

**Written Testimony of Richard Nephew
before the Senate Foreign Relations Committee on
“The Iran Nuclear Agreement: One Year Later”
July 14, 2016 at 10:00 a.m.**

Thank you, Chairman Corker, Ranking Member Cardin, and other distinguished members of this Committee for inviting me to speak here today. It is a privilege and an honor to speak to you once more on the issue of the Joint Comprehensive Plan of Action (JCPOA) reached between the United States, its negotiating partners in the P5+1 and EU, and Iran.

A year has passed since negotiations concluded on the text of the JCPOA. I appreciate the Committee’s decision to hold this hearing today in recognition of that fact. Anniversaries are good times to reflect in general and the Action phase of the JCPOA has largely taken place since I was last in this room. Much has been achieved and, in my view, the United States and our partners in the region are today far safer than we were just one year ago. In fact, it is not just my view: it also happens to be the view of Lt. Gen. Eisenkot of the Israeli Defense Forces as well as many other national security professionals in the United States, Israel and beyond.

But, my sense of satisfaction of having played some role in arresting Iran’s nuclear program should not suggest complacency. We have not yet dealt with all of the ways in which Iran poses a threat to the United States, our interests, and those of our friends and allies. Nor have we necessarily prevented Iran from possessing nuclear weapons for all time. The JCPOA has improved our situation significantly. It has laid a foundation for the future. But, there is more work to be done to ensure that its ambitions of preventing a nuclear arms race in the Middle East, bringing a modicum of stability to the region, and facilitating the emergence of a more constructive relationship between the United States and Iran can be achieved. In a paper I published in late May with Bob Einhorn, we laid out a series of specific recommendations that the United States ought to pursue in order to build on this foundation.¹ I will not dwell on those recommendations here, but it is vital to note that I see the JCPOA not as the end of an effort but rather the beginning of a much greater one.

And, of course, there is also much more work to be done in order to ensure that the JCPOA delivers on its principal, more immediate promises: that Iran will keep its nuclear program within its agreed limitations during the agreed timetables; that Iran will cooperate with monitoring and verification measures consistent with the JCPOA and its obligations under its agreements with the IAEA; and, that the United States, the European Union, and the UNSC provide the sanctions relief and economic engagement to which we committed ourselves.

I was asked to offer my perspective on the sanctions side in particular. However, before touching on those points, I want to make a few observations on the nuclear provisions of the JCPOA (mindful that it is constraining the Iranian nuclear program that remains the

¹ Einhorn, Robert and Richard Nephew. May 2016. “The Iran Nuclear Deal: Prelude to Proliferation in the Middle East?” Available at: <http://www.brookings.edu/~media/Research/Files/Reports/2016/05/iran-deal-regional-proliferation/The-Iran-Nuclear-Dealwebv4.pdf?la=en>

driving necessity for the deal and the subject of most of my time working in the U.S. government on Iran).

Nuclear

Thus far, Iran has fulfilled its part of the bargain. The IAEA verified on January 16, 2016, that Iran has:

1. Reduced its number of operational and installed centrifuges down to JCPOA levels;
2. Reduced its stocks of enriched uranium and heavy water down to JCPOA levels;
3. Begun the modification of the Arak heavy water research reactor such that it will be physically incapable of producing enough weapons-grade plutonium for even one nuclear weapon in less than four years; and,
4. Accepted enhanced IAEA monitoring provisions at its centrifuge storage and production sites, its uranium mines and mills, and other locations described in the JCPOA.²

In sum, as a result of the JCPOA, Iran's assessed breakout time using uranium has increased from 2-3 months to approximately one year and, using plutonium, to at least four years. Moreover, because of enhanced monitoring, we would have nearly the full balance of those breakout timelines to mount a response to Iran. As President Obama has made clear, we retained all of our options in the event of Iranian cheating on the deal, including the use of force.

Since the IAEA's initial report of January 16, it has issued two further reports. Both of these have confirmed that Iran is fulfilling its commitments, though with some implementation challenges (discussed below).^{3,4} Yet, these reports were not without controversy, largely stemming from the absence of some of the data that nongovernmental observers and organizations had become used to seeing in IAEA reports. In particular, the IAEA has been criticized for not publishing data on Iran's exact low-enriched uranium stockpile, which had become a normal attribute of IAEA reporting since Iran restarted uranium enrichment in 2007.⁵ The nature of this concern has focused less on whether the Iran was fulfilling its commitments and more on the degree of public transparency that the IAEA (and, by extension, the United States, Iran, and the JCPOA parties) was showing into Iran's nuclear program so as to permit "independent determination of Iran's compliance" with the JCPOA.⁶ In my view, it is reasonable for us to expect and to request more information from

² International Atomic Energy Agency. January 16, 2016. "Verification and Monitoring in the Islamic Republic of Iran in Light of United Nations Security Council Resolution 2231 (2015)." <https://www.iaea.org/sites/default/files/gov-inf-2016-1.pdf>.

³ International Atomic Energy Agency. February 26, 2016. "Verification and Monitoring in the Islamic Republic of Iran in Light of United Nations Security Council Resolution 2231 (2015)." <https://www.iaea.org/sites/default/files/gov-2016-8-derestricted.pdf>.

⁴ International Atomic Energy Agency. May 27, 2016. "Verification and Monitoring in the Islamic Republic of Iran in Light of United Nations Security Council Resolution 2231." <https://www.iaea.org/sites/default/files/16/06/gov2016-23.pdf>

⁵ Albright, David, Serena Kelleher-Vergantini, and Andrea Stricker. February 26, 2016. "IAEA's First Post-Implementation Day Report: Key Information Missing." http://www.isisnucleariran.org/assets/pdf/First_JCPOA_Post-Implementation_Day_Report_26Feb2016_Final.pdf.

⁶ Ibid.

the IAEA and, for that matter, from Iran on the specifics of its nuclear program during this extended period of confidence-building under the JCPOA.

That said, the absence of particular details in the report should not be confused with lack of transparency on Iran's part with international inspectors or with members of the P5+1. The IAEA has provided repeated assurances that it can verify Iran's implementation of its nuclear commitments. The governments of the P5+1 have indicated their satisfaction with their own understanding of Iran's nuclear program pursuant to the JCPOA, though some of them – the U.S. government included – have expressed a desire for more public accounting of Iran's nuclear activities in the IAEA's reports. But, ultimately, it is the degree to which the IAEA and member governments of the JCPOA understand what is going on that matters most, as the IAEA remains in a position to raise a flag should it find indications of Iranian cheating and the P5+1 can respond to any such noncompliance swiftly.

Moreover, this change in IAEA public reporting – while ill-advised at this sensitive juncture in JCPOA implementation – does match the more general approach taken by the IAEA in reporting on its member states' nuclear activities. Pursuant to the provisions of safeguards confidentiality enshrined in IAEA safeguards agreements with each state, the IAEA is charged to keep “any information obtained by it in connection with the implementation of the Agreement” confidential.⁷ There can be exceptions, as indeed was the case with Iran from 2003-2015, and it would have been more confidence-enhancing for the IAEA (and for Iran) to have maintained a more detailed reporting template for the time being. But, the decision to revert to a more restrained – if still abnormal – approach to IAEA reporting on Iran is hardly the same thing as walking back the commitments made by the Obama Administration that the JCPOA would involve the most intrusive monitoring and transparency arrangements ever negotiated.

This is especially the case because, as the February 2016 report made clear, the IAEA has not been reluctant to report information indicating that Iran has broken the terms of the JCPOA. In that report, the IAEA found Iran had produced and then possessed slightly more than its JCPOA-allotted 130 metric tonnes of heavy water. Iran's overage—which the IAEA measured at 0.9 metric tonnes—was then resolved by the export of 20 metric tonnes of heavy water seven days after the overage was identified.

This breach was not only modest in its import—as heavy water is not a nuclear weapons-usable commodity itself but rather a component in the production of plutonium for use in nuclear weapons—but also something that is entirely expected in the implementation of a deal of this sort. Iran will likely violate the terms of this provision again and perhaps similarly the provision dealing with low-enriched uranium (LEU) stocks because they are products of an ongoing process line that must be exported shortly after production. Any problem with shipping these commodities out of the country would lead to the potential for temporary excess in Iranian stocks of these materials. The real sensitivity in this regard is the degree to which Iran believes that it can engage in these activities and not be caught. If nothing else, the heavy water incident suggests the opposite: the IAEA's identification of the excess heavy water occurred quickly—Iran's production of the 0.9 metric tonnes of excess heavy water

⁷ IAEA Model Safeguards Agreement, Information Circular 153.
<https://www.iaea.org/sites/default/files/publications/documents/infcircs/1972/infcirc153.pdf>

occurred between January 16 and its identification on February 17—and Iran had to take swift remedial action to address the problem.

This informs my view of the likelihood of Iran pursuing a nuclear fuel cycle capability (or even a nuclear weapon itself) covertly. I believe that, should Iran seek nuclear weapons, it will absolutely seek to do so using undeclared nuclear facilities and undeclared nuclear material. The odds of being caught at declared facility are high and the risks of doing so are great. Moreover, Iran's *modus operandi* over the past fifteen years has been to provide extensive transparency at its declared sites, largely in an attempt to confuse consideration of their nuclear program internationally through showmanship (such as multiple tours of Non-Aligned Movement (NAM) ambassadors through Natanz).

I believe that the transparency and monitoring provisions in the JCPOA will make it very difficult for Iran to construct a new nuclear facility in the country in secret, particularly given that any such facility will need to identify a source of nuclear material as well as the various devices and materials required to bring it online.⁸ The nuclear procurement channel established in the JCPOA and in UN Security Council Resolution (UNSCR) 2231 also provides some protection in this regard, as well as the potential for consequences for exporters that are incautious.

That said, it is always possible that this layered approach intended to deny Iran access to the necessary components of a covert site will fail. It may be that Iran has unknown stores of materials and equipment necessary to outfit a new site, or that it will be able to evade international export controls in order to acquire such a stockpile. It may also be possible that Iran has a fully complete, covert site waiting in the wings. To my knowledge, U.S. and partner intelligence services have yet to detect such a site and of course remain vigilant in their watching for any such indications to emerge. But, intelligence failures have happened and could happen again.

Intelligence can also be successful. Reports from Germany indicate that Iran sought nuclear-related goods via covert means throughout the negotiations of the JCPOA and may be continuing to do so now. It would not be surprising that Iran hedged its bets during the negotiations; after all, we did not end our sanctions on the nuclear program during that time. Germany has not reported any procurement efforts after January 16 (and, for that matter, neither has the United States, according to the State Department). But, if Iran were to engage in covert procurement now – in direct contravention of the terms of the JCPOA – then this would be a major threat to the integrity of the deal, even if intelligence reporting ultimately precludes illicit transfers. The United States should respond directly to any such violations, including by using its authority in the Procurement Working Group to deny any legitimate procurements while there are positive indications of Iranian cheating. The United States should use all of its authorities to ensure that, even if it causes difficulties, the JCPOA serves its fundamental purpose.

⁸ Nephew, Richard. September 2, 2015. "How the Iran Deal Prevents a Covert Nuclear Weapons Program." Available at: https://www.armscontrol.org/ACT/2015_09/Feature/How-the-Iran-Deal-Prevents-a-Covert-Nuclear-Weapons-Program

This takes me to the issue of inspector access to Iranian military sites. The JCPOA explicitly made this possible, in the event of questions raised about Iranian compliance with the terms of the deal and Iran's other obligations under its agreements with the IAEA. This right exists for a reason and it should be utilized if there is reliable, credible information pointing to Iranian violations of their obligations.

But, in this, there are three important clarifications. First, there has to be some indication that Iran is in breach of its obligations now. Information acquired that points to Iran's past nuclear weapons work is less relevant, if for no other reason than we know they pursued nuclear weapons in the past. True, it would be useful to know as much about that past effort as possible, if for no other reason than to help discriminate against ongoing work. But, even had the Iranians given us a full confession of their past work, the United States and its partners would still have held back some suspicion that Iran was not telling us the complete story. Consequently, there would always be a residual question in the minds of intelligence analysts whether information received points to historical work or present work. This is why intelligence analysts would also require far more information about what Iran is up to than just the identification of one or two particles of man-made uranium.

Second, the focus on military facilities is understandable, but misguided. Prior to 2002, Iran's uranium enrichment project took place in part at a warehouse in Tehran. If Iran were to restart its nuclear weapons program, it may decide to do so at a military facility. But, it may just as easily decide to do so at a civilian facility or one that, to all outward appearances, is civilian. Our focus ought to be less on gaining access to military sites for the purpose of gaining access to military sites and more on ensuring that if there are any credible indications of Iranian cheating, access is granted wherever those indications point. And our focus ought to be on ensuring that we have as much information as possible, from intelligence sources, IAEA reporting, open source data-streams, to accurately judge Iran's intentions as well as its capabilities.

Third, there is now and there always will be some element of risk that Iran's cheating will go unnoticed. To that end, there is now and there always will be some element of risk that Argentina, Brazil, South Africa, South Korea, Sweden, or Ukraine have started to pursue nuclear weapons. We all judge that risk to be much lower than with Iran because of the unique history and relationships that surround those countries. This is sensible. But, the risk is not zero.

For Iran, our perceived risk is high. So, we have engineered a deal to constrain their capabilities and improve transparency to help address that risk. But, no deal could reduce that risk to zero. There would always be some risk, even in an Iraq-in-the-1990s style inspections regime, that we were being cheated. It is worth noting that the pursuit of "zero risk" led to us to jump at shadows in Iraq. Even if every nuclear facility in Iran were to have been obliterated in the JCPOA, even if every gram of enriched uranium were to be shipped out, and even if every Iranian scientist involved in the former nuclear program were to be employed charting the movements of stars, the risk of further nuclear proliferation in Iran would not be zero and while its present government exists, there would be people who believe Iran's nuclear weapons program was not only operational but closing on its goal.

Positive discrimination between actual attempts at noncompliance with the JCPOA and incidental implementation issues will be vital going forward on the nuclear side. It is important because an inability to determine whether Iran is cheating or just made a mistake could mean the difference between an incautious move to conflict and an overly cautious decision to treat every Iranian slip-up as just an accident. Time, care, and prudent assessment of the circumstances and facts of any implementation problem on Iran's side will be essential. And, in fact, the creation of time and space for such an assessment is an unsung benefit of the JCPOA. Rather than face a pre-JCPOA 2-3 month timetable for assessing Iranian intentions during a prospective breakout attempt, the JCPOA now will afford us much more time to make a reasoned and thoughtful assessment of what Iran is up to and how we should respond.

Sanctions

Taking a measured approach to determining Iranian compliance (or lack thereof) with the nuclear commitments of the JCPOA is also important because the United States and its partners made their own commitments in the deal. Iranian leaders are even now considering carefully whether to regard what they view the delayed benefit of the sanctions relief provisions of the JCPOA as merely a reality of the global economy and Iran's place in it, or a calculated effort on the part of their intractable enemies in the United States to deny them the very relief they purchased with nuclear concessions.

First and foremost, we should consider carefully Iran's overall economic health. The economy has improved since 2013. President Rouhani brought with him into government a cadre of technocrats who arrested Iran's economic freefall, aided in part by the halt in U.S. sanctions under the Joint Plan of Action (JPOA) but largely because having found themselves at the bottom of a hole, they stopped digging. These officials implemented a combination of reforms that, in the IMF's words last December, "set the stage for improved macroeconomic performance, provided comprehensive reforms are implemented."⁹ In essence, these steps created some stability in Iran's economy but they did not repair any of the major, structural problems identified by the IMF nor did they change the basic facts of Iran: that its state-based, oil-focused economy will always have a ceiling.

The sanctions relief contained in the JCPOA was never going to replace the need for Iran to make further reforms. I do not think that most of the experts in Iran's government believed that they would. Rather, I believe the hope was that JCPOA relief would provide enough of a spark for the economy to permit Iran's political leaders to take the politically sensitive step of economic reform, particularly given there are entrenched groups in the country with a clear interest in maintaining the status quo.

It is difficult to say whether the economic relief created by JCPOA has provided room for such reforms. As of today, Iran has been able to regain some of the market share it lost when U.S. sanctions clamped down on oil exports in 2012-2013. Iran's automotive industry is showing signs of life, facilitated by the fact that sanctions on the auto sector were fairly nascent when the JPOA froze them in November 2013. And, Iran has been able to sign

⁹ International Monetary Fund (IMF), Article IV Staff Report on Iran. December 2015. <https://www.imf.org/external/pubs/ft/scr/2015/cr15349.pdf>

fairly large contracts for the import of aircraft from Airbus and Boeing. Internally, inflation has been reduced from around 45% to around 10%.¹⁰ Iran's currency has stabilized. And, there are indications that the Iranian banking system is finally recovering from the insolvency brought on by years of bad loans and damage from sanctions.

On the other hand, Iran's economy is nowhere near what it might have been had sanctions not been imposed, or at the levels promised by Iran's leaders. Unemployment is down, but it remains in the double-digits.¹¹ GDP growth has returned after years of contraction, but Iran is building on a far weaker, smaller base than prior to the Ahmadinejad years and sanctions.¹² This is particularly frustrating for Iran, given that the Ahmadinejad years were also marked with record oil prices and revenues, most of which now appears to have been squandered. And, Iran has yet to see the kind of major external investment pour in that, to some extent, its leaders were banking on after the JCPOA came into force. In my view, this leaves Iran with an economic position best described as "stable and improving slightly." (I outline the main successes and impediments that Iran has experienced thus far in a paper being published today by the Center on Global Energy Policy at Columbia University, which accompanies my testimony as an appendix.)

Iran's difficulties primarily stem from three factors:

1. Iran remains an incredibly difficult country in which to do business, with a complicated regulatory environment, onerous security issues, and lacking financial infrastructure;
2. Residual sanctions and the threat of snap-back of those sanctions suspended or terminated by the JCPOA has chilled enthusiasm for going back into Iran; and,
3. Low oil prices have contributed to an overall imbalanced perception of the risk vs. reward calculus for the outside world with respect to Iran.

The problems that these three factors create are interrelated. For example, I have heard directly from numerous third country banking and business officials that they are deeply concerned about the risk of U.S. secondary and snap-back sanctions. They understand clearly that, with the 2010 Comprehensive Iran Sanctions, Accountability, and Divestment Act (CISADA) fully in place, they remain at risk for doing business with the Iranian Revolutionary Guard Corps (IRGC) and approximately 200 other U.S. designated entities and individuals in Iran. In fact, as I testified during last summer's hearings on the deal, the JCPOA not only did not constitute "unilateral sanctions disarmament," but – in the eyes of many in the international business community – it did not even represent a real change in U.S. sanctions posture or approach.

At the same time, when I have asked these same executives whether they would go back into business with Iran if all U.S. sanctions were to be lifted, many voiced a different concern:

¹⁰ Slavin, Barbara. June 2016. "Senior American Official at IMF Says Iran faces 'fundamental' economic choices." *Al Monitor*. <http://www.al-monitor.com/pulse/originals/2016/06/senior-american-imf-iran-fundamental-economic-choices.html>

¹¹ International Monetary Fund (IMF), Article IV Staff Report on Iran. December 2015. <https://www.imf.org/external/pubs/ft/scr/2015/cr15349.pdf>

¹² Ibid.

that Iran itself remains a tough place to do business, with uncertain profits to those who dare enter. Many have recounted stories of contracts that were faithfully fulfilled by the foreign participant, but then changed by their Iranian counterparty (e.g., building facilities in Iran that were supposed to be “builder operated” for some length of time in order for the construction contractors to recoup their investment, only to have this part of their contracts voided in deference to local operators). Others have described the negotiating process in Iran as needlessly and endlessly complex, stymying agreement and ensuring that – once negotiated – deals are next to impossible to implement due to second guessing and renegotiations. Still others have expressed their concerns about actually operating in Iran, noting the arrests of dual nationals.

Yet, for all of these problems, had Iran re-entered a global oil market with high prices instead of one in which oversupply was keeping prices low, the country might have experienced an economic boom. The practical result of low oil prices has been to drive down interest in investing in Iran’s oil and gas fields, and to reduce still further the “reward” element of any risk/reward calculus of doing business in Iran. Iran’s leaders are conscious of this reality—it is one reason why Tehran pushed for production cut-backs from other OPEC member states so as to create room for their own return to the market. But this awareness does not address the more fundamental problem that Iran’s oil simply isn’t what it was worth when negotiations on a JCPOA commenced.

Absent a market-creating force like a major oil company or similar announcing a significant investment and setting up shop in Iran, there is little incentive for banks or smaller service companies to go back into the country. Instead, we have seen short-term trade deals, continuation of existing relationships (such as in the auto industry), and discussions of new Iran Petroleum Contracts that have yet to emerge in final form. Here too we have evidence of Iran’s domestic political and regulatory processes getting in the way – as the main hindrance appears to be debate internally over how to interpret the Iranian constitution’s prohibition on foreigners opening Iranian oil and gas resources – as well as fears over sanctions contagion from the presence of IRGC and related entities throughout Iranian industry.

Remedying this combination of problems is going to be difficult for Iran, notwithstanding what the United States chooses to do. However, unlike in other countries in which our stake is relatively minimal, the United States does have an interest in Iran being able to reap the benefits of its emergence from economic isolation. Put simply, though I believe the United States has executed its responsibilities under the JCPOA to the letter and need not – as a legal matter – do anything further, the United States does have an interest in ensuring that Iranian leaders believe and can credibly argue that they saw some economic benefit from the JCPOA. Our audiences are two-fold: Iran’s leaders and population; and, those countries that we may need to appeal to in the future should Iran breach its obligations and set us again down the path of confrontation.

We should look for ways to offer clarity on our remaining sanctions measures and how they operate. Though they are seen sometimes in Washington as merely words, frequently asked questions (FAQ) and licensing policy guidance have real value in the real world. They explain U.S. enforcement positions and they articulate the standards that we expect businesses and banks to uphold. They provide confidence to compliance officers that they

understand what the U.S. government means. And, they avoid creating unnecessary ambiguities that undermine the integrity of our sanctions regime and perceptions of our competence. This material should be updated to clarify further the U.S. approach to sanctions now, using plain language where possible, particularly as relates to questions of how much due diligence is required for foreign entities to avoid sanctions for inadvertent business with illicit actors and how to handle any U.S. persons' involvement in foreign companies' dealings with Iran.

This guidance should be supplemented by the judicious use of executive licensing authority. The United States should constantly look for ways to streamline the processes necessary for companies to fulfill their obligations under U.S. law and reduce the workload on U.S. compliance officers. Licensing can do this where guidance fails. For example, General License I – little noticed, I am sure – offered real assistance to aviation service companies who were free, as a result, to enter into discussions with their potential Iranian counterparts without receiving specific licenses in advance. Discussions have little material value to Iran, but – for U.S. companies and those foreign companies who watch (and shadow) U.S. companies to ensure they are fulfilling U.S. law to the extent possible – providing a general license for these discussions ensured that companies seeking to use the relief in the deal had an easier time in doing so. This reduced the paperwork burden on Treasury while still offering Iran no real advantage over the specific licensing approach outlined in the JCPOA and subsequent U.S. policy.

There may be other areas in which new general licenses would be useful. For example, providing licenses for U.S. compliance and legal services to those companies who seek to do business in Iran (solely for the purpose of avoiding breaking U.S. law) expands the practical reach of U.S. law in a constructive and sober way. Iran will generate some value from this, as business may once again flow that otherwise could be denied by confusion. But, is the U.S. interest in stymying business in Iran really best served by making compliance with U.S. law and regulation as cumbersome and awkward as possible? Taking this approach reduces the overall attractiveness of business with Iran and could contribute to de-risking that will – in the long term – disadvantage the United States both economically and in terms of the use of sanctions to deal with future problems.

Working to address the ambiguities of U.S. sanctions and to smooth JCPOA implementation will not solve Iran's problems. But, they will make international business activity with Iran easier to pursue, demonstrate that the United States takes seriously its responsibilities and the common interpretation of them as being intended to facilitate Iranian economic progress, and reduce Iran's ability to claim – in the event of future cheating – that it is reciprocating for Iranian malfeasance.

At the same time, we also have an interest in demonstrating that we will continue to confront Iran for its support for terrorism, destabilizing activities in the region, and violations of Iranian human rights.

We should continue to apply those sanctions not terminated under the JCPOA. We have an interest in Iran not receiving the benefit of sanctions relief under those provisions until it has satisfied our other concerns. Iran must understand that it will not be treated as a “normal” country internationally – and especially in the United States – until it does. And, this will

create interest in Iran to address these problems. So, designations associated with Iran's ballistic missile and conventional arms proliferation, as well as human rights violations, are reasonable and should continue to be issued. And the provisions of CISADA should continue to be leveraged to reduce Iran's ability to engage in "normal" commerce, consistent with U.S. law. In this way, and as demonstrated in Iran's inability to reconnect with the global economy thus far, Iran can and will pay a price for its policy choices even if the overall legislative framework does not expand to touch on more of Iran's economic sectors.

To this end, though I do not believe its renewal is essential for the stability or efficacy of U.S. sanctions against Iran, it is reasonable to renew the Iran Sanctions Act (ISA) and to consider new legislation that would impose penalties on those who support Iran's development of and trade in missiles and conventional arms, as well as violations of Iranian human rights. These sanctions should be crafted in such a way as to avoid violating the JCPOA, which denies Iran a credible nuclear weapons option and thus deny Iran the ability to threaten our partners in the region, particularly Israel, with existential force. Indeed, we must ensure that in our zeal to confront Iran's other illicit conduct we do not inadvertently create grounds for Iran to walk away from the nuclear deal, not for the sake of the deal itself but rather for what it denies Iran. This is not acquiescing to nuclear blackmail from Iran. This is acknowledging that we have an interest in the nuclear deal and so do our partners.

All told, going forward, the situation demands a thoughtful, nuanced approach toward dealing with Iran, the JCPOA, and sanctions.

But, ultimately, only Iran can solve Iran's problems, and this can only start by addressing one fundamental issue: stopping support for terrorism and destabilizing regional activities, as well as violating the human rights of its population. An Iran that was more tolerant at home and constructive abroad would find business easier to attract and keep. It might also find a United States prepared to reciprocate with changes to U.S. sanctions laws, which would also facilitate business. For its own sake, Iran also should pursue more straightforward, economic reform. Iran should adopt changes to its financial system to sustain banking operations that conform to international standards for anti-money laundering, tax compliance, financial disclosure, and capital adequacy. Iran should reform its bureaucratic process to make it easier for foreign companies and domestic entrepreneurs to operate in the country.

Taking such steps, however, may be a bridge too far for Iran's leaders. Many of them, particularly in the security services, have a vested interest in the status quo. It affords them political power, in that they can control the economy and its spoils. And, it affords them direct financial benefits personally as well as for their institutions. Some in the system have embraced the idea of change in order to advance the cause of the Iranian population and, doubtless, to further their own political fortunes. And, my assessment is that we are now seeing the continuation of this struggle in the former of scandals, allegations of bribery and tax avoidance and, crucially, corruption investigations. Charges have been lobbed from all sides in this fracas, despite the Supreme Leader's frequent appeals for civility and focus on the outside threats (particularly the United States).

Last July, I suggested that the security forces in Iran were facing an existential threat of their own: reform and openness for their captive population. I see little now to challenge this assessment. Security forces in Iran have sought to repress the economic changes that Rouhani and his technocrats have pursued, including through the most basic and unconscionable of maneuvers: the arrest of dual nationals, including Siamak Namazi and his father, on charges of espionage. They have also sought to discredit some in Rouhani's administration. These are the activities of strong men in positions of power. But, they are not the actions of confident, strong men in positions of power. Rather, they obscure a deep sense of trepidation and fear that the system they have built and furthered may be unraveling. It is here that the United States has a unique, if difficult to harness, opportunity in Iran: to avoid contributing to the power base of Iran's security services by playing once more the villain. This will require care and nuance in our response to Iranian provocations, but it is not beyond us.

Thank you for this opportunity.



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Center on Global Energy Policy

SIX MONTHS LATER: ASSESSING THE IMPLEMENTATION OF THE IRAN NUCLEAR DEAL

By Richard Nephew

JULY 2016



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SIX MONTHS LATER: ASSESSING THE IMPLEMENTATION OF THE IRAN NUCLEAR DEAL

By Richard Nephew*

JULY 2016

***Richard Nephew** is the program director for Economic Statecraft, Sanctions, and Energy Markets at the Center on Global Energy Policy at Columbia University. Prior to joining the Center in February 2015, Nephew served as principal deputy coordinator for sanctions policy at the Department of State, a position he assumed in February 2013. Nephew also served as the lead sanctions expert for the US team negotiating with Iran, and from May 2011 to January 2013, he was the director for Iran on the National Security Staff where he was responsible for managing a period of intense expansion of US sanctions on Iran.



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EXECUTIVE SUMMARY

The Iran nuclear deal remains controversial, primarily because of lingering questions around whether it is delivering the benefits promised to all sides and, secondarily, because of residual complaints about how it was negotiated and advertised in Washington and in Tehran. Despite this, it has already achieved much, having lengthened the timetable that would be required for Iran to turn its nuclear program toward the production of material for nuclear weapons; established the mechanisms through which the world would have greater transparency into the nuclear program for the next twenty to twenty-five years; and relieved sanctions on most of Iran's economic activity. Though nuclear implementation has gone largely according to plan, the same cannot be said of sanctions relief. Though legally everything the P5+1 and UNSC are required to do under the deal has taken place, practical fulfillment of the sanctions relief has been halting. There are various reasons for this, but they lie in three general areas: low oil prices; Iran's own internal regulatory and bureaucratic problems; and residual effects from the remaining US financial sanctions against Iran and its banks. Not all of these issues are tied directly to the implementation of the JCPOA, but inadequate attention to these issues will undermine the deal just as surely as if they were a core provision of the agreement.

With respect to low oil prices, there is little that the United States or its partners can do that would address Iran's difficulties. However, with respect to Iran's internal problems and the residual effects of sanctions, more can be done in Iran and in the United States.

For Iran, these steps include

1. domestic reform to sustain banking operations that conform to international standards for anti-money laundering, tax compliance, financial disclosure, capital adequacy, and, critically, stopping the financing of terrorism;
2. reform of the bureaucratic process that makes it difficult for foreign companies and domestic entrepreneurs to operate in the country; and
3. pursuit of more constructive foreign and domestic policies that reduce tensions in the Middle East and give rise to concerns that the sanctions situation will once again get worse.

For the United States, there are limits as to how far the Obama administration (and its successors) should go, given the continued problems that exist both in how the Iranian economy operates and what the Iranian government does

with the proceeds, particularly in the financing of terrorism. Some steps that have been suggested—such as the elimination of most residual sanctions or the establishment of clear US-focused banking channels—would either meet impossible political headwinds or exacerbate the problems they seek to solve.

That said, reasonable additional steps that can be taken, largely by the Treasury Department, such as

1. promulgation of additional guidance and information on the standards the United States intends to use in judging foreign due diligence to prevent Iranian bad actors from receiving direct benefits from business and how best to undertake the recusal of US persons from foreign business decisions involving Iran;
2. further licensing to ease the compliance burden imposed on foreign companies to permit the limited use of standard US business software and other services that do not enhance the ability of companies to do business with Iran, but make it logistically and financially possible; and
3. other similar nonmaterial, and—ultimately—modest steps to aid in the implementation of remaining US sanctions in this different, JCPOA-informed environment, such as permitting technical compliance support by US lawyers and experts to foreign companies engaged in Iran trade.

Ultimately, and as unsatisfying as it may be, time may be the most important element of Iran's return to a more normal relationship with the international economy. Time will permit Iran's compliance with its nuclear obligations to continue to be established and international companies and banks to regain their confidence in doing business in the country. Time will also enable Iran to make the kind of regulatory and bureaucratic reforms necessary for the Iranians to have the kind of economy that they appear to desire, at least at the level of government technocrats, and to develop the political will to make the necessary changes at home. And time will permit the international community to form a complete picture of the future of US policy toward Iran and the JCPOA after the upcoming presidential election. Unfortunately, time may also not be on the side of these Iranian leaders, facing as they do claims that they were suckered in their negotiations with the United States and the rest of the P5+1. The trick, therefore, will be to ensure that Iran is able to make more progress, even if halting, in its reintegration into the global economy and the rigorous monitoring of its progress.

INTRODUCTION

Though a year has passed since negotiations concluded over the Iran nuclear deal—officially known as the Joint Comprehensive Plan of Action (JCPOA)—and six months have passed since it was implemented fully, the JCPOA remains a subject of intense controversy. Skeptics in the United States and in Iran continue to share remarkably similar perspectives on the deal, each side believing that their governments sacrificed too much in its achievement. Governments, banks, and companies around the world remain confused about the parameters of the deal and worried that one false move will damn their economic and political futures. Analysts around the world continue to debate whether all sides have done enough to ensure the JCPOA is a success.

All of this is as I predicted in July 2015, particularly as relates to the slow start that Iran is experiencing in its enjoyment of JCPOA sanctions relief.¹ Certainly, there have been some surprises along the way. Like many analysts, I did not believe that Iran would be able to complete its required nuclear steps until six months at the earliest after Adoption Day in October 2015. Instead, Iran finished its work in three months, and Implementation Day was observed on January 16, 2016. But with respect to Iran's use of the sanctions relief it purchased with nuclear restrictions and intrusive transparency, there is little in the delay that Iran has experienced that is shocking. Iran remains a difficult place in which to do business, with a complicated bureaucratic, regulatory, and constitutional system that prevents foreign businesses from having easy access to the country. Moreover, the threat of international sanctions—either from the reimposition of those suspended pursuant to the JCPOA or those remaining in place notwithstanding the JCPOA—continues to chill foreign business interest in the country. Volatile politics in the United States and in Iran probably have contributed as well to a sense of unease when foreign companies look to Iran.

This paper will review the major elements of the JCPOA sanctions relief and provide an update on the results Iran has achieved thus far in its use of the relief. The paper will delve deeper into some of the reasons for the delay in Iran's ability to take advantage of sanctions relief along the way. It will then offer views on how the United States and Iran (primarily) can ameliorate these problems. The paper concludes with thoughts on the JCPOA's implementation thus far and what the future may bring.

It is important to note from the outset that the perspective taken in this paper is that the JCPOA is a valuable contribution to international security and therefore merits preservation. However, this position does not imply—and should not be taken as implying—a readiness to preserve the JCPOA at all costs and, particularly, if its fundamental objectives are no longer being satisfied. The JCPOA is a means to an end—ironically, the same end as the sanctions measures that it replaced: the imposition of restraints on Iran's nuclear capabilities that create confidence that Iran is neither pursuing nor intends to pursue nuclear weapons. So long as the JCPOA is able to fulfill this objective, it remains the most economical tool in the US arsenal for doing so; it is on this basis that the deal merits being sustained.

Moreover, this paper does not argue against the continued use of US sanctions tools to address nonnuclear Iranian illicit conduct nor does it argue against maintaining the US extensive embargo, aside from those exceptions cut into the JCPOA already. These tools exist for a reason, and Iran should experience consequences for its support of terrorism, violations of human rights, and destabilizing regional activities. However, it is my view that though sanctions may contribute to solutions of these problems, sanctions are not as useful in addressing these problems as they were in the nuclear context, in large part because of the differing global opinions on the appropriateness of Iran's activities and of sanctions to correct them. The nuclear issue was one that many countries saw as a national priority, which—regrettably—is not the case for human rights or the support of terrorism. Even then, the United States had to engage in significant arm twisting to make the nuclear issue sufficiently relevant to some countries to make it worthwhile to engage in sanctions. Given this difference in views, other efforts—such as regional security cooperation and different forms of pressure on Iran, especially international political pressure—should be the focus of government policy targeting such conduct.

Iran is not a reformed state and US-Iranian relations are not (and will not anytime soon) return to anything approximating normal. There is simply too much bad blood on both sides and disagreement on fundamental issues to suggest that rapprochement is in the offing. However, this simple reality should also not preclude efforts intended to improve the environment such that normalization and stabilization of the relationship can be achieved in the future. Ensuring that the JCPOA is successful is a key element of this effort.

IMPLEMENTATION OF THE JCPOA TO DATE

The JCPOA has two essential components: the establishment of restrictions and transparency over the Iranian nuclear program; and the provision of sanctions relief by the UN Security Council (UNSC), the European Union, and the United States.

Nuclear Matters

The International Atomic Energy Agency (IAEA) has released three reports on Iranian compliance with the JCPOA since the beginning of 2016. The first report, released on January 16, outlined the various steps that Iran has taken to fulfill its major initial JCPOA commitments.² It was on the basis of this report that the United States, European Union, and UNSC acted to bring the JCPOA fully into force by executing the required sanctions relief.

On February 26, the IAEA released its second report.³ This report was controversial less because of its contents and more because of the absence of some of the data that nongovernmental observers and organizations had become used to seeing in IAEA reports. In particular, the IAEA was criticized for not publishing data on Iran's exact low-enriched uranium stockpile, which had become a normal attribute of IAEA reporting since Iran restarted uranium enrichment in 2007.⁴ The nature of this concern focused less on the degree to which Iran was fulfilling its commitments and more on the degree of transparency that the IAEA (and, by extension, the United States, Iran, and the JCPOA parties) was showing into Iran's nuclear program so as to permit "independent determination of Iran's compliance" with the JCPOA.⁵ Though reasonable people may disagree on the importance of the public dissemination of such data (as the IAEA has expressed confidence that Iran's enriched uranium stockpile is within the 300 kilogram limit established in the JCPOA), the flap over the content of the IAEA's report extended to a discussion at the IAEA's quarterly Board of Governors meeting in which the United States and its European partners called for greater transparency in IAEA reporting going forward.

This issue notwithstanding, the February IAEA report did provide information on one JCPOA compliance issue. The IAEA reported that Iran produced and then

possessed slightly more than its JCPOA-allotted 130 metric tonnes of heavy water. Iran's overage—which the IAEA measured at 0.9 metric tonnes—was then resolved by the export of 20 metric tonnes of heavy water seven days after the overage was identified.

On May 27, the IAEA released its third report, essentially repeating its conclusions from February, minus the indications that Iran had exceeded the threshold of allowable possession of heavy water. It too, however, generated controversy for its sparse technical detail.

Among these three reports, the IAEA has reported that there was one technical breach of the JCPOA that the Iranians remedied within a week of being discovered. This breach was not only modest in its import—as heavy water is not a nuclear weapons-usable commodity itself but rather a component in the production of plutonium for use in nuclear weapons—but also something that is entirely expected in the implementation of a deal of this sort. Iran will likely violate the terms of this provision again and perhaps similarly the provision dealing with low-enriched uranium (LEU) stocks because they are products of an ongoing process line that must be exported shortly after production. Any problem with shipping these commodities out of the country would lead to the potential for a temporary excess in Iranian stocks of these materials. The real sensitivity in this regard is the degree to which Iran believes that it can engage in these activities and not be caught. If nothing else, the heavy water incident suggests the opposite: the IAEA's identification of the excess heavy water occurred quickly—Iran's production of the 0.9 metric tonnes of excess heavy water occurred between January 16 and its identification on February 17—and Iran had to take swift remedial action to address the problem.

The IAEA reports do not address another element of the deal, which is continued, permitted Iranian nuclear procurement via a dedicated mechanism. When negotiations on the JCPOA commenced in January 2014, an interesting—if little recognized—quandary emerged for negotiators on both sides: how to handle permitted Iranian nuclear procurements while its nuclear program remained, in effect, on probation.

The easiest option from Iran's perspective was for the United States and its partners to remove any controls on its nuclear procurement, essentially eliminating the nuclear program's pariah status in response to the nuclear deal. However, for P5+1 negotiators, this was unacceptable because it would be tantamount to an early declaration that Iran's nuclear program was now entirely aboveboard. This, at the end of the day, is what the JCPOA is intended to demonstrate, and both time and confidence-building measures were required by P5+1 countries in order to prove exactly this point. Moreover, the risk here was not merely rhetorical: unrestricted Iranian nuclear-related procurement could contribute to the creation of a covert nuclear program, something that most nonproliferation experts in the six countries believed was the most likely vector for any future Iranian nuclear weapons program.

At the same time, P5+1 negotiators recognized that Iran would require procurements to support its legitimizing nuclear program, especially those projects that were enshrined in the text, such as the modification of the Arak Reactor and former uranium enrichment facility at Fordow. Additionally, it was recognized that Iran would require some goods for its other industrial processes that are dual use (meaning that they could be utilized in both nuclear and nonnuclear applications). These goods included specialty metals and process equipment (like valves and pressure sensors). Adding a further complication, many of these goods also have applications in Iran's ballistic missile program, which would remain under restrictions under the nuclear deal and unilateral sanctions by the United States.

The result of these negotiations was the creation of a mechanism for Iran's procurement of nuclear goods, based at the UN but effectively run by the members of the P5+1, which approves or disapproves procurement requests made by Iran.*

The mechanism has been praised by some, including me, as being an artful way to untie an otherwise troublesome knot of policy, technical, and economic issues. Others have underscored that the complexity of the system will present several implementation challenges,⁶ which could prompt

complaints from Iran if they led to significant delays in business activity. Still others have suggested that it could be effectively gamed by a determined Iranian proliferation network, skilled at sanctions and export control evasion after decades at the job.⁷ However, even an interim grade for the channel is difficult to give because, insofar as public reporting is concerned, there have been no requests made via the procurement channel nor indications given as to how requests are being evaluated.

In all likelihood, the delay in utilization of the procurement channel is explained by continued and deserved hesitation in exporting to Iran goods that could contribute to its nuclear program, even if their use in legitimate purpose is verifiable. A close second, however, is the difficulty that remains in conducting all manner of business with Iran.

Sanctions Relief

The United States, the European Union, and the UNSC have undertaken all of the sanctions relief steps required pursuant to the JCPOA.[†] However, as noted with respect to nuclear procurement, the practical implementation of the economic benefits of the relief has been slower than Iranian government expectations (at least those they stirred in public) due to a combination of economic, political, and physical factors.

Oil-Related Measures

As a result of the JCPOA, Iran is now permitted to export as much oil as its customers wish to buy. However, therein lies the rub: Iran's reemergence into the international oil market has occurred at a time in which the oil market is oversupplied and prices are low. This has impeded Iran's ability to take full advantage of its JCPOA-provided relief thus far, particularly in combination with other economic factors (such as Iran's access to international financial services, which will be discussed in the next section). There are two distinct areas of oil-related sanctions that merit consideration: Iran's ability to sell oil; and Iran's ability to garner investment in its oil and gas sector.

* More information on the operation of the channel was provided by the UN at its website, <http://www.un.org/en/sc/2231/restrictions-nuclear.shtml>.

With respect to oil sales, Iran could not have picked a worse time to come back onto the scene, especially in comparison to when its ability to sell oil freely was restricted in 2012. In 2012, oil fetched on average \$111 per barrel (Brent). In 2016, oil could cost as little as \$42.30 per barrel on average (Brent), according to some traders.⁸ With oil priced at less than 40 percent of what it was four years prior, Iran would require oil production levels not seen since the end of the 1970s in order to even match the revenue stream that it had in 2012 when sanctions were applied. Put another way, the impact of oil reduction sanctions against Iran has now effectively been outstripped by the impact of low oil prices, as the below table demonstrates, and this problem has nothing to do with US or European sanctions.

Yet Iran has proclaimed its intention to average 2 mbpd in oil exports throughout 2016 and has sought to project an image of this as a serious objective, both at home and abroad. It has ramped up production, reporting to OPEC a 7 percent increase in oil production in the first quarter of 2016 as compared against 2015.⁹ OPEC's secondary

sources suggest that this production increase may be understated, though largely because these sources peg Iranian production in 2015 at 300,000 barrels per day less than Iran had claimed¹⁰ Either way, both OPEC and the International Energy Agency have reported that Iranian production reached 3.6 mbpd as of the end of May 2016.^{10,11} If we limited our vantage point to solely current Iranian production and consumption patterns, however, it is difficult to see how Iran will be able to sustain 2 mbpd in exports. Iranian consumption was estimated to be approximately 1.9 mbpd on average in 2013, meaning that even at 3.6 mbpd in production as Iran currently claims, Iran would only be in a position to export approximately 1.7 mbpd on average.¹³ With gas condensates, the amount may be higher, reaching 2.2 mbpd on average. Iranian Oil Minister Zanganeh may have been confirming this interpretation when he said on April 3, 2016, that Iranian production of crude oil and condensates “jumped” by more than 250,000 barrels in March, permitting 2 mbpd to be put on the market.¹⁴

Table 1: Comparison of Iranian oil sales in 2012 and projected sales in 2016

	2012	2016
Average annual exports	1.5 million barrels per day (mbpd)	2.0 mbpd
Average annual oil price	\$111.63 per barrel (Brent)	\$42.3 per barrel
Total per year	\$61.1 billion	\$30.9 billion

Source: Energy Information Administration (EIA), Reuters, author's calculations.

[†] As a reminder, this does not include removal of the comprehensive US embargo against Iran (also known as US “primary” sanctions). This embargo remains in effect. The provisions described above should be construed, unless explicitly stated oth-

erwise, to only capture the effects of US “secondary” sanctions on Iran, secondary sanctions being those that affect foreign business activities with other foreigners

Iran is also likely tapping into its oil inventories. In fact, as negotiations with the P5+1 were concluding, press stories emerged suggesting that Iran might have as much as 40 million barrels stored in cargo ships sitting off the coast of the country, waiting for sanctions to be lifted. With Implementation Day behind Iran, it began to dispatch some of these vessels, eager to profit from what oil it could sell and, further, to attempt to reestablish market share lost starting in 2012. However, according to data gathered and reported by Windward, Iran's floating storage of oil has remained both high and largely static since mid-February at over 50 million barrels.¹⁵ One ship in particular, the *Distya Akula*, has been in transit to Europe for three months with 1 million barrels to off-load and apparently no buyer to receive it (though there may also be concerns with the quality of the product, according to one reviewer of this paper).¹⁶ In the context of Iran's total annual production (which one can extrapolate to 1.2 billion barrels, using Iran's March 2016 reported figures), an inability to sell 50 million barrels may seem fairly marginal. However, even at depressed prices, this oil is worth over \$2 billion and nearly 5 percent of Iran's total annual production. Iran would probably prefer to get this oil off of its hands as soon as

possible and, as Zanganeh noted, "After lifting sanctions, Iran will take back the market share of more than 1 million barrels a day that it lost...We should sell our oil whether the price falls or goes to \$100 (a barrel)"¹⁷‡

Seen in this context, the political wrangling that is taking place within OPEC and between OPEC and Russia over global oil production takes on significantly new meaning. Though some analysts discount the degree to which the Saudis are motivated to keep prices relatively low as a cudgel against its geopolitical rivals or impediments (like Iran), there is at least an incentive for the Saudis to do so insofar as limiting the overall benefit that Iran can receive from the JCPOA and its new oil position. Press reporting from April 2016 suggests that the Saudis were also taking other steps to complicate the activities of companies and entities that seek to do business in Iran.¹⁸ Moreover, Iran's refusal to accept a production freeze—even if it could contribute to slightly higher prices—makes sense in this context. Even if the price were to increase by just over \$10 per barrel, Iran still earns more by bringing more oil to market than 1.5 mbpd. Table 2 demonstrates this point.

Table 2: Comparison of Iranian oil sales in 2012 and project sales in 2016

	2016: More Oil	2016: Higher Price
Average annual exports	2 mbpd	1.5 mbpd
Average annual oil price	\$42.30 per barrel (Brent)	\$55 per barrel
Total per year	\$30.9 billion	\$30.1 billion

Source: Energy Information Administration (EIA), Reuters, author's calculations.

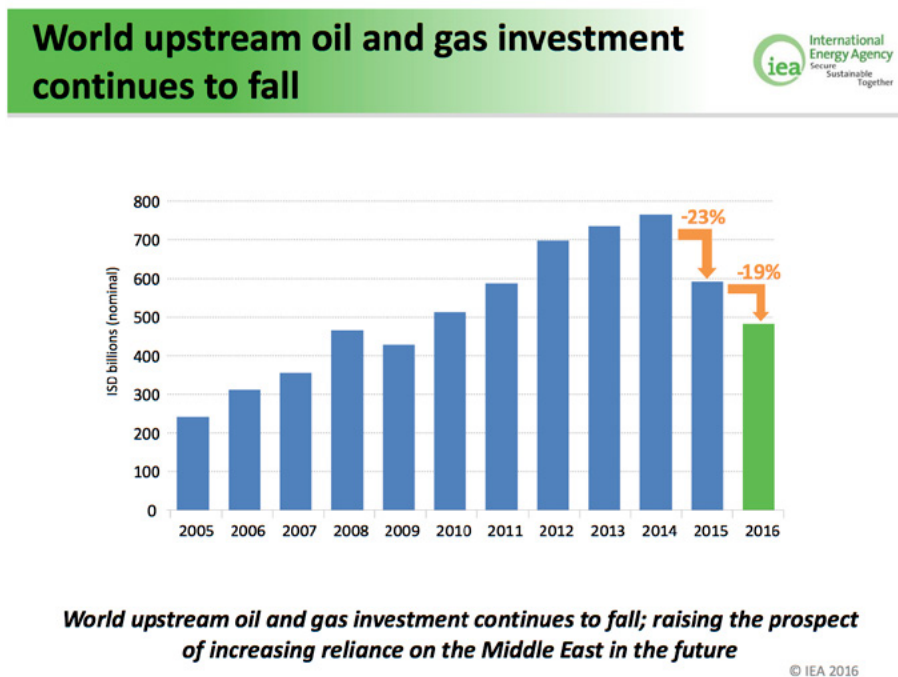
‡ There is an alternative argument, namely that Iran may wish to hold onto this inventoried oil until the price rises. This is sensible from the perspective of Iran's long-term interest. However, if one assumes that Rouhani's short-term focus is on generating momentum behind the JCPOA and his foreign policy approach,

then this economically sensible approach is less attractive. Either way, the drop in oil prices is continuing to delay Iran's ability—and perhaps its willingness—to sell oil now and generate the revenue that would come.

Nevertheless, Iran is still constrained with respect to how much additional oil it can bring to market over time, even assuming Iran can find a market for its floating storage oil. Iran's leaders have made this point, noting that they will require \$50 billion in external investment annually to jump-start the oil industry and improve extraction beyond what was possible by, in essence, turning on the taps from existing fields.¹⁹ Unfortunately for Iran, it is here that two intersecting problems exist: first, with oil prices as low as they are, international investment in new oil production is declining in general, particularly in areas seen as risky; second, Iran's reintegration with the global financial sector remains halting (more on this in the next section).

On the first point, it is no surprise that perceptions of a global oil glut combined with a lack of revenue are prompting a reduction in investment among the world's leading oil companies. The International Energy Agency (IEA) reported to the G7 Energy Ministers on May 1–2, 2016, that upstream investment has fallen by nearly \$300 billion since 2014 (Figure 1).

Figure 1: World upstream oil and gas investment



Source: IEA.²⁰

Investment instead will naturally focus on sources that are midstream or those easiest and cheapest to extract, which—in theory—ought to privilege Iran as compared with arctic or unconventional oil drilling (in fact, as one reviewer pointed out, most of the drop in investment has been in these more complicated parts of the industry). However, Iran has its own risks and complications that undermine its otherwise attractive, relatively low-cost production potential. The first is that Iran continues to require different investment arrangements than other countries due to its constitutional prohibition on the ownership of its oil reserves by foreigners. This provision is a historical legacy of a country that has felt preyed upon by international oil companies in the past and betrayed by its political leaders who granted inappropriate concessions to oil companies. But Iran would also like to be able to get the oil it possesses out of the ground, particularly given that—even with changes to the Iranian economy—oil remains the major export commodity. Since the Iranian revolution, Iran has sought to find workarounds to its constitutional predicament, offering complicated buyback and lease options in the 1990s that most oil companies found cumbersome, difficult, and less profitable.

Even now Iran is working on a revised Iran Petroleum Contract (IPC) that would try once more to bridge the gap between its desired approach and that of oil companies. But herein lies the second problem: Iranian internal politics. Iran's leadership remains divided on a variety of issues, especially the degree to which involvement with the outside world is a necessary component of economic development (and, under the surface, perhaps a more fundamental question of just how much development Iran should seek in any event). For this reason, the new IPC has yet to be fully finished, and in fact, former Iranian oil minister Rostam Ghasemi, who himself is a former IRGC officer, was fired from his advisory position in the Iranian government, reportedly in response to Ghasemi's obstructionism over the new IPC.²¹ As late as April 26, 2016, Iran's oil minister noted that the revised IPC remains under development and that though the general terms are known, no draft contract has yet been concluded.²² Deputy Oil Minister Javadi indicated on May 5, 2016, that the IPC would be finalized by "June, July..." implying a desire rather than a concrete rollout plan.²³ The shake-up in mid-June 2016 at NIOC (in which its managing director was replaced along with several board members)

is indicative of further turmoil but may point to a more imminent decision on the part of Iran to put out the new IPC. To this point, it is worth noting that Iran first started considering a revised approach to its investment contract in 2013 with the election of President Rouhani. Taken in combination with the prevailing risk of sanctions reimposition, if Iranian violations of the JCPOA were to be detected and the bureaucratic environment in Iran complicated, many oil companies would remain in the tentative, exploratory stages of investment decisions.

Financial-Related Measures

Certainly, there were those who believed that Iran would be able to take complete advantage of its reconnection with the international financial system at the outset of implementation of the JCPOA. One noted critic of the JCPOA termed Iran's resumption of financial ties as "precipitous"²⁴ and argued that the JCPOA "dismantles much of the international sanctions architecture"²⁵ in service of insufficient nuclear concessions on Iran's part. Other criticisms suggested that, particularly as a result of Iran's resumed access to financial system services—such as the Society of Worldwide International Financial Transactions (SWIFT)—"the relaxed banking standards will grant the Iranian regime the ability to move its money anywhere in the world. With EU sanctions also set to be lifted on Iran's Islamic Revolutionary Guard Corps, major IRGC companies⁸ and banks, and the Quds Force, the IRGC's extraterritorial terrorist arm, Europe will become an economic free zone for Iran's terrorist activity."²⁶ The ultimate conclusion of these arguments was that, "with the Central Bank no longer in the vise-like grip of the US Treasury, and with SWIFT messages flowing, Iran's financial sector will soon be operating at pre-sanctions levels."²⁷

Soon, of course, is a relative term, but for its part, Iran has seen nothing near a resumption of its presanctions integration with international banking. In fact, Iran's reintegration with international banking has been sufficiently slow and vexing that the Supreme Leader of Iran used his annual Nowruz** speech to sharply criticize the United States of using informal means of imposing pressure on businesses and banks to avoid doing business with Iran.²⁸ There are three likely reasons for the slow restart of normal interactions with Iran:

1. Residual effects of nonnuclear-related US financial sanctions, such as the Comprehensive Iran Sanctions, Accountability, and Divestment Act (CISADA), which the JCPOA did not dismantle, and the possibility of reimposition of sanctions;
2. Continued indications of Iranian financial misconduct; and
3. Continued negative risk/reward calculations in the financial sector.

Residual Effects of Nonnuclear Sanctions

Though underestimated in the days that immediately followed the JCPOA, the impact of the residual nonnuclear sanctions against Iran is real. One of the harshest critics of the JCPOA, who suggested that the residual nonnuclear sanctions would have limited impact in slowing Iran's rapid rise to economic resilience, noted in April, "I think the Iranians completely misjudged how the nonnuclear sanctions were going to deter international financial institutions."²⁹ But for those who were involved in the application of those penalties against foreign banks, the likelihood of these sanctions slowing reintegration was both recognized and real.³⁰ Simply put, banks have been scared away from doing business with Iran because US sanctions that could have consequences for their access to the US financial sector still exist and are being enforced. This fear has been heightened by the degree to which sanctioned entities continue to play a major role in the Iranian economy, particularly the Iranian Revolutionary Guard Corps. Banks may have no clear way of knowing for certain who is involved on the other side of the various transactions that must take place but know, based on experience and watching others get caught, that sanctioned entities can intersperse themselves throughout the value chain in Iran. Consequently, banks face a real choice: avoid Iran altogether, or trust that their due diligence and compliance protocols (which Iran has shown a proclivity to attempt to defeat) are effective in weeding out the bad actors in the Iranian system or—at a minimum—demonstrating their good will in a future sanctions case.

Unfortunately for Iran, banks have not seen enough time pass to have a clear sense of how the US Treasury will proceed to enforce sanctions under the JCPOA. They also retain some lingering fears that, even if the federal government were to uphold the JCPOA, state and local government officials (such as the financial regulator for the State of New York) could act differently. Their default view, reinforced by years of tough sanctions enforcement, is to expect the worst. The possibility of swift sanctions reimposition via the snap-back clause of the JCPOA (or, as has been suggested by several US Republican presidential candidates, via US unilateral action) amplifies these concerns.

Continued Indications of Iranian Financial Misconduct

Iran is not helping allay fears through its continued support of terrorism via financial (as well as other) means. Though there is scant public reporting to the effect that Iran is transferring large sums of cash to terrorist proxies and allies, the default assumption in the international community is that these behaviors persist, even if there remains debate as to how much support is being provided and to what degree the JCPOA enabled it to increase.

For this reason, the Financial Action Task Force (FATF) issued a statement on February 19, 2016, that reaffirmed that it "remains particularly and exceptionally concerned about Iran's failure to address the risk of terrorist financing and the serious threat this poses to the integrity of the international financial system."³¹ The FATF sets anti-money laundering and counterterrorist financing standards for financial institutions worldwide. Its recommendations and guidance are taken seriously in part because it is a rigorously technical body and no doubt in part because it is also composed of a diverse group of key members of the international financial community (the United States, members of the European Union, Japan, Korea, China, Russia, and India, among others).

On June 24, FATF amended its position on Iran by suspending the financial "countermeasures" that had

[§] Which, as a point of fact, will not take place until Transition Day in 2023.

^{**} Nowruz is an annual spring holiday celebrated throughout South-Southwest Asia, especially in Iran. Nowruz marks the

beginning of the Persian New Year.

been called for to prevent Iranian money-laundering and financing of terrorism. (These countermeasures are essentially prohibitive due diligence and screening protocols that would have the effect of stymieing financial transactions with the jurisdiction subject to the countermeasures.) However, this suspension is for one year, renewable only if Iran has made progress in implementing an agreed Action Plan with FATF that is intended to clean up the Iranian financial system. FATF noted, “Until Iran implements the measures required to address the deficiencies identified in the Action Plan, the FATF will remain concerned with the terrorist financing risk emanating from Iran and the threat this poses to the international financial system. The FATF, therefore, calls on its members and urges all jurisdictions to continue to advise their financial institutions to apply enhanced due diligence to business relationships and transactions with natural and legal persons from Iran...”³²

Iran now has a window of opportunity to improve its financial conduct. But in the face of such a recommendation and absent improvement, it is understandable why international financial institutions are keeping their distance from Iran and will continue to do so.

Continued Negative Risk/Reward Calculations in the Financial Sector

Banker caution aside, there is probably a financial incentive level at which it would be possible to convince some major banks to go back into Iran. Financial institutions operate on the basis of fees and financial reward, just like any economic actor. Against the expected earnings for doing business with Iran must be arrayed the potential costs, ranging from the simple economic (will our business venture succeed or fail?) to the compliance burden (can we afford all of these lawyers and consultants?) to the regulatory risk of a compliance problem still slipping through the security nets. Given the absence of what one banker described as a need for “certainty” about the longevity of the JCPOA and its embedded sanctions relief, it is likely that finding a mutually acceptable financing structure remains elusive for many financial institutions, especially those with larger reputational risk and greater financial exposure to the US financial system.³³ In such a scenario, a potential solution could be found in Iranian banks providing the necessary financing arrangements. However, Iran’s own banking system remains fragile, undermined due to years of bad loans and sanctions.³⁴

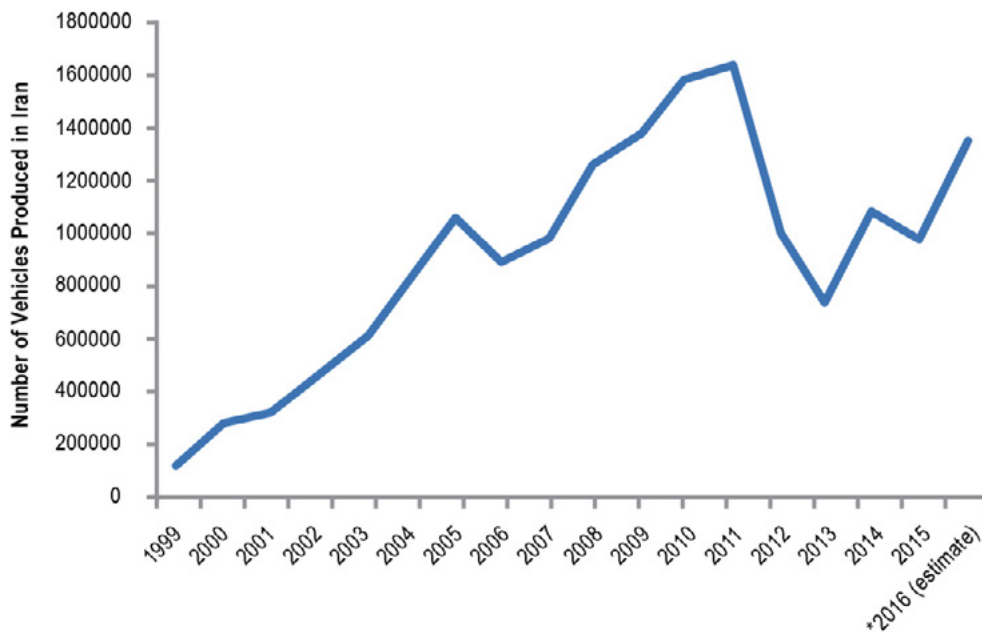
Other Economic Measures

The JCPOA’s main sanctions relief focuses on Iran’s oil and gas sector, and its access to financial markets, in recognition of the fact that these are key economic interests of Iran. However, these are not the only areas affected by the JCPOA, and many other industries in Iran stand to benefit if the sanctions relief promised is delivered. There are indications that, even if forward momentum on oil, gas, and financing has stalled, there has been progress in these other areas.

Two sectors in particular stand out: the auto industry and the commercial aviation industry.

Auto Industry

Iran’s auto industry was an emerging export driver throughout much of the 2000s. But this industry was far from homegrown. Instead, Iran depended on the import of complete or nearly complete automotive kits from foreign manufacturers, which were then assembled and marketed as Iranian vehicles. Iran has been trying to limit use of such kits and further its own domestic manufacturing, but even then Iran had a major dependency on foreign supply of components. This dependency on foreign partners was also a vulnerability to outside pressure, first exposed in 2011–2012 when oil and financial sanctions deprived Iran of the hard currency required to contract outside support. Production took a further hit after June 2013, when the United States announced that it would impose sanctions on any foreign entity that provided technical support or services in support of Iran’s auto sector. Taken in combination with Iran’s overall economic downturn and loss of hard currency from oil sales, Iran’s automobile production dropped to its lowest level since 2004. (See Figure 2.)

Figure 2: Iranian total vehicle production (automobile and commercial), 1999–2016

Source: International Organization of Motor Vehicle Manufacturers,³⁵ Tehran Times.³⁶

The Joint Plan of Action (JPOA) relaxed those sanctions in November 2013, and Iran’s auto manufacturing industry has recovered to some degree. Iran now estimates that it will produce 1.35 million automobiles during the Iranian fiscal year (March 2016 to March 2017).³⁷ Foreign partners remain integral to these operations. Renault, one of Iran’s most significant automotive manufacturing partners, remained in Iran throughout this period and has stated publicly its commitment to continuing its relationship with the country along with its Japanese partner, Nissan.^{38,39} Peugeot, which quit Iran in 2012, has finalized talks with Iran on the compensation necessary to reenter the market.⁴⁰ Other manufacturers may soon follow suit.

More interesting for the purposes of this paper is why the auto sector has apparently rebounded much faster than the potentially more lucrative oil and gas sector. Three points seem salient:

1. The time period between sanctions imposition and sanctions relief was relatively short. Though it is true that the auto sector took a hit in 2011–2012, it was not explicitly targeted at least by the United

States, and therefore the decision for companies—like Peugeot—to withdraw was political or economic in nature rather than compelled by force of sanctions. This sector was explicitly targeted by sanctions for only five months. As such, when JPOA relief was announced, reversing course for those companies still engaged in Iran was comparatively simple to orchestrate. The limiting factor became Iran’s ability to pay for the necessary imports.

In contrast, most oil and gas companies had been out of Iran for three or more years when the JPOA was announced, and five or more years when the JCPOA was finalized. New markets had been explored, with attendant resources shifted to take advantage of them. The same sort of logic applies with respect to banks, many of which withdrew from business with Iran in 2008–2010.

2. Long-term exposure risk is smaller than in oil and gas. Investing in Iran’s auto industry does require some risk exposure and capital expenditure. As Peugeot’s case demonstrates, a decision to withdraw from business in Iran due to sanctions imposition

can cost a company dearly, in Peugeot's case over \$425 million (though indications are that this cost will not be in the form of a cash payout).^{41, 42} That said, Peugeot's total review in the first quarter of 2016 was \$14.7 billion⁴³ and its investment in Iran is reported to be \$435 million *over five years*.⁴⁴ So, from Peugeot's perspective, the cost of getting back in and having to face getting back out due to sanctions reimposition or some other political risk is probably manageable.

Contrast this position with, for example, Shell. Shell's annual revenue was reported to be over \$400 billion in 2015. However, Shell's total investment budget for 2016 is only \$33 billion, reflecting cuts made due to collapsing oil prices.⁴⁵ To even consider making a sizable investment in Iran's oil and gas sector (much less to contribute substantially to Iran's goal of \$50 billion annually), Shell would need to risk potentially billions on an annual basis. As such, the long-term exposure of risk is both larger in absolute terms as well as in relative terms on an annual basis for oil and gas companies.

3. The politics around the Iranian auto industry—in Iran and abroad—are nowhere near as toxic. Starting with the Iranian domestic situation, though the auto industry is important, it is not yet central to the Iranian economy as is the oil and gas sector. Moreover, the auto sector does not carry with it the historical and constitutional complexity that surrounds oil and gas. It is therefore both easier to navigate for international actors and lower in visibility, allowing its investors to fly—to some extent—under the radar.

For much the same reason, the external view of Iran's auto sector is simply different. It was lower profile for those seeking to do damage to Iran's economy during the sanctions regime, known really only to experts as a potentially important source of leverage. And for similar reasons, it could potentially fly under the radar in a future sanctions campaign against Iran. In contrast, oil and gas refineries are big, noticeable, and symbolically significant parts of Iran's economy; consequently, they are major targets for sanctioners and therefore potentially more vulnerable than auto manufacturers in future sanctions scenarios.

Aviation Industry

Iran's aviation industry was the other major target of sanctions relief in the JPOA and JCPOA. In the JPOA, the United States agreed to take a more positive approach with respect to Iranian attempts to procure spare parts required for safety of flight. In the JCPOA, the United States agreed to expand this approach to entire airframes and associated services used for commercial purposes. Given the way that Western aviation companies operate (with supply chains that involve US components that exceed export controls' *de minimis* content levels), this decision effectively reopened Iran to receiving exports from US as well as European, Canadian, and other non-US companies.

Thus far, it appears as if this relief is also starting to bear fruit. Although there are no public reports of completed, authorized transfers of new aircraft to Iran, Airbus has already reached an agreement to sell Iran 118 jetliners, valued at \$27 billion.⁴⁶ Airbus has also been reportedly discussing domestic Iranian production of Airbus components.⁴⁷ Boeing has also concluded a memorandum of understanding with Iran for the sale of 80 planes, valued at \$17.6 billion.⁴⁸ In the meantime, other aviation-related services are likely being planned in Iran, such as the creation of a repair and maintenance hub by Lufthansa.⁴⁹

However, the financing issue noted above apparently remains a problem for Airbus as well as Boeing, and could affect other companies' business with Iran, even in this sector. In February, press reports emerged that Airbus, as well as US and French government officials, were seeking to assuage concerns on the part of banks that the associated transactions with Iran are authorized and consistent with the JCPOA.⁵⁰ There are few public indications that this problem has been alleviated.

Part of the issue may lie in the fact that, notwithstanding the approach taken by the Obama administration in advocating use of the aviation component of the JCPOA, this line of business is not—as in the case of the auto sector—completely permissible. Instead, in similar fashion to overall financial-related activities, Iran is now eligible to receive aviation-related services, but the exact terms of how Iran will utilize the planes and technical support it receives are unclear (including whether this trade could end up facilitating Iranian bad acts in Syria, Yemen, and so forth). In the case of bank-related activity, this is because

of the lingering linkages of US-sanctioned persons, like the IRGC, to Iranian banks. For aviation services, the problem is the fact that any transfer of US export-controlled goods must receive a specific license before transfers can take place, even if the goods in question are incorporated into Airbus or any other non-US airplane. Until an export license is provided, any transaction in furtherance of US-controlled goods could be considered a violation of US law. It is in part because of this problem that the US Department of the Treasury released a new general license in March, generally authorizing US persons to enter into negotiations over the provision of aviation services to Iran.⁵¹

Other Aspects of Sanctions Relief

The core economic and political elements of the initial phases of JCPOA sanctions relief have already been discussed. However, there are additional elements of JCPOA relief that at least bear mentioning.

First, Iran has also received relief from the various transportation-related provisions of the former sanctions regime, though it remains possible for inspections of Iranian-bound cargo to be conducted to ensure that proscribed items are not being smuggled. As a result, Islamic Republic of Iran Shipping Line (IRISL) vessels are now being welcomed back into foreign ports⁵² as are Iranian Air Cargo flights. Some of Iran's airlines are also off of the sanctions list and able to legally travel to Europe and other destinations, though access to the United States remains strictly prohibited.

Second, Iran is also now able to take advantage of other services incidental to and supportive of international trade. This includes export credit insurance for Iran-related trade (subject to the decision-making of the local export credit agency, as—for example—the US Ex-Im Bank has no intention of providing such support for Iran trade nor is it required to do so⁵³) as well as more normal insurance protection. Importantly, US financial firms remain generally prohibited from engaging in such business, as it remains sanctionable under the comprehensive US embargo to offer financial services to Iran or in furtherance of Iran-related trade.⁵⁴ This may complicate Iran's practical ability to gain access to services such as reinsurance, which is dependent due to its very nature on the sharing of risk among a variety of insurance companies, many of which are in the United States or

have US links. That said, US sanctions governing foreign reinsurance companies without US exposure have been suspended pursuant to the JCPOA, at least opening the possibility for such business.

Third, Iran remains under sanctions for its conventional arms and ballistic missile-related trade. Though some ambiguity surrounds the degree to which Iranian missile tests are themselves a violation of UN Security Council resolution 2231 (which, upon close examination, calls upon Iran not to undertake such tests but does not outright prohibit them), there is no ambiguity surrounding the legality of transferring to or from Iran either arms on the UN Register of Conventional Arms or the Missile Technology Control Regime Annex. For this reason, though the United States has objected to the sale of the S-300 surface-to-air missile system that Russia has apparently begun to transfer to Iran (after years of delays), its transfer is not proscribed by UN sanctions, as air defense systems are not on the UN Register of Conventional Arms.⁵⁵ On the other hand, purported plans to transfer tanks or fighter jets to Iran would be without question a violation of the UN arms embargo. These prohibitions will remain in effect until 2020 and 2023, respectively.

IMPROVING JCPOA IMPLEMENTATION

The JCPOA has yet to lead to an economic renaissance in Iran, as was both entirely predictable and predicted by many observers. It may yet be part of a major economic revitalization in the country, provided that its implementation challenges can be overcome. But how this issue plays out will be critical for how Iran will perceive the nuclear deal and any follow-on attempts on the part of the United States to negotiate with Iran on other issues.

The assessments offered thus far on the individual elements of JCPOA sanctions relief hint at the first fundamental challenge that Iran must overcome: Iran itself. Through a combination of its difficult bureaucratic and regulatory environment, its uncertain political and security situation, and its bellicose role in the Middle East and beyond, Iran has made itself—and remains—a complicated place to do business. Were it not for its unrivaled position in the physical center of global trade routes, its natural resource endowments, and its well-educated, globally oriented population, Iran would probably be relegated to the lowest tier of emerging markets as a major political and economic risk.

Iran can address this problem, but it requires serious and sustained changes to how the country operates internally and externally that will ensure both Iran's future economic development as well as the implementation of the JCPOA. Internally, domestic reform to sustain banking operations that conform to international standards is essential. Reducing the kind of red tape that makes it difficult for foreign companies and domestic entrepreneurs to operate in the country would also be a significant step forward. Iran is ranked 118th on the World Bank's "ease of doing business" 2016 index,⁵⁶ sandwiched between Ecuador and Barbados.⁵⁷ In some ways, it is ahead of other countries in the Middle East and North Africa, including in offering the legal framework to set up a business and enforce contracts. But many of those countries—Oman and Israel, for starters—do not also have to operate under the burden of Iranian domestic and foreign policy and the reputational—if not actual—risks that come from doing business there.

President Rouhani appears to understand the difficulty that Iran has created for itself. In his campaign, he stressed his desire to improve relations with the West and to pursue a foreign policy that was seen as more constructive.⁵⁸ However, his ability to set Iranian foreign policy and the broader agenda is limited both constitutionally and politically. The Iranian system as a whole needs to decide whether it wishes to change how Iran behaves and is perceived to behave, conscious of the fact that—in doing so—Iran could make itself far more competitive economically and thus provide better for its population.

Beyond the level of high politics in Iran, other steps can and should be considered to improve the degree to which sanctions relief is felt in Iran. Some of these are fairly easy for the United States in particular to take. Most of the work will fall on the US Treasury Department, including the promulgation of additional guidance and information on the standards the United States intends to use in judging foreign due diligence and how companies can best undertake the recusal of US persons from foreign business decisions involving Iran (which could prompt the imposition of US penalties). This guidance will be inherently legal but should avoid being legalistic so as to avoid the appearance of creating too much gray space.

In fact, these existing due diligence and recusal standards are often fairly straightforward to implement. In regard to due diligence, for example, companies and banks should thoroughly investigate their potential customer before conducting business, using all manner of available tools, from conversations with the customer to Internet searches to private business intelligence services. And if they find that there are no indications of illegitimate actors, including and especially those named on US and EU sanctions lists, they should proceed with their business, keeping clear documentation on their ongoing attempts to find out more about their business partner and continuing to learn whatever they can about their business partner. If they discover that a customer is engaged in illicit conduct, they should stop doing business with that customer and disclose this information to regulatory or

law enforcement authorities, as appropriate. If they're advised by their government or the United States of illicit conduct, they should stop doing business with that customer. These are commonsense steps, but all too often sanctions violators fail to undertake them or decide against doing so. Certainly, such steps come with costs, but just as banks and companies have had to bear new costs to avoid being complicit in corruption, organized crime, narcotics trafficking, and the like, these costs are simply part of doing business.

Similar steps could be taken to ease the compliance burden imposed on foreign companies in sensible, prudent ways. For example, companies have noted that the use of US business software by foreign-incorporated subsidiaries of US companies in their conduct of Iran business is acceptable in order to avoid companies having to set up entirely different mechanisms for the running of their foreign and US activities. General License H, which established this reasonable standard, only applies to those foreign-incorporated subsidiaries of US parent companies, however. Consequently, the use of US business software by solely foreign entities who have no US connection is potentially sanctionable. This creates the perverse circumstance that foreign-incorporated subsidiaries of US companies are privileged as compared with actual US companies and actual foreign companies. This is the sort of sanctions problem that frequently happens when sanctioners are designing layers of exemptions onto a broad comprehensive embargo, but understanding why it happens is no relief to those companies harmed by it. This issue both can be and should be remedied by further amendment to US general licenses by the Treasury Department. Other similar, nonmaterial, and—ultimately—modest steps to adjust the implementation of US sanctions to accommodate the commitments made with respect to economic relief in the JCPOA could also be undertaken with minimal consequence to the integrity of the sanctions regime. Barbara Slavin and Elizabeth Rosenberg have also suggested similar steps, such as permitting US persons to operate in the compliance departments of foreign entities doing business with Iran, that ought to be considered both because they offer a measure of comfort and reassurance to foreign businesses, and because they would help to prevent sanctions evasion, even if unintentional.^{59, 60}

That said, these steps would not be without controversy. In April 2016, a similar proposal to cover the short-term conversion of foreign currencies in conducting Iran trade via the US dollar met furious resistance. Some of this stemmed from a simple misunderstanding that such a step was the equivalent of granting access to the US dollar for trade (a claim that even skeptics of the JCPOA had to correct). But a good portion of this concern stemmed from the fact that Iran would be able to utilize such a modification for its economic benefit. In my view, denying such modifications out of concern that Iran could receive a benefit is the equivalent of refighting a battle already lost: the JCPOA is in place and survived US congressional scrutiny. The more appropriate test ought to be whether the benefit Iran would receive transcends what was intended in the JCPOA, something that is reasonably discernable based on the JCPOA text.

One such example of an overreach in accommodating Iranian banking concerns would be the establishment of a clear banking channel between the United States and Iran. The concept behind such a channel is straightforward: it would involve one or two US banks that are expressly permitted to do legitimate transactions with Iran, subject to either direct scrutiny of those transactions by the US Treasury Department or under an agreed regulatory construct.

It may be that such a channel was needed during the imposition of sanctions in order to permit humanitarian trade to continue to flow unimpeded. However, now, the problem with Iranian banking lies less in the absence of clean channels and more in the resistance of banks to take advantage of the banking relationships they are now permitted to establish. It is not apparent that a clean banking channel would solve this problem so much as it would create a dependency on one or two banks chosen for the task. Such a channel would raise immediate concerns of favoritism for banks not selected to participate (particularly if the channel involved only US banks, to the exclusion of foreign banks that would remain vulnerable to potential US sanctions actions), and it would also create major logjams in the facilitation of Iran trade, as banks would likely assume that only the authorized channel would be appropriate to use.

There is likewise a false hope in the idea of establishing an integrated global licensing regime that would permit individual transactions with Iran to receive scrutiny and approval. But such a scheme—which could involve either the sharing of export control information between states or an agreed set of procedures for managing such trade—would be immensely complex in what is intended to be a more “normal” business operating environment for Iran. Moreover, if the channel were to be corrupted—which, given Iran’s long history of sanctions evasion and financial crimes, cannot be excluded—then there would be an even harsher response from international financial institutions with respect to the risk of doing business in the country.

As unsatisfying as it may be, time may be the most important element of Iran’s return to a more normal relationship with the international economy. Time will permit Iran’s compliance with its nuclear obligations to continue to be established and international companies and banks to regain their confidence in doing business in the country. Time will also enable Iran to make the kind of regulatory and bureaucratic reforms necessary for the Iranians to have the kind of economy that they appear to desire, at least at the level of government technocrats. Unfortunately, time may also not be on the side of these Iranian leaders, facing as they do claims that they were suckered in their negotiations with the United States and the rest of the P5+1. The trick, therefore, will be to ensure that Iran is able to make some progress, even if halting, in its reintegration into the global economy and the rigorous monitoring of its progress.

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