Select Committee on the European Union

External Affairs Sub-Committee

Corrected oral evidence: Iran nuclear deal

Thursday 20 June 2019

10.05 am

Watch the meeting

Members present: Baroness Verma (The Chairman); Baroness Armstrong of Hill Top; Lord Dubs; Lord Horam; The Earl of Oxford and Asquith; Lord Risby; Lord Stirrup; Baroness Suttie.

Evidence Session No. 1 Heard in Public Questions 1 - 10

Witnesses

I: Ellie Geranmayeh, Deputy Director of the Middle East and North Africa Programme and Senior Policy Fellow at the European Council on Foreign Relations; Sir Richard Dalton, former Associate Fellow at Chatham House and former UK Ambassador to Iran.

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Examination of witnesses

Ellie Geranmayeh and Sir Richard Dalton.

Q1 **The Chairman:** Sir Richard Dalton and Ms Geranmayeh, good morning and thank you very much for coming to give evidence to us this morning. The session will be broadcast live. We will have a transcript for you after the session. If there are corrections that you feel need to be made, please make sure that we are informed of them.

I think it will be an interesting session. You have asked not to make opening remarks so we will go straight into questions, if you are ready to start. Could you briefly refresh the Committee's memory of the joint comprehensive plan of action's content and its main commitments?

Sir Richard Dalton: The joint comprehensive plan of action balanced two things: the suspicions in the West that Iran had had an undeclared research and development programme that could be used for the development of nuclear weapons, and the need, therefore, to gain confidence in Iran's willingness to abide by the non-proliferation treaty and never develop nuclear weapons. Against that was Iran's determination to maintain its rights as a member in good standing of the non-proliferation treaty itself, and those rights include the development and research of nuclear technologies for civil purposes.

The negotiation lasted in effect for 12 years from 2003 to 2015, when success was declared. It was a complex agreement, which, at a deeper level than the principles I have enunciated, balanced the ending of nuclear-related sanctions by the United Nations, the European Union, the United States and others against the acceptance by Iran of the most intrusive set of limitations, monitoring and surveillance that any candidate nuclear state had ever accepted. The International Atomic Energy Agency was to police the agreement and ensure that Iran was abiding by its promises to limit the amount of nuclear material it was enriching and the level at which it was enriching nuclear material, and to limit its development, until a certain period in the agreement, of advanced forms of centrifuge for the purposes of enriching uranium.

Finally, the commitment by Iran never to develop and hold nuclear weapons had no time limit attached to it. There were no sunset clauses attached to it whatsoever, because the agreement was based on the non-proliferation treaty, but the restrictions to which Iran was exposed were highly detailed and were contained in several annexes, all endorsed by the UN Security Council, and had time limits of varying periods associated with them. The key one, about the limits to the amount of nuclear material that Iran can hold, has a 15-year sunset attached to it, the theory being that thereafter Iran would need a well-established civil nuclear industry for fuelling civil nuclear reactors.

Ellie Geranmayeh: Good morning, and thank you for welcoming me here today.

Essentially, the nuclear deal has three main components, and, as US officials used to describe it, it is a bit like a Rubik's Cube. There are lots of different components that impact on Iran's timeline to make the necessary fuel for nuclear weapons. Sir Richard alluded to them, but I will highlight a couple of them.

The first element of the deal is to severely limit or eliminate Iran's capacity to reach nuclear weapons through two routes. One is the uranium path and the other is the plutonium path. Through a number of methods, whether it is a limit on centrifuge numbers to cap its level of enrichment or to cap its stockpile limits, the timeline for Iran to get enough fuel for a nuclear weapon has been increased from what US officials used to say was about three months before the nuclear agreement to an estimated 12 months. The European assessment agreed with that. The deal gives the international community an adequate and reasonable amount of time to respond, whether through the diplomatic route or other means if necessary, to restrain Iran's nuclear programme.

The second element is the inspection route. As I understand from nuclear security experts, the nuclear agreement with Iran provides one of the most comprehensive inspection mechanisms on any country's nuclear programme. As part of the agreement, Iran has until now voluntarily implemented, but we hope will permanently ratify, the so-called additional Protocol II to the NPT[1], which would allow the IAEA, the international monitoring agency, far greater access to Iran's nuclear programme. That allows the international community to monitor and verify that Iran's nuclear programme remains purely for peaceful purposes.

The third and final element, the bargain part, that the international community provided to Iran was sanctions easing, lifting the EU and UN Security Council-level sanctions and easing, prior to the Trump Administration's withdrawal from the agreement, US secondary sanctions, which impacted on the ability of international companies to engage with Iran. Those are the three essential components of the agreement.

The crisis caused by the US withdrawal is that the third element of sanctions easing has been severely constrained. Everyone's ability to deliver on that part of the deal has been severely restricted. As a consequence, we are seeing a reaction from Iran in recent weeks because of this now lopsided agreement.

Q2 **Lord Horam:** You mentioned the American withdrawal. In your view, why has President Trump withdrawn America from the agreement? What is his objective? What is his aim?

