

Research Paper

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# Transatlantic Rifts

## Stress-Testing the Iran Deal

## Summary

- Chatham House brought together 32 participants over a two-day period in February 2016 to discuss the US and European responses to a simulated scenario in which alleged actions by Iran threaten the sustainability of the nuclear deal. This was the second of four scenario roundtables (the first involved a conflict between China and Japan).<sup>1</sup>
- Despite the inherent challenges in the initial scenario – and then additional ‘injects’<sup>2</sup> to raise the potency of factors likely to drive European Union (EU) member states and the United States apart – the transatlantic partners in the simulation were able to retain a strong joint position in their negotiations with Iran throughout the scenario.
- The greatest tensions occurred between EU member states, mainly in relation to differences over process rather than policy. The fact that the focus was first on UK–US coherency, followed by E3 collaboration before discussions were taken to the EU more broadly, put stresses on the alliance.
- The Europeans in the simulation seemed to view any indirect consequences of the nuclear deal as mostly positive (e.g. the future potential to improve Iranian engagement on many non-nuclear-related areas, such as human rights and terrorism). The Americans largely saw the externalities as negative (e.g. Iran’s potential cheating leading to faster nuclear breakout capabilities). Equally, the scenario showed Iran as having different approaches towards the US and Europe respectively: willing to engage with the latter, while keeping the former in the cold.
- The principal factor enabling the US and Europe to maintain their joint negotiating position was the framework of conditions provided by the Joint Comprehensive Plan of Action (JCPOA), which mandated specific actions, responses and timelines if events threatened the agreement. When in doubt, all parties in the simulation reverted to the agreed framework.
- External unbiased observers played a notable role in providing non-partisan advice in support of the policy process, as well as in providing information to feed back to the public.
- Domestic factors in the US and Europe could, in the future, make maintaining a joint position towards Iran increasingly hard. In particular, potential stumbling blocks include immigration and social policies in response to the migration crisis in Europe; and, in the US, the significant political polarization around the E3/EU+3 deal. Commercial factors were not thought to be overly influential.

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<sup>1</sup> Wickett, X. and Parakilas, J. (2016), *Transatlantic Rifts: Asia-Pacific Scenario Case Study*, Research Paper, London: Royal Institute of International Affairs, <https://www.chathamhouse.org/sites/files/chathamhouse/publications/research/2016-02-03-transatlantic-rift-wickett-parakilas-final.pdf>.

<sup>2</sup> The term ‘injects’ refers to new aspects of the scenario revealed by the scenario controllers to the players and designed to force them to respond in more improvisational fashion.

## Introduction

After nearly 10 years of planning, negotiation, sanctions and political tribulations, in the summer of 2015 the US, the ‘E3’ (the UK, France and Germany), Russia and China agreed with Iran a deal to limit its nuclear programme to peaceful purposes. The deal offered a mutual trade-off between Iran and this group of six interlocutors (collectively known as the E3/EU+3): while Iran would eliminate all possible pathways to acquiring nuclear weapons, the E3/EU+3 would lift nuclear-related sanctions against it.

The agreement, or Joint Comprehensive Plan of Action (JCPOA), marks a breakthrough in the international community’s engagement with Iran. For many, in addition to its potentially positive security implications, the deal serves a long-term aim of reintegrating Iran into the global economy.

The deal lays out a series of time horizons relating to its various agreed elements. Within eight years of ‘Adoption Day’ – or earlier if the International Atomic Energy Agency (IAEA) deems that all nuclear material in Iran is for peaceful activities only – the EU is bound to terminate any remaining sanctions. Once the IAEA has confirmed that the remaining nuclear material is for peaceful activities only, the US is to terminate or modify its remaining sanctions, whereupon Iran will ratify the ‘Additional Protocol’ allowing for enhanced inspections. Ten years after Adoption Day, provided that no party has engaged in activities contrary to the JCPOA and no further sanctions have been applied, the UN will vote on a resolution to terminate the JCPOA.

The negotiations over the JCPOA were both difficult and divisive, not only straining international relationships but also inflaming domestic tensions in Iran and the US. Nor has implementation of the deal brought the recriminations and disputes to an end. Maintaining the deal over the medium to long term may yet prove to be even more difficult, particularly given the lack of trust on both sides and the JCPOA’s technical complexity.

