. Is it permissible to invest in Iran's oil, gas and petrochemical sectors?

Yes, as of Implementation Day (16 January 2016), it is permissible to invest in Iran's oil, gas and petrochemical sectors.⁷⁶

37. The JCPOA provides that on Implementation Day the application of efforts to reduce Iran's crude oil sales are ceased, including limitations on: the quantities of Iran crude oil sold; the countries that can purchase Iranian crude oil and the use of Iranian oil revenues. What will this entail?

This question addresses the U.S. sanction regime and for an accurate response reference is made to the U.S. Guidelines and FAQ's on the OFAC website.⁷⁷

38. Is it prohibited for an EU person to conduct business with an Iranian entity in which a natural person or entity listed by the EU retains a minority or non-controlling interest?

EU persons are prohibited from making available funds or economic resources to listed persons or entities directly or indirectly. The criteria to establish control or ownership and whether funds or economic resources are made indirectly available to designated persons and entities are to be found in the 'Guidelines on implementation and evaluation of restrictive measures (sanctions) in the framework of the EU Common Foreign and Security Policy'.⁷⁸

⁷⁶ Annex II, paragraph 1.2.4, of the JCPOA.

⁷⁷ <https://www.treasury.gov/resource-center/sanctions/Programs/Pages/iran.aspx>

⁷⁸ See link to 'New elements on the notions of ownership and control and the making available of funds or economic resources' in section 8 on reference documents.

Shipping, shipbuilding and transport sectors

39. Is it permissible to provide vessels designed for the transport of Iranian oil and petrochemical products?

*Yes, it is permissible to supply vessels designed for the transport or storage of oil and petrochemical products to non-listed Iranian persons or entities as well as to any person or entity for the transport of Iranian oil or petrochemical products.*⁷⁹

40. Is it permissible to export naval equipment and technology for shipbuilding to Iran?

*Yes, as of Implementation Day (16 January 2016), it is permissible to export naval equipment and technology for shipbuilding, maintenance or refit, to Iran or to non-listed Iranian or Iranian-owned enterprises engaged in this sector.*⁸⁰

41. Is it permissible to construct and repair Iranian vessels?

*Yes, as of Implementation Day (16 January 2016), it is allowed to sell, supply, transfer or export naval equipment and technology for ship building, maintenance or refit, to Iran or to any Iranian persons engaged in this sector such as NITC and IRISL. The participation in the design, construction and repair of cargo vessels and oil tankers for Iran or for non-listed Iranian persons or Iranian-owned enterprises engaged in this sector such as NITC and IRISL is also allowed as of Implementation Day.*⁸¹

42. Is it permissible to provide flagging and classification services to vessels owned or controlled by Iranian persons?

Yes, as of Implementation Day (16 January 2016), the provision of flagging and classification services, including those pertaining to technical specification, registration and identification numbers of any kind, to Iranian oil tankers and cargo vessels owned or controlled by non-listed Iranian or Iranian-owned

⁷⁹ Annex II, paragraphs 1.3.1 and 1.3.2, of the JCPOA.

⁸⁰ Annex II, paragraph 3.4.1 of the JCPOA

⁸¹ Annex II, paragraph 3.4.1. of the JCPOA.

enterprises engaged in the shipping and shipbuilding sectors such as NITC and IRISL is allowed.

43. Is it permissible to provide bunkering or ship supply services to Iranian owned or Iranian contracted vessels?

Yes, as of Implementation Day (16 January 2016), it is permitted to provide bunkering or ship supply services to Iranian-owned or Iranian-contracted vessels, including chartered vessels, not carrying prohibited items.⁸²

Gold, other precious metals, banknotes and coinage

44. Is it permissible to mint coins for Iran or deliver newly printed or unissued Iranian denominated banknotes to the Central Bank of Iran?

As of Implementation Day (16 January 2016), the delivery of newly minted coinage and newly printed or unissued Iranian denominated banknotes to or for the benefit of Central Bank of Iran is allowed.⁸³

45. Is it permissible to export diamonds to Iran?

As of Implementation Day (16 January 2016), the sale, purchase, transportation or brokering of diamonds to Iran is allowed.⁸⁴

46. Is it permissible to supply, sell, purchase, transfer, export or import gold and other precious metals to and from Iran, the Government of Iran, its public bodies, corporations and agencies, any person, entity or body owned or controlled by them?

Yes, it is permissible to sell, supply, purchase, export, or transfer gold and precious metals, to provide related brokering, financing and security services to, or from or for the Government of Iran, its public bodies, corporations and agencies or the Central Bank of Iran its public bodies, corporations and agencies,

⁸² Annex II, paragraph 3.4.4 of the JCPOA

⁸³ Annex II, paragraph 1.4.1, of the JCPOA

⁸⁴ Annex II, paragraph 1.4.1, of the JCPOA

any person, entity or body acting on their behalf or at their direction, or any entity or body owned or controlled by them.

Metals / Software

47. Are all restrictions on the export of software lifted?

As of Implementation Day (16 January 2016), the export of software to Iran is permitted, with the following exceptions:

- *Prior authorisation to be granted on a case-by-case basis by the competent authority of the relevant Member State is needed for the sale, supply, transfer or export of Enterprise Resource Planning software, designed specifically for use in nuclear and military industries as set out in Annex VIIA to Council Regulation 267/2012, as modified by Council Regulation No 2015/1861, and the provision of associated services;*
- *Prior authorisation to be granted on a case-by-case basis by the competent authority of the relevant Member State is needed for the sale, supply, transfer or export of software related to nuclear equipment and technologies as set out in Annexes I and II to Council Regulation 267/2012, as modified by Council Regulation No 2015/1861;*
- *On the contrary, the sale, supply, transfer or export of software related to ballistic missiles as set out in Annex III to Council Regulation 267/2012, as modified by Council Regulation No 2015/1861, is still subject to a prohibition.*

48. What metals are still subject to restriction on the sale, supply or export to Iran?

As of Implementation Day (16 January 2016), the export of metals to Iran is permitted with the following exception:

- *Prior authorisation to be granted on a case-by-case basis by the competent authorities of the Member State is needed for the sale, supply, transfer or export of graphite and raw or semi-finished metals and the provision of technical assistance or training, financing or financial assistance. The list of items covered by this restriction can be found in*

Annex VIIB to Council Regulation 267/2012, as modified by Council Regulation No 2015/1861.

49. Is an entity allowed to invest in the production or in a production facility in Iran for the production of metals covered by an export authorisation regime?

Yes, the JCPOA does not preclude investment in Iran in sectors related to goods the sale, supply, transfer or export, of which remain subject to an authorisation regime.

50. Is the sale or export of aluminium oxide (alumina) to Iran subject to prior EU authorisation?

The list of graphite and raw or semi-finished metals subject to prior authorisation to be granted on a case-by-case basis by the competent authority of the relevant Member State⁸⁵ can be found in Annex VIIB to Council Regulation 267/2012, as modified by Council Regulation No 2015/1861.

51. Is it permissible to sell, supply, transfer, export or to provide technical and financial assistance related to software to an Iranian person body or entity?

Sale, supply, transfer or export of Enterprise Resource Planning software⁸⁶, including updates and provision of associated services, to any Iranian person, entity or body, or for use in Iran is no longer prohibited as of Implementation Day (16 January 2016) but is subject to prior authorisation to be granted on a case-by-case basis by the competent authorities of the Member States.

Nuclear proliferation-related measures

52. Where can the list of dual-use goods which can be exported to Iran be found?

The lists of dual-use goods which can be exported to Iran – subject to prior authorisation – are to be found in Annexes I (Nuclear Suppliers Group (NSG) list, Parts I and II) and II (EU autonomous list) of Council Regulation 267/2012, as

⁸⁵ Competent authorities of each Member State are identified in Annex X to Council Regulation 267/2012 concerning restrictive measures against Iran.

⁸⁶ Described in Annex VIIA to Council Regulation 267/2012 as modified by Council Regulation No 2015/1861.

modified by Council Regulation No 2015/1861. In addition to this, export licenses for other dual-use goods listed in Annex I of Regulation (EC) No 428/2009 can be applied for in line with the provisions of that regulation.

53. Is it permissible to apply for a license to export dual-use goods to Iran?

Yes, licenses to export dual-use goods should be requested from the competent authority in the relevant Member State. A list of the national competent authorities is to be found in Annex X of Council Regulation 267/2012, as modified by Council Regulation No 2015/1861.

54. Is an authorisation for the export of dual-use goods granted by an EU Member State valid in other EU Member States?

Yes, authorisations for the export of dual-use goods granted by the competent authorities of the Member State where the exporter is established shall be valid throughout the Union.

55. How much time will it take to obtain a licence?

This is a matter for the relevant competent authority responsible for issuing licenses.

56. Article 2d(3)(b) Council Regulation 267/2012, as modified by Council Regulation No 2015/1861, states that Member States shall notify the IAEA of supplied products included in the NSG list: Is a reference to both lists (NSG Part I and II) intended?

Notification obligation concerns both lists – Part I and II - of the Nuclear Suppliers Group (NSG) and is to be found in Annex I to Council Regulation 267/2012, as modified by Council Regulation No 2015/1861.

