International Business and Geopolitics: The case of Iran

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ABSTRACT: The objective of this research is to analyze the impact of geopolitics upon international business through the case of Iran. This research was initiated after the United States (US) pulled out from the Joint Comprehensive Plan of Action (JCPOA) and threatened to sanction all foreign companies with ongoing business in Iran. Many European Union (EU) firms were already quitting the country, in fear of US retaliation despite the EU insistence to maintain business with the Islamic Republic. To understand why several European companies were submitting to the US approach towards Iran, rather than making decision based on the EU policy, we carry out a review of how US/EU members-Iran relations affected European trade with Iran before the JCPOA. More specifically, we have analyzed the period going from 1971 until 2017. The results indicate that, contrary to our expectations, today's scenario is not a given in US-EU-Iran relations.

Key words: IRAN, EU, US, JCPOA, GEOPOLITICS, INTERNATIONAL BUSINESS

Títol: Negocis Internacionals i Geopolítica: El cas d'Iran

Resum: L'objectiu d'aquesta recerca es analitzar l'impacte de la geopolítica sobre els negocis internacionals, a partir del cas d'Iran. Aquesta recerca va començar just després que els Estats Units (EUA) abandonessin el *Joint Comprehensive Plan of Action* (JCPOA) i amenacessin amb sancionar totes aquelles empreses que tenien negocis amb la República Islàmica. Per entendre perquè algunes empreses europees es sotmetien a la política americana cap a l'Iran, en comptes de prendre decisions basades en la política europea, hem dut a terme una revisió de com les relacions entre EUA/Membres de la Unió Europea-Iran han afectat les empreses europees a l'Iran abans del JCPOA. De manera més específica, hem analitzat el període des de 1971 fins a 2017. Els resultats indiquen que aquest escenari no era l'habitual entre les relacions EUA/UE amb Iran.

Paraules clau: IRAN, UE, EUA, JCPOA, GEOPOLITICA, NEGOCIS INTERNACIONALS

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INTRODUCTION

The Islamic Republic of Iran has the world's second largest natural gas reserves. It also accounts for the world's fourth largest oil reserves. Iran is indeed, one of the most hydrocarbon-rich areas on Earth. Nevertheless, in recent years it has been subject to sanctions from the United Nations (UN) Security Council, after allegedly not complying with the safeguard agreement regarding its nuclear development program. As the International Atomic Energy Agency dictated, *"Iran had not provided sufficient clarification of its nuclear intentions"* (Hunter, 2010 p.96). The Joint Comprehensive Plan of Action (from now on, JCPOA) that was signed in 2015 by the E3/EU-3, that is: China, Russia, the United States (US), the European Union (EU), France, Germany, and the United Kingdom (UK), aimed at lifting these sanctions and reshaping Iran's trade in exchange for controlling its nuclear development. The JCPOA was set to end years of austerity, lack of diplomacy, and difficult trade, and to open the path to an easier, more convenient economic agreement for all binding parties.

Nevertheless, while France, Germany, the UK, and the other EU Member States have lifted sanctions and have fostered trade by sticking to the JCPOA, Trump's administration pulled out the US from the deal in May 2018 and re-imposed sanctions on trade with Iran. Since January 2017, when Donald J. Trump assumed the presidency of the White House, the EU and the US are no longer on the same page regarding Iran. Indeed, the US is to impose sanctions on any company, American or not, that undergoes business with the Islamic Republic.

This has led European international companies to take different strategies. Some of them are quitting the country and stopping their joint venture enterprises, like Danish shipping group *Maersk*, French energy giant *Total*, that currently holds control and exploitation of the world's largest natural gas field located in Iran, or French *P.S.A.*, the automaker of Peugeot, Opel, and Citroën. These companies have all announced they will leave Iran, unless Washington grants them a sanction waiver. Nevertheless some big firms like French *Airbus,* or automaker *Renault*, main competitor of the group *P.S.A*., have announced that they will remain doing business with Iran, alleging that *"When the market reopens, the fact of having stayed will certainly give us and advantage"*, said Carlos Ghosn, Renault CEO (Kenare, 2018). Why are most European International Companies submitting to the US policy towards Iran rather than making decisions based on the EU policy?

The thesis of this research is that this scenario is a given in US-EU-Iran relations. In other words, European companies have never been able to take strategic decisions that may go against US foreign policy towards Iran. To test this hypothesis, we carry out a review of how US/EU members-Iran relations have affected European business opportunities in Iran before the JCPOA. The review is carried out through both secondary sources (mainly academic articles) and trade and investment indicators. The hypothesis would not be rejected if EU countries had wanted to have pro-business policy with Iran before the JCPOA and were not able to do so due to US meddling. That is, if EU members' foreign policy towards Iran has followed a different evolution than US foreign policy yet their economic relations (exports of goods) with Iran are similar to that of the US.

The paper is structured in five chapters. The first chapter compares domestic and international business characteristics and identifies geopolitics as one of the factors that influence international business decisions. The second chapter looks at Iran from a geopolitics perspective. The third chapter presents a comparative historical perspective of both United States and European foreign policy towards Iran. Chapter four analyzes trade of goods from the EU and US to the Islamic Republic. Chapter five concludes and provides tentative extrapolation.

CHAPTER I: THE RIGHT PLACE AT THE RIGHT TIME

A business is said to be domestic when its economic transactions are conducted within the geographical boundaries of the country. Any economic activity occurring outside the home country is considered to be an international business (Surbhi, 2016). In recent decades the world has witnessed a remarkable growth both of international trade and of overseas production by foreign affiliates. An increasing number of firms and countries are involved in this process, and already in 1996 as much as one third of all outward foreign direct investment were directed to less developed countries (Braunerhjelm, & Ekholm, 1998). This chapter identifies the main factors driving firms to invest or sell abroad and the principal aspects that enterprises consider when investing or trading overseas. The objective is to highlight the importance of geopolitics in international business, that is, the importance of international relations in business decisions.

1.1 Theories and models of international market entry

By expanding trade and investment across different nations, a company is seeking to diversify its risk, multiply its areas of operations, enlarge its market and its customer base, and get access to foreign currency. Following international business theory (the eclectic paradigm, the Uppsala Model, and the business strategy theory), to ensure the success of internationalization, both the company and the country of destination should present certain characteristics.

The eclectic paradigm, also called the OLI Framework was proposed by Dunning (1980), and it is a synthesis of most of the theories on international production. According to the eclectic paradigm, a business that considers pursuing internationalization should be competitive and have three types of advantages as regard to their competitors both in the domestic market and the international market:

ownership advantages, location advantages and internationalization advantages. Ownership advantages refer to specific competitive advantages of the enterprises seeking to engage in FDI. The greater the competitive advantages of the investing firms, the more they are likely to engage in their foreign production (Dunning, 2000). The location advantage refers to the country of destination and considers the country's resources, and its adjacency to potential markets. The more location advantages, such as strong enterprises, stable economy, and potential markets surrounding the country, the more likely are companies to conduct business on it. Finally, internationalization advantages account for foreign market knowledge, such as the language, information about the exporting permits, and appropriate contacts. In short, the more international advantages a firm possesses, the more likely it is to invest abroad, and one of the determinants of this decision is the geographical location of the country targeted by the company pursuing internationalization (Stiebale, 2011).

The Uppsala model is an internationalization theory that is based on a Swedish study of manufacturing firms targeting the entrance to foreign markets (Christofor, 2008). The Uppsala assertion is that internationalization is a slow incremental process: there is a gradual procedure of knowledge acquisition regarding the functioning of the foreign country. Step by step, enterprises learn about the culture and the manners, and thus, how to conduct business abroad. There is a tremendous role being played by cultural differences and socio-cultural factors when a company is entering a foreign market. While in overseas, the way of life, the government, as well as organizations, will not be the same as those in the domestic market of the entering firm (Gammelgaard, & Doerrenbaeche, 2013). In short, the closer in socio-cultural aspects the countries of origin and destination are of the company (the less cultural barriers), the easier the internationalization process.

Last but not least, the business strategy method is grounded on the philosophies of pragmatism. The business strategy theory states that organizations make tradeoffs between some variables in their decision to internationalize and the methods they adopt to do so (Keifer, & Carter, 2005). In that line, Reid (1983) argues that international expansion is contingency-based and takes place by making a choice between competing expansion strategies that are directed by the nature of the market opportunity, organizational resources, and managerial philosophy. Indeed, according to Turnbull and Ellwood (1986) the factors that need to be evaluated while using the business strategy approach are market attractiveness, geographic distance, accessibility, and informal barriers (Cunningham, 1986). Moreover, the selection of the organizational structure to serve the market is dependent on market characteristics and company specific factors like international trading history of the company, company size, export orientation and commitment (Parlabene, 2012).

To sum up, international business theory considers that both the company and the country of destination assets and comparative advantages determine the success or failure of business internationalization. Moreover, internationalization is dependent upon the foreign company having access to the country of destination.

1.2 Internationalization instruments

Conducting business abroad is far more difficult than regular business at home. When staying in its domestic market, a company can foresee and prevent social changes, can adapt to the ongoing innovations within the socio-cultural frame, can influence and decide the political future of the nation, and adapt its products to the homogeneous market. Yet, when going abroad, the aforementioned aspects are further complicated since companies should take into account and anticipate changes in the international relations of the country of destination. The geopolitics of a country may influence the international business decisions since the location decisions of multinational firms can only be understood in the context of their total market servicing strategy (Buckley, 1997). All three main ways of conducting business abroad: direct exporting, licensing, and franchising, are affected by changes in the international politics of a country.

