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The Impact of U.S. Extraterritorial Sanctions on Iran-EU Relations (2018–2024)*

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Abstract

Since the victory of the Islamic Revolution, sanctions have consistently been a cornerstone of U.S. foreign policy against Iran. Beyond their direct impact on bilateral tensions between the two nations, U.S. secondary or extraterritorial sanctions have also significantly influenced Iran's relations with other global actors, particularly the European Union (EU). The conclusion of the Joint Comprehensive Plan of Action (JCPOA) generated optimism regarding the end of sanctions against Iran. However, with the advent of the Trump administration and its unilateral withdrawal from the JCPOA in 2018, the United States' extraterritorial sanctions against Iran were reinstated, dispelling the optimism that had emerged. The US and the EU are major economic and strategic partners. Given this reality, the critical question arises: How has the resurgence of U.S. sanctions, with their extraterritorial dimensions, affected Iran-EU relations? This paper hypothesizes that the resumption and intensification of extraterritorial sanctions have negatively impacted the economic and political aspects of Iran-EU relations. On the one hand, these sanctions have reduced bilateral relations to their lowest possible level; on the other, they have constrained diplomatic channels for resolving issues. To examine this hypothesis, the analysis employs Trump's Maximum Pressure policy and its theoretical underpinnings as its conceptual framework. The method of research is based on impact analysis. Findings indicate that while sanctions have profoundly impacted Iran-EU relations, they have failed to achieve their ultimate objective of altering behavior. A key outcome of these sanctions has been the sidelining of Europe in Iran's foreign policy sphere.

Keywords: European Union, Extraterritorial Sanctions, JCPOA, Maximum Pressure, Sanctions Policy

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1. Introduction

In recent decades, the relationship between Iran and the European Union has been influenced by various factors, including political, economic, and regional developments. Despite historical ties and shared interests in areas such as energy, trade, and regional security, this relationship has always been affected by the policies of the United States. One of the most significant factors in this context has been the extraterritorial sanctions imposed by the U.S. on Iran, which reached their peak during the presidency of Donald Trump.

The reality is that Iran's economy has faced various types of international sanctions since its establishment. Sanctions refer to a planned action by a government to apply pressure on the target country by restricting economic relations, with various political objectives (Saei & Kazemi, 1396 [2017 A.D.], p. 20). The issue of sanctions has always weighed heavily in the relationship between Iran and the West, and since 2002, with the Iranian nuclear dossier crisis, sanctions and penalties have become a core challenge between Iran and the West. The main factor in the increase of sanctions in recent years has been Iran's nuclear energy program and the West's concern over the prevention of the proliferation of weapons (Saei & Kazemi, 1396 [2017 A.D.], p. 23).

Between 1979 and 2005, sanctions were mostly unilateral, imposing political and trade restrictions on Iranian individuals. From 2006 onwards, in response to Iran's nuclear activities and U.S. efforts to isolate the country, international organizations such as the United Nations and the European Union joined the U.S. sanctions program (Islami & Naghdi, 1395 [2017 A.D.], p. 38). However, U.S. extraterritorial sanctions, which also apply to non-American companies and institutions, have significantly impacted

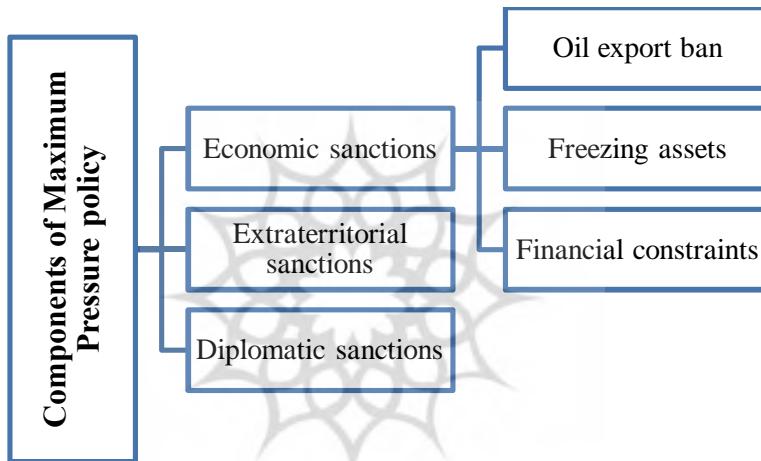
and pressured Iran's economic and diplomatic relations with the European Union.

During the first Donald Trump's presidency, the policy known as "Maximum Pressure" was adopted as the U.S. strategy to confront Iran. This policy was designed to limit Iran's economic and political capabilities through broad and extraterritorial sanctions. In 2018, Trump initiated this policy by unilaterally withdrawing from the nuclear agreement and re-imposing severe sanctions on Iran. These new sanctions not only targeted Iran's economy, but also warned non-American companies and institutions that cooperation with Iran would lead to heavy penalties. This maximum pressure was aimed at crippling Iran's economy and forcing the country to accept stricter conditions in future negotiations. With the U.S. withdrawal from the Joint Comprehensive Plan of Action (JCPOA) in 2018 and the re-imposition of sanctions on Iran, the European Union sought ways to maintain relations with Iran and continue economic cooperation; however, U.S. pressures forced many European companies and banks to reduce or sever their ties with Iran.

Europeans encouraged Joe Biden to revive the nuclear agreement once he was elected as the president of the United States. However, negotiations mediated by the European Union failed to yield results. Tehran's support for Russia's invasion of Ukraine and events in 2023, such as the war between Israel and Hamas, normalization agreements between Israel and several Arab nations, which continued to evolve, and The EU's response to geopolitical challenges, particularly concerning Russia and China led to a shift in Europe's policy. The European Union imposed new sanctions on Iran, and relations with Tehran soured. In theory, the European Union still seeks to revive the nuclear agreement with

Tehran; however, there appears to be little enthusiasm from both Iran and the U.S. On the other hand, Europeans are no longer inclined to offer new concessions to Tehran. The fact that some of the restrictions of the JCPOA will expire in 2025 is another reason why the revival of this agreement has lost much of its appeal.

Figure 1. Key Components of a Maximum Pressure Policy



Source: Author

Given the aforementioned explanation, the primary objective of this paper is to address the question of how the resurgence of U.S. sanctions, particularly due to their extraterritorial nature, has impacted the relationship between Iran and the European Union. The hypothesis proposed is that the resumption and intensification of secondary and extraterritorial sanctions have had a negative effect on both the economic and political relations between the two actors, minimizing the level of relations on the one hand, and narrowing diplomatic channels for conflict resolution on the other.

