

## The Euro-Atlantic Divergences and the Economic Impact of the Iranian Nuclear Issue

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### Abstract

*The United States and the Europe have coordinated several times, especially after World War II. But there have been some divergences between them in recent years, especially in economic terms. The American and the European views are different regarding a series of world economy issues, including bilateral trade relations, the attitude towards China, Russia and their influences, military defence, energy supply, but also about the Iranian influence in the Middle East. This paper aims to analyse the Euro-Atlantic divergences from the Iranian nuclear issue perspective, in order to study the economic impact on the economies involved. The different views regarding this issue determine different economic effects; the most affected being the Iranian economy, even if the European Union tried to reduce the consequences of the American withdrawal from the Iranian nuclear deal. The new American paradigm, determined by the Trump administration, is looking to increase the United States influence over the world economy and to eliminate the poor trade relations, which caused numerous trade deficits. From the Iranian nuclear issue, the most advantaged economy is the Chinese one, whose trade relations with Iran increased, while the American withdrawal seems to be a good choice for the United States economy, generating trade benefits.*

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### 1. Introduction

The two traditional partners, the United States and Europe, have coordinated in many episodes of history, especially after the World War II, when they had a common enemy, and the United States helped the economic reconstruction of Europe. Gradually, Europe became an increasingly powerful partner, especially as the European Union developed, while the Euro-Atlantic cooperation going beyond economic, military, energy, technological and ideological aspects. However, a simple look at contemporary events is enough to observe the divergences between them, especially in economic terms, where are trade confrontations and tariff threats. Between the two traditional partners, there is both a rising European rejection of Americanism and an American hostility, arising from different development perspectives and conflicting views regarding a series of world economy issues, including bilateral trade agreements, the attitude towards China, Russia and their influences, military defence, energy supply, but also about the Iranian influence in the Middle East.

The purpose of this study is to analyse the Euro-Atlantic divergences and the Iran nuclear deal, in order to explain the economic impact on the Iranian economy, but also on the American and the European ones. The methodology for this study includes a research reviewing the existing literature, a chronology of events and a theoretical approach regarding the nuclear deal and its effects. The rest of the paper is structured as follows. The next section presents the main approaches regarding the Iran's nuclear activity, the nuclear deal, and its effects. The third section examines the Euro-Atlantic divergences and trade relations with Iran, while the fourth section presents a chronology of events before signing the nuclear deal. The fifth section provides information regarding the economic impact of sanctions imposed and of nuclear deal over the Iran's economy and over the Iranian relations with the European Union, the United States, China and Russia. Finally, the last section includes the conclusions of the study.

## **2. Literature Review**

Iran nuclear deal is an intensely debated topic among researchers. Some of them followed the chronological course of events and others focused on analysing the effects recorded by Iran, the United States, the European Union and other economies involved. What is certain is that the nuclear deal remains an important issue on the world agenda, able to influence the way that the great powers exercise their forces at the international level.

Cronberg (2018) and Adebahr (2017) present the history of the negotiations for Iran's nuclear deal and the role played by the European Union throughout these negotiations. The European economy had a choice between effective multilateralism and transatlantic relations and played multiples roles during the negotiations. First, France, Germany and the United Kingdom formed as an autonomous negotiator for the period 2003-2005. Then between 2006 and 2010, the European Union was the coordinator of negotiations between Iran and the permanent members of the UN Security Council (the United States, China, Russia, France, the United Kingdom) and Germany, namely P5 + 1. In the period 2010-2013, the European policy has been changed from coercive containment to sanctions enforcer, along with the United States. Finally, the European Union was a facilitator for signing the nuclear deal between 2013 and 2015. The American decision to withdraw from this agreement has put the European Union in a new position, further supporting the nuclear deal. All these steps are detailed by Cronberg (2017) in order to show the effects of the negotiations as well as the policy lessons learned for the non-proliferation regime. At the same time, Shirvani and Vukovic (2015) describe the European Union's role in the Iran nuclear deal, suggesting that the European interests are to reduce its dependency on Russian gas and to establish cooperation with Iran in the energy sector.

On the other hand, Samore (2015) offer a guide related to the Iran nuclear deal, including the Iran's nuclear activity, its verification and compliance and a description of sanctions imposed by the UN Security Council, the United States and the European Union. Katzman (2016) analyse the effects of international sanctions imposed on Iran during 2010 and 2013, which affected Iran's economy and contributed to the acceptance of nuclear deal. He presents multiple sanctions that have been applied to Iran in areas such as trade, investment, finance, energy sector and arms sales, but also the various political, economic, energy and human rights-related effects. Also, Tarock (2016) considers that sanctions affected Iran's economy and that Iran entered the nuclear negotiations from a weak position, both economically and politically. He believes that the nuclear deal is not

a `win-win` agreement, especially for Iran. Mehta and Whitlark (2016) focus on nuclear latency and the United States foreign policy, presenting a short history of Iran`s nuclear activity and consequences of the nuclear deal. Also, Khalid and Hashmi (2014) are interested in Iran`s nuclear history since 1950 and in global and regional implications of the nuclear deal. Mousavian and Mousavian (2018) present the history of the nuclear program, the American coercion strategy, the main factors that led to the nuclear deal and why it must be supported by the international community. At the same time, Geranmayeh (2017) describe the division between the United States and the European Union, suggesting that the Europe should protect the nuclear deal, lead tough diplomacy on non-nuclear aspects and demonstrate its diplomatic power with Iran. On the other hand, Oppermann and Spencer (2018) present the American Congress views about the nuclear deal, considering it as a success or failure US foreign policy.

