

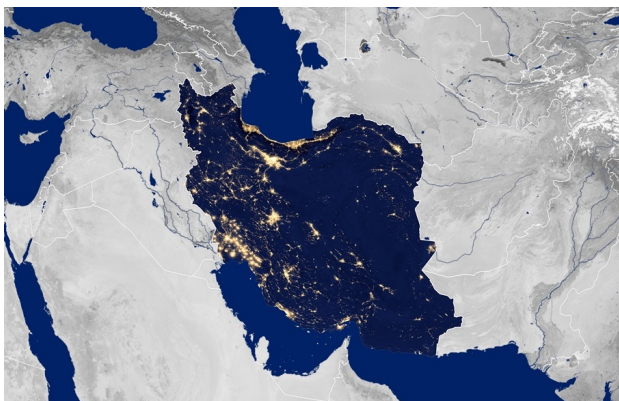
Iran after the nuclear deal Implications for the region and the EU

SUMMARY

The Joint Comprehensive Plan of Action signed in July 2015 between Iran and France, China, Germany, Russia, the United Kingdom, the United States and the European Union provides an opportunity for the normalisation of Iran's relationship with the rest of the international community. The main purpose of the agreement is to ensure the entirely peaceful nature of Iran's nuclear programme. In exchange, upon the implementation of the commitments included in the deal and verification by the International Atomic Energy Agency (IAEA), the sanctions against Iran will gradually be lifted.

It is not surprising therefore that after years of tense relations; both the international community and sections of Iranian society have high hopes for the results of this agreement. Even though other international political issues were purposefully excluded from the negotiations, there is an expectation that Iran will become a more responsible member of the international community and will facilitate the finding of solutions to conflicts in Syria, Iraq and Yemen. In that sense, Iran's relations with its neighbours in the Persian Gulf, and other regional powers – Egypt and Turkey in particular – will be an important part of that equation. At the same time, Iranian society is hoping that implementation of the agreement and the lifting of sanctions will significantly contribute to improving their living standards, in particular by reducing the unemployment rate.

See also our briefing outlining the nuclear agreement with Iran, [PE 572.820](#).



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Background

The Joint Comprehensive Plan of Action ([JCPOA](#)) agreed on 14 July 2015 concludes the [long process](#) of dialogue and negotiations with the Islamic Republic of Iran dating back to 2003, when France, Germany and the United Kingdom started discussions on a number of issues, including Iran's nuclear programme. In 2006, based on reports of Iran's non-compliance with its obligations under the Nuclear Non-Proliferation Treaty ([NPT](#)), the International Atomic Energy Agency (IAEA) decided to [refer](#) the issue of Iran's nuclear programme to the UN Security Council (UNSC). The P5+1 group (hereafter E3/EU+3), composed of permanent members of the UN Security Council (China, France, Russia, the United Kingdom, the United States), Germany, and the EU High Representative was established the same year. In June 2006, the UN Security Council adopted [Resolution 1696](#) (2006) calling on Iran to suspend all enrichment-related and reprocessing activities, including research and development. In the absence of a positive IAEA report, the UNSC adopted [Resolution 1737](#) (2006) imposing an embargo on exports of materials that could be used for enrichment-related, reprocessing or heavy-water related activities, or for the development of nuclear weapon delivery systems. The subsequent UNSC [resolutions](#) – in particular Resolutions [1747](#) (2007), [1803](#) (2008) and [1929](#) (2010) – established an additional set of restrictive measures, including a ban on the supply to Iran of certain categories of conventional weapons and related materiel, the freezing of assets, and a travel ban on designated persons and entities.

Following several years of cool relations between Iran and the West, discussion on Iran's nuclear programme was reawakened with Hassan Rouhani's victory in the presidential elections of 2013. A series of intensified bilateral contacts between Iran and the E3/EU+3 led to adoption of the [Joint Plan of Action](#) on 24 November 2013. Following several rounds of negotiations, in April 2015 negotiators presented a set of [parameters](#) that provided the foundation for the final deal agreed in July 2015. On 20 July 2015, the Foreign Affairs Council of the EU adopted [Conclusions](#) on the agreement on Iran's nuclear programme, and expressed support for UNSC [Resolution 2231](#) (2015) endorsing the JCPOA. In Iran, the agreement was endorsed by the Supreme National Security Council, the Parliament and the Guardian Council on 4 October, 13 October and 14 October 2015 respectively. On 18 October 2015, in preparation for the implementation of the commitments made in the JCPOA, US President Barack Obama approved conditional sanctions waivers for Iran while the Council of the EU adopted the [legal acts](#) providing for the lifting of all nuclear-related economic and financial EU sanctions.