Sir Richard Dalton: His aim is a better deal. He thinks that the aspects of the Middle Eastern troubles relating to Iran that were not dealt with in the nuclear agreement should be dealt with.

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[1] Non-proliferation treaty

Lord Horam: Does that mean general trouble-making in the Middle East, as opposed to the possibility of Iran having nuclear weapons?

Sir Richard Dalton: Yes. A great many states are making trouble in the Middle East beyond their borders, and Iran is one of them. That is one of his concerns. The other was that Iran's chief deterrence against aggression against it, which is its domestic missile programme, was not part of the agreement.

Regional affairs and the missiles were intentionally, by all sides, not part of the agreement, because to have included them would have precluded any nuclear agreement in a reasonable period of time. His stated aim is to get a better agreement. Beyond that, there is a good deal of confusion about the aims of the United States, because at different times different United States spokesmen have set out different requirements. There is a famous list of 12 or 13 requirements by Secretary of State Pompeo that would amount to the surrender by Iran of its autonomy to act externally and the kind of humiliation that no state would ever agree to unless it had been comprehensively defeated in war.

More recently, there have been signs that the United States is prepared to negotiate with fewer, or even no, preconditions, but even that is subject to doubt, because Pompeo has said that once Iran is acting as a normal state, Iran would be a fit subject for negotiation, but reference to Iran as a normal state again brings us back to Pompeo's 12 conditions. The most recent effort to get a negotiation going was conducted on behalf of the United States by Mr Abe of Japan. He conveyed, in effect, two messages to Iran. One was that the United States was sincere about wishing a negotiation and, secondly, that it was sincere about not wanting regime change.

The Earl of Oxford and Asquith: Thank you for that very good exposition. On the last point, as I understood the television clip of Abe talking to Khamenei, Khamenei more or less said, "I don't want to have a message. I have no message to offer President Trump, and he's not worth giving a message to". That is quite a closing down of dialogue, is it not?

Sir Richard Dalton: There may be back-door or track-two dialogues, as they are called, taking place, and certainly messages are exchanged and third-party notes are distributed through other embassies. For example, the Swiss look after American interests in Tehran.

Khamenei's case was that, first, you cannot use the word "sincere" in the same sentence as "negotiation", because it was Obama who was the first United States President not fully to implement the JCPOA[2], which is an entirely true claim. The United States did not do what it should have done and facilitate economic and financial normalisation with Iran, as required of the United States and the other partners in the negotiation in the JCPOA.

[2] Joint comprehensive plan of action

Secondly, he said that it is simply not believable that the United States does not want regime change, given the history over decades of hostility to the Islamic Republic by the United States, and the frequent and continued calls for a change of government in Tehran. He dismissed both the main planks of Abe's approach.

Ellie Geranmayeh: On the first question, it is very difficult to argue with any certainty what President Trump wants precisely from Iran. A lot of confusion has been caused for allies of the US in European capitals, not just Iran, on the issue. In 2018, President Trump presented this country and the French and Germans with an ultimatum. He said, "If I don't get a better deal, I'm going to withdraw the United States from the current agreement".

That led to almost six months of frantic diplomacy between the so-called E3 countries and Washington to create the architecture for a better deal in which the Europeans agreed to show flexibility in joining the US to include new provisions in the agreement, so that they could go as a united bloc to Iran and increase the leverage of the West vis-à-vis negotiations. It seemed that, overnight, President Trump decided completely to disregard the sets of negotiations that were taking place and declare that the US was going to withdraw in any case, because he was not happy with the better deal that had been negotiated with the Europeans on the issue.

My assessment right now, which is daily subject to change, based on what we hear from the President, is that Trump wants his own deal. He wants a Trump deal; he does not want an Obama label to carry diplomacy with Iran; he wants his own architecture and preconditions. There has been a series of confusions spiralling out of Secretary of State Pompeo's 12-point plan as to whether or not that is indeed a precondition. Assessment in most European capitals is that it is a non-starter for negotiations with a country such as Iran. Over the past year, when President Trump brought in his national security adviser, John Bolton, the dynamics have changed, and there has been an intense maximum pressure campaign on Iran.

On the question about Prime Minister Abe's visit and the Iranian response, my interpretation is that the current parameters the United States has set for negotiations with Iran are not conducive to negotiations. Iran's Supreme Leader said clearly that they are not a genuine framework for talks, because the week before Prime Minister Abe was sent to Tehran to deliver the message on diplomacy, the US intensified its sanctions regime on Iran by introducing a whole new set of sanctions on Iran's petrochemical sector. There is space for diplomacy, but first we need to see some flexibility from the United States to create off-ramps from the very tense situation that we see unfolding today.

Q3 **Lord Stirrup:** Could we move on to Iran's recent responses? The Iranians have said that they are going to breach the stockpile limits under the JCPOA and have threatened to breach the enrichment limits and increase the modernisation work at Arak.

