The Iran Nuclear Deal at Four: A Requiem?

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Table of Contents

Principal Findings

What's new? Following several incremental breaches of the 2015 nuclear deal, Tehran has announced that it will no longer abide by all the accord's restrictions. Meanwhile, Washington's sanctions, Iranian-U.S. skirmishes culminating in Qassem Soleimani's killing and Iranian strikes on bases housing U.S. forces in Iraq have escalated tensions to perilous heights.

Why does it matter? A cycle pitting U.S. "maximum pressure" against Iranian "maximum resistance" has put the two sides on the brink of military confrontation. While there are signs of de-escalation, Tehran and Washington could still be heading for a confrontation that spells the nuclear deal's end and sparks a broader regional conflict.

What should be done? The best that can be hoped for is some kind of tactical détente between the U.S. and Iran on the nuclear and military fronts, involving sanctions relief, Iranian compliance with the nuclear deal and regional de-escalation. Third-party mediation likely is the best mechanism for finding such an off-ramp.

Executive Summary

The Iran nuclear deal, known as the Joint Comprehensive Plan of Action (JCPOA), enters its fifth year of implementation under siege from all sides. The risks of a clash between the U.S. and Iran mounted in the aftermath of the Trump administration's decision to kill Major General Qassem Soleimani, head of Iran's Islamic Revolutionary Guards Corps Quds Force. At the same time, unilateral U.S. sanctions have upended the deal's promise of financial normalisation for Iran, inflicting severe harm on its economy and people. With the agreement's remaining signatories failing to provide economic respite, Tehran has responded with incremental breaches of its nuclear commitments, which are hollowing out the JCPOA. In the wake of the dangerous tit-for-tat between U.S. and Iran, a small window could open to break the escalatory cycle and avert the deal's collapse. It likely will require third-party mediation to reach an understanding that gives Tehran an economic reprieve and halts or reverses its nuclear measures but also avoids further escalation, by either the U.S. or Iran, in a region in turmoil.

At the heart of the impasse are Washington and Tehran's duelling strategies. Since May 2018, the Trump administration has pursued a coercive approach toward the Islamic Republic, centred on sweeping sanctions that aim either to compel Iran to capitulate to U.S. demands – ending uranium enrichment, curbing missile development and halting support to an array of regional allies – or to prompt regime change. But despite the success in squeezing Iran's revenues, notably through the limitation of oil exports, Washington's "maximum pressure" policy has yielded none of these outcomes. It has not given rise to a better deal; instead, Iran has curtailed its adherence to the existing one. It has not tempered Iran's regional policies; rather, Iran has grown more aggressive in the Middle East. And thus far it has not led to the downfall of a government that has shown itself quicker to effectively suppress unrest at home.

Indeed, facing mounting economic stress, Iran has responded by pursuing two parallel paths: escalating on the nuclear and regional fronts while leaving open the possibility of a diplomatic off-ramp. The JCPOA could be the next casualty in this standoff, as Iran's violations of limits on uranium stockpile sizes, enrichment levels, centrifuge numbers and research and development are nudging the deal's European signatories away from the agreement.

The dramatic events of early January have underscored the possibility that a worst-case scenario of simultaneous regional and nuclear crisis may come to pass. Iranian pragmatists and hardliners are increasingly voicing an embrace of further escalation, even as they brutally suppress growing internal unrest, while President Donald Trump has conveyed his willingness to order massive military action against Iranian targets if Tehran goes after U.S. personnel or assets. Iran bears full responsibility for the shoot-down of a Ukrainian passenger plane on 8 January. but the tragedy nonetheless is a stark reminder of the human cost of rising tensions.

The severity of the risks underscores the urgency of forging a path toward de-escalation that rests on the reality that both Washington and Tehran have much to lose from war. What is needed now, after Iran avenged its fallen general through missile

strikes on Iraqi bases housing U.S. forces on 7 January, and the U.S., having suffered no casualties, opted not to further escalate in response, is a set of immediate measures aimed at stepping back from the brink. These steps could be the following:

- Negotiating an understanding through a third party that would see the U.S. reissue limited oil waivers for key Iranian importers and restore civil nuclear waivers, in return for Iran's full compliance with the JCPOA, de-escalation in the region and, possibly, the onset of negotiations with the U.S. and other JCPOA parties on broader issues (regional security and ballistic missiles). Alternatively, in a narrower version, the U.S. would suspend key non-oil sanctions (eg, on Iran's metals and petrochemical sectors) and restore civil nuclear waivers, in return for Iran agreeing not to ramp up its nuclear program beyond its current status and, possibly, reversing one or more of its breaches, as well as halting aggressive behaviour in Iraq and the Gulf.
- Seeing to it that, even in the absence of U.S. cooperation, Europe does what it can to salvage the nuclear deal. France, Germany and the UK announced on 14 January they were triggering the JCPOA's dispute resolution mechanism. It is a risky move. While they believe it was a necessary step given Iran's growing transgressions, it could backfire, marginalising the European states' role, empowering Iranian hardliners and accelerating the accord's final unravelling. The priority now is for the three European countries to extend the time created by this process to convince Iran to resume compliance with the deal by delivering some of the economic benefits to which Tehran is entitled.
- Ensuring the Iranian people's access to humanitarian goods. The U.S. should formalise a channel for humanitarian trade through Switzerland, and Europe should get its Instrument for Support of Trade Exchanges (INSTEX) with Iran operational.
- Expanding possibilities for engagement between U.S. regional allies, in particular Saudi Arabia and the United Arab Emirates (UAE), with Iran, either bilaterally or through other Gulf countries, such as Kuwait and Oman. European states could encourage Gulf states to begin to set in motion an inclusive regional security dialogue on issues of dispute in order to gradually build trust among these governments and reduce risks of inadvertent conflict. A deconfliction channel through a mutually acceptable third party – perhaps Oman – could diminish risks of inadvertent conflict in the Gulf by relaying messages between the U.S. Central Command and the Iranian General Staff.
- Drawing down U.S. forces from Iraq, which could become a win-win for both Tehran and Washington and defuse an immediate source of tension. It would require U.S. forces to transfer primary military tasks to other members of the International Coalition to Counter ISIS, thereby allowing a partial U.S. withdrawal; provide critical logistical support to these militaries; and reaffirm that the sole objective of this continuing, more limited, military presence is the enduring defeat of ISIS. In the meantime, the U.S. and Iran should endeavour to keep Iraq out of their rivalry so as not to destabilise the country.

A year from now, when the next iteration of Crisis Group's annual report on the state of the JCPOA is due, little might be left of an agreement that has been and could continue to be a net positive for nuclear non-proliferation. Its steady degradation is pouring fuel on fires burning across the region. Its collapse would carry even higher costs and must be averted.

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I. Introduction

The Joint Comprehensive Plan of Action (JCPOA), concluded on 14 July 2015 and endorsed by a unanimous UN Security Council resolution (2231) six days later, entered into force that October. By this agreement, colloquially known as the Iran nuclear deal, Iran committed to restrict and in some areas partly dismantle its nuclear program in return for relief from international economic sanctions. After the International Atomic Energy Agency (IAEA) certified Iran's fulfilment of its initial commitments, the agreement was implemented on 16 January 2016, triggering the lifting of sanctions.

If the story of the deal's first year of implementation was about overcoming technical challenges of rolling back an elaborate nuclear program and an even more intricate sanctions regime, the second year's saga concerned keeping one of the deal's key stakeholders, the U.S., in compliance after President Donald Trump took office. He ended U.S. participation in the JCPOA in year three (8 May 2018), pushing the remaining signatories into a scramble to keep Iran on board. But their efforts proved of minimum effect in the face of the Trump administration's "maximum pressure" campaign that aimed to extract more Iranian concessions regarding its nuclear program, as well as hinder its ballistic missiles program and regional influence. Thus, in year four (8 May 2019), Iran launched a staggered process of loosening adherence to its nuclear commitments, gradually degrading the JCPOA. Absent a break in the escalatory cycle between Tehran and Washington, which by January 2020 had left the two sides on the brink of open conflict, the prospects for the deal's survival are dimming.

Over the past four years, Crisis Group has closely monitored the agreement's implementation.[1] This report examines the record in 2019, and outlines what will need to be done to both salvage the deal and avoid a regional escalation in 2020. It is based on interviews conducted throughout the year with European, Iranian, U.S. and UN officials, as well as private-sector stakeholders. It suggests that a de-escalation agreement facilitated by a mediator, which would provide Iran with some economic reprieve in return for halting or reversing its breaches of the JCPOA, is the best – if increasingly remote – option for buying time and, if coupled with mutual U.S.-Iranian steps to limit the fallout from Iranian general Qassem Soleimani's killing, avoiding a catastrophic escalation.

[1] Crisis Group Middle East Reports N°173, *Implementing the Iran Nuclear Deal: A Status Report*, 16 January 2017; N°181, *The Iran Nuclear Deal at Two: A Status Report*, 16 January 2018; and N°195, *On Thin Ice: The Iran Nuclear Deal at Three*, 16 January 2019.

II. Implementation Record: Death by a Thousand Cuts

The U.S. exit from the JCPOA in May 2018 and reimposition of its nuclear-related sanctions, supplemented by new ones, prompted Iran one year later to take retaliatory measures of its own, violating several of its key nuclear commitments.

A. *Nuclear Commitments*

After complying with all its JCPOA obligations for nearly a year after the U.S. withdrawal, Iran triggered a 60-day rolling ultimatum on 8 May 2019, threatening to curb its compliance with its JCPOA commitments, bit by bit, if the deal's remaining parties offered it no guaranteed dividend.[2] Tehran has since carried out five incremental breaches, indicating at each stage that its moves are reversible if the deal's signatories deliver on the agreement's promise of economic normalisation.

As its first step, Tehran announced that it would no longer observe JCPOA restrictions on its enriched uranium and heavy water stockpiles.[3] It followed through on 1 July with a breach of the JCPOA's 300kg cap on low-enriched uranium, steadily enlarging its stockpile, which reached 372.3kg in November, since then.[4] A senior IAEA official noted: "at this rate and with more advanced machines, Iran will be adding nearly 180kg to the stockpile each month and will reach a critical level [of accumulating enough material for one nuclear weapon] soon".[5] Iran also breached the 130-metric tonne threshold on its heavy-water stockpile on 17 November.[6]

[2] "Iran announces it will stop complying with parts of landmark nuclear deal", *Washington Post*, 8 May 2019. Between January 2016 and May 2019, the IAEA verified Iran's JCPOA compliance on fifteen separate occasions. See "Verification and Monitoring in the Islamic Republic of Iran in Light of United Nations Security Council Resolution 2231 (2015)", IAEA, GOV/INF/2016/1, 16 January 2016; GOV/2016/8, 26 February 2016; GOV/2016/23, 27 May 2016; GOV/2016/46, 8 September 2016; GOV/2016/55, 9 November 2016; GOV/2017/10, 24 February 2017; GOV/2017/24, 2 June 2017; GOV/2017/35, 31 August 2017; GOV/2017/48, 13 November 2017; GOV/2018/7, 22 February 2018; GOV/2018/24, 24 May 2018; GOV/2018/33, 30 August 2018; GOV/2018/47, 12 November 2018; GOV/2019/10, 22 February 2019; and GOV/2019/21, 31 May 2019.

[3] On 3 May, the U.S. revoked waivers allowing Iran to exchange enriched uranium for raw uranium and sell excess heavy water abroad or store it at a consignment point in Oman. "Advancing the Maximum Pressure Campaign by Restricting Iran's Nuclear Activities", U.S. State Department, 3 May 2019.

[4] The JCPOA caps Iran's stockpile at "under 300kg of up to 3.67 per cent enriched uranium hexafluoride (UF_6)", corresponding to 202.8kg of uranium. See "Verification and Monitoring in the Islamic Republic of Iran in Light of United Nations Security Council Resolution 2231 (2015)", IAEA, GOV/INF/2019/8, 1 July 2019; and GOV/INF/2019/17, 18 November 2019.

[5] Crisis Group interview, Vienna, 11 November 2018. "Significant quantity" of highly enriched uranium (28kg UF_6 or 25kg of pure uranium enriched to 90 per cent) equates 1,050kg of low-enriched uranium (under 5 per cent uranium-235) that if further enriched would be sufficient for manufacturing a single nuclear weapon. "IAEA Safeguards Glossary: 2001 Edition", IAEA, International Nuclear Verification Series no. 3, June 2002, p. 23.

[6] "Advancing the Maximum Pressure Campaign by Restricting Iran's Nuclear Activities", U.S. State Department, op. cit. While Iran shipped 0.4 metric tonnes of heavy water to a storage facility in Oman and used 0.6 metric tonnes in research and development in October 2019, in November the IAEA reported that Iran's stockpile measured 131.5 metric tonnes. GOV/INF/2019/17, op. cit. Heavy water does not pose a proliferation risk, but it can be used as a coolant in reactors that are proliferation-prone.

On 7 July, Iran took its second step by abandoning the limit on the level of uranium enrichment, which the agreement caps at below 3.67 per cent until 2031.[7] The IAEA verified that Iran had started enriching to about 4.5 per cent level the following day.[8] The third step came on 6 September, when Iran started lifting all limitations on research and development, including by activating its advanced centrifuges, introducing new models and using them to build up its stockpile of enriched uranium.[9] Both Iranian and IAEA officials say that this step constituted the most significant escalation by Tehran thus far, as it provided Iranian scientists with indelible know-how about a more sophisticated generation of centrifuges.[10] An IAEA official noted that "no other country wastes so much energy on testing so many centrifuge models, as it makes no economic sense. This is another proof that this is a purely political project".[11]

The fourth step was a symbolically important one. On 5 November, President Hassan Rouhani announced that Iran would resume enrichment at its bunker facility in Fordow, which under the deal it was supposed to convert from an enrichment site into a nuclear, physics and technology centre for the production of stable isotopes with Russian help, and where it would not be allowed to enrich uranium until 2031.[12] On 18 November, the U.S. terminated a sanctions waiver that allowed Russia's work at Fordow, while Russia's state-owned nuclear energy company, Rosatom, announced on 5 December that it would suspend its work at the site.[13]

[7] "Iran to surpass 3.67% uranium enrichment level in hours", Fars News, 7 July 2019.

