



## Sanctions on Iran And the Role of the EU: An Overview

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### Abstract

*The Islamic Republic of Iran has been bearing the burden of sanctions from the international community, especially from the United States, for decades. The sanctions reduced Iran, economically, to one of the weakest states in the world. No stability can be seen on an economic and political domain in real terms, so, the economic crisis faced by the country right now is at its worst. The purchasing power of the people is getting drop day by day and the economic structure has been paralysed. With all these socio-economic and political issues, the country is facing turmoil internally, and the policies and pressure from international entities are another issue for Iran. Also, the nuclear enrichment program of Iran is one of the major reasons behind all the hardship facing the government and the people of Iran as well. Although, Iran has made clear at many international forums several times that this nuclear program is for peaceful purposes, but the international community and, more specifically, the United States retain doubts about Iran and put pressure on other countries to create limited opportunities for Iran until they will make sure that they will not do anything wrong. In this scenario, the EU always creates some comfort for Iran and maintains relations with Iran, whether economic (trade relations) or the relations in other sectors of cooperation as well.*

**Keywords:** Sanctions, trade relations, economic structure, petrochemicals, IAEA

The world has witnessed that Iran has been facing sanctions since 1979. The very first event became a hard reason when Iranian students seized the American Embassy in Iran and took the people inside hostage. The then President of the United States, Jimmy Carter took the action against Iran and

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imposed sanctions on it. The first sanctions by "Executive order 12170" froze Iranian government assets totalling \$12 Billion. According to the treasury department of the U.S., the sanctions were eventually converted into a full trade and business embargo. It continued until an agreement was signed between Iran and the US in 1981, called the "Algiers Accord". That agreement was a negotiated settlement between the US and Iran on the hostages' release.<sup>1</sup>

The second phase of sanctions was imposed on Iran under President Ronald Reagan in 1987. The United States had a claim that from 1981-1987 Iran was involved in terrorist activities with providing help to terrorists in the Persian Gulf, that period of sanctions expanded in 1995 and included firms dealing with the Iranian government.<sup>2</sup>

The third phase of sufferance on Iran was imposed in December 2006 in conformity with the UNSC Resolution 1737, just after Iran's refusal on the UNSC Resolution 1969, which demanded Iran not to continue its uranium enrichment program. Initially, the sanctions on Iran by the US and the United Nations targeted investments in oil, gas, petrochemicals, exports of refined petroleum products and also business dealings with Islamic Revolutionary Guards Corps (IRGC). Also, the sanctions were extended to include the banking system and insurance transactions (included with the Central Bank of Iran) shipping, web-hosting services for commercial purpose and domain name registration services. Later on, the United Nations resolutions have amplified sanctions against Iran.<sup>3</sup>

Over the period of time, Iran has suffered from tougher sanctions which has created serious impacts on its socio-economic conditions. Since 1979, the United States put pressure on other international entities with extra efforts to impose harsh sanctions on Iran to influence Iran's policies. One of the major reasons behind these actions by the US is that Iran was one of those countries who did not accept the unnecessary interference of the US in their

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<sup>1</sup> Josh Levs, "A Summary of Sanctions Against Iran", CNN, January 23, 2012, <https://edition.cnn.com/2012/01/23/world/meast/iran-sanctions-facts/index.html>

<sup>2</sup> Ariel Zirulnick, "Sanction Qaddafi? How 5 nations reacted to sanctions", The Christian Science Monitor, February 24, 2011, <https://www.csmonitor.com/World/Global-Issues/2011/0224/Sanction-Qaddafi-How-5-nations-have-reacted-to-sanctions./Iran>

<sup>3</sup> "Legal Information Institute", Cornell University Law School, March 10, 2010, Archived, "31 CFR 560.540-Exportation of certain services and software incident to internet-based communication".

internal affairs. In short, Iran never took dictation by any big power, more specifically from the United States. Therefore, the US had a fear of Iran's Uranium enrichment program. The western states including the US always had a thought that Iran could produce nuclear weapons. However, Iran's officials always counter their narrative and have explained that it is only for civilian purposes, including electricity generation and also for medical purposes.<sup>4</sup>

The United States also used pressure techniques for more sanctions by the EU member countries called Germany, France and Britain for strict policy knowing the fact that UN had already exercising sanctions on Iran. On the other hand China and Russia were showing their resistance against sanctions on Iran. Russia was the one who repeatedly spoke about the sanctions imposed on Iran by the US and the EU.<sup>5</sup>