To examine this hypothesis, Trump's "Maximum Pressure" policy and its intellectual foundations will be used as the paper's conceptual framework for analysis. The focus will be on the extraterritorial aspect of the sanctions and their conflict with the principles of international law. In this context, after a theoretical discussion, the different perspectives of the U.S. and Europe on extraterritorial sanctions will be compared. Subsequently, the economic and military ties between the U.S. and Europe, as the basis for compliance with the sanctions regime, will be explored, followed by an analysis of the impact of U.S. sanctions on Iran's economic and political-diplomatic relations with the European Union.

2. Conceptual Framework

The use of the "Maximum Pressure" policy as a conceptual framework for analyzing the impact of U.S. extraterritorial sanctions on Iran-EU relations is an effective approach that can significantly contribute to understanding the objectives, strategies, and outcomes of these policies. In this section, while clarifying this policy as a conceptual framework for discussion rather than just a campaign, its application to the research topic will also be elucidated.

Trump was a staunch opponent of the policies and actions of the Obama administration. From the outset of his presidency, he sought to dismantle his predecessor's legacy. According to Trump, the Joint Comprehensive Plan of Action (JCPOA), along with the Paris Agreement and the Transatlantic Partnership, were against the interests of the United States (Kogan, 2019, p. 65). During Trump's tenure, the U.S. imposed 17 rounds of sanctions on Iran. Richard

Nephew, one of the leading theorists of sanctions, criticized the effects of the Maximum Pressure policy. From Biden's perspective, Trump's Maximum Pressure policy had failed; however, in 2022, the outbreak of the Ukraine war, coupled with Iran's stance in supporting Russia and internal events within Iran, led the European Union to align with and continue the policy under a different guise, without explicitly naming the campaign.

The Maximum Pressure Act is the most stringent sanction legislation against Iran proposed by the U.S. Congress. This act introduced certain ideas regarding sanctions on Iran, initially recommended in the Republican Committee's National Security Strategy report. The Strategic Committee concerning Iran also announced on March 5, 2021, that it would maintain all sanctions on Iran until Tehran complied with the 12 demands outlined by former U.S. Secretary of State Mike Pompeo in May 2018. This act also restricted the President's ability to lift sanctions (RSC, 2021).

The Maximum Pressure policy was a sanctions-based strategy designed by the Trump administration to maximize economic and political pressure on Iran. It consisted of a series of severe sanctions, including economic, financial, and oil sanctions, aimed at collapsing Iran's economy and pressuring the Iranian government to alter its behavior in areas such as its nuclear program, regional policies, and human rights issues. Trump attempted to garner support for this campaign during the 2018 Warsaw Summit. In protest, the EU, France, and Germany sent lower-level representatives to the summit to show their discontent with the U.S. withdrawal from the JCPOA (Nuruzzaman, 2020, p. 576).

The core components of this policy are outlined in figure 1. One of the main components of the Maximum Pressure policy was oil

sanctions. Oil is Iran's primary source of revenue, and these sanctions were designed to reduce Iran's oil exports to zero or near-zero. The result was a severe impact on Iran's economy, leading the government into a financial and budgetary crisis. This affected Iran's ability to secure essential goods and support social programs. Financial sanctions included blocking Iran's assets in foreign banks, limiting Iran's access to the international financial system, and severing Iranian banks' connections to international financial networks such as SWIFT (Slavin, 2021, p. 399). These sanctions were aimed at cutting financial flows to and from Iran.

As depicted in the figure, the second and third components of the Maximum Pressure policy have a significant capacity to harm Iran-EU relations at a high level. The focus of this research is on the second component, namely extraterritorial sanctions. The Maximum Pressure policy pursues several key objectives, the most important of which is changing Iran's behavior. This change includes both Iran's regional and nuclear behaviors. Weakening Iran's economy to create internal dissatisfaction and erode support for the government is also emphasized in this policy. Ultimately, using these two levers, the U.S. aimed to isolate Iran internationally and limit its economic and political interactions with other countries, especially the EU.

After Trump's withdrawal from the JCPOA, European countries suffered significant harm from U.S. extraterritorial sanctions. Extraterritorial sanctions refer to the unilateral application of sanctions by one country to enforce its laws on other countries. Any individual or company that violates these laws is subject to punishment by U.S. judicial authorities (Berard et al., 2018, p. 1). In this context, the EU, in defense of its sovereignty, sought to challenge U.S. practices.

The most severe sanctions were implemented on October 18, 2020. The European commercial sector faced a significant dilemma. On the one hand, they were ethically and legally committed to the JCPOA, and politically, the unlawful nature of Trump's approach led Europe to push the U.S. toward diplomatic isolation (Nuruzzaman, 2020, p. 577). On the other, in the practical and economic international arena, companies dealing with Iran faced penalties, such as losing access to U.S. financial and trade markets. Given the complex effects of the Maximum Pressure policy in the formation and solidification of extraterritorial sanctions, it appears that framing this policy as the conceptual framework for understanding this process will be insightful. This conceptual framework illustrates how a sanctions-based strategy can lead to profound changes in economic and diplomatic relations.

The concept of "Maximum Pressure" goes beyond simple policy measures, emerging as a comprehensive strategy that includes economic, diplomatic, and potentially military actions. This strategy aims at a fundamental objective: to shift the behavior of a nation—specifically Iran in this context. But it is not only about imposing restrictions; it is also about understanding and analyzing the broader effects that these actions can have on the global stage. Understanding the Maximum Pressure policy in depth provides insight into how a single policy can ripple through international relations, impacting everything from a country's economy to its global standing. This is not simply a series of sanctions, but a complex, multi-faceted strategy employed to navigate and possibly influence significant geopolitical dynamics.