On 2 December 2015, the IAEA presented the Final Assessment on Past and Present Outstanding Issues regarding Iran's Nuclear Programme. The [report](#) concludes that a range of activities relevant to the development of a nuclear explosive device were conducted as a coordinated effort in Iran prior to the end of 2003, and that some activities took place after 2003. With regard to development of a nuclear explosive device after 2009 and the diversion of nuclear material in connection with the possible military dimensions to Iran's nuclear programme, the agency found no credible indications confirming these allegations. On 16 January 2016, the Director-General of the IAEA presented a report to the IAEA Board of Governors and to the UNSC which confirms that Iran has completed the necessary steps to start the implementation of the Joint Comprehensive Plan of Action (Implementation Day). The same day, Council Decision ([CFSP](#)) [2015/1863](#) of 18 October 2015 entered into force, confirming the lifting of all nuclear-related sanctions.

Key elements of the agreement

The primary objective of the [JCPOA](#) is to ensure the purely peaceful nature of Iran's nuclear programme. In exchange, the other parties to this political declaration agree to gradually lift the restrictive measures imposed on Iran. Iran and the E3/EU+3 envisage that the implementation of the JCPOA will allow Iran to move forward with 'an exclusively peaceful, indigenous nuclear programme' and the rest of the international community to progressively 'gain confidence' in Iran's intentions. All sides also agreed that the NPT remains the cornerstone of the nuclear non-proliferation regime. In addition, Iran agreed that it would not seek, develop or acquire any nuclear weapons. The deal also provides for extensive monitoring by the International Atomic Energy Agency (IAEA) and an inquiry into evidence of past work on nuclear warhead design. A full implementation of Iran's commitments and compliance with the provisions of the JCPOA is expected to ensure the exclusively peaceful nature of the Iranian nuclear programme in the long term, and to generate a more positive climate for cooperation with Iran. In particular, lifting sanctions will provide Iran with a new influx of financial resources and potentially generate more dynamic growth. However, Iran's competitors in the region – especially Egypt, Turkey and Saudi Arabia – are carefully monitoring the direction in which Iran's foreign policy and security posture will evolve.

During the 15-year period following Implementation Day, Iran will limit **uranium enrichment** capacity to up to 3.67% and will reduce its **stockpile** of low-enriched uranium from 10 000 kg today, to maximum 300 kg in 2030. For 10 years, Iran's enrichment **research and development** with uranium, as well as its testing capacities, will be limited. **The Fordow Fuel Enrichment Plant (FFEP)** will become a nuclear, physics and technology centre. No uranium enrichment or uranium enrichment-related R&D will take place there for 15 years. According to [Annex I](#), Iran will modernise the **Arak heavy water research reactor** to support peaceful nuclear research. Redesigning and rebuilding the reactor will be facilitated by a working group composed of E3/EU+3 representatives, under Iranian leadership as the owner and the manager of the project. For 15 years, all spent fuel will be shipped out of Iran to a mutually determined location in E3/EU+3 countries or third countries for further treatment or disposal. The **IAEA** will be charged with the monitoring and verification of compliance with the voluntary nuclear-related measures, as well as providing the Board of Directors and the UNSC with regular updates. The JCPOA also provides for the possibility of inspections in case of concerns regarding undeclared nuclear materials or activities at non-declared sites. The **sanctions** imposed by the UNSC, and other multilateral and national sanctions – as described in [Annex II](#) – will be terminated following the IAEA's confirmation that Iran has implemented agreed nuclear-related measures, as provided for in [Annex V](#) to the JCPOA. The E3/EU+3 and Iran agreed to establish a **Joint Commission** that will perform a number of [functions](#) related to the implementation of the JCPOA, including **solving any disputes** between E3/EU+3 and Iran concerning their respective commitments. The High Representative or a designated representative will serve as the coordinator of the Joint Commission. The High Representative will not take part in decision-making on nuclear-related transfers and activities. In case no solution can be found in a dispute between the parties, UNSC will have the final say on the continuation of sanctions-lifting. If a resolution to that effect is not adopted within 30 days, the previous UNSC resolutions '**snap back**'. All parties to the JCPOA will meet at ministerial level every two years – or more frequently if circumstances require – to assess progress in the implementation of the JCPOA.

Iran: a security spoiler or a political broker?

In order to better understand the [implications](#) of the deal with Iran for regional and international security, it is essential to take into account the main premises of Iran's [foreign policy](#). Firstly, despite criticism of the agreement in [conservative](#) circles in Iran,

any progress would be impossible without prior [endorsement](#) by the Supreme Leader Ayatollah Ali Khamenei – the highest political and religious authority in Iran. However, the Supreme Leader remains [cautious](#) about potential American influence on Iran's political, economic and cultural life. According to opinion polls, 57% of [Iranians](#) welcome the agreement. Secondly, Iran pursues the 'prudent moderation' approach to international relations, as [outlined](#) by President [Hasan Rouhani](#) in his speech at the 68th Session of the United Nations General Assembly. At the core of this paradigm lies the conviction that cooperation and coalition-making between countries have replaced perpetual rivalries. Consequently, Iran's foreign policy is [focused](#) on: safeguarding and strengthening Iran's national security with multilateralism at its core; diffusing or eliminating external threats by expanding and deepening bilateral and multilateral relations; combating Islamophobia and Iranophobia by promoting Iranian-Islamic culture and values; elevating Iran's international stature through confidence-building and cooperation; and achieving comprehensive development. [Mohammad Javad Zarif](#), the Minister of Foreign Affairs of Iran, summed up this approach to [foreign policy](#) as grounded in 'realism, self-confidence, realistic idealism and constructive engagement'. He also [reaffirmed](#) Iran's ambition for renewed engagement on security cooperation in the region.