These sanctions affected not only the Iranian economy but also humanitarian work. Those international companies that have acquired the necessary license to import food and medicine faced difficulty in finding third-country banking channels to process the transactions and remittances. These are amid very few challenges mentioned here.<sup>6</sup>

The western powers and the US especially had a underline fear from Iranian nuclear program that is why the negotiation process was started on Iran's nuclear program; unfortunately, the then senators of the United States urged and proposed severe economic sanctions on Iran for a long period. The P5+1 (China, France, Germany, Russia, United Kingdom, United States) and Iran arranged a meeting in Lausanne, Switzerland in 2015 after many deliberations, they reached on an agreement to lift sanctions in exchange for limits on Iran's nuclear program and uranium enrichment for at least ten years. The final agreement was signed on October 18, 2015, which is known

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<sup>4</sup> Michelle Nichols, Louis Charbonneau, "UN. chief says sanctions on Iran affecting on its people", Reuters, October 5, 2012, <https://www.reuters.com/article/us-iran-sanctions-un/u-n-chief-says-sanctions-on-iran-affecting-its-people-idUSBRE89412Z20121005>

<sup>5</sup> ibid

<sup>6</sup> ibid

as Joint Comprehensive Plan of Action (JCPOA)<sup>7</sup>, after that sanctions were lifted on January 16, 2016, by the United Nations.<sup>8</sup>

### **What is Joint Comprehensive Plan of Action?**

The Joint Comprehensive Plan of Action (JCPOA) also known as Iran's nuclear deal, with the P5+1 i.e. China, France, Russia, United States, United Kingdom and Germany. It is a key element of the global nuclear non-proliferation structure advocated by the UN Security Council Resolution 2231 (2015). The JCPOA firmly established that Iran's nuclear program would be purely for civilian peaceful purposes, culminated into lifting of the sanctions by the UN. The European Union played a significant role in the attainment of the JCPOA. The EU member states and UN's P5+1 facilitated in every possible manner through their successful diplomatic efforts which they had been doing since 2006. The JCPOA is a tough verifiable agreement and has a set of strict limitations towards Iran's nuclear program more specifically, including close observation on their materials and equipment. Furthermore, the JCPOA has also given access to the IAEA for a verification of Iran's nuclear program.<sup>9</sup>

The UN and P5+1 feared Iran's activity regarding uranium enrichment sites of Fordow and Natanz with a heavy water reactor and Arak which has its main by-product plutonium (rendered inoperable). The P5+1 also had a fear that it would be converted into weapons-grade material eventually. After signing the JCPOA, these capabilities are now converted for research purposes and most importantly for generating electricity and for medical reasons. The JCPOA also imposed limitations on the number of the types of centrifuges Iran can use including the size of its caches of enriched uranium as well. The JCPOA also has the power to inspect the secret and undeclared sites of Iran in any given time with their assigned team.<sup>10</sup>

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<sup>7</sup> "EU officially announces the adoption day of JCPOA", October 18, 2015, Islamic Republic News Agency, <https://en.irna.ir/news/81804426/EU-officially-announces-October-18-adoption-day-of-JCPOA>

<sup>8</sup> "UN chief welcomes implementation day under JCPOA", January 17, 2016, Islamic Republic News Agency, <https://en.irna.ir/news/81923263/UN-chief-welcomes-implementation-day-under-JCPOA>

<sup>9</sup> "Iran and the EU", European Union External Action, May 06, 2020, [https://eeas.europa.eu/headquarters/headquarters-homepage\\_en/2281/Iran%20and%20the%20EU](https://eeas.europa.eu/headquarters/headquarters-homepage_en/2281/Iran%20and%20the%20EU)

<sup>10</sup> Zachary Laub and Kali Robinson, "What is the status of the Iran nuclear agreement", Council on Foreign Relations, January 07, 2020, <https://www.cfr.org/backgrounder/what-status-iran-nuclear-agreement>

In May 2018, US President Donald Trump since announced that the United States no longer be part of the JCPOA. Therefore, May 09, 2018, the United States did not participate in any activity or the meetings regarding the JCPOA.<sup>11</sup>

### **Obama Administration & Iran**

The Obama administration considered it as a "new opportunity" towards Iran. Barack Obama as a President of the United States had a proactive, positive and energetic personality. He had set a constructive role and also set a positive tone towards Iran's nuclear issue more specifically when sanctions were imposed. In contrast with his predecessors, President Obama has emerged himself as a polite and capable of constructive dialogue with Iran in the history of American Presidentship and politics. US tried his level best to create a accommodative policy soft image of the USA around the world. After becoming a president in an interview to Al-Arabiya Obama stated that "my job is to communicate the fact that the (Americans) are not your enemy" and also that (America) sometimes makes mistakes. We have not been perfect.<sup>12</sup> The President Obama administration played a positive role in diplomatic dialogue with Iran especially.