Arms & ballistic missiles

57. Are arms exports also subject to prior authorisation in the procurement channel?

The EU arms embargo was not lifted on Implementation Day (16 January 2016). Sanctions related to arms, including the provision of associated services, remain in place until Transition Day.

Listing of persons, entities and bodies (asset freeze and visa ban)

58. Is it permissible to do business with anybody in Iran? Or are there still persons and entities listed?

Yes, in general terms, as of Implementation Day (16 January 2016), it is permissible to do business with Iranian persons or entities, with the exception of those that remain listed until Transition Day or are listed under a different sanctions regime and thus remain subject to the asset freeze measures, including the prohibition to make funds or economic resources available. It is advised to consult these lists before engaging in a business relationship. A central register of persons and entities that are subject to EU sanctions is available online.⁸⁷

59. How to verify if an entity or individual is on the sanctions list?

It is the responsibility of every person or entity within the European Union, and EU nationals anywhere in the world to conduct due diligence checks to ensure that they are not making funds or economic resources available to a listed person.

A central register of persons and entities that are subject to EU sanctions is available online.⁸⁸

60. Does the JCPOA allow new sanctions to be imposed against Iranian persons or entities for providing support to the Government of Iran after Implementation Day?

In accordance with the JCPOA, the EU will refrain from imposing new sanctions against Iranian persons or entities exclusively on the grounds of providing support, such as material, logistical or financial support, to the Government of Iran.

⁸⁷ http://eeas.europa.eu/cfsp/sanctions/consol-list/index_en.htm

⁸⁸ http://eeas.europa.eu/cfsp/sanctions/consol-list/index_en.htm

Reintroduction of sanctions

61. What would trigger the reintroduction of EU economic and financial sanctions?

In the event of a significant non-performance by Iran of its commitments under the JCPOA and having exhausted all the steps under the dispute resolution mechanism, the European Union shall reintroduce EU sanctions ("snapback") that have been lifted. It should be noted that all parties to the JCPOA are determined to avoid any behaviour which could be qualified as non-performance and to avoid a re-imposition of sanctions by engaging in the Dispute Resolution Mechanism.

62. How will EU sanctions be reintroduced in case of snapback?

A decision by the Council of the European Union, based on a recommendation by the High Representative of the European Union for Foreign Affairs and Security Policy, France, Germany and the United Kingdom, will reintroduce all EU sanctions taken in connection with the Iranian nuclear programme that have been suspended and/or terminated. Reintroduction of EU sanctions in case of significant non-performance by Iran of its commitments under the JCPOA will be done consistent with previous provisions when sanctions were originally imposed.

63. What happens with existing contracts in the event of the reintroduction of EU sanctions?

In the event of the reintroduction of EU sanctions, sanctions will not apply with retroactive effect. The execution of contracts concluded while the JCPOA sanctions relief was in force and in accordance with the EU legal framework will be permitted consistent with previous provisions when sanctions were originally imposed, in order to allow companies to wind down their activities. Details about the period of time allowed for the execution of prior contracts will be specified in the legal acts providing for the reintroduction of EU sanctions. For example, the reintroduction of sanctions on investment activities would not retroactively penalise investment made before the date of snapback, and the execution of investment contracts concluded before the reintroduction of sanctions will be permitted consistent with previous provisions when sanctions were originally

imposed. Contracts that were permitted when the sanctions regime was still in place will not be targeted by the reintroduction of sanctions.

64. Is the moment of a snapback publicly announced?

The reintroduction of EU sanctions will imply the adoption of legal acts terminating the suspension of articles in Council Decision 2010/413CFSP, as amended by Council Decision 2015/1863, and reintroducing the corresponding articles in Council Regulation 267/2012, as modified by Council Regulation 2015/1861. These legal acts will be published in the Official Journal of the European Union and therefore publicly available.⁸⁹

Procurement channel

65. How does the procurement channel function?

The UN Security Council will respond to requests by States to export certain goods to and perform certain activities in Iran (NSG list/Annex I to Council Regulation 267/2012, as modified by Council Regulation 2015/1861) after the recommendation of the Procurement Working Group/Joint Commission.

66. What is the role of the Procurement Working Group?

The role of the Procurement Working Group is to review and make recommendations on behalf of the Joint Commission on proposals for nuclear-related transfers to or activities with Iran through a Procurement Working Group.⁹⁰

67. Who is the “Coordinator” in point 6.4.1 of JCPOA Annex IV?

The High Representative serves as the Coordinator of the Procurement Working Group.⁹¹

⁸⁹ See Article 2 of Council Decision (CFSP) 2015/1863 of 18 October 2015.

