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# Turning Inter- dependence into Complementary Action:

EU-China Relations  
and the Quest to Save  
the Nuclear Agreement

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## Acronyms

BRI	Belt and Road Initiative
CIPS	China International Payment System
CNPC	China National Petroleum Corporation
EIB	European Investment Bank
ELM	External Lending Mandate
EU	European Union
FATF	Financial Action Task Force
IAEA	International Atomic Energy Agency
INSTEX	Instrument in Support of Trade Exchange
JCPOA	Joint Comprehensive Plan of Action
NPT	Non-Proliferation Treaty
NWFZ	Nuclear-Weapon-Free-Zone
OPCW	Organization on the Prohibition of Chemical Weapons
PRC	People's Republic of China
SPV	Special Purpose Vehicle
SWIFT	Society for Worldwide Interbank Financial Telecommunication
UK	United Kingdom
UN	United Nations
UNSC	United Nations Security Council
US	United States
WMD	Weapon of Mass Destruction

*One year after the US withdrawal, and Iran's subsequent and recent announcement to gradually scale down its implementation, the destiny of the JCPOA remains unclear. The EU is caught in a double bind between effective multilateralism and preservation of transatlantic relations. China, despite its economic statecraft, evades the burden of safeguarding the deal on its own and remains hesitant to take concrete action. However, as recent events highlight, finding concrete measures to uphold the agreement is more pressing than ever. This policy report lays out what the role of China could be in the quest to safeguard the JCPOA. The report outlines the viewpoints of Brussels and Beijing, and sketches converging and diverging interests and their influence on respective policy choices, and argues that, despite deepening political constraints (e.g. normative differences, systemic challenges and deepening reciprocal mistrust), there is both common ground and a need for cooperation between the E3 countries and China with regard to the JCPOA. It concludes with an assessment of two scenarios for the future of the JCPOA and develops concrete policy recommendations for further European action.*

## 1 Introduction

The 2015 nuclear deal between Iran and the E3/EU3+3 is facing an uncertain future. With the anniversary of US President Donald Trump's withdrawal of the United States from the deal, and Iran's subsequent announcement to gradually decrease its implementation of the JCPOA, the focus is now on the remaining E3/EU+2 to avert the collapse of the Joint Comprehensive Plan of Action (JCPOA). Many believe the disintegration of the deal would result in increased instability in the region of the Middle East. While some European policymakers state that the deal now has one foot in the grave, others push for the E3 to increase joint efforts with Russia and China to save it (Geranmayeh 2018). With China's increasing presence in the Middle East in general, and deepening diplomatic and economic ties with Iran in particular, Beijing's commitment is critical to salvaging the deal. Although consensus is growing within European policy circles that the EU should take a tougher stance on Chinese activities in the West (European Commission 2019), the nuclear deal poses a possibility for the EU and China to readjust their foreign and security policies towards each other and work together to implement the multilateral nuclear non-proliferation framework.

This policy report sheds light on the relationship between the EU and China and its possible impact on the future of the nuclear deal, via a three-tiered approach of interest-risk-action. It sketches the main convergences and divergences of interests and risks that might influence the respective choice of policy strategies

of the EU, China and Iran. In addition, it outlines the main constraints that the actors face when trying to find long-term solutions to safeguard the nuclear deal. These constraints may stem from complicated bilateral relationship between the remaining signatories, not least between the EU and China; but also from the double bind of multilateralism and functional transatlantic relations. In the course of the analysis, the report evaluates the respective policy discourses within the EU and China, taking into account official policy publications, media reports and expert interviews from the EU and China.<sup>1</sup> Building on the interest-risk-action analysis, the report then outlines the possibilities and constraints of cooperation between the EU and China and argues that despite deepening political constraints in the EU-China relationship, as outlined in the most recent China strategy paper of the EU Commission (e.g. normative differences, systemic challenges and deepening reciprocal mistrust), both entities could profit from complementary action as regards the JCPOA. Finally, the report develops possible scenarios for the future of the JCPOA and suggests concrete policy recommendations for more European action.

<sup>1</sup> These interviews were conducted in February / March 2019 in Berlin, Shanghai and Beijing. The interviewees are experts and officials from the European Delegation to China, Chinese government-affiliated think tanks, independent think tanks, universities and other research institutes, among them the Chinese Academy for Social Sciences, the Chinese Institutional for International Studies, the Shanghai Institute of International Studies, Fudan University, Tsinghua University and others. Due to sensitivity issues, names cannot be disclosed. Further information can be provided upon request.

