

## Next steps toward a final deal with Iran

Steven Blockmans and Luigi Scazzieri

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### Key points

On January 20th, the International Atomic Energy Agency confirmed that Iran had been implementing its commitments as part of the Joint Plan of Action (JPA) agreed with the so-called 'E3+3' in Geneva (also known as P5+1) on 24 November 2013. The forging of this interim deal, the successful start to its implementation and the temporary sanctions relief represent resounding success for international diplomacy but they should not be allowed to conceal the underlying issues. Reaching agreement on the JPA was achieved at the cost of clarity over what is to follow and it was decided to eschew a structured agreement in favour of a two-step process. The stated aim of the negotiating parties remains that of starting the implementation of a comprehensive solution by November 2014. If agreement is not reached on a comprehensive solution by the expiry of the JPA by July 20th, the action plan can be renewed by mutual consent. The latter might well be the likeliest outcome of the forthcoming negotiations. Apart from the large gap between the E3+3 and Iranian positions on the substance of a final deal, several domestic policy constraints will likely define the parameters of what is achievable in the future.

This CEPS Policy Brief argues that the best hope for success lies in continued engagement and consistent incremental progress in the negotiations, with structured concessions on both sides. This should occur, however, not in a two- but a three-step framework based on lengthening Iran's 'breakout' period while re-engaging with the country both politically and economically. The EU is in a unique position to lead this process. Having greater flexibility than either the US or Iran, its main tasks will be that of maintaining the negotiating momentum and broadening dialogue with Iran.

### Recommendations

- The High Representative, supported by the European External Action Service and the EU member states, must maintain momentum in the negotiating process throughout the EU's institutional transition in 2014, working with the US and Iran to overcome their domestic constraints, while keeping Russia on board.
- The EU must restate its commitment to enforcing the remaining sanctions, dissuade other P5+1 partners from imposing new sanctions during the timeframe of the JPA, be ready to deliver timely sanctions relief if negotiations progress satisfactorily and also be prepared to re-impose its own sanctions if negotiations collapse.
- EU institutions should deepen channels of communication with Iran on issues of regional security as well as human rights. The High Representative's planned visit in March will be an important follow-up to the delegation sent by the European Parliament in December.
- EU member states can contribute to building trust with Iran by re-engaging diplomatically, offering cooperation in terms of regional dialogue and promising concrete support for the development of nuclear energy for civilian purposes. Closer commercial links can also be beneficial in normalising relations, but member states must make it clear, to both Iran and their own citizens and companies, that no trade in sanctioned goods and services will take place as long as sanctions remain in force.

Steven Blockmans is CEPS Senior Research Fellow and Head of the EU Foreign Policy unit. Luigi Scazzieri is an intern at CEPS.

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## 1. Introduction

On January 20<sup>th</sup>, the International Atomic Energy Agency (IAEA) confirmed that Iran had been implementing its commitments as part of the Joint Plan of Action (JPA) agreed by the E3+3 in Geneva on November 24<sup>th</sup> of last year.<sup>1</sup> In particular, the Agency confirmed that Iran had not installed new centrifuges, that it had stopped enriching uranium above 5%, that it had disabled connections between cascades being used to enrich up to 20%, and that it had begun the process of diluting half of its stockpile of 20%, while the other half is to be converted to oxide over the next six months.<sup>2</sup> Over the next six months, the IAEA will continue to monitor Iranian enrichment, and activities at Arak, Fordow and Natanz. Immediately following the IAEA announcement, the US and EU suspended some of the sanctions currently imposed on Iran. Sanctions relief, quantified at \$7 billion, comprises both the suspension of some sanctions and the repatriation of \$4.2 billion of oil revenues in tranches.