While the agreement reached between Iran and the E3/EU+3 offers an opportunity to resolve some of the most pressing political and security crises in the region, some observers – most notably in [Israel](#), Saudi Arabia and the [United States](#) – remain cautious and have voiced their concerns about potential risks. The main argument against the agreement is that, even if delayed, the development of an Iranian nuclear weapon is still an option, and one which in turn may trigger a nuclear [arms race](#) in the region. Another view maintains that the lifting of the sanctions on Iran would only provide additional resources to support its proxies in the region – including [Hezbollah](#) in Lebanon and the [Houthi movement](#) in Yemen – and may further increase Iran's appetite for hegemony in the region at the expense of the United States and its allies. However, the White House rebuffs much of this criticism. They see the agreement not as a way to reaffirm Iran's domination in the Middle East, but rather as an opportunity for more constructive engagement on the most burning regional security challenges. President Barack Obama has [defended](#) the deal as 'the strongest non-proliferation agreement ever negotiated'. He also [suggested](#) that reintegrating Iran into the global economy might weaken the monopoly that the Islamic Revolutionary Guard Corps ([IRGC](#)) – a security force linked directly to the Supreme Leader – enjoys with regard to the funding of Iran's foreign policy and its trade relations.

Iran's proxy wars in Syria, Iraq and Yemen

The assessment of Iran's involvement in Syria, Iraq and Yemen varies between criticism of its role in fuelling those conflicts – including through the use of [proxies](#) – and a key role in finding political solutions.

Syria

The main challenge in [Syria](#) is finding middle ground between those who see President Bashar al-Assad's departure from power as a primary condition for any solution and the position promoted by Iran and Russia, which support the current regime in Damascus. A [nine-point declaration](#) endorsed by Iran, Russia, Saudi Arabia and the USA in October 2015 is a sign that Iran takes its role as a political broker in the region seriously. The declaration – in line with the 2012 Geneva Communiqué and UN Security Council [Resolution 2118](#) (2013) – provides for the establishment of 'a political

process leading to credible, inclusive, non-sectarian governance, followed by a new constitution and elections'. It does not, however, provide a timetable for President Assad's departure. The outcome of two rounds of talks in the International Syria Support Group (ISSG) provided the foundations for UNSC [Resolution 2254](#) (2015) which foresees, among other things, a ceasefire and fair elections under UN supervision. However, with current [Russian](#) and [Iranian](#) military involvement in Syria, the timeline set out in the resolution faces serious obstacles. The peace talks between the Syrian government and opposition representatives scheduled for the end of January 2016 have been '[paused](#)' until 25 February 2016 due to the continued military [offensive](#) by the Assad regime and pro-government forces.

Iraq

Iran is one of the key players providing assistance to the government of [Iraq](#) in its fight against ISIL/Da'esh – support which translates into Tehran's increasing role in Iraq's domestic politics. Iran's Quds Forces have been [providing](#) assistance to and training the Popular Mobilisation Forces, Iraqi [militia groups](#) fighting alongside Iraqi Security Forces. Some of these groups have also used their involvement in the fight against ISIL/Da'esh as a platform for raising their profile in national and regional politics. For instance, the Badr Organisation – a militia-political party supported by Iran, and represented in the national parliament – has played the security-provider card as a means to dominate the regional governance structures in [Diyala province](#), formerly a Sunni majority province. Human rights organisations are critical of [abuses](#) (e.g. looting, destroying civilian properties, kidnappings) committed by militia forces in the territories recaptured from ISIL/Da'esh, and point to potential future problems linked to growing sectarianism within the country. Iran has also made substantial efforts towards [reducing](#) the influence of clerics in Najaf – another (after Qom) centre of religious influence among [Shiites](#) – who advocate a religiously pluralistic government as opposed to the idea of the Islamic government favoured by Iran. These moves mean countries in the region are anxious about Iran's support for Shia Muslim minorities across the region, as was the case during protests in Bahrain in 2011 and in Yemen since 2014.

Yemen

The role Iran plays in Yemen is another sticking point in its relations with countries in the region, most of which supported the Saudi-led military operation against the Houthis. In that respect, Saudi Arabia and Iran are on a [collision course](#). Following President al-Hadi's request for intervention from the Gulf Cooperation Council (GCC), on 26 March 2015, the Saudi-led coalition [launched](#) a series of airstrikes against rebel positions. Operation 'Decisive Storm' orchestrated by the GCC (except for Oman) and four other countries (Egypt, Morocco, Jordan, Sudan) was put in place to [restore](#) security and stability, and is the largest coalition of Arab countries since the 1990 Gulf War. The UN-sponsored peace talks that began on 15 December 2015 failed following '[numerous violations](#)' of a ceasefire agreement that was officially [ended](#) on 2 January 2016 by the Arab military coalition assembled by Saudi Arabia.

