



Europe and the Future of Iran Policy: Dealing with a Dual Crisis

Ali Fathollah-Nejad



Since signing the Joint Comprehensive Plan of Action (JCPOA), the EU/E3—the EU, Germany, France, and the UK—have pursued rapprochement with Iran. Since the U.S. withdrawal, the future of the JCPOA has been in jeopardy. This policy briefing provides a critical review of Europe’s policy of rapprochement with Iran. It contends that EU policy on Iran must address two crises: first, a U.S. policy toward Iran that contrasts with the one pursued by Europe, with the transatlantic powers working at cross-purposes and, second, an Islamic Republic that faces an acute crisis

at home. This briefing suggests Europe should cooperate with Washington over Iran policy, acting as a corrective. *Vis-a-vis* Tehran, Europe must pursue a dual strategy of continued cooperation while using its leverage to encourage Iranian course corrections. Such an Iran policy would couple pragmatism with idealism as enshrined in the EU Global Strategy.

KEY RECOMMENDATIONS

- **Keep the JCPOA alive for two reasons:** (1) containing the Iran nuclear program would help prevent a nuclear arms race in the Middle East; (2) maintaining the JCPOA ensures that the EU will retain leverage over Iran.
- **Engage Washington:** A transatlantic Iran policy should not be buried because concerns over Iranian policy are likely to outlive the Trump Administration. Yet the EU should simultaneously pursue the project of strategic autonomy.
- **Use the EU’s leverage with Iran:** The EU should not shy away from introducing conditions for cooperation. Taking a steadfast approach will present an important driver for Tehran to start changing its behavior.
- **Avoid pro-regime favoritism:** The EU needs to take a clear stance in support of the Iranian people’s democratic rights. Leaving the scene to Washington would play into the hands of the regime’s repressive apparatuses. The EU must signal to Iran’s elite that state repression will negatively impact its economic and political engagement.
- **Initiate an overdue paradigm shift toward harmonizing foreign and development policies:** The authoritarian stability and neoliberal economic policies of the past have failed to produce stability in Europe’s neighborhood, including Iran. The EU must now prepare the conceptual grounds for a paradigm shift in its foreign policy.

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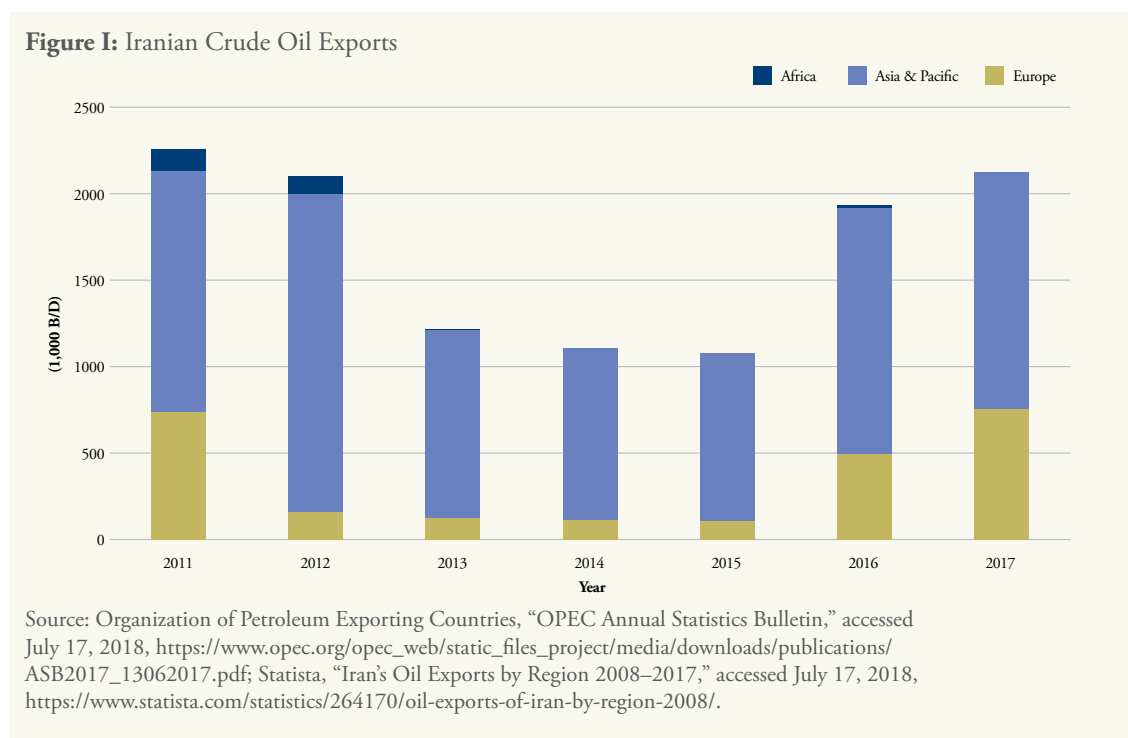
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INTRODUCTION