This is a promising start to the six-month period over which the JPA is to be implemented: by effectively freezing the Iranian programme for six months, breathing space is created for negotiations to forge ahead. The sealing of the deal in November, and the successful start to its implementation represent resounding successes for international diplomacy, they but should not be allowed to conceal the underlying issues. Reaching agreement on the JPA was achieved at the cost of clarity over what is to follow, and it was decided to eschew a structured agreement in favour of a two-step process. In order to

<sup>1</sup> The E3+3 are composed of Germany, France, the UK, plus China, Russia and the US. Negotiations within this format are conducted under the auspices of the EU. The format is better known in international circles as the 'P5+1', referring to the five permanent members of the UN Security Council, plus Germany, but this notion denies the crucial role that the EU plays in the process. In this Policy Brief, however, the two concepts will be used interchangeably,

<sup>2</sup> Statement by Yukiya Amano, Director General of the International Atomic Energy Agency, 20 January 2014 ([www.iaea.org/newscenter/pressreleases/2014/prn201402.html](http://www.iaea.org/newscenter/pressreleases/2014/prn201402.html)).

secure agreement over the JPA, negotiators skipped over a series of thorny issues that will have to be looked at in the next phase of talks, starting on February 18<sup>th</sup> in Vienna. This paper argues that the current situation presents a series of hurdles that the EU is well-positioned to overcome.

## 2. An imperfect deal

The JPA freezes many elements of the Iranian nuclear programme, lengthening the 'breakout' time needed for Iran to make a nuclear device. However, some commentators have pointed out that it does not do enough; i.e. that the deal allows Iran to maintain all its centrifuges and current infrastructure, to retain its stockpile of low enriched uranium and to continue research and development in advanced centrifuge models.<sup>3</sup> Because of these shortcomings, it is argued that Iran actually retains the ability to break out within a period of 2 to 3 months.<sup>4</sup> It would have been unrealistic, however, to expect the two sides to agree on a JPA that would already begin the process of rolling back the Iranian nuclear programme.

Nevertheless, these issues will have to be addressed in the next phase of negotiations: any deal that allows Iran to remain a nuclear threshold state will not be acceptable to the US Congress or the American public. This clear-cut requirement clashes with comments made by

<sup>3</sup> Mark Fitzpatrick, IISS Director for Non-Proliferation, Testimony to the House of Commons Foreign Affairs Committee, 28 January 2014 ([www.parliamentlive.tv/Main/Player.aspx?meetingId=14747&player=silverlight](http://www.parliamentlive.tv/Main/Player.aspx?meetingId=14747&player=silverlight)).

<sup>4</sup> Olli Heinonen (Senior Fellow Belfer Center for Science and International Affairs, John F. Kennedy School of Government at Harvard University) argued for a breakout period of 'over three months' in a hearing in front of the House Foreign Affairs Committee, 28 January 2014 (<http://docs.house.gov/meetings/FA/FA13/20140128/101679/HHRG-113-FA13-Wstate-HeinonenO-20140128.pdf>).

David Albright (Founder and President of the Institute for Science and International Security) argued that Iran's breakout time has been lengthened to "1.9 to 2.2 months" in a hearing before the House Foreign Affairs Committee, 28 January 2014 (<http://docs.house.gov/meetings/FA/FA13/20140128/101679/HHRG-113-FA13-Wstate-AlbrightD-20140128.pdf>).

Iranian President Hassan Rouhani and Foreign Minister Mohammed Javad Zarif, suggesting that they have little intention of significantly rolling back their existing nuclear infrastructure.<sup>5</sup>

Apart from the large gap between the American and Iranian positions, there are also a set of domestic policy constraints that will define the parameters of what is achievable in the future. The easing of the sanctions regime may well come to threaten cohesion amongst the E3, while also potentially leading to a split between the EU and the US. Indeed, there are some worrying signs that the two may already be drifting apart, with the US being much more overt than the Europeans in its enforcement of the remaining sanctions. The stated aim of the negotiating parties remains that of starting the implementation of a comprehensive solution by November 2014. Should it prove impossible to reach agreement on a comprehensive solution by the expiry of the JPA by July 20th, the JPA is 'renewable by mutual consent'.<sup>6</sup>

The issues outlined above suggest that this might well be the likeliest outcome of the forthcoming negotiations. Yet, the final aim should not be lost sight of: achieving a comprehensive solution remains the most practicable route of international action. The best hope for success lies in continued engagement and consistent incremental progress in the negotiations, with structured concessions on both sides.