## Background

### The Joint Comprehensive Plan of Action (JCPOA)

The JCPOA was agreed on by Iran and the EU/E3+3 (China, France, Germany, Russia, UK and the US) on 14 July 2015. The main objective of the EU/E3+3 signatories was to limit the scope of Iran's nuclear program and increase its transparency in order to ensure that it does not lead to the production of nuclear weapons. Iran's aim was *sanctions relief* and to prove its *compliance to international norms* and a *multilateral agreements*. All signatories anticipated that the full implementation of the JCPOA, as a *nuclear non-proliferation agreement*, would contribute to regional and international peace and security. The agreement would allow Iran to move forward with an exclusively *peaceful, indigenous nuclear program*. In exchange, all UN Security Council sanctions, as well as multilateral and national sanctions related to Iran's nuclear program (including steps on access in trade, technology, finance, and energy) would be lifted. The JCPOA was endorsed by *UN Security Council Resolution 2231*. While the transition (2023) and termination dates (2025) of the JCPOA remain valid, the decision of US President Donald Trump to withdraw the US from the nuclear deal in May 2018, followed by Iran's announcement to gradually scale down its implementation in May 2019, has raised serious concerns regarding the survival of the deal. Despite Iranian compliance, certified by more than eleven reports by the International Atomic Energy Agency (IAEA), the US President decided to *re-impose sanctions*. To date, the remaining signatories, now called E3/EU+2, are struggling to find a long-term solution to safeguard the JCPOA.

## 2 Development of EU-China relations

The following section very briefly discusses the overall political environment of EU-China relations. First, it outlines the constraints and rivalries that characterize current EU-China relations. Second, it points to crucial differences in the approach of the EU and China towards foreign and security policy that could pose challenges to EU-China collaboration. And third, it locates the issue of nuclear non-proliferation and the JCPOA on the agenda of EU-China relations.

### 2.1 The Political Environment of EU-China Relations

EU-China relations have undergone several phases characterized by varying degrees of cooperation. The reorganization of the EU, per the Lisbon Treaty in 2010, led to new approaches in coordinating relations with China and was marked by adopting a new China strategy in 2016 (European Commission 2016). Current EU-China political relations are undeniably marked by persisting ideological differences, especially concerning human rights, humanitarian interventions and sanctions as policy instruments. China's authoritarian response to domestic issues, as well as its expansive foreign policy, have increased hostilities and deep concern within the EU. The most recent strategy paper of the European Commission on China, published in March 2019 in preparation for the upcoming EU-China summit, brands China a "systemic rival promoting alternative models of governance" and an economic competitor (European Commission 2019). The paper further suggests the tightening of EU rules on Chinese investments in Europe if China does not change its overall conduct on issues such as corporate state subsidies or public procurement. However, there are attempts to manage these ideological differences through increased dialogue (Christiansen et al. 2019: 22) and to find complementary foreign and security policy strategies. Thus, it could be argued that current EU-China relations are now at the stage of building a realistic relationship (Christiansen et al. 2019: 22), characterized by increased pragmatism of an expanding China and a more robust defense of European interests. This new realism could translate into a more hands-on, case-by-case approach regarding the degree of cooperation possible on different issues.

### 2.2 Locating Iran and JCPOA on the Agenda of EU-China Relations

Within the respective security agendas of the EU and China, the issue of nuclear non-proliferation and disarmament was among the most discussed during the annual EU-China summits (see Figure 1), ranking immediately after the top issue of conflict resolution and prevention.

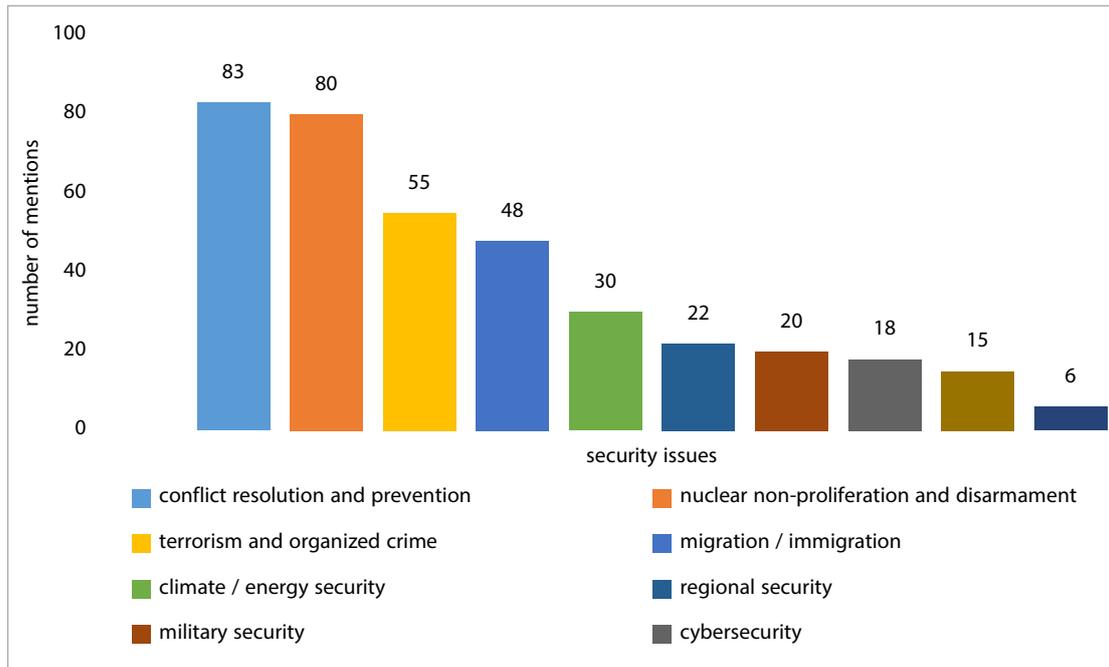


Figure 1: Security issues discussed between the EU and China. Authors' depiction.<sup>2</sup>

Cooperation on nuclear non-proliferation in general and the JCPOA in particular is often mentioned as a “showcase of cooperation” (Interview with Chinese policy expert, 07.03.2019) between the EU and China — an unexpected and counterintuitive perspective in times of deepening political tension. So far, however, minimal concrete action has actually taken place; rather, the main activity has been rhetorical endorsement of cooperation and exchange on possible measures during the Strategic Dialogues of the EU and China. Many from within European policy circles voice concern that stepping up cooperation with Beijing on security issues would grant China increased political and military capacities, a questionable move in times of growing reciprocal mistrust (Interview with Chinese expert, 18.03.2019). Other voices, however, argue that cooperation within a multilateral agenda and under a UN framework can only help the EU to find complementary measures with China to safeguard the JCPOA (Interview with Chinese policy expert, 06.03.2019). For China, on the other hand, the EU’s close ties to the United States represent an obstacle to cooperation. Although the US withdrawal from the deal has created space for the E3 and China to work more closely together, Chinese policymakers perceive that the EU rarely challenges the US and that autonomous action apart from the US remains difficult (Interview with Chinese policy expert, 01.03.2019).

<sup>2</sup> Figure 1 displays the number of mentions of a range of selected security issues in EU and China official policy papers and the joint declarations of the annual EU-China summits from 1998 to 2018 (not including the most recent China strategy paper of the European Commission, issued in March 2019). These security issues are explicitly referenced in the official policy papers and joint declarations, as well as in other key documents such as the 2003 European Security Strategy and its 2008 Implementation Report.

However, as this report argues, even against the backdrop of deepening tensions and the above mentioned constraints, nuclear non-proliferation and disarmament in general and the JCPOA in particular pose a possibility for increased cooperation between the EU and China.

### 3 Interest-Risk-Action Analysis

The following section sheds light on the economic, security and geo-strategic interests of the EU, China and Iran with regard to the nuclear deal and the respective risks if the deal falls apart. It sketches the main convergences and divergences of interests and risks that could influence the respective policy strategies of the EU, China and Iran. In addition, it outlines the main constraints that the actors face when trying to find long-term solutions to safeguard the JCPOA. These constraints stem from complicated bilateral relationships, not least between the EU and China, as well as from the challenge to adopt a multilateral approach without alienating the US.

#### 3.1 China-Iran Relations

China has shown to be an active participant in the global nuclear non-proliferation regime, of which the Nuclear Non-Proliferation Treaty (NPT) is the core component. China was one of the signatories to the 2015 nuclear agreement and played a constructive role throughout the negotiation process (Tiezzi 2016). The E3+2 signatories gathered in Vienna in May 2018 to “review the implications of the withdrawal of the United States from the JCPOA and discuss the way forward to ensure the continued implementation of the deal” (European External Action Service 2018). China confirmed at that meeting that it would take over the task to modernize Iran’s Arak heavy water reactor, which can be interpreted as a sign that Beijing is committed to safeguarding the JCPOA (Press TV 2018). This task, however, has become significantly more complicated with the recent Iranian warning of its intention to reconstruct the Arak heavy water reactor as a second step of its gradual withdrawal from the nuclear deal.

The following two statements underscore China’s posture on the JCPOA following the US withdrawal. First, a spokeswoman of the Chinese Ministry of Foreign Affairs, Hua Chunying, emphasized China’s five-point proposal in July 2018: to observe international rules; to earnestly implement the JCPOA; to maintain stability in the Middle East; to abandon any form of unilateral action; and to highlight dialogue and consultations between the remaining

signatories (Jiayao 2018). Additionally, President Xi Jinping, during his remarks at the 18th Meeting of the Council of Heads of Member States of the Shanghai Cooperation Organization in Qingdao, highlighted China's willingness to cooperate with other signatories to save the JCPOA (China Daily 2018).