### **3. The Euro-Atlantic Divergences and Trade Relations with Iran**

The Euro-Atlantic divergences were more visible in 2018 and the course of events is enough to condemn the United States for desynchronizing agendas. The unilateralist approach that seeks to put the United States first and to eliminate shortcomings in economic relations with the European Union; Trump`s aggressive style of negotiating with Germany and France; misunderstandings over the Iranian crisis and the United States sanctions; as well as harsh criticism of the low European percentages of GDP allocated to defence in the North Atlantic Alliance, all these are ingredients that bother EU and its interests, blaming the United States for weakening the Euro-Atlantic alliance.

An important decision that sparked European controversy came from the United States in March 2018 regarding trade relations with European Union, the American economy being aware of the trade disadvantages it has compared to the European economy. In each year from 2003 to 2019, the American economy recorded trade deficits in relations with the EU due to an upward trend in exports over imports. There were years when the American deficit exceeded \$100 billion, respectively 2005, 2006 and 2019. Instead, 2009 was a special moment in trade relations, when, amid the economic crisis, imports of European products fell sharply than US exports, causing the lowest value of the US trade deficit of about \$26.2 billion. However, in the following years, both imports and exports resumed their upward trend (US Department of Commerce, 2020).

Considering these American disadvantages in trade relations with the European economy, the United States decided in March 2018 to impose customs duties of 25% on steel imports and 10% on aluminium imports, fact that can be considered the first stage of the Euro-Atlantic rupture. Despite these measured imposed, in 2019, the American trade reached almost \$109 billion due to the fact that these tariffs have stimulated both US exports and imports. Compared to the previous year, the United States exports increased considerably, by about \$25.5 billion, reaching almost \$617 billion. However, this growth was lower compared to that of imports, given that customs tariffs imposed by the United States were counteracted by measures taken by the European Union in mid-2018. Therefore, imports of European products experienced in 2019 an increase of about \$40 billion, reaching \$726 billion. As a result, the American economy has not benefited from tariffs imposed on trade with the EU; its deficit widening by about \$14.8 billion (US Department of Commerce, 2020).

The effects of American customs tariffs were felt much later, in 2019. For the European economy, the most significant losses were in terms of exports of iron, steel and articles of iron and steel. In 2019, the value of US imports of iron and steel from the EU reached \$4.24 billion; about \$1.32 billion lower than the previous year. At the same time, the imports of articles of iron and steel reached \$5.8 billion, being with \$223 million less than in 2018. Instead, US imports of aluminium and articles thereof from the EU continued their upward trend, growing by \$235 million (US International Trade Commission, 2020).

The American attitude towards bilateral trade with the European economy and towards other events in the world economy is not enough to justify the Euro-Atlantic rupture. The misunderstandings also come from a European perspective. The European Union's response came from a desire to show that Europe is not giving up its status as a world power to its own ally. Thus, in June 2018, the European Union ordered the imposition of customs duties on American products, including steel, aluminium, alcohol, tobacco, agricultural products, clothing, footwear, precious stones, washing machines, electrical appliances, cosmetics, furniture, glassware, motorcycles, vehicles and ships (World Trade Organization, 2018, pp. 2-9). But the United States reduced its exports to only some products. For example, the American iron and steel exports experienced a downward trend, reducing their values by about \$370 million in 2019 compared to 2017. Also, beverages, spirits and vinegar exports decreased in 2019 compared to the previous year by \$263 million, ships and boats exports decreased by \$81 million, tobacco exports by about \$46 million and glassware by almost \$44 million. On the other hand, the exports values of aluminium and articles thereof and footwear decreased only in 2018, but in the following year they returned to the values of 2017. Also, exports of cereals and furniture increased in 2018, but suffered reductions in the following year. Instead, exports of clothing, precious stones and vehicles continued to grow until 2019. A large upward trend was recorder for precious stones, pearls, and metals exports and for vehicles exports, first increasing by almost \$8 billion and the latter by \$5.35 billion (US International Trade Commission, 2020). In this way, the European Union offset the losses suffered by the American tariffs through its own duties. The European gains from its tariffs were short-lived because only some American exports fell sharply. On the other hand, the United States did not have much to gain due to tariffs imposed, especially as the trade deficit in relations with the European Union increased. Under these conditions, the United States prepared a new series of tariffs on a value of \$21 billion of European imports in April 2019 (Office of The United States Trade Representative, 2019, pp. 15029-15036).

Therefore, the Euro-Atlantic rupture affects trade relations between the two once allied economies. The effects have been limited in time and in intensity, but affected both economies, having impact on how they influence the world economy. The advantages of Euro-Atlantic divergences are on the China and Russia side, which can take advantage to increase their economic influence.

Beyond these trade disputes between the United States and the European Union, the Euro-Atlantic rupture has been exacerbated by misunderstandings about the nuclear deal with Iran, signed in 2015.