### 3. Broad international disagreements

Two very different conceptions of what a final deal should look like lie at the heart of the difficulties in negotiating a comprehensive deal. A deal acceptable to the EU and the US would

<sup>5</sup> Hassan Rouhani, Speech at World Economic Forum, 23 January 2014 (<http://edition.cnn.com/2014/01/23/world/meast/rouhani-calls-sanctions-illegal/>). See also CNN Interview with Iranian Foreign Minister Mohammad Javad Zarif, 23 January 2014 (<http://edition.cnn.com/2014/01/22/politics/iran-us-nuclear/>).

<sup>6</sup> Joint Plan of Action ([http://eeas.europa.eu/statements/docs/2013/131124\\_03\\_en.pdf](http://eeas.europa.eu/statements/docs/2013/131124_03_en.pdf)).

ensure that Iran was no longer a nuclear 'threshold state', and it would significantly roll back the Iranian nuclear programme in terms of numbers of centrifuges and enrichment locations and restrict enrichment above 5%. In particular a comprehensive agreement acceptable to the US would shut down the enrichment at the underground facility at Fordow and neutralise the heavy-water reactor at Arak.<sup>7</sup> Analysts also estimate that the US would aim to reduce the number of centrifuges from almost 20,000 to 2-3,000, and commit Iran to forgoing all enrichment above 5%.<sup>8</sup>

In the US, many hawks would object to such a deal, aiming at a complete halt to Iranian enrichment. Although Europeans support the American stance, the EU in its official position is more reserved about its own vision of a comprehensive agreement:

The objective of the EU remains to achieve a comprehensive, negotiated, long-term settlement, which would build international confidence in the exclusively peaceful nature of the Iranian nuclear programme, while respecting Iran's legitimate right to the peaceful use of nuclear energy in conformity with the Non-Proliferation Treaty and fully taking into account UN Security Council and IAEA Board of Governors resolutions.<sup>9</sup>

Russia and China also remain committed to a solution that places the Iranian nuclear programme on a firmly civilian footing. However, unlike the EU and US, both countries

<sup>7</sup> See Written Statement by Wendy Sherman, US Under-Secretary of State for Political Affairs, to the Senate Committee on Foreign Relations, "Iran Policy and Negotiations Update", 4 February 2014 ([www.uspolicy.be/headline/state%E2%80%99s-sherman-negotiations-iran?utm\\_source=Foreign+Policy+Newsletter&utm\\_campaign=01a39aa25a-Foreign\\_Policy\\_Newsletter\\_of\\_April\\_29\\_2011&utm\\_medium=email&utm\\_term=0\\_4350c93b63-01a39aa25a-411259305](http://www.uspolicy.be/headline/state%E2%80%99s-sherman-negotiations-iran?utm_source=Foreign+Policy+Newsletter&utm_campaign=01a39aa25a-Foreign_Policy_Newsletter_of_April_29_2011&utm_medium=email&utm_term=0_4350c93b63-01a39aa25a-411259305)).

<sup>8</sup> See Mark Fitzpatrick, "Diplomacy over Iran nuclear deal lives on", IISS Politics and Strategy Blog, 20 January 2014 ([www.iiss.org/en/politics%20and%20strategy/blogsection/s/2014-d2de/january-1f44/diplomacy-over-iran-8593](http://www.iiss.org/en/politics%20and%20strategy/blogsection/s/2014-d2de/january-1f44/diplomacy-over-iran-8593)).

<sup>9</sup> EEAS Factsheet "The European Union and Iran" ([http://eeas.europa.eu/statements/docs/2013/131219\\_04\\_en.pdf](http://eeas.europa.eu/statements/docs/2013/131219_04_en.pdf)).

have also maintained extensive trading links with Iran, in particular in the energy sector, and have opposed unilateral sanctions. The interplay of considerations on trade and security will increasingly shape their attitudes in the next phase of negotiations, and might lead to increasing differences within the E3+3.