This approach allows academics and policymakers alike to dissect how various factors, such as economic health and diplomatic relationships, are interwoven and affected by stringent

policies. Each element—from GDP impacts to industry-specific effects, from shifts in national policies to changes in international alliances—can be studied to glean deeper insights into the international playing field. As a result, while at first it might appear as a straightforward policy, the Maximum Pressure strategy also serves as a vital analytical tool in international studies, helping to unravel the intricate web of global politics and economic relations. It is a testament regarding how deeply interconnected our world is, and how pivotal policies can be in shaping the trajectory of global affairs. The actual reason for employing this policy as a theory is that it incorporates elements from three theories: realism, constructivism, and liberalism. Let's delve into how this strategy touches on these broad concepts:

- **Through the Lens of Realism:** Realist thinkers see states as entities seeking more power, aiming to safeguard their national security at all times. Through the Maximum Pressure policy, the U.S. attempts to sway Iran's behavior in favor of its own strategic interests. This approach aligns perfectly with the realist's view of one nation asserting its dominance over another.

- **Through Liberal Perspectives:** Liberals value global collaboration and uphold the importance of institutions that span across borders. Even though the Maximum Pressure policy may appear to be a one-sided tactic, it influences more than just bilateral relations. It reshapes how entire networks of nations and international organizations interact with and react to U.S. maneuvers.

- **From a Constructivist Standpoint:** Constructivists focus on the role of ideas, cultural norms, and societal beliefs in shaping international policies. In this context, the Maximum Pressure policy serves as more than just a political strategy; it is a tool that

modifies international views regarding Iran and portrays the U.S. as a custodian of global order.

This policy not only illustrates the U.S.'s tactical choices but also sparks broader discussions about the shifting landscapes of global power and how nations adapt. It provides a valuable prism, through which the impact of sanctions and international pressures can be viewed, making it an integral part of exploring and understanding the complexities of international relations.

3. Research Method

In this research, we used impact analysis to understand the intricate effects of U.S. extraterritorial sanctions on the interactions between Iran and the European Union during First presidency of Donald Trump. This technique offers a structured way to explore the multiple layers of impacts that these policy measures have in economic, political, and legal realms. By choosing this approach, we can comprehensively capture both the direct and the indirect effects of the sanctions, an important feature since these particular measures have ripple effects that extend beyond just U.S.-Iran bilateral ties.

Impact analysis is a powerful and nuanced method of examining the wide-ranging consequences of policies, major events, and interventions on communities and their economic or political domains. This method, as detailed in the work of Hufbauer et al. (2009), is particularly effective for digging deep into how and why these policies influence societies. By rigorously analyzing data gathered before and after the implementation of such policies, impact analysis sheds light on the intricate web of causes and effects, enhancing our understanding of policy impacts.

The decision to apply this methodology to explore the effects of U.S. extraterritorial sanctions on the relationship between Iran and the European Union stems from its ability to provide a thorough and multifaceted view of sanctions. These sanctions have diverse impacts that stretch across a nation's political and economic spectrum, requiring a deep dive to capture and evaluate their broad and intricate effects—a task for which impact analysis is particularly suited (Taylor, 2010).

To thoroughly analyze these impacts, the study focuses on the time beginning with the U.S. withdrawing from the JCPOA in May 2018, and tracks subsequent policy changes under different U.S. administrations. This period includes the intense "Maximum Pressure" campaign by the Trump administration and the different approach taken by the Biden administration, offering a robust comprehension of the various policy strategies.

A mixed-method approach was used for data collection to ensure a thorough and reliable analysis. Primary quantitative data on trade flows between the EU and Iran were collected from significant databases such as Eurostat and the IMF's DOTS, focusing on changes by sector and over time. For policy and legal dimensions, we analyzed documents such as EU policy adjustments, U.S. Treasury sanctions lists, and relevant European legal rulings. A multifaceted analytical framework was employed, designed to examine both economic and political strategic impacts. Time-series data were utilized to understand trade disruptions; qualitative analyses were employed for legal responses, and discourse analysis was conducted to gauge shifts in diplomatic stances and perceptions of strategic autonomy.

Despite the comprehensive approach adopted in this research,

certain limitations persist. Isolating the specific effects of U.S. sanctions from other factors influencing Iran-EU relations remains challenging. The dynamic nature of international sanctions and the ongoing developments in global politics also imply that our findings could evolve beyond the study's timeframe. Moreover, while the impact analysis methodically assesses the results of these policies, it does not provide definitive answers on the broader ethical implications of extraterritorial sanctions. Nonetheless, this research provides a detailed and nuanced understanding of the way in which broad policy measures such as sanctions play out on the international stage, influencing not only the targeted nations, but also their global partners. Such insights are crucial for policymakers and analysts navigating the complex web of contemporary international relations.

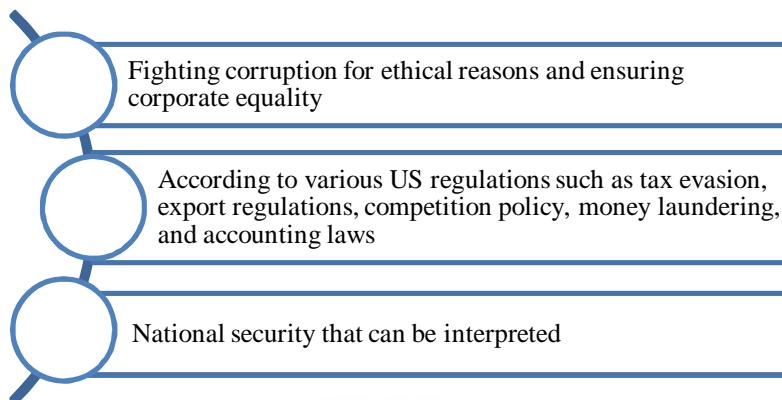
4. Comparing the European Union and United States Approaches to Extraterritorial Sanctions

Outside the United States, all economic sanctions imposed by a country are considered primary sanctions. In contrast, extraterritorial or secondary sanctions involve penalties against persons and entities not subject to the jurisdiction of the sanctioning country. These sanctions target those engaging in transactions similar to those prohibited under primary sanctions (Dow Jones, 2024). For instance, since the Islamic Revolutionary Guard Corps (IRGC) is subject to secondary sanctions by the Office of Foreign Assets Control (OFAC), a non-American individual conducting transactions with the IRGC (e.g., providing financial aid to the IRGC-affiliated charitable organization) may be penalized by the OFAC.

While a range of penalties can be imposed under various U.S. sanctions programs, the most severe form is losing access to the U.S. financial system (and by extension, dealing with U.S. financial institutions globally). This measure effectively prohibits the sanctioned entity from trading with American clients and suppliers. It should be noted that the U.S. Dollar is not only used in approximately 60% of foreign exchange transactions, but also serves as the primary currency for trading key commodities such as oil and gas. According to the latest OFAC announcements, this type of sanction has been implemented against Iran to the broadest extent, even more extensively than against Russia (OFAC, 2024).