[8] GOV/INF/2019/9, op. cit.

[9] "Iran begins injecting uranium gas into advanced centrifuges", *Tehran Times*, 7 September 2019. The JCPOA restricts Iran's centrifuge research and development on a specified number of IR-4, IR-5, IR-6 and IR-8 machines until 2026 so long as such activities do not contribute to an accumulation of enriched uranium. Cascades of up to 30 IR-6 and IR-8 centrifuges are only permitted 8.5 years after the deal's implementation. Introduction of new models requires permission from the JCPOA's Joint Commission. The Commission was never asked for permission for the new IR-9 model that Iran introduced in October 2019.

[10] Crisis Group interviews, Moscow, 9 November 2019. According to the IAEA, by 5 November Iran had installed up to 22 IR-2m, 22 IR-4, 11 IR-5, 34 IR-6, 33 IR-6s, three IR-8, two IR-7, one IR-3, one IR-6m, one IR-6sm, one IR-Ss, one IR-SB, one IR-s and one IR-9 centrifuges.

[11] Crisis Group interview, Vienna, November 2019.

[12] "Iranian president announces another break from nuclear deal", Associated Press, 5 November 2019. Iran transferred a cylinder of UF_6 from Natanz to Fordow on 6 November. Three days later, it started enrichment at Fordow. Since January 2016, 1,044 IR-1 centrifuges have spun empty at the facility. Iran is using 696 of them to enrich uranium; the remaining 348 are nominally for the production of stable isotopes.

[13] The termination of the U.S. waiver went into effect on 15 December. The U.S. still has three waivers in place, allowing work on modernising the Arak reactor, maintaining the Bushehr power plant and providing enriched uranium on an as-needed basis for the Tehran research reactor. Daphne Psaledakis, "U.S. to no longer waive sanctions on Iranian nuclear site", Reuters, 18 November 2019; Michael Lipin, "Russia upsets effort to save 2015 Iran nuclear deal", Voice of America, 6 December 2019. In mid-2019, Russia converted eleven IR-1 centrifuges in Iran to enrich xenon and tellurium. Russian officials attributed the decision to halt its work to risks of contamination from uranium enrichment in the same hall at Fordow where Iran has been producing stable isotopes. Crisis Group interviews, Vienna, 11 November 2019. But a Russian atomic energy expert claimed that Rosatom did not want to risk exposing its other international projects to U.S. sanctions. See "Росатом отдаляется от Ирана", *Kommersant*, 5 December 2019.

The most recent step came on 5 January, when Iran announced it would cease observing JCPOA limits on centrifuge quantities. But in asserting that it had abandoned "the last key component of its operation limits" under the agreement, Tehran stopped short of exiting the deal outright, and did not specify what, if any, new steps it might take to ramp up its nuclear program.[14] It is unlikely, however, that in the short run Iran will reinstall thousands of the first-generation centrifuges it dismantled during the JCPOA's implementation, as those machines are inefficient and prone to breakdowns.[15]

For now, Iran has taken no measure, despite repeated threats, to restore the heavy-water reactor in Arak to its pre-JCPOA design, which would enable it to produce enough plutonium for one nuclear weapon per year. The modernised post-deal redesign – a 20-megawatt reactor fuelled with low-enriched uranium – produces much less plutonium and is thus proliferation-resistant.[16] A senior Iranian official noted that the country's scientists prefer the new, more efficient design, but that Iran is holding its options open. For example, while it destroyed the old reactor's calandria tubes with cement as part of its implementation of the JCPOA, it kept a spare set, which could allow Iran to rapidly reproduce the reactor's original design.[17]

Another important JCPOA commitment that Iran has avoided tinkering with is the IAEA's inspection regime, which is the most robust of its kind in existence.[18] Tensions are brewing, however, between Iran and the agency. In November, the IAEA confirmed finding anthropogenic, or man-made, uranium particles at a warehouse in the village of Turquzabad south of Tehran, where Israeli Prime Minister Benjamin Netanyahu claimed in September 2018 Iran had been storing 15kg of radioactive material.[19] Although the particles were not enriched uranium, failure to report any

[14] "Iran takes final JCPOA step, removing last limit on nuclear program", Mehr News, 5 January 2020; tweet by Javad Zarif, @Jzarif, Iranian foreign minister, 11:10am, 5 January 2019. The IAEA subsequently confirmed that "inspectors continue to carry out verification and monitoring activities in the country". "IAEA to report any relevant developments after Iran deal announcement", Reuters, 6 January 2019.

[15] A senior Iranian official noted: "The IR-1 centrifuges are inefficient. It'd be a waste of time and effort to put them back online. We much prefer to install our more advanced machines whenever there are ready". Crisis Group interview, Tehran, December 2019.

[16] "Iran intends to restart activities at Arak heavy water nuclear reactor", Reuters, 28 July 2019. The modernisation project at Arak, now renamed the Khondab reactor, is co-chaired by China and the UK. Iran has also committed under the JCPOA to ship out the reactor's spent fuel (containing plutonium) until 2031. "Iran opens secondary circuit of Arak heavy water reactor", Press TV, 23 December 2019.

[17] Crisis Group interview, New York, July 2019. In January 2019, Ali Akbar Salehi, head of the Atomic Energy Organization of Iran, admitted that Iran had imported a second set of tubes for the Arak calandria, allowing it to revert to the original design. His interview is available at: www.youtube.com/watch?v=gj9mSdoDvXA.

[18] Tehran is provisionally implementing the IAEA's Additional Protocol to the Comprehensive Safeguards Agreement, as well as all the supplementary enhanced safeguards and transparency measures outlined in the JCPOA. The Additional Protocol (INFCIRC/540) expands the agency's reach to all parts of a state's nuclear fuel cycle and provides greater access rights. Since July, Iran has blocked the IAEA from inspecting its carbon fibre (used in centrifuge rotor production) stockpile. Crisis Group interviews, IAEA officials, Vienna, November 2019.

[19] "IAEA finds uranium particles at undeclared site", BBC, 11 November 2019.

such material to the IAEA constitutes a safeguards violation. As of mid-January 2020, Iran and the IAEA were continuing negotiations to clarify the particles' source.[20]

In a separate incident, on 28 October, Iran questioned and briefly prevented a UN nuclear inspector from leaving the country, claiming that it had found on her person traces of nitrate explosives that had raised alarms when she entered the Natanz plant.[21] While the IAEA rejected Iran's allegation and condemned the violation of the inspector's diplomatic immunity, Iranian officials contend that, given past sabotage of their nuclear program, they needed to investigate the issue. An Iranian official said: "the whole issue was resolved in less than 24 hours. Holding her longer was undesirable, while letting her go earlier would have been irresponsible".[22] IAEA officials noted that at least three UN inspectors are at work in Iran every day, and that while they deemed Iran's treatment of the inspector unacceptable, they would not allow it to cause a rupture in the relationship.[23]

Civil nuclear cooperation, as outlined in JCPOA Annex III, is one of the accord's key, yet voluntary, components. In March, the EU held a workshop on radioactive waste management with Iran, building momentum that in July led the Iranian parliament to ratify the Joint Convention on the Safety of Spent Fuel Management and on the Safety of Radioactive Waste Management (it awaits approval by the Guardian Council, one of the Islamic Republic's unelected tutelary bodies) – a rare success given Tehran's aversion to joining international instruments while sanctions remain in place.[24] The EU also helped establish a nuclear-law school in Tehran; held a workshop on nuclear emergency preparedness and response in Luxembourg in October; and continues to work on enhancing the country's nuclear safety and regulatory practices.[25] Russia, for its part, is constructing a new nuclear power reactor in Bushehr, which is to become operational in 2025.[26]

The JCPOA's procurement channel, which Iran has been using to gain access to dual-use materials and equipment, seems to have come to a halt. The Joint Commission, the EU-coordinated organ that comprises the deal's signatories, manages a procure-

[20] An Iranian official warned: "the IAEA should not sacrifice its ties with Iran and the incredible access Iran provides to it in pursuit of particles relating to fifteen years ago". Crisis Group interview, Vienna, November 2019. A senior IAEA official said: "Turquzabad is about nuclear material accountancy, not (as Iran fears) reopening the dossier on the possible military dimension of Iran's nuclear program". Crisis Group interview, Vienna, November 2019.

[21] Laurence Norman, "U.S. accuses Iran of intimidating U.N. nuclear agency inspectors", *Wall Street Journal*, 7 November 2019.

[22] Crisis Group interview, Vienna, November 2019.

[23] Crisis Group interviews, Vienna, November 2019. An Iranian official noted that while Iran only has about 3 per cent of the world's nuclear facilities, it undergoes 20 per cent of the IAEA's inspections and nearly two thirds of the complementary access inspections (short-notice inspection of non-declared sites). Crisis Group interview, Vienna, November 2019.

[24] Crisis Group interview, EU official, Vienna, December 2019. "الحاق دولت ایران به کنوانسیون مشترک ایمنی مدیریت سوخت" ["Iran ratifies the Joint Convention on Nuclear Waste Management"], Islamic Consultative Assembly News Agency, 15 July 2019.

[25] Crisis Group interview, EU official, Vienna, December 2019.

[26] "Iran pours concrete for second Bushehr nuclear reactor", RFE/RL, 10 November 2019. Russia fuels Iran's sole nuclear power plant in Bushehr and removes the spent fuel. U.S. waivers do not cover activities beyond maintaining and operating the existing Bushehr reactor. "Advancing the Maximum Pressure Campaign by Restricting Iran's Nuclear Activities", U.S. State Department, op. cit.

ment working group of the same parties – but without the U.S. after its withdrawal from the JCPOA – overseen by the UN Security Council, through which Iran can apply to obtain access to dual-use materials and equipment. While the working group received two proposals related to export of dual-use technology to Iran in the first six months of 2019, it received none in the second half of the year.[27]

B. *Sanctions Relief Commitments*

When the U.S. reimposed sanctions following its withdrawal from the JCPOA, it steadily broadened and deepened their scope, notably with respect to Iran's oil exports. The deal's remaining signatories failed to find a way around these unilateral measures, which contributed to a significant deterioration in Iran's economic situation and led Tehran to accuse them, particularly the E3, of falling short of their commitment under the JCPOA. While the U.S. restored its sanctions against Iran's oil exports in November 2018, it also granted exemptions to eight Iranian oil customers as long as they continued to significantly reduce the volume of their crude imports.[28] In April 2019, Washington revoked these waivers.[29] Iranian officials were dismissive of the Trump administration's ability to achieve its objective of zero exports, but the measure proved effective in precipitating a sharp drop in Iran's crude oil sales, which fell from around 2.5 million barrels/day (mbd) in April 2018 to under 0.5 mbd in December 2019.[30]

Throughout the year, the U.S. continued to expand and enforce its sanctions designations, with Pompeo estimating that their coverage exceeded 80 per cent of Iran's economy.[31] Among the most significant of these were: labelling the Islamic Revolution-

[27] Crisis Group interviews, UN officials, New York, December 2019. Since Implementation Day, the procurement channel working group received a total of 44 proposals, 30 of which were approved, five disapproved and nine withdrawn. "Secretary-General report on the implementation of Security Council resolution 2231 (2015)", S/2019/934, 10 December 2019.

[28] At the time, U.S. Secretary of State Mike Pompeo asserted that "more than twenty importing nations have zeroed out their imports of crude already, taking more than one million barrels of [Iranian] crude per day off the market". The eight recipients of these Significant Reduction Exceptions were China, India, South Korea, Japan, Taiwan, Italy, Greece and Turkey. "Press Availability with Secretary of Treasury Steven T. Mnuchin", U.S. State Department, 5 November 2018.

[29] "Advancing the Maximum Pressure Campaign on Iran", U.S. State Department, 22 April 2019.

[30] President Rouhani, for example, maintained on 1 May that "we will overcome all problems and sell our own oil and satisfy our own needs". President.ir, 1 May 2019. The Iranian government does not provide details of current crude oil exports, which industry media estimate are in the region of a few hundred thousand barrels per day. "Iran's oil exports face new security threat", S&P Global, 11 October 2019. Despite constituting 17.6 per cent (nominal) of GDP in 2018-2019, the revenue from oil sales made up 26 per cent of Iran's government budget that year and around 30 per cent in 2019-2020. The U.S. Energy Information Administration has estimated that Iran's net oil export revenues for the first seven months of the year were $20 billion (nominal), without factoring in discounts. In 2018, revenue was $67 billion. See "OPEC Revenues Fact Sheet", Energy Information Administration, 20 August 2019. A senior U.S. official proclaimed, "we managed to remove nearly 2 million barrels/day of Iranian oil off the market without any notable effect on global oil prices". Crisis Group interview, Washington, December 2019.

[31] "Secretary of State Michael Pompeo Remarks to Press", U.S. State Department, 23 June 2019. See also "ZAG IP, LLC Settles Potential Civil Liability for Apparent Violations of the Iranian Transactions and Sanctions Regulations", U.S. Treasury Department, 21 February 2019; "Standard Chartered Bank

ary Guards Corps (IRGC) as a Foreign Terrorist Organization (April); sectoral sanctions against Iran's metal industries and major petrochemical firms (May-June); targeting Supreme Leader Ali Khamenei and his office (June), as well as Foreign Minister Javad Zarif (July); blacklisting the Central Bank of Iran, as well as the country's national development fund, less than a week after the attacks against Saudi oil facilities (September); and designating the Islamic Republic of Iran Shipping Lines (December).[32] In the wake of Iranian missile strikes against Iraqi bases hosting U.S. troops, the U.S. on 10 January announced sectoral sanctions against Iran's construction, mining, manufacturing and textile industries, designated eight additional senior Iranian officials and blacklisted more than two dozen firms and ships linked to Iran's metals trade.[33]

A handful of Iran-related non-nuclear U.S. sanctions waivers remain in effect, including for Iraqi imports of Iranian energy, currently exempted through February 2020, given the importance of post-2003 Iraq to U.S. influence in the region.[34] Iraq

Admits to Illegally Processing Transactions in Violation of Iranian Sanctions and Agrees to Pay More than $1b", U.S. Justice Department, 9 April 2019; "Italy's UniCredit to pay $1.3 billion to settle U.S. sanctions probe", Reuters, 15 April 2019; Jacob Rund, "PACCAR to pay $1.7 million for possible Iran sanctions evasion", Bloomberg Law, 6 August 2019; "Defense Contractor Agrees to Pay $45 Million to Resolve Criminal Obstruction Charges and Civil False Claims Act Allegations", U.S. Justice Department, 4 December 2019.