Conversely, the idea of rolling back the programme does not seem to appeal to many members of Iran's ruling establishment, who are unwilling to give up what they are proud to have achieved. Following the January 20<sup>th</sup> start to the implementation of the JPA, Iranian leaders issued statements highlighting the distance between the negotiating positions, with Rouhani stating that "not under any circumstances" would Iran destroy any of its existing centrifuges, and that the Arak reactor is necessary for the production of medical isotopes.<sup>10</sup> However, there have also been encouraging signs, with Iranian leaders repeatedly stating their willingness to work towards a comprehensive deal, and with the head of the Atomic Energy Organisation of Iran, Ali Akbar Salehi, stating that Iran is prepared to carry out modifications to the Arak reactor to help allay existing fears concerning plutonium production.<sup>11</sup> Finding common ground necessitates a structured framework based on a series of confidence-building phases, which must include IAEA verification concerning the past and present possible military dimensions of the programme. A first step in this regard was taken on February 9<sup>th</sup>, with Iran agreeing to provide the Agency with information on detonators.<sup>12</sup>

<sup>10</sup> CNN, 23 January 2014 (<http://edition.cnn.com/2014/01/23/world/meast/rouhani-calls-sanctions-illegal/>).

<sup>11</sup> "Iran says may modify Arak reactor to allay nuclear concerns", 6 February 2014 ([www.reuters.com/article/2014/02/06/us-iran-nuclear-arak-idUSBREA150KA20140206?feedType=RSS&feedName=worldNews](http://www.reuters.com/article/2014/02/06/us-iran-nuclear-arak-idUSBREA150KA20140206?feedType=RSS&feedName=worldNews)).

<sup>12</sup> IAEA Press Release, "IAEA and Iran Conclude Talks in Connection with Implementation of Framework of Cooperation", 9 February 2014 ([www.iaea.org/newscenter/news/2014/iaea\\_iran090214.html](http://www.iaea.org/newscenter/news/2014/iaea_iran090214.html)).

#### 4. Domestic negotiating constraints

The international disagreements over the technical elements of the nuclear programme are compounded by domestic constraints in the US, in Iran and within Europe itself. Trust between international actors can be built, but it is harder to influence the underlying mentalities prevalent in policy-making milieus and public opinion. The boundaries of any future deal are likely to be shaped by domestic concerns as much as by international negotiations.

*Within the US* many commentators and policy-makers are opposed to any deal that would leave Iran with an indigenous enrichment capacity, and a deal that seems to be too lenient towards Iran is likely to be fiercely opposed. A lack of progress in the negotiations before the JPA expires in July would reinforce perceptions that Iran is stalling, provoking US lawmakers to introduce further sanctions. The Menendez-Kirk bill (S. 1881 - 'Nuclear Weapon Free Iran Act of 2013') has stalled after Obama made clear his intention to oppose it, in the knowledge that the Iranians would perceive it as violating the current agreement.<sup>13</sup> The President has gained breathing space, with enough lawmakers willing to give diplomacy a chance, but if negotiations were to stall it is possible that the bill will regain momentum.

The passing of the bill would not only step up sanctions, but also prevent their removal until a set of tough conditions had been met. It would commit the President to certify that any final deal would involve the dismantling of Iran's "illicit nuclear infrastructure, including enrichment and reprocessing".<sup>14</sup> By making it extremely difficult to deliver its side of the bargain, the passing of the bill could have the effect of severely undermining the negotiating position of the US. The attitude of Congress will also be crucial if negotiations were to proceed successfully: in fact, congressional approval is

<sup>13</sup> State of the Union Speech, 28 January 2014 (<http://edition.cnn.com/interactive/2014/01/politics/sou-speech-transcript/index.html>).

<sup>14</sup> Library of Congress Bill Summary and Status, Bill S 1881 (<http://thomas.loc.gov/cgi-bin/bdquery/z?d113:s.1881>).

needed to rescind many of the sanctions currently imposed on Iran. For the time being, the President can provide a degree of sanctions relief by suspending those sanctions issued by Executive Order, but if broader concessions are required, then he would be unable to provide them on his own. The removal of sanctions imposed on Iran by means of Congressional Acts requires the passage of new legislation, which might prove to be significantly more difficult to deliver after the mid-term elections in November 2014.