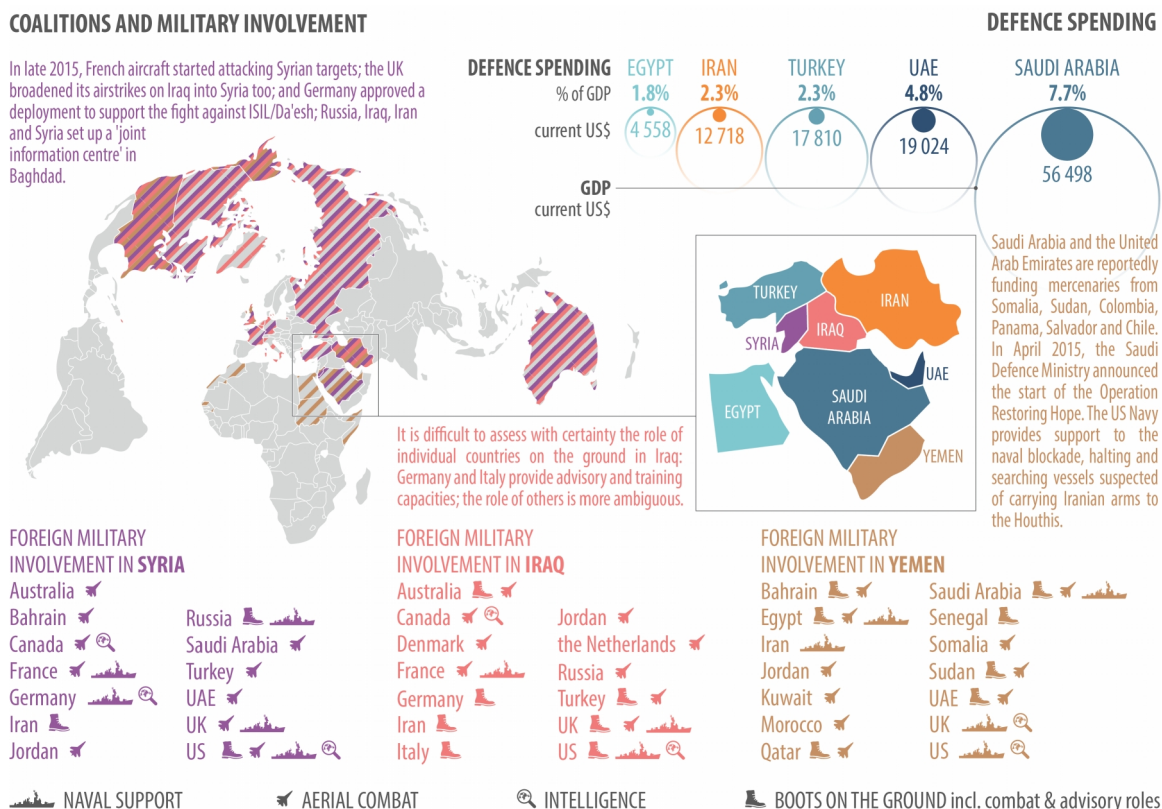
Iran's southern neighbourhood

Relations with Iran's [neighbours](#) in the **GCC** are the key focus of Iran's foreign policy. The views on Iran's regional position among GCC members range from critical (Bahrain, Saudi Arabia, the United Arab Emirates) to more moderate (Kuwait and Qatar) and neutral (Oman). Despite different approaches to bilateral relations with Iran, GCC members share [concerns](#) about Iran's regional [ambitions](#) and are critical of its support for the Assad regime in Syria, Hezbollah in Lebanon and the Houthis in Yemen. Iran, on

the other hand, is concerned about US alliances in the region and a 35 000-strong military presence – the origins of which date back to the 1980-1988 Iran-Iraq War. The relationship became particularly sensitive following the diplomatic [disagreement](#) between Iran and Saudi Arabia in January 2016.

The impact of the Iran deal on future relations with **Saudi Arabia** – another powerhouse, and Iran's main competitor in the region – is of concern. Saudi Arabia views Iran as a key challenger to its regional and international interests and is [concerned](#) about the implications of rapprochement between Iran and the West. Bahrain, Saudi Arabia and the United Arab Emirates are also wary of Iran's involvement in their internal affairs, more specifically their support to Shia Muslim minorities in those countries. The United Arab Emirates is also in ongoing territorial [dispute](#) with Iran over Greater and Lesser Tunbs and Abu Musa islands, which Iran considers integral parts of its territory. To address these fears, President Barack Obama hosted, in May 2015, a [summit](#) with the GCC. In a [joint statement](#) released in advance of the summit, the GCC leaders confirmed their 'desire to build balanced relations' with Iran, and called for a normalisation of relations based on 'mutual respect of the principles of good neighbourliness and respect for the sovereignty of states'. The Camp David summit resulted in the [announcement](#) of a new US-GCC strategic partnership. Concrete measures with regard to security cooperation mentioned in the [annexes](#) to the joint statement include: developing a region-wide ballistic missile defence capability, including a ballistic missile early warning system, and establishing a new, recurring, large-scale exercise emphasising interoperability against asymmetric threats (terrorism, cyber-attacks) or other tactics employed in hybrid warfare. In late July 2015 the US State Department [authorised](#) the sale of weapons worth US\$5.9 billion to Saudi Arabia, including Patriot missiles, related equipment and ammunition.