Direct exporting involves exporting straight to a customer interested in buying the product (rather than to a third-party distributor). The company is responsible for handling the market research, foreign distribution, logistics of shipment, and invoicing (Delaney, 2018). Direct exporting is an entry strategy that allows the firm to sell its products directly into the market of interest. The organization makes a straight commitment to the international market (Wanga, et al. 2009). Through direct commitment, the company is capable of having control of its brand and all its operations in the foreign market more than it would be with indirect exporting (Azuayi, 2016). It also means that the company is the one responsible to predict changes in international politics that may affect its business in the country of destination.

Licensing is an entry strategy that gives an overseas company the right to use its product or service for a given time. Most of the properties that are normally licensed include copyright, designs, formulae, patents, trademarks, and brand names (Gauger, et al. 2012). In most cases, licensing is used in the manufacturing sector where firms are offered the right to use process technology, and royalty payment is given in return. Again, however, the international business will need to monitor international politics since its business depends on being able to receive royalty payments.

Franchising as a market entry is where a single company supplies other firms with intangible property. This entry mode is mostly used in the service sectors such as car rental, hotels, and restaurant chains. Franchising is known to work well for companies with a repeatable business model like food outlets, which are easily transferable to other markets. The caveats needed to use franchise model have strong and unique brand recognition that are capable of being utilized internationally (Dwyer & Oh, 1988). As an aside, there is the need for being cautious when franchising, because it can foster or create future competition for our own company.

As in the previous modes of entry, international politics take a vital part when franchising. On the one hand, revolutions and social unrest as the situation given on Egypt and that spread through the Middle East, might endanger timely access to courts, the ultimate interpretation and enforceability of contracts, the applicability of force majeure provisions to excuse non-performance, and the access to capital that is critical to expansion of the system (Daigle, 2018). On the other hand, and in relation with the decisions that European companies are facing, we can consider financial risks. Internationally, franchisors must deal with the possibility that payment in U.S. dollars might be limited or prohibited by certain governments, that withholding taxes will affect how much the franchisor ultimately receives, and that there are costs associated with converting from one currency to another (Daigle, 2018).

1.3. Conclusion

The review of international business theory shows that success in international trade is not only based on the method the companies use, whether direct exporting, licensing or franchising. Nor is it based on the market entry strategy such as OLI Framework, or the Uppsala Model. While those are decisive and far-reaching elements, they also point to the need to take into account international relations, that is, the political relations between the country of origin and the country of destination. We have evaluated the different insecurities that multinationals face when investing abroad, and their possible responses. The accomplishment and clover of firms venture abroad, is directly related with international relations, and particularly, with geopolitics.

CHAPTER II: IRAN'S GEOPOLITICS

According to the theory on international business explained in the previous chapter, the geopolitics of the country of destination is an important determinant of companies' decisions to internationalize. This chapter shows that this has indeed been the case for Iran. While the country has a great potential from an economic geography perspective, its economic development has not benefited with the same trade and investment opportunities than other countries due to difficult international relations. In this sense, the JCPOA represents a window of opportunity for Iran's economy. The chapter is divided into two sections. The first provides an insight at Iran geopolitics from an economic geography perspective. It then moves onto how Iran's economy developed from 1979 to 2004 without trade agreements with third partners.

2.1. Iran's geopolitics from a geographical economic perspective

Geopolitics can be defined as the way a country's physical features influence its international relations with other countries (Devetak et al. 2012). This might include the size of the country, its position on the world map, or having access to natural resources. Yet geopolitics is not only about how a country's geographical economy affects the business conducted with and within the country but also about international politics. Geopolitics is not static but dynamic in nature not only due to the changes that may occur in the economic geography of a country (e.g. new access to natural resources) but also because of changes in international politics. A country with attractive physical features may become less attractive to international business due to its international relations.

Iran, a nation of rich intellectual and historical background, is one of the oldest surviving civilizations in the world. Its political and intellectual depth has profoundly shaped a region of the world known as the Middle East. From the time of the prophet

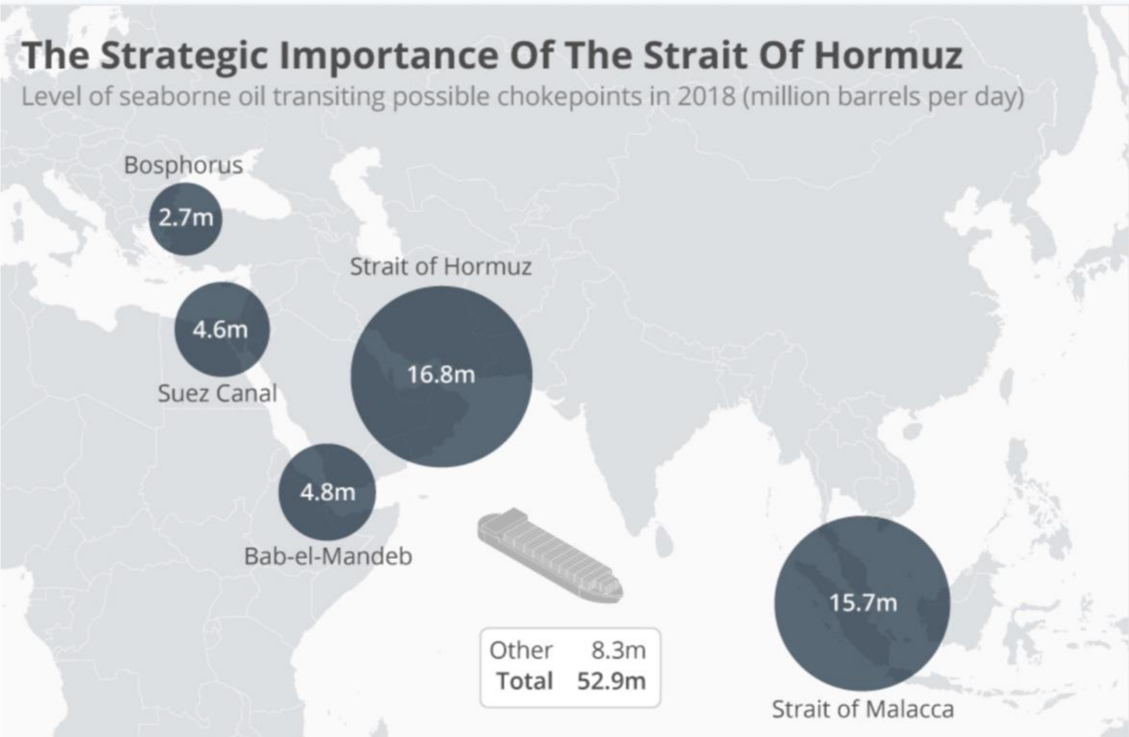
Zoroaster, to the potent and vast Persian empires, to the revolution of 1979, and to the 2009 Green Movement, its impact throughout the region has been remarkably real and consistent (Akhavi, 1980). International business needs to invest in countries with adjacency to potential markets, access to proper communication instruments, an expanded network of ports and roads to ease transportation, and proximity to natural resources. The Islamic Republic of Iran possesses these factors, and as it is today, it holds the key to control the Middle East.

Iran offers adjacency to potential markets, and an excellent position between Europe and the developing Central Asian countries. The Islamic Republic is located in the region of Western Asia, between the Caspian Sea, on the north, and the Persian Gulf on the south. Iran shares borders with Iraq, Turkmenistan, Afghanistan, Pakistan, Turkey, Azerbaijan, and Armenia. It accounts for 2440km[1] of coast on the Persian Gulf, plus an additional 740km of coast on the Caspian Sea. These features benefit the country by particularly having access to big ports and islands of the Persian Gulf and Caspian Sea, and controlling the Strait of Hormuz. The Strait of Hormuz is one of the world's most important oil arteries, and one of the biggest possible checkpoints to global supply. Recent data (see Figure 1 below) shows that nearly 17 million barrels of oil passed through the narrow shipping lane in 2018. That is more than any other global checkpoint for seaborne crude (McCarthy, 2019)

[1] That is around half of the Spanish coastline

Figure 1: The strategic importance of the Strait of Hormuz

Source: Lloyd's List Intelligence, via Financial Times, 2019



Therefore, Iran can play the role of a link between the Western countries and Central Asia, while, on the other hand, connecting Central Asian countries to free waters and international economy. At the same time, Iran has 15 neighbors with a population of about 450 million, which are considered a big market for the Western countries that can see the Islamic Republic as a regional hub for the expansion of their economic activities (Hossein, 2015).

Regarding transportation, being locked in between two seas allows Iran to fully develop its maritime commercial potential. On the one hand, it serves as distributor for the Caspian Sea countries, with its ports of Bandar Noshahr and Bandar Anzali. On the other hand, on the south of the country, the coastline of 2440km acts as a continuous nexus between the Persian Gulf Countries, with over 10 different ports and container terminals, and the control of the Strait of Hormuz, as we have seen above. Nevertheless, the logistics of transportation through land, might present more difficulties due to the fact that the network of highways away from Teheran, is not fully developed, nor well maintained. A rocky landscape, with mostly arid, warm, and dry weather combined with a highly centralized investment has led to a gradual deterioration of Iran's network of roads. Therefore, transportations and shipment of products by land might be considered risky. Other means such as air transportation or through cargo ships might ease the international movements of commodities.

Iran is one of the most hydrocarbon-rich areas in the world. Therefore, the existence of gas and oil in Iran, combined with a lack of updated technology for its exploitation, make it a perfect market for foreign firms to enter. For example, concessions have been given to foreign firms like French hydro-carburant company *Total*, and indeed these firms hold the licenses on the usage of more advanced technology that allows for the exploitation of Iran's natural resources.