Against this background, the three dimensions outlined below conceptually explain China's approach as a participant in the international nuclear non-proliferation regime in general and with respect to Iran's nuclear deal in particular.

### ***The Economic Dimension***

The basis of the China-Iran economic partnership is China's need for Iranian energy resources; thus, from a long-term perspective and irrespective of the JCPOA's potential achievements or failures, China is expected to stay engaged with Iran's energy supplies (Khajepour 2019). China is the largest consumer of Iran's crude oil (Oil and Gas Journal 2018), with purchases of over 600 thousand barrels per day in 2017/18 (Theobald 2018), having acquired around 24 percent of all Iranian crude oil exports in 2017 (EIA 2019). During a visit to Iran by Chinese President Xi Jinping in January 2016, both countries agreed to expand multidimensional ties and increase bilateral trade more than tenfold to \$600 billion in the next decade (Bilal 2019). However, the US re-imposition of sanctions on Iran in 2018 has affected Chinese oil imports, although less harshly than other importers. China was one of eight countries that received a US waiver that allowed the purchasing Iranian oil, albeit at reduced rates (around 40 percent less, a maximum of 360,000 barrels per day) and only until May 2019 (Pamuk and Gardner 2018). It is worth noting that China has, to some extent, benefited from Iran's global isolation by stepping into the economic gap left by the West (Financial Tribune 2018a), and this financial advantage may be a factor that hinders more proactive Chinese policies regarding long-term solutions to the nuclear deal. When the US decided in April 2019 not to extend the waivers, trading with Iran became much more complicated for China. Although it is expected that China will remain Iran's sole trading partner, Beijing will likely reduce its purchases in order not to jeopardize trade talks with the US (Bases 2019).

Iran has further economic significance for China due to its expansive market and supplies. China is Iran's largest trade partner and accounts for 22.3 percent of Iran's total trade (Financial Tribune 2018a). Following the US withdrawal from the JCPOA, China has moved to the center of Iran's economic horizon (Theobald 2018). Crude oil makes up 80 percent of Chinese imports from Iran (Garver 2006). Iran, shipping around 22 million tons, is also the sixth largest supplier of iron ore to China, the world's largest importer of the mineral in 2017 (Financial Tribune 2018b). Iran's imports from China mainly consist of intermediate and capital goods for industrial machinery and equipment, cast

iron, steel, road construction machinery, plastic products, as well as electric and electronic devices and machinery. Additionally consumer goods such as apparel, mobile phones, polyester, chemicals, household appliances and telecommunications equipment make up a considerable share of Iran's imports from China (Financial Tribune 2017). An additional point is that China is willing to invest in Iran in the context of their Belt and Road Initiative (BRI)<sup>3</sup>.

### *The Security Dimension*

The main driving force behind China's commitment to nuclear non-proliferation can be seen in India's and Pakistan's nuclear capabilities. It is a Chinese perception that the United States pursues a double standard policy towards nuclear proliferation, especially as regards India (Xia 2008). For example, in March 2006 the United States and India reached an agreement that would provide US nuclear power assistance to India while also allowing that country to sustainably step up its nuclear weapons production (Xia 2008), which is in sharp contrast to the US policy towards Iran.

The issue of non-proliferation has increased in importance for China following Xi Jinping's new foreign policy spearhead of the Belt and Road Initiative in 2013. China plans to build 30 reactors in BRI countries, many of which are either not party to global nuclear non-proliferation regimes or lack the regulatory basis for controlling nuclear fuel uses (Reynolds 2018). As a counter-balance, China is putting considerable effort into being known as a supporter, rather than violator, of nuclear non-proliferation regimes. Regional security is also an important issue for China, especially as it relates to the China-Pakistan Economic Corridor (Stanzel 2018). Any factor that would disturb security and stability in Pakistan's neighborhood attracts China's close scrutiny and attention. In this regard, the role that Iran can play is noteworthy: Iran is not only a stable country in itself, but views itself as having the potential to influence for the sake of wider stability in the Middle East and West Asia. Tehran would welcome discussion and elaboration on this potential during future E3+2 talks.