U.S. President Donald Trump’s unilateral withdrawal from the JCPOA on May 8, 2018, followed by Secretary of State Mike Pompeo’s May 21 address on a new Iran policy, has called into question the viability of that multilateral agreement. This development poses an immense challenge to Europe’s policy of cooperation and rapprochement with Iran.² Pompeo has made twelve maximalist demands, calling on Iran to end its nuclear and ballistic missile programs and to cease regional meddling. This has been

accompanied by regime change rhetoric and a public relations campaign questioning the Islamic Republic’s legitimacy.³ Yet the administration insists that it only seeks to change the regime’s behavior.⁴ At the core of Washington’s maximum pressure strategy toward Tehran stands the re-imposition of U.S. extraterritorial sanctions in two rounds; in early August and more importantly in early November 2018 targeting Iran’s oil exports (see Figure 1) and its central bank.



The economic impact of the U.S. sanctions started unfolding even before their re-imposition. Many European companies and financial institutions have been forced to halt their Iran activities while the Iranian national currency has spiraled downwards.

With U.S. sanctions already taking a heavy toll on Iran's crisis-ridden economy, there is still uncertainty about the end game of the Trump administration's maximum pressure strategy; is it seeking the regime's collapse or forcing it to change its behavior through an aggressive containment policy to limit its offensive capabilities, ultimately bringing it closer to bowing to U.S. demands? President Trump's July 2018 offer to strike a new deal with Tehran without preconditions suggests that the latter might be pursued.⁵ But this willingness stands in contrast to his secretary of state's twelve demands, making it hard for the Iranian leadership to enter into public talks while saving face. However, despite Iran's Supreme Leader Ali Khamenei's rejection of talks,⁶ they cannot be excluded given the heavy and comprehensive impact of U.S. sanctions. Indeed, Tehran is left with little benefit of what remains from the JCPOA, at a time of acute domestic crisis.⁷ Oman and Switzerland might provide back channels for such talks.⁸

Washington's new Iran policy might indeed be intended to provoke Tehran to leave the JCPOA and to force it into accepting a new deal. However, Iran abandoning the JCPOA might only be the case under special circumstances, as such a material breach of the accord would abrogate the U.N. Security Council resolution that suspended international sanctions.⁹ U.N. sanctions would be snapped back, while Tehran would lose the support of the remaining partners to the agreement (EU/E3, Russia, and China).

The Islamic Republic of Iran has entered the most acute crisis in its history. The 2017/2018 revolt and ongoing protests have resulted from interrelated socioeconomic, political, and environmental challenges, reaching an unprecedented climax. The new U.S. strategy is likely to deepen Iran's internal crisis, at the same time helping to fuel

Tehran's authoritarianism.¹⁰ While the chances of Iran abiding by Pompeo's demands regarding its regional policies is close to nil,¹¹ the unprecedented crisis at home and dwindling resources might pave the way for Iranian compromises.

Meanwhile, Europe has pledged its intention to save the JCPOA and has expressed opposition to the new U.S. policy on Iran. However, it cannot ignore that Washington's maximum pressure policy challenges its own Iran policy of cooperation and rapprochement. Against this backdrop, the EU's Iran policy must address these two fundamental challenges: the new direction of U.S. policy, as well as Iran's unprecedented domestic crisis.

EUROPE AND IRAN: THE EU'S INTERESTS, STRENGTHS, AND LIMITATIONS

The EU's interests pertaining to Iran are (1) to maintain stability in the Persian Gulf region, which continues to be vitally important for global oil supplies and prices; (2) to resolve the conflicts in the Middle East, not least in order to prevent further refugee movements toward Europe in the wake of instability and failing states; (3) to diversify its energy supplies by increasing Iranian imports and reducing Europe's significant energy dependence on Russia; and (4) to boost exports of its industrial goods by expanding economic relations with Iran at a time of weak European growth rates over the past decade.

In its dealings with the Gulf region, the EU Global Strategy, published a year after the signing of the JCPOA, advocates a balanced engagement:

The EU will continue to cooperate with the Gulf Cooperation Council (GCC) and individual Gulf countries. Building on the Iran nuclear deal and its implementation, it will also gradually engage Iran on areas such as trade, research, environment, energy, anti-trafficking, migration and societal exchanges. It will deepen dialogue with Iran and GCC countries on regional conflicts, human rights and counter-terrorism, seeking to

prevent contagion of existing crises and foster the space for cooperation and diplomacy.¹²