On the one hand, the United States decided to withdraw from the agreement in May 2018, considering that Iran continues to develop and occasionally test ballistic missiles. US concerns are also linked to increasingly Iranian influence in Middle East, as the nuclear deal includes references only to nuclear activity and does not prevent Iran's military actions in neighbouring countries and the sponsorship of terrorist groups in the area. Under these conditions, from an American perspective, the reactivation of economic sanctions on Iran is seen as a more productive tool in stopping Iranian nuclear and

military activity, as well as evidence of American power to influence the world economy, despite opposition efforts from Germany, France, China, Russia, and the United Kingdom. The United States is therefore seeking the international isolation of Iran through sanctions imposed in an attempt to renegotiate the nuclear deal and to include other types of regulations beyond nuclear. In addition, the United States seems rather eager to strengthen the security of Israel and Saudi Arabia, which have most vehemently expressed concerns about Iran's nuclear program. In fact, Iran has been repeatedly accused by Israel of conducting secret atomic programs. In doing so, Israel wants to demonstrate that the nuclear deal signed with Iran by the great powers is ineffective because it does not provide sufficient guarantees to stop Iranian nuclear activities. Thus, indirectly, Israel joins the US decision to reactivate economic sanctions as a much more effective tool.

On the other hand, a supporter of Iran's integration into the international community, the European Union wants to maintain the nuclear agreement signed in 2015 with Iran and has shown itself willing to a separate agreement on testing Iranian missiles. The European vision for maintaining the nuclear deal starts from the concern for world security, but also for trade relations with Iran, where the European Union has more advantages compared to the United States.

In addition, the European support for Iran also comes from the need to create a space for future negotiations on issues related to free navigation in the Persian Gulf, the ballistic missile program, and the stabilization of the Middle East after the end of the regional conflicts. Acceptance of US conditions by the European Union would weaken its international credibility, as well as a possible reaction of Russia and China to use their veto power in future United Nations resolutions (Geranmayeh, 2017, pp. 9-10). Under the protection of the European Union, thanks to measures to assist and mitigate the effects of US sanctions, Iran considers that the re-imposition of these unilateral sanctions is the starting point for an economic war. To support trade relations with Iran, the European Union has implemented a payment system designed to act as a shield against American sanctions for European and foreign companies which wish to maintain their business ties with Iran.

As for China and Russia, they opposed the economic sanctions imposed on Iran and refused any military action against it. Beyond Chinese and Russian concerns that Iran should not have nuclear weapons, the two have their own interest in Iran. From a geopolitical perspective, Russia does not want a dominant American influence in the Middle East, and its participation alongside other world powers in negotiations with Iran is an evidence of the reaffirmation of Russia's international influence and its status of great power. On the other hand, China's interest is commercial, as it is Iran's largest importer of oil and has completed numerous infrastructure projects with Iran, while the imposition of economic sanctions or trade disputes with Iran can also affects the Chinese economy. For China, Iran is an important strategic point of investment, especially those related to the restoration of the Silk Road and a major sales market, through which China gains access to the Middle East.

Iran has better trade relations with China and the European Union than with Russia or the United States. In the context of US economic sanctions imposed between 2006 and 2013, Iranian exports to the American economy did not exceeded \$110 million. Instead, during this period, exports to China reached \$7.5 billion, those to the European economy exceeded \$1 billion annually, while the maximum value of exports to Russia approached \$500 million in 2012. Until 2008, the European Union was Iran's largest importer. However, since 2010, Iranian exports to the EU recorded a downward trend, amid

economic sanctions imposed by the European economy (in 2007, 2010 and 2012), until the signing of the nuclear deal, when these sanctions were cancelled. Under these economic measures, Iran reoriented its products to China, becoming the main market. Iranian exports to China increased annually, on average, by \$1 billion between 2008 and 2011, reaching \$9.4 billion in 2014 (Central Bank of the Islamic Republic of Iran, 2019).

Despite sanctions imposed by the United States and the European Union until the signing of the nuclear deal with Iran, the European Union continued to trade with Iran to a greater extent than the United States, allowing more Iranian goods to enter to the European markets than in the case of the American market. If the value of Iranian exports to the United States fell below \$1 billion over the period 2007-2015, the value of those to the European Union remained above \$1 billion. The signing of the nuclear deal in 2015 revived the Iran's economic relations with the United States and the European Union, while the exports to China and Russia suffered substantial cuts. In 2016, when the agreement was implemented and Western sanctions were lifted, Iranian exports to the United States increased to \$1 billion and those to the European economy exceeded \$1.5 billion. In contrast, exports to Russia fell by almost \$66 million and those to China by more than \$1.5 billion compared to 2014. Only in 2017, Iranian exports to the four economies resumed their growth, China remaining the main importer of Iran. Thus, in 2017, Iranian exports to China exceeded \$8.7 billion, those to the EU were close to \$1.5 billion, to Russia were exported about \$290 million and to the United States less than \$150 million (Central Bank of the Islamic Republic of Iran, 2019).

The economic sanctions imposed by the United States reduced the US trade deficits in relations with Iran. In 2000, the US deficit with Iran exceeded \$150 million, falling below \$100 million in 2003-2007. Sanctions between 2006 and 2013 led to trade surpluses for the United States, depending on the intensity of these economic measures. For example, in 2008, the maximum value of the American trade surplus reached over \$570 million, and in 2013, it exceeded \$300 million. In contrast, immediately after the signing of the nuclear deal with Iran, the US surplus fell below \$100 million, especially in 2016 and 2017. The withdrawal of the United States from the agreement revitalized the trade balance, so that in 2018, US exports reached their highest value since the financial crisis, and the American surplus exceeded \$350 million (World Bank and UNCTAD, 2019).