In the case of Iran, retrospection suggests that there was a gap of almost 34 years since the Iranian revolution of 1979. According to Trita Parsi, an international expert on the Middle East once said, "the stalemate has more to do with the domestic political limitations Obama and his counterpart face than it does with a genuine failure of diplomacy." During Obama's era as a president, the three-decade-old freeze relations between Iran and the US has melted and is considered as a historic moment in both states' relations. Furthermore, the visit of Iranian President Rouhani to the United Nations Headquarters in New York made a positive and progressive gesture towards the US. The then Secretary of state, John Kerry had a view that "What we are potentially seeing is the beginning of a bilateral channel. Not just in the negotiations among the international entities and Iran, but an ongoing

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<sup>11</sup> *ibid*

<sup>12</sup> Ramin Jahanbegloo, "The Obama Administration and Iran: Towards a Constructive Dialogue", Working Paper International Diplomacy, June 2009, pg 10, [https://www.files.ethz.ch/isn/101207/WP\\_43-web\\_0.pdf](https://www.files.ethz.ch/isn/101207/WP_43-web_0.pdf)

dialogue between Washington and Iran on all of the issues of concern between the two governments".<sup>13</sup>

Furthermore, another positive side of the Obama administration is that they considered or wanted to give preference to the US companies to enter the Iranian market for business purposes that would be beneficial for the Iranian economy. Also, some analysts in the west believed that the tensions between the US and Iran would be settled if the US is willing to accept Iran as a strong state of the Middle East. On the other hand, the Iranians have an argument why the US does not attain that the Shiites can be the potential regional allies of the West than the Israelis. But as far as the United States has concerned there is always a problem between the US and Iran, is Iranian regime and its ideology.<sup>14</sup>

### **Current Sanctions**

The recent and fourth phase of sanctions was imposed on Iran by the US administration in November 2018. The basic aim was to alter the policies of Iran in the region. The US had a claim that Iran supports militant groups in the region and is in the process of developing of ballistic missiles. Despite many rejections the US claim and stuck to the strong narrative put pressure on international entities that not to deal with Iran for oil purchase. In September 2019, Saudi oil fields by a severe attack immediately US suspected Iran under President Trump instructions Treasury Department put the sanctions against Iran. Moreover, the very recent sanctions on Iran by the US targeted the Iranian Central Bank, which is directly affecting Iranian's economy severely<sup>15</sup>. On 21 February 2020, FATF (Financial Action Task Force) put Iran on its blacklist because of the financial crisis Iran is facing and did not meet other criteria required by the FATF<sup>16</sup>. Moreover, the US went to

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<sup>13</sup> Uzma Shujaat, "Some Foreign Policy and Security Issues in US-Europe Relations: Focus on Iran and Syria", *Journal of European Studies*, Vol 30, no 1, January 2014, pg 50,51

<sup>14</sup> Ramin Jahanbegloo, "The Obama Administration and Iran: Towards a Constructive Dialogue". Working Paper International Diplomacy, June 2009, pg 16, [https://www.files.ethz.ch/isn/101207/WP\\_43-web\\_0.pdf](https://www.files.ethz.ch/isn/101207/WP_43-web_0.pdf)

<sup>15</sup> "US targets arms program with strongest sanctions since scrapping Iran deal", ABC News, November 03, 2018, <https://www.abc.net.au/news/2018-11-03/trump-and-iran-sanctions/10462528>

<sup>16</sup> Yonah Jeremy Bob, Idan Zonshine, "Iran blacklisted by 200-member nation of Financial Action Task Force", *The Jerusalem Post*, February 22, 2020, <https://www.jpost.com/middle-east/iran-news/iran-blacklisted-by-fatf-considered-a-massive-blow-to-countrys-economy-618336>

the UN Security Council for further extension of the global arms embargo on Iran, though the US request had been rejected by the UN Security Council and the resolution was also expired on 18 October 2020.<sup>17</sup>