[32] On the IRGC: "Statement from the President on the Designation of the Islamic Revolutionary Guards Corps as a Foreign Terrorist Organization", White House, 8 April 2019; on industries: "Imposing Sanctions with Respect to the Iron, Steel, Aluminium and Copper Sectors of Iran", White House, 8 May 2019; "Treasury Sanctions Iran's Largest Petrochemical Holding Group and Vast Network of Subsidiaries and Sales Agents", U.S. Treasury Department, 7 June 2019; on Khamenei and Zarif: "President Donald Trump is Imposing Sanctions on the Supreme Leader of Iran and the Worst Elements of the Iranian Regime", White House, 24 June 2019; "Treasury Designates Iran's Foreign Minister Javad Zarif for Acting for the Supreme Leader of Iran", U.S. Treasury Department, 31 July 2019. Iran's information minister, Mohammad-Javad Azari Jahromi, was designated following the internet blackout imposed during the November 2019 protests. "Treasury Designates Iran's Minister of Information and Communications Technology in View of the Regime's Repressive Internet Censorship", U.S. Treasury Department, 22 November 2019. On the bank: A European entrepreneur complained: "The U.S. designates Iran's Central Bank as a terrorist entity, effectively voiding its humanitarian exemption, and yet maintains humanitarian trade is exempt". Crisis Group interview, Brussels, 6 November 2019. See also "Treasury Sanctions Iran's Central Bank and National Development Fund", U.S. Treasury Department, 20 September 2019. On the shipping lines: This designation will take effect in June 2020 "to allow exporters of humanitarian goods sufficient time to find alternative shipping methods". See "Secretary Michael Pompeo Remarks to the Press", U.S. State Department, 11 December. See also "Treasury Designates IRGC-QF Weapon Smuggling Network and Mahan Air General Sales Agents", U.S. Treasury Department, 11 December 2019.

[33] "Intensified Sanctions on Iran", U.S. State Department, 10 January 2020.

[34] Brian Scheid, "U.S. extends Iraq sanctions waiver for Iranian gas, power imports", S&P Global, 16 October 2019. The secretary general of the Iran-Iraq Chamber of Commerce has estimated the combined value of Iran's gas and electricity sales to Iraq at $4-5 billion per year. Quoted in "40 per cent of Iraq's electricity is supplied by Iran", Tasnim, 13 September 2019. Other waivers include: one through 28 February 2021 for the Rhum gas field jointly owned by the British company Serica Energy and the National Iranian Oil Company ("Receipt of OFAC License and Assurance for Rhum", Serica Energy, 24 October 2019); a license valid through April 2021 for the provision by aircraft manufacturer ATR of parts to Iran Air (Joanna Bailey, "ATR receives US permission to ship parts to Iran", Simple Flying, 14 August 2019); and one for the Chabahar port in south-eastern Iran (P. Manoj, "Chabahar Port: US gives 'written' assur-

relies on Iranian natural gas and electricity for around one third of its power supply, and Iraqi officials estimate that it would take three years to develop alternative sources.[35] Despite exemptions for humanitarian trade, human rights groups and international aid organisations operating in Iran report the adverse impact of sanctions in areas such as medical imports, emergency relief and refugee assistance programs.[36] Fields as disparate as education, environment, sports and the arts have felt the sanctions' chilling effects.[37]

The cumulative impact of U.S. sanctions has been substantial, led by the sharp decline in oil exports, whose revenue accounts for 30 per cent of the 2019-2020 budget.[38] Non-oil exports failed to pick up the slack.[39] In April 2019, before oil sanctions kicked into high gear, the International Monetary Fund (IMF) projected Iran's 2019 GDP to contract by 6 per cent; by the time of its October 2019 update, that figure

ance to India facilitating banks to fund $85 mn equipment purchase", Hindu Business Line, 25 December 2019). The U.S. waived sanctions against Cosco Shipping Tanker (Dalian) Co., which it had designated on 25 September along with ten other Chinese persons and entities for trading Iranian oil, until February 2020. "U.S. renews waiver on COSCO's Dalian tanker unit hit by Iran sanctions", Reuters, 19 December 2019.

[35] Crisis Group Middle East Briefing N°70, *Iraq: Evading the Gathering Storm*, 28 August 2019. A U.S. official, Brian Hook, explained: "During the last year, Iraq has taken a number of very good steps to reduce that dependency [on Iranian energy]. They're not there yet". Quoted in "Transcript of U.S. special representative for Iran's interview with Al Arabiya", Al-Arabiya, 1 November 2019.

[36] A Human Rights Watch study found that "sanctions have largely deterred international banks and firms from participating in commercial or financial transactions, including for exempted humanitarian transactions, due to the fear of triggering U.S. secondary sanctions on themselves". See "'Maximum Pressure': U.S. Economic Sanctions Harm Iranians' Right to Health", Human Rights Watch, 29 October 2019. The U.S. on 25 October indicated that it was setting up "a new humanitarian mechanism to ensure unprecedented transparency into humanitarian trade with Iran". "Treasury and State Announce New Humanitarian Mechanism to Increase Transparency of Permissible Trade Supporting the Iranian People", U.S. Treasury Department, 25 October 2019. A Swiss official, whose government has been in regular discussions with U.S. counterparts over humanitarian trade, indicated: "The new U.S. regulations are a positive step. We knew there would have to be a step-up on due diligence. … It has brought momentum to the process and we'll continue to work on it". Crisis Group interview, Washington, 30 October 2019.

[37] Declan Butler, "How U.S. sanctions are crippling science in Iran", *Nature*, 24 September 2019; "Iran says U.S. sanctions blocking equipment to fight pollution at energy plants", Reuters, 24 September 2019; Najmeh Bozorgmehr, "Italian football coach quits Iran's Esteghlal in sanctions row", *Financial Times*, 13 December 2019; Rebecca Anne Proctor, "For years, Iran's art scene has been a pioneer in the Middle East. Now U.S. sanctions are knocking its artists back to the 18th century", Artnet News, 17 June 2019.

[38] "Iran's oil exports face new security threat", S&P Global, 11 October 2019. Citing secondary sources, the Organization of the Petroleum Exporting Countries (OPEC) estimates that Iran's crude oil production in the third quarter of 2019 was 2.19 mbd, compared to 3.8 mbd in 2017 and 3.55 mbd in 2018. "OPEC Monthly Oil Market Report", 11 December 2019. Reuters has estimated that Iran exports $0.5 billion in non-crude oil products (fuel oil and liquefied petroleum gas) per month. See Ahmad Ghaddar and Bozorgmehr Sharafedin, "Sanctions choke Iran's crude sales, but oil product exports booming", Reuters, 2 September 2019.

[39] Between March and November 2019, Iran's total non-oil exports stood at $27.04 billion, down almost 11 per cent compared to the same period in 2018. "Iran's non-oil foreign trade falls 7.8 per cent to $55b", *Financial Tribune*, 9 December 2019. Iranian officials have emphasised the need to boost trade with neighbouring states, setting a yearly target of $50 billion by March 2021. "Iran's 7-month non-oil exports at $24.5b", *Tehran Times*, 15 November 2019.

was 9.5 per cent.[40] (Trump later bragged that Iranian GDP "went down" by 25 per cent in 2019. "Nobody has ever even heard of that".[41]) Still, by late 2019 Iranian officials were claiming that the country had absorbed the initial financial blow from the decline in oil proceeds. Rouhani maintained that inflation, estimated to top 38 per cent in the current Iranian year (March 2019 to March 2020), was declining, along with unemployment.[42] The volatile situation in the region could send the rial, whose value took a major hit in 2018 when it tumbled from the mid-40,000 mark to as little as 190,000 to the dollar before partially recovering, into a tailspin.[43]

Iran's large internal market, relative economic diversity beyond the oil sector, extensive experience in circumventing sanctions, ties with neighbouring states that are impervious to U.S. penalties, and sizeable hard currency reserves together have contributed to the economy's resilience.[44] Projections of Iran's economic performance in 2020 suggest that 2019's nosedive could, if it is not reversed, level out at near-zero

[40] "World Economic Outlook", International Monetary Fund, April 2019 and October 2019. The World Bank's assessment is -8.7 per cent GDP growth. See "Iran's Economic Update – October 2019", World Bank, 9 October 2019. The World Bank estimates that Iran's industrial sector could contract by nearly 20 per cent in 2019-2020. The challenges extend beyond the energy sector: production in Iran's automobile industry, for example, sank by one third in March-November 2019 compared to the same period in 2018. "Iran auto output down 32 per cent", Eghtesad Online, 10 December 2019. Iran's defence ministry has reportedly stepped in to produce electronic car parts. "Iran defence ministry to manufacture 470 auto parts: MP", Tasnim, 3 August 2019.

[41] "Remarks by President Trump at the Israeli American Council National Summit 2019", White House, 7 December 2019. Pompeo asserted that Iran's GDP will shrink by "as much as 12 or 14 per cent this year". Evie Fordham, "Pompeo: Sanctions could cut Iranian GDP by 12 per cent", Fox Business, 8 September 2019.

[42] "President at the Session of Administrative Council of Kerman Province", President.ir, 12 November 2019. World Bank figures show that by August 2019, inflation dropped 10 per cent from a year-high 52 per cent in May. "Iran's Economic Update – October 2019", World Bank, 9 October 2019. Rouhani acknowledged that, notwithstanding the fall in unemployment, it "still is our main issue". "President Addressing the Immense Gathering of People in Sharvan", President.ir, 14 July 2019. The Statistical Centre of Iran records 10.5 per cent unemployment, which rises to 18.2 per cent among women and significantly higher in cities (11.8 per cent) compared to rural areas (6.6 per cent). "Iran's Q2 unemployment drops 1.8 per cent to 10.5 per cent", *Financial Tribune*, 7 October 2019.

[43] Having climbed out of a September 2018 nadir of 190,000 rial to the dollar to start 2019 at 111,000 rial to the dollar, by the end of the year it was 133,000 rial to the dollar– ie, nearly triple the rate in 2017.

[44] Michael Forsythe and Ronen Bergman, "To evade sanctions on Iran, ships vanish in plain sight", *The New York Times*, 2 July 2019. The U.S. has warned shipping companies not to breach its sanctions policy, including with maritime advisories and designations of violators. One expert describes the approach as "shoot first, aim later" in terms of the wider industry impact. See Richard Nephew, "Evaluating the Trump Administration's Approach to Sanctions: Iran", Columbia Center on Global Energy Policy, 8 November 2019. Nearly 900,000 tourists travelled to Iran between March and October 2019, a 24 per cent year-on-year increase that Iranian officials note could be driven at least in part by the rial's decline. "Iran: Tourist arrivals increase 24% to over 5.8m", *Financial Tribune*, 18 November 2019. "Iranians top list of foreign investors in Turkey", *Financial Tribune*, 14 December 2019. The IMF estimates Iran's currency reserves at $86 billion, but U.S. officials contend that Tehran has marginal access to the money – a claim Iran rejects. Ian Talley, "Iran, cut off from vital cash reserves, faces deeper economic peril, U.S. says", *Wall Street Journal*, 3 December 2019.

growth.[45] Yet the economy remains in dire straits, as millions are pushed below the poverty line.[46]

With sanctions choking off oil revenues, the government had two politically unattractive choices: raising taxes and curbing subsidies on basic goods. The government settled on the second option, raising fuel prices on 15 November, but it failed to prepare the public for the shock. The overnight decision triggered widespread protests, which underscored the challenges the Islamic Republic faces to not only its economy but also its political stability.[47] According to Iranian officials and experts, both Rouhani and his harder-line rivals knew that the long-overdue subsidy cut was likely to generate backlash, but both sides believed that it could be contained.[48]

The scale of protests took the leadership by surprise, uniting it – after Ayatollah Khamenei's intervention – behind the decision to suppress them at all cost.[49] According to Amnesty International, security forces killed more than 300 protesters and arrested thousands amid an internet blackout.[50] Hearing Washington's praise for the protesters, Iranian leaders blamed foreign foes for fomenting the unrest, but discontent over the country's economic malaise and political stagnation has erupted episodically in recent years.[51]

[45] The IMF projects zero per cent GDP growth in 2020. "World Economic Outlook",IMF, October 2019. The World Bank has forecast 0.1 per cent growth in 2020, rising to 1 per cent in 2021. "Iran's Economic Update – October 2019", World Bank, 9 October 2019.

[46] In November, Rouhani said he lacks two thirds of the funds necessary to run the country. President.ir, 12 November 2019. Djavad Salehi-Isfahani, "The poor and the gasoline price hike", Tyranny of Numbers, 23 November 2019.

[47] "President in a cabinet session", President.ir, 17 November 2019. Introduced with little warning, the move raised gasoline prices from 10,000 rial per litre to 15,000 rial per litre for the first 60 litres and double thereafter, with the funds allocated to cash payments to 18 million Iranian households. Iranian government officials estimated that diverting revenue from fuel subsidies would free up to $2.5 billion for infusion of handouts ranging from 0.5 million rial for individuals and up to 2 million rial for large households, while enabling export of surplus petrol. "Iran gov't paying new subsidies after gasoline price hike", Eghtesad Online, 25 November 2019; "Iran able to export up to 30m litres of gasoline p/d: official", Mehr News Agency, 7 December 2019.

[48] Crisis Group interviews, Tehran, November-December 2019.

[49] The interior ministry claimed that up to 200,000 people joined the riots, in which they damaged more than 700 bank branches and 140 other government buildings, and also set fire to hundreds of vehicles. Babak Dehghanpisheh, "Iran says 200,000 took to streets in anti-government protests", Reuters, 27 November 2019; Najmeh Bozorgmehr, "Iran's supreme leader condemns violent protests over petrol price", *Financial Times*, 17 November 2019.

[50] "Thousands Arbitrarily Detained and At Risk of Torture in Chilling Post-Protest Crackdown", Amnesty International, 16 December 2019; Mahsa Alimardani, "The ayatollah comes for the internet", *The New York Times*, 19 November 2019. U.S. officials have cited media outlets that put the number of fatalities at more than 1,500.