Do we understand what they mean by that? Do we understand what sort of stockpiles they might be thinking of? Do we understand what sort of enrichment levels they might be thinking of? What effect would those two things have on the timeline for a nuclear weapon breakout? For example, have they retained the centrifuges and technology to be able to start 20% enrichment quite quickly? In your view, what should the EU's response be to these Iranian actions, particularly given the fact that, if they are intended to get the EU to bring pressure to bear on the United States to enter proper negotiations, that does not seem a likely outcome?

Sir Richard Dalton: The crucial point is that we do not know what Iran will do or how fast. The Iranians say that they are on track to breach the 300 kilogram 3.67% enriched uranium hexafluoride gas limit contained in the agreement. They could just go over it, or they could turn up the throttle using the 5,000 permitted low-technology centrifuges that they have in cascades supervised at present by the IAEA.

It is worth noting that they would need four times the 300 kilogram uranium hexafluoride gas limit to generate sufficient highly-enriched uranium, and from that to extract the uranium metal sufficient for one bomb. If we look at the criterion that was used before—stretching out to one year the three-month timeline for having enough material for one bomb—which has been the objective of the six countries that negotiated with Iran, and apply it to the present situation, the speed with which Iran turns up the throttle is all-important.

My assessment is that the Iranians will be extremely cautious. I do not think it has yet become formally announced policy, but the Americans have moved in the last few days to suggest publicly that shortening the one-year timetable will be a red line for them. There are other things in its nuclear programme that Iran could accelerate in order to show its own people that they are no longer going to be taken for a ride and, therefore, it will exercise its right to increase aspects of its civil nuclear programme.

To step back a bit, we should recall that Iran has exercised what it regards as a year's patience to wait to see whether Russia, China and the European Union can at least make up for some of the lost economic opportunities created by the re-imposition of United States sanctions, including tertiary sanctions on British businesses that are entirely permitted under the law of the United Kingdom to trade with Iran, but are unable to because of the banking boycott, which in turn relates to United States secondary sanctions. Iran's patience has run out and it is now showing its teeth, and the affairs against shipping in the Gulf, should they be attributed to Iran at any stage, are an example. They show that Iran, having been cheated up till now, has a limit to its patience.

We ought to recall what Ayatollah Khamenei said when Trump first moved to withdraw the United States from the JCPOA in the first half of last year. He said, "If they tear up the JCPOA, we shall burn it". I do not think you should take that at face value. I do not think there is a threat of Iran moving to develop a nuclear weapons programme at present, but it is obliged by the force of opinion in its own country, and the sense of its own dignity, not to take lying down the abrogation of a multilateral agreement by its principal party, and the unremedied consistent failure of the European Union, the Russians and the Chinese to make up in any way for that action by the United States.

Lord Stirrup: To follow up the last point, I realise that this is a matter of conjecture and opinion, but there seem to be two extremes in what you said. The first is that Iran says, "You've blown the whole deal and we're going to go ahead and develop our nuclear capability; whether or not we have a bomb is not the issue". The Iranians have always said they do not want a bomb, but they have the capability to produce one quickly, and they will go ahead and do that.

At the other end of the spectrum, you seem to be suggesting that they might be doing just the minimum necessary for their 'amour propre' and to satisfy people in their own society and government structures. Is it at either end of that spectrum? Is it somewhere in between? What do you think Iran's response will be?

Sir Richard Dalton: I think you put words into my mouth in describing the first end of the spectrum. I did not suggest that Iran was considering resuming military-related research.

Lord Stirrup: That was my interpretation of "burn it".

Sir Richard Dalton: It terminated that in 2003, as shown by the 2007, and now generally accepted, United States national intelligence estimate. Iran is showing its teeth; it is showing what might happen if the other side does not live up to its obligations, or find an alternative in another framework.

The second part of your original question was: what should the EU do? There is a question on that further down the list. I do not know whether you want to tackle it now—it is a rather big subject—or come to it later.

Lord Stirrup: Leave it for later.

Ellie Geranmayeh: I have a few comments. Iran is in compliance with the nuclear deal. As the E3[3] Governments have stated, they are going to react based on the IAEA reporting on what Iran actually does, not the statements being issued at the moment.

If we look at the Iranian statements, which have now been signed off by Iran's Supreme National Security Council, which is a very high body for national security decision-making, what can we interpret? First, we need to put it in context; it is not happening in a vacuum. Iran's statement came very shortly after the US declared that essentially it would impose an oil embargo on Iran. This is a direct reaction to the US maximum pressure campaign increasing beyond Iran's red lines. What Iran is indicating now is that, unless it sees action not just from the Europeans

[3] France, Germany and the United Kingdom

but from the Russians and the Chinese, to give it some breathing space, it can no longer continue fully to comply with the deal.

What does that mean? The issue of the stockpiles is again a direct response to the decision that the US took in early May to restrict and revoke civil nuclear co-operation waivers for third countries to co-operate with Iran in implementing components of the nuclear deal. Before that, the stockpile that Iran is now increasing, and hitting the limit for, used to be shipped out and traded with other countries, as permitted under the deal. Because the US has revoked that waiver, any third country now faces US secondary sanctions for that trade with Iran. Iran is saying, "You expect us to slow down our activity because of action by the United States, whereas we are acting completely within the contours of the nuclear deal. Find us a buyer for the stockpile".

