



The US Withdrawal from the Iran Nuclear Deal: Causes and Implications

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Introduction

On 8th May, 2018, President Trump announced the withdrawal of the United States from Iran Nuclear Agreement or the Joint Comprehensive Plan of Action, signed between Iran, the P5+1 (the five permanent members of the United Nations Security Council: China, France, Russia, United States, United Kingdom plus Germany) and the European Union. By withdrawing from the agreement, which provided for lifting of all nuclear-related economic and financial sanctions in exchange for Iran implementing the strict limitations placed on its nuclear program, the US would re-instate all the sanctions it had waived as part of the accord.

October last year, President Trump, after conducting a strategic review of American policy towards Iran, had decertified Iran's compliance with the nuclear deal, arguing that by developing ballistic missiles capable of carrying nuclear warheads and supporting 'terrorist proxies' in the region, Iran was not living up to the 'spirit of the deal'.¹ President Trump's decertification of Iran's compliance with nuclear deal gave Congress 90 days to decide if nuclear sanctions should be restored, while non-nuclear sanctions were imposed targeting the Islamic Revolutionary Guard Corps, which is in charge of the Ballistic Missile program and also the international supply chain of Iran's missile program.

Failure of the US talks with European allies

In January this year, Trump had extended the sanctions relief for Iran for one last time for 120 days, giving the deal's European signatories time to fix the 'terrible flaws' of the deal. Trump's decision to withdraw from the agreement came after they failed to redress what Trump has identified as the main flaws of the deal: the sunset provisions, according to which key restrictions on Tehran's nuclear program will expire in about a decade; 'weak inspections' regime which does not give IAEA an 'unqualified right to inspect' Iran's military facilities; and its failure to address Iran's development of ballistic missiles capable of carrying nuclear warheads.² Europeans, who

agreed to resolve US concerns in a separate deal without contravening the terms of the first, did not accept changes to the so-called sunset clause of the deal. The US has argued that elimination of key restrictions after a period of ten years would eventually allow Iran to reach the brink of nuclear breakout and hence the deal in its current form does not provide the assurance that Iran would never be able to possess a nuclear weapon. Allaying the concerns about sunset provisions of the deal, the IAEA has argued that even if provisions limiting certain nuclear activities will expire after specific time period, the Comprehensive Safeguard Agreement and Additional Protocol -- which are agreements between the UN nuclear watchdog and Iran -- will remain in force as long as Iran is party to NPT, therefore blocking the way to nuclear breakout.³

Trump administration's determined and vigorous hostility towards agreement is not limited to the flaws of the deal. More importantly, it has to do with the fact that the deal bestowed upon Islamic Republic of Iran international legitimacy and strengthened diplomatically and economically a regime whose very identity is based on opposing the United States and continues to pursue a regional geopolitical strategy that runs counter to the American interests. According to Trump, at a point when the pressure of 'crippling sanctions' had given the US the 'maximum leverage' a more constructive deal should have put limits on Iran's destabilising activities in the region.⁴

Tehran keeping dialogue open with the EU-3

Speaking on the experiences Iran learned from the JCPOA, the Supreme Leader Ayatollah Khamenei argued that Iran cannot interact with the US, as the US animosity is not based on the nuclear issue; it is about the Islamic establishment which is opposed to the US oppression and expands the spirit of resistance in the region; and any flexibility towards United States will not make it less aggressive, but makes it more aggressive.⁵ Ayatollah Khamenei argued that "we have no intention of fighting with Europe, but these three European countries have shown that they stand by the US at the most critical junctures."⁶ As Iranian Deputy Foreign Minister Abbas Araqchi was to leave for Vienna for negotiating with diplomats from France, Britain, Germany, China and Russia to seek guarantees on the package that will give Iran the benefits of sanctions-lifting under the JCPOA, Ayatollah Khamenei gave a 'maximalist' list of guarantees expected from Europe to Iran, for it to stay in the deal: European banks must guarantee business transactions with Iran, the total sale of Iranian oil, and the issue of Iran's missiles and regional affairs will not be raised.⁷

The secondary sanctions which would target third-country financial institutions doing business with Iran by limiting their access to American financial network and economy have earlier deterred European companies from doing business with Iran. After the US imposed fresh sanctions, French oil giant Total, which is engaged in a \$2bn project to develop Iran's South Pars field, announced that it will halt its operations by 4 November -- when the 180-day grace period given to wind down operation in Iran expires -- unless it's granted a specific waiver by US authorities that would protect it against sanctions. According to Eurostat, the EU trade with Iran has more than tripled from pre-deal low of €6.2bn in 2013 to €21bn last year, and Iran is insisting

that the economic benefits of the deal must be assured by Europe for the deal to continue.⁸ As the first step to protect Iran-related business from US penalties, European Union is proposing that the EU governments make direct money transfers to the Iranian Central Bank, bypassing the US financial system.⁹ The EU leaders have decided that the European Investment Bank would facilitate European companies' investment in Iran. The EU is also planning to have in force its most powerful tool to circumvent US sanctions, the 'blocking statute,' which bans any EU company from complying with U.S. sanctions and does not recognize any court rulings that enforce American penalties.¹⁰ The 'blocking statute' would also provide for compensation for companies incurring losses as a result of US measures, but as German Chancellor Merkel indicated, such relief can be given to small and medium-sized business that have fewer ties to the US, and compensating all business in a comprehensive manner would be illusionary.¹¹ The path to the 'blocking statute,' which has to be approved by qualified majority, is not without its problems, as pro-American states are arguing that US ties are more important than Iran amid disagreements on the Iran nuclear deal.¹²

A Return to the 'Look to the East' Policy

In order to limit the impact of American sanctions, Iranian leadership will rely on its time-tested 'Look to the East' and 'economy of resistance' policies. Former President Ahmadinejad, when faced with crippling sanctions over the Iranian nuclear program, complemented his belligerent posture towards the West -- the foundation of his populist foreign policy -- with doubling down on relations with non-West and anti-west nations, under the rubric of the 'Look to the East' (*negah-e be shargh*) policy. In March, 2018, when France urged the EU to lay harsh sanctions on the Iranian ballistic missile project in order to keep the US from withdrawing the deal, Chairman of the Iranian Parliament's Foreign Policy and National Security Committee Alaeddin Boroujerdi observed that "Europeans' action in doing so indicate their weakness against the United States' pressures," therefore, "the best option for Iran is to turn further East and towards its neighbours and do great business with countries like Russia and China".¹³

As Europe works on its "package of EU steps" on Iran, it will try to negotiate new conditions on Iran's regional activities and missile programs. Iran, which is opposed to any such negotiations, is focussing more on China and Russia, hoping these countries would resist European attempts to force new conditions and side with Iran.

In order to draw a 'clear future design' for the accord in the aftermath of the US pull-out from the deal, Iranian Foreign Minister Mohammad Javad Zarif, first made a trip to Beijing where his counterpart Wang Yi affirmed his stance on maintaining the JCPOA. "China will take an objective, fair and responsible attitude, keep communication and cooperation with all parties concerned, and continue to work to maintain the deal," Wang said.¹⁴ In his next stop in Moscow, FM Zarif was assured by Russian Foreign Minister Lavrov that even if the United States had undermined the JCPOA, Russia and a number of other countries have legitimate interests in the Iranian nuclear deal and they must be jointly defended.¹⁵ In the final stop in Brussels, Zarif met with foreign ministers of Britain, France and Germany and along with EU foreign policy chief

Federica Mogherini, where the four ministers showed the willingness to find 'practical solutions' for keeping the nuclear agreement going, while refusing to give economic and legal guarantees that Tehran has expected.¹⁶

Given that the re-instating of sanctions, especially the secondary sanctions on countries that engage in transactions with Iran's Central Bank would hurt Iran's ability to export oil, Tehran has to stay in close touch with Asian countries, where the bulk of Iranian oil is exported. Last year, China and India were the biggest buyers of Iranian oil, followed by Japan and South Korea. On the sidelines of the SCO summit, scheduled for 9 to 10 June, in Qingdao in China, President Rouhani would be paying a working visit to the country, where the two sides would discuss how they can avoid major disruption of joint projects.¹⁷ FM Zarif was in New Delhi on 28, May, seeking India's support in salvaging Iran's nuclear deal and for continuing the deepening partnership between the two countries in the areas of connectivity, energy, and trade. Indian External Affairs Minister Sushma Swaraj assured FM Zarif that India will continue its trade with Iran notwithstanding the US sanction, as 'India follows only UN sanctions and not unilateral sanctions by any other country.'¹⁸ Earlier in 2012-13, when both the US and the EU had imposed an oil embargo on Iran, India had to significantly reduce its oil-imports from Iran, before it became eligible for the US waiver from fully complying with American sanctions targeting Iran's oil imports. However, this time when five of the six signatories do not share the American assessment that Iran has violated the nuclear deal from which the US has withdrawn, India should be able to resist unilateral American sanctions by reviving a rupee-rial payment arrangement.

Given that Trump supports a bigger role for India in Afghanistan, especially in economic assistance and development, India's investment in Iran's Chabahar port -- which it is developing as part of a new transportation corridor for land-locked Afghanistan -- maybe exempted from sanctions, as happened last time the US imposed sanctions on Iran. As re-imposition of sanctions penalising financial institutions doing business with Iran threatens Chbahar's viability, Iran would encourage China to assume a bigger role. In March, 2018, putting to rest any fears in Pakistan that Chabahar was meant to 'encircle Pakistan,' Iran offered to participate in the China-Pakistan Economic Corridor (CPEC) and also offered Pakistan and China to participate in Chabahar port project.¹⁹

'Economy of Resistance'

On Nowruz last year, the Persian New Year starting on March 20 -- also the occasion when the Supreme Leader sets the political agenda by naming the upcoming year -- Ayatollah Khamenei, arguing that inflation and unemployment had continued to beset Iranian people, named the upcoming year, the 'year of economy of resistance' piling pressure on President Rouhani in an election year. The concept of the economy of resistance -- which means an economy that can guarantee the growth and development of the country under pressure, sanctions and severe hostilities -- was first introduced by the Leader in 2011 in response to Western sanctions.

The protests which broke out in various Iranian cities in December last year underlined that chronic unemployment and rising costs of living has swelled the ranks of disgruntled youth and working class population, which also means that the ‘economy of resistance’ is yet to come up with practical solutions to Iran’s economic malaise and politically rally Iranians behind their leaders. As the United States imposes ‘highest level of economic sanctions’ over Iran with the intention of threatening the survival of the clerical regime, any domestic unrest on economic issues would be securitised by Iranian authorities, as advancing the cause of the enemy of the regime, and would be ‘resolutely confronted’ by Iran’s pervasive Basiji paramilitary and Revolutionary Guards.²⁰

Conclusion

By withdrawing from the multilateral agreement which rehabilitated Islamic Republic of Iran in the international community after more than three decades of American sanctions, President Trump has shown that his administration does not separate Iran’s nuclear issue from the issues of Iran’s so-called regional ‘malign activities’ and missile program, and therefore withdrawal from the deal is a component of wider American strategy of pushing back on Iranian influence in the region.

EU’s decision to stay in the deal as long as Iran’s compliance with the deal is verified by the IAEA, has created fissure in the Euro-Atlantic partnership, but the progress on a “package of EU steps” on Iran is fraught with difficulties as EU members lack a unified vision on the issue. If the EU measures to protect trade and European business in Iran prove ineffective, Iran -- given its fragile economic situation -- will have no reason to stay in the deal.

To limit the impact of sanctions on its oil imports -- the major source of Iran’s revenue -- Iran would put increasing premium on its relations with its biggest buyers in Asia that is China and India

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Disclaimer: The views expressed are that of the Researcher and not of the Council.*

Endnotes

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