It is in this context that on 18–19 February 2016 the US and the Americas Programme at Chatham House held the second of four planned roundtables focused on the transatlantic relationship.<sup>3</sup> These events form the core of a broader project exploring whether the US–European relationship is strengthening or weakening, and what is causing the trends observed. The project aims to identify whether such changes reflect structural or cyclical factors, and to provide insights into how to mitigate any potentially harmful divergences in the transatlantic relationship.

The roundtable consisted of a simulation exercise in which participants were presented with a scenario in which Iran was alleged to be cheating on the nuclear deal. The exercise explored how the US and various European (and other) countries might respond, and what the implications of such responses might be.

This paper draws on the debate, conducted over two days, among participants from the Middle East, Europe and the US. The principal elements of the scenario, actions, conclusions and implications are laid out here.

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<sup>3</sup> The first roundtable was held in November 2015, and focused on the implications of a conflict breaking out in the Asia-Pacific region. See Wickett and Parakilas (2016), *Transatlantic Rifts: Asia-Pacific Scenario Case Study*.

## Interests and perceptions

The Middle East is at an inflection point. A number of specific issues – the recent change of Saudi leadership, the persistence of low oil prices, terrorism, the proxy wars in Syria and Yemen, and broader geopolitical changes – are colliding with persistent demographic, political and sectarian trends. This confluence is creating new dynamics in the region and, given the range of interests at stake, is focusing the attention of both the US and Europe.

US diplomatic relations with Iran, broken off over the 1979 hostage crisis, have not yet been formally re-established. This leaves America with a strong diplomatic tilt towards the other regional powers, particularly Saudi Arabia. The lack of diplomatic engagement between the US and Iran has had a detrimental impact on each nation's understanding of the other. Meanwhile, European member states have maintained their respective bilateral relations with Iran.

In the 1990s, the EU3 (the UK, France and Germany, subsequently called the E3) perceived the Iranian regime as one worth engaging with. The warming of relations was interrupted in 2002 with the revelation that Iran had been constructing nuclear enrichment and research facilities that could contribute towards the development and production of nuclear weapons. The US approach in the wake of this revelation was much more punitive than the European one: Washington pushed for greater isolation and sanctions, whereas the Europeans maintained diplomatic (and to some degree economic) relations with Iran. However, from 2005 onwards American and European officials worked closely together on crafting an enforcement and sanctions regime, which ultimately led to the 2015 deal (JCPOA).

In order to raise the chances that it could be agreed, the JCPOA was explicitly designed as a nuclear-only agreement; it did not seek to settle other outstanding issues with Iran, such as its support for Shia militias, human rights record and ballistic-missile programmes. For the US, domestic political dynamics ensured that the deal could only be exclusively about nuclear issues. Given the opposition that the deal engendered in the US Congress (particularly among Republicans) and among the US public, there seems to be little chance that America will seek an expanded diplomatic or economic relationship with Iran in the near future. For Europe, however, the deal was and remains a stepping stone towards a broader rapprochement.

This division is one that Iran can exploit. For Iran, the deal is a pragmatic one that could lead to more economic and diplomatic engagement with European states. But the country's domestic political dynamics in some ways mirror the pressures in the US: while Iran might consider rapprochement with Europe, the Islamic Republic's domestic politics will restrict any such engagement with the US.

In the Gulf region, Iran is by no means the only country over which the perspectives of the US and Europe diverge. Long-standing differences also exist between their relationships with other regional powers, and thus between their respective interests in the region. Saudi Arabia has been an important US partner since the Second World War. Despite current uncertainty, the country's security, energy and counterterrorism relationship with Washington remains important. No single European nation has such a well-developed relationship with Saudi Arabia. Criticism of the Saudi

regime (on both human rights and geopolitical grounds) complicates matters for both European and American governments.

Europe depends on a strong US–Saudi relationship (as well as on America’s broader engagement in the Middle East) to ensure continued stability in the region. To this end, some Europeans have expressed concerns that America is not doing enough to reassure Saudi Arabia, help it to find an exit strategy in Yemen, and assist in other areas. At the same time, there is little that Europe itself can do to provide this reassurance – and European governments understand this limitation.