One thing the Europeans could do, with their Russian partners in particular, is to look for a country that is a nuclear power to buy Iran's stockpile that is going to go over the limit, and thereby take away Iran's excuse, or justification, for approaching breach of the threshold under the deal. The action that Iran has threatened to take in the coming days is absolutely reversible and can be remedied if the JCPOA parties consider some creative solutions.

By the way, the European countries considered that topic back in early 2016 when Iran was also looking for buyers for its stockpile. An option on the table was for some European countries to buy that relatively cheap stock from Iran. I think the cost of doing that is worth it given the consequences of the deal approaching collapse.

The second threatened phase that Iran has issued, which is to go above the 3.67% cap on its enrichment limit, poses a real problem for the E3 Governments in how they will respond if Iran goes over the limit. My understanding, and my sense from what we have seen from Iran so far, is that it would not go from 3.67% to 20% overnight. Technically, it would take a few weeks, but it is a political decision for Iran whether it wants fully to collapse the deal or, as I think we are seeing from Iran, wants to create leverage to get the other parties to fulfil the commitments under the deal. My sense is that, if Iran goes beyond that limit, it will be only a few percentage points and then the ball is in the court of the three European countries, particularly how they react to that.

One of the things that Iran and, I think, European Governments want to see is the operation of INSTEX, the special purpose vehicle for trade with Iran. I think that is the bottom line, the minimum requirement for Iran to continue fully to comply with the deal. We will get into that later, but it is the one area on which we should be very focused.

Q4 **Lord Dubs:** I think you used the expression that there are two minds in Tehran. To what extent do we have any indication that there is a dispute going on about Iranian policy within the power structure in Tehran, and does that influence the American approach?

Ellie Geranmayeh: My sense is that there is now general consensus on the path Iran is taking regarding the nuclear issue after the patience that Iran had been exercising for over a year regarding the framework of the deal. I think Iran has made a decision by consensus at Supreme National Security Council level, which includes all Iran's top leadership across the spectrum of political factions. The decision is to move Iran from a strategic patience model to strategic action, to change the calculation of the other parties to the deal and change the calculation of the United States in pursuing the maximum pressure campaign.

Where there are different opinions, I think they are less to do with the nuclear agreement and more to do with direct negotiations with the United States, and whether the political conditions are correct for Iran to engage the US at this point in time or whether it has to wait and outlive the Trump Administration. That is where there are two different minds. Unless the US shows some flexibility and restraint, the side of the argument that says, "We must resist and outlive this Administration" is going to get the upper hand.

The Chairman: Sir Richard, do you have anything further to add?

Sir Richard Dalton: Nothing is on the table at the moment for discussion, so it is a hypothetical question as to whether there are different voices on the nature of a negotiation, outside a sketch of some kind of pacifying measure whereby Iran gets a bit more oil and then throttles back on one or two of the breaches of JCPOA limits that it could undertake, but that has not emerged from the power structures in Iran in any decisive manner.

Q5 **The Earl of Oxford and Asquith:** Could you tell us more about the EU's INSTEX vehicle and the Iranian Special Trade and Finance Institute? How would they work? To what extent could INSTEX, if it is indeed operational now, realistically help to mitigate, either now or in the future, the effects of US sanctions? I do not want to pre-empt the next question, which is probably based on the assumption that the US wants to kill INSTEX, but how is it supposed to work now?

Sir Richard Dalton: It is very unclear. We have had a great many statements of hope and intention from European Governments and the European Commission over a long time, but few practical details. In so far as there have been private briefings, INSTEX is in effect a clearing house. Having established that transaction A, involving a sale to Iran, involves parties in Iran that are clean in terms of the sanctions lists in force, and that the product itself is a humanitarian good—food, medicines and other humanitarian materials, to assist the Iranian population—and after various other tests that are necessary to establish that it is a lawful trade, the details of the transaction go on to a ledger held by INSTEX.

Transaction B is where an Iranian firm has entered into a sales transaction with a European entity, thus generating a notional or an actual obligation on the firm in the European Union to pay Iran. That goes on the other side of INSTEX's ledger. INSTEX then acts as a facilitator to make a transfer between the two European entities, the one that wishes to receive money from Iran, and the one on the other side of the ledger. When the two balance and the parties are willing, the funds are transferred within the European banking system.

The Earl of Oxford and Asquith: You called it a clearing house, so in principle it could facilitate the banking facility of transferring money between Iran and an EU company.

Sir Richard Dalton: That is the great unknown.

The Earl of Oxford and Asquith: One of the big problems of sanctions, which we see all the time in Syria, is that, although there are a lot of statements that humanitarian goods are not sanctioned, the actual financial mechanism whereby something can be paid for is almost impossible to effect. Is that what INSTEX is supposed to do in the Iranian context?