The Trump administration reimposed sanctions against Iran through the snapback mechanism and followed by the US unprecedented isolation in case of Iran and its sanctions. Interestingly, the international community is no longer interested in favour of extending the embargo on Iran.<sup>18</sup> More or less, it is an achievement for Iran and its government in recent scenarios. With all these complicated matters the Iranian government had a meeting in Aug 2020, with the IAEA Director-General Rafael Grossi, and also permitted visit of the two sites where the uranium enrichment program is under way. The IAEA chief in an interview with BBC mentioned the welcoming gesture of that the Iranian government, that it was an outbreak of goodwill from both sides. The IAEA head did not reveal the name of the sites but he was satisfied with the recent behaviour of Iran's government especially when he met with President Rouhani and the foreign minister Zarif.<sup>19</sup> It was a positive development from Iranian side. The US government should accept and acknowledge this positive attitude from Iran's part.

There is always a little room for everyone, for instance, with all the sanctions on Iran a limited barter trade can be possible with Iran that can give a cushion for Iran's shattered economy, which is already crumbling and the purchasing power of the people is extremely shrinking. Life is more expensive in Iran now than before. Moreover, the Iranian rial has lost its value by about 70% after the US withdrawal from JCPOA in 2018. Also, the Iranian government is trying to compensate by providing foreign exchange rates to ease the financial burden of foreign companies. The US sanctions had hit hard on Iran's oil exports which are estimated at 100,000 to 200,000 barrels per day, down from more than 2.5 million BPD shipped in April 2018.<sup>20</sup> Currently, the 1 USD is equal to 42,089.75 IRR, therefore the

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<sup>17</sup> "UN Security Council rejects US bid to extend Iran arms embargo", Aljazeera, August 15, 2020, <https://www.aljazeera.com/news/2020/08/15/un-security-council-rejects-us-bid-to-extend-iran-arms-embargo/>

<sup>18</sup> Michel Duclos, "After snapback sanctions on Iran: A European perspective", Atlantic Council, September 23 2020, <https://www.atlanticcouncil.org/blogs/iransource/after-snapback-sanctions-on-iran-a-european-perspective/>

<sup>19</sup> "BBC Hard Talk", September 17 2020, [https://www.youtube.com/watch?v=j6\\_eD1Pq\\_Z4](https://www.youtube.com/watch?v=j6_eD1Pq_Z4)

<sup>20</sup> "Currency crisis impoverishes Iranians, strains economic defences", Reuters, July 7 2020, <https://www.reuters.com/article/us-iran-economy-rial-analysis-idUSKBN2480M3>

common man have no capacity to buy even basic living essentials items they are facing unparallel hard times in their lives since sanctions are imposed.

Furthermore, the Tehran Chamber of Commerce, Industries, Mines and Agriculture Head Masud Khansari said in an interview that the country's latest budget deficit is estimated to hit \$10 billion by 2021, and it will bring higher inflation as well, which is an alarming situation. One of the business owners said that the currency crisis and the sanctions imposed on our country since decades, paralysed us and that is why we have a shortage of raw materials as well. The prices of daily needs are increasing day by day and people do not have enough money to fulfill their needs. Also, the employees of the factories and other departments protested daily for not being paid by their owners.

According to the IMF estimates, in the year 2020 in Iran the inflation rate is 34.2% and people of Iran are already ready and have readied their minds for more price hikes. There are certain groups in Iran, want the present government to step down because of the severe financial crisis facing the state.<sup>21</sup>

### **The EU's Role**

The EU-Iran relations are based on the many areas of cooperation which box in economic cooperation, trade and investment, agriculture, transport, energy and climate change, civil nuclear cooperation, science, research and innovation, education, culture, environment, drugs, migration and humanitarian issues and regional issues as well.<sup>22</sup> The EU always had a balanced and comprehensive approach towards Iran and that the EU approach has emerged as one of the achievements of European foreign policy. The EU-Iran relations conducted by the EEAS Iran Task Force established after the signing of the JCPOA in 2015. Moreover, in Iran, there is no EU diplomatic delegation present, so the matters related to both states are dealt with by the member state holding the presidency of the council of the EU. Therefore, Germany holds the presidency till December 2020. The European Union played a significant role during JCPOA and ease the diplomatic efforts by France, Germany, UK specifically. With all these, the EU also supported the Iranian goal of entering the WTO for access to global