It is worth noting that Europe does not have a single perspective on the Middle East, nor on Iran specifically. Various EU member states have different priorities in the region. Notably, there are significant differences of opinion across Europe regarding the efficacy of sanctions as a foreign policy tool.

The French government focuses heavily on non-proliferation, its approach transcending many of the broader cultural, security and economic interests that drive the views of many other European powers. The French government played a very significant role in pushing for more stringent provisions in the JCPOA, in order to ensure that other Gulf states would not be tempted to build their own nuclear weapons programmes in response to Iran’s. France has a good relationship with Saudi Arabia, albeit one that has suffered since the November 2015 terrorist attacks in Paris.

Germany was Iran’s most important trading partner prior to EU sanctions being imposed, and public opinion there is more favourable to Iran than in most other European countries. The success of the nuclear deal has reinforced German views on the importance of diplomacy (as opposed to the threat or use of military force). The negotiations also provided an opportunity for Germany to play a diplomatic role closer to that of France and the UK, which – unlike Germany – are nuclear powers and permanent members of the UN Security Council. Germany, along with Italy, is looking for a more balanced relationship between Iran and Saudi Arabia (something that the French and British are less concerned about). Germany prioritizes building Saudi-Iranian relations.

The debate at the Chatham House roundtable, described in detail in the next section, suggested that these differences in perceptions and interests – both between America and Europe, and between individual European states – inform views on the success and broader consequences of the nuclear deal. Perhaps predictably, Europeans seemed to assume that any secondary effects from the nuclear deal would likely be positive, while many Americans (and Gulf state Arabs) felt that such spillovers would likely be negative.

### Scenario exercise

Over two days in February 2016, Chatham House hosted a group of 32 experts from the US, Europe and the Middle East to discuss different visions of, and interests in, the Iran nuclear deal. Participants also played out a scenario around rising tensions in the region, focused on Iran and the US.

The scenario – complete details of which are included in the Appendix to this paper – was set in 2018. Its starting assumptions were that a ceasefire had taken hold in Syria, though a more

permanent solution to the conflict remained elusive. Islamic State of Iraq and Syria (ISIS) remained in control of a diminished eastern portion of the country. Furthermore, there was an assumption that Saudi Arabia and Iran had resumed diplomatic relations, though tensions between the two countries remained high.

The scenario began with a leak of an American intelligence report indicating that the Iranian government was following a clandestine uranium enrichment programme proscribed under the JCPOA. The same leak suggested that Iran was planning to test a new medium-range ballistic missile, the Shahab-4, in the near future.

The simulation exercise took place over the course of five rounds, each representing the passage of one week.

**Round one:** The first round was largely marked by actors trying to ascertain the accuracy of the information provided. Iran issued strenuous denials. Parties across the region, in Europe and the US called on the IAEA to investigate the accusations, in line with the JCPOA. Privately, the US assured its European allies that it was confident in its intelligence, while publicly passing information about the potential breach on to the IAEA. Saudi Arabia indicated that if evidence emerged that the Iranian government was actively pursuing a nuclear weapon, it would take ‘whatever means’ it felt necessary to ensure its national security.

Meanwhile, the oil markets remained steady thanks to oversupply. Russia questioned the authenticity of the US intelligence, but agreed with the general consensus that the matter should be referred to the IAEA.

**Round two:** The second round started with an ISIS-inspired terrorist attack in London, which killed several dozen civilians. A second attack was foiled in Munich by German security services acting on Iranian tips. The terrorist attack inspired a renewed counter-ISIS coalition, with promises of military contributions from the Gulf, Europe and Russia. Meanwhile, tensions between Israel and Lebanon were on the increase, and sporadic instances of violence occurred around the Israeli northern border and the West Bank.

Meanwhile, the IAEA formally requested access to the putative nuclear site, which had been identified during the course of the first round as an underground facility in eastern Iran. The EU as an entity and its non-E3 members (such as Italy and Poland) found themselves largely frozen out of decision-making during the crisis. Germany, the UK and France chose instead to negotiate directly with their American and Iranian counterparts, only informing other European countries of their decisions after the fact, if at all. For all parties, the IAEA remained the mechanism of choice for clarifying the status of the alleged Iranian programme.