[51] The U.S. State Department's special representative for Iran, Brian Hook, said he was "very pleased" to see protests in Iran. See tweet, Mehrzad Kohanrouz, @MehrzadBBC, journalist, 21 November 2019. Ayatollah Khamenei claimed that "the enemies had spent a great amount of money designing this conspiracy" and saw the price hike as "the desired opportunity they were looking for". Quoted in "A very dangerous conspiracy was quashed by the Iranian people", Khamenei.ir, 27 November 2019. A senior Iranian official said attacks on public property seemed coordinated, adding that targeting of critical infrastructure – such as ports, food storage silos and refineries – and possession of mortars by demonstrators is out of keeping with typical protest patterns in the country. Crisis Group interview, Tehran, November 2019. According to a public survey in Tehran, only

The fuel price hike factors into a wider internal discussion about how Iran should adjust to the prospect of a prolonged period of sharply reduced oil revenues. In addition to cutting subsidies, budget officials have identified several revenue streams the government could tap. The 2020 budget bill assumes a 27 per cent increase in tax revenues, though evasion and exemptions could make reaching this target a tall order.[52] A further 20 per cent of the budget is to be funded with bond sales and privatisation. These measures, if successful, would halve oil revenue reliance to nearly 16 per cent of overall revenues.[53] It remains to be seen whether these projections, along with a $5 billion loan from Russia, are realistic.[54] The government has made fighting corruption a priority, but political rivalries might undermine any such effort.[55]

In the meantime, trade between Iran and Europe has fallen substantially, with Iranian exports hit especially hard in the absence of oil sales.[56] In an effort to offset the impact of U.S. sanctions, the E3 (France, Germany and the UK) on 31 January 2019 jointly unveiled a special-purpose vehicle, the Instrument for Supporting Trade Exchanges (INSTEX), to encourage companies to do business with Iran, with an emphasis "on the sectors most essential to the Iranian people – such as pharmaceuticals, medical devices and agri-food goods".[57] Iran subsequently registered its counterpart institution in Tehran, the Special Trade and Finance Instrument (STFI).[58] By collect-

15 per cent of the capital's residents are satisfied with the country's circumstances, while 52 per cent believe that it will worsen in the near future. Abbas Abdi, "نگاه مردم به اعتراضات" ["People's views on protests"], Etemaad, 21 December 2019. See also Crisis Group Statement, "Learning the Right Lessons from Protests in Iran", 4 December 2019.

[52] "Rouhani submits $473b budget bill to Majlis", *Tehran Times*, 8 December 2019. Henry Rome, "Iran's Crisis Budget", Iran Primer – U.S. Institute of Peace, 16 December 2019; "Half of Iran's high-income earners do not pay tax", RFE/RL, 27 October 2019; and "PBO says revolutionary bodies must pay tax", Eghtesad Online, 18 December 2019.

[53] "بودجه ۹۹ در غلظت نفت", ["99 budget in thick oil"], *Donya-e-Eqtesad*, 9 December 2019. Iran's draft budget for 2020-2021 anticipates one million barrels/day in crude exports, which is more than double open-source estimates of its current sales. "Iran predicts daily export of 1m barrels of oil per day in next year", Mehr News, 9 December 2019.

[54] President.ir, 8 December 2019. Russia has so far not confirmed the $5 billion loan. "MRC claims revenue side of budget inflated", *Financial Tribune*, 18 December 2019.

[55] "MPs hail Raisi's anti-corruption moves", *Tehran Times*, 26 August 2019; Najmeh Bozorgmehr, "Iran: hardliners' anti-graft drive masks wider goals", *Financial Times*, 13 October 2019.

[56] Trade figures for the period between January and August 2019 showed a drop of 94 per cent in Iranian exports to Europe compared to the same period in 2018, while imports more than halved. "Iran-EU trade plunges 75%", Eghtesad Online, 21 October 2019.

[57] "Joint statement on the creation of INSTEX, the special purpose vehicle aimed at facilitating legitimate trade with Iran in the framework of the efforts to preserve the Joint Comprehensive Plan of Action (JCPOA)", French Foreign Ministry, 31 January 2019. The U.S. Treasury Department in May 2019 sent a letter to INSTEX's president cautioning that "engaging in activities that run afoul of U.S. sanctions can result in severe consequences, including a loss of access to the U.S. financial system". Jonathan Stearns and Helene Fouquet, "U.S. warns Europe that its Iran workaround could face sanctions", Bloomberg, 29 May 2019.

[58] The STFI launch was delayed due to misunderstandings between Iran and Europe. Crisis Group interviews, Iranian and European officials, Brussels, April-November 2019. See also "Iran's INSTEX Mirror Company Registered in Tehran", Iran Chamber of Commerce, Industries, Mines and Agriculture, 30 April 2019.

ing and allocating funds for imports and exports within each institution, INSTEX and STFI are designed to avoid banking transactions that could be subject to U.S. penalties.

Getting the mechanism up and running, however, has been a halting exercise, at least in part due to divergences among its stakeholders as well as shortcomings on the Iranian side.[59] On 29 November, six more countries signed on to the INSTEX mechanism as shareholders, emphasising that it was "crucial for the Islamic Republic of Iran to return without delay to full [JCPOA] compliance".[60] Still, to Tehran's frustration, the first batch of transactions has yet to come through. For its part, Iran has not completed money laundering and terrorism financing reforms along the lines agreed upon in 2016 with the Financial Action Task Force (FATF); the E3 have repeatedly urged Iran to carry out its commitments under the Action Plan.[61] Despite the government's support, bills signing Iran on to UN conventions on transnational crime and terrorist financing have languished in the Expediency Council, another of the state's unelected tutelary bodies, with critics arguing that they "will help the U.S. identify the ways we circumvent sanctions".[62] The Rouhani administration blames vested economic interests for resisting the bills' passage.[63]

[59] A senior French official, for example, said that delays in processing the initial transaction were due largely to difficulties of credit generation on Iran's side of the mechanism and a preference for announcing the successful initial transactions as a batch rather than one at a time. He added that the mechanism "has been a nightmare, as there are too many cooks involved". Crisis Group interview, Paris, 14 August 2019.

[60] "Joint statement on joining INSTEX by Belgium, Denmark, Finland, the Netherlands, Norway and Sweden", Government of the Netherlands, 29 November 2019.

[61] The FATF has warned that it "will fully lift the suspension of counter-measures" against Iran in February 2020 if it has not yet enacted the anti-money laundering and terrorism financing reforms by then. See "Outcomes FATF Plenary, 16-18 October 2019", FATF, 18 October 2019.

[62] Expediency Council member quoted in "Govt. not permitted to join Palermo Convention: Rezaee", *Tehran Times*, 15 October 2019. The council's chairman, Sadeq Amoli Larijani, on 1 January described the two conventions as "extremely detrimental to national security", and singled out the Convention for the Suppression of the Financing of Terrorism as "worse than the JCPOA". Quoted in "Palermo and CFT are extremely dangerous, says Expediency Council chief Amoli Larigani", *Tehran Times*, 1 January 2020.

[63] Crisis Group interviews, Iranian officials, Brussels, November 2019. See also Henry Rome, "The Debate Over Iran's Financial Reform Laws", Iran Primer - U.S. Institute of Peace, 18 October 2019.

III. Maximum Pressure x 2

Last year's status report described the JCPOA's fate as hinging on a three-way race against time: how rapidly and deeply U.S. sanctions would devastate Iran's economy; how long Tehran might stick to its JCPOA commitments before retaliating in the nuclear realm, on the regional front or both; and how successful European efforts could prove in deferring a crisis over the deal by mitigating the impact of U.S. sanctions. But Washington's doubling down on its "maximum pressure" campaign and the deal's remaining signatories' failure to deliver a financial lifeline over the past year have led Iran to shift from a posture of "strategic patience" to open provocation on both the nuclear and regional fronts. This shift has left the nuclear deal on an accelerated path toward unravelling, while bringing the U.S. and Iran to the precipice of conflict.

A. *Fighting Fire with Fire*

For a year after the Trump administration, in its own words, ended U.S. participation in the JCPOA – in essence, violating it by withdrawing from it – Tehran opted for a policy of "strategic patience", expecting the deal's remaining signatories to step up efforts to offset the impact of sanctions while possibly waiting out the Trump administration. But in 2019, the effectiveness of sanctions in pummelling Iran's economy, especially the severe blow inflicted by restrictions on oil sales, prompted it to shift from restraint to retaliation in both the nuclear realm and the region. "The JCPOA will be either win-win or lose-lose", threatened Rouhani on the U.S. withdrawal's first anniversary. "We won't let the U.S. turn it into a win-lose situation".[64] Resorting to more graphic imagery, an Iranian official said: "The U.S. can't strangle us and expect us to do nothing".[65]

On the nuclear file, Iran started to pursue a strategy of incrementally curbing its JCPOA compliance. Adopted over internal calls for a more severe response, this strategy is aimed at three audiences.[66] The first is the agreement's remaining signatories, especially the E3, to add a sense of urgency on delivering economic dividends without sparking a major non-proliferation crisis. The second is the U.S., to underscore that Iran would not bear "maximum pressure" without exacting a cost.[67] The third is domestic constituencies, to demonstrate that Iran will not passively endure

[64] "President at Cabinet Session", President.ir, 8 May 2019.

[65] He added, "We are in a full-fledged economic war. Even during the oil-for-food program [in the 1990s], Iraq, which had invaded another country [Kuwait], was still allowed to export its oil". Crisis Group interview, New York, May 2019.

[66] A senior Iranian official said: "The hardliners advocated a double step as our first step, which was to resume enrichment at Fordow, but immediately at 20 per cent. … Each time the hardliners push for a 'big bang' that will shake Trump and Europe". Crisis Group interview, New York, September 2019.

[67] Pompeo predicted in November 2018 "that the Iranians will not make that decision", namely, to increase nuclear activities as a result of reimposed U.S. sanctions. "Interview with John Dickerson on CBS Face the Nation", U.S. State Department, 4 November 2018.

U.S. sanctions while remaining unilaterally committed to the multilateral accord.[68] As a senior Iranian national security official put it, what propels Iran's pushback policy mostly is the desire to drive up the "opportunity cost" of sanctions:

> We can survive sanctions, but we can't thrive because of them. We will lose our share in the energy market, and this will be hard to regain. We won't become another Cuba to allow the U.S. to isolate us for decades at no cost.[69]

In parallel, a series of incidents, centred in but not limited to the Gulf, raised regional tensions between Iran, the U.S. and their respective allies. These included unclaimed attacks against commercial vessels outside the Emirati port of Fujaira on 12 May and in the Gulf of Oman on 13 June; attacks against the major Saudi east-west oil pipeline on 14 May and – most dramatically – Aramco's Abqaiq-Khurais facilities in Saudi Arabia on 14 September (claimed by the Huthis in Yemen, but which the U.S., Saudi Arabia and the E3 are persuaded was an Iranian operation); Iran's downing of a U.S. drone on 20 June and, according to Washington, U.S. interception of an Iranian drone on 18 July; regular unclaimed rocket attacks against Iraqi military and energy facilities, including a 27 December attack attributed to Kataib Hizbollah, a paramilitary group that is part of the Iran-backed Popular Mobilisation forces, against an Iraqi military facility near Kirkuk resulting in four U.S. casualties and a fatality; and U.S. strikes on 29 December against Kataib Hizbollah bases in Iraq as well as Syria.[70]

Two days after these last strikes, a mob assailed the U.S. embassy compound in Baghdad, prompting Trump to threaten that Iran would "pay a very big price" for harm to U.S. personnel or assets.[71] On 2 January, U.S. Secretary of Defense Mark Esper indicated that "if we get word of attacks or some type of indication, we will take preemptive action … the game has changed".[72] That evening, the Pentagon announced that it had killed Soleimani and Kataib Hizbollah's commander, Abu Mahdi al-Muhandis, at Baghdad airport.[73] Soleimani's death provoked fury in Tehran, with

[68] Crisis Group interviews, senior Iranian officials, New York, September 2019. A senior Iranian official said: "Why do we do this? To address public opinion, not just to agitate". Crisis Group interview, New York, July 2019.

[69] Crisis Group interview, Tehran, August 2019.

[70] "Statement from Assistant to the Secretary of Defense Jonathan Hoffman", U.S. Department of Defense, 29 December. The Pentagon noted that Kataib Hizbollah "has a strong linkage with Iran's Qods Force and has repeatedly received lethal aid and other support from Iran".

[71] Tweet by Donald J. Trump, @realDonaldTrump, U.S. president, 1:19pm, 31 December 2019. See also Crisis Group Statement, "Rescuing Iraq from the Iran-U.S. Crossfire", 1 January 2020.

[72] "Press Gaggle by Secretary Esper and Chairman Milley", U.S. Department of Defense, 2 January 2020.

[73] "Statement by the Department of Defense", U.S. Department of Defense, 2 January 2020. Pompeo maintained that Soleimani "was actively plotting in the region to take actions – a big action as he described it – that would have put dozens if not hundreds of American lives at risk. We know it was imminent". "Pompeo says U.S. killed Iranian commander to prevent 'imminent attack'", Reuters, 3 January 2020. Iraqi Prime Minister Adel Abdul-Mahdi on 4 January suggested that Soleimani had travelled to Iraq "to deliver me a message from Iran, responding to the message we delivered from Saudi Arabia to Iran". Erin Cunningham, "Iran announces it is suspending its commitments to the 2015 nuclear deal", *Washington Post*, 5 January 2020.