Map 1 – External military involvement in Syria, Iraq and Yemen.



Sources: Author's compilation on the basis of press reports; [SIPRI](#).

South Asia: Iran's new playground?

Relations between Iran and its [South Asian](#) partners (i.e. Afghanistan, India and Pakistan) are shaped by mutual economic interests, hunger for new energy sources, the threat of Sunni extremism, and caution concerning the presence of the United States in the region. Implementation of the JCPOA will give **Pakistan** and **India** access to new sources of energy once the natural gas [pipeline](#) connecting Iran, Pakistan and India is completed. Before the introduction of sanctions, India's oil imports came primarily from Iran. New Delhi is hoping to benefit from new opportunities once the sanctions are lifted. India has signed contracts to develop Iran's first deep-water port in [Chabahar](#) which is expected to [benefit](#) not only India but also landlocked Afghanistan and Central Asia. The construction may transform Iran into a central hub for Europe-to-Asia, and India-to-Central Asia maritime trade. Economic interests might also [explain](#) why, despite its close links to Saudi Arabia, the parliament of Pakistan [rejected](#) the idea of military participation in the Saudi-led operation in Yemen. Beyond trade and resource-dependency, Tehran's aim in relation to Islamabad is to ensure better protection of Pakistan's Shia minority, which constitutes 20% of the population. Iran will also expect a more decisive Pakistani [response](#) to Jaish al-Adl – a Sunni militant group allegedly funded by Saudi Arabia – engaged in a low-intensity [campaign of attacks](#) against Iranian state and security force targets in Sistan-Baluchistan province, across the border with Pakistan. Concerning the relationship with **Afghanistan**; even though Iran disapproves of the Bilateral Security Agreement with the United States that may maintain its military presence until 2024, Iran also has specific interests to protect in Afghanistan, including water-supply security and managing the porous border. In April 2015, Iranian President Hassan Rouhani and his Afghan counterpart, Mohammad Ashraf Ghani, [agreed](#) a number of cooperative initiatives, including on intelligence and security cooperation to counteract drug trafficking, terrorism, violence and extremism in the region, and to conduct joint operations if necessary.