On the *Iranian side*, there is more support than ever before in the domestic political arena for a negotiated settlement, and there has never been a time since the revolution when talks in Tehran about a potential arrangement with the US have been so open. Iran's catastrophic economic situation is seen by many observers as the Rouhani government's central motive to end the nuclear standoff – and the sanctions against Iran – as quickly as possible.

However, as observed by Walter Posch, an Iranian specialist at the *Stiftung Wissenschaft und Politik (SWP)* in Berlin, Iran's goal in the nuclear negotiations is not just an easing of sanctions. Its constructive attitude is also a result of the domestic political moderation and the new consensus within the security elite. The changing regional dynamics and the strengthening of Al-Qaeda also play an important role.<sup>15</sup>

Whatever the reasons, there are technical and political obstacles to further progress in the solution of the nuclear file. Firstly, agreeing to the JPA did not require a commitment to rolling back the programme in terms of infrastructure, meaning that the agreement was acceptable to broad sections of the elite, including those who would like Iran to retain the option of producing a nuclear device. Future deals will require steps that will drive Iran further away from this capability, and are therefore likely to encounter greater resistance. Secondly, the complex and

multi-layered nature of the Iranian political system, with several centres of power, means that Rouhani's own ability to deliver in the negotiations is not yet clear. His approach to date has enjoyed backing at the highest level, but there is simmering opposition.

If negotiations were to stall or become too confrontational, it is possible that hardliners might gain leverage, making a final deal increasingly difficult to achieve. Finally, Rouhani's support is at least partly based on his ability to deliver relief from the severe economic pressures created by the sanctions: so far he and foreign minister Zarif seem to have been successful in this respect and have therefore managed to retain room for manoeuvre, but if they fail to secure new concessions it is possible that the President's own internal position will be weakened. In any case, a deal that does not broadly satisfy the regime is not feasible, and at a later stage the Iranian Parliament will also have to become involved to approve the IAEA Additional Protocol. Moreover, both public opinion and civil society have roles to play, and these need not be negative ones: indeed by renewing public diplomacy efforts, the P5+1 could well strengthen the Iranian moderates.

Compared to the other actors, the *European Union* appears relatively flexible, due to a combination of three different factors. Firstly, it can be argued that there are relatively limited constraints placed by European publics on reaching a final deal with Iran: the threat from Iran is seen as relatively remote, and does not carry the same intensity as it does in the US. Secondly, in contrast with the US, the mechanism for removing EU sanctions is relatively straightforward: they can be suspended or rescinded by a unanimous decision on the part of the Council of Ministers.<sup>16</sup> Finally, Europe has already been re-engaging in dialogue with Iran, especially on a bilateral level. Italy was amongst the first, with a visit by Foreign Minister Emma Bonino in

<sup>15</sup> See W. Posch, "Iran's Interests in the Nuclear Negotiations", *Fair Observer*, 6 December 2013.

<sup>16</sup> See "Factsheet on EU restrictive measures" ([www.consilium.europa.eu/uedocs/cms\\_data/docs/press\\_data/EN/foraff/135804.pdf](http://www.consilium.europa.eu/uedocs/cms_data/docs/press_data/EN/foraff/135804.pdf)).

December 2013, followed by parliamentary delegations from the UK and Germany and Sweden's Foreign Minister Carl Bildt in early February. The combination of these three factors means that the European Union is ideally placed to provide further sanctions relief if required to do so, enabling negotiations to continue where they might otherwise have stalled or failed.

However, in order to maintain credibility, the EU and its member states must strive to maintain cohesiveness. This is threatened both by untimely unilateral interventions from individual member states, and by the easing of sanctions. Unilateral interventions by member states, such as the break of negotiating protocol by French Foreign Minister Laurent Fabius during the November talks, risk undermining the united front presented by the E3: any differences should be resolved behind closed doors and not aired in public.