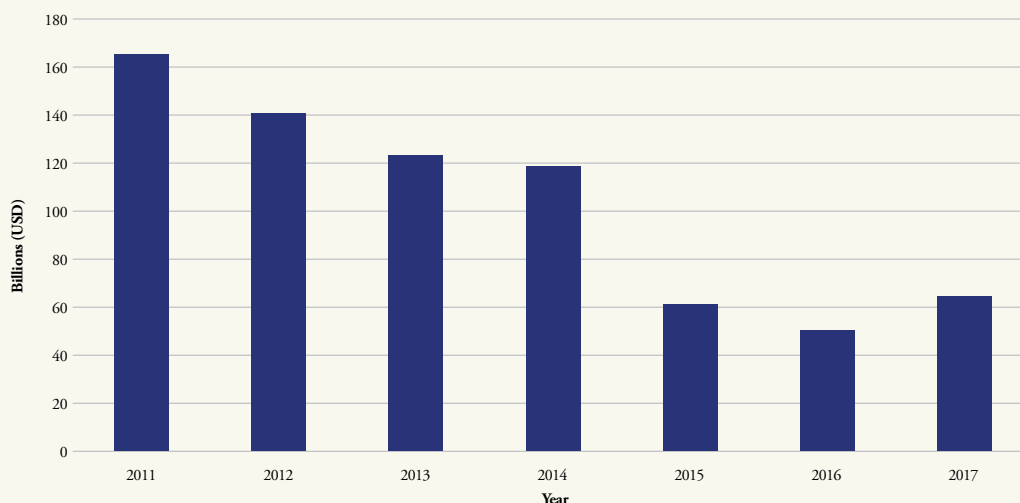
IRAN CAN HARDLY AFFORD TO LOSE EUROPE

However, these policy aims, for the most part, do not reflect the objectives espoused publicly by many European policymakers, who believe that engaging in trade and rapprochement with Iran should contribute to facilitating change there.

The strengths of Europe’s relationship with Iran lie in the central role it has played in the modernization of Iran’s industrial infrastructure, in the good reputation it enjoys across the Islamic Republic’s political spectrum, and in its substantial role in helping Tehran improve its standing in the international system.¹³ Importantly, Europe must recognize that it is the only power that can provide Iran with the economic benefits it seeks.¹⁴ These comparative advantages relative to other non-Western great-powers in fact constitute the EU’s leverage in its relations with Tehran.

Although Washington’s new tough line on Iran has emboldened hardline circles in Iran opposed to the JCPOA, there is a willingness at the top of the IRI to keep the deal alive. On May 23, Iran’s Supreme Leader demanded from Europe six concrete guarantees. They include increasing EU oil imports from Iran to compensate for re-imposed U.S. sanctions, while not raising the issue of Iran’s ballistic missile program and regional policies.¹⁵ Khamenei’s expressed concern about the loss of oil export revenues (see Figure 2), especially in a context of acute economic crisis at home,¹⁶ coupled with his stated intention to remain in the JCPOA with the EU’s help, signals that the Islamic Republic needs Europe in its own right, as well as to help offset U.S. pressure. The latter point remains a long-held policy of post-revolutionary Iran.

Figure II: Iranian Oil Revenue



Source: U.S. Energy Information Administration Database, “Total Petroleum and other Liquids Production,” accessed July 17, 2018, <https://www.eia.gov/beta/international/data/browser/#/?c=410000000200006000000000000200000000000000000000001&vs=INTL.44-1-AFRC-QBTU.A&vo=0&cv=H&end=2015>; Statista, “OPEC Crude Oil Price Statistics Annually 1960–2018,” accessed July 17, 2018, <https://www.statista.com/statistics/262858/change-in-opec-crude-oil-prices-since-1960/>.

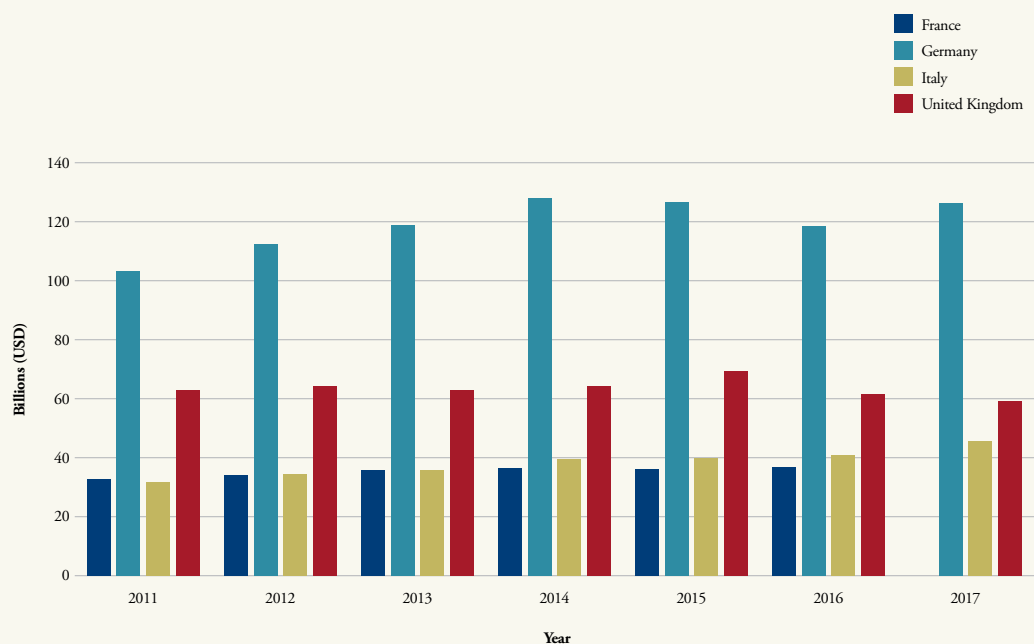
*THE EU AND THE TRUMP
ADMINISTRATION: ON THE NECESSITY
OF A TRANSATLANTIC IRAN POLICY*