Sir Richard Dalton: INSTEX would still require the co-operation of European banks. I am the president of the British Iranian Chamber of Commerce, and I assist some 90 British businesses that are members of the chamber, in conjunction with the board of the chamber, to understand how in these difficult circumstances they can continue lawful trade with Iran. The chief obstacle they report is the refusal of their banks to handle any transactions involving Iran, humanitarian or not.

For INSTEX to have credibility, there has to be evidence that British, French, Spanish and Italian banks will handle the proceeds of trades, even though, of course, the money has not actually come from Iran itself. The due diligence and risk assessment departments of banks have not authorised their boards, and, to my knowledge, the boards of those banks have made no determination of willingness to co-operate with INSTEX.

The Iranians having given us only a few more days to prove that INSTEX works, a scramble is on to complete the first transaction, to show that the process is actually credible. There could be a German or Danish medical supplier able to contract with Iran and receive remuneration through INSTEX, and banks in the European Union that are willing to receive the ultimate proceeds of that transaction, but at the moment we do not know.

Ellie Geranmayeh: The E3 Governments and the EU were in Tehran last week, and they had extensive technical discussions with counterparts from the mirror entity to INSTEX, which is called STFI. According to my briefings on those meetings, they were very intensive and productive, and there is hope that the remaining technical hurdles can be resolved.

There are some important issues that still need to be thought through, but the impression I have received is that there is sincere commitment from the E3 Governments to announce a public transaction through that mechanism, in line with Tehran's timeline, or shortly thereafter. If they can achieve that, it would be a huge success for the European side, and it will buy us time with Tehran.

In my understanding, two issues remain under discussion. As Sir Richard mentioned, one is that the banks need to facilitate the European end of the transactions between the two European companies involved. Some tier-two banks have signalled their openness to that, as long as the trade that INSTEX facilitates is restricted to humanitarian trade and thereby completely avoids a clash with the US secondary sanctions mechanism. The first handful of transactions could be announced by some committed companies, but how do you keep a sustained vehicle for trade if not enough companies want to use it?

The second leg is how you make it sustainable beyond the first handful of transactions. The managers of INSTEX and the countries involved are looking to do an extensive reach-out to companies in the coming weeks. This is the first exercise where EU countries, particularly the E3, are working together to create a sovereign-backed special purpose vehicle, but private sector companies have been doing it for some time, so there are ways to get through the problems. This is a great exercise of European countries coming together, and my understanding is that one or two more shareholders in the European Union will be added to the INSTEX mechanism.

The Earl of Oxford and Asquith: If I may, I will pursue the question of banking. I note that in the last couple of days our Supreme Court found in favour of Bank Mellat. The lawsuit had been going on for a long time. Do you regard that as something that would be well received in Iran as a signal from the British Government? They no doubt think that the Supreme Court and the British Government are absolutely linked at the hip, whereas of course we do not. Do you think it will facilitate any of the discussions on INSTEX with the Special Trade and Finance Institute?

Sir Richard Dalton: I think the Iranians will note it as a wise decision and move on. The chances of it having a positive effect on the very tense and difficult political, nuclear and military situations are minimal.

One can envisage four possible futures for INSTEX. One is collapse, because in fact the technical problems prove impossible. I agree with Ellie that that is highly unlikely. Secondly, it may become an EU-only mechanism, and only for humanitarian goods. Thirdly, it may stay an EU-only mechanism but, in accordance with the stated objectives of the European Union, move into non-humanitarian goods over time as it strengthens and gains acceptance, and the procedures become established.

Fourthly, it may become more of an international instrument, in the sense that shareholders, or involvements in its mechanisms, extend beyond the immediate European family into other major trading nations, which wish to continue legal trade with Iran but are having difficulty with the blowback from the United States on their financial institutions if they receive funds in respect of Iranian transactions at present. I would not be prepared to put my money on any of those at the moment, other than the EU-only and humanitarian-only possibility. That is most likely to be what we are faced with over the next year.

In assessing Iranian responses, we should expect the Iranians to be pleased, but they will not see it as a solution to the vexed question of how much fulfilment of the JCPOA is adequate for them. It is most unlikely to touch major financial transactions, including those involving oil.

Ellie Geranmayeh: If INSTEX launches and gets up and running, it buys us time, and right now we are in the business of buying time, on all sides of this question; but if Iran in six months' time assesses that its red lines for export of oil, whatever they are, have been crossed, such that because of US sanctions China has stopped significantly buying Iranian oil, and India the same, which we see indications of, I am not certain that INSTEX by itself is enough to sustain the agreement, bar China stepping up to defy US pressure on it to stop buying Iranian oil.

Q6 **Baroness Armstrong of Hill Top:** You have begun to answer my question, which was about what will happen if INSTEX does not work because the Americans are successful in putting everybody off. Is there anything else that people are thinking about? Are there any other mechanisms that you hope people could take up?

Sir Richard Dalton: We have to recognise that there has been a major change in the last few weeks. Iran has shown that it is not cowed; it believes that US influence is waning and that awareness that a regional war would be highly destructive is starting to sink in, so it thinks that it is getting leverage.