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**3** The Belt and Road Initiative, also called the Silk Road Economic Belt, is a Chinese Eurasian infrastructure, development, connectivity and economic cooperation project. It was established in 2013 under Xi Jinping (Ghiasi and Zhou 2017) and aims to interlink the countries and economies of the Eurasian continent. The official white paper, 'Vision and Actions on Jointly Building Silk Road Economic Belt and 21st Century Maritime Silk Road', introduced the BRI's main objectives, also called the 'five connectivities': to coordinate policies in the countries along the road, to facilitate connectivity, to support unimpeded trade, to foster financial integration, and to establish people-to-people bonds (National Development and Reform Commission, Ministry of Foreign Affairs of the People's Republic of China, and Ministry of Commerce of the People's Republic of China 2015).

### *The Geostrategic Dimension*

Iran is of geopolitical significance for China. Iran fits into China's plan to create a chain of partnerships from East Asia to the Middle East and Europe in its BRI (Pethiyagoda 2018). As the only country with a coastline on both the Caspian Sea and the Indian Ocean, as well as its proximity to the Strait of Hormuz (Bilal 2019), Iran is a coveted access route for connecting China to the Middle East and Eurasia. China has organized the several corridors for the BRI in three main directions. The first corridor direction is via Northern Europe, Russia, Central Asia and China. The second will link the Mediterranean and the Persian Gulf through West Asia and Central Asia with China, while the third is meant to connect South Asia, the Indian Ocean and Southeast Asia with China (Guoqiang 2015). Each of these three main trajectories is related to Iran. The first one passes through Russia and five Central Asian countries which surround Iranian routes. The second direction linking the Mediterranean to the Persian Gulf constitutes the most strategic area for Iran. And the third, via a maritime connection, provides access from the Indian Ocean to the Chabahar port in Iran (Shahmohammadi 2018).

China has gradually but intentionally tried to shift the international mindset regarding its global position, aiming to adopt a peaceful rise to great power status (Bijian 2005). Part of China's international status strategy is its attempt to underscore that the inclusion of the United States in multilateral decision making is not essential to success. This can be seen in China taking the lead as a dominant economic player in the Trans-Pacific Partnership, following the US withdrawal (The Detroit News 2018). Following the United States' recent actions on Iran, Beijing has the opportunity to raise its own profile as a responsible player in multilateral frameworks. In other words, China intends to position itself as a valid and essential partner in multilateral agreements, and China's active endorsement of the JCPOA after the US withdrawal can be interpreted from this perspective (McKimm 2018).

## **3.2 EU-Iran Relations**

The EU intends to keep alive the success story of "effective multilateralism" (Cronberg 2018: 243) in the nuclear deal. It remains fully committed to implementation of the JCPOA, as long as Iran respects its nuclear related commitments. The EU's main objectives pertaining to the nuclear deal are ordered along three general priorities. First, prevent further nuclear proliferation and curtail Iran's nuclear program. A major driving force towards upholding the JCPOA after the US withdrawal is the risk of nuclear proliferation, followed by growing military tensions in the Middle East. This is closely connected to the second priority: regional stability in the Middle East in order to avert further

refugee flows to Europe in the wake of violent conflict and state fragility. Especially in view of experiences in Afghanistan in 2001 and Iraq in 2003, the EU seems very eager to avoid destabilization in its Eastern neighborhood (Geranmayeh 2019). The third objective is to continue the gradual normalization of EU-Iran relations and to gain access to the Iranian market.

### ***The Economic Dimension***

On the economic front, the European Commission acts to protect the interests of European companies investing in Iran (European Commission 2018), and has promised to ensure that the lifting of sanctions would be continued (Council of the European Union 2018) even after Trump's withdrawal. In 2016, the first fiscal year after the JCPOA implementation, EU exports to Iran increased by 27.8 percent to 8.2 billion Euro (and to 10.8 billion in 2017); and the EU's imports from Iran grew by 34.8 percent to 5.5 billion Euro (and to 10.1 billion in 2017) (European External Action Service 2018). To ensure that this growth continues, the EU has encouraged European economic operators to continue and deepen economic ties with Iran. EU-Iran trade relations were reversed, however, with the renewal of US sanctions May 2018: Already in the first months after the re-imposition of sanctions, several European firms left Iran. For instance, despite receiving export credit guarantees, Maersk and Peugeot quit their Iranian businesses and Daimler suspended Iranian ventures, fearing US penalties. This 'US factor' has hindered further progress on the JCPOA and has led to the perception within Iranian policy circles that Europe is failing to take effective measures to continue the deal. Despite the amendment of the updated Blocking Statute in August 2018 and the update of the European Investment Bank's (EIB) External Lending Mandate (ELM) making Iran eligible for investment activities (European Parliamentary Research Service 2018), few concrete steps have been taken. Thus, European companies have adopted a reluctant 'wait-and-see' approach.