**Round three:** Round three started with Israel launching an air campaign against Hezbollah targets in southern Lebanon, which was immediately condemned by the Gulf Cooperation Council (GCC) states and Iran (though some members of the GCC privately assured Israel that they would be happy to see Hezbollah dealt a military setback). The US, meanwhile, was introducing additional forces to the Mediterranean theatre to combat ISIS, and urged restraint between the Israelis, Palestinians and Lebanese.

Iran reminded the world that while it had not yet admitted IAEA inspectors to the site, it was still within the JCPOA-mandated time frame for doing so. Israel increased its rhetoric against Iran, making it publicly known that should Iran be found to be in violation of the JCPOA, then all options should be on the table. Russia responded by announcing – during a trip to Iran by its foreign minister – that it was considering for the first time the sale of the S-400 surface-to-air missile system to Iran.

Despite the rise in overall tensions, the International Energy Agency reported that oil markets were largely remaining stable, thanks to oversupply and the willingness of OPEC member states to raise production and release reserves as necessary.

**Round four:** The US Congress passed a resolution by significant (but not veto-proof) majorities calling for the resumption of sanctions against Iran. With the Iranians continuing to deny IAEA inspectors access to the facility, the US and UK began to quietly explore the option of using electronic warfare against Iranian nuclear facilities. Reports began to emerge that Saudi Arabia was taking steps towards acquiring its own nuclear deterrent. The Saudi government denied this – albeit without closing the door on the possibility of doing so should Iran be found to be in violation of the JCPOA. The IAEA warned that Iran was on the verge of non-compliance with its safeguards agreement.

Hostilities continued in Lebanon. Germany began to assert its economic leverage over Iran to try to force the government to both cooperate with nuclear inspections and cut off weapons deliveries to Hezbollah. Turkey and Saudi Arabia took the opportunity – supported by Russia and Iran – to renew calls for a nuclear-weapons-free zone in the Middle East.

Saudi Arabia and the GCC substantially increased oil production, driving prices down despite the continuing political instability in the region.

**Round five:** The final round of the scenario saw an agreement struck at the last moment to enable IAEA inspectors to access the Iranian site. This agreement involved the US lifting sanctions on a number of Iranian financial institutions not originally covered by the nuclear negotiations.

The IAEA announced that its inspections had found no immediate evidence of non-compliance with the JCPOA. As a result – and despite Iran's reticence to admit inspectors – it considered the matter resolved. The US team made the determination that the Congressional measure passed in the previous round required it only to enforce a narrow interpretation of the JCPOA, so the IAEA's findings meant that there was no need to restore sanctions.

With what was seen as a largely satisfactory resolution of the nuclear crisis in Iran, the Europeans turned their attention towards seeking a diplomatic solution to the Israel–Hezbollah conflict, and to reinforcing the regional security order around Syria. Russia and Saudi Arabia announced a plan for moving towards a political transition from the current Syrian regime to a new government – one that included the opposition rebels.

Iran chose the end of the scenario period to test its new Shahab-4 missile and hold a military parade; as these actions were announced at the very end of the simulation exercise, no other parties had an opportunity to respond to them.

## Scenario findings

The US–European relationship showed significant resilience over the Iranian nuclear issue. Despite actions designed to pull the US and Europe apart, the two sides were able to retain their working relationship. With each new twist in the scenario, the transatlantic partners found ways to overcome or quietly ignore events that might otherwise have divided them, thus enabling them to maintain constancy in their negotiations with Iran.

Intensified domestic political and economic pressures had little impact on the scenario on either side of the Atlantic. However, many participants recognized that it would have been far harder to find common ground if domestic and political pressures had gained more traction, and had had tangible consequences. Participants felt that transatlantic solidarity could weaken in the future if Europe were to recognize Palestinian statehood, a move that would cause the divergence of US and European interests in the Middle East. Similarly, given Israel’s impact on the US political scene, if Israel had been assigned a more central role in the scenario, tensions within and between Europe and the US would have been harder to manage.