Egypt and Turkey: between politics and trade

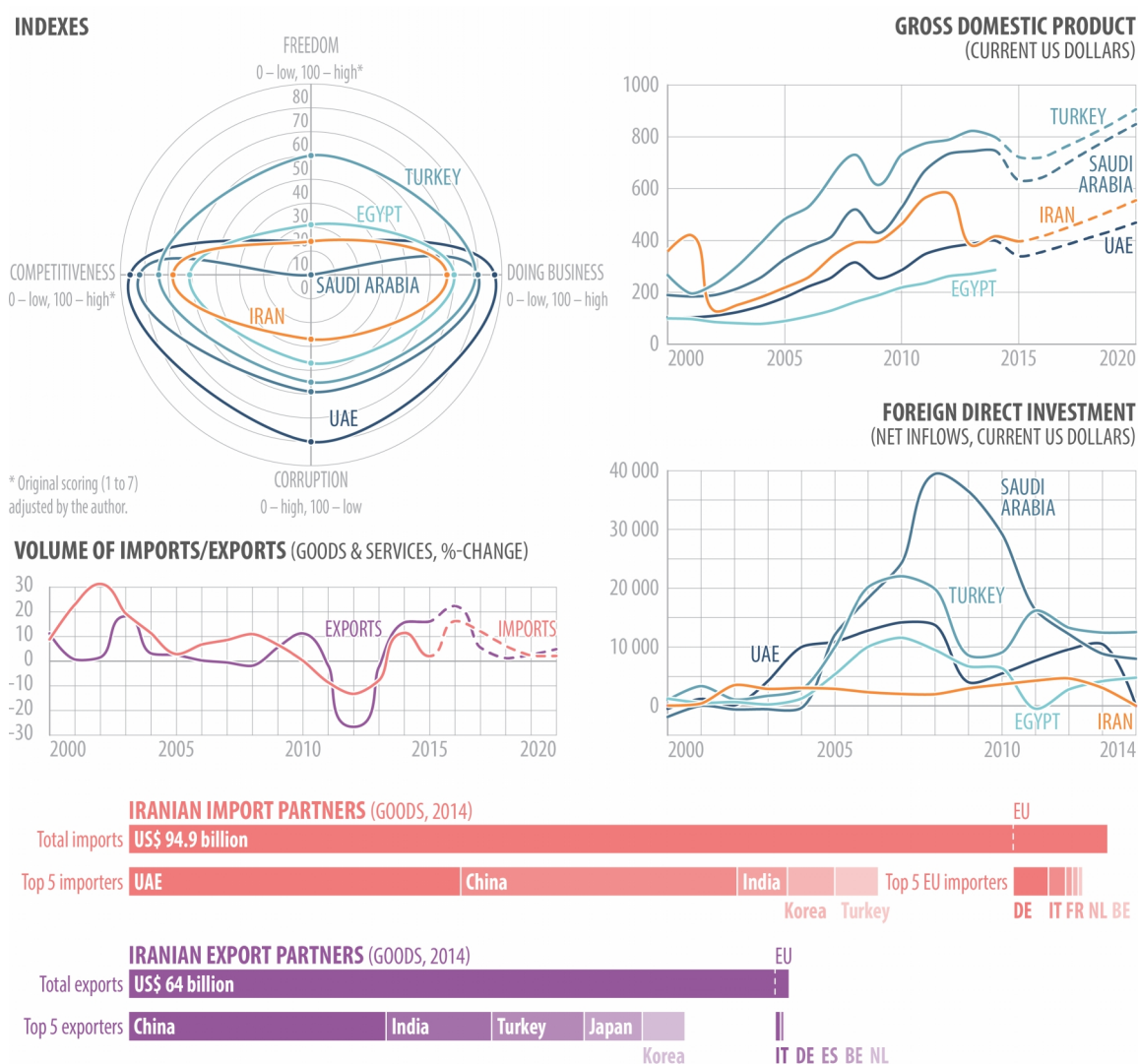
The deal reached in July 2015 is likely to influence the dynamics between Iran and its other key competitors and Sunni heavyweights in the region – Egypt and Turkey – both of whom welcomed the agreement with caution. Relations between **Egypt** and Iran suffered following the Camp David accords with Israel in 1979. Today, Egypt, together with Israel, plays a key role in preventing the region's total implosion. Egyptian foreign policy – often at [odds](#) with that of Iran – raises [questions](#) about its emergence as 'Iran's next Sunni rival'. In addition, Egypt's views on developments in the region often coincide with those of Saudi Arabia: its military [joined](#) the Saudi-led coalition against the Houthis in Yemen, and both countries are spearheading Arab League efforts towards establishing a joint Arab [military force](#). This proximity is partly caused by Egypt's dependence on economic support from [Gulf countries](#) (Kuwait, Saudi Arabia and United Arab Emirates in particular). Recent [reports](#) about growing persecution of Shia Muslims and other religious minorities in Egypt could further complicate the dialogue between Egypt and Iran. **Turkey's** relations with Iran are primarily dictated by trade links, in particular Turkey's dependence on energy resources from Iran. In 2014, Turkey [imported](#) 26% of its oil from Iran and another 27% from Iraq. It is possible, therefore, that Turkey's significant dependency on energy from these countries and Iran's growing influence in Iraqi domestic politics will increase Ankara's concerns. Beyond trade, Turkey and Iran remain natural competitors. Like Egypt, Turkey aligned itself with the Saudi-led coalition in Yemen, and has been adamant about removing Assad from power.

However, Turkey and Egypt have differences of their own, in particular concerning the future of the Arab world.

EU relations with Iran: unfinished business

Many of the potential avenues for cooperation between Iran and the European Union were already explored in 2005 in the Framework for Long-term Agreement between Iran and the E3/EU+3, but were never implemented in light of the revelations about Iran's clandestine nuclear programme. The deal with Iran provides a chance to revamp Iran's relations with the EU. Following the endorsement of the agreement with Iran by the Foreign Affairs Council on 20 July 2015, the EU High Representative, Federica Mogherini, established an Iran Task Force in the European External Action Service (EEAS), aiming to coordinate the different strands of action in relations with Iran. The Iran Task Force consists of a small team of EEAS staff who will ensure close coordination with the European Commission as well as other institutions, third countries and civil society, in particular concerning the implementation of the JCPOA, the development of bilateral relations (including the establishment of an EU Delegation), and exploring ways for a more cooperative regional framework.

Figure 1 – Iran and main regional powers



Sources: [World Bank](#), [Transparency International](#), [World Economic Forum](#), [Freedom House](#), [IMF](#).

Nuclear safety and the implementation of the provisions included in [Annex III](#) is one of the possible areas where future EU-Iran cooperation could be enhanced. The EU contributes to the improvement of nuclear safety levels, and efficient and effective nuclear safeguards in non-EU countries through cooperation under the Instrument for Nuclear Safety Cooperation ([INSC](#)). Subject to Iran's compliance with the commitments, the European Commission may adopt an [Annual Action Programme](#) that allows for allocation of INSC resources to Iran, in accordance with the priority areas of the EU [Strategy](#) for a Community Cooperation Programme in the field of nuclear safety (2014-2020): promotion of an effective nuclear safety culture and implementation of the highest nuclear safety and radiation protection standards (€112.7 million); responsible and safe management of spent fuel and radioactive waste (i.e. transport, pre-treatment, treatment, processing, storage and disposal), decommissioning and remediation of former nuclear sites and installations (€78.8 million); and establishment of frameworks and methodologies for the application of efficient and effective safeguards for nuclear material in third countries (€22 million).