### ***The Security Dimension***

On the security front, a stable Iran is crucial to Europe for several reasons: first, to prevent further instability in the Middle East with the risk of new refugee flows into Europe; second, to contain risks posed by drug-trafficking and organized drug crime near European borders; and third, to ensure the efficiency of European counterterrorism strategies in the region. Securing nuclear non-proliferation and disarmament is of key importance to the EU, as shown by their commitment to the international nuclear non-proliferation regime, the NPT, and by promoting the work of international verification agencies, such as the International Atomic Energy Agency (IAEA) and the Organization on the Prohibition of Chemical Weapons (OPCW).

During the Munich Conference in February 2019, EU High Representative Mogherini called the JCPOA fundamental and crucial for Europe's security. She further argued that although the deal is obviously not enough to bring peace and stability to the Middle East, it is vital to the EU's credibility as a global actor, for the international non-proliferation regime and for European security interests, as European countries are more exposed to Middle East turmoil than Washington (Dessi 2019).

The case of Iran's nuclear dossier highlights that working in the framework of multilateral institutions can foster cooperation among countries: most negotiations concerning the JCPOA took place under the UN framework and China actively participated as part of the EU/E3+3 (Almond 2016; Finamore 2017: 168). The EU is aware that its own security is connected to the security and stability in the Mediterranean region, in which Iran is viewed as playing a significant role. However, as the 12-point statement on Iran issued by the European Council in February 2019 emphasized, Iran's role for stability and security in the region could and should be more constructive. The statement voiced concern regarding Iran's ballistic missile activities, especially those inconsistent with UNSC resolution 2231 (European Council 2019). Within this context, different opinions of Iran's policies and posture in the Middle East have emerged within member states of the European Union, leading to divergence among European capitals over how far to test the limits of US secondary sanctions (Geranmayeh 2018). These differences make it more difficult for the EU to speak with a unified voice in defending the JCPOA.

### *The Geostrategic Dimension*

On the geostrategic front, Iran occupies a strategic location in the Middle East: it forms a bridgehead on the way to Central Asia and India and points the way to Africa and Europe. Iran is the seventeenth largest country and sixteenth most populous country in the world (Stratfor 2011). Iran's southern coast stretches the length of the Persian Gulf, through the Strait of Hormuz and into the Bay of Oman, offering Iran vast capacities in the relatively narrow Strait of Hormuz (Rice 2013). Iran shares land borders with 15 countries and has maritime accessibility on its northern and southwestern regions. Therefore, it is a country that can play a crucial role as both a transit route connecting markets and as a military powerhouse keeping these routes safe for the sake of regional stability. As some argue, Iran has the potential to serve either as a catalyst for war and use of traditional hard power or as a conduit for economic, political and cultural soft power (Rice 2013). However, stumbling blocks remain in the EU-Iran relations when it comes to the respective perceptions on the Middle East in general and Iran's role in the region in particular. The EU

views Iran's regional posture as a point of concern, especially when it comes to Tehran's support for non-state actors in Lebanon, Iraq, Syria and Yemen (European Council 2019). The contrasting perceptions held in European capitals and Tehran on this regional conflict zones are far from being reconciled.

### 3.3 EU-China Relations

Since the withdrawal of the United States from the JCPOA, the interdependency between the remaining signatories remains high, as no single country is able nor willing to shoulder the burden of safeguarding the deal, and thereby confronting the US, unilaterally. Although the upholding of JCPOA, post-US withdrawal, is often mentioned as a showcase of cooperation between the EU and China, minimal concrete action has been taken that goes beyond diplomatic rhetoric. The following section outlines how and why complementary action could serve the interests of both the EU and China, as well as reduce the risk of the nuclear deal's failure.

#### *The Economic Dimension*

In considering the economic dimension of EU-China relations with regard to the JCPOA, it is apparent that despite similar long-term economic interests, such as gaining access to and increasing investments in the Iranian market (Hong 2014: 413), the EU is notably more constrained than China regarding its relationship to the United States. Nevertheless, the European Commission considers the JCPOA important in protecting the interests of European companies investing in Iran (European Commission 2018), and has promised to ensure that the lifting of sanctions will be continued (Council of the European Union 2018). Despite the ongoing US-China trade war, the US remains China's largest trading partner, with an estimated annual trade valued around \$650 billion (Rouhi 2018). But Chinese investments in Iran have also increased since the nuclear agreement and lifting of sanctions. China's close economic ties to Iran provide more options, compared to the EU, to work around US sanctions; for instance, via using smaller oil businesses with looser or no ties to the US economy.