Ayatollah Khamenei vowing "tough revenge".[74] Iran's Supreme National Security Council met immediately to decide on options for retaliation, characterising the killing as "the U.S.'s biggest strategic mistake" in the region.[75] While warning Iran of a harsh response in case of reprisal, the U.S. reportedly asked intermediaries to urge Iranian restraint.[76]

An Iranian reprisal came on 7 January in the form of missile strikes on U.S. forces at the Ain al-Assad and Erbil bases in Iraq. The attack caused no casualties, leading some to speculate that it was a carefully calibrated response designed as an essentially symbolic projection of force that would not trigger a U.S. retaliation. Indeed, Iraqi officials say Tehran gave them advance notice, which almost certainly would have been passed to Washington; that said, U.S. officials assert that the strike was in fact intended to kill Americans.[77]

These tit-for-tat attacks took place against the backdrop of frequent acknowledged or suspected Israeli airstrikes against purported Iranian and Iran-linked targets in Syria and an October attack against an Iranian tanker in the Red Sea that Iranian officials attributed to Israel and claim was the third such incident in 2019, all of which kept Iran and Israel on a knife's edge.[78] U.S. efforts to use Iran-sponsored attacks to marshal a broad international coalition against Tehran have had limited success so far.[79]

[74] As the Quds Force commander, Soleimani was a key figure in designing and carrying out Iran's "forward defence" policy of cultivating local allies and proxies across the Middle East. See Crisis Group Middle East Report N°184, *Iran's Priorities in a Turbulent Middle East*, 13 April 2018. Khamenei quoted in "Leader vows tough revenge waiting for criminals over General Soleimani martyrdom", Mehr News, 3 January 2019.

[75] "بیانیه شورای عالی امنیت ملی در واکنش به شهادت سردار سلیمانی" ["Statement by the Supreme National Security Council in reaction to General Soleimani's martyrdom"], Tasnim, 3 January 2020.

[76] The U.S. allegedly asked Qatar and Switzerland, among others, to ask Iran not to respond. Crisis Group interviews, Gulf officials, January 2020. The next day, via social media, the president offered "notification to the U.S. Congress that should Iran strike any U.S. person or target, the U.S. will fully strike back, and perhaps in a disproportionate manner". Tweet by Donald J. Trump, @realDonaldTrump, 12:25pm, 5 January 2020.

[77] U.S. officials assessed that Iran fired sixteen short-range ballistic missiles, eleven of which hit the Ain al-Assad base in Iraq. "Press Brief by Secretary Esper and General Milley", U.S. Department of Defense, 8 January 2020. Following the operation, Zarif asserted that Iran had "concluded proportionate measures", adding that "we do not seek escalation or war". Tweet by Javad Zarif, @JZarif, Iranian foreign minister, 6:32pm, 7 January 2020. Media reports citing U.S. officials indicated that Tehran had conveyed to Washington "through at least three back channels" that the missile strikes were the extent of its immediate response. See Pamela Brown and Paul LeBlanc, "Iran sent 'multiple messages' to U.S. that its attacks were done", CNN, 8 January 2020; Mark Mazzetti, Eric Schmitt, Lara Jakes and Thomas Gibbons-Neff, "3 hours from alert to attacks: inside the race to protect U.S. forces from Iran strikes", *The New York Times*, 8 January 2020; "Iran attacks bases housing US troops", CNN, 9 January 2020.

[78] A senior Iranian official said: "Israel wants to expand the theatre of rivalry and make international waterways unsafe for Iran. We need to deter them by retaliating against attacks on our tankers in the Red Sea". Crisis Group interview, Brussels, November 2019. For its part, the U.S. has tried to intimidate or co-opt the shipping industry as a means of preventing it from working with Iran. See Demetri Sevastopulo, "US offers cash to tanker captains in bid to seize Iranian ships", *Financial Times*, 4 September 2019. Crisis Group sounded alarm bells about escalating tensions in mid-2019. See Middle East Report N°195, *Averting the Middle East's 1914 Moment*, 1 August 2019.

[79] In November 2019, the U.S. inaugurated the International Maritime Security Construct to protect shipping in the Gulf (Operation Sentinel), but France, Denmark and the Netherlands instead opted to set up a parallel European-led Mission Awareness in the Strait of Hormuz. This step comes after an

The downing of a U.S. drone, the attack on Saudi Aramco and Soleimani's killing brought Tehran and Washington to the brink of military confrontation.[80] These developments underscore that "maximum pressure" has delivered on neither of Washington's stated goals – "to deprive the Iranian regime of the money it needs to support its destabilising activities … [and] force the Ayatollah Ali Khamenei to the negotiating table".[81] Instead, it has lessened Iran's commitment to the JCPOA's nuclear constraints and made it more aggressive in the region. Iran also has demonstrated that it is willing to use brute force to keep a lid on domestic unrest. Too, the standoff compelled the Trump administration, which says it wants to reduce its footprint in the region, to deploy additional troops and military assets.[82] It took steps, for example, to bolster its Gulf military presence in order to restore deterrence, in addition to reassuring its jittery allies, in the aftermath of the Aramco attack.[83] It sent more troops after the Iraq incidents in December 2019 and early January 2020, bringing additional deployments since May 2019 over 17,000.[84]

While Iran's economy may be sorely stretched, Tehran appears to consider the benefit deriving from its regional presence and support for local allies as far outweighing any associated financial cost.[85] Its stance belies the assumption that frontline behaviour can be dictated by bottom-line pressure.[86] Asked about the seeming incongruence between positive U.S. assessments of its "maximum pressure" policy and

earlier U.S.-led attempt in February 2019 to form an anti-Iran coalition at an international conference in Warsaw. Fred Kaplan, "Coalition of the unwilling", Slate, 14 February 2019.

[80] Michael Shear, Helene Cooper and Eric Schmitt, "Trump says he was 'cocked and loaded' to strike Iran, but pulled back", *The New York Times*, 21 June 2019; "Trump to hear military options on Iran as Saudis show oil site damage", CBS News, 20 September 2019; "Rouhani says E3's statement on Aramco attacks is counterproductive", *Tehran Times*, 25 September 2019.

[81] Michael Pompeo, "Trump administration is weakening Iran's regime", *USA Today*, 8 August 2019.

[82] Between May and October 2019, the U.S. has deployed an additional 14,000 troops to the Gulf region. "DOD Statement on Deployment of Additional U.S. Forces and Equipment to the Kingdom of Saudi Arabia", U.S. Department of Defense, 11 October 2019. On 31 December, the Pentagon announced the dispatch of a further 750 U.S. troops to the region. "SD Statement on Deployment of 82nd Airborne Division", U.S. Department of Defense, 31 December 2019. The Pentagon confirmed an additional deployment of 3,000 U.S. troops to Kuwait on 3 January. Courtney Kube, "U.S. to send 3,000 troops after embassy attack, Soleimani killing", NBC News, 3 January 2020.

[83] Crisis Group interviews, U.S. officials, Riyadh, December 2019.

[84] Nick Wadhams and David Wainer, "Qassem Soleimani killing leaves Trump's Middle East strategy in tatters", Bloomberg, 6 January 2020.

[85] See Crisis Group Middle East Briefing N°64, *The Illogic of the U.S. Sanctions Snapback on Iran*, 2 November 2018.

[86] For example, the U.S. special representative for Iran, Brian Hook, in June 2019 asserted: "By nearly every measure, the [Iranian] regime and its proxies are weaker than when our pressure began. … Hizbollah and Hamas have enacted unprecedented austerity plans due to a lack of funding from Iran". "Testimony before the House Foreign Affairs Subcommittee on Middle East, North Africa, and International Terrorism", U.S. State Department, 19 June 2019. Yet assessments from Israel's UN envoy suggest a rise in Iranian financial support to, at least, Hamas. Tweet by Danny Danon, @dannydanon, permanent representative of Israel to the UN, 12:19pm, 5 August 2019. And a Hizbollah official claimed: "There has been no change in the financial support we receive from Iran". Crisis Group interview, Beirut, November 2019.

increased Iranian provocations in the region, a senior U.S. diplomat papered it over by replying: "Things sometimes get worse before they get better".[87]

B. *From Mitigation to Mediation*

The combination of brewing crises on both the nuclear and regional fronts prompted a burst of diplomatic efforts to de-escalate tensions between Iran and the U.S. In June, Prime Minister Shinzo Abe of Japan was the first to try, but his historic visit to Iran – a first from a Japanese premier since the 1979 revolution – came to naught, at least in part because he arrived without a concrete proposal in hand.[88] In a rare move, Ayatollah Khamenei's office published a video of the meeting with Abe, in which the supreme leader described Trump as "unworthy of a reply", but reiterated Iran's strategic decision not to pursue nuclear weapons.[89]

In July, U.S. Senator Rand Paul, a Republican from Kentucky, invited Zarif to the White House on Trump's behalf, purportedly warning that the U.S. administration would impose additional sanctions if he refused. Zarif declined, and the U.S. promptly sanctioned him on 31 July.[90] In August, French President Emmanuel Macron launched his own initiative. The French initiative aimed at a de-escalation agreement, whereby the E3 would provide Iran with a monetary transfer equivalent to the proceeds from several months' worth of Iran's oil exports, which Iran would deliver upon sanctions removal, facilitated by U.S. willingness to allow the transactions.[91] In return,

[87] He added, flatly contradicting the point that pressure was designed to curb Iran's activities: "The pressure campaign is working. [The Iranians] are clearly under fear and pressure, and they are lashing out. … They're also having double-digit negative growth". See "Assistant Secretary for Near Eastern Affairs David Schenker on Iraqi Global Magnitsky Designations", U.S. State Department, 6 December 2019.

[88] According to both Iranian and Japanese officials, Abe brought a message from Trump to Iranian leaders that the U.S. was not seeking regime change and that meeting him could lead to a mutually advantageous agreement. Crisis Group interviews, Washington and New York, July and September 2019. Complaining about the absence of a concrete offer, a senior Iranian official said: "Who comes empty-handed, leaves empty-handed". Crisis Group interview, Tehran, June 2019. Abe's visit to Tehran coincided with attacks, blamed by the U.S. on Iran, against two vessels in the Gulf of Oman, one of which was Japanese-owned. Secretary Pompeo declared that Iran had "rejected Prime Minister Abe's diplomacy … then insulted Japan by attacking a Japanese oil tanker". "Secretary of State Michael R. Pompeo Remarks to the Press", U.S. State Department, 13 June 2019.

[89] The video is available at www.youtube.com/watch?v=sceKzXIy4ro. Iranian leaders interpreted the Trump administration's sanctions on Iran's petrochemical industry, which it levied only days before Abe's visit, as a sign that the U.S. president's message via the Japanese premier was insincere. Crisis Group interviews, senior Iranian officials, New York, July 2019. See also, "Treasury Sanctions Iran's Largest Petrochemical Holding Group and Vast Network of Subsidiaries and Sales Agents", U.S. Treasury Department, 7 June 2019.

[90] Crisis Group interviews, Iranian and U.S. Congressional officials, Tehran and Washington, August 2019. See also Robin Wright, "Iran's foreign minister was invited to meet Trump in the Oval office", *The New Yorker*, 2 August 2019.

[91] A U.S. official said: "The president is reluctant to give Iran any incentives that appear similar to Obama handing them cash. Hence the line of credit idea". Crisis Group interview, Washington, September 2019.

Iran would revert to full JCPOA compliance, stop provocations in the region and return to the negotiating table.[92]

Trump appeared interested in this package at the G7 meeting in Biarritz in late August, where Zarif discussed the details with his French counterparts.[93] But Trump insisted on a meeting with Rouhani as a sine qua non for any deal.[94] In parallel and without consultation with his diplomats who were on their way back from Biarritz to Tehran, Rouhani announced: "If I knew that going to a meeting and visiting a person would help my country's development and resolve the problems of the people, I would not miss it".[95] Subsequently, however, in what appeared to the French as Tehran moving the goalposts but could be poor coordination on the Iranian side, Iran made it clear that no meeting could take place without the U.S. first lifting all sanctions that Trump had imposed.[96]

Further negotiations between Iran and France and between France and the U.S. led all parties to aim for a breakthrough on the sidelines of the UN General Assembly meeting in New York at the end of September. But despite his efforts, Macron proved unable to choreograph a Trump-Rouhani meeting, plans for which apparently broke down over sequencing: Rouhani agreed to meet Trump following a clear U.S. commitment to lift sanctions, and Trump insisted on a meeting, and the attendant photo opportunity, before committing the U.S. to anything.[97] A last-ditch effort to get the

[92] The exact amount is a subject of conjecture, but Iran's monthly oil revenue before the sanctions was around $3 billion. Crisis Group interviews, Iranian and French officials, Paris and New York, August-September 2019. A French official explained: "What is needed are oil waivers plus waivers to allow financial transactions. In short, this cannot work without active U.S. acquiescence. Trump and [Treasury Secretary Steven] Mnuchin seem open to it, while everyone around and below them is not". Crisis Group interview, Paris, September 2019.

[93] At Iran's insistence, the meeting took place at the mayor's office to avoid accidental encounters with U.S. officials. Crisis Group interview, senior Iranian official, New York, September 2019. An Israeli official said: "We assess that the odds that Trump would negotiate a new nuclear deal with Iran are significant – probably an agreement that is slightly better on the nuclear front and perhaps … also giving something small on missiles". Crisis Group interview, Jerusalem, 4 September 2019. See also "Netanyahu said to have 'frantically' tried to reach Trump over Iran talks fears", Times of Israel, 30 August 2019.

[94] Crisis Group interviews, French officials, Paris, August-November 2019.

[95] Karen DeYoung and Erin Cunningham, "Trump and Rouhani say they are willing to meet", *Washington Post*, 26 August 2019.

[96] Crisis Group interviews, Iranian and French officials, Paris, August-November 2019.