Secondly, Iran has come to the conclusion that the more it does and the more it gives, the more sanctions it gets. I think there is consensus in Tehran that there will be no more concessions that are not fully requited, and that is new. Even if the IAEA was to declare that, in accordance with the JCPOA requirements and with Iran fulfilling its obligations, there were no undeclared activities, which in turn under the JCPOA would release Iran into the area where it could develop a larger civil nuclear programme, Iran is convinced that, if that point was ever reached, the United States would simply brush it aside, so what is the point?

There has been a fundamental undermining of the JCPOA and the principle of international co-operation, and I do not think there is any way back from that at present, using just the materials to be found in the JCPOA itself. We have to face the facts that Trump is not going to return to the JCPOA, Iran will not negotiate a new agreement on Trump's terms, and those in Iran who always distrusted the JCPOA have the upper hand.

What do we do? Do we give up? No, certainly not, but we have to recognise that it is ludicrous to expect Iran alone to observe the JCPOA. The present position, whereby the United States is building an international coalition of maximum pressure to force Iran to observe an agreement that no one else is observing, is simply unsustainable.

What do we look for? I am sure that the European Union and Foreign Office are very much engaged in finding some kind of time-buying way to calm things down both militarily and politically, but we have to look beyond short-term stabilisation to a multilateral solution. A Trump-Iran negotiation is not going to work. You have to fold the present crisis into a new multilateral context.

To do that, you need to define the principal issues behind the lack of security in the Gulf; in other words, you have to look more widely. The narrow nuclear focus has failed, because it has been destroyed by the United States, and the European Union now has an opportunity to revisit nuclear stabilisation, provided that it is prepared to look at the wider issues and involve the nation states on the Arabian side of the Gulf.

How do you balance the security needs of Iraq, Iran and the GCC states, given the international community's interest in conventional arms arrangements as well as nuclear issues? Finally, how do you bring international security norms to bear in the one region of the world—the Persian Gulf—that does not have a sub-regional security arrangement? Latin America, Europe and Asia all do it; everybody does it, but they do not do it in the Arab world. We in the West, given our leverage, particularly using arms sales, have to be prepared to say that enough is enough. We have to try to assist in our small way in the UK to reconstruct a negotiation that will recreate the limits on nuclear proliferation that currently we are losing.

Ellie Geranmayeh: You are indeed right that there is ongoing debate, as we understand it, in the US Administration about whether to kill INSTEX on arrival, or not. There are different opinions, with the team surrounding John Bolton particularly pushing to target either INSTEX directly or the Iranian mirror entity, to ensure that companies are chilled and will not use the mechanism.

Are there other tools at hand that can be used? Some of them may be too late and too little for Iran. Over the last two years, there have been ongoing discussions with European Governments—for example, on issues such as the role of central banks. Again, it seems unlikely, given the political position and that technical issues are involved, that there is the ability to give Iran access to its own money that is currently frozen in European bank accounts because of US secondary sanctions. There does not seem to be a path out of that.

The shift should be to the political dimension, and that may be where the Europeans have a bit more to give. In the immediate months ahead, the real focus for European Governments should as far as possible be to control the situation escalating and to help any de-escalation avenues that regional partners, such as Oman, Kuwait and Iraq, might be pursuing, regarding the neighbourhood they are in. It is about putting out some of the fires that, unfortunately, the US Administration might cause in the region through their maximum pressure campaign on Iran, and ensuring that the tension we are seeing in the Persian Gulf waters does not escalate out of hand.

Another question is being discussed. So far, European Governments have categorically ruled it out, but it is worth having a debate on the issue. If Iran goes into partial compliance, is it time for the joint commission set up by the nuclear agreement to discuss an intermediary deal between the parties? Everybody would understand that they were getting less for less but that it was a better arrangement than having IAEA inspectors kicked out of Iran, which would, if it happened, give us very little access to monitor and verify Iran's nuclear programmes. It is time for Governments actively to begin at least brainstorming on that option.

Q7 **Lord Horam:** You have pretty well covered my question, which was about what you think the European Union should do. You made the point that there is a wider context. What is the level of economic pain that Iran is suffering in the present situation? What effect is that having on the various political dimensions in Iran?

Sir Richard Dalton: I am sure that Ellie will want to comment on that. The Iranians are suffering a lot of pain, but historically they have suffered worse, and they have a Government who think that creative use can be made of pain. There is no suggestion yet that Iran is willing to cede any of its red lines because of the degree of domestic pain.

How long can Iran keep that up? Different opinions are expressed. There is a useful precedent from the 2010-onwards sanctions: it took about three years for the sanctions pressures to bear on Iran and make the Iranians think more constructively about a settlement, but they could think constructively about a settlement only because the United States position shifted towards greater respect for Iran's rights, as a member of the non-proliferation treaty, to research and develop nuclear technologies for civil purposes. The pressure this time is greater, but, even so, they may still last as long as that three-year period.