#### *The Security Dimension*

There is a higher degree of overlap between China and the EU concerning security issues. Within the EU-China cooperation framework, the issue of non-proliferation and disarmament of weapons of mass destruction (WMD) has become a key pillar in the past decades. Not only does the topic feature high on the agenda of the annual EU-China summits, but it is also discussed frequently at the EU-China High-Level Strategic Dialogue meetings between

the EU's High Representative Federica Mogherini and China's state councilor Wang Yi. Also, nuclear non-proliferation and disarmament is an important part in the EU-China 2020 Strategic Agenda for Cooperation of 2013 (Casarini and Song 2016: 63). Nuclear non-proliferation is the security issue most often mentioned in the joint declarations that follow the annual EU-China summits. China's most recent policy paper on the EU (December 2018) stresses the importance to "jointly preserve the authority of the Non-Proliferation Treaty (NPT) as the cornerstone of the international nuclear non-proliferation and disarmament regime, and support global efforts to ban nuclear tests" (Mission of the People's Republic of China to the European Union 2018).

### *The Geostrategic Dimension*

The EU and China both stress the importance of a stable Middle East and avoidance of further destabilization of the region. reaction to the US decision in April 2019 to not extend nuclear waivers, Chinese Foreign Ministry spokesman Geng Shuang warned that the US had "further aggravated" tensions over Iran's nuclear deal and called on all parties to exercise restraint and avoid escalating tensions in the region (Ministry of Foreign Affairs of the People's Republic of China). Thus, Brussels and Beijing both need to construct a new "balance politics" in the multilateral system with actors other than the US (Criekemans 2018). However, the existing interdependence between China and the EU with regard to the JCPOA have not yet been used to develop new cooperative measures (Hongjian 2018): Despite the frequent emphasis on nuclear non-proliferation in EU-China documents, minimal joint action has taken place, as neither China nor the EU seem willing to become the new leaders of safeguarding the deal. This is mainly due to the fact that both actors, albeit to varying degrees, seem to fear the potential US retributions.

## **4 Future Scenarios**

This section outlines two potential scenarios: First, the failure of the JCOPA and the likely ramifications for the region and beyond; and second, the preservation of the JCOPA via complementary action of the EU and China. As regards the latter, both obstacles and possibilities and for such complementary action are addressed.

### ***Failure of the JCOPA***

Should the remaining E3/EU+2 parties fail to salvage the nuclear deal, China and the EU would face serious security risks. While the current trajectory already endangers the EU's non-proliferation principles, many European policy-makers fear the risk of a regional nuclear arms race and potential military escalation in the Middle East. Even though Iran strongly denies seeking nuclear arms, the demise of JCPOA would also exacerbate uncertainty on Iran's nuclear dossier, and pose a serious threat to Europe in its immediate neighborhood. (Geranmayeh 2017) Any form of direct or indirect military confrontation between Iran and the US (or US-backed forces) in the Middle East would further fuel regional conflicts and destabilization. This scenario would impose heavy costs both for the EU and China: the EU fears a spillover of instability and new refugee flows; and China is deeply concerned that the 'firewall' (防火墙, fanghuoqiang) against terrorism and instability would fall, with potential spillover of insurgency and instability at home, i.e. Muslim extremist forces penetrating into Xinjiang. Destabilization, of the region in general and Iran in particular, would also endanger Chinese investments along the Belt and Road Initiative (Geranmayeh 2017). Thus, both actors would lose geo-economic stability in a region of strategic interest (McKimm 2018).

### ***Rescue of the JCOPA***

As outlined in this report, the overlapping interests of the EU and China on economic, security and geopolitical issues, alongside the important role a stable and integrated Iran can play for both, provides common ground for bilateral complementary action, despite the overall political constraints between the two parties. To date, however, both the EU and China rely on the efforts of the other to create measures to save the deal. China's willingness to cooperate actively with the EU to save the nuclear deal has remained limited, despite various rhetorical endorsements of cooperative action. This is the case even though China increasingly views itself as the emerging global power and arbiter of international negotiations and agreements (Perper 2018, Faris and Lee 2017). The argument within the Chinese policy discourse is that, as China's role in the Middle East is comparably limited, the country should best leave the lead to the E3 (Germany, France and the UK). This assessment is supported by leaked diplomatic cables of the EU-China summit in 2018, which were published by the New York Times. According to these documents, Donald Tusk asked the Chinese foreign minister Li Keqiang whether China would consider financial mechanisms to mitigate US secondary sanctions. Li Keqiang replied that China would not take unilateral action but would follow and support the actions of E3, adding that China looks to the EU to protect Chinese national interests (New York Times 2018).

The conflicting demands by Tehran and Washington provide a dilemma to both European and Chinese policymakers. The EU is not only caught between safeguarding multilateralism *and* the transatlantic bond, but also lacks the financial power and economic statecraft to shoulder the burden of potential economic retaliation by the US. Nor can the EU offer Iran sufficient alternative trade options to mitigate US sanctions. China, in contrast, is Iran's largest trade partner: Beijing's close economic ties to Tehran provide significantly more options to circumvent US sanctions. And yet, as a pragmatic player on the international stage, China is unlikely going to take unilateral action against the US, who, despite ongoing trade disputes, remain China's largest trading partner.

The EU could be seen as the neutral partner that China needs to manage the power balance in the region, a role initially filled by the US (Geranmayeh 2018). The EU has already taken a first step forward with the development of a Special Purpose Vehicle (SPV)<sup>4</sup> in early 2019. The SPV, called INSTEX (Instrument in Support of Trade Exchange), is registered in France and has a German managing director (Batmanghelidj 2019). According to the joint communiqué of the E3 after its launch, the SPV is designed to be opened to third countries in the future. In response, China stressed that the chance to launch a non-US based trade mechanism should not be missed and thus emphasized its support for INSTEX (Institute of Economics CASS 2018). Ambassador Zhang has underscored that Chinese companies would be interested in using the SPV and thereby endorsed it (Financial Times 2019). Furthermore, other Chinese officials announced in January 2019 that the country was hoping to sustain its trade with Iran without putting its financial system in the crosshairs of the US (Motamedi 2018).

The SPV may not be the ultimate solution to save the JCPOA, but it is the first resilient response from the E3 to counter US sanctions. The sharing of risk exposure among the three European signatories already reduces the potential costs for individual countries if the US decides to take steps towards sanctioning INSTEX. Getting additional shareholders such as China, India or Turkey involved would further reduce the risk exposure and broaden trade options for Iran. After all, these new trade options have been the main incentive for Iran to abide by its obligations of the JCPOA.

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<sup>4</sup> The Special Purpose Vehicle functions as a sort of euro-denominated clearing house for Iran to continue conducting trade with European companies. It protects the companies against US sanction-related penalties. For the moment, trade focuses on non-sanctionable goods such as for example humanitarian, medical and farm products.

## 5 Conclusion and Policy Recommendations

It has been argued in this paper that effective and complementary measures are needed from the remaining signatories to ensure the survival of the JCPOA. It has also been shown that none of the remaining signatories is willing nor able to take the lead in this quest. It is thus high time to agree on, develop and adopt joint measures. Despite similar interests and risks between the E3 capitals and Beijing, few concrete actions have taken place to date. The multilevel interdependencies and complementary needs briefly indicated in this paper show, however, that there is common ground for collaboration.

Based on these considerations and in order to develop a long-term solution safeguarding the JCPOA, the EU should

- **explore on a case-by-case approach differentiating between fields of competing interests which call for a unified European response to Chinese policies and fields where complementary action with China based on shared interest is possible and fruitful.** The issue of nuclear non-proliferation can constitute common ground for such complementary action. Such an approach can lead to mutual benefits on some issues while still retaining fundamental differences in others. A clear distinction between EU-China competition in systemic, normative or political terms and the possibilities for complementary action within a multilateral or multinational agenda could help to create a realistic relationship between the two actors. Furthermore, China's obvious desire to be recognized as a valid partner in multilateral frameworks can be used to foster an environment for complementary action. Such a framework would furthermore help impeding unilateral Chinese action.
- **specify the framework of joint action with China in the quest to safeguard the JCPOA and turn the increased interdependence between the remaining signatories into concrete cooperative measures.** Complementary action between the EU and China for instance in jointly using INSTEX to protect trade with Iran from US sanctions could help to safeguard the JCPOA, generating economic and security benefits for both the EU and China.
- **encourage China and other third parties to join INSTEX** in order to significantly increase the scope of trade channeled through it, and to reduce the exposure of the E3 to US countermeasures and sanctions.
- **call on Iran's potential to be a constructive actor in its neighborhood while acknowledging Tehran's continued commitment to the JCPOA as a constructive act in itself (notwithstanding Iran's recent announcement to gradually scale down its commitment to the deal).** Both the EU

and China are critically affected by regional instability in the Middle East and should therefore develop a shared view on Iran's regional role. While keeping the focus on the nuclear file, such a shared view can speed up consultations on how to safeguard the JCPOA among the remaining E3/EU+2 countries.

- **push back against the binary of *either safeguarding the JCPOA or protecting transatlantic relations*.** The JCPOA is first and foremost about nuclear non-proliferation; it is not primarily about political and economic relations with the Islamic Republic of Iran. Safeguarding the JCPOA is aimed at preventing a nuclear arms race in a highly volatile region. European capitals and Beijing should emphasize this key aspect of the nuclear agreement in their consultations with US interlocutors based on their interest to keep both the JCPOA *and* relations with the US intact.

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