The gulf between the EU and U.S. positions toward Iran might appear unbridgeable. Although it is not easy to imagine transatlantic cooperation over Iran to emerge from the ashes of Washington's hard exit from the JCPOA and the maximalist demands toward Tehran, there are several factors compelling both sides to find a modicum of common ground.

The EU, despite its stated aim to chart its own course on Iran policy, cannot afford to ignore U.S. policy. There are important reasons for this: (1) Economically, the re-imposition of U.S. sanctions will detract European economic engagement with Iran, given U.S. dominance in the international financial system and the dwarfing of the EU's business relations with Iran in comparison to those with the United States (see Figures 3 and 4)¹⁷; (2) Geopolitically, the U.S. maximum pressure policy poses a

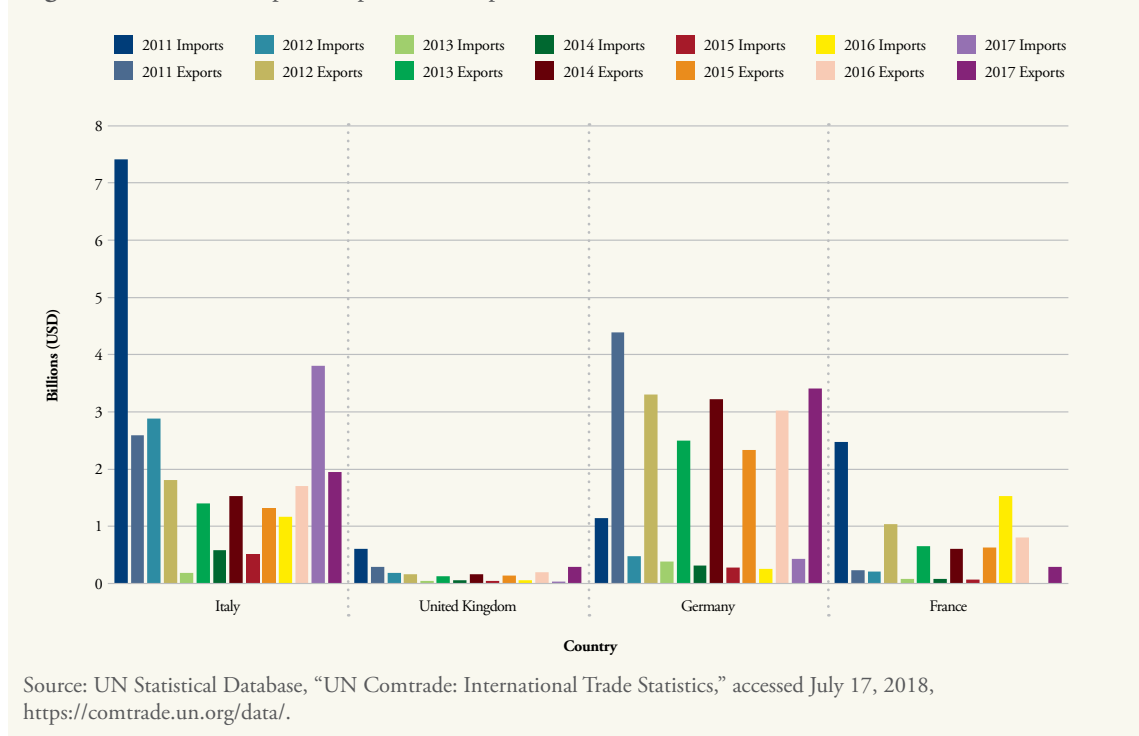
massive challenge to the EU's policy of cooperation and rapprochement. However, given the EU's stated objective of stability in West Asia, it is actually in its interest to be more critical of Iranian regional behavior. Indeed, its warmer relationship with Tehran has undermined its ability to effectively help reduce the Iranian–Saudi regional rivalry, which heavily weighs on many theaters of conflict throughout the region, including Lebanon, Syria, Iraq, Bahrain, and Yemen.¹⁸ (3) The EU–U.S. rift over Iran cannot be reduced to President Trump only, for concerns over Iranian behavior are likely to continue beyond the current U.S. administration, given the continuity of Tehran's regional policies.¹⁹ Even if Trump leaves the scene, the EU will have to deal with multiple issues of concern raised by its allies and partners who will lobby for a more decisive approach than the one traditionally favored by Europe. It is for this reason that the call had been made early on to embed the JCPOA in a larger Western regional policy.²⁰ It is therefore in the EU's economic and geopolitical interest to cultivate a transatlantic common ground regarding Iran and the region.