The easing of sanctions stemming from the implementation of the JPA poses a threat despite the relatively limited scope of relief provided. Indeed, EU member states and European businesses seem to be scrambling to send official delegations to Iran, their eyes set on the resumption of deep economic links.<sup>17</sup> These missions have the potential to cause tension with the US. A recent high-level French trade delegation of over 100 executives attracted comments from US Secretary of State John Kerry, who defined it as "not helpful".<sup>18</sup>

European efforts to re-engage with Iran diplomatically should not morph into an untimely race to secure a share of Iranian markets and resources. This would risk driving a wedge between member states and by so doing it would also undermine the EU's negotiating position towards Iran in the P5+1.

<sup>17</sup> "The Iran Gold Rush", *Wall Street Journal*, 22 January 2014 (<http://online.wsj.com/news/articles/SB10001424052702304302704579333111629746556>).

<sup>18</sup> Report of phone call between Kerry and Fabius, 5 February 2014 ([www.reuters.com/article/2014/02/05/us-iran-france-delegation-idUSBREA140FK20140205](http://www.reuters.com/article/2014/02/05/us-iran-france-delegation-idUSBREA140FK20140205)).

## 5. An unravelling sanctions regime?

Sanctions on Iran have been much misunderstood, partly because it is not easy to isolate both their quantitative impact on the Iranian economy and their effectiveness in compelling the Iranians to resume negotiations.<sup>19</sup> Broadly speaking, however, the consolidation of a very severe set of EU and US sanctions from 2012 has played a role in the election of Rouhani as President on a platform of re-engagement with the international community. Whereas the first signs of an Iranian re-engagement on the nuclear file are raising hopes for a resolution of the long-standing dispute, talk of the abatement of the sanctions regime is premature. The Iranian regime should stay the course.

In quantitative terms, the sanctions relief provided by the JPA removes only a small part of the overall burden on the Iranian economy. Iran has gained relief quantified at \$7 billion, but sanctions on crude oil alone will result in a loss of \$30 billion over the six-month timeframe of the JPA.<sup>20</sup> Specifically, the P5+1 have agreed to halt efforts to reduce Iranian oil sales, "enabling Iran's current customers to purchase their current average amounts of crude", suspended sanctions on insurance for transport of such oil and allowed the repatriation of \$4.2 billion in revenue from oil sales currently held abroad. The EU and US have also suspended the prohibition on the import, purchase or transport of Iranian petrochemical products and on the provision of related services; as well as the prohibition on trade in gold and precious metals.<sup>21</sup> Additionally, the US has suspended sanctions on Iran's auto industry.<sup>22</sup>

<sup>19</sup> See S. Blockmans and S. Waizer, "E3+3 coercive diplomacy towards Iran: Do the economic sanctions add up?", CEPS Policy Brief, 6 June 2013.

<sup>20</sup> "The Iran Deal", *The Economist*, 30 November 2013.

<sup>21</sup> Joint Plan of Action ([http://eeas.europa.eu/statements/docs/2013/131124\\_03\\_en.pdf](http://eeas.europa.eu/statements/docs/2013/131124_03_en.pdf)). For suspension of EU sanctions see Council Regulation No. 2014/42/EU of 20 January 2014 amending Regulation (EU) No. 267/2012 concerning restrictive measures against Iran, OJEU 2014 L 15/18 (<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2014:015:0018:0021:EN:PDF>) and

On the whole, sanctions against Iran have not been significantly altered by the terms of the JPA: in particular Iranian oil sales are not supposed to increase during the timeframe of the agreement, and the US administration has made it clear that existing sanctions will continue to be strictly enforced.<sup>23</sup> A strong message was given on February 6th, when the Treasury announced actions against 18 businesses and 14 individuals deemed to be in violation of sanctions.<sup>24</sup> Moreover, the amount of direct revenue to be released, \$4.2 billion, is to be made available in tranches, with the final instalment not released until the last day of the six-month period. There are risks that the sanctions regime might be weakened, but these do not stem from the scope of relief currently envisaged, but rather from their non-enforcement or from the 'oil for goods' deal allegedly being negotiated between Iran and Russia, which could potentially be worth up to \$1.5 billion a month.<sup>25</sup> Much also depends on the actions of actors such as China and India, neither of whom have significantly altered their trade relations with Iran.<sup>26</sup>

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Council Decision 2014/21/CFSP of 20 January 2014 amending Council Decision 2010/413/CFSP concerning restrictive measures against Iran, OJEU 2014 L 15/22 (<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2014:015:0022:0023:EN:PDF>).