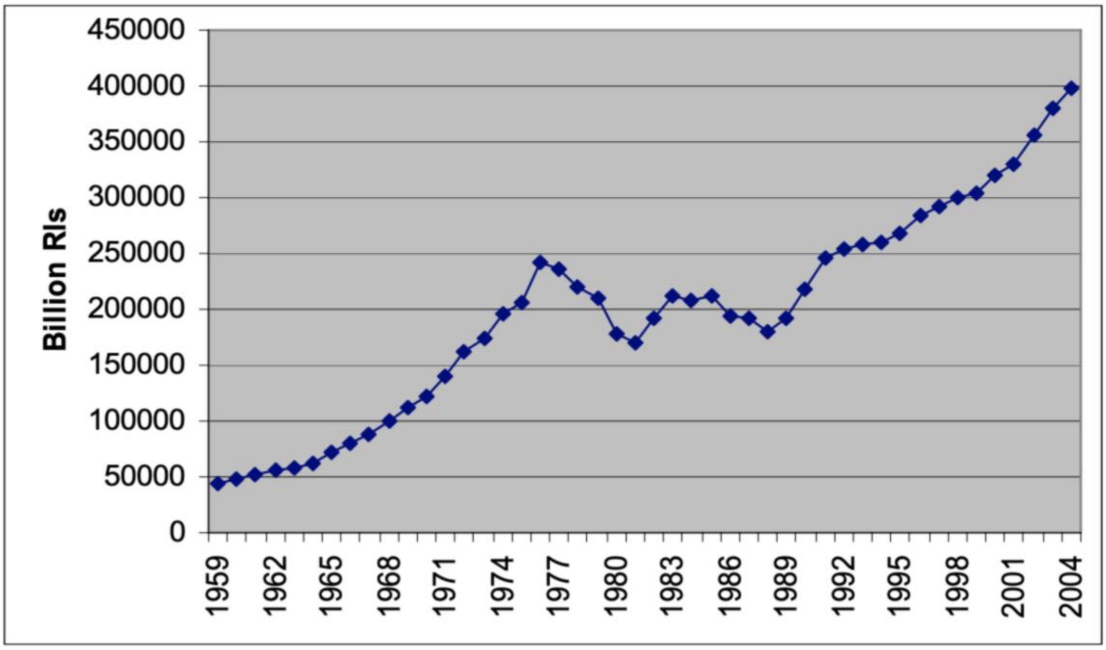
To sum up, Iran is a country with clear physical attributes to international business. From this perspective, one would expect the country to have good relations with third countries. As explained in the following section, however, its good economic geography has not been able to overcome its bad international relations.

2.2. Iran's economic growth

Three general phases are readily evident from the long-term trajectory of Iran's real income and how it has evolved over time since 1959 in constant 1997/98 prices (see Figure 2 below). The rapid rise in two decades prior to the Revolution (1960s and the first half of the 1970s); the collapse and contraction period of the 1980s when oil prices dropped; and the resumption of growth after the early 1990s (Hakimian, 2006, p. 6). Overall, Iran's economy recorded an annual average real growth rate of 4.6% over the four and a half decades between 1960 and 2005. We focus on this period rather than on what happened after 2005 because this research is interested on the times where the US and EU policies have diverged. From 2006 until 2015, both EU and US followed the UN sanctions, and later, in 2015, they both signed the JCPOA. Hence, from 2006 to 2016 their diplomacy towards Iran was for the purpose of this research the same.

Figure 2: Iran Real GDP (1959-2004) in constant 1997/1998 prices

Source: Hakimian, Central Bank of Iran, 2010



While this aggregate long-term growth rate is marginally above the comparable rate for the Middle East and North Africa (MENA)[2] region (with an average growth rate of 3.8% per annum), it is below the rate for the wider group of Lower-Middle Income economies (as defined by the World Bank; economies with a GDP per capita between $1000 and $4000) from which Iran is part (estimated at 5.3% per annum)[3] (Hakimian, 2008, p. 6). As Figure 3 shows, however, Iran's GDP growth followed a U shaped evolution. In other words, it is again at the top of the ranking in the last decades.

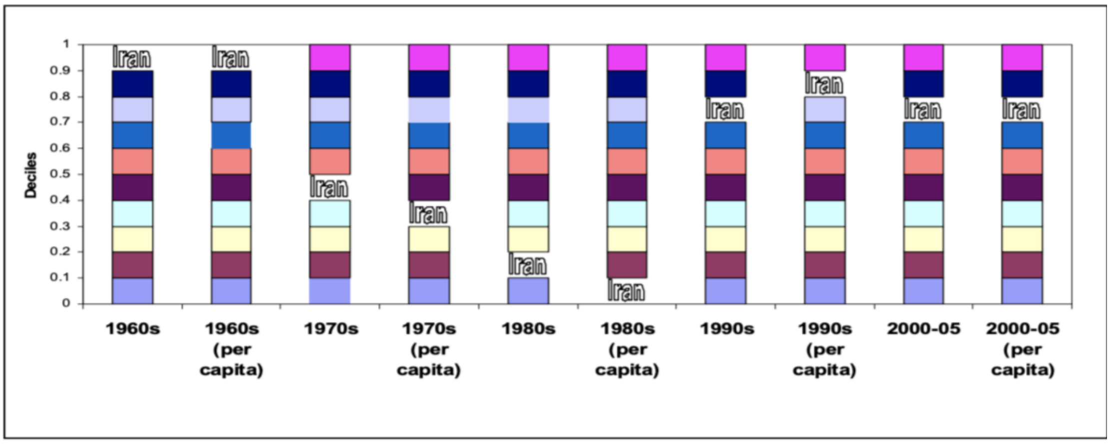
[2] MENA is the acronym for Middle East and North Africa countries. It is a region encompassing 22 countries that account for approximately 6% of the world's population, 60% of the world's oil reserves and 45% of the world's natural gas reserves.

[3] World Bank Development Indicators data: The latter figure (5.3%) for the LMCs should, however, be treated with caution as: (a) it refers to an ex-post country classification as of July 2006 (consisting of 58 countries deemed to fall in this category); and (b) the heterogeneous nature of the countries included (for the former Soviet Republics, for instance, data stretches back to early 1990s only).

Figure 3: Iran's GDP and GDP per capita Growth Ranking among LMCs, 1960-2005.

Source: Hakimian, calculated from World Bank Development Indicators, 2006.

Note: World Bank classification as of July 2006. Lower Middle Income Countries (LMCs) comprise 58 countries including eastern bloc countries and former soviet republics for which data refer to period after the early 1990s. The number of countries embraced by the classification is therefore variable between different decades, and should hence be treated with caution.



The same can be said in relation with other oil economies. As Figures 4 shows Iran was a top performer in the 1960s – judged by annual real growth rates, and then sank somewhat to below the median position in the 1970s, before plunging to the bottom of the table in the harsh 1980s' decade yet retaking top positions in the last decades (Hakimian, 2008, p. 7).

Figure 4: Iran's GDP and GDP per capita Growth Ranking among Oil Economies, 1960-2005.

Source: Hakimian, calculated from World Bank Development Indicators, 2006.

Note: Oil economies included are: Algeria, Bahrain, Indonesia, Iran, Kuwait, Libya, Nigeria, Oman, Saudi Arabia, UAE, Venezuela, and Yemen. Qatar has been excluded due to data limitations. The number of countries embraced by the classification here is variable between decades reflecting data limitations, and should hence be treated with caution.