The United States' extraterritorial sanctions reflect an efficient and cohesive enforcement regime for the sanctioning party. Once such sanctions are legislated, all government branches collaborate for their full implementation—from legislative bodies and criminal and civil courts to the Treasury, State Department, federal agencies, and intelligence services. Essentially, these sanctions rely on a complex and exceptional network of U.S. legal diplomacy (Berard et al., 2018, p. 1). The United States employs two main extraterritorial mechanisms:

- Sanctions derived from the Foreign Corrupt Practices Act (FCPA) of 1977: For example, Siemens was sanctioned in 2008, and more recently; the French pharmaceutical company Sanofi faced penalties for alleged corrupt practices by its subsidiaries in Kazakhstan.
- Sanctions extending the impact of U.S. unilateral measures: Examples include penalties against BNP Paribas in 2014 and Deutsche Bank in 2015 (Berard et al., 2018, p. 1). These measures aim to amplify the effects of primary sanctions. Figure 2 outlines the legal basis of extraterritorial sanctions under U.S. law.

Figure 2. Legal Bases of US Extraterritorial Sanctions

Source: Author

Regarding Iran, the U.S. extraterritorial sanctions are rather diverse and extensive; they have therefore effectively paralyzed Iran-EU relations despite mutual interest in maintaining ties. These sanctions include:

- Purchasing or transporting oil, petroleum products, or petrochemical products from Iran.
- Transactions with Iranian oil companies, including the National Iranian Oil Company and the Iranian Oil Trading Company, even if the entity involved is not registered in Iran.
- Fueling Iranian ships or vessels conducting Iranian-related trade.
- Buying, selling, transporting, or marketing iron, iron products, aluminum, aluminum products, steel, steel products, copper, or copper products from Iran.
- Specific transactions with Iran's automotive sector.

- Certain transactions with Iran's construction, mining, manufacturing, and textile sectors.
- Specific dealings with Iranian port operators, shipping, and shipbuilding sectors, including the Islamic Republic of Iran Shipping Lines and South Shipping Line.
- Trade in gold or precious metals.
- Certain transactions involving raw or semi-finished metals such as aluminum, steel, and coal (The Swedish Club, 2021).

While the EU and the U.S. previously shared a similar approach, the scope and even the perceived illegality of U.S. secondary sanctions have led to significant disagreements over Iran. The EU has not imposed any secondary sanctions to date. When the EU sanctions foreign individuals or companies, such measures are enforceable only within EU territory. The EU intervenes extraterritorially only when issues pertain to its territory or population. For example, under European data privacy laws, storing or using EU citizens' personal data outside the EU is prohibited. In such cases, the EU operates as an independent extraterritorial regime. However, its reach remains limited compared to the U.S., given the lack of a comparable judicial and legal enforcement structure.

The EU could theoretically impose extraterritorial sanctions in areas such as:

- Environmental protection, biodiversity preservation, and combating climate change.
- Anti-corruption efforts.
- Combating tax evasion.
- Protecting personal data (Immenkamp, 2024).

The EU's only response to U.S. secondary sanctions against Iran has been Regulation 96/2271, or the so-called Blocking Statute, adopted in 1996 in response to U.S. sanctions on Cuba, Libya, and Iran. The Blocking Statute was amended on June 6, 2018, following the U.S. withdrawal from the JCPOA. In addition to mandatory reporting obligations to the European Commission and provisions allowing companies to comply with sanctions, the Blocking Statute provides two key principles for European companies: prohibition and protection.

On the one hand, the Blocking Statute allows EU companies and citizens to engage in lawful trade with Iran to recover damages caused by U.S. sanctions and renders the enforcement of foreign court rulings within the EU ineffective. This protects European businesses trading with Iran. On the other hand, it prohibits EU citizens and companies from complying with U.S. sanctions unless explicitly authorized by the European Commission. The EU remains committed to maintaining cooperation with the U.S. as a key partner, but considers secondary sanctions a violation of UN Security Council Resolution 2231.

Despite the EU's prohibition, the Blocking Statute has never been effectively implemented. Companies, facing the risk of losing access to the U.S. market or potential penalties from the U.S. government, have opted to comply with U.S. sanctions rather than EU regulations. Although the EU's protective tools are theoretically appealing, they remain largely impractical. For instance, a European company breaching a contract cannot seek compensation in court solely because the breach resulted from the threat of U.S. sanctions. Judges may go as far as seizing U.S. government assets within the EU, but such actions have yet to occur.

The EU's response to U.S. extraterritorial sanctions can be summarized in four primarily economic measures:

1. Updating the Blocking Statute: The 1996 statute was revised in 2018 to cover all U.S. sanctions against Iran, ostensibly to protect European companies. However, this policy has proven ineffective.
2. EIB External Lending Mandate: The European Investment Bank introduced a mechanism for investments in Iran, but it failed due to EIB's dependence on access to international capital markets.
3. Financial Assistance: The European Commission approved an €8 million aid package to Iran to support SMEs, environmental projects, and drug control efforts. However, the amount was negligible compared to the €10.1 billion worth of EU imports from Iran in 2017.
4. INSTEX: The Instrument in Support of Trade Exchanges, designed as a barter mechanism for humanitarian trade with Iran, failed due to its limited scope and inability to include oil trade. The U.S.'s dominant control over the global financial system rendered this mechanism ineffective.

5. The Impact of Extraterritorial Sanctions on EU-Iran Economic Relations

In the interconnected global economy, countries engage in mutual trade that extends beyond bilateral relations. For instance, oil sanctions do not only affect the imposing and targeted states, but also create ripple effects across the globe. The pervasive use of the U.S. Dollar as the dominant currency in global trade, combined with the U.S.'s control over international financial and banking transactions through tools like SWIFT, grants the U.S. a unique

position of influence in the global economy. This enables the U.S. to monitor financial transactions of target states like Iran and impose restrictions that increase the cost of cooperation with Iran for other countries. The interconnectedness of global economies further propagates the effects of sanctions to third parties (Rostamzadeh & Rassaf, 2021, p. 72), casting a shadow on EU-Iran relations.

Following the JCPOA, European companies such as Airbus, Nestlé, Total, and Siemens entered negotiations for trade and investment in Iran. This led to a 30% growth in EU-Iran trade relations during 2016-2017. For example, Airbus signed a contract with Iran Air for the sale of 100 aircrafts to modernize its fleet (Csicsmann, 2019, p. 4). This cooperation revitalized Iran's economy and generated employment. However, the economic growth did not directly translate into improved living standards for Iranians, reflecting a "hollow box" syndrome.

By 2019, it became evident that the Trump administration's extraterritorial sanctions aimed not at nuclear disarmament, but rather at crippling Iran. Trump's policies jeopardized EU-Iran relations. For instance, a €10 million agreement between the EU and Iran for civilian nuclear cooperation faced challenges due to U.S. pressure, undermining EU efforts to ensure the safety of Iran's nuclear activities (Lechner, 2019, p. 4). Sanctions against Mahan Air as a European initiative, due to alleged support for the IRGC, led to the airline's ban in European capitals such as Berlin, Paris, Madrid, and Rome. Moreover, U.S. sanctions hampered EU humanitarian aid to Iran, including a €20 million commitment during the COVID-19 crisis and support for Iran's \$5 billion IMF emergency loan request, both of which were blocked by the U.S. (Emmott, 2020).

The intertwined nature of EU-Iran economic and political relations limits the EU's autonomy in dealing with Iran. Trade was a cornerstone of the JCPOA's mutual mechanisms, necessitating EU assurances to businesses that they could legally and politically continue relations with Iran. To this end, the EU introduced the Instrument in Support of Trade Exchanges (INSTEX) in 2018 to facilitate financial transactions with Iran, bypassing SWIFT restrictions imposed under U.S. pressure. However, due to limitations imposed by the U.S. Office of Foreign Assets Control (OFAC), which only permitted humanitarian transfers in food and medicine, European companies were unable to utilize INSTEX effectively. To date, INSTEX has been used only once, during the first wave of the COVID-19 pandemic, for the sale of €500,000 worth of medicine by a German pharmaceutical company to Iran (European Parliament, 2020).

The economic damage to Iran was significant enough to compel Tehran toward negotiation with Washington—although not at any cost or terms. A return to the conditions of 2015 was implausible. By 2018, Iran had learned the necessity of pursuing a more advanced nuclear program before negotiations, as its nuclear assets had gradually diminished since the JCPOA's implementation.

On April 22, 2019, the U.S. declared its intent to eliminate Iran's oil exports entirely. Iran's oil exports, which had already declined to 1 million barrels per day, plummeted further to 400,000 barrels per day by 2020. Before Trump's withdrawal from the JCPOA, Iran exported 2.5 million barrels per day. In May 2018, the U.S. allowed seven countries and Taiwan to gradually reduce their oil imports from Iran and deposit payments into escrow accounts for humanitarian goods. Greece and Italy, two EU members among these seven, were disproportionately affected by these sanctions

(ISSS, 2019, p. IV). Trump further warned that any country purchasing Iran's iron, steel, aluminum, or copper would also face sanctions.

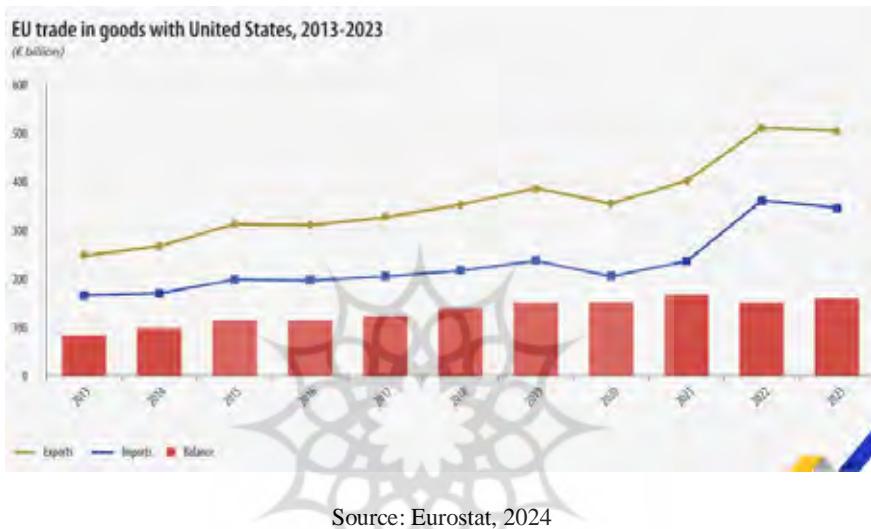
Iran continued exporting oil, gas, and electricity to neighboring countries and India, while maintaining significant oil sales to China. Factories reliant on European capital and intermediary goods increasingly turned to China as an alternative, enabling domestic factories to replace some European imports. More importantly, this shift marked a long-term trend of deeper economic ties between Iran and China. While the Rouhani administration viewed the JCPOA as a lifeline to Iran's economy and sought closer political relations with Europe, the Maximum Pressure campaign had the opposite effect, leading Iran to perceive closer ties with China as the only viable solution (Bajoghli et al., 2024, p. 133). This economic pivot culminated in negotiations for a 25-year strategic partnership between Iran and China.

By 2020, Iran was confident in its ability to withstand Maximum Pressure, despite the undeniable long-term costs to its economy and political stability. No immediate threat to Iran's existing order was apparent. However, Iran had concluded that Europe lacked the capacity to counter U.S. policies, prompting a strategic pivot toward China. In the short term, leveraging ties with China helped Iran endure maximum pressure, but in the long term, this partnership exposed Iran to greater Chinese influence.