<sup>22</sup> "Frequently Asked Questions Relating to the Temporary Sanctions Relief to Implement the Joint Plan of Action between the P5+1 and the Islamic Republic of Iran" ([www.treasury.gov/resource-center/sanctions/Programs/Documents/jpoa\\_faqs.pdf](http://www.treasury.gov/resource-center/sanctions/Programs/Documents/jpoa_faqs.pdf)).

<sup>23</sup> US Treasury, US Department of State, "GUIDANCE RELATING TO THE PROVISION OF CERTAIN TEMPORARY SANCTIONS RELIEF IN ORDER TO IMPLEMENT THE JOINT PLAN OF ACTION REACHED ON NOVEMBER 24, 2013, BETWEEN THE P5+1 AND THE ISLAMIC REPUBLIC OF IRAN" ([www.treasury.gov/resource-center/sanctions/Programs/Documents/jpoa\\_guidance.pdf](http://www.treasury.gov/resource-center/sanctions/Programs/Documents/jpoa_guidance.pdf)).

<sup>24</sup> US Treasury Press Release, "Treasury Targets Networks Linked to Iran", 6 February 2014 ([www.treasury.gov/press-center/press-releases/Pages/jl2287.aspx](http://www.treasury.gov/press-center/press-releases/Pages/jl2287.aspx)).

<sup>25</sup> "U.S. has concerns about Iran-Russia oil-for-goods swap reports", 13 January 2014 ([www.reuters.com/article/2014/01/13/us-usa-iran-sanctions-russia-idUSBREA0C1KQ20140113](http://www.reuters.com/article/2014/01/13/us-usa-iran-sanctions-russia-idUSBREA0C1KQ20140113)).

<sup>26</sup> See Blockmans and Waizer, op. cit.

The E3 should resolve potential ambiguities in their attitude to sanctions. On one hand, official visits and trade delegations contribute to the creation of a positive political dialogue with Iran, while exploratory trade talks can provide the Iranians with positive incentives to reach a comprehensive deal. But trading delegations can also give the wrong impression, namely that Europe now considers Iran to be open for business, and therefore undermine the legal framework of remaining sanctions. Conditionality of the resumption of full trading links on the removal of sanctions should be made clear: the EU's credibility is on the line.

In their current arrangement, sanctions retain their importance as a key element of diplomatic negotiations, both as a bargaining chip and as a tool of diplomatic pressure. The EU should make it clear that additional easing should only take place as part of a structured process after further negotiating progress. Conversely, new sanctions are likely to be counterproductive, and may well reinforce the narrative of persecution, which has long been espoused by the Iranian regime, strengthening Iran's resolve not to make humiliating concessions. Moreover, if they are perceived as unjust, they could also have the effect of splintering the unity of the international community. The imposition of new sanctions should only be considered if it becomes clear that Iran has no intention of negotiating a comprehensive settlement, in which case, they should be supported by the whole international community.

## 6. Envisaging a framework

The issues outlined above show the difficulties in pursuing negotiations, while also highlighting how any faltering of the negotiating process risks strengthening the position of those parties that do not want a deal, both in the US and Iran. There is also the risk that pressure to resume business with Iran may slowly but progressively weaken the united front within the EU and between Europe and the US. It is necessary to keep the momentum behind the talks steady and strong, to maintain

engagement and to aim for a series of small but incremental steps aimed at gradually building trust between the two sides.<sup>27</sup>

*The first* of these steps should aim to completely freeze the nuclear programme, eliminating any risk or substantiated fear of a breakout, so that any attempt to do so could be detected in a timely manner. In exchange, Iran would obtain an easing of the sanctions equal in scope to that carried out under the JPA. A complete freeze would involve the halt of all construction work carried out at Arak and place severe limits on testing new centrifuge models. It would ramp up IAEA monitoring to ensure that Iran is complying with its obligations and that it is not enriching covertly. Reaching an agreement along these lines would do much to assuage fear that Iran is negotiating merely in order to gain time. It would mean that the deal could be renewed without fears of letting Iran creep closer to developing the bomb, while also providing a solid platform from which to negotiate further. It would have to be accompanied by significant steps in terms of political rapprochement and closer dialogue. The further facilitation of ‘humanitarian’ trade, especially in medicines, would be a key first step in the process.