Figure III: European Exports to the United States



Source: UN Statistical Database, "UN Comtrade: International Trade Statistics," accessed July 17, 2018, <https://comtrade.un.org/data/>

Figure IV: Iranian-European Imports and Exports



ECONOMIC EUROPE TRUMPS POLITICAL EUROPE

Brussels has explicitly encouraged European firms to continue and even deepen business ties with Iran, identifying nine areas for the normalization of trade and economic relations with Iran.²¹ In this vein, the European Commission updated the Blocking Statute to protect European companies' Iran trade from reinstated U.S. extraterritorial sanctions. It also updated the European Investment Bank's (EIB) external lending mandate by making Iran eligible for investment activities, although this remains a complicated endeavor.²² However, European politicians do not possess the power to force European economic actors to engage in commercial activities with Iran given the shadow of U.S. sanctions. Based on a cost-benefit calculation, many European firms have already halted their Iran activities out of concern over U.S. penalties, be they financial or exclusion from the far more important U.S. market.

Yet, one must differentiate between European multinational corporations (MNCs) and small- and medium-sized enterprises (SMEs). MNCs' exposure to the United States has already forced them to halt their Iran operations, thus abandoning their plans for expansion.²³ SMEs, however, could indeed continue their business. In the case of Iran's most important European economic partner Germany, where 5,000 to 7,000 companies regularly do business with Iran, German-Iranian trade was sustained by SMEs. Even during the height of the U.N., U.S., and EU sanctions on Iran between 2012 and 2015, Germany exported goods and services worth around 2 billion euros annually.²⁴

For European economic engagement to continue with Iran, the EU must establish payment channels insulated from the U.S.-dominated financial circuit, with local banks playing an important role but necessitating a larger European commercial bank to conduct such payments.²⁵ For the time being, European companies have kept

a minimum presence in Iran, thus adopting a wait-and-see approach until the picture between Washington and Tehran clears up.

A MODIFIED EU IRAN POLICY OF COOPERATION AND RAPPROCHEMENT

It is necessary to critically review the EU's Iran policy before embarking on ways to modify it. For any transatlantic dialogue over Iran policy to succeed, it is indispensable to understand the genealogy leading to the May 2018 show-down. The U.S.–EU divide is the culmination of different perceptions of Iranian policies that preceded the U.S. withdrawal from JCPOA. While the European tendency has been to glorify Iran, the U.S. under Trump, has fallen back into demonizing it, as was the case during the George W. Bush administration.

THE JCPOA: SUCCESSES AND LIMITATIONS

The JCPOA was hailed by the EU as its chief diplomatic success of the recent past, a signature achievement for resolving proliferation crises and promoting a rules-based global order.²⁶ After an intense two-year negotiation period, the JCPOA succeeded in bringing the decade-long controversy over Iran's nuclear program to a halt. In accepting the deal in 2015, Iran agreed to extensively curb its nuclear program and subject it to a stringent inspection regime. In return, the five permanent members of the U.N. Security Council plus Germany (the so-called P5+1), or the EU/E3+3, lifted nuclear-related economic sanctions upon the JCPOA's implementation in 2016.

Critics have highlighted important flaws in the JCPOA. On one hand, these concern the sunset clauses: In 2020, the U.N. ban on Iranian arms imports and exports will be lifted. In 2023, the U.N. ban on assistance to Tehran's ballistic missile program will expire, while Iran would be able to restart manufacturing advanced centrifuges. In

2026, most restrictions on the nuclear program will end, and five years later, all of them will be lifted. At each of these stages, given the ongoing U.S.–Iran conflict of which the nuclear crisis was merely a symptom, an international Iran crisis could be triggered anew. On the other hand, critics deplored the fact that issues pertaining to Iran's foreign policy, most notably its ballistic missile program and its regional interventions, had been sidelined from the negotiations. Despite the political difficulties to successfully address many of those issues during the talks, their omission has borne the potential for future conflict, jeopardizing the viability of the agreement. The opportunity was missed to effectively use the JCPOA as the start of a process to address larger issues of concern in Iranian–Western relations, rather than as an end-game in itself, as the EU has preferred to view it.²⁷