Ellie Geranmayeh: I invite Committee members to look at the recent IMF report on Iran, which certainly paints a bleak picture of inflation and unemployment rates; GDP growth is shrinking. There are some indicators. It is interesting that, in the run-up to the US reimposing its sanctions in November last year, Iran's currency was essentially in freefall, and the Government have managed to stabilise the currency. It is still far higher than it was pre the sanctions era, but they have managed to stabilise it, which has given a certain degree of confidence internally and domestically in the country.

Nevertheless, I have never seen this degree of hopelessness, particularly in the young generation. Particularly on humanitarian issues, there are problems with imports of medicine and food, and with the prices of those imported goods. That is a real area of concern. Another area of concern for me is the unemployment rate. Official statistics are not being released, I think for a reason, by the Iranian leadership. Over time, the rate could grow significantly, particularly in the run-up to the Iranian elections, which are due to take place in 2021. One of the consequences of what has happened with the experience of the nuclear deal is that there is a loss of hope in the system by the population. There is a sense that the more hard-line elements in the system are gaining greater traction.

Iran has shifted to adopt a resilience and self-sufficiency model for its economy over the past year. It runs at direct odds to what the Rouhani Government wanted to do, which was to open Iran to the international sphere, but as a matter of national security they have been forced to do that. That means that the smuggling routes are reopening and that IRGC control over the economy will probably expand. It means that Iran's regional presence, ironically, will expand through its outreach to countries such as Iraq and Afghanistan.

That is at direct odds to what the US Administration said they wanted, which was to see less of Iran in the region—we are actually seeing more of Iran in the region—and it will make use of its 15 land and sea borders. Iran has a lot of neighbours, and instead of focusing on Europe and business interaction with Europe it is now focusing on the region it sits in and is expanding its political and economic ties again to outlive the US policy of maximum pressure.

Q8 **Lord Dubs:** It has been suggested that the effect of US sanctions might be reduced if China were to buy increased amounts of Iranian oil. If China were to buy increased amounts of Iranian oil, it might counterbalance to some extent the effect of the sanctions.

Ellie Geranmayeh: Until April, China was one of the countries receiving waivers from the United States to continue purchasing Iranian oil. Since those waivers were removed, it has become very unclear what China is going to do. There has been open-source reporting that China is loading shipments of oil from Iran, and they are on their way to being delivered. There was something last week about petrochemicals being shipped from Iran to China recently.

President Rouhani of Iran met Chinese President Xi last week, and I am sure that the question of continued oil purchases was on the agenda, although it is very unclear. If China were to do that, it is the type of off-ramp from the US maximum pressure campaign that Iran is looking to and could increase Iran's patience to continue living in the nuclear deal, because the Chinese want Iran to stick to the JCPOA. China's role here will be critical.

Sir Richard Dalton: Some Iranians I have talked to said, "Let's toy with the idea that we get 30% of what we're entitled to under the JCPOA, so instead of exporting 2.4 million barrels a day of oil let's say 1 million". The international community, through the United States, says, "Okay, you can have 1 million and keep your population ticking over. You can't resume economic growth or undertake major national projects, but at least the situation will be economically stable for you".

That is the sort of scenario that I am sure Foreign Offices are thinking about, but, as Ellie says, achieving it depends on major negotiations that the United States is currently engaged with, and the prospects for it are therefore extremely uncertain.

Q9 **Lord Risby:** A lot has been reported about what the EU is doing, but we do not hear, at least from a diplomatic point of view, about China and Russia, or I have not picked it up in the way I am sure I should have done. We know about it from an economic point of view, and we have talked about the question of oil. As I recall, during the movement to a nuclear deal, Russia was quite helpful at different stages in moving us along.

Simply from a diplomatic point of view, although the United States relationship with China and Russia is very difficult at this time, I would be interested in your observations about the role they are playing in the direct trade aspect. Is there a diplomatic part, or any other part, as they were signatories? Is their role being utilised in some way, or not?

Ellie Geranmayeh: From the Iranian perspective, the relationship with Russia and China, particularly Russia, has a security dynamic, given their joint co-operation in Syria and the fact that Russia provides Iran with cover at UN Security Council level. That is an important fact that Iran always considers. Russia has said that it does not consider a need for US waivers for it to continue its efforts on Iran's nuclear facilities. Russian companies are in Iran without waivers, defying US sanctions and carrying on nuclear co-operation with Iran.

The Chinese have dragged their feet on nuclear co-operation, but as I understand it they signed a new agreement with Iran on the Arak nuclear facility, as of recent weeks, which again is an indication from their side that they are committed to continuing nuclear co-operation with Iran. From Iran's perspective, the Iranians understand that they cannot fully rely on either China or Russia to push Iran's case with Washington and the White House directly. For Russia and China, Iran is just one part of a much bigger puzzle of negotiations that are ongoing with the United States, and it will be the sacrificial lamb, if it needs to be, from their perspective.