[97] The French developed a four-point memorandum for lifting U.S. sanctions put in place by the Trump administration since 2017, allowing Iran free access to its oil revenues, in return for Tehran pledging to never acquire nuclear weapons, return to compliance with the JCPOA, negotiate a long-term framework for its nuclear activities, refrain from aggression in the region, and negotiate to address regional issues such as Yemen and maritime security. Crisis Group interviews, New York, September 2019. See also Rym Momtaz, "Trump, Rouhani agreed 4-point plan before Iran balked: French officials", Politico, 3 October 2019. Iranian diplomats believed that Trump's commitment to lift sanctions was at best soft or non-existent, but that his 20 September blacklisting of Iran's central bank on terrorism charges and his speech at the UN, where he pledged to not relax, but ratchet up sanctions on Iran proved that he was seeking to pocket a meeting with Rouhani in return for nothing. A senior Iranian diplomat said: "Macron wanted us to believe Trump's promise, but the reality is Macron has nothing to lose, but Rouhani has everything to lose. We can't gamble on Macron's convictions". Crisis Group interview, New York, 27 September 2019. See also "Treasury Sanctions Iran's Central Bank and National Development Fund", U.S. Treasury Department, 20 September 2019; "Remarks by President

two leaders to talk to one another on the phone also failed.[98] Macron later summed up what, in addition to lack of trust, constituted the main obstacle to a diplomatic breakthrough:

> President Trump is able, if he is convinced, to change things very quickly and he is not administration-driven, he decides alone, and quickly, and he has a very transactional logic. President Rouhani is someone who needs to line up a whole system before negotiating. … It's almost the opposite.[99]

Ayatollah Khamenei characterised Macron's pitch as boiling down to the promise that "a meeting will end all the problems between Tehran and America", and suggested that the French president "is either naïve or complicit with America".[100] Still, a consensus seems to have formed in Tehran that an Iranian precondition for a meeting between Trump and Rouhani, in the multilateral format of the JCPOA's original signatories, would be for the U.S. to restore the status quo ante of January 2017 by lifting all new and reimposed sanctions.[101] Momentum toward a negotiated breakthrough slowed following the setback in New York, but rebounded somewhat in mid-November. According to Iranian sources, the French government proposed a timeline for mutual steps that each side would commit to fulfil to Macron in writing. But a few days after the French government presented the proposal to Trump, protests broke out in Iran, arguably convincing the White House that time was on its side and not ripe for throwing Iran a lifeline.[102] As a senior Iranian official put it:

> Trump liked the idea, but not the timing. His administration liked neither. But both share the illusion that the Islamic Republic is on the verge of collapse.[103]

French officials agree that the Trump administration – as compared to the president himself – is broadly opposed to any deal that would loosen pressure on Iran prior to its having complied with U.S. demands. As a senior French official put it:

> Paradoxically, you can work with senior officials to circumvent the president – that's what we did on Syria, ensuring some U.S. troops remained despite Trump's avowed wish. It's much harder to work with the president against his senior offi-

Trump to the 74th Session of the United Nations General Assembly", White House, 25 September 2019.

[98] Robin Wright, "Trump's close call diplomacy with Iran's president", *The New Yorker*, 30 September 2019.

[99] Rym Momtaz, "Macron cautious on Trump-Rouhani meeting at UN summit", Politico, 23 September 2019.

[100] "Khamenei scorns Macron for trying to arrange U.S.-Iranian talks", Reuters, 3 November 2019.

[101] Crisis Group interviews, Iranian officials and experts, Tehran, September-December 2019. On 17 September, just before Rouhani's trip to New York, Ayatollah Khamenei said: "If the U.S. backs off, repents and implements the nuclear deal from which they have withdrawn, then the U.S. can also take part in and talk during negotiations between Iran and the countries that are part of this deal. Otherwise, there will be absolutely no negotiation between the officials of the Islamic Republic and the U.S. at any level, neither in New York nor anywhere else". Khamenei.ir, 17 September 2019. See also "Rouhani ready to talk with Trump an hour after lifting sanctions", RFE/RL, 4 December 2019.

[102] Crisis Group interviews, Iranian, European and U.S. officials, Doha, December 2019.

[103] Crisis Group interview, Tehran, December 2019.

> cials, as we need to do on Iran. That is because the president's vague wishes don't get translated into action. There is no follow-through.[104]

In December, despite similar discouraging messages from Washington, the Japanese prime minister tried to pick up the initiative where Macron had left off.[105] Rouhani visited Tokyo at his invitation on 20-21 December, reiterating that "we do not turn down any negotiation and agreement that serves our interests".[106]

In a rare episode of direct U.S.-Iran engagement, Tehran and Washington on 7 December exchanged prisoners in Zurich.[107] Both sides applauded the outcome, seeing it as potentially laying the ground for discussions of further detainee releases or more.[108] Some half-dozen U.S. citizens remain in Iranian jails, and some two dozen Iranian nationals are in prison in the U.S. or elsewhere on allegations of violating U.S. sanctions on Iran.[109]

C. *Mounting Risks*

Throughout 2019, and despite their diametrically opposed policies, both Iran and the U.S. affirmed their willingness to negotiate. But both also seemed to believe that the other could ill afford the status quo and would blink first. For the U.S., this belief led to expanding the "maximum pressure" campaign. The administration, however, is running out of new targets for sanctions and thus has started re-designating blacklisted entities on new pretexts.[110] The U.S. has also increased military deployments to the region, reacting to Iran's heightened assertiveness and nuclear non-compliance,

[104] Crisis Group interview, Paris, November 2019.
[105] Crisis Group interviews, Iranian and Japanese officials, December 2019.
[106] "President in a meeting with the Japanese PM", President.ir, 20 December 2019.
[107] Michael Crowley, "In prisoner swap, Iran frees American held since 2016", *The New York Times*, 7 December 2019. While Pompeo and Hook tried to take credit for the swap, the negotiations reportedly were conducted in large part by former U.S. ambassador to the UN Bill Richardson and the Swiss government. Crisis Group interviews, Bill Richardson, Washington, September-December 2019. Iran first suggested an "all-for-all" prisoner swap in April. U.S. officials demanded that Tehran release one or two prisoners as proof of its seriousness. In June, Iran released a Lebanese citizen with U.S. residency. The Trump administration ignored the gesture. Crisis Group interviews, Iranian and Swiss officials, Washington and New York, September-October 2019. See also Vivian Yee, "Iran releases U.S. resident charged with spying", *The New York Times*, 10 June 2019.
[108] President Trump acknowledged "a very fair negotiation" and thanked Iran, adding, "See, we can make a deal together!" Tweet by Donald J. Trump, @realDonaldTrump, 9.32am, 7 December 2019. Foreign Minister Zarif indicated that Iran was "fully ready for comprehensive prisoner exchange. The ball is in the U.S.'s court". Tweet by Javad Zarif, @JZarif, 9 December 2019. A U.S. senior official used the same phrase toward Iran: "The ball is in their court. The exchange … should be a demonstration of good-will". Crisis Group interview, Washington, 10 December 2019.
[109] "Ready for prisoner swaps, Iran says U.S. holding 20 Iranians", Associated Press, 10 December 2019. A senior Iranian diplomat said: "We need to decouple the humanitarian issues from the political issues. But the U.S. has joined them up". Crisis Group interview, December 2019.
[110] The Central Bank of Iran, for example, was already sanctioned prior to its 20 September designation under counter-terrorism authorities. So, too, was Mahan Air, which the U.S. additionally designated under weapons of mass destruction authorities on 11 December. Some prominent proponents of sanctions have argued that adding new designation layers would increase the political cost of reversing them for the next U.S. administration absent a complete overhaul of Iran's domestic and foreign policies. Mark Dubowitz, "Build an Iranian sanctions wall", *Wall Street Journal*, 2 April 2019.

in a bid to deter Tehran from further provocations.[111] Since the November protests in Iran, coupled with unrest in Lebanon and Iraq, the Trump administration has stepped up its public messaging, sensing that these developments could precipitate the concessions it seeks from Iran's political establishment or, better, threaten its hold on power.[112] The protests encouraged a hardening of Washington's position against a negotiated climb-down.[113]

As for Iran, the case could be made that its earlier provocations delivered what its short-lived "strategic patience" did not: U.S. readiness to accept third-party mediation and, if not a break in Tehran's regional rivals' ranks, then at least a perceptible inclination among them toward limited bilateral de-escalation.[114] But neither the diplomatic track favoured by the government nor the regional escalation approach championed by hardliners has produced the economic relief Tehran is seeking, while Ayatollah Khamenei's exhortations to shift the country's reliance increasingly to domestic capabilities offer little prospect of immediate solace.

The November protests in Iran shook the leadership, especially given their provenance among the society's poorer and more pious strata (the ruling elite's core constituents). Iranian officials, however, argue that the speed with which they were able to quiet the streets, regardless of the cost, and foil any "plot" by its adversaries – namely the U.S., Israel and Saudi Arabia – should demonstrate to Washington that they, and

[111] Pompeo stated that "the more Iran lashes out, the greater our pressure will and should be". "Iranian Aggression: The World Awakes", U.S. State Department, 25 September 2019.

[112] Crisis Group interviews, U.S. and European officials, Washington, November-December 2019. See also Nahal Toosi, "Trump team scours intel sent by Iranians as it weighs new sanctions", Politico, 3 December 2019. For examples of stepped-up messaging by Trump administration officials, see "Special Representative Brian Hook's Economic Speech at Council on Foreign Relations", U.S. State Department, 12 December 2019; and "Human Rights and the Iranian Regime", U.S. State Department, 19 December 2019. As demonstrators in Iran protested against the government's handling of the Ukrainian jet shoot-down, Trump took to Twitter with a series of messages in English and Persian on 11-12 January expressing sympathy with the protesters and calling on the government to avoid a heavy-handed response. See, for example, tweet by Donald J. Trump, @realDonaldTrump, 1:46pm, 11 January 2020.

[113] Echoing a similar view, Netanyahu said: "We're seeing the Iranian empire totter. We see demonstrations in Tehran, demonstrations in Baghdad, demonstrations in Beirut. It's important to increase this pressure against Iranian aggression". "Excerpt from PM Netanyahu's Remarks Prior to his Departure for Lisbon", Israeli Prime Minister's Office, 4 December 2019.

[114] Ali al-Shamsi, director of the UAE's National Intelligence Service, has visited Iran three times since June, while his Iranian counterpart has visited the UAE once during that period. Crisis Group interviews, Iranian and Gulf officials, August-December 2019. An Emirati official noted: "We and Saudis are totally exposed. We just don't have the capability to stop the attacks or respond to them". Crisis Group interview, Washington, September 2019. Iran and the UAE on 1 August inked a memorandum of understanding on maritime cooperation after a six-year hiatus in discussions. "Iran, UAE sign document to boost maritime security cooperation", Press TV, 1 August 2019. The reopening of some financial channels from Dubai to Iran has helped strengthen the Iranian rial. "MP: UAE has released $700m of Iran's frozen assets", *Tehran Times*, 20 October 2019. A senior Iranian official said: "The Emiratis are hedging their bets: on the one hand sending their security officials to Tehran, and on the other supporting Washington's maximum pressure strategy. Saudi Arabia, the UAE and Bahrain will change their approach when they stop believing they can buy U.S. foreign policy. … They are beginning to have doubts that the U.S. will come to their rescue, but in their heart of hearts they still believe the U.S. will support them". Crisis Group interview, December 2019.

the Islamic Republic they lead, are immovable. They claim that their swift crackdown, coupled with the string of attacks over the past few months on shipping lanes and energy infrastructure in Saudi Arabia, demonstrates their strength at home and throughout the region.[115]

Soleimani's killing has affected the two sides' calculus, although still in unpredictable ways. The events that preceded it – attacks targeting U.S. personnel and assets in Iraq – highlighted for both the risks of confrontation. In turn, Iran's apparently calculated response – a dramatic volley of ballistic missiles against two Iraqi bases housing U.S. personnel but whose timing and targeting seem to have been calibrated to avoid casualties – and Trump's announcement that there would be no further military response arguably has given both sides manoeuvring room and the ability to buy time.

The two sides could each claim a degree of victory. The Trump administration is persuaded it restored the deterrence that, it claims, had been eroding for decades and nearly disappeared under President Barack Obama.[116] That Iran apparently chose to respond in a calculated manner bolstered that view. The events also brought at least momentary dividends to Tehran: Soleimani's killing ostensibly awakened nationalist feeling that temporarily deflected popular anger away from the Iranian leadership toward the U.S. That said, any benefit appears to have been largely erased by Iran's downing of a Ukrainian airliner on 8 January, which killed 176 civilians.[117] Tehran's bungled response sparked renewed anti-establishment demonstrations over initial attempts by Iranian authorities to cover up the unintentional shoot-down and failure to suspend civilian air traffic amid the heightened risk of war with the U.S.[118]

In Iraq, too, the impact has been mixed. Swathes of the Shiite population that had been demonstrating against the corruption and dysfunctionality of a government supported by Iran seemed to shift their attention after the U.S. attack that killed not only Soleimani but also Muhandis. While those sentiments did not do away with continued anger at Iran's overbearing influence in Iraq, they – along with a largely symbolic vote in the Iraqi parliament subsequent to the Soleimani killing in favour of a U.S. troop withdrawal from Iraq — might precipitate precisely that, or at least a reduced U.S. presence. This turn of events would provide Tehran with another achievement

[115] An Iranian academic noted that the brutal crackdown on the protests allowed the Iranian security apparatus to root out leading dissenters and "foreign agents". Another Iranian expert added that the state is likely to boost welfare protections for the poor, knowing that the middle class is unlikely to revolt out of fear of adding chaos to misery. Crisis Group interviews, Tehran, December 2019.

[116] On 8 January, Trump indicated that "Iran appears to be standing down", opting for sanctions to respond to Iran's attack, which Ayatollah Khamenei characterised as a "slap in the face" that was "not sufficient"; adding that "what is important is that the corrupt presence of the U.S. in this region should come to an end". See "Remarks by President Trump on Iran", White House, 8 January 2020; "Iran's supreme leader says missile strike a 'slap on the face' for U.S.", Reuters, 8 January 2020. Pompeo said: "We are trying to restore deterrence that results directly from the fact that the previous administration left us in a terrible place with respect to the Islamic Republic of Iran". U.S. Department of State, 8 September 2019.

[117] "A sea of mourners in Iran, and new threats from both sides", *The New York Times*, 6 January 2020; Erin Cunningham, "Iranians protest for third day over downed airliner amid reports of gunfire by security forces", *Washington Post*, 13 January 2020.

[118] Najmeh Borozgmehr, "Lies over downing of aircraft shake Iran's trust in its rulers", *Financial Times*, 12 January 2020.

(albeit potentially at the cost of a revived ISIS).[119] In other words, both sides might be willing to hold their fire for now.

A number of bills are wending their way through U.S. Congress that purport, in different ways, to block the administration from further military action against Iran. On 9 January, following Soleimani's killing, the House of Representatives voted 224-194 in favour of a war powers resolution.[120] It is not clear that any bill has the votes to pass both houses by a simple majority – much less the bicameral supermajority that would be required to override the president's almost certain veto. Nonetheless, the legislation is an opportunity for members of Congress to draw public attention to their concerns about military action against Iran and to signal to the world that the U.S. is far from unified behind the administration's actions.