In designing the scenario, the US and the Americas Programme at Chatham House had anticipated that increased business engagement between Iran and various European powers was likely to create divisions between those countries and the US. However, this did not come to pass. The participants suggested that even if business and trade deals with Iran multiplied over the coming years, economic cooperation should not significantly restrain European political willingness to allow the automatic reimposition – or ‘snap-back’ – of sanctions if this became necessary. However, there was a view that competition over business deals raised tensions among the European powers, weakening their unity (particularly among the E3) in negotiations with Iran.

While the E3 worked closely together from the start, representatives of other European nations, the EU and NATO were largely left out of the discussions and were merely informed of decisions (this caused much dissatisfaction). The EU did play a stronger role as the scenario went on. However, the US never reached out to the EU institutionally, instead working directly with individual members of the E3.

Where European divisions existed, they were mostly concerned with process rather than with policy. When there were differences over the latter, all parties were able to revert to the agreed framework for action.

Another tension within Europe stemmed from the strong US–UK relationship, which was particularly apparent in the intelligence arena. The rounds typically started (particularly at the beginning of the scenario) with the US and UK working bilaterally towards a common strategy without the knowledge of the rest of Europe, which was then promoted by the UK to the E3, for the E3 and other European states to buy into. In large part, this was driven by the close intelligence relationship between the two countries, leaving the other European states dependent on the UK for information.



The initial negotiations generally took place bilaterally between the US and Iran, with the EU then providing additional leverage for the US. This pattern was a feature of the real JCPOA negotiations and was replicated in the scenario.

Perhaps surprisingly, given America's history of inaccurate intelligence assessments leading to the 2003 invasion of Iraq, only Iran and Russia overtly questioned the US intelligence alleging Iranian non-compliance with its nuclear JCPOA obligations – even though this was central to the crisis explored in the scenario. In one European participant's view (which was not disputed by other colleagues), this was principally because all parties assumed that Iran would inevitably cheat at some point, and that the US information was therefore probably accurate. It was also suggested that the Iraq 'trauma' was a very British phenomenon, and one not shared by other European states. In reality, it is likely that the publics in various EU member states would indeed question such intelligence. Recognition of this partly drove the interest among member states in gaining confirmation from the IAEA on Iran's actual activities.

Saudi Arabia, the GCC, Russia and Israel all ended up playing less central roles in the simulation. That being said, Saudi Arabia and the GCC seized the opportunity presented by the crisis to try to re-establish their regional dominance, reaching out to Russia (with respect to Saudi Arabia's and the GCC's role in Syria) in the process. Both the Europeans and Americans worried that such distractions might divide them if not monitored carefully.

### **Conclusion: Implications**

This scenario played out quite differently from the previous Asia-based scenario. In contrast to the outcome in the previous scenario, the US and Europe did not end up with substantial policy divergences. Understanding why this was the case can illuminate strengths, and fault lines, in the transatlantic relationship.

In large part, the key factor behind the divergence in policies in the Asia-Pacific scenario was the disparity in the perceived interests of the two parties. In the previous case study, Europe was found to have primarily economic interests in Asia, whereas the US was predominantly concerned with broader strategic issues. However, in the Iran scenario, the US and Europe effected a solid and coherent transatlantic policy that was cemented by the JCPOA framework and assisted by close US–UK collaboration, constraining any rift in the transatlantic relationship.

The presence of this agreed framework for engagement was vital in keeping the US and EU member states united. When tensions arose, all parties reverted to the framework to define their next steps. As the JCPOA also provides for specific (and tight) timelines in terms of reporting and meeting obligations, this limited and shaped participants' actions. (Indeed, a crisis-management unit is embedded in the deal.)

Also vital to holding the US and Europe together in this scenario was the presence of external and independent respected parties such as the IAEA. Europe looked to the IAEA to provide reassurance and validation, particularly with regard to the intelligence findings. This was considered especially important for the publics in EU member states.

While the US and Europe were able to converge in the scenario, in reality they might find it more difficult to cooperate in resolving a similar crisis in the medium term, given domestic political developments on both sides of the Atlantic. For Europe this relates to the way that the refugee crisis – and the related populist backlash – is transforming the continent. A similar populist movement, personified by the rise in support for Donald Trump on the political right and for Bernie Sanders on the left, has taken hold in the US. This may yet drive the US towards a more non-interventionist foreign policy.