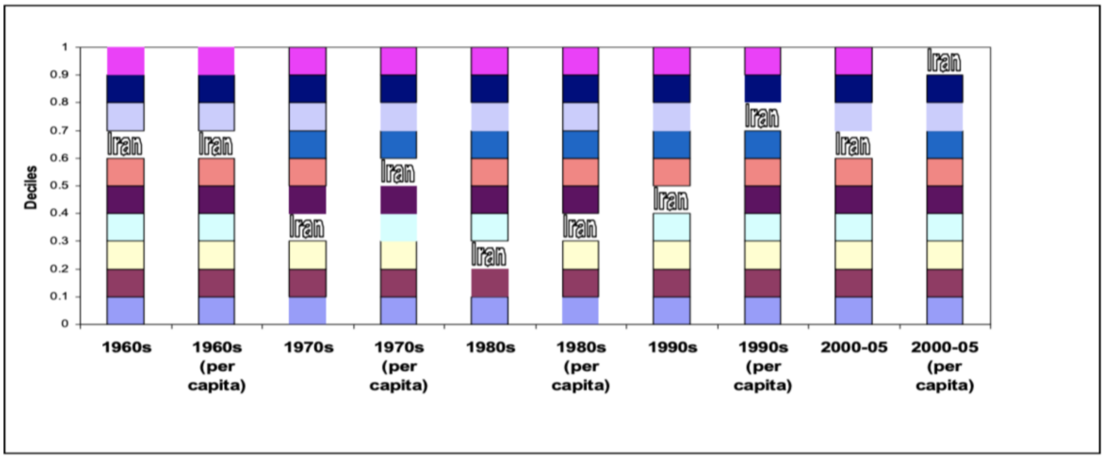


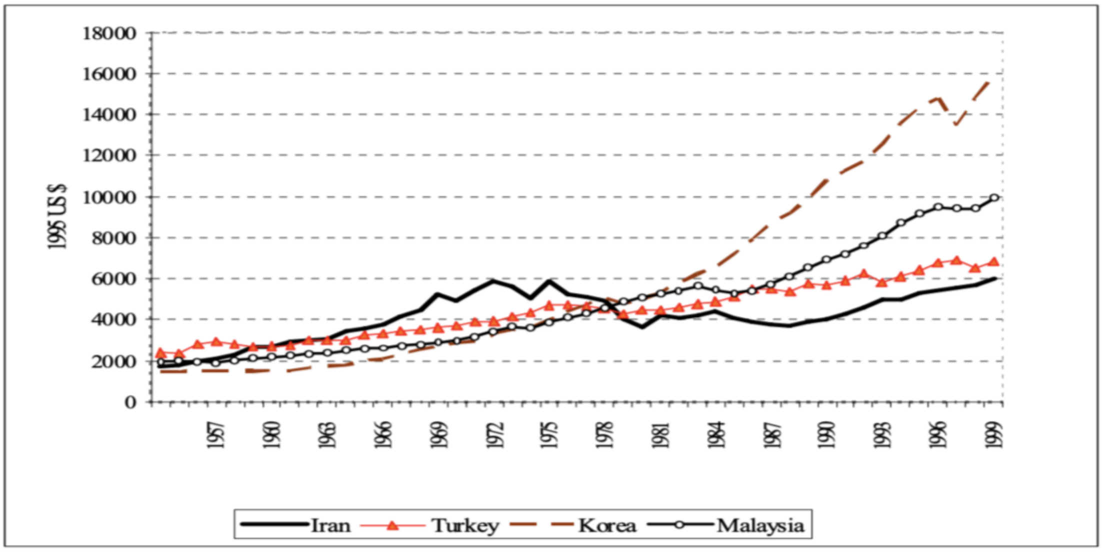
Figure 4 offers a useful comparison with the oil economies. It can be seen that here, too, was a similar 'U-shaped'.

Iran's evolution shows a worse performance when compared to emerging economies such as South Korea, Malaysia and Turkey. As shown in Figure 5, while these three economies and Iran had similar levels of GDP per capita in 1955, Iran was doing better in the 1950s-1960s, yet since the 1980s Iran's performance has been at the bottom of the league.

Figure 5: Per capita GDP trends in Iran, Malaysia, South Korea and Turkey, 1955-2000.

Source: Karshenas and Hakimian, based on Heston A., R. Summers and B. Aten, Penn World Table Version 6.1, 2005.

Note: Figures refer to real GDP per capita in constant dollars expressed in international prices (base 1995)



To sum up, despite Iran's growth in GDP from 1960 to 2005 (4.6%), has surpassed average MENA countries growth (3.8%) during the same period, that rate is still below the wider group of LMCs economies, that embrace an increase of their GDP of 5.3% during those four decades. Moreover, while Iran's GDP per capita evolution follows a U shaped trajectory when compared to LMC and oil economies, this is not the case when compared to high performer countries. Compared to Malaysia, Turkey, and South Korea Iran has not been able to compete in terms of growth since the late 1970s.

2.3 Conclusion

The geographic enclosure of Iran provides the country with advantages such as access to two seas, access to international waters, juxtaposition to oil economies, and acting as a nexus between Europe and Asia. Despite its potential in terms of economic geography, however, its growth compared with other similar countries, has not been maximized. This research thesis is that one of the reasons why Iran has not done better is that its bad international relations with the US have affected European companies businesses with Iran.

CHAPTER III: THE US AND EU FOREIGN POLICY TOWARDS IRAN

Iran is millenary. It has been the cradle for the Persian Empire, and one of the historical pillars for Islam. It has deployed a never-ending web of culture, trade, and interest through the Middle East. Nonetheless, due to the objective of this research, this chapter focuses on a more recent period. It reviews the relations between Iran and both the US and the EU from the Iranian Revolution in 1979, when the Islamic Republic was no longer contingent to the Western powers, to the signature of the JCPOA in 2015. The objective is to establish whether EU countries policy towards Iran was more pro-business than that of the US before JCPOA. The first section reviews US foreign policy towards Iran and the second focuses on the EU's.

3.1 US-Iran Relations

Michel Collon, a Belgian journalist expert on the study of Global War, wrote: *"Whosoever wishes to rule the world must control the oil. All the oil. No matter where it is"* (Collon, 2007). The US and Europe are well aware of that, and the battling to control over the region is an ongoing process.

In 1953 the CIA overthrew through a military coup, the democratically elected government of Mohammed Mosaddegh, after the nationalization of Iran's oil fields. The CIA replaced him with a dictator, the Shah of Iran, and installed a notorious secret police called SAVAK (Pike, 2018). It is therefore not surprising that years later on 1978, President Jimmy Carter and his cabinet were not happy when the Iranian Revolution brought Ayatollah Khomeini to power and put the oil exploitation back under national control.

3.1.1. The Khomeini Period (1979 to 1990)

While Ayatollah Khomeini was ruling Iran, sanctions against the Islamic Republic were essentially unilateral, imposed solely by the US. Even at the height of the hostage crisis, which ensued in the wake of the seizure of the American embassy in Tehran in 1979 and the holding of its personnel hostage by Iranian students for 444 days, American allies and partners refrained from emulating the US's example of sanctioning Iran. To the contrary and to the chagrin of Washington, they progressively filled the void that had been left by America's withdrawal from trade with the Islamic Republic (Center for Human Rights in Iran, 2013).

Between 1979 and 1980, in response to the hostage crisis, President Carter issued one proclamation and three executive orders against Iran. Proclamation 4702 banned the import of Iranian oil into the US. Executive Orders 12170, 12205, and 12211, respectively froze all assets owned by the government and the Central Bank of Iran in the US, prohibited American exports to Iran, and forbade the conduct of financial transactions on the part of American citizens with, as well as traveling to, Iran. All of the above restrictions, however, except for the freezing of Iranian assets in the US, were annulled by the US after the release of American hostages in 1981 (Sabatini, 2010).

Among the sanctions that the US imposed during the Khomeini period, the freezing of Iran's assets in the US, which amounted to some $12 billion, caused the greatest harm to Iran, as the Islamic Republic was in need of these funds to pay for its war with Iraq. With US encouragement, Saddam Hussein had invaded Iran in 1980. During this costly eight-year war, the US built up Hussein's forces with sophisticated arms, intelligence, training and financial backing (Pike, 2018). However, during this time Iran was still able to sell its oil, the mainstay of its economy, to non-American buyers. Actually, even after being banned from importing oil into the US, American oil companies continued to purchase oil from Iran for resale to non-American entities. Moreover, Iran was able to buy some of its American weaponry and spare parts from

Israel instead of the US. In fact, the US itself, in violation of its own laws, sold weapons to Iran during the Iran-Contra episode (Parsi, 2007).

These US sanctions and the war with Iraq combined with oil price shrinkage, inadequate and derisory employment laws, and inefficient government subsidies, took Iran to the verge of a national crisis. As Hossein Askari (2004) explains, energy subsidies, while initially aimed at fighting the economic struggle initiated by the United States, acted as a teak on the country's development:

> *These subsidies, particularly the ones on energy, consumed, depending on the year and the price of oil, between 10 and 30 percent of the nation's annual GDP, a figure far more costly than the burdens imposed by sanctions during this period. Moreover, the energy subsidies, which consumed by far the largest share of the allocations devoted to the program, primarily benefited the affluent who, depending upon the year, were favored by a ratio of about 12:1 (Askari, 2004, p. 656).*

Meanwhile, the U.S. gradually surrounded the Islamic Republic under the pretext of keeping world peace. As the map reproduced in Figure 6 shows, military US bases have been erected all around Iran. Each star represents a US military base. In the middle is Iran. Iran has no military bases outside its borders. Just north of Iran is Georgia that has essentially become US/NATO base. Turkey is also a NATO member. Following Gagnon (2011), Iran has been checkmated (Gagnon, 2011).

Figure 6: US Military bases in the Middle East

Source: Gagnon, 2011

3.1.2 The present days (1991 to 2017)

Recent relations and diplomacy have been shaped by three different approaches of the US Administration towards Iran. First, Bush and his continuous attempt to dominate the Middle East through armed conflicts to reach out to all the possible oil sources. Secondly, Obama's strategy: instead of trying to control all the oil production in the world, he raised the home production, reduced oil imports, and went on to exercise a big control on the world price of crude. Lastly, Donald Trump. He is mixing both strategies of the previous American leaders. On the one hand he has exercised more pressure on the Middle East, pulled out from the JCPOA, and increased military presence on the Gulf Countries. On the other hand, he has kept the oil domestic production on the rise, as the US is now producing around 11,100,000 barrels per day, which is a 28% more than during the Obama years (EIA, 2019).

Perhaps the most important recent restrictions were the US decade-long block on Iran joining the World Trade Organization (WTO), and the 1996 Iran and Libya Sanctions Act (ILSA). Regarding the former, membership to the WTO would have provided Iran not only with better market access to third countries but also the protection of its rules. As to the latter, ILSA was passed by the United States Congress in 1996. This was passed with the vision of sanctioning any company, American or not, undergoing business with Iran. Yet, differing from the measures that Washington is currently pursuing, the ILSA Act had a more particular target: it was to sanction "*all foreign companies that provide investments over $20 million for the development of petroleum resources in Iran*" (Wright, 2007).

In 2001, with the arrival of George W. Bush to the White House things began to change from bad to worse. Bush approach to Iran was based on two premises. On the one hand, they could exercise control on determinant geographic areas that were rich on oil and hydrocarbons, and be less dependent on Saudi petrol. On the other hand, being able to establish military bases through the chaotic Middle East, would give them a key dynamic location to act as a diaspora for its international petrochemical enterprises.