On the other hand, economic and trade sanctions imposed by the United States and by European Union disadvantaged the European economy. Until 2006 inclusive, relations with Iran brought surpluses for the European Union of more than €1.4 billion. In the period 2006-2011, the only time when the European economy had a trade surplus was in 2009, while trade deficits exceeded €3 billion, reaching even €6.8 billion in 2011. Around the negotiations and the signing of the nuclear deal, the balance trade improved, recording a surplus of more than €5 billion in 2016, after which it has suffered drastic reductions. At the time of the US withdrawal from the agreement, the European Union had to take on a greater degree of responsibility and of care for relations with Iran, so that in 2018, the European trade balance became negative again, of about €561 million (Eurostat, 2019).

However, in 2017 and 2018, the United States were not among Iran's foreign trade partners with goods, while the European Union is in the top three. As shown Table 1, in 2018, the European Union is Iran's third largest export partner, ahead of India, while the EU remaining the second largest importer of Iranian goods. In comparison, China is Iran's largest trading partner, with twice more imports of Iranian products compared to that of the European Union. Along with China, Iran's import partners include other BRICS economies, such as India, Brazil and Russia (see *Table 1*).

**Table 1. Iran`s top 10 foreign trade partners with goods in 2017-2018**

Top 2018	Exports (€ billion)			Imports (€ billion)		
	Partners	2018	2017*	Partners	2018	2017*
1	China	17.55	15.47	China	8.36	8.33
2	India	11.8	9.23	EU-28	8.33	10.38
3	EU-28	8.98	9.58	United Arab Emirates	6.18	18.24
4	Turkey	5.54	6.26	India	2.08	1.39
5	South Korea	3.25	6.38	Turkey	1.91	2.88
6	United Arab Emirates	3.00	1.55	South Korea	1.85	2.61
7	Japan	2.76	2.98	Switzerland	1.6	2.11
8	Afghanistan	1.54	1.2	Singapore	1.32	0.74
9	Malaysia / Singapore	0.65	0.63	Brazil	1.20	0.75
10	Taiwan	0.63	0.58	Russia	0.57	1.84

Source: European Commission (2018, 2019)

In addition, beyond trade disputes and divergences about nuclear deal with Iran, the Euro-Atlantic misunderstandings are related to energy supply. In 2018, the division of the European responsibilities between France and Germany was increasingly noticeable, the former being responsible for European security and defence, with important actions in the Middle East, and the latter with priorities in coordinating economic and financial policies, without active military involvement. However, France and Germany also had a common goal, which was to persuade the United States not to give up its nuclear deal with Iran. The European choice to continue supporting Iran, even without the United States, comes from the need to keep the Iranian market as a destination for European products, but also from the desire to create an energy alternative through which Europe can reduce its dependence on Russian oil and gas.

On the other hand, by withdrawing from the nuclear deal, the United States is taking additional safeguards on Iran's potential threat to Israel and Saudi Arabia. In addition, the United States continues to be a viable source of energy for the European market, with the alternative of supplying oil and gas, but Germany seems more interested in Russian energy resources than American or Iranian ones. The construction of the Nord Stream 2 gas pipeline is meant to ensure Germany's supply of Russian gas, excluding transit through Ukraine, Belarus or Eastern European countries. Objections to this pipeline come both from outside the European Union, especially the United States and Ukraine, and from within. The United States has repeatedly criticized the opening of the North Stream 2 pipeline that it strategically threatens the Baltic countries and Poland, increases energy dependence on Russia, and because this project finances the expansion of Russian influence in Europe with European money. On the other hand, the Eastern European states of the European Union consider that the German-Russian partnership threatens the European energy security.

Moreover, the European Union recognizes its military vulnerability and dependence on the United States, and the decision to cooperate militarily under the PESCO initiative is required to be an alternative. This European defence initiative is very much promoted by France, feeling the only one responsible for security, especially given that Germany is more concerned with the economic dimension and the provision of energy sources, in while the United Kingdom is not part of the common military equation, and its role as a defender of Americanism in Europe has been drastically diminished as a result of Brexit. Basically, France and Germany, together with the Western European states, are juggling between the United States and Russia, between the North Atlantic Alliance and a compromise with Russia for the restoration of a pan-European security. On the other hand, the Eastern European, Baltic and Scandinavian states are in favour of a stronger

American presence and are not satisfied only with European security guarantees without American support.

#### **4. Chronology of Signing the Nuclear Deal**

The European concerns about Iran's nuclear program seek to avoid an American military intervention similar to that of Iraq in 2003. The initiative to conclude the nuclear deal with Iran came from the European Union, especially France, Germany and the United Kingdom, dissatisfied with the US invasion of Iraq. During the developments on the Iranian nuclear program the European Union played a multiple role, from coordinator, mediator and organizer of negotiations to conciliator, verifier of compliance and loyal supporter of the nuclear agreement. In 2003, the three European states decided to cooperate technically and commercially with Iran if it agreed to stop its uranium nuclear enrichment program. As Iran agreed to temporarily suspend uranium development, the European Union has recognized its right to have a nuclear program for defensive purposes only and has not referred Iran's case to the UN Security Council (Cronberg, 2018, pp. 245-246).