⁹⁰ Annex IV, paragraph 6.2, of the JCPOA.

⁹¹ Annex IV, paragraph 6.3, of the JCPOA

68. How is confidentiality of information when sending an authorisation application ensured? For example, on sensitive business-related information.

The operation of the Procurement Working Group is subject to the confidentiality rules of the UN.⁹²

69. How will the Procurement Working Group communicate its authorisation decisions to domestic authorities?

The Procurement Working Group will review applications and make a recommendation to the UN Security Council, which will then communicate its decision to national competent authorities.

⁹² Annex IV, paragraph 3.4, of the JCPOA

8. Reference documents

Joint Comprehensive Plan of Action (JCPOA)

- JCPOA

http://eeas.europa.eu/statements-eeas/docs/iran_agreement/iran_joint-comprehensive-plan-of-action_en.pdf

- JCPOA – Annex I – Nuclear-related measures

http://eeas.europa.eu/statements-eeas/docs/iran_agreement/annex_1_nuclear_related_commitments_en.pdf

- JCPOA – Annex II – Sanctions-related commitments

http://eeas.europa.eu/statements-eeas/docs/iran_agreement/annex_2_sanctions_related_commitments_en.pdf

Attachments Annex II

http://eeas.europa.eu/statements-eeas/docs/iran_agreement/annex_1_attachements_en.pdf

- JCPOA – Annex III – Civil Nuclear Cooperation

http://eeas.europa.eu/statements-eeas/docs/iran_agreement/annex_3_civil_nuclear_cooperation_en.pdf

- JCPOA – Annex IV – Joint Commission

http://eeas.europa.eu/statements-eeas/docs/iran_agreement/annex_4_joint_commission_en.pdf

- JCPOA – Annex V – Implementation Plan

http://eeas.europa.eu/statements-eeas/docs/iran_agreement/annex_5_implementation_plan_en.pdf

United Nations

- UN Security Council resolution 2231(2015)

http://www.un.org/en/ga/search/view_doc.asp?symbol=S/RES/2231%282015%29

- UN Security Council

<http://www.un.org/en/sc/>

EU legal acts

- Council Decision 2010/413/CFSP of 26 July 2010 concerning restrictive measures against Iran and repealing Common Position 2007/140/CFSP

<http://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1452107576951&uri=CELEX:32010D0413>

- Council Decision (CFSP) 2015/1863 of 18 October 2015 amending Decision 2010/413/CFSP concerning restrictive measures against Iran

<http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32015D1863&from=EN>

- Council Regulation No 267/2012 of 23 March 2012 concerning restrictive measures against Iran and repealing Regulation (EU) No 961/2010

<http://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1452107630568&uri=CELEX:32012R0267>

- Council Regulation (EU) 2015/1861 of 18 October 2015 amending Regulation (EU) 267/2012 concerning restrictive measures against Iran. (including annexes)

<http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32015R1861&from=EN>

- Council Implementing Regulation (EU) 2015/1862 of 18 October 2015 implementing Regulation (EU) No 267/2012 concerning restrictive measures against Iran

<http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32015R1862&qid=1452102679407&from=EN>

- Council Decision (CFSP) 2016/37 of 16 January 2016 concerning the date of application of Decision (CFSP) 2015/1863 amending Decision 2010/413/CFSP concerning restrictive measures against Iran

<http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=OJ:L:2016:011I:TOC>

- Notice: Information concerning the date of application of Council Regulation (EU) 2015/1861 of 18 October 2015 amending Regulation (EU) No 267/2012 concerning restrictive measures against Iran (OJ L 274, 18.10.2015, p. 1) and Council Implementing Regulation (EU) 2015/1862 of 18 October 2015 implementing Regulation (EU) No 267/2012 concerning restrictive measures against Iran (OJ L 274, 18.10.2015, p. 161)

<http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=OJ:C:2016:015I:TOC>

- Council Implementing Decision (CFSP) 2016/78 of 22 January 2016 Implementing Decision 2010/413/CFSP concerning restrictive measures against Iran

http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L_.2016.016.01.0025.01.ENG&toc=OJ:L:2016:016:TOC

- Council Implementing Regulation (EU) 2016/74 of 22 January 2016 implementing Regulation (EU) No 267/2012 concerning restrictive measures against Iran

http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L_.2016.016.01.0006.01.ENG&toc=OJ:L:2016:016:TOC

Other relevant EU documents

- Frequently Asked Questions on EU restrictive measures

http://eeas.europa.eu/cfsp/sanctions/docs/frequently_asked_questions_en.pdf

- Guidelines on implementation and evaluation of restrictive measures in the framework of the EU Common Foreign and Security Policy