The agreement with Iran also opens the way for discussion on the EU's future **energy** relations with Iran, in particular with regard to the development of Iran's energy sector and the return of Iranian oil and gas to international markets. As a consequence of the sanctions relief, Tehran hopes to raise its [production](#) from the current level of about 3 million barrels per day to 6 million by 2020, which would not only allow an increase in export volumes, but also to decrease Iran's gas imports from Turkmenistan. In order to increase diversification of its energy sources, the EU is interested in finding ways to help increase Iranian gas exports to Europe as quickly as possible. Development of the South Pars gas field and improving the condition of Iran's run-down oil and gas fields will most likely be the government's top priority. To achieve that, Iran will require an influx of over US\$140 billion in foreign direct investment.

The European Commission [Staff Working Document](#) on the European Energy Security Strategy adopted in November 2015 acknowledges the opportunities that the deal with Iran represents for the diversification of external supplies, in particular in the context of the [Southern Gas Corridor](#). The Southern Gas Corridor is a strategic initiative to bring Caspian, Central Asian, Middle Eastern and Black Sea gas resources to the European markets by 2020. The Southern Gas Corridor concept also encompasses the Trans-Caspian pipeline, to connect the vast gas reserves of Central Asia to European markets. The EU is also interested in developing a framework for cooperation on concrete projects in a number of important energy areas, including safety of nuclear energy production, oil and gas, renewable energies, energy efficiency and the electricity market. The European Commission is likely to restart strategic cooperation in the energy sector through signature of a new Memorandum of Understanding. In order to attract investors, Iran presented, in November 2015, a new [Iranian Petroleum Contract](#), which gives foreign companies several years to explore and develop fields and 15 to 20 years of production rights.

Both the EU and Iran have an interest in reinvigorating **trade and investment**, which will also boost Iran's depressed economy. Prior to the introduction of sanctions, the EU was Iran's main trading partner, accounting for around 30% of its total trade, and has since been overtaken by China, Turkey and the UAE. Following the Paris Agreement of 14 November 2004, the EU and Iran in January 2005 began negotiation of a package deal composed of two interdependent and mutually reinforcing elements: a Trade and Cooperation Agreement focused on economic and financial cooperation and on greater

trade liberalisation; and an EU-Iran Political Dialogue. Many issues discussed at that time could still provide a starting point for renewing cooperation, including EU support for Iranian accession to the World Trade Organization and technical assistance on tariff structures, public procurement, health and safety standards, rules of origin, intellectual property and other areas as appropriate. The [sectors](#) that are likely to benefit most are those whose share of Iran's market has decreased most since the introduction of sanctions: non-agricultural products such as fuels, chemicals, machinery, textiles and clothing. Several [business deals](#) between European companies and Iran – worth up to €40 billion – were announced in January 2016, including an oil deal with [Total](#), a contract with Danieli for supply of heavy machinery and equipment, a deal with Saipem to upgrade the Pars Shiraz and Tabriz oil refineries, and the [Airbus](#) deal for 118 planes. The remaining [US sanctions](#) on Iran – while making it difficult for most US companies to do any business with Iran – also pose [difficulties](#) for European companies, by preventing any deals using US financial institutions.

EU-Iran cooperation on **internal security** issues is more challenging, given that EU terrorism-related sanctions imposed on the IRGC will remain in effect until 2023. The EU and Iran agree that fighting criminal networks involved in drug trafficking and smuggling in provinces such as Sistan-Baluchistan is a serious challenge. Consequently, EU support to strengthen the capacities of central government – including enhancing Afghan/Iranian border police cooperation and the training of customs officers – could be one possible course of action. However, Iran's record on human rights and the absence of an independent justice system in the country makes it very unlikely. One of the key problems in this regard is the use of the legal system for fighting political opponents or prosecution of human-rights defenders and foreign nationals with Iranian citizenship on charges of espionage or other national security-related offences. In this context, while [sanctions](#) linked to Iran's nuclear programme will gradually be lifted, the measures concerning travel bans and freezing the assets of individuals responsible for serious violations of human rights will be [maintained](#) until at least 13 April 2016 (subject to extension by the Council).

The European Parliament has been actively involved in parliamentary diplomacy with its Iranian counterpart – the Majles, a unicameral house with 290 seats – and Iranian political figures. In November 2015, the President of the European Parliament, Martin Schulz, paid a one-day [visit](#) to Iran where he met senior Iranian officials: President Hassan Rouhani, Speaker of the Parliament, Ali Larijani, Foreign Minister, Mohammad Javad Zarif, Chair of the Iran-EU parliamentary relations group and Head of the Islamic Parliament Research Centre, Kazem Jalali, and Secretary of Iran's Human Rights High Council, Mohammad Javad Larijani. The discussions focused primarily on regional crises in Yemen and Syria, as well as the need to address the root causes of terrorism. In June 2015, a European Parliament Foreign Affairs Committee (AFET) delegation, headed by its Chair, Elmar Brok, [visited](#) Iran. In addition to regional security, the delegation discussed drug trafficking, climate change, protection of the environment, and human rights. The recent election of Chairman Jalali to the Executive Committee of the Inter-Parliamentary Union ([IPU](#)) provides new opportunities for enhancing parliamentary cooperation between the EP and Majles. In April 2014, the EP adopted a [resolution](#) on EU strategy towards Iran, which focuses on the nuclear issue, prospects for EU-Iran relations, regional issues and human rights.