However, Iran's intentions to continue its uranium enrichment process did not coincide with the European wishes for a permanent halt to the program, so in 2006, the three European states were joined by the United States, China, and Russia in negotiations with Iran regarding the suspension of the nuclear program, namely the permanent members of the UN Security Council and Germany (P5 + 1). After repeated attempts to reach a consensus, the United States and the European Union decided to impose sanctions on Iran at the same time as those taken by the UN. Since 2006, the United States stopped working with two Iranian banks, while in 2007 two German banks withdrew from operations with Iran (Cronberg, 2017, pp. 21-23). In addition, in 2008, the United States banned transfers and financial services to Iran by banks and other financial intermediaries in dollars (Aslan, 2018, p. 7). In the period 2006-2010, the UN Security Council adopted four resolutions on sanctions against Iran, most of them aimed at banning Iranian arms exports and uranium mining investments, as well as treating more carefully the state loans of financial institutions to Iran, except humanitarian ones (Katzman, 2016, pp. 32-33).

Iran's nuclear program continued, thus new sanctions were added in 2010 and 2012. In July 2010, the United States and the European Union decided to ban technology transfers and investments in the Iranian oil sector and imposed banking and trade sanctions. In October 2012, the European Union restricted financial transactions with Iran and banned Iranian gas and oil imports. At the same time, the United States and the European countries blocked business with the Iranian energy sector and ordered a ban on arms exports to Iran, followed by the blocking of financial transactions to the Iranian oil and gas sector in early 2013 (Cronberg, 2017, pp. 76-77). In addition, in 2012, Iran was excluded from the international financial and banking systems (SWIFT system), an elimination motivated by their use by Iran to finance terrorist groups. The disconnection of Iranian banks from the international network has made Iran's revenues from its oil exports much more difficult, reducing both their volume and export earnings (Aslan, 2018, p. 7).

The results of Iran's presidential election in 2013 led to Iran's rapprochement with the P5+1 group, and several meetings and negotiations on a nuclear deal took place in the following period. An intermediate version of the nuclear deal was concluded at the end of

2013, in which Iran pledged not to advance nuclear activities, halve its enriched uranium reserves, and reduce its remaining uranium enrichment level, allowing control on the nuclear program. At the same time, the P5+1 group and Iran agreed to a long-term agreement to ensure that Iran's nuclear program would be exclusively peaceful, while Iran would receive more benefits. These included the limited and temporary exemption from sanctions imposed, the monthly reimbursement of oil sales, restoring of Iranian oil exports to the level of the end of 2013, allowing of transactions in precious metals and petrochemicals and the creation of special conditions for medical exports (Zubac, 2017, pp. 171-172).

The signing of the nuclear deal in mid-2015, but implemented since January 2016, favoured Iran's economy. The agreement imposed restrictions on Iran's nuclear program, being developed only for peaceful purposes, and allowed the International Atomic Energy Agency (IAEA) to monitor its nuclear activity, even to inspect alleged undeclared sites and activities. On the other hand, the United States lifted only sanctions on Iran's nuclear activity and limited other types of sanctions (Aslan, 2018, p. 4).

## 5. Economic Impact on Iran

The course of events affected Iran's economic structures. *Table 2* shows the evolution of GDP and of GDP per capita, both at purchasing power parity, in the period 2001-2017.

The size of GDP experienced an upward trend until 2011, although during the financial crisis the intensity of growth decreased. Thus, in 2011, GDP at purchasing power parity reached \$ 1.34 trillion. After 2011, Iran felt the effects of the economic sanctions imposed. By 2015, GDP shrunk to almost \$1 trillion.

**Table 2. Iran's economic evolution in the period 2001-2017**

Year	GDP, PPP (billion \$)	GDP per capita, PPP (\$)	Exports of goods and services (billion \$)	Imports of goods and services (billion \$)	External balance (billion \$)
2001	696.7	10485	24.5	26.9	-2.4
2002	759.2	11283	31.4	30.6	0.8
2003	840.8	12343	37.8	40.0	-2.2
2004	901.2	13071	48.0	49.5	-1.5
2005	958.9	13746	68.7	54.6	14.1
2006	1037.4	14703	79.5	62.0	17.5
2007	1152.1	16150	100.9	73.6	27.3
2008	1177.5	16326	109.6	89.3	20.3
2009	1198.4	16433	94.6	87.4	7.2
2010	1282.6	17389	118.8	94.3	24.5
2011	1344.1	18009	148.9	102.0	46.9
2012	1204.9	15950	144.5	139.2	5.3
2013	1168.2	15274	123.7	107.9	15.8
2014	1180.2	15236	100.1	92.9	7.2
2015	1066.6	13588	76.0	74.2	1.8
2016	1114.8	14012	93.6	87.0	6.6
2017	1172.7	14536	111.1	106.2	4.9

Source: World Bank (2020).