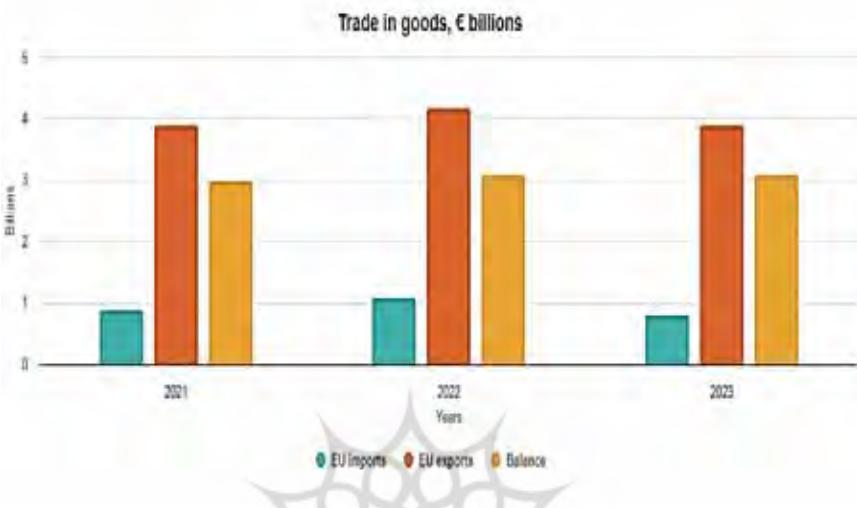
From the EU's perspective, its vulnerability stems largely from its asymmetric dependence on the U.S. economy. European businesses that are directly or indirectly linked to U.S. markets and financial systems encounter several significant risks due to the authority of the U.S. Treasury. Consequently, there are limited options for European companies to circumvent U.S. sanctions

(Granmayeh & Lafont Rapnouil, 2019, p. 3). Figure 3 illustrates the volume of EU-U.S. trade from 2013 to 2024.

Figure 3. Volume of Trade in Goods between the EU and the US



Under the extraterritorial sanctions of the United States, the trade relationship between Iran and the European Union (EU) has significantly declined. In 2023, the United States was the largest export partner for EU goods (19.7%) and the second-largest import partner (13.7%). Now, it is necessary to examine the trade relationship between Iran and the EU. Figure 4 illustrates the statistics on trade relations between the two sides from the 2022 to 2023.

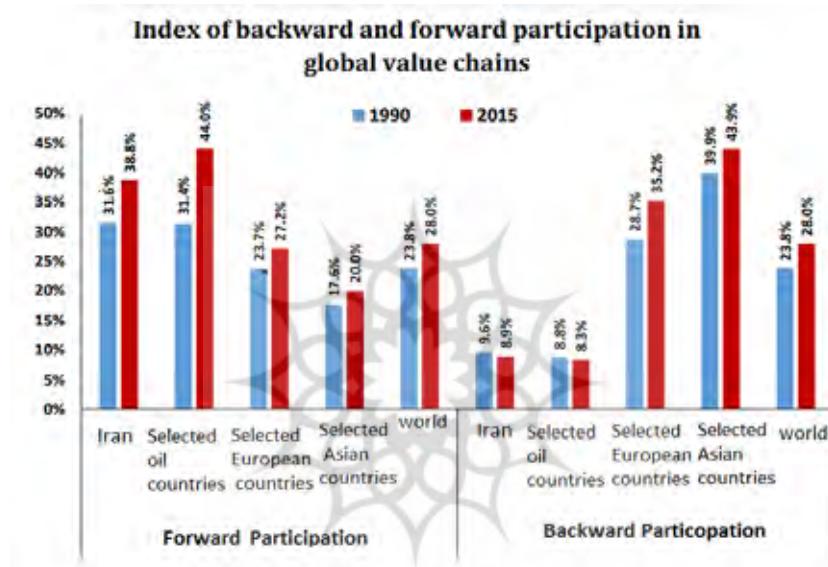
Figure 4. Volume of Trade in Goods between Iran and the European Union

Source: European Commission, 2024

Iran ranked as the EU's 64th largest trading partner in 2022. The total trade in goods between the EU and Iran amounted to €5.2 billion. EU imports were valued at €1 billion, consisting mainly of plastics and rubber (€0.26 billion, 26%) and vegetable products (€0.25 billion, 25%). EU exports totaled €4.2 billion, led by machinery and transport equipment (€1.2 billion, 28.6%) and chemicals (€1 billion, 23.8%). Bilateral trade in services reached €1.3 billion in 2021, with €0.7 billion in EU service imports and €0.6 billion in exports. EU foreign direct investment (FDI) stocks in Iran were valued at €2.9 billion in 2021, with inflows reaching €2.4 billion (European Commission, 2024). Clearly, the trade volume between Iran and the EU is incomparable to that between the EU and the United States. Consequently, siding with Iran against the United States does not appear to be a pragmatic option

for either European governments or businesses. The situation worsens when we consider Iran's position in the global supply chain (figure 5).

Figure 5. Iran's Position in the Global Value Chain



Source: Najarzadeh et al., 2020, p. 115

Iran's exclusion from global value chains, as a consequence of sanctions, has deeply affected its economy and position in international trade. This process signifies the reduction or elimination of Iran's role in the production, distribution, and delivery of goods and services in global markets. For instance, oil and industrial sanctions drastically reduced Iran's exports of oil and petrochemical products, diminishing its role in the global energy supply chain. Numerous multinational companies integral to global

value chains refrained from engaging with Iran due to U.S. sanctions. Fearing secondary sanctions and hefty fines, these companies exited the Iranian market, severing Iran's links to these chains. A prominent example is the withdrawal of Siemens from the Iranian market (Geranmayeh, 2018).

Another impact of extraterritorial sanctions on EU-Iran relations has been the loss of industrial and technological development opportunities. Many European companies that could have contributed to Iran's industries—such as automotive, energy, and information technology—left the market. This withdrawal prevented Iran from accessing advanced European technologies, reducing its competitive capabilities on an international level (Geranmayeh, 2018). Additionally, joint projects between Iran and European companies were halted, further exacerbating Iran's technological and industrial stagnation.

6. The Impact of U.S. Extraterritorial Sanctions on Political Relations

As part of Donald Trump's "Maximum Pressure" policy, the United States imposed several new sanctions against Iran in April and May 2018. On April 8, the U.S. designated the Islamic Revolutionary Guard Corps (IRGC) as a Foreign Terrorist Organization (FTO), subjecting anyone worldwide who engaged in transactions with the IRGC to U.S. penalties. Prior to this, the Trump administration had already sanctioned 970 Iranian entities and individuals. Never before had Washington sought to designate the armed forces of a sovereign nation as illegal (IISS, 2019, p. IV).

Tehran responded systematically to Washington's economic and diplomatic measures. On April 8, in retaliation for the IRGC's

designation as a terrorist organization, Iran's Supreme National Security Council labeled the U.S. Central Command (CENTCOM) as a terrorist organization. On April 22, Admiral Alireza Tangsiri threatened to close the Strait of Hormuz (IISS, 2019, p. V). From 2023 onward, as European alignment with U.S. policy against Iran intensified, Admiral Tangsiri was sanctioned for his involvement in supplying air defense systems to Syria and drones to Russia. Following this, Iran announced it would withdraw from certain JCPOA (Joint Comprehensive Plan of Action) commitments. For instance, restrictions on heavy water reserves would no longer be observed unless JCPOA signatories fulfilled their banking and oil-related obligations (Marrison, 2021).