Still, whatever reprieve exists could be of ephemeral. Iran's leadership has said the ballistic missile attack was only an initial "slap in the face" and that it will take further action to force a U.S. exit from the region; Lebanese Hizbollah has urged Iran's allies to take action against U.S. forces in the region; the Iraqi Shiite militias have warned that they remain determined to avenge Muhandis' killing; and, importantly, the original decision that lies at the source of the current crisis (the Trump administration's withdrawal from the JCPOA and reimposition of sanctions) remains unaddressed.[121] Without a more serious course correction, a dangerous collision cannot be ruled out, nor can the JCPOA's collapse, which in turn would both lead the U.S. to accentuate its pressure on Iran and spark a non-proliferation crisis.

The reluctance so far by either side to take the first step in de-escalating tensions leaves three distinct, but interlinked, and unstable status quos: internal discontent within Iran, whose economic and political drivers are likely to grow; regional tensions, whose fault lines could deepen; and a haemorrhaging nuclear agreement, whose survival is becoming increasingly uncertain. Indeed, Iran's steps to reduce compliance with the JCPOA led the E3 on January 14 to trigger the deal's dispute resolution mechanism (DRM).[122] This in turn could result in the snapback of UN sanctions within a 65-day timeframe. While E3 officials are at pains to claim that this is not a first step toward reimposition of UN sanctions, failure to resolve the dispute in the allotted time would make such an outcome increasingly inevitable.[123] This would

[119] Isabel Coles and Catherine Lucey, "Trump pushes Iraq, threatens sanctions after vote to expel U.S. troops", *Wall Street Journal*, 6 January 2020.
[120] Sarah Ferris and Andrew Desiderio, "House votes to rein in Trump on Iran", Politico, 9 January 2020.
[121] "Ayatollah Khamenei: U.S.'s corruptive presence in region must end", Tasnim, 8 January 2020; "Hassan Nasrallah: Attacks on Iraqi bases just the start", Al Jazeera, 12 January 2020. Following Iran's missile strikes, an Iraqi militia leader warned that "now it is the time for the initial response to the assassination of the martyred commander [Abu Mahdi al-] Muhandis. And because Iraqis are brave and zealous, their response will not be any less than that or [sic] Iran's". "Iran-backed Iraqi militia leader promises Iraqi response to U.S. air strike – tweet", Reuters, 8 January 2020.
[122] The E3 said: "We have … been left with no choice, given Iran's actions, but to register today our concerns that Iran is not meeting its commitments under the JCPoA and to refer this matter to the Joint Commission under the Dispute Resolution Mechanism, as set out in paragraph 36 of the JCPoA". www.gov.uk/government/news/e3-foreign-ministers-statement-on-the-jcpoa-14-january-2020
[123] Crisis Group interviews, European officials, Brussels, 14 January 2020.

spell the accord's demise.[124] Indeed, Iran has warned that snapback of UN sanctions, which would re-categorise Iran as a threat to international peace and security under the UN charter's Chapter XII, would constitute a red line, prompting it to withdraw from not just the JCPOA but also the nuclear Non-Proliferation Treaty (NPT).[125] Russia and China have suggested that they would not recognise any reimposition of UN sanctions, arguing that the basis for the existence of sanctions – ie, ensuring the purely civilian nature of Iran's nuclear program – was removed with the signing of the JCPOA.[126] A clash over this matter could deepen existing fissures among the Security Council's permanent members.[127]

Already, Iranians are deeply frustrated with Europeans' failure to mitigate the impact of U.S. sanctions, from delays in starting up INSTEX to reluctance in enforcing the "blocking statute" that prohibits European companies from complying with secondary U.S. sanctions. For Tehran, distrust of the U.S. is a longstanding dictum.

[124] In November, the E3 noted (for the first time) the possibility of triggering the DRM. "Iran and INSTEX: E3 statement", UK Foreign and Commonwealth Office, 30 November 2019. The DRM process is laid out in Article 36 of the JCPOA, and provides a sequence by which a JCPOA participant presents cases of significant non-compliance to the Joint Commission, optionally at the ministerial level, and a three-member advisory board representing the claimant and alleged non-compliant party, as well an independent. The duration of each stage in the procedure can be extended if the parties concur. Per Article 37, failure to resolve the matter could lead to a UN Security Council vote, which in turn could result in the snapback of pre-JCPOA Security Council sanctions. A U.S. State Department opinion reportedly is making the case that, "as the U.S. is an original JCPOA participant … there is a legally available argument we can assert that the U.S. can initiate the snapback process". Matthew Lee, "Horse-trading Iran hawks seize on Pompeo's Senate interest", Associated Press, 15 December 2019. The JCPOA's remaining parties reject this argument, as the DRM process can only start in the Joint Commission, but the U.S. stopped being a member when it withdrew from the JCPOA. Crisis Group interviews, Russian and European officials, Vienna and New York, November 2019.

[125] Iranian officials often refer to this option as "rethinking Iran's nuclear doctrine". Crisis Group interviews, senior Iranian officials, Moscow, Berlin and Doha, November-December 2019. A senior Iranian official said: "Remaining in the NPT will have no benefits for us, and in fact it would entail extra headache, as it would allow Israel to constantly harass us by pushing for snap inspections based on their so-called nuclear archive. Leaving the NPT could also allow us to move the baseline for future negotiations from the JCPOA to the NPT". Crisis Group interview, November 2019. Under Article X of the NPT, a state may withdraw from the treaty but only if it gives three months' advance notice should "extraordinary events" jeopardise its supreme national interests. To learn more about the "nuclear archive", consisting of more than 100,000 physical and digital files relating to Iran's nuclear program removed by Israeli intelligence operatives from Tehran in 2018, see "The Iran Nuclear Archive: Impressions and Implications", Belfer Centre – Harvard University, April 2019. The U.S. and some of its European allies believe UN sanctions snapback would be necessary to prevent the lifting of the UN embargo on conventional weapons, which according to the JCPOA's implementation calendar will be removed on 18 October 2020. Crisis Group interviews, U.S. and UK officials, Washington, September-November 2019. President Rouhani has underscored that, "if we stay in the JCPOA according to Resolution 2231, Iran's arms embargo will be lifted next year and we can easily buy or export our required weapons, which is one of the major effects of the nuclear deal". "President addressing people in Rafsanjan", President.ir, 11 November 2019.

[126] Crisis Group interviews, Russian and Chinese officials, Moscow and Vienna, November 2019.

[127] A Russian official posited: "We might not be able to stop the snapback, which is automatic, but we can create a lot of issues, including blocking funding for the [UN] panel of experts to oversee sanctions implementation". Crisis Group interview, Vienna, 11 November 2019.

But the JCPOA experience may also leave Iran with the impression that Europe, keen to hail the deal but doing little in practice to save it, is strategically feckless.[128] European focus on punishing Iran for its non-compliance with the deal, while only expressing regret over the original sin of the U.S. withdrawal from the JCPOA, could have long-term adverse consequences for Iran-Europe relations.

In short, what led Iran and the U.S. to the brink of war, ie, strangling U.S. sanctions and dangerously high friction between the two countries' and their respective regional allies, remain open wounds that can fester if left untended. That a full-fledged conflict has been averted does not mean that the two sides will be able to stand down at the next escalatory juncture. In other words, what is required is not merely an avoidance of escalation, but active steps toward de-escalation.

[128] European officials blame complex bureaucracy and mismatched political dynamics for delays in processing INSTEX transactions. A senior European official said: "When Paris is ready, London is not; when London is ready, Berlin is not, and so on and so forth". Crisis Group interview, Brussels, 6 November 2019. There have only been a handful of cases in Europe where courts enforced blocking regulations to restore trade with Iran, but the law's application remains rare and inconsistent. See Vanessa Wilkinson and Vivien Davies, "US secondary sanctions and navigating the EU blocking regulation", FieldFisher, 21 November 2019. Ali Akbar Salehi, head of the Atomic Energy Organization of Iran, vented his anger by stating that "the 28 [member] states [of the EU] have less sovereignty than a single [U.S.] state like California". "Iran warns Europeans about consequences of triggering snapback mechanism", Fars News, 24 December 2019. Under the JCPOA's Article 27, the EU committed to "ensure clarity and effectiveness with respect to the lifting of sanctions". Following the U.S. withdrawal, the EU vowed to maintain and expand economic cooperation with Iran in areas from energy to transportation and from investment to banking. "Remarks by HR/VP Mogherini at the press conference following ministerial meetings of the EU/E3 and EU/E3 and Iran", European External Action Service, 15 May 2018. A former Iranian official said: "The last time the E3 failed to reciprocate Iran's concessions [in 2005], Tehran turned to secret negotiations with Washington in Oman to revive diplomacy and clinch an agreement. This is the second time Europe has proven to be a vassal to U.S. policy. As such, it would be pointless to include Europe in any future negotiation". Crisis Group interview, New York, September 2019.

IV. A Viable Off-ramp?

The tumultuous events of 2019 and the dangerous developments that greeted the new year highlight the risks inherent in Iran and the U.S.'s duelling strategies. These include a nuclear deal bleeding from a thousand cuts and a volatile regional backdrop susceptible to additional accidental or intentional escalation, as well as growing economic turmoil and political discontent in Iran. But efforts undertaken over the past year also helped outline the basic principles under which Washington and Tehran may yet be able to navigate a path away from descent into war and toward constructive engagement, helped by third-party mediation in the absence of direct contacts. If anything, the severity of the current crisis should intensify the urgency of forging a way toward de-escalation that rests on the reality that both Washington and Tehran have much to lose from a direct military confrontation.

In this sense, if Soleimani's killing significantly raised the hurdle in front of a diplomatic breakthrough – the possibility of a strategic reset and presidential summit having become all but impossible as Tehran recovers from the shock of losing one of its most revered figures – the way in which both sides have handled its aftermath might present a narrow opportunity for an off-ramp.

The immediate priority in the wake of Soleimani's killing was to avert a bigger confrontation between Iran and the U.S. Tehran's response, bold and restrained in equal measure, as well as Washington's decision not to retaliate, make that a more plausible outcome. The escape from immediate escalation likely reflected Iran's calculation that it was better off seeking to maximise political and diplomatic gains without risking a direct U.S. retaliation that could have proven enormously risky and costly, as well as Trump's desire not to get entangled in another Middle East war. But it does not necessarily close this chapter. As noted, Shiite militias have vowed revenge for Muhandis' killing and, should sanctions remain in place and Iran enjoy no benefit from the JCPOA, the U.S.-Iranian standoff might well continue along the path it has already taken – nuclear and regional brinkmanship. Finally, Iran's leadership has signalled its intent to get U.S. forces out of the region, and notably Iraq, which could make the country a U.S.-Iranian battleground. So that none of these risks triggers further escalation, the parties should consider several steps.

First is the need for the equivalent of a U.S.-Iranian ceasefire on the JCPOA/sanctions front, which lies at the source of current tensions. Such a truce could be achieved in various ways, including the following three:

- Under a narrow version of Macron's proposal, the U.S. would reissue limited oil waivers for key Iranian importers and restore civil nuclear waivers in return for Iran's full compliance with the JCPOA, de-escalation in the region and, possibly, the onset of negotiations with the U.S. and other JCPOA parties on broader issues (regional and ballistic missiles).[129]

[129] A senior Gulf official said: "Iran is already exporting more than 0.5 million barrels of oil every day, but it is mostly done in the black market. If the U.S. would countenance this to happen in the official market, it can get Tehran to de-escalate at no cost to Washington". Crisis Group interview, Muscat, January 2020.

- Under an even narrower version, the U.S. could suspend key non-oil sanctions (eg, on Iran's metals and petrochemical sectors) and restore civil nuclear waivers, in return for Iran agreeing not to ramp up its nuclear program beyond its current status and, possibly, reversing one or more of its breaches, as well as halting aggressive behaviour in Iraq or the Gulf.
- Even in the absence of U.S. cooperation, Europe should seek to salvage the deal. In this context, and for reasons described above, the E3's resort to the DRM is at best a double-edged sword. European officials argue that it is intended to salvage, not doom the deal, and that they will use the time ahead to try to persuade Iran to resume compliance. But it is risky: the DRM was devised to tackle technical breaches of the deal, not a political crisis prompted by U.S. abrogation of the agreement. It is hard to see how this process has a better chance of resolving the parties' mutual grievances than the political talks that preceded it.[130] European officials say that invoking the DRM can create the sense of urgency to address this problem. It could also backfire: At a time of intensified tensions, Iranian hardliners almost certainly will use this developments to argue that Europe is a lost cause, that Iran should leave the deal and perhaps take more aggressive action.[131] If, in coming weeks, there is no progress toward resolution, the Europeans also will come under greater pressure by the U.S. to reinstate UN sanctions, which would exhaust whatever leverage Europe retains without producing meaningful gains; as a senior French official put it: "reimposing UN sanctions will not harm Iran much more than it has been harmed already, and it would take us out of the mediating game".[132]

In short, by triggering the DRM the E3 could be embarking on a path that accelerates the crisis the Europeans are seeking to prevent. At this point, their priority should be to extend the timeframe provided by the mechanism to seek to convince Iran to resume compliance with the JCPOA in exchange for meaningful economic reprieve.

Second, both the U.S. and Europe should ensure that the Iranian people have access to humanitarian goods. Washington should formalise the Swiss channel already in the works for nearly two years.[133] Congress, which incorporated humanitarian ex-

[130] Iran also contends that E3 invocation of the mechanism would have no legal justification. Foreign Minister Zarif has argued that Iran triggered the dispute resolution mechanism in May 2018 "and exhausted" it. See tweet by Javad Zarif, @JZarif, 12:33am, 12 November 2019. A senior Iranian argued: "The Europeans say we didn't invoke article 36, as there was no arbitration stage [by the advisory board]. Yet that is not compulsory". Crisis Group interview, New York, July 2019. The E3 rejected this argument: "Contrary to its statements, Iran has never triggered the JCPoA Dispute Resolution Mechanism and has no legal grounds to cease implementing the provisions of the agreement". E3 foreign ministers' statement on the JCPoA: 14 January 2020", press release, 14 January 2020.

[131] Crisis Group interviews, senior Iranian officials, Tehran, December 2019-January 2020.

[132] Crisis Group interview, Paris, September 2019.