The signing and implementation of the nuclear deal revitalized Iran's economic growth, but GDP grew by only \$106 billion. In terms of GDP per capita, it experienced the same developments. If in the period 2007-2012, the GDP per capita exceeded \$15000, reaching \$18000 in 2011, the imposition of economic sanctions led to the decrease below \$16000 until the signing of the nuclear agreement. In 2015, GDP per capita reached about \$13,500. The signing of the nuclear deal boosted GDP per capita, but its value did not exceed \$15,000 in the following years (World Bank, 2020).

*Table 2* also shows Iran's trade developments, whose exports increased steadily until 2011, the only exception being 2009, due to the effects of the global financial crisis. At the same time, imports experienced an upward trend until 2012. Under these conditions, the Iran's balance of trade was positive since 2005 and reached about \$47 billion in 2011.

The economic sanctions imposed by the United States and the European Union in 2010 and in 2012 took effect in the following period, as shown in *Table 2*, although by the end of 2013, the P5+1 group and Iran reached a variant of a possible agreement. Iran's exports gradually declined to \$100 billion and imports to \$93 billion in 2014. At the time of the signing of the nuclear deal, Iranian exports were close to the value from 2006 and imports to one from 2007. In this way, the economic sanctions imposed led to a reduction in the trade surplus. Except for 2013, Iran's trade surplus was below \$10 billion. The signing of the nuclear agreement led to boosting trade for Iran, so that in 2017 both exports and imports exceeded \$100 billion each. However, the trade surplus remained low at about \$5 billion.

The reductions in Iran's trade structure were mainly caused by sanctions imposed by the United States and the European Union on oil and gas imports. Iran is well-known as a country producing energy resources. *Table 3* shows that non-oil Iranian exports have not been affected by sanctions, which maintain their upward trend in the period 2001-2012, reaching more than \$25 billion. The peak of the period 2001-2017 reached in 2014, when non-oil exports reached almost \$33.6 billion, followed by various fluctuations in the following years.

On the other hand, the effects of the sanctions imposed are quite visible in the case of Iranian oil and gas exports. The first reduction caused by these sanctions occurred in 2009, being about \$16.6 billion, to which also contributed the financial crisis that began in 2007-2008. The most pronounced effects appeared after 2011, when the sanctions were much stronger. Basically, Iranian oil and gas exports fell from \$119 billion in 2011 to about \$32 billion in 4 years, almost equalling the size of non-oil exports in 2015. The signing of the agreement and its implementation since 2016 has been refreshed export flows, which doubled in 2017 compared to 2015.

Similar trends were recorded in crude oil production and exports. It can be seen from *Table 3* that the reductions in crude oil production and exports started in 2006, when the first set of economic sanctions was imposed. The reductions were slight, only a few thousand barrels per day, production continuing to exceed 4 million barrels per day, and exports over 2.3 million barrels per day. The really significant decreases took place after 2009, being affected by the financial crisis, as well as by the American and European sanctions, an exception making the increase of the crude oil production from 2011-2012.

**Table 3. Iran`s production and trade of energy resources between 2001-2017**

Year	Oil and gas exports (billion \$)	Non-oil exports (billion \$)	Crude oil production (million barrels/day)	Crude oil exports (million barrels/day)
2001	20.15	3.84	3.57	2.21
2002	23.78	4.32	3.31	2.02
2003	28.41	5.58	3.74	2.40
2004	37.45	6.39	3.83	2.55
2005	55.79	8.73	4.11	2.60
2006	64.67	11.53	4.05	2.43
2007	84.51	13.16	4.06	2.48
2008	86.62	14.67	3.95	2.37
2009	69.96	18.37	3.56	2.06
2010	90.19	22.60	3.54	2.02
2011	119.15	26.66	3.62	2.03
2012	68.08	29.21	3.73	1.80
2013	64.54	28.37	3.48	1.61
2014	55.41	33.57	3.06	1.34
2015	31.85	31.15	3.23	1.43
2016	55.75	28.23	3.76	2.13
2017	65.82	32.32	3.85	2.14

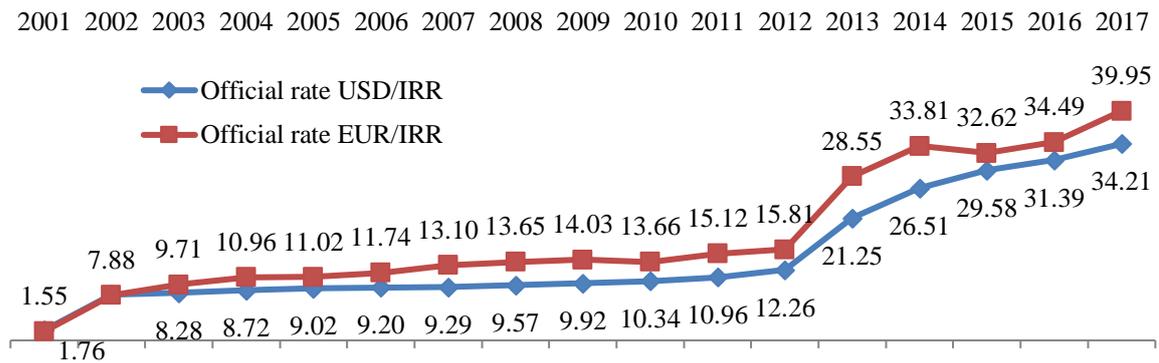
Source: Central Bank of the Islamic Republic of Iran (2019).