<http://register.consilium.europa.eu/doc/srv?l=EN&f=ST%2011205%202012%20INIT>

- New elements on the notions of ownership and control and the making available of funds or economic resources

<http://register.consilium.europa.eu/pdf/en/13/st09/st09068.en13.pdf>

- EU Best Practices for the effective implementation of restrictive measures

<http://data.consilium.europa.eu/doc/document/ST-10254-2015-INIT/en/pdf>

U.S. OFAC website

<https://www.treasury.gov/resource-center/sanctions/Programs/Pages/iran.aspx>



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF FOREIGN ASSETS CONTROL

Iranian Transactions and Sanctions Regulations
31 C.F.R. Part 560

GENERAL LICENSE H

**Authorizing Certain Transactions Relating to
Foreign Entities Owned or Controlled by a United States Person**

(a) Except as provided in paragraph (c), an entity owned or controlled by a United States person and established or maintained outside the United States (a “U.S.-owned or -controlled foreign entity”) is authorized to engage in transactions, directly or indirectly, with the Government of Iran or any person subject to the jurisdiction of the Government of Iran that would otherwise be prohibited by 31 C.F.R. § 560.215.

Note 1 to paragraph (a): This general license does not authorize the reexportation from a third country of any goods, technology, or services prohibited by 31 C.F.R. § 560.205.

Note 2 to paragraph (a): For purposes of this general license, an entity is “owned or controlled” by a United States person if the United States person: (1) holds a 50 percent or greater equity interest by vote or value in the entity; (2) holds a majority of seats on the board of directors of the entity; or (3) otherwise controls the actions, policies, or personnel decisions of the entity. See 31 C.F.R. § 560.314 for a definition of the term United States person, which includes foreign branches of an entity organized under the laws of the United States or any jurisdiction within the United States.

(b) A United States person is authorized to engage in the following activities that would otherwise be prohibited by 31 C.F.R. part 560:

(1) activities related to the establishment or alteration of operating policies and procedures of a United States entity or a U.S.-owned or -controlled foreign entity, to the extent necessary to allow a U.S.-owned or -controlled foreign entity to engage in transactions authorized in paragraph (a); and

(2) activities to make available to those foreign entities that the U.S. person owns or controls any automated and globally integrated computer, accounting, email, telecommunications, or other business support system, platform, database, application, or server necessary to store, collect, transmit, generate, or otherwise process documents or information related to transactions authorized in paragraph (a).

Note 1 to paragraph (b)(2): For purposes of this subsection, the term “automated” refers to a computer, accounting, email, telecommunications, or other business support system, platform, database, application, or server that operates passively and without human intervention to facilitate the flow of data between and among the United States person and its owned or controlled foreign entities.

Note 2 to paragraph (b)(2): For purposes of this subsection, the term “globally integrated” refers to a computer, accounting, email, telecommunications, or other business support system, platform, database, application, or server that is available to, and in general use by, the United States person’s global organization, including the United States person and its owned or controlled foreign entities.

Note 3 to paragraph (b)(2): Paragraph (b)(2) does not authorize the use of any automated computer, accounting, email, telecommunications, or other business support system, platform, database, application, or server in connection with any transfer of funds to, from, or through a United States depository institution or a United States-registered broker or dealer in securities.

Note to paragraph (b): See 31 C.F.R. § 560.208 for prohibitions on facilitation by United States persons, which remain in effect, with the exception of activities authorized in paragraph (b).

(c) Paragraph (a) of this general license does not authorize transactions involving:

(1) The exportation, reexportation, sale, or supply, directly or indirectly, from the United States of any goods, technology, or services prohibited by 31 C.F.R. § 560.204, without separate authorization from the Office of Foreign Assets Control (OFAC);

(2) Any transfer of funds to, from, or through a United States depository institution or a United States-registered broker or dealer in securities;

(3) Any person on OFAC’s list of Specially Designated Nationals and Blocked Persons (SDN List), or any activity that would be prohibited by any part of chapter V of 31 C.F.R. other than part 560 if engaged in by a United States person or in the United States;

(4) Any person identified on the List of Foreign Sanctions Evaders pursuant to Executive Order 13608;

(5) Any activity involving any item (including information) subject to the Export Administration Regulations, 15 C.F.R. parts 730-774 (EAR), that is prohibited by, or otherwise requires a license under, part 744 of the EAR; or participation in any transaction involving a person whose export privileges have been denied pursuant to part 764 or 766 of the EAR, without authorization from the Department of Commerce;