Further from stopping there, Bush used the term *"axis of evil"* to refer to Iraq, Iran, and North Korea. Regarding Iran, he said *"[Iran] aggressively pursues these weapons and exports terror, while an unelected few repress the Iranian people's hope for freedom"* (State of the Union Address, 2002). The bad relations, improper communication, and lack of will for reconciliation, made the last years of the Bush administration an ongoing political fight with Iran. Among others, Condoleezza Rice's constant pressure to the International Atomic Energy Agency (IAEA) to apply stricter and tougher control on Iran, a naval dispute on the Strait of Hormuz in 2008, or the covert actions undergone by the CIA in Iranian territory (BBC, 2011), tightened the thumbscrews.

When Barack Obama came to power in November 2008, the US-Iran relations seemed to relax. Or at least that was the intention. Obama's regional policy seemed to assume that the region's problems could not be solved by America, and that they would sort themselves out if left to stew in their own juices (Pike, 2018). The US Administration main focus was to pivot away from the Middle East, to strengthen relations with Asian powers such as India and China. The JCPOA signed in 2015 between Iran and the six superpowers, ended several decades of negotiations and setbacks. It was considered one of the major achievements of Obama's Government.

Some authors consider that the JCPOA was signed due to US policy towards the Middle East. As Jeremy Saphiro, a former State Department official, now at the Brookings Institution, a think-tank, stated: *"The Iran deal is not an attempt to get into bed with Iran; it is an attempt to out of bed with Saudi Arabia."* (The Economist, 2015) He argues that America's dependence on Gulf oil has diminished, and the price has become less sensitive to political crises in the region. If the threat of an Iranian nuclear bomb is set aside, says Mr. Shapiro, America could disengage more easily, relying on a lighter military presence to keep the Gulf's sea lanes open (The Economist, 2015).

As the Obama mandate came to an end, it was the turn of Donald J. Trump. During his campaign Trump strongly criticized the nuclear deal with Iran, calling it *"the stupidest deal of all time"* (Blake, 2016). He won the elections in November 2016, and in May 2018, he pulled out from the JCPOA. Later, in May 21st 2018, US Secretary of State Mike Pompeo listed a series of 12 demands that Iran should accept in order to re-sign a new nuclear deal. Among the twelve petitions, number two states that: "*Iran must stop enrichment and never pursue plutonium reprocessing. This includes closing its heavy water reactor*, number three "*provide the IAEA with unqualified access to all sites throughout the entire country*," and number twelve states that "*Iran should respect the sovereignty of the Iraqi government and permit the disarming, demobilization and reintegration of Shia militias."* (Al Jazeera, 2018). As we can see, these are demands that go beyond a mere economic guidance for Iran, differing from the JCPOA; they seek to have Tehran kneel to the will of Washington. In other words, with the list proposed by Pompeo, the US does not want cooperation among equals, as the JCPOA embraced, but rather a situation of Iran obeying the White House demands.

Relations between the two states have found themselves on a critic point. On July 2nd 2018, State Department Director of Policy Planning, Brian Hook, told reporters that Iran has to meet the twelve demands in order to be relieved from US sanctions. Far from stopping here, Hook added: "*Our goal is to increase pressure on the Iranian regime by reducing to zero its revenue on crude oil sales"* (Reuters, 2018). Of course you cannot fight against one of the largest producers or crude oil without having someone to back you up. A few days after Hook's words, Saudi Arabia's King Salman promised Trump that he would raise oil production if needed, and that the country has 2 million barrels per day of spare capacity to boost output (Al Jazeera, 2018).

To sum up, relations between the US and Iran have been tortuous and complex. During the Shah's years when the US had full control of the oil exploitation in Iran, diplomacy was smooth. Yet, the years after the Revolution and the loss of control over the oil wells infuriated Washington. From 1979 onwards, diplomacy with Iran was set aside, and other means to regain control of the region were exercised, such as the fostering of armed conflicts like the Iraq-Iran War, or the stifling of the Iranian economy through sanctions, embargos, and lack of permission to join the WTO. The only exception was the Obama administration, which signed the JCPOA and enforced its implementation. Yet, the standing of such agreement did not last more than a year, as Donald J. Trump pulled out from the deal on May 8, 2018.

3.2 EU-Iran Relations

European policies towards Iran are difficult to ascertain. While the EU has a single voice in the area of trade policy, this is not yet the case in the larger area of foreign policy. In addition, EU's security arm is almost inexistent. The EU accounts for one-third of the world's economic production and it is the world's largest exporter of manufactured goods and services. Yet, as a global political actor, it is not as consistent and influential as other powers, such as the US, Russia or China. Apart from pursuing some small-scale civilian and military missions in the Balkans or some African states, it is not a military power and does not have military bases across the world. Despite this, as this section shows, the EU relations with Iran have not always been congruent with those of the US.

3.2.1. The Khomeini Period (1979 to 1990)

During the Khomeini period, the EU did not even have an official foreign policy. Until the Maastricht Treaty in the early 1990s, there was just some cooperation in Foreign Policy. This probably explains why during that period Iran's relations with Europe was determined by its relations with the UK, Germany and France and these bilateral relations were quite different. A pattern, however, can be identified: the UK policy was closer to that of the US than the one of France and Germany.

The colonial past as well as the Shah time when the UK along the US was a strategic partner of Iran influenced the relations between the London and Tehran at that time. The first important blow that undermined their relations was the Islamic

Revolution, and ten years later in 1989, there was a great rupture in the relations, when Salman Rushdie published *The Satanic Verses* in the UK. Publication of the book, perceived as blasphemous by Iranian mullahs (but not only by them), prompted severe criticism by Ayatollah Khomeini, who issued a fatwa over Rushdie. Although the Iranians later moderated their statements and said that they would not be sending a killing commando to the UK, the damage had already been done (Onderco, 2015). Later in 2011 the British embassy was attacked and destroyed, in a similar case-scenario as the American embassy in 1979, yet this time, no hostages were taken (Fiedler, 2017: p.16)

In the case of France, its relations with the Islamic Republic were better. At the beginning of the Islamic Revolution, Iran looked at France as its emerging main partner in Europe, a "friend of Iran". Ruhollah Khomeini found asylum in France (Onderco, 2015). Some nuisance was related with selling arms and chemicals and the more pro-Baghdad French policy during the Iran-Iraq War. Besides, France actively assisted with the Iraqi nuclear program, which was put to an end by the Israeli air assault in 1981.

Lastly, Germany enjoyed as well some easy-going and laidback relations. Nevertheless, German policy towards Iran led to major disagreements with the US and Israel on a number of occasions. For instance, during the Iran-Iraq War in 1980-1988, Germany proposed diplomacy and engagement instead of pressing on Iran as a rouge state and refused to back up the Carter and Reagan administrations on their plans to aid Iraq. This attitude reflects the idea that soft power is a more effective instrument to overcome problems arising in connection with the Islamic Republic.

3.2.2. The present days (1991 to 2017)

The first EU common initiative was the "Critical Dialogue". The European Council at the European Union summit in Edinburgh endorsed it on 11–12 December 1992. Maintenance by the EU of Critical Dialogue was contrary to the US dual containment strategy towards Iraq and Iran (Fiedler, 2017: p.16). In the 1990s the US had a plan, which included not only the isolation of Iran but also taking actions aimed at changing the political system in that country. The EU's refusal to support the sanctions led to tensions between the US and its European allies. The diplomatic strategy of the EU was to urge Iran to observe international norms and tie it through commercial relations. Despite the approach and some positive signs of improvement, the Critical Dialogue was suspended.

A few years later (in 2000), however, the EU tried to pursue a similar strategy. It started negotiations with Iran on a Trade and Cooperation Agreement (TCA) linked to a Political Dialogue Agreement. The scope comprised four areas: human rights, non-proliferation, terrorism, and the Middle East peace process. The strategy was simple: getting Iran closer to the EU politically and economically would allow Europe to extract significant concessions from Tehran (Fiedler, 2017: p.18; Dupont, 2014: p. 276; Kaussler, 2008: p. 269-271).

In the years 2002 to 2006, the main barrier that blocked mutual relations between the EU and Iran was the problem of Iranian nuclear program (Barzegar, 2017). The initial idea coming from the EU was to act upon this deadlock without Washington interference. Nevertheless, it soon became clear that getting around the nuclear issues arising from Iran was not going to be an easy task, not only because of American obstruction and commitment to Iran's isolationism but also because other powers preferred to maintain direct cooperation with the Islamic Republic, with no

European meddling. For example, the case of Russia, which signed an 800 million USD ($) contract to build the nuclear power plant of Busherhr (Omelicheva, 2012).

In view of these difficulties, the EU-3 alongside the International Atomic Energy Agency (IAEA) proposed the Paris Agreement with Iran at the turn of the century. [4] The Agreement aimed at shaping and limiting Iran's enrichment of uranium, and any type of trade regarding nuclear equipment, similar to the preface of the JCPOA. Yet, it was never implemented, and for the first time in the last decades, the EU aligned its position with the US. It is indeed necessary to mention the two reasons that lead to the failure of the Paris Agreement: On the one hand, as we have seen, the EU-3 acted without the United States contribution and support, which could help on the implementation of such accord. Instead, there were other plans coming from the White House. The US had a more critical attitude, as it was keener towards a military intervention, as the only way to assure that Iran would not pursue nuclear development (Kazemzadeh, 2014: p. 133). On the other hand, the EU-3 acted in an independent way, hardly relying on the opinion and perception of other Member states, which lead to a low implication of European institutions to implement the Agreement (Fiedler, 2017: p.18).