During the *second, intermediate stage*, Iran would resume the implementation of the IAEA Safeguards Agreement Additional Protocol and ratify it. At the same time, the IAEA would work to resolve outstanding issues concerning weaponisation of nuclear power, both past and present. During this phase the number of Iranian centrifuges should gradually be reduced, perhaps by not repairing or replacing broken ones. A ‘centrifuges for sanctions’ deal would be appropriate, but is unlikely to be acceptable to Iran or the US. Alternatively the centrifuges could be rendered inactive and

placed under IAEA supervision. EU sanctions and US Executive Order sanctions should be reduced gradually in a series of steps directly equivalent to the number of centrifuges rendered inactive and to the lessening of the uranium stockpile. In this phase detailed negotiations over the scope of the future nuclear programme can take place, with guarantees and aid being provided for Iran’s nuclear energy development. Issues concerning Arak could be solved by modifying the reactor there into a light-water reactor. In a ‘side dialogue’ the EU should aim to deepen relations with Iran, based on the normalisation of trade relations, technical assistance and the setting up of a regional security dialogue.

The *third phase* would start once the IAEA has verified compliance with previous steps and certified that Iran has come clean on its nuclear programme. In this phase all remaining nuclear sanctions would be lifted, while Iran would be permitted to enrich within the needs of its nuclear energy programme. However, ongoing concerns about the Iranian government’s human rights record are likely to delay the removal of non-nuclear related sanctions adopted by the EU and other actors.

## 7. Prescriptions for the EU

The EU has a key role to play in the coming set of negotiations. Having greater flexibility than either the US or Iran, its main tasks will be to maintain the negotiating momentum and broaden dialogue with Iran.

As far as the actual negotiating process is concerned, the task of EU institutions and member states is two-fold: they must maintain momentum and be prepared to deliver on sanctions. Maintaining the momentum behind the negotiations to enable the timely negotiation of follow-on agreements is crucial both in overcoming simmering domestic opposition within the US and Iran, and in retaining a united effort amongst the P5+1. Indeed, given that the Iranian nuclear programme is frozen and that further negotiations are going to entail its gradual rolling back, it is possible that it will

<sup>27</sup> The analysis builds on the draft agreement hammered out by a Task Force on Iran convened by the Strategic Studies Network in 2013. See SSN, “What’s the Deal? Crafting an Agreement on Iran’s Nuclear Program” (<http://strategicstudiesnetwork.org/wp-content/uploads/2012/07/2013-03-28-Iran-Nuclear-Agreement.pdf>).

become harder to keep Russia and China on board. Given that the mandate of the current High Representative of the EU runs out on 30 November 2014, the EEAS will have to keep in place a negotiating and support team that sees the transition to a new incumbent through.

In terms of sanctions, the EU must restate its commitment to enforcing the remaining restrictive measures, attempt to persuade the US not to impose new sanctions during the timeframe of the JPA, be ready to deliver timely sanctions relief if negotiations progress satisfactorily, and also be prepared to re-impose its own sanctions if negotiations collapse.

EU institutions should also aim to deepen channels of communication with Iran on issues of regional security as well as human rights within Iran. In this regard, Ashton's planned

visit in March will be an important follow-up to the delegation sent by the European Parliament in December.

On a bilateral level, all EU member states can contribute to building trust with Iran by re-engaging diplomatically (as many have already been doing), offering cooperation in terms of regional dialogue (e.g. on Syria, Al-Qaeda, etc.) and promising concrete support for the development of nuclear energy for civilian purposes. Closer commercial links can be beneficial in normalising relations, but member states must make it clear, to both Iran and their own citizens and companies, that no actual trade in sanctioned goods and services will take place as long as sanctions remain in force.