[133] U.S. officials have been dragging their feet on this issue for more than a year, but Swiss officials have expressed hope that the channel will become operational in the next few months. Michael Shields and Stephanie Ulmer-Nebehay, "Swiss humanitarian channel to Iran seen within months – Swiss, U.S. officials", Reuters, 11 December 2019. There is clearly a bottleneck in processing applications for legal trade with Iran. According to the U.S. Treasury's Office of Foreign Assets Control, out of 34

emptions into U.S. sanctions legislation, should hold the administration accountable and oversee the sanctions' effectiveness.[134]

Europe has an important role to play in this matter, both as parties to the JCPOA and as originators of the INSTEX mechanism designed to attenuate the impact of U.S. sanctions. At a minimum, the E3 should put INSTEX into effect immediately to preserve humanitarian trade with Iran, and encourage more European stakeholders to join the mechanism. Boosting trade with Iran could also help provide greater European leverage in negotiations.

Third, Iran, the U.S. and others should seek to reduce the risk of a regional flare-up. Notwithstanding Iran's denials, there is ample reason to suspect its deep involvement in incidents in Iraq and the Gulf over the past year; the close calls in 2019 and early 2020 are no assurance that a future incident could likewise be contained.[135] Restraint by Tehran, also conveyed to its local allies, and offers of constructive engagement, when welcomed by Iran's adversaries, could help avoid a conflict that all sides say they are keen not to spark. U.S. regional allies, in particular Saudi Arabia and the United Arab Emirates (UAE), should continue to explore possibilities for engagement with Tehran, either bilaterally or through other Gulf countries, such as Kuwait and Oman. Though their hopes may have rested on success of "maximum pressure" in weakening Iran – and may perhaps still rest there – their vulnerability to further Iranian military actions has already prompted a renewed turn to talks. Responding formally to Iran's regional security initiative, which Rouhani launched at the UN in September 2019, would be a starting point, even if it consisted only of a counter-offer.[136]

For their part, European states should consider establishing a core group of states prepared to encourage and help the Gulf's states in setting in motion a collective regional security dialogue on issues of dispute. The very existence of such a mechanism could reduce the danger of blundering accidentally into war by opening new channels

applications for export of food, medicine and medical products to Iran submitted between October and December 2018, only three received licences, two received amended licences and one was denied.

[134] In December, seventeen members of Congress wrote a letter to the treasury secretary demanding information on the number of licenses issued since November 2018 to allow for humanitarian aid. The letter's full text is available at: https://grijalva.house.gov/uploads/ Rep%20Grijalva%20Iran %20Letter.pdf. A report by the Government Accountability Office in October highlighted "several difficulties in assessing sanctions' effectiveness in meeting broader U.S. policy goals, including challenges in isolating the effect of sanctions from other factors as well as evolving foreign policy goals. According to Treasury, State and Commerce officials, their agencies have not conducted such assessments on their own". See "Agencies Assess Impacts on Targets, and Studies Suggest Several Factors Contribute to Sanctions' Effectiveness", GAO, October 2019.

[135] As detailed in Crisis Group's Iran-U.S. Trigger List, an incident at any one of the points of friction among the parties, be it in Yemen, Syria, Iraq, Lebanon or the Gulf, or related to Iran's missile tests, could escalate, with unpredictable consequences.

[136] In October, Kuwait's foreign minister passed Rouhani's letter describing Iran's regional security initiative (the Hormuz Peace Endeavour, HOPE) to its Gulf Cooperation Council allies. As of mid-January, Kuwait, Qatar and Oman had either responded positively to the overture or provided feedback, while Saudi Arabia, the UAE and Bahrain had not replied. Crisis Group interviews, senior Iranian officials, December 2019.

of communication and optimally creating a measure of trust among these governments through confidence-building steps.

An additional idea would be for Washington and Tehran to consider setting up a deconfliction channel, notably to deal with potential clashes in and around the Strait of Hormuz. Establishing points of professional contact instead of ad hoc naval bridge-to-bridge communications could help prevent accidental escalation. Given that each side has designated the other's military as a terrorist organisation, such a channel almost certainly would have to go through a mutually acceptable third party, such as Oman, that could relay messages between U.S. Central Command (CENTCOM) and the Iranian General Staff.

Fourth, in response to strong sentiments in Baghdad and in order to reduce another source of potential conflict with Iran or its affiliated militias, the U.S. should consider drawing down its troop presence in Iraq, shifting more of the burden there to other countries. This move could be a win-win for Tehran and Washington: Iran wants U.S. troops out of the Middle East in principle, but in practice it has tolerated the presence of the International Coalition to Counter ISIS as long as it was both limited and focused solely on that objective. Trump has favoured reducing the U.S.'s global military footprint, denouncing his country's wasteful interventions; leaving behind a small force in Iraq and Syria to help other coalition members in rooting out what remains of ISIS could be an acceptable compromise, allowing him to claim he had fulfilled a campaign pledge.[137] Such a move would require U.S. forces to transfer primary military tasks to other members of the International Coalition to Counter ISIS; provide logistical support to these coalition forces; draw down surplus U.S. troops; and reaffirm publicly that the sole objective of the remaining international military presence is the jihadists' enduring defeat.

In the meantime, the U.S. and Iran should strive to insulate Iraq from their standoff. Neither Washington not Tehran benefits from an Iraq that is an arena for outsiders' confrontation, especially if the result is to open space for an ISIS resurgence or to undermine the Iraqi government, which can find itself pulled toward both external patrons at once. Ayatollah Ali al-Sistani cautioned against this latter dynamic on 10 January, saying through an intermediary: "The use of over-the-top methods by different sides which possess power and influence … will only entrench the crisis [in Iraqi politics] and prevent a solution".[138]

There are other measures both Iran and the U.S. could take, even if in today's raw climate they might seem implausible. For instance, both sides could continue indirect discussions to release additional prisoners without conflating these humanitarian negotiations with talks over the JCPOA's future and sanctions relief.[139] And, if Trump is earnest in his proclaimed interest in pursuing talks with Iran, he could appoint a special presidential envoy who is not intimately associated with the "maximum pres-

[137] "Trump says US 'foolishly spent $7 trillion in the Middle East'", Associated Press, 22 December 2017.
[138] "Iraq's top cleric condemns U.S., Iran confrontation on Iraqi soil", Reuters, 10 January 2020. See also Crisis Group Statement, "Rescuing Iraq from the U.S.-Iran Crossfire", op. cit.
[139] French officials have rejected suggestions by senior U.S. officials to link the two issues. Iranian officials also express concern that the Trump administration now wants Brian Hook, the same person who leads the "maximum pressure" campaign against Iran, to conduct negotiations on further prisoner swaps. Crisis Group interviews, French and Iranian officials, November-December 2019.

sure" campaign and is empowered to lay the groundwork for a deal on the president's behalf.

Finally, recent protests in Iran brought into sharp relief the need for long-overdue financial and political reforms in that country, irrespective of the sanctions' impact.[140] Tehran ought to move swiftly to adopt the outstanding items in its 2016 action plan ahead of the next FATF plenary in February. The reimposition of suspended FATF counter-measures would further isolate Iran's financial sector as long as the country's banking system lags behind commonly accepted international standards. The Iranian government should also address the systemic burdens of corruption and mismanagement, not as a proxy for settling political scores but as part of substantive reforms. While Tehran may have believed it came away from recent protests confident in its iron fist approach, the events of the past few days highlight that sticking to business as usual guarantees further and possibly more profound turmoil.

Likewise, and however doubtful given news of heavy-handed disqualification of many candidates by the Guardian Council, Iran's political leadership ought to seize the forthcoming parliamentary elections in February as an opportunity to introduce greater pluralism in political institutions by allowing a broad field of candidates and ensuring the integrity of results.[141] The country's peripheries, especially impoverished border provinces where the majority of Iran's ethnic and religious minorities reside, could become even more restive if the government were to allow a mixture of poor governance and repression to curdle in the face of popular discontent. Facilitating access for the UN special rapporteur on human rights would be a welcome move, as would progress toward the release of foreign prisoners held on dubious legal grounds.

A year from now, when the next iteration of Crisis Group's annual report on the state of the JCPOA is released, a new administration will be about to take the helm. It could be another Trump administration, or that of one of his Democratic opponents. Virtually all of the latter have vowed to rejoin the nuclear deal as long as Iran returns to full compliance. That would be a positive step. Still, the sobering fact remains that none of the parties to the JCPOA was fully satisfied with the deal even when it was being carried out. Iran wishes that sanctions relief were much more extensive. Both the U.S. and Europe dislike the rapidly approaching sunset clauses regarding certain nuclear activities and would prefer to add provisions addressing Tehran's ballistic-missile program and regional activities.[142] In this context, it would make sense for all parties to start considering what a better-for-better arrangement could look like, addressing some of the U.S.'s (and Europe's) concerns about Iran's regional and missile activities, in return for additional relief from both primary and secondary U.S. sanctions.

[140] The Iranian government's spokesman admitted to the need for serious reforms: "We need to mobilise the nation, which requires organising a fair parliamentary election, engaging the people and giving voice to the diversity of views, socio-political openness, non-interference in people's personal lives, creating a sense of participation in all state affairs, and fighting money laundering and isolation of Iran's financial system". Ali Rabei, "تحریم واقعیت تحریم" ["Sanctioning sanctions' reality"], *Iran Daily*, 14 December 2019.

[141] "Iran: Guardian Council Bars 90 Sitting Legislators from Upcoming Parliamentary Election", Stratfor, 13 January 2020.

[142] For an example of the European desire for a longer-term deal, see "E3 statement on the JCPoA", UK Prime Minister's Office, 12 January 2020.

V. Conclusion

In the apparent success of U.S. "maximum pressure" strategy lie its pitfalls: while it has inflicted significant harm to Iran's economy, it has neither produced a stronger nuclear deal nor tempered Iran's policies in the region. Instead, in addition to bringing both sides to the brink of war, it has produced the opposite: an Iran that is more aggressive in the region, more assertive in expanding its nuclear activities and as willing as ever to suppress dissent at home. Proponents of "maximum pressure" often argue that sanctions should be ramped up still further and granted more time to alter Iran's calculus (or its political system). Such expectations have more in common with magical thinking than with realistic assessments based on the history of Iran's behaviour to date.

There is little time left to take the off-ramp suggested in this report. Even assuming a military truce after the events of early January, the JCPOA could well be the next casualty of the U.S.-Iran standoff. Indeed, it is hard to imagine how the agreement could survive additional steps by Iran to downgrade its compliance between now and the November U.S. elections amid growing tensions among the remaining JCPOA parties and in the region. Its collapse could trigger an international proliferation crisis and make restoring the status quo ante all the more difficult. The priority today should be to strike a bargain on tactical de-escalation that salvages the deal, minimises risks of a regional confrontation and, perhaps, opens the way toward broader negotiations.

Washington/Brussels/Tehran, 16 January 2020

Appendix A: Map of Iran

Appendix B: About the International Crisis Group

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Crisis Group's approach is grounded in field research. Teams of political analysts are located within or close by countries or regions at risk of outbreak, escalation or recurrence of violent conflict. Based on information and assessments from the field, it produces analytical reports containing practical recommendations targeted at key international, regional and national decision-takers. Crisis Group also publishes *CrisisWatch*, a monthly early-warning bulletin, providing a succinct regular update on the state of play in up to 70 situations of conflict or potential conflict around the world.

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The Crisis Group Board of Trustees – which includes prominent figures from the fields of politics, diplomacy, business and the media – is directly involved in helping to bring the reports and recommendations to the attention of senior policymakers around the world. Crisis Group is chaired by former UN Deputy Secretary-General and Administrator of the United Nations Development Programme (UNDP), Lord (Mark) Malloch-Brown.

Crisis Group's President & CEO, Robert Malley, took up the post on 1 January 2018. Malley was formerly Crisis Group's Middle East and North Africa Program Director and most recently was a Special Assistant to former U.S. President Barack Obama as well as Senior Adviser to the President for the Counter-ISIL Campaign, and White House Coordinator for the Middle East, North Africa and the Gulf region. Previously, he served as President Bill Clinton's Special Assistant for Israeli-Palestinian Affairs.

Crisis Group's international headquarters is in Brussels, and the organisation has offices in seven other locations: Bogotá, Dakar, Istanbul, Nairobi, London, New York, and Washington, DC. It has presences in the following locations: Abuja, Algiers, Bangkok, Beirut, Caracas, Gaza City, Guatemala City, Hong Kong, Jerusalem, Johannesburg, Juba, Mexico City, New Delhi, Rabat, Tbilisi, Toronto, Tripoli, Tunis, and Yangon.

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Arohi Jain
Christopher Louney
Matthew Magenheim
Madison Malloch-Brown
Megan McGill
Hamesh Mehta
Tara Opalinski
Perfecto Sanchez
Nidhi Sinha
Chloe Squires
Leeanne Su
Bobbi Thomason
AJ Twombly
Dillon Twombly
Annie Verderosa
Zachary Watling
Grant Webster

SENIOR ADVISERS

Former Board Members who maintain an association with Crisis Group, and whose advice and support are called on (to the extent consistent with any other office they may be holding at the time).

Martti Ahtisaari
Chairman Emeritus

George Mitchell
Chairman Emeritus

Gareth Evans
President Emeritus

Kenneth Adelman
Adnan Abu-Odeh
HRH Prince Turki al-Faisal
Celso Amorim
Óscar Arias
Richard Armitage
Diego Arria
Zainab Bangura
Nahum Barnea
Kim Beazley
Shlomo Ben-Ami
Christoph Bertram
Lakhdar Brahimi
Kim Campbell
Jorge Castañeda
Joaquim Alberto Chissano
Victor Chu
Mong Joon Chung
Sheila Coronel
Pat Cox
Gianfranco Dell'Alba
Jacques Delors
Alain Destexhe
Mou-Shih Ding
Uffe Ellemann-Jensen
Stanley Fischer
Carla Hills
Swanee Hunt
Wolfgang Ischinger
Aleksander Kwasniewski
Ricardo Lagos
Joanne Leedom-Ackerman
Todung Mulya Lubis
Graça Machel
Jessica T. Mathews
Miklós Németh
Christine Ockrent
Timothy Ong
Roza Otunbayeva
Olara Otunnu
Lord (Christopher) Patten
Surin Pitsuwan
Fidel V. Ramos
Olympia Snowe
Javier Solana