A DE FACTO AUTHORITARIAN STABILITY POLICY

The JCPOA enabled the EU to revitalize its relations with Iran. The idea was that trade and political rapprochement would be beneficial to both sides and implicitly contribute to an opening in the Islamic Republic. On July 14, 2015, the ink on the JCPOA had barely dried when Germany's then-minister of economy and energy, Sigmar Gabriel, landed in Iran along with a large business delegation. The Germans were the first European government to make such a public overture. After all, some financial service firms hailed Iran as the most lucrative economic bonanza since the collapse of the Soviet Union.²⁸ In Germany in particular, and in Europe in general, the renewal of economic and political ties with Iran has been rationalized in the public policy sphere as part of a policy of change through trade and rapprochement (CTTR),²⁹ and as such has become almost immune to objective appraisal. While the German vice chancellor's visit could be perceived and criticized as a premature overture to an unaltered authoritarian regime, Ger-

many's political and economic elite supported the visit. Similar situations occurred in France and the UK, albeit to a slightly lesser degree.³⁰

CTTR policy is meant to facilitate a change within autocracies by engaging and trading with them. This strategy has often been invoked in the EU's relations with autocratic regimes. At least in the public policy sphere, Europe expected that the JCPOA deal would have a positive effect on Iran's domestic and foreign policies. However, a sober assessment reveals that a change has not materialized on any front.³¹

On the domestic front, expectations included more space for civil society and improvement of the human rights situation. JCPOA economic dividends were expected to benefit Iranians at large, to empower the reform-minded middle class, and ultimately to cultivate a gradual process of democratization. However, these expectations have not been met. In the domain of human rights, the situation has actually deteriorated, and President Hassan Rouhani's rhetoric has dampened real reforms while his own Ministry of Intelligence became increasingly complicit in human rights violations.³² Iran under Rouhani has led the world in executions per capita.³³ Space for activism has also remained highly restricted.³⁴ It is no coincidence that Iran is currently one of the largest sources of refugees fleeing to major European countries. Furthermore, the EU's foreign cultural and educational policies have not done enough to incorporate the diversity of Iranian society.³⁵

On the economic front, after signing the JCPOA, the bulk of trade agreements with Iran benefited the economic empires of the Islamic Revolutionary Guard Corps (IRGC), the Supreme Leader, and the *bonyads* (i.e. tax-exempt conglomerates that Iranian law treats as Islamic charities). In fact, by January 2017, out of almost 110 agreements signed after the JCPOA worth at least \$80 billion, 90 were signed with companies owned or controlled by those Iranian state or semi-state en-

ties.³⁶ In other words, the revitalization of trade has almost exclusively benefited the authoritarian state. This is hardly surprising given the reality of the Islamic Republic's politico-economic power configuration, in which a real private sector and free entrepreneurship barely exist in the face of dominant state or semi-state entities.

On the regional geopolitics front, according to the JCPOA's preface, "[The EU+3] anticipate that full implementation of this JCPOA will positively contribute to regional and international peace and security."³⁷ For others, including many of Iran's neighbors, the expectation was that Iran's constructive engagement with the West would translate into the moderation of its regional policies. In reality, President Rouhani's policy of moderation toward the West and on the nuclear issue has been effectively undercut by an increasingly assertive and expansive Iranian regional policy run by the IRGC and the Supreme Leader's Office.³⁸

Expectations of moderation in Iran's domestic politics and regional policy have not been realized. Internally, the human rights situation and socioeconomic conditions have worsened.³⁹ Economically, the Islamic Republic's elites benefited from the process, while most Iranians did not. Disillusionment spread among Iranians, ultimately paving the way to the 2017–2018 revolt. Externally, Iran has pursued its goal of retaining and expanding its regional power with more intransigence. This policy, in turn, has fueled the conflicts in Iraq and Syria and helped escalate tensions with Saudi Arabia and Israel, two important EU partners. The balancing act between maintaining the EU's close relationships with these partners and simultaneous rapprochement with Iran has constituted a tension that risks turning into open confrontation, putting the EU in a difficult position.

In conclusion, trade and rapprochement toward Iran have not set the stage for change. In fact, the EU's Iran policy has had more similarities with a

policy of authoritarian stability, similar to those pursued over the last decades with other autocracies in the Middle East and North Africa region. This finding was confirmed by an Iran specialist at the German Ministry for Economic Affairs and Energy and a senior member of the EU's Iran Task Force, both of whom confided this view to the author in June 2017 and February 2018 respectively, while their institutions' public stances claimed the contrary.