As previously noted, the most significant divisions occurred between EU members. Principally, however, they were not about policy but about process: the fact that the E3 states expressed a clear preference for working on their own rather than convening all 28 EU members, and that they focused – at least initially – on the US–UK relationship. The EU member states need to find more effective mechanisms for quickly agreeing and driving forward common policies in international crises. The EU's internal challenges could become more significant in the future if current flaws are not addressed.

European nation states are increasingly moving to a policy of engagement with Iran rather than of containment. This could become a problem for the US. While European member states and the US diverge on how far other concerns can enter into the Iran deal, at a minimum Europe needs to come together on a common position regarding the non-nuclear issues in the dialogue (e.g. human rights and terrorism). Only by doing so can the E3/EU+3 and the EU28 stay together. At the same time, the US will need to accept that other factors will in time play a role in the future of the nuclear deal and its relationship with Iran.

While external events failed to push the US and Europe apart, domestic political factors will undoubtedly play an important role in determining their respective future relationships with Iran. This is particularly the case for the US. While some participants in the simulation held the impression that Iran would cheat on the deal, a number of the European participants were of the view that the real wild card was the possibility of the US pulling out of the JCPOA. This belief reflected their observation of high levels of political partisanship in the US; and of resistance on the political right, in particular, to constructive diplomatic engagement (over the past few months most candidates for the Republican Party presidential nomination have stated that they would repudiate the deal if elected to the White House in November this year). It was suggested that the E3 should start contingency planning for this eventuality.

While the US and Europe did not deviate from the JCPOA when negotiating with Iran, there were concerns on both sides of the Atlantic regarding their possible future policy directions. Europeans view the continuation of American secondary sanctions as the biggest potential obstacle to a coherent Iran policy, whereas the US continues to doubt Europe's commitment to the 'snap-back' provisions of the JCPOA. It was suggested that strong European statements on the desirability of enforcing these provisions, if necessitated by Iranian action, would help to shore up support among the US public (and thus politicians) for the nuclear deal.

Finally, the participants in the simulation were divided as to whether the results of the exercise were positive or not. Those representing the US and Europe welcomed the fact that they had remained politically aligned. However, there was insufficient time to explore significant further potential ramifications – not least, the Iranian team's decision at the last minute to conduct new

ballistic-missile tests. At the same time, conflicts at the periphery of the simulation – around Syria and Israel/Lebanon – festered and led to comments from regional players that they felt abandoned by the US and Europe in the rush to preserve the nuclear deal.

## Appendix: Scenario details

*The following reproduces, in slightly edited form, the set of instructions presented to participants in the 18–19 February 2016 scenario workshop. The participants were a mix of current and former government officials, academics and think-tank staff. Roles in the scenario were largely assigned so that they matched participants' countries of origin. This document was circulated in advance of the workshop.*

**Setting:** Near future (c. 2018)

**Background:** Tensions between Iran and the US have grown as mounting evidence suggests that parts of the 2015 nuclear deal are not being adhered to. Several countries are pushing the US to reintroduce sanctions and declare the deal broken.

**Scenario:** A leaked CIA report suggests that Iran has reneged on several parts of the 2015 deal. The report includes claims that Iran has secretly built new centrifuges at a hidden site and has already produced more than 2,000 kg of low-enriched uranium (the deal limited production to 300 kg). In addition, evidence has emerged that Iran is about to test a Shahab-4 ballistic missile as part of efforts to increase the range, efficiency and accuracy of its existing missiles. A small paragraph of the leaked report has gained significant media attention. It includes speculation that Iran is attempting to create the ability to 'quickly overtake and move against key regional adversaries'.

Iran has denied that there is any validity to the report and has mounted a shrewd media campaign highlighting similarities between the flawed intelligence that led to the invasion of Iraq in 2003 and the current allegations. The Iranian government has also suggested that it will not allow outsiders further access to 'sensitive' military sites. A number of prominent Western publications and campaigners have come out against military escalation.

