

EU mechanism for trade with Iran 'now operational'

The EU has created a mechanism that will allow European countries to trade with Iran despite US sanctions. The move is an attempt to show goodwill toward Iran and keep it in the 2015 nuclear deal.



The European Union announced that its INSTEX mechanism to facilitate trade with Iran was up and running on Friday.

“France, Germany, and the United Kingdom informed participants that INSTEX had been made operational and available to all EU member states, and that the first transactions are being processed,” said an EU statement.

INSTEX, which stands for Instrument in Support of Trade Exchanges, is a payment system that will allow companies to trade with Iran despite harsh US sanctions. It will function as a diplomatic shield allowing the exchange of goods without requiring direct transfers of money between Iran and EU companies.

Giving Iran a reason to stay in the nuclear deal

The move is an attempt by EU countries to show they are serious about alleviating

the pain of sanctions on Iran in order to convince Tehran to remain in the 2015 Joint Comprehensive Plan of Action (JCPOA), more commonly known as the Iran nuclear deal.

The future of the agreement was put in jeopardy when US President Donald Trump unilaterally withdrew the US from the deal in May 2018. Since then, the US has continued to pile sanctions on Iran and threaten international companies that dare trade with Tehran via secondary sanctions.

Though the US has complained the deal did nothing to curb Iran's nuclear capabilities, Europeans say it is working, a fact that the International Atomic Energy Agency (IAEA) has repeatedly confirmed.

In the face of rising tensions with the US and the crushing weight of sanctions, Iran has threatened to partially withdraw from the deal if the other signatories — Germany, France, the UK, Russia, China, and the EU — can not provide a concrete incentive for it to abide by JCPOA rules.

A virtual ledger to counter secondary sanctions

The new EU mechanism will coordinate import and export payments so that cash between partners need not be handled by banks, thus avoiding the risk of drawing Washington's ire.

INSTEX will create a virtual ledger to offset balances. Thus payments will be exchanged between EU companies importing and exporting to Iran, and the same will happen on the Iranian side. Thus, all sides will be able to complete transactions without euros going to Iran, or rials to Europe.

The mechanism will initially focus on goods that are less likely to raise eyebrows in Washington, namely pharmaceutical products, medical devices, and food. US sanctions permit trade in humanitarian goods.

US 'abusing its global financial dominance'

Cornelius Adebahr from the German Council on Foreign Relations said companies that will be involved in INSTEX represent: "a very reduced target group. It's not about giant sums in the billions."

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The United States has scoffed at the plan. US Special Representative for Iran Brian Hook, who is an advisor to Secretary of State Mike Pompeo, said: “We just don’t see any corporate demand for it because if a corporation is given the choice between doing business in the United States or doing business in Iran, it’s going to choose the United States every time. So that’s our current assessment of INSTEX.”

Analysts at the European Council on Foreign Relations say, “The US has set unilateral rules on secondary sanctions that abuse its global financial dominance.” Still, they say the fact that the three biggest economies in Europe are involved in the INSTEX scheme could make Washington think twice in its assessment of the plan.

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