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A New Trade Vehicle Could Preserve the Nuclear Deal's Core Bargain

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On January 31, 2019, France, Germany, and the United Kingdom announced ^[1] their most substantive move yet to save the 2015 Iran nuclear deal, to which they are signatories, from collapse. With the European Union's blessing, the three states established a special channel that shields trade with Iran from U.S. sanctions. The Instrument in Support of Trade Exchanges, or INSTEX, as the channel is called, holds out the possibility that Europe can yet salvage the nuclear agreement's core bargain: that Iran was to limit its nuclear activities in return for the normalization of economic relations. The preservation of this arrangement will depend not only on the modicum of European-Iranian trade that INSTEX might help preserve but on whether Europe can navigate a narrow path between what Iran expects and what the United States can tolerate.

President Donald Trump's decision in May 2018 to withdraw from the nuclear deal, formally known as the Joint Comprehensive Plan of Action (JCPOA), brought with it the return of powerful U.S. sanctions that had been frozen as part of the agreement. The new sanctions, unlike those that had preceded the JCPOA, have neither UN nor EU support. Washington put them in place unilaterally—but still to devastating effect. In recent months, dozens of international companies have left Iran, the country's oil exports have halved, its national currency has tumbled in value, and inflation has soared. Iran's parliamentary think tank has issued a bleak forecast, suggesting that, in the more optimistic of two scenarios, the country could expect -2.6 percent growth this year and -4.5 percent next year. The country's president has assessed ^[2] the economic situation as the direst in the four decades since the 1979 revolution.

As the White House tries to rally broader international support for its "maximum pressure" campaign, one stubborn fact bedevils its efforts: over the past two years, the International Atomic Energy Agency (IAEA) and the UN secretary-general, and, last week, the U.S. Director of National Intelligence, have consistently assessed that Iran has kept up its end of the JCPOA ^[3]. And so, the deal's remaining participants argue, must they.

Indeed, it is this imperative to salvage a multilateral agreement, painstakingly reached and still serving its core function, that has prompted the Europeans to act—not a naïve view of the Islamic Republic, whose ballistic missile tests, human rights record, assassination plots, and regional engagements they view with serious concern. As Jeremy Hunt, the UK's foreign secretary, told his EU colleagues ^[4] on January 31, commitment to the JCPOA "does not in any way preclude us from addressing Iran's hostile and destabilizing activities." Nor have the European nations acted from avarice for an Iranian payday that had failed to materialize even before the United States reimposed sanctions.

Rather, the European signatories to the JCPOA have concluded that dealing with Iran on areas of divergence will be far more difficult if the one area of convergence is lost. And as the details of the INSTEX make clear, Europe is proceeding cautiously in its effort to preserve this foundation without antagonizing its transatlantic ally.

SHOT IN THE ARM

INSTEX is what is known as a special purpose vehicle, providing European banks and companies with a new trade channel for Iran-related business insulated from U.S. sanctions. Through the vehicle, Iranian exports to Europe will accrue as credits, which can then be used to make purchases from European suppliers. The Swiss have been working on a similar arrangement. Replacing bank transfers with what is, in essence, a barter mechanism reduces Iran's exposure to the U.S.-dominated international banking system and therefore limits Washington's opportunity to impose penalties. The statement inaugurating the channel specifically refers ^[4] to

Iran's import of "pharmaceutical, medical devices, and agri-foods": humanitarian goods whose movement is already exempt from U.S. sanctions in theory, but often hampered in practice because banks are reluctant to engage with the Iranian market.

Europe's initiative comes at a pivotal moment in Iran's domestic debate over the JCPOA. President Hassan Rouhani's administration, which arguably oversold the JCPOA's economic benefits for Iran, has seen several of its highest-profile deals with the likes of Total and Boeing collapse. The European Union had promised that INSTEX would be up and running before the United States reimposed sanctions on Iran's oil exports in November of 2018, only to delay. The deal's advocates in Tehran, already on the ropes as the dividends of complying with the deal have dwindled, have viewed these setbacks with frustration, as indications of European half-heartedness in confronting Washington's economic siege.

Moreover, Europe has itself recently imposed sanctions on Iran's intelligence ministry over its alleged plots to assassinate government opponents on European soil. (Tehran, not altogether convincingly, denies involvement.) Those penalties, combined with tough words about Iranian ballistic missile activity, contribute to Tehran's impression that Iranian missteps meet with disproportionate censure. "The Europeans are hesitant when it comes to declaring the United States in breach of the JCPOA," a senior Iranian official told us, "but are resolute in considering the slightest violations of the nuclear deal on our part as cause for siding with the United States against Iran. Isn't this the definition of a double standard?"

INSTEX is therefore arguably as much a diplomatic shot in the arm as it is a strictly economic mechanism: the vehicle allows Rouhani's administration to counter the growing domestic chorus urging that Iran downgrade its JCPOA commitments or abandon the deal altogether.

BALANCING ACT

For INSTEX to succeed, Europe's private sector must buy into it. U.S. officials are skeptical that this will happen: Brian Hook, the U.S. special representative for Iran, [said](#) ^[5] that the plan was like a "reverse *Field of Dreams*: if you build it, they will not come. We just don't see any evidence that significant corporations want to make use of a vehicle."

But private-sector interest is not the only factor that will determine the vehicle's success. Europe has made certain expectations for Iran clear as well. The three countries behind INSTEX took the occasion of the vehicle's announcement to strongly urge Tehran's compliance with long-demanded reforms to Tehran's money-laundering and anti-terrorism financing frameworks. The Rouhani government has encountered major internal opposition to these reforms. But without them Iran risks making itself a financial pariah. And without further badly needed measures to address other economic problems, from a troubled banking sector to sputtering currency policies, even a successful INSTEX will at best be a balm to a system that requires major surgery.

Finally, Washington's response to INSTEX may also help determine its ultimate efficacy. The vehicle is a fairly modest one, and it is well insulated, but the Trump administration may yet try to stymie its operation. The mechanism is intended to be transparent so that participating companies and governments can pool knowledge and experiences. But that is a double-edged sword, a senior European Union official told us, because if the United States decided to sabotage INSTEX, it would know exactly whom to penalize. Washington might move against the vehicle if it suspects that INSTEX is shielding non-exempt goods, or that countries outside the European Union are participating in it. Such developments would both undercut the economic element of U.S. Iran policy and more broadly threaten American financial primacy.

Put another way, INSTEX risks causing Iranian disappointment if it fails and American anger if it succeeds. But the effort to set it up and the wider consensus on supporting the JCPOA are significant. As [tensions](#) ^[6] between Tehran and Washington continue to rise, Europe's intervention may help defer the renewal of a nuclear crisis that would dramatically escalate the stakes.

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[2] <https://uk.reuters.com/article/uk-iran-usa-sanctions/iran-facing-the-toughest-economic-situation-in-40-years-president-idUKKCN1PO0RR>

[3] <https://www.crisisgroup.org/middle-east-north-africa/gulf-and-arabian-peninsula/iran/195-thin-ice-iran-nuclear-deal-three>

[4] <https://www.gov.uk/government/news/joint-statement-on-the-new-mechanism-to-facilitate-trade-with-iran>

[5] <https://www.state.gov/r/pa/prs/ps/2018/12/287742.htm>

[6] <https://www.crisisgroup.org/trigger-list/iran-us-trigger-list>