Q10 **Baroness Suttie:** Sir Richard, you have touched on this already, but could you say a little more about the explosions on the oil tankers in the Gulf of Oman, which the United States claims that Iran was responsible for? What do you think the impact will be on relations with the US and the E3?

Touching on what has been discussed, could you add slightly more about the wider impact on the region, in particular on countries such as Iraq?

Sir Richard Dalton: Iran is one of the potential culprits for the attack on those tankers; it is probably the most likely. A false flag attack by Saudi Arabia, the UAE, Israel or the United States, or private agents acting on behalf of one or other of those, cannot be excluded, given the nature of the evidence that has been made publicly available. Clearly, there is intelligence evidence that is not public and that has led the British Government, alongside the United States, to assert that Iran was responsible, but other countries have been much more reticent in their judgments.

In his latest comment, President Trump called it a minor matter in an interview with *Time* magazine. Of course, that is not the impression his own lieutenants gave soon after the attacks. The position of USCENTCOM, the military command, appears to be that the military dispositions ordered by the President, now carried out, have had a deterrent effect. Whether Iran would have done anything more dramatic in the absence of those deterrent measures by United States forces is another open question.

Iran's view on the Strait of Hormuz is that everybody should be able to use it, including Iran. If Iran cannot use it, perhaps nobody should use it, because it is simply not fair or sustainable for oil or other commodities to flow freely but for Iran to be under, in effect, an oil embargo. Iran has not, as the Americans maintained, vowed to block the Strait of Hormuz. It is a conditional statement of policy that the Iranians have consistently advocated over the years and decades. The Persian Gulf, and the Strait of Hormuz at one end of it, is an essential lifeline for the Iranian economy, so blocking it is not something that is ever going to be a declared policy objective of Iran, other than in those limited circumstances.

Ellie Geranmayeh: From my meetings in Europe over the past two weeks, I would highlight that one area where the Europeans could be helpful in cooling the temperature in the region is by having joint intelligence assessments of what is happening in the Gulf waters. Rather than each country coming out with separate statements, they could have more formal joint assessments, at least at E3 level. By the way, that could be used as leverage for both Tehran and Washington, whether in public or private.

Another thing the Europeans have been doing is to increase their outreach and contact with the Emirates and Saudi Arabia. If it is Iran behind the tanker attacks, an interpretation could be that the first target for imposing costs regarding the oil embargo on Iran is going to be Saudi Arabia and the Emirates. I think it has got them a bit worried about the extent to which they want to see escalation in the region, because military escalation will be bad for business for everybody concerned. I sense, particularly with the UAE, that there is an attempt to cool the temperature at the moment in their interactions with the Europeans and the Americans, and in their channels with the Iranians, and the way they handle the UN Security Council discussions on the issue. That is where we might use our partners in the region to help to cool the temperature.

If Iran decides to impose costs on the regional actors that it sees as adversaries, and the United States, there is a large range of options that it could use; there are many tools and many escalatory pathways in the region. If it is Iran behind the tanker attacks, they are pretty low on the spectrum of costs that it could impose. There was no loss of life, and a very small number of injuries was caused. It was very calculated and targeted. I think it is being used to send a message that the costs could increase, not only to regional actors but to the US President, who has launched his election campaign and does not want to get his base nervous with more conflict or talk of war in the region. I think it is a very targeted message.

At the moment, I see activity in Iraq at the very low end of the scale. We see rockets flying again, and we do not know exactly who it is, but the Americans claim that it is militia groups aligned with Iran. We saw how bad things could get in Iraq between different militias in the mid-2000s, and we have seen the costs that can be imposed directly on US personnel. I would put that at the far end of the spectrum, because the message from the United States to Iran is that that is the US red line and Iran will see a direct hit if it approaches that end of the spectrum. I do not see Iraq as an imminent flashpoint for contestation right now, but it could well fall into that trajectory, unfortunately, if the current condition is not somehow managed and controlled.

The Earl of Oxford and Asquith: There have been some assessments in the West that the attacks on the oil tankers indicate that there are divided counsels in Iran, and that those who are against the nuclear deal are in the ascendant. What I think we are hearing from you is that there is general consensus now that the National Security Council would be behind it. To what extent do you think we could make a big miscalculation by assuming that the wrong people are in the ascendant?

Ellie Geranmayeh: To clarify, my comments about the Supreme National Security Council were as pertain to Iran's nuclear decisions and activities on the nuclear programme. The regional picture gets more complicated. There are still competing opinions in the system about which buttons to push and the timing for using those tools, as well as to what extent at this stage there should be outreach to Iran's Arab neighbours, versus not. In that area, the regional dimension is still far more complicated.

The Chairman: Thank you both very much indeed for coming in this morning. I suspect that we could have gone on for a lot longer, because I could see that colleagues had many other questions they wanted to ask, but I am afraid that time is always against us in these things. Thank you so much for coming in. It has been very helpful for us to have your insights.

I repeat that if there are any corrections to be made to the transcript, please feel free to forward them to us. Thank you very much for coming in and taking time out of your exceptionally busy day to be here with us.