European countries' verbal reactions to Tehran's ultimatum were firm. In a May 9 joint statement, the foreign ministers of France, the United Kingdom, and Germany, along with Federica Mogherini, the EU High Representative for Foreign Affairs, expressed serious concerns about Iran's commitment to the JCPOA (European Council, 2018). At the same time, French Defense Minister Florence Parly warned of potential sanctions if Iran violated the agreement (Aljazeera, 2025). In reality, European policy during this period criticized both Iran and the U.S. simultaneously. Trump's policy toward Iran was based on the assumption that European states would also withdraw from the agreement, leading to its formal collapse. However, as shown earlier, while European countries had no choice but to adhere to U.S. sanctions, they were not obligated to follow the U.S. diplomatically.

The best example of this event occurred in September 2020 when European powers abstained from voting on a U.S. proposal at the United Nations to reinstate arms sanctions on Iran. Initially, the

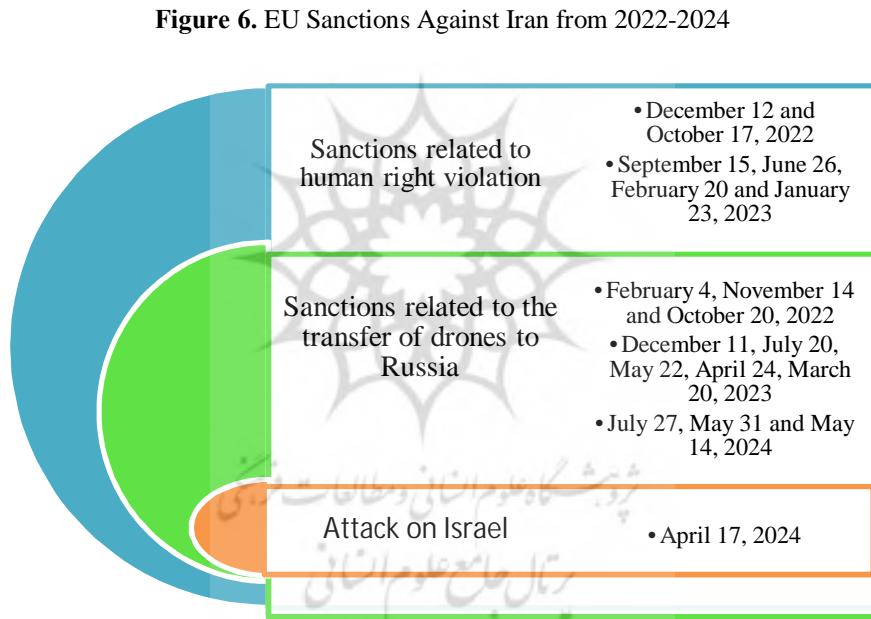
U.S. maximum pressure policy was regarded as a significant success, with Washington insisting on its efficacy in 2018-2019. Trump emphasized that the U.S. did not need its allies to advance its policies because they had no choice but to comply with Washington (Bajoghli et al., 2024, p. 126).

The Trump administration aimed to force Tehran into negotiating a new nuclear agreement by imposing severe sanctions. The social unrest in Iran from December 2017 to early 2018 convinced the Trump administration that Iran was under immense pressure. However, the White House decided not to pursue a new agreement and instead moved toward regime change. Mike Pompeo's list of demands reflected this shift and extended far beyond the nuclear program. Nevertheless, the U.S. failed to achieve this objective (Bajoghli et al., 2024, p. 131). Washington short-sightedly hoped its European allies would believe that Iran would seek an agreement within months, and that the issue would be swiftly resolved thanks to the power of sanctions.

Iran decided to remain within the JCPOA—a surprising maneuver that the U.S. had not anticipated. This move rendered Trump's strategy ineffective. For the first time, the U.S. found itself diplomatically isolated and subject to international criticism. Staying in the agreement provided Europeans with justification and time to explore ways to address Iran's economic concerns. The Europeans recognized that the JCPOA was at risk and that the cost of saving the agreement could not fall solely on Iran. However, each step Iran took away from full compliance with the JCPOA increased the EU's pressure on Tehran.

Following the death of Mahsa Amini On 16 September 2022 and Iran's policies regarding the Ukraine crisis, the U.S., followed by the EU, imposed new sanctions against Iran. These measures

reflected growing European frustration. Although earlier sections explained the EU's opposition to extraterritorial sanctions due to their impact on dialogue with Iran and legal complications, by November 2022, the EU began to change course, sanctioning 32 Iranian individuals and entities (European Council, 2024). A review of the sanctions adopted by the EU against Iran from 2022 to July 2024 is summarized in the following figure.



Source: Author

These sanctions clearly demonstrate that Iran's radical "Look to the East" policy, particularly its alignment with Russia—resulting from U.S. Maximum Pressure and sanctions—has indirectly had an adverse impact on Iran-Europe relations. As illustrated in figure 6,

the number of sanctions imposed on Iran due to its support for Russia has surpassed those related to human rights violations and even constitutes the majority of sanctions imposed in 2024 to date.

Overall, the European Union's political objectives in engaging with Iran, which have been undermined by extraterritorial sanctions, include:

- Ensuring peace in the Persian Gulf, which is crucial for securing oil supply and stabilizing energy prices.
- Resolving Middle Eastern conflicts, with the goal of controlling refugee flows to Europe.
- Diversifying energy suppliers, where Iran could serve as a viable option.
- Expanding industrial exports by fostering economic ties with Iran, thereby addressing Europe's sluggish economic growth.