The failure of the implementation of the Paris Agreement due to the aforementioned reasons, lead to a period from 2006 to 2012, of high instability and lack of trust. For these reasons, Europe sought refuge under the power of its big brother, the US. Even China and Russia joined ranks in favor of a more punitive approach to Iran. There were at least two reasons for aligning the EU position with the US harder position on Iran. Number one: President's Mahmud Ahmadinejad populist rhetoric evidenced that Iranian politics is unpredictable and there are visible gaps between

[4] In an agreement on 14 November 2004 at Paris, Iran notified the IAEA that it would suspend its uranium-enrichment activities for the duration of the EU-Iran negotiations. On 29 November, IAEA Director-General confirmed to the IAEA board of governors that Iran had implemented the decision (IPCS, 2005)

declarations and facts, as for example the Fordow enrichment plant beyond the IAEA's surveillance (Ehteshami & Zweiri, 2008). Number two: the risk of rising costs for European companies, and banks. As Giumelli and Ivan (2013: p.15) stated in their analysis of EU sanctions on foreign trade: *"At the same time, the US financial threats (secondary sanctions, threats to exclude trading partners from US financial institutions) served to coerce other actors into acceptance of US policies."*

As it is, the EU has sought for a more diplomatic approach, before and after the 1979 Iranian Revolution. Contrary to the vision of Washington, the downfall of the Shah and the naissance of a new Iran, was seen as an opportunity to undergo new ventures abroad, rather than a loss of control in real terms. As it has been told, EU and US relations towards Iran do not generally go hand in hand. It was only when the EU found itself on a dead end, where none of the economics agreements had been successfully closed, that it sought for countermeasures in terms of sanctions and aligned its position with the view of the US.

3.3 Conclusion

This chapter shows that EU and US policies towards Iran converged in 2006 but were quite different from 1979 to 2005. Before 2006, the EU approach was to seek to contain Iran through more pro-business and partnership economic policies while the US followed a more belligerent approach through sanctions and embargos. Since 2006 the convergence between both approaches has been done in two different directions. On the one hand, when the UN imposed sanctions to Iran from 2005 to 2014, it was the EU that abandoned its dialogue and diplomatic approach, and supported a more punitive way, following the line that had preceded Washington's approach to Iran since 1979. On the other hand, when the UN sanctions were lifted in 2014, it was the US that for the first time came under the European umbrella, and agreed to sign a more gracious agreement, the JCPOA, that left aside the aggressiveness and belligerency from recent decades. Last, there has been Donald J. Trump. Not only did he abandon the JCPOA and went back to the old-school fear and retaliation policies, but indeed assured sanctions to any company, American or not, that hast business with Iran, disregarding its sector of operation (unlike the 1996 ILSA Act). While Trump approach is closer to the traditional US foreign policy towards Iran than Obama's JCPOA, it also seems more imperialist (all the other countries companies should abide by it in all areas of activity). Is that the case or were European companies strategies already determined by US foreign policy before?

CHAPTER IV: EU AND US TRADE WITH IRAN

The previous chapter has helped establish that the hypothesis of this research is possible: European companies' business with Iran may have constantly been determined by US meddling rather than by EU policies before Trump. Before 2006, while Washington preferred sanctions to contain and control Iran, Brussels wanted to have a more pro-business policy with the Islamic Republic. What the previous chapter does not tell us is whether these differences in US and EU strategies towards Iran really had an impact on European companies businesses with Iran. To test this part of the hypothesis, we now analyze data regarding trade, particularly exports of goods (because investment data is not available), from the EU and the US, to the Islamic Republic. While EU members' foreign policy towards Iran has followed a different evolution than US foreign policy, are their trade indicators similar to that of the US? If this is not the case, the research hypothesis can be rejected. The chapter is divided into two sections. The first section explains how the data used to make the comparison has been obtained. The second section then presents the results.

4.1. The data

To ensure the comparability of the data on the economic relations between the EU and the US with Iran, the stats have been retrieved from the same source: the Central Bank of Iran. This dataset however presents two limitations. The first one is the scarcity of the data. From the 1940s until the late 1960s data sets are almost inexistent, and information does not seem consistent. As several studies have shown (Easterly, 2002; Muralidharan, 2018), poorer and underdeveloped countries tend to have worse means to gather and collect data information for its latter analysis. Therefore, we initiate our investigation from the year 1971, that is, before the 1979 Iranian Revolution. A similar problem occurs for the last years of the period under consideration: the Central Bank of Iran does not offer data for 2015-17. In this case we have gathered the data from Eurostat for the EU and from the US Census Bureau for

US exports to Iran (Eurostat and US Census Bureau have not been taken as sources of data for the whole period to ensure the maximum comparability of the data and that is done by using a unique source). The second limitation of the Central Bank of Iran dataset has to do with the data for the EU. The dataset does not provide the data for the EU but rather for its individual member states. For this reason, and to avoid further complication, we use the data regarding Europe as a continent. We therefore regard the EU as an economic body constituted according to the WTO trade space, as Figure 7 shows below.

Figure 7: WTO Trade Agreements

Source: WTO, 2017

Since the stats are just provided as yearly European and American exports of goods to Iran, with no contextualization, the data has been normalized. By extracting the monetary trade data, in millions of dollars, from the Central Bank of Iran, for the US, European and World cases, we can undergo a comparison in order to normalize the results. For instance, by normalizing with respect to European monetary exports (in millions of dollars), over the World monetary exports (in millions of dollars), we can obtain the percentage of exports from Europe to Iran, in monetary terms, and thus estimating the overall European share of exports to Iran over the global one (see

Figure 8). The same procedure is undergone with data from the US (see Figure 9). What we are seeking with this amount is to contextualize the quantity of exports from the US and Europe to Iran and by doing so, to obtain comparable data.

Figure 8: European exports over global Iranian exports (1971-2017)

Source: Own calculations from Central Bank of Iran data and Eurostat, 2017

Figure 9: American exports over global Iranian exports (1971-2017)

Source: Own calculations from Central Bank of Iran data and US Census Bureau, 2018

To be able to compare the data obtained with US foreign policy towards Iran, we have identified the key US policies towards the Islamic Republic. Taking into account both the periods studied in Chapter 3 and the data limitations, Figure 10 offers the timeline of key events for the period 1971-1990 and Figure 11 the timeline for the period 1991-2017. Since US and EU foreign policies towards Iran converged from 2006 to 2016, that is from the negotiation of the UN sanctions to the agreement on the JCPOA, to test our research hypothesis we need to focus on the period of divergence: from 1979 to 2005. Only in this period would we be able to establish whether the US approach was determining Europe's business in the Islamic Republic.

We can distinguish between two types of US foreign policy measures towards Iran that impacted trade from 1979 to 2005: direct and indirect. Regarding the direct measures, Proclamation 4702 in November 1979 and ILSA Act enforced in 1996 were the key points from 1979 to 2005, in terms of a direct impact such as sanctions or embargos (events numbers 1 and 3). Regarding indirect impact, the most important event to point out is the Iran-Iraq War that lasted from 1980 to 1988 (event number 3). Despite the fact that the US was not attacking Iran directly, it did support economically and military the Iraqi troops. In addition, we have earmarked the American invasion of Iraq in 2003 (event number 4) as another event that indirectly impacted US relations with Iran. These events are numbered from 1 to 4 to allow for analysis in the next section.

Figure 10: US diplomacy affecting Iran (1971-1990)