Managing expectations in 2016

The deal between Iran and the E3/EU+3 represents a unique opportunity for more constructive engagement between its signatories, and promises a solely peaceful nature for Iran's nuclear programme. Simultaneously, even though not concerned with political and economic issues, the agreement has generated much expectation with regard to Iran's economic and social development as well as its role in stabilising the region. The main question, therefore, is whether Iran will fulfil its commitments and continue along this progressive path, or whether the influence of conservative elites and the IRGC will thwart Iran's progress and undermine the implementation of the nuclear deal. This question is relevant in light of the parliamentary elections in February 2016.

Managing expectations at home

With the perspective of international sanctions being gradually lifted, there is an expectation in Iranian [society](#) that a fresh influx of money and international investment will result in an across-the-board improvement of living conditions in Iran. The real [economic impact](#) of the deal, however, will not be automatic and will depend on domestic politics and the capacity of the Iranian government to complete the necessary reforms. Even though Iran will benefit from an immediate release of about US\$100 billion from its frozen assets, only half of this amount will be available. Therefore, in order to meet expectations, Iran will need to attract foreign investors. Here the problem is twofold. Firstly, Iran's conservatives, suspicious of any grand opening to the West and fearing its potential influence on Iranian society, may attempt to jeopardise implementation of the deal and block any attempt at reform. Second, the government will need to [address](#) corruption, establish a credible banking system (including a strong and independent central bank), and ensure protection of investment capital, in particular in relation to intellectual property rights, enforcement of contracts, reform of the bankruptcy regime, and transparent financial reporting based on internationally recognised accounting standards. Most state-owned assets will need to be genuinely transferred into private hands, but the IRGC will be reluctant to relinquish control over companies which they consider strategic for preserving their own interests. Iran's judiciary – susceptible to factionalism within the political and clerical establishment – is also more likely to rule to the benefit of Iranian companies in any cases involving foreign investors. In this context, the pace of economic and social reforms – in particular with regard to respect for human rights and civil liberties – will most likely be slower than expected. It will not translate into the immediate wage increases, employment and rising living standards that the public is expecting. Persistently low [oil prices](#) may further undermine the pace of reforms, and result in anti-government protests [similar](#) to those in 2011 and 2012. A potential brutal response by security services could in turn lead to renewed tensions between Iran and the West.

Managing the international audience

The international community expects Iran to honour its commitments and proceed with timely implementation of the deal, even though some analysts maintain that Iran [remains](#) a dangerous actor. The moderate fractions in Iranian politics – represented by President Rouhani – are expected to perform well in the upcoming parliamentary elections, which would ensure some continuity. Much will also depend on Iran's satisfaction with the real impact of the deal on Iran's economic and international situation. At the same time, Iran will need to abstain from provocations like the ballistic missile test which resulted in new [sanctions](#) from the United States. There is also a risk that tense relations between Iran and [Israel](#) and Saudi Arabia may derail the process of

Iran's reintegration in the international community. While the risk of an inter-state military confrontation is relatively low, there is a fear that resentment towards the central government may lead to instability in provinces where low-intensity insurgency is already taking place: the south-western province of Khuzestan, Kurdish areas in the north-west, and the south-eastern province of Sistan-Baluchistan. Iran may also increasingly be dragged into a stand-off between the EU and Russia over imports of energy resources from the Caspian Sea. Even though all five littoral states (i.e. Azerbaijan, Iran, Kazakhstan, Russia and Turkmenistan) call for the waters to be [demilitarised](#), Russia's naval dominance in the Caspian confirms its military leverage in the region, which may have an impact on the stability of supplies from Turkmenistan and Azerbaijan. It is also uncertain to what extent Tehran will align its energy policy with Moscow, once it reintegrates into international energy markets. An energy-based relationship with Tehran is also a key component in China's 'One Belt, One Road' strategy, which aims to secure China's influence in Central Asia and the Caucasus. Finally, many countries have expressed hopes for constructive engagement from Iran towards finding political solutions to conflicts in Iraq, Syria and Yemen. This, however, may not always take the direction anticipated, since Iran's priority is promoting its [revolutionary](#) ideology to protect its interests and influence in the region.

In February 2016, Iran will hold elections for the [Majles](#) and the [Assembly of Experts](#), in which centrist and reformist forces are expected to perform well. Given the high stakes in these elections, one may expect an intensification of political jockeying, which may also result in less conciliatory tones coming from Tehran (destined primarily for domestic audiences). At the same time, the election of the Assembly of Experts – 86 representatives elected for eight years – will play a role in the long term, as its representatives may be responsible for electing the next Supreme Leader.

Main references

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