7. Conclusion

In academic circles, the prevailing view is that sanctions have not been effective in achieving their primary goals. This ineffectiveness stems from multiple factors, including the existence of multiple sanctioning actors, the flexibility of Iran's objectives, and conflicting interests among key players such as the United States, the European Union, China, and Russia. However, this does not imply that sanctions, particularly extraterritorial ones, have been without impact on Iran's economy and society. The effects of U.S. maximum pressure policy on Iran-EU relations can be summarized as follows:

- Economic Relations: Extraterritorial sanctions forced

European companies to exit the Iranian market or reduce their cooperation due to possible U.S. penalties. Consequently, Iran-EU economic relations suffered significantly. These sanctions led to a sharp decline in bilateral trade, especially in key sectors such as energy, automotive, and technology. Europe, which had aimed to expand its trade relations with Iran post-JCPOA, was unable to achieve its objectives due to U.S. restrictions. Furthermore, the sanctions weakened Iran's role in the global value chain. The departure of European companies and reduced access to advanced technologies diminished Iran's role in global production and trade, negatively affecting its economy and reducing its international competitiveness.

- **Diplomatic Tensions:** U.S. pressure on European countries to comply with sanctions created diplomatic tensions between the EU and the U.S., as well as between Iran and the EU. Facing sanctions and reduced economic cooperation with Europe, Iran turned to Eastern countries such as China and Russia. This strategic reorientation diminished Iran's economic dependence on Europe and further eroded its commercial ties with the European Union. On the other side, despite the EU's commitment to preserving the JCPOA, significant operational constraints from the US impeded its efforts."

- **Alternative Mechanisms:** The EU attempted to maintain economic ties with Iran through mechanisms such as INSTEX. However, these efforts yielded limited results and ultimately failed under the weight of U.S. Maximum Pressure policies.

While American extraterritorial sanctions severely impacted Iran's economy, they did not achieve their primary goal of altering Iran's behavior. The EU, despite expressing dissatisfaction with the

unilateralism of U.S. policies, was unable to shield its economic and diplomatic relations with Iran from their broader effects. These sanctions also contributed to significant changes in the dynamics of international relations, driving Iran to strengthen ties with countries like Russia and China.

Iran's economy needs a de-escalation in foreign policy to accomplish its ambitions in totality Conclusion [Oil sales or imports alone should not bring the economy under immense pressure as long as there is no foreign policy aimed to lower tensions]. The importance of improving relations with Europe is evident, as the two economies have always been deeply interdependent: Iran's historical economic dependence on European markets has provided European states with insights into the ways in which Iranian industries work. It is also clear that Iran's outdated oil and gas infrastructure need serious investment for the rebuilding of technical know-hows to new technology.

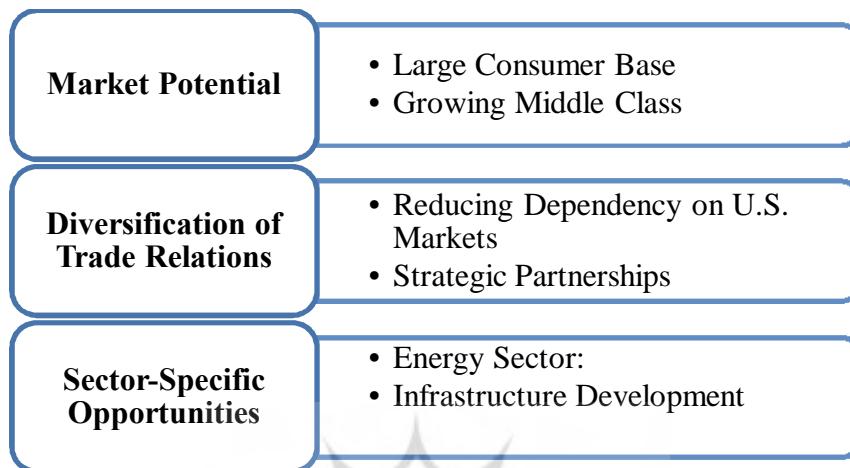
The deepening of Iran's relations with the European Union holds strategic significance for Tehran. It not only serves to advance Iran's national interests, but also provides a counterbalance to its alignment with Eastern powers, allowing the country to maximize diplomatic leverage in a multipolar context. As the international political landscape continues to evolve, particularly with the possibility of a renewed U.S. administration under Donald Trump—who has recently re-emerged with notable electoral support—such developments necessitate close strategic assessment. A potential return to power by Trump raises the likelihood of a reinstatement of the "maximum pressure" doctrine, with far-reaching implications for Iran–EU engagement.

The current global order is characterized by volatility and systemic shifts, requiring Iran to continuously reassess its foreign

policy orientation. The prospect of renewed U.S. hostility, particularly in the form of intensified economic sanctions or renewed diplomatic isolation, poses substantial challenges to the continuity of nuclear diplomacy and the revival of the Joint Comprehensive Plan of Action (JCPOA). For both Iranian and European decision-makers, anticipating sudden shifts in U.S. foreign policy will be essential for preserving mutual interests and maintaining strategic stability.

Within this context, the European Union may be compelled to adopt a more autonomous and assertive posture in its foreign policy. If Europe intends to maintain its economic influence and political relevance in post-sanctions Iran, it must consider decoupling certain aspects of its external strategy from U.S. preferences. Such a recalibration would not only strengthen Europe's normative and diplomatic standing, but it will also enhance its ability to honor international obligations, particularly with regard to the JCPOA framework.

Moreover, in light of escalating trade frictions and protectionist policies that emerged during Trump's previous tenure, the economic potential of a combined market between Iran and Europe—encompassing over 80 million consumers—stands out as a compelling factor. This strategic opportunity underscores the need for a proactive and coordinated European approach, as outlined in Figure 7, which highlights key areas requiring sustained attention and policy alignment.

Figure 7. Opportunities amid U.S. Trade Policies

Source: Author

As for Iran, it should advance its economic and political isolationism to insulate itself from future U.S. policy turns. Iran should pursue a less provocative policy towards the United States. Iran's focus should be on its own economic and practical interests. Stronger links with the major powers and regional competitors would enable Iran to have alternative economic lifelines, and hence ensure it did not face disbenefits that might result from U.S. actions. Active participation in BRICS and SCO will help Iran expand its economic alliances and increase its diplomatic support excessively. Such alliances meant alternative trade and investment channels to replace the slaying consequences of US policies, while Iran tries to wean itself from America.

Acting in the international environment requires Strategic planning and active and effective diplomacy. The relaunch of the Trump administration could have major implications on the U.S.

foreign policy, forcing European and Iranian leaders to stay attentive and agile so that they can preserve their advantages, while at the same time contributing to world stability. From partnership to horizon scanning and scenario planning, the key to navigate a wide international landscape will be cooperation, reacting proactively and embracing multipolar world order with the eyes open.

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