Source: Own source

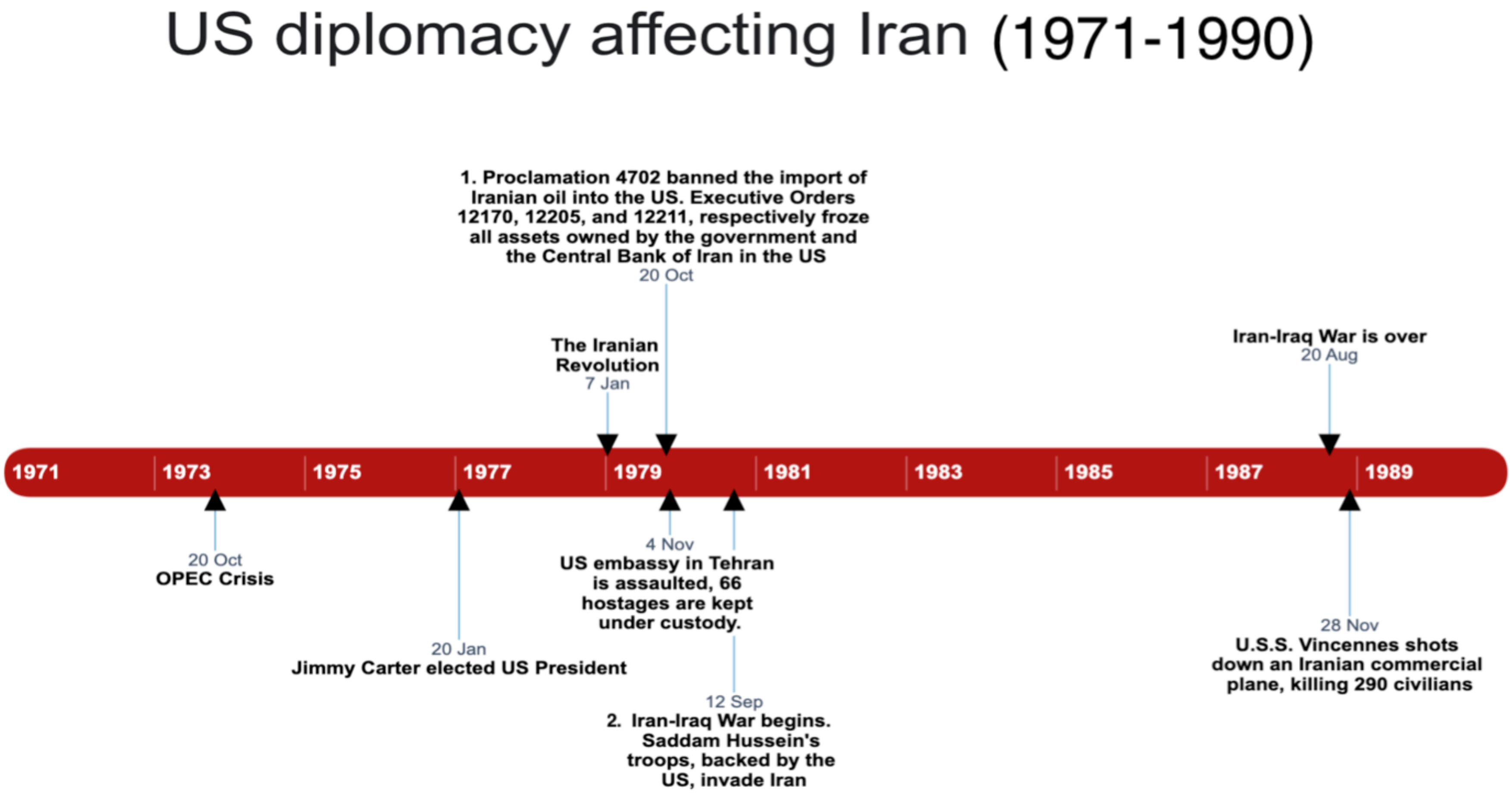
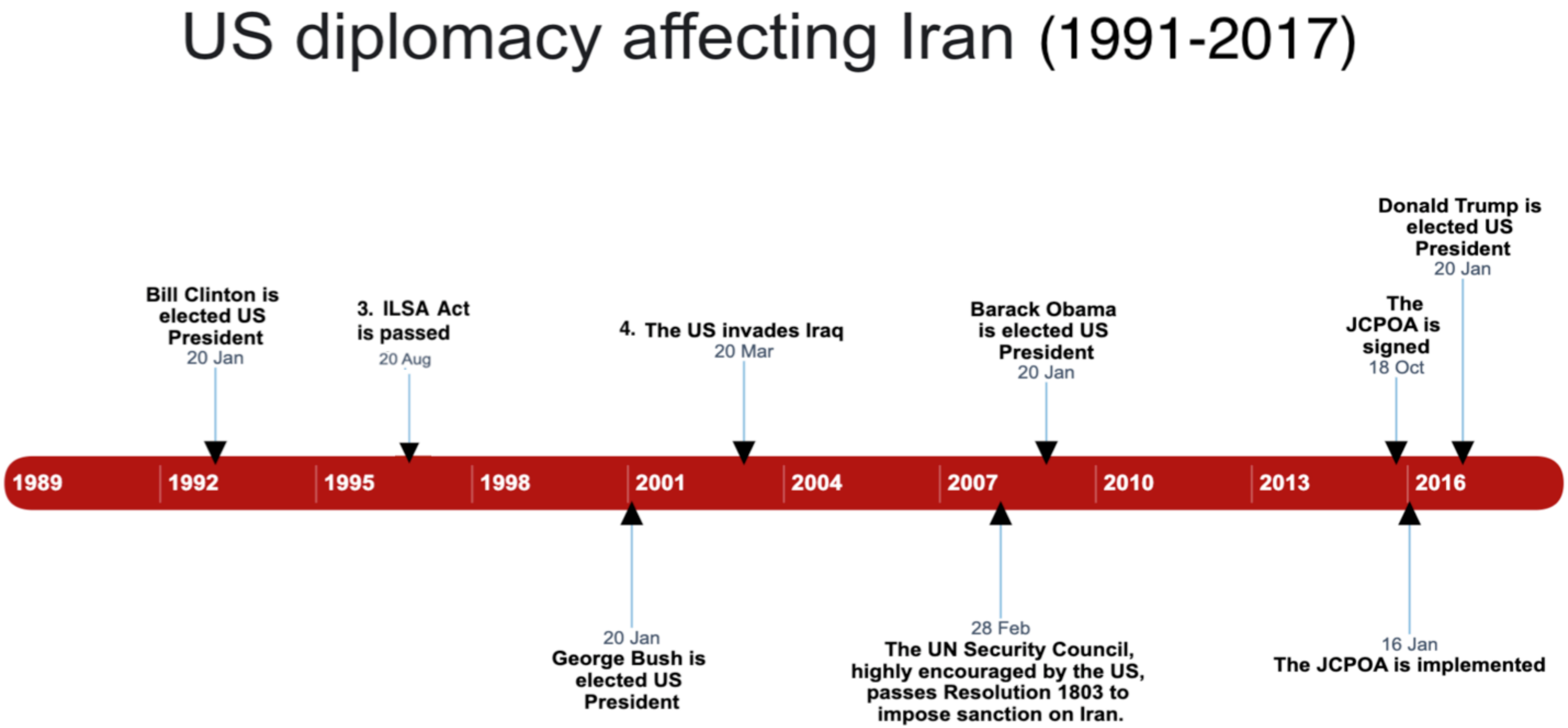


Figure 11: US diplomacy affecting Iran (1991-2017)

Source: Own source



4.2 Results

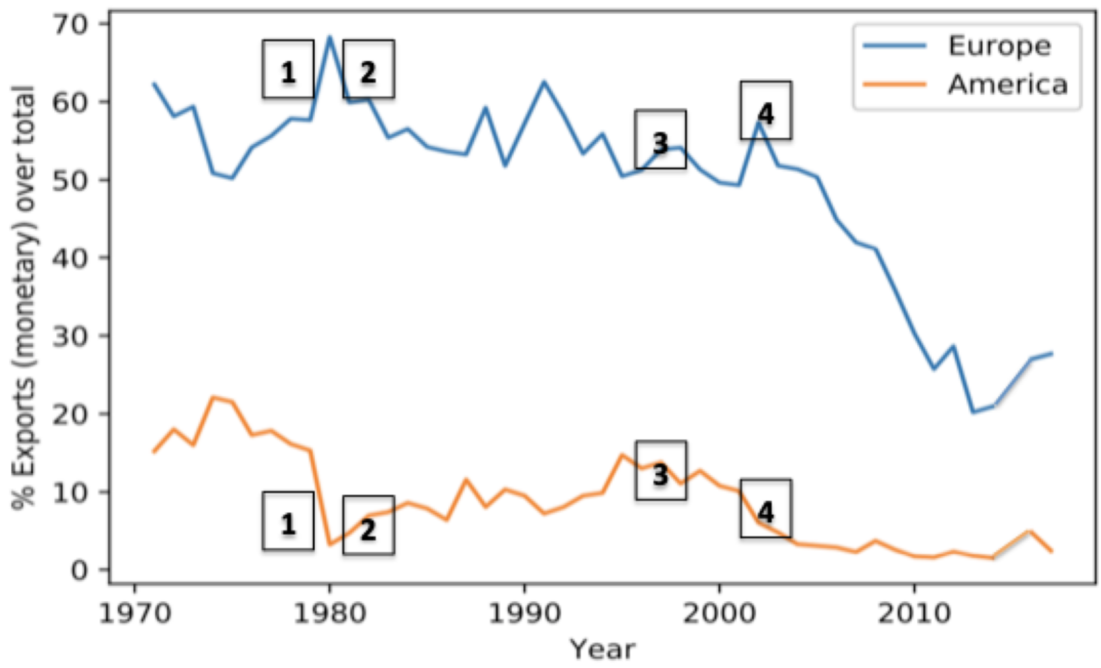
In this section we compare the data gathered regarding the US and EU trade relations with Iran. To do so, Figure 8 and Figure 9 have been merged into Figure 12 shown below. The different numbers included in Figure 12 mark those events coming from US diplomacy that implied an impact in US policy towards Iran as explained in the previous section (see figures 10 and 11).

The results indicate that as expected, the EU has had more trade with Iran than the US during the whole period. They also show that there is an apparent correlation between the EU and US trade with Iran in the 21st century. This is confirmed when using the econometric review called the Granger causality test. By using Python, we have run a Granger causality test, for determining whether one time series is useful in forecasting another (Granger, 1969). We have decided to take this regression test because ordinarily, regression reflect “mere” correlations, but Clive Granger argued that: causality in economics could be tested by measuring the ability to predict the future values of a time series by using prior values of another time series (Diebold, 2001). A time series X is said to be Granger-cause Y if it can be shown, usually through a series of t-tests and F-tests on lagged values of X (and in lagged values of Y also included), that those X values provide statistically significant information about the future values of Y (Kuan, 2017). Taking into consideration the period going from 1971 until 2017 and assuming that exports in millions of dollars are stationary, the influence of US exports in EU exports proved to be Granger casual with significance (p-value <0.05). This implies that, at minimum, there’s a certain correlation between the two variables. As this is treated as an estimator or the predictive capability of one variable over another one, we could claim that US exports tend to influence EU exports. In other terms, the latter perceives trends seen by the former. The cross correlation was found to be of 0.866 between both curves.

Nevertheless, we cannot affirm that exports are stationary, yet we undergo this assumption in order to carry out the Granger causality test. More importantly, this is just an estimator, and contrary to the previous empirical data, from this test we cannot affirm that the EU follows American tendencies. In addition, the correlation found does not explain the disparities in trade tendencies observed in Figure 12 for the 20th century. To be able to establish whether US foreign policy to Iran has determined EU companies' behavior we need to study more in depth the periods in which EU and US policies towards Iran were different rather than similar. The correlation obtained in our quantitative analysis is probably due to the fact that it does not discriminate for that important aspect.