Prominent members of the US Congress and a number of countries in the Middle East are pushing hard for the US and Europe to reintroduce sanctions and conduct punitive airstrikes. In private, some countries in the region have suggested to American diplomats that they would be prepared to act on their own if the US is not willing to demonstrate leadership.

Several European countries have developed significant economic relations with Iran since 2015. European business leaders have already voiced their concern that reintroducing sanctions would result in major financial losses for European companies. Public opinion in Europe is also much more sceptical of the leaked report than is public opinion in the US.

In recent years Russia has provided Iran with several S-300 air-defence units and other military technology that could make aerial military options against Iranian targets more difficult. The Russian foreign minister has expressed concern at the possibility of military escalation.

The US has not yet made any public comment on the validity of the leaked report. In private, the president has been informed that the sources are confirmed and that the intelligence community believes a significant breach has taken place. The president is expected to make a statement in the days ahead.

### Country- and bloc-specific information

**European Union:** The EU has managed to remain intact and prevent Britain, Greece or any other member country from leaving the bloc. However, substantial reforms to the EU itself, or to the eurozone, have not been implemented. The organization remains divided and fragile. The refugee crisis continues to cause friction between member states, and has sustained the recent rise in populist parties.

**France:** Thanks to economic reforms, French GDP growth has begun to pick up, though the recovery is still fragile. France has developed closer business and trade links with Iran since 2015. French banks are increasingly involved in financing various parts of the Iranian economy. At the same time, France has maintained a close working relationship with the US in the Middle East, such as collaborating in airstrikes against ISIS.

**GCC states (excluding Saudi Arabia):** The GCC countries have struggled economically since the 2014 oil price collapse. Dubai is flourishing on the back of trade with Iran and India, though Abu Dhabi retains control of the United Arab Emirates' foreign policy and still distrusts Iran. Oman has had a harder time diversifying its economy. It has struggled with social and political unrest, especially in Dhofar, where a new generation of separatists is taking inspiration from the de facto autonomous state of Southern Yemen. However, Oman has managed to expand its ports and tourism sector thanks to its excellent relations with Iran. Kuwait and Qatar have also developed extensive investments in Iran, though political ties are cooler. Bahrain, which has suffered sporadic bomb attacks both by Shia militants and by a local ISIS affiliate, remains at loggerheads with Iran. All six GCC countries (including Saudi Arabia) have increased their military cooperation with each other, but there is no common position on Iran.

**Germany:** Despite its uneven economic recovery, Germany remains at the centre of EU fiscal and economic policy. Slowing Chinese growth has put more pressure on German industry, but the German economy has mostly proven resilient. Like many European states, Germany has developed substantial economic links with Iran since 2015. While Germany has begun to recapitalize its military forces, it remains reluctant to participate in international military operations that do not have a clear and widely accepted mandate, and its military still lacks an independent power projection capability. The public also remains sceptical of American involvement in the Middle East.

**Iran:** Since the 2015 deal, the Iranian economy has grown substantially as large European, Russian and multinational companies have become more involved in trade with and investment in the Islamic Republic. However, Iran has not yet restored trade or diplomatic relations with the US. Moreover, the overall economic upturn has not dramatically improved the standard of living for average Iranians. This is partly a function of relatively low oil prices, but it also reflects the fact that international economic engagement has been slow to translate into higher wages. Iran has used its growing financial resources to support more active regional involvement and improve its military

capabilities, though its military budget still lags behind that of Saudi Arabia. Diplomatic relations with Saudi Arabia and other Gulf states have been restored, but the relationships remain tense.

**Israel:** Israel continues to face both domestic and international pressure for a long-term settlement with the Palestinians, which remains elusive. The country's relationship with the US has improved since 2016, but Israel remains dissatisfied with the American regional approach and continues to push for a harder line against Iran, which has continued to support and arm Hezbollah.

**Italy:** Italy's economic growth has remained slow, and the country has continued to focus on internal issues and the impact of migration. Italy has built economic links with Iran in recent years, providing access to finance for infrastructure and a number of energy deals. Italy is reluctant to see Europe get involved in issues beyond its borders, given ongoing challenges closer to home.