(6) Any military, paramilitary, intelligence, or law enforcement entity of the Government of Iran, or any official, agent, or affiliate thereof;

(7) Any activity that is sanctionable under Executive Order 12938 or 13382 (relating to Iran’s proliferation of weapons of mass destruction and their means of delivery, including ballistic missiles); Executive Order 13224 (relating to international terrorism); Executive Order 13572 or 13582 (relating to Syria); Executive Order 13611 (relating to Yemen); or Executive

Order 13553 or 13606, or section 2 or 3 of Executive Order 13628 (relating to Iran's commission of human rights abuses against its citizens); or

(8) Any nuclear activity involving Iran that is subject to the procurement channel established pursuant to paragraph 16 of the United Nations Security Council Resolution 2231 (2015) and Section 6 of Annex IV to the Joint Comprehensive Plan of Action of July 14, 2015 and that has not been approved through that procurement channel process.

(d) This general license does not authorize any transaction by a United States person prohibited by any part of chapter V of 31 C.F.R. other than part 560.



John E. Smith
Acting Director
Office of Foreign Assets Control

Dated: January 16, 2016



, 16/04/2016
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STATEMENT

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

On 16 April 2016, the EU High Representative and Vice-President of the European Commission (HRVP) Federica Mogherini met Iranian Foreign Minister Mohammad Javad Zarif in Tehran. European Commission representatives present included EU Commissioners Elzbieta Bienkowska (Internal Market, Industry, Entrepreneurship and SMEs), Arias Cañete (Climate Action and Energy), Christos Stylianides (Humanitarian Aid and Crisis Management), Violeta Bulc (Transport), Carlos Moedas (Research, Science and Innovation), Karmenu Vella (Environment, Maritime Affairs and Fisheries) and Tibor Navracsics (Education, Culture, Youth and Sport). They met with their Iranian counterparts.

The two sides taking stock of their long standing relations, based upon mutual respect and interests, reiterated their intention to develop a broad and comprehensive agenda for bilateral cooperation.

They welcomed the implementation day of the Joint Comprehensive Plan of Action (JCPOA) on 16 January 2016 that contributed to opening a new chapter in EU-Iran relations. The EU and Iran are fully committed to the JCPOA and its implementation in all its aspects. It was reconfirmed that the continued and full implementation of the JCPOA remains of utmost importance.

It was stated that the following shared and overarching objectives are vital for the promotion of EU-Iran relations:

- Ensuring and supporting the full implementation of the JCPOA in order to further improve and deepen bilateral cooperation;
- Developing cooperative relations in areas of mutual interest to benefit the economic development, human rights, prosperity and well-being of the people of Iran and the EU;
- Promoting regional peace, security and stability as well as peaceful settlement of regional conflicts through dialogue and engagement.

To facilitate the programme of cooperation as set out below and with a view to preparing the future opening of an EU Delegation in Tehran, in accordance with rules and regulations of the Islamic Republic of Iran, an EU liaison team will be sent to Tehran. This will contribute to strengthening the relations and implement

future cooperation initiatives.

The EU and Iran intend to cooperate in the following areas:

Political Consultations

The two sides intend to enhance their political dialogue through consultations at the level of the HRVP and the Iranian Foreign Minister, annually. This advances the existing agreement to meet regularly for a High Level Dialogue at Deputy Minister/ Political Director level. Senior officials and experts will meet as required to explore other fields of mutual interest in which bilateral, regional and international cooperation projects could be developed.

Human Rights

The two sides expressed their determination to enhance and promote human rights. In this context, they intend to engage in a human rights dialogue. To this end, they would welcome the exchange of visits of delegations.

Economic Cooperation

The two sides encourage the expansion of economic relations between EU and Iran, recognizing the importance of macro-economic issues, trade, finance and investment in achieving sustainable growth and development. They intend to engage in a macro-economic and finance dialogue including on the following initiatives:

- Improve and enable financial as well as encouraging banking cooperation between the EU and Iran. The EU can assist if required in addressing Anti Money Laundering and Countering Financing of Terrorism (AML/CFT) issues;
- Explore the prospect of extending the third country lending mandate of the European Investment Bank (EIB) to Iran, to enhance the availability of finance for investment in Iran and possible blending (of loans with grants);
- Cooperation in a variety of sectors with a focus in particular on encouraging regulatory and industrial policy dialogues and creating mutual opportunities, including textiles, tourism, raw materials, construction and any other areas to be mutually determined;
- Building on EU expertise in the field of SMEs support to foster business and in particular SMEs favourable environment in Iran and share information on the "Enterprise Europe Network";
- Exchange of Iran and EU business missions in the second half of the year;
- Consider development cooperation on strengthening the private sector and SMEs in Iran;
- Facilitate and encourage EU-Iran business sector presence in each others' markets through a variety of measures .