Figure 12: European (blue) and American (orange) exports with Iran (1971-2017)

Source: Own calculations from Central Bank of Iran data, Eurostat and US Census Bureau, 2017.



The US first sanctions took place during the initial days of the Iranian Revolution (event number 1). As we have mentioned before, Washington imposed severe punishments to Iran, yet those were directly aimed at the country, and did not seek any collateral damage to third party enterprises, unlike the ones Donald J. Trump is promoting today. This void in the market left by American exports was quickly filled by European enterprises. We can see that from 1979 to 1981, there is an increase in the exports from Europe to Iran, from 57% to 68%, while the exports coming from America drop from 13% to 4%, within the same period of time. Therefore, we can perceive how a change in US diplomacy towards Iran had a direct impact on European export of goods to the Islamic Republic. In this case, it was a positive impact regarding the European side.

The Iran-Iraq War is our second target (event number 2). This is the first event of indirect policy from the US towards Iran that we must highlight. The Iraqi troops under Saddam Hussein's leadership invaded Iran with US military and economic support in 1980. From 1980 to 1983 there is decrease in European exports to Iran: from 56% to 51%. As the War advanced, it slowly consumed Iran's economy, as we have seen in Chapter 3. Hence as the US continued to support Iraq, European exports to Iran progressively decayed. Once the War was over in 1988 there is a considerable increase, from 51% to 59%. The US, on its side experienced a mostly flat rate, fluctuating from 6% to 9%. We could thus consider, that since the US was supporting Iraq during the War, and in consequence indirectly meddling with Iran, European trade went down by approximately 5%-6% while the conflict was taking place.

From 1988 and the end of the conflict between Iraq and Iran, we jump to 1996, were the US Congress passed the ILSA Act (event number 3). This imposed economic sanctions on any firm, American or not, undergoing investments over $20 million for the development of petroleum resources in Iran or Libya. Hence, the scope of the sanctions was really narrow and did not seek to directly affect all enterprises undergoing business in the Islamic Republic. As a manner of fact, from 1996 (passing of the ILSA Act) to 2008 (UN sanctions) no company was sanctioned by the Act (Economist Intelligence Unit, 2008). While we cannot measure how many companies were keen towards the investment in the Iranian petroleum scheme yet decided to step back in fear of US retaliation, what our trade data shows it that it did not go against EU or US trade with Iran.

Before the US invaded Iraq in 2003, which is our event number 4, European exports were at a peak. Yet, after the invasion began, trade of exports to Iran started to gradually decay. The environment of insecurity and the fear of a war spillover, were surely the main causes that drove European firms away. For this reason, the narrowing of exports of goods coming from the EU may have been caused by the US belligerent presence in the Middle East, even if it did not involve Iran directly, it is a second example of indirect US meddling.

It was during the period of UN sanctions that trade with Iran experienced the biggest contraction: from 2008 to 2013, the percentage of exports of goods from Europe to Iran dropped 39 points, from 59% all the way down to only 20%. That was the lowest level reached since 1971. In that same period: from 2008 to 2013 the United States went from 5% to 3%, which is far less detrimental when compared with Europe. Despite the accordance in EU and Obama's policies, the lack of a de facto agreement trade, which came later as the JCPOA, made tremendously difficult to set a trustable base on which Brussels and Washington's businesses could rely. Consequently, when sanctions were imposed, even if they were aiming at both EU and US exports, the European part was the one that suffered the most.

When the JCPOA enters in action in 2015, 15 straight years of almost continuous decrease in European exports is reversed (a 7% rise in a single year). The US on its side, experiences a small decrease hence, the JCPOA merely seems to have a significant impact on the export of American goods. Accordingly, and as it has been pointed out previously, the JCPOA and the change of attitude from Washington, regarding Iran, was largely more beneficial for the EU than for the US. Being able to count with the American signature of the accord, and thus setting a trustable ground base to re-initiate business, was key to foster the export of European goods.

To sum up, while a quantitative analysis of trade data from 1971 to 2017 shows a correlation between EU and US trade with Iran, the addition of the US-Iran political relations time-line indicates that this conclusion should be qualified. From the perspective of the trade data for the whole period our hypothesis would be accepted: there is correlation between them. Yet if we just focus at the period 1979-2006 we realize that only looking at Washington's foreign policy we cannot explain European trade trends with Iran. To understand these trends we need to also take into account the European approach: If the latter had been closer to the American one, there would not have been inverse correlation such as it happened both in 1979-80 and from 1990 to 1995.

4.3 Conclusion

This chapter shows that the correlation between EU and US trade with Iran may be explained by the fact that both followed a similar approach from 2006 to 2016. This convergence in their policies was crystalized first during the negotiations and appliance of UN sanctions and after on the JCPOA agreement. Nevertheless, US foreign policy had a direct effect on European trade with the Islamic Republic before 2006. We have seen positive outcomes, as during the first years of the Iranian Revolution, when the almost complete withdrawal of US exports was quickly filled by European exports, and we have seen negative outcomes, like the Iran-Iraq War, were there was a significant decrease on European exports to Iran. Therefore, European business with Iran has been affected by US policy. What our analysis also shows, however, is that European trade cannot be explained just by US policy; the European approach towards Iran also determined international business. We conclude that our hypothesis should be rejected or at least qualified.

CHAPTER V: CONCLUSION

The objective of this research is to analyze the impact of geopolitics upon international business, through the case of Iran. This research was initiated after the United States pulled out from the Joint Comprehensive Plan of Action (JCPOA) and threatened to sanction all foreign companies with ongoing business in Iran. Many European Union firms were already quitting the country, in fear of US retaliation despite the EU insistence to maintain business with the Islamic Republic. To understand why several European companies were submitting to the US approach towards Iran, rather than making decision based on the EU policy, we carried out a review of how US/EU members-Iran relations affected European trade with Iran before the JCPOA. More specifically, we have analyzed the period going from 1971 until 2017. The results indicate that, contrary to our expectations, today's scenario is not a given in US-EU-Iran relations.

The methodology has been twofold. First, on grounds of secondary sources we have identified and compared the EU and US foreign policy towards Iran. This analysis has shown that while the EU and the US have followed similar policies from 2008 to 2017, this was not the case before. Europe approach towards Iran tends to be based on creating economic interdependence whilst the US has regularly sought for confrontation. To establish whether EU international business in Iran is determined by US foreign policy, we have then carried out an analysis of the trade relations between both the EU and the US with Iran, using primary sources. The results indicate that the EU had more trade with Iran than the US during the whole period, from 1971 to 2017. Furthermore, we have shown that there is an apparent correlation between the EU and US trade with Iran in the period examined. This was confirmed when using the econometric review called the Granger causality test. By adding to the analysis the US and EU foreign policy time-lines, however, the results are qualified. Since EU and US policies were the same from 2006 to 2016, trade correlation in this period does not imply that European business was following US policy. Focusing the attention in the period from 1979 to 2005, it appears that while US policy had an impact on European trade with Iran, European policy was also influential.

Our analysis therefore indicates that the hypothesis that what is happening today in Iran is a given in EU-US-Iran relations at least since the Iranian Revolution on 1979, should be rejected. While European companies have left Iran before due to US meddling (the Iran-Iraq war for example), what is happening nowadays is unprecedented. During the period from 1979 to 2005, the sanctions imposed by Washington were aimed only at enterprises investing over $20 million, in the development of petroleum resources. Hence, the scope of the sanctions to third party enterprises was really narrow, unlike Donald J. Trump is doing today. As it is, when the US has not imposed sanctions to companies from third countries, European companies have profited from more trade with Iran thanks to a pro-business European policy towards Iran. A good example of that is that after the Iranian Revolution in 1979, European exports to Iran, peaked, filling the lack of trade which American enterprises had left due to the banning of their own government.

After the US pulled out from the JCPOA, each actor went back to its former classical approaches towards Iran. The EU continued to foster trade and interdependence, while the USA established embargos and sanctions. Yet, the US has gone a step further by imposing sanctions to third parties that had ongoing business in Iran, without taking into consideration the sector of operation, unlike it happened from 1996 to 2008. This has generated a situation that had never been given in EU/US-Iran relations. For this reason, this time, despite the EU empowerment of the JCPOA, the scenario is uncertain. Filling the void left by American enterprises, like it happened in 1979-80, is not going to be easy.

Another player that would have to be taken into account to think about what may happen now is China. While trade with the US remains closed, Iran is expecting an answer from the EU: will it continue to follow the JCPOA or will it yield to the yoke of Trump? The fact that each European firm pursues a strategy of its own, and the apparent lack of cohesion among the Member States, exacerbated by the Brexit, give the EU a weak and poor image. For this reason, since the Western markets are getting rough, Iran might turn its sight to the East, were Beijing appears as the perfect partner for Tehran. Since the US is progressively abandoning Pakistan (and moving into a more developed India), the Chinese have found their way into Iran. Offering Pakistan several infrastructure investments, China seeks to convert Pakistan into its satellite state, and construct oil and gas pipelines either from Tehran into Islamabad, to terminate it in Chinese territory, or all the way to Karachi, to avoid the possible complication of the Strait of Hormuz, and transport the oil and gas by sea, through vessel ships.

If the US keeps its banning on American trade with Iran, continues with its tariffs on Chinese products, and punishes European companies conducting business with Iran, perhaps Tehran will see Beijing as its only friend, and certainly a partner willing to buy its oil and gas, without asking for any terms or conditions. How would that affect EU policy towards Iran? Can the EU reach an alliance with China, which is also a signing party of the JCPOA and still wants to enforce it despite Trump's threats of sanctions? How would that possible scenario affect international business strategies?

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