The economic sanctions imposed by the United States and the European Union in 2012 on Iranian oil imports also affected the crude oil production. Basically, since 2012, production enters a new period of reductions, while crude oil exports continue the downward trend started earlier, as it can be observed in *Table 3*.

Thus, a year before the signing of the nuclear agreement with the P5+1 group, Iran's crude oil production dropped to almost 3 million barrels per day, of which less than half was exported. The signing of the agreement boosted crude oil production, along with exports. The production reached 3.85 million barrels per day in 2017, a value similar to that of 2004. On the other hand, exports accounted more than half of the value of production, respectively 2.14 million barrels per day. Despite the two stages of reductions in crude oil production as a result of the economic sanctions imposed, its value remained above 3 million barrels per day in the period 2001-2017, being even over 4 million barrels per day in the period 2005-2007. At the same time, more than half of this quantity was exported, except for the period 2012-2015, with the most economic sanctions imposed, when exports accounted for less than 50% of total production.

The economic sanctions also affected the rial exchange rate in relation with American dollar and euro. *Figure 1* reflects a depreciation of the Iranian currency. Thus, the rial permanently depreciated against the two currencies, but to a much greater degree after 2012, as a result of the American and the European sanctions imposed. If in 2001, a dollar was quoted at about 1550 rials; it exceeded 10,000 rials in 2010. Dollar`s value doubled in 2013 and reached three times more expensive after the signing of the nuclear agreement.

**Figure 1. Rial exchange rate evolution (thousands of units)**

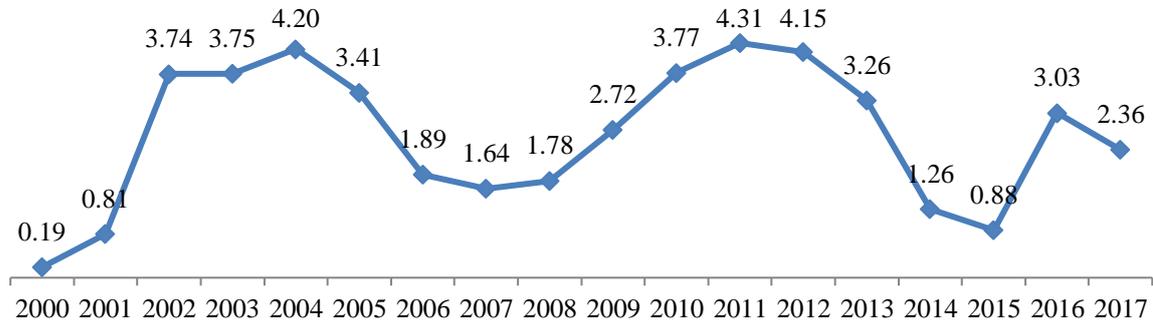


Source: Central Bank of the Islamic Republic of Iran (2019)

On the other hand, 1 euro was worth about 1776 rials in 2001, exceeding the value of 10000 rials in 2004. Moreover, the euro came to be worth about 28550 rials in 2013, almost doubling its value from the previous year. Except for 2015, when the nuclear deal was signed, the rial continued to depreciate against the euro, reaching a rate of almost 40,000 rials for one euro in 2017.

In terms of attracted foreign direct investment (FDI), *Figure 2* shows that the Iranian investment environment suffered two waves of deterioration.

**Figure 2. Evolution of foreign direct investment from 2000 to 2017 (billion \$)**



Source: Central Bank of the Islamic Republic of Iran (2019)

The first one coincides with the period before the financial crisis, with FDI falling from \$4.2 billion in 2004 to about \$1.64 billion in 2007. The second wave is more accurate to represent the sanctions imposed on Iran, as the upward trend in the value of FDI stopped in 2011, when sanctions were in full force. Moreover, by 2015, they decreased to a greater degree than the previous wave, with FDI reaching less than \$1 billion. The return came as a result of the signing of the nuclear deal in 2015, the effects being visible from the first year after implementation. Thus, in 2016, FDI increased sharply, by over \$2 billion, followed by a small reduction in the following year.

However, it should be noted that the effects on Iran's foreign trade and on Iranian economy would have been much greater if more severe had been imposed or if other states imposed such sanctions. Although the United States, Germany, France, United Kingdom, Japan and Canada proposed a ban on the import of Iranian oil, China and Russia opposed these sanctions, being the economies that refused any military action against Iran. Although they opposed any sanctions, Russia and China complied with those

imposed by the UN and did not unilaterally add others to Iran, as in the case of the United States and the European Union (Cronberg, 2018, pp. 249-250).

Moreover, China and Russia, which have refrained from sanctioning the Iranian economy, become destinations for Iranian exports due to US and European sanctions imposed. In fact, Iranian exports shifted from the United States, the European Union and Japan to China and Russia. The Iranian exports to Russia doubled in 2004 compared to 2001 and doubled again in 2006. During the global financial crisis that began in 2007-2008, Iranian exports to Russia remained at between \$330 and \$371 million but increased to almost \$500 million in 2012 as a result of the sanctions imposed by the United States and the European Union. During the negotiation period of the nuclear deal and after its signing, the Iranian exports to Russia did not exceed \$300 million. On the other hand, Iranian exports to China increased steadily between 2000 and 2014, the only exception being 2012. In fact, their value doubled in 2005 compared to the previous period and in 2006 compared to the previous year, following that in 2008 to exceed \$2 billion. The upward trend continued, with Iranian exports exceeding \$5 billion between 2011 and 2012, peaking at about \$ 9.39 billion in 2014. During the negotiation period of the nuclear deal and after its signing, the Iranian exports to China reduced with more than \$1.5 billion, reaching \$8.76 billion in 2017 (Central Bank of the Islamic Republic of Iran, 2019).