REVISITING THE SHORTCOMINGS OF THE EU'S IRAN POLICY

The shortcomings of the EU's Iran policy stem from a tendency to glorify in its account of Iranian politics and policies.⁴⁰ Over the past decades, European states have tended to exaggerate factional differences between the Iranian regime's hardliners and moderates. Moreover, in the wake of the JCPOA, Europe's position toward Tehran has been concerned that a more robust approach would imperil its economic and geostrategic interests in its process of rapprochement. Concerning the geopolitics of the region, Europe has succumbed to the fallacy of extrapolation by assuming that the constructive engagement policy, which led to the JCPOA, would translate into similar changes in Iran's regional policies. Europe's stance on regional geopolitics was underpinned by stability concerns. In Syria in particular, its interests de-facto aligned with those of the Islamic Republic, allowing the survival of President Bashar Assad's regime in Syria. As such, Europe by and large ignored that the Assad regime's barbarity was reinforcing jihadi terrorism, the fight against which the EU has prioritized.⁴¹

Europe needs to consider that Iran cannot be viewed as a factor of stability in West Asia. While the EU has rightly increased its awareness regarding malign activities by Saudi Arabia and its allies, it has neglected clear risks regarding Iran, particularly its regional expansionism and the promotion of parallel state structures,⁴² which have contributed to a

marked deterioration in Iran's relations with its neighbors. In Iraq and Syria, Tehran has been viewed as overplaying its hand. As such, these Iranian policies run counter to the EU's goal of promoting long-term stability in the region and strengthening state structures there.

IRAN'S TRIPLE CRISIS AND ITS RAMIFICATIONS

The 2017–2018 revolt against the regime has ushered in a new chapter in the history of the Islamic Republic.⁴³ In its relations with Tehran, Europe must draw important conclusions from this landmark development. A triple crisis is plaguing the Islamic Republic, covering socioeconomic, political, and environmental dimensions—all of which have acted as interrelated drivers for continuous protests since the 2017–2018 revolt. Firstly, Iran suffers from socioeconomic misery, with half the population living close to the poverty line, almost one third of the urban population living in slums, and one of the world's highest rates of youth unemployment. The lack of socioeconomic mobility is a product of a political economy favoring regime members and loyalists. In addition, social frustration set in over the lack of a trickling-down effect from JCPOA GDP growth. The economic situation is further exacerbated by the absence of much needed structural reforms.⁴⁴ Furthermore, the Iranian economy suffers from mismanagement, cronyism, and corruption. Although U.S. sanctions have contributed to the deteriorating situation in the country, with rising prices and a plummeting national currency, their overall impact on Iran's self-inflicted economic situation has often been overstated.⁴⁵ Secondly, the Islamic Republic faces an unprecedented political stalemate. As can be witnessed from various protest slogans, hardline and moderate factions, as well as the clerical establishment (many of whom are reformists), all have been the target of popular rage. As a result, the entire regime's legitimacy has been virulently questioned.⁴⁶ Thirdly, Iran suffers from an environmental catastrophe that is largely home-made. According to Iranian and

U.N. authorities, if ongoing trends prevail, half of the country's provinces will be inhabitable in 15–20 years, and by 2050 the country could turn into a desert. The environmental disaster, including water scarcity, is arguably a national security threat. It has already started to threaten the livelihood of tens of millions of Iranians.⁴⁷ Protests fueled by these developments have often been met with repression.

The severity of this new phase is characterized by a number of partly novel factors: (1) Protest slogans exhibit an unprecedented level of politicization that are targeting all factions of the regime; they are not sparing the moderates, as was the case during the 2009 Green Movement; (2) An irreversible chasm is emerging between the state and society, which can only be addressed by political and economic structural reforms; (3) In contrast to the Green Movement, whose social base was largely the urban middle class seeking greater political participation, the social base of the 2017–2018 revolt has been the lower socio-economic strata, conventionally conceived of as the regime's social base; (4) The loss of legitimacy of moderate elite groups, including Rouhani and the reformists, ushered in a deep crisis of factional rule in the Islamic Republic;⁴⁸ and (5) An acknowledgment by Iran's security establishment that the main threat to national security is from inside and not outside the country.⁴⁹

Importantly, this triple crisis is set to continue, as its underlying causes are likely to remain unaltered or worsen. This new era in the history of the Islamic Republic of Iran is marked by turmoil and potential instability. Another illustration of the regime's crisis is that U.S. pressure has failed to create a rally 'round the flag effect among Iranians. Protests with anti-regime slogans continue, blaming the deteriorating political and economic situation on the regime rather than on U.S. policy or sanctions.⁵⁰ More than anything else, and due to the lack of alternatives, this crisis has the potential to pave the way for Iranian negotiations

with the United States while increasing Tehran's dependency vis-à-vis great-powers, including Russia and Europe.

POLICY RECOMMENDATIONS

A modified European Iran policy would live up to the EU's foreign policy concept of principled pragmatism, which aims to combine "a realistic assessment of the current strategic environment" with "an idealistic aspiration to advance a better world," as enshrined in its Global Strategy.⁵¹ Europe must chart a more balanced Iran strategy of maintaining economic and political ties with Iran without falling into the trap of promoting an uncritical authoritarian stability policy. More of the same is unlikely to avoid chaos and instability.⁵² Europe must look beyond safeguarding the JCPOA, or as one German policymaker put it, its "nuclear hypnosis,"⁵³ and move toward a more balanced approach of continued cooperation while encouraging Iranian course corrections.

As an indispensable starting point, Europe must first establish a unified Iran policy that is binding to all member states to avoid opportunistic behavior by single countries. Also, it is essential to find a common ground among slightly differing European positions.⁵⁴ A readjusted policy should include the following core policy elements:

KEEP THE JCPOA ALIVE

With the support of Russia and China, the EU should save the JCPOA for two reasons: (1) containing the Iran nuclear program would help prevent a nuclear arms race in the Middle East; (2) maintaining the JCPOA ensures that the EU will retain leverage over Iran, which would otherwise dissipate if the deal completely falls apart. To ensure the survival of the JCPOA, Europe must maintain commercial interactions with Iran through its SMEs, allow Iran to export its oil to Europe, and enable European financial institutions to process payments.

ENGAGE WASHINGTON: A TRANSATLANTIC IRAN POLICY SHOULD NOT BE BURIED

Despite alienation from the Trump administration, Europe needs to pursue steps toward finding a transatlantic common ground on Iran. The EU should engage with the State Department's Iran Action Group. Also, it must continue to seek exemptions from U.S. sanctions.⁵⁵ While not burning bridges with Washington, the EU can simultaneously pursue the project of strengthening its autonomy by creating payment channels independent from the United States, such as a European monetary fund and an independent SWIFT system.⁵⁶ However, these goals cannot be attained in the short-term.⁵⁷

USE THE EU'S LEVERAGE WITH IRAN, COGNIZANT OF ITS COMPARATIVE ADVANTAGES

The EU should utilize its amassed weight in Tehran toward extracting gradual change in its domestic and regional behavior, while highlighting the benefits of such changes to Iran. Cognizant of the comparative advantages it has in Tehran, the EU should not shy away from introducing conditions for cooperation. Taking a steadfast approach, the EU will present an important driver for Tehran to start changing its behavior. Despite Tehran's official refusal to engage with Brussels over domestic issues and its regional role, a genuine concern over domestic economic instability will encourage it to accept the EU's promotion of gradual changes. While maintaining dialogue with Iran on regional security, Europe should adopt a dual strategy: (1) guarding Iran against the demonization of its role and (2) asking Iran for constraints in that role. Europe should differentiate between what Iran views as a deterrence strategy and what many of its neighbors regard as hegemonic ambitions.⁵⁸

AVOID PRO-REGIME FAVORITISM

Europe should not re-create the impression it gave during the 2017–2018 revolt, that it fa-

vors the regime over society. The EU should avoid alienating large sections of Iranian society, thereby ensuring its long-term reputation and interests in the country. With the prospect of deteriorating domestic conditions in Iran, Europe needs to be prepared for how to react if events in Iran escalate. If they do, the EU needs to take a clear stance in line with its own values and in support of the Iranian people's democratic rights. Failing to do so will make it easier for the regime to engage in suppression and increase the prospect of a bloodbath. Leaving the scene to the United States would play into the hands of the regime's repressive apparatuses. The EU must use its relations with various sections of Iran's elite, signaling to them that state repression will negatively impact its economic and political engagement and support. Europe's largely favorable reactions toward the 2010–2011 Arab Spring can serve as an example.

INITIATE AN OVERDUE PARADIGM SHIFT: HARMONIZING FOREIGN AND DEVELOPMENT POLICIES FOR THE SAKE OF SUSTAINABLE STABILITY

The authoritarian stability and neoliberal economic policies of the past have failed to produce stability in Europe's neighborhood, including Iran. The EU must now prepare the conceptual grounds for a paradigm shift in its foreign policy. It must support good governance and inclusive economic growth. Toward that end, the lessons from the Arab Spring, as formulated by the German Development Institute (DIE),⁵⁹ ought to be taken into consideration. Only through harmonizing foreign and development policies in the Middle East can the EU promote long-term stability in Europe's troubled neighborhood. To devise the actual policies for this paradigm shift, the EU needs to establish an independent expert committee that is not confined by political and bureaucratic constraints and considerations.⁶⁰

ENDNOTES

- 1 Ali Fathollah-Nejad is a visiting fellow at the Brookings Doha Center (BDC). From mid-2015 to mid-2018, he was the Iran expert of the German Council on Foreign Relations (DGAP). An earlier version of this paper was presented at the GMF series “Mediterranean Mornings” panel on “Transatlantic Perspectives on Iran,” organized by the German Marshall Fund of the United States (GMF) in Brussels on February 14, 2018; at a talk entitled “Domestic politics in Iran and foreign policy implications for Europe” at the European Policy Centre (EPC) in Brussels on February 15, 2018; and at an Aspen Institute Germany panel in Berlin on February 22, 2018. The author extends his gratitude for the valuable feedback on a draft version of this paper by Brookings Doha Center (BDC) colleagues, as well as by the anonymous reviewers. Last but not least, thanks are due to Rawan Dareer for preparing the graphs, as well as the BDC research and communications teams for their support.
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