**Lebanon:** The election of a president has done little to resolve the economic and political turmoil in Lebanon. Domestic support for Hezbollah is on the rise as the organization expands its reach within the country. Hezbollah's ascent has been supported by Iran, which has also started to take a more visible interest in reviving Lebanon's economy. Iran's increasing investments in Lebanon come at a time when the political and economic support of Gulf countries, in particular Saudi Arabia, continues to wane.

**NATO:** NATO has received increased policy attention and funding since Russia's actions in Ukraine in 2014. More resources have been spent in the Baltic states, in particular, where significant troop rotations are taking place. Yet while some states in Eastern Europe have increased their military spending, NATO remains an institution dominated by American resources and capabilities. NATO remains highly focused on Russia, and many members are wary of devoting attention and resources to threats further afield.

**Poland:** With an economy that continues to outperform the EU average, Poland has invested heavily in defensive military capabilities, largely in response to Russia's actions in Ukraine. Poland continues to push for greater European integration, a more integrated European foreign policy and more inclusive free-trade regimes.

**Russia:** Russia has suffered from years of international isolation, with its economy feeling the impact of continuously low oil and gas prices. An ambitious military modernization programme has been curtailed by budgetary limitations. Despite this, Russia's operation in Syria was partially successful: it preserved the regime of Bashar al-Assad, albeit without restoring the regime's authority over the whole of pre-war Syrian territory. Despite the weak economy, Moscow continues to pursue an overall strategy designed to restore by any practical means Russia's power relative to the West. Russia has sold various military capabilities and assets to Iran in recent years, and Russian banks have substantially increased their involvement in the Iranian economy.

**Saudi Arabia:** Saudi Arabia has managed to retain a sizeable share of global oil markets, but prices have failed to reach levels that would provide adequate fiscal resources. The government still maintains substantial financial reserves, but they have dwindled significantly since 2016. The pace of domestic reforms has been slow. Saudi Arabia's regional involvement has grown as it has become less reliant on the US taking the lead. Relations with Iran remain very poor.

**Spain:** Spain continues to struggle with the economic, political and social fallout from the eurozone crisis. While unemployment has edged down from its post-collapse peak, it remains at historically high levels. Spain has accepted increasing amounts of foreign direct investment in order to stabilize its economy. But its politics remain predominantly inwardly focused – with a largely pro-EU bent – as the government attempts to build a record of sustainable growth. Like many European states, Spain has developed links with the Iranian economy since 2015. A number of smaller Spanish banks have moved quickly to establish business with Iran since the 2015 deal.

**Syria:** A ceasefire agreed in 2016 has largely frozen the Syrian conflict, without resolving it. With Russian aid, the Assad regime has managed to regain control over the whole of the western third of the country, including over former rebel-held areas. The rest of the country is held by various rebel groups, including what remains of ISIS. While the ceasefire has largely held for over a year, thanks mostly to the exhaustion of the various forces involved, a lasting political solution remains entirely out of reach. (Please note that Syria will not be played by a participant during the scenario exercise.)

**Turkey:** Turkish frustration with the US and the EU has continued, and the country's growing authoritarianism has further soured relations with both. At the same time, Turkey remains opposed to what it sees as Iran's attempts to increase its power in the region; Ankara seeks American support to counter this development. Turkey's position is further complicated by its growing trade, energy and tourism links with Iran.

**United Kingdom:** A close vote in the June 2016 referendum kept the UK within the EU. This has, for now, staved off nationalist tendencies in the Westminster parties and in Scotland. UK military forces have continued to shrink since 2016, but the country still spends 2 per cent of GDP on defence. Given their close ties to the US, British banks have been cautious about engaging with Iran, but the UK has started to explore links with Iranian energy producers.

**United States:** The 'pivot' towards Asia of the previous administration has continued, but the US continues to have substantial engagement with the Middle East. A significant proportion of the American public remains concerned about terrorism, supportive of Israel and suspicious of Iran. The strains of isolationism that began to emerge in the wake of the Iraq War have largely receded in popular American discourse, though the public remains wary of major military engagements where the national interest is not directly threatened. The US economy is far less exposed to Iran than are European economies, due to continuing Congressional attempts to limit commercial engagement with the country.

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