As noted, the economic sanctions imposed by the United States led to deterioration of the Iranian economy and social conditions, although Iran tried to adapt its economy to domestic production and to reduce its dependence on imports. Under these conditions, both the re-imposition of US economic sanctions in May 2018 and the pressure exerted by the need to meet International Atomic Energy Agency (IAEA) requirements are forcing Iran to reduce its financial support for regional allies in order to save and stabilize its economy. In addition, in order to avoid the effects of economic sanctions, commercial shipping and the use of precious metals and virtual currencies have been exploited by Iran.

Although the United States decided to withdraw from the agreement in May 2018, US sanctions were reintroduced after an interval of 3 to 6 months, depending on activities. Thus, the Iranian business environment and its foreign relations had time to prepare to deal with the effects of the sanctions. In general, government financial transactions with US dollars, the automotive sector, trade in steel, aluminium, gold, precious stones and coal, sale-purchase transactions, and deposits in Iranian rials, activities under specific licenses (in the food and aeronautics sector) and the financing of Iran's sovereign debt benefited from a period of 3 months until the imposition of US sanctions. On the other hand, oil, petroleum, and petrochemical products, the maritime, port and shipbuilding sectors, financial services, insurance and reinsurance, the Iranian energy sector and the transactions of foreign financial institutions with the Central Bank of Iran and other Iranian financial institutions were subject to US sanctions after 6 months (Aslan, 2018, p. 11).

On the other hand, despite the European efforts to oppose US policies on the Iranian issue and to protect Iran's economy, Iranian-European relations are marked by prolonged mistrust, mutual disappointment, and divergence on regional issues. The lack of progress and rapprochement between the European Union is fuelled by misunderstandings over the situation in Syria and Yemen, where each other's interests and camps are divergent. On the one hand, the European Union supports the United States regarding Iran's ballistic missile program, concerned about Iran's aid to non-state groups in the region and Iran's

position on Israel. Also, the European Union maintains a number of sanctions on Iran over missile development, the nuclear field and the arms trade. On the other hand, Iran is dissatisfied with the level of economic cooperation with the European Union and the low degree of European investment in Iran (Geranmayeh, 2017, p. 3).

## **6. Conclusion**

In summary, the Euro-Atlantic rupture is visible in many aspects: trade, military, energy supply and the nuclear deal with Iran. This paper focused to the Euro-Atlantic divergences from the Iranian nuclear issue perspective, in order to explain the economic impact on the Iranian economy, but also on the American and the European ones.

The Euro-Atlantic trade relations have deteriorated since 2018. Both the United States and the European Union imposed reciprocal customs duties. The European exports of iron, steel and articles thereof decreased with almost \$1.5 billion. On the other hand, some American exports decreased by about \$804 million, while other exports increased with almost \$13.4 billion. Nevertheless, the US deficit in trade with the E.U. still increased with \$14.8 billion in 2019.

Iran's trade relations are better with China and the European Union than with Russia or the United States. During the economic sanctions imposed to Iran, its exports to United States and to the European Union decreased, while China was the Iran's largest importer, replacing the European economy. The United States started to record trade surpluses between 2006 and 2013 in trade with Iran, while the European Union has recorded trade deficits. After signing the nuclear deal, the trade relations with the American and the European economy have improved, while Iran's exports to China and Russia suffered substantial cuts. But the American surplus has reduced and the European trade balance improved. The American withdrawal from nuclear deal generated new trade surplus for the United States, while the European economy suffered a trade deficit.

The most affected was the Iranian economy. The economic sanctions imposed by the United States led to deterioration of the Iranian economy and social conditions. Iran has experienced an upward trend of GDP size and GDP per capita, a gradual decline in exports and imports, also in oil and gas exports, a depreciation of rial against dollar and euro and an upward trend of FDI. The nuclear deal signed in 2015 has positive effects on Iran's economy, which has revitalized. The Iranian oil and gas exports have been refreshed, the trade has boosted and the FDI has recorded a short increase. However, the deal has no effects on rial exchange rate.

Even though the United States is not one of Iran's main foreign trade partners, the decision to withdraw from the nuclear deal was a good one for the American economy because it brought trade benefits. Therefore, the decision to withdraw from the nuclear deal was an advantage for the American economy because it attracted trade benefits. In 2018, US exports to Iran rebounded, while imports of Iranian products contracted, leading to an increase in the US trade surplus, unlike the European Union, which suffered a trade deficit.

The nuclear deal remains an important issue on the world agenda, able to influence the way that the great powers exercise their forces at the international level. Although harmonization between the United States and the European Union would create security for the world economy and more effective preparedness for international challenges, the

two old allies have difficulty finding common ground in cooperation, diminishing the strength of the alliance at the most necessary and important moments. The situation is favourable for China and Russia, which are particularly interested in the fragmentation of the Western alliance, the weakening of the European Union and the decline of American supremacy, facts on which the two can increase their influence in the world economy.

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