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<sup>21</sup> Ibid

<sup>22</sup> "Iran and EU", Mar 6 2020, [https://eeas.europa.eu/headquarters/headquarters-homepage\\_en/2281/Iran%20and%20the%20EU](https://eeas.europa.eu/headquarters/headquarters-homepage_en/2281/Iran%20and%20the%20EU)



trade as an effective and reliable actor. The JCPOA has set limitations on Iran for its nuclear programme including trade and that is why the United Nations lifted some sanctions against Iran in Jan 2016.<sup>23</sup>

The EU, China and the United Arab Emirates are the main trading partners of Iran and account for 19.5%, 16.8% and 16.3% of trade respectively. The EU was the first one who maintained trade relations with Iran before the sanctions imposed. The EU always gives a little room of comfort to Iran. The EU exports to Iran based on machinery, and transport, chemicals and manufactured goods as well. When the United Kingdom asked to leave the EU in 2016, this step by the UK was appreciated by the Iranian government because they already know this fact, in future that they will get the opportunity for trade expansion with Europe. The sanctions did not affect the trade of Iran's electricity provided to the EU. Also, in 2018 April, the European countries and Iran made an agreement that Middle East Bank, Saman Bank and Sina Bank will open their branches in German cities to increase trade relations of Iran with Europe.<sup>24</sup>

Furthermore, the EU is determined to keep maintaining good relations with Iran even after the withdrawal of the United States from the JCPOA in November 2018. The EU had a clear stance towards Iran's case, also the EU countries providing or facilitating Iran by doing trade with them. The EU states are there with Iran many times, the only concern of the EU is the making of nuclear weapons or nuclear enrichment program of Iran, otherwise the EU states have no issue with Iran. All they want is to maintain their relations with the US as the strongest ally or partner. The EU also expressed deep concerns about the US withdrawal from the JCPOA and did not support the USA's decision.<sup>25</sup> The EU updated its trade cooperation with Iran and announced the first transaction from INSTEX (legitimate vehicle of trade between Iran and European countries) in March 2020. Iran also took positive steps regarding its nuclear activities since July 2019 and it was appreciated by the EU as well. As mentioned above, Iran also agreed for the inspection of those two controversial sites to the IAEA team in August 2020.

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<sup>23</sup> "EU-Iran trade", July 7 2016, <https://ec.europa.eu/trade/policy/countries-and-regions/countries/iran/>

<sup>24</sup> "How Brexit will impact Iran", Ramani, Samuel, Huff Post, July 1 2016. [http://www.huffingtonpost.com/entry/how-brexit-will-impact-iran\\_us\\_57732fe8e4b0d24f8fb514cf#comments](http://www.huffingtonpost.com/entry/how-brexit-will-impact-iran_us_57732fe8e4b0d24f8fb514cf#comments)

<sup>25</sup> "Iran and EU", Mar 6 2020, [https://eeas.europa.eu/headquarters/headquarters-homepage\\_en/2281/Iran%20and%20the%20EU](https://eeas.europa.eu/headquarters/headquarters-homepage_en/2281/Iran%20and%20the%20EU)

While concluding there are some important points that need answers. Does the West agree or not that Iran is an important state of the world? If we analyze the size and geostrategic location of Iran, a case can be made that it is one of the most important regional states in the world and possesses much geostrategic power. Unfortunately, Iran has been facing a serious crisis since decades in the name of sanctions to put pressure on Iran. The reason behind this underline fear is the unseen power Iran have and also because of Iran's strong religious ideology. The United States and Iran can make their relations better if both states will opt for compromises. The United States has not only objection on the nuclear program of Iran. There are certain other power politics issues like US has a fear that if Iran will become a strong state it will create an impact on other states as well.

With all the sanctions on Iran, the state is surviving. Regime change is not the only option, but sticking with that is not a good thing as well. The recent development regarding sanctions against Iran is a signal for the US that the sanctions game will no longer be available to control Iran as the media and Iranian government is calling the US "isolated". The EU states have always maintained and created a balance for Iran by keeping trade relations with Iran. Even China and Russia have also stood with Iran for many years. So, the United States have to understand the reality of present global dynamics and then act accordingly. The dynamics have changed now; as mentioned earlier Iran and IAEA now have better relations, Iran is agreed to facilitate a visit and inspection of the two controversial sites. The IAEA head denied that the sites were active after the spying of Israel regarding the nuclear enrichment program on these sites.

The United States should alter its policies towards Iran and recalculate the global scenario while the EU must see Iran as an agent of extensive regional interest and not just as a trading ally. Iran has a lot of capability there is a need of more political maturity for maneuvering in the complex regional and international scenario.