Trade and investment Cooperation

The two sides strive to strengthen their bilateral cooperation on trade and investment matters. With a view to renewing a dialogue to strengthen trade and investment relations between Iran and EU, they agreed to exchange visits of expert delegations at an appropriate level in the coming months. EU will support and assist Iran to become a member of the World Trade Organization (WTO).

Agriculture

The two sides intend to promote cooperation on agriculture and the agri-food industry with a view to exploring production and technological methods and to assisting Iranian products to meet regulatory and phytosanitary standards of the European markets.

Transport

The two sides express their commitment to a safe and sustainable development of all modes of transportation in order to support the resumption of trade, investment and citizens' links. Specifically with respect to the safety of transport, in line with consultations already held, they intend to:

- Perform technical assessments to remove and review restrictions on the aircraft fleet of Iran Air with regard to the EU Air Safety List, and to issue "Third Country Operator Authorization" to the Iranian air carriers that applied, provided the necessary safety requirements have been met;
- Embark on technical cooperation in support of aviation safety in Iran;
- Exchange views on the possibility of a horizontal agreement;
- Exchange views and experience on rail safety and interoperability, as well as facilitation of international rail transport, including rail corridors;
- Explore cooperation in other sectors, such as maritime, rail, road and urban transport.

Energy and climate change

Recognizing the significant potential in establishing a comprehensive cooperation in the field of energy, the two sides intend to:

- Foster improved conditions for investments and technology exchange in the production and generation of energy, and energy efficiency; and exchange information, where needed, on legal and regulatory frameworks ;
- Engage in initiatives which aim at strengthening the security of energy supply and demand in the region and beyond ;
- Cooperate in multilateral fora with a view to enhancing the transparency and the functioning of the global energy market ;
- Promote investments and encourage technological and technical exchanges to mitigate GHGs emission as well as adaptation measures through promoting energy efficiency in different sectors of the Iranian economy as well as enhancing use of renewable energies;
- Facilitate investments in upstream and downstream projects in the energy sector of Iran.

For this purpose it is intended to launch a dedicated EU-Iran Dialogue on Energy. The objectives and modalities of such cooperation are further detailed in the Joint Statement on Energy.

Civil nuclear cooperation

With a view to contributing to the implementation of measures listed in Annex III of the JCPOA, the two sides are launching a first cooperation project in the field of nuclear safety aimed at assisting the Atomic Energy Organisation of the Islamic Republic of Iran and the Iranian Nuclear Regulatory Authority through EU development assistance. In addition, the EU will share with Iran its experience acquired from stress tests carried out within the EU and in third countries. Additional options for co-operation in the civil nuclear field include joint fission and fusion research activities, as well as a possible regional nuclear safety conference and a nuclear business forum.

Environment

In recognition of the importance of protecting and conserving the environment and the role of resource efficiency in achieving green growth, and in acknowledgment of Iran's pressing environmental challenges, the two sides intend to:

- Establish bilateral co-operation to address air, soil and water pollution, water resources management, conservation and sustainable use of nature, biodiversity, desertification, and waste disposal management issues;
- Exchange experiences with a view to identifying appropriate policy responses, including projects to tackle cross-border pollution;
- Strengthen co-operation in international environmental fora including in the framework of multilateral environmental agreements.

Civil protection

In support of better prevention, detection and response to disasters, including at the regional level, the two sides intend to share experiences and best practices.

Science, Research and Innovation

The two sides will foster further the science, research and innovation cooperation between the EU and Iran, including through stepping up Iran's participation in the EU Research and Innovation Programme Horizon 2020 and its complementary Euratom Programme. They will encourage setting up partnerships with EU counterparts, knowledge-sharing, mobility of researchers, participation in collaborative research activities in various areas. They will share experience in the areas of technology and innovation. For this a separate joint statement on science, technology, research and innovation was agreed between Commissioner Carlos Moedas and his counterpart, Dr. Mohammad Farhadithe Iranian Minister for Science, Research and Technology and Dr. Sorena Sattari the Vice-President of the Islamic Republic of Iran for Science and Technology.

Education

Acknowledging the importance of developing the human dimension of EU-Iran relations, the two sides intend to further deepen their cooperation in the field of higher education. To this effect, it is recalled that the EU has earmarked an additional budget of EUR 3 million for Erasmus+ actions, to be used for cooperation with Iran in 2016 and 2017. The two sides will expand the possibilities for Iranian higher education institutions to participate in the Jean Monnet action for European integration studies. They also intend to organize relevant academic events and fairs, in Tehran towards the end of 2016 to foster cooperation between our universities and promote the participation of Iranian students and researchers and academic staff in EU programmes, particularly Erasmus+ and the Marie Skłodowska Curie action. The EU will also explore ways to allow for Iranian students to participate in Erasmus+ "credit mobility" action, which consists of short-term mobility to European and Iranian universities.

Culture

Both Iran and the EU have remarkably rich cultures and cultural heritage which makes them significant for global tourism industry. Both sides therefore will promote tourism and ecotourism plans and programs. Moreover, the two sides would share expertise in the area of conservation and restoration of archaeological and historical works of art and monuments in order to contribute to the preservation of cultural heritage and the promotion of cultural tourism. To this effect, the EU can share its expertise in the field, including through developing specific training modules. The two sides also intend to further develop cultural

cooperation between EU, its Member States and Iran, including through exchanges of professionals and organisation of events aimed at making their respective cultures better known to the people in the EU and Iran. To this effect the two sides will consider ways to improve Iran-EU cultural and art exchanges in Tehran and the European capitals. In addition, Iran and the EU consider that developing their cooperation in the field of sport constitutes a component of their engagement.

Drugs

Both sides recognized and agreed to meet the challenges for Iran resulting from opium production in the region, as well as its multiple negative side effects in the areas of drug trafficking, human trafficking, border management, law enforcement and health related aspects. Drug abuse inflicts huge damage on the societies and individuals in Europe and Iran, thus both sides have a common interest in addressing the drugs problem, both on the supply and demand side, as well as transit issues. The two sides intend to engage in consultations, exchange of experience, and expertise, including on effective and proportional criminal justice, as well as explore measures to address root causes of the problem, including poverty alleviation and reconstruction in Afghanistan, support for political stability to foster required environment for sustainable development in that country, both at multilateral and bilateral levels. Both sides share the view on the need for evidence-based, integrated, comprehensive and balanced approach in the fight against drugs.

Migration

The two sides agreed to launch a comprehensive migration dialogue and acknowledged the need to exchange information on migration management and flows as well as on policy and legislative approaches and priorities in relation to regular and irregular migration, asylum seekers and refugees, both at national and regional levels.

Regional issues

The two sides acknowledged the seriousness and urgency of addressing the volatile situation in the region. Terrorism, extremism and violence have endangered regional stability and inflicted loss of human life and resources on an unprecedented scale and have become global issues. In this context, both sides will look at ways to implement the UNGA Resolution on World Against Violence and Extremism (A/RES/128/67). They therefore consider that it is crucial to translate the positive benefits of the JCPOA into improved prospects for regional peace and stability. To this end, the two sides will engage, in a constructive and equitable manner, on regional issues with a view to building channels of dialogue, mutual trust and understanding, and in particular to fostering approaches aimed at resolving regional crises.

The two sides consider that solutions to such crises must be inclusive, peaceful and comprehensive, and above all sustainable. They stress the need for all actors to adopt constructive approaches that reinforce the principles of non-interference and the territorial integrity of states, as well as respecting the primacy of international law, including human rights.

Humanitarian Cooperation

The two sides share deep concerns on the dire humanitarian situation in the region due to the multiple conflicts. Violence and insecurity have led to the displacement of millions of people and the EU and Iran advocate all parties to the conflict to ensure the protection of vulnerable population as well as humanitarian access to the people in need. The two sides intend to enhance humanitarian coordination and humanitarian

assistance delivery in respect of International Humanitarian Law in the crises affecting Syria, Iraq, Yemen and Afghanistan. The EU expresses its appreciation to Iran's decision to include all registered Afghan refugees in the national health insurance scheme on the same basis as its own citizens and to allow all foreign children irrespective of their legal status to be enrolled in the national education system. The EU will continue to provide humanitarian and development assistance in support of health care, shelter, food security and protection for the most vulnerable. In order to meet the needs of a growing number of Afghans in Iran, the EU will make immediately available EUR 6.5 million for additional humanitarian support. Within this amount EUR 1.5 million is allocated to assist with the integration of 10,000 out of school Afghan children into the Iranian education system. Both the EU and Iran recognize the importance of working closely with the Government of Afghanistan on a common and mutually reinforcing strategy towards durable solutions. Cooperation on civil society building and strengthening of the local authorities is continuing and the two sides intend to increase this cooperation in the future.

- [Link to EU Iran Joint Statement on energy cooperation](#) 

- [Link to EU Iran Joint Statement on cooperation in nuclear energy](#) 

- [Link to EU Iran Joint Statement on science, technology, research and innovation](#) 

FOR FURTHER DETAILS:

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