

Iran's Nuclear Deal and the New US Sanctions

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Abstract

The US-Iran relations have been hostile since 1979 Islamic revolution. Post 1991 the US followed a containment policy to neutralise both Iran and Iraq. Despite Iran's co-operation after 9/11 attacks and the co-operation in Afghan peace process the relations deteriorated after Iran's nuclear programme came to light. President Obama's historic nuclear deal in 2015 sought to block all immediate paths to a nuclear bomb. But President Trump's sudden withdrawal from the treaty and the threat of sweeping sanctions has far reaching consequences. Whether the new sanctions would work given the opposition of European Union and other Asian states has to be assessed.

KEYWORDS: Islamic revolution, containment, nuclear deal, sanctions, India-Iran

I. INTRODUCTION

President Donald Trump is again up to his theatrics by withdrawing from the nuclear agreement signed with Iran in 2015. He has threatened that anyone doing business with Iran will not be doing business with the US. Biting sanctions have been imposed on Iran to stop its ballistic missile programme and curb its growing dominance in West Asia and the funding of ultras from Lebanon to Yemen. US Secretary of State Mike Pompeo has demanded that Iran end all nuclear enrichment and development of nuclear capable missiles, release all US citizens, end support for Hezbollah, Hamas, Islamic Jihad, Houthi militias and withdraw forces from Syria. US officials want a change in behaviour from the government of Iran.

II. US-IRAN RELATIONS:

After the discovery of oil, in Iran in 1908, in the south western province of Khuzestan, the oil sector began to develop. By 1920s Iran was among the top five oil producers in the world, accounting for 5-6% of world production. The huge profits of the Anglo-Iranian oil company were shared between the British government and the oil company and a meagre royalty was paid to the Iran.

Reza Shah Pehalvi became the ruler of Iran in 1925. In 1941 there was Anglo-Russian occupation of Iran and Reza Shah was deposed and his son Momhammed Reza Shah Paharvi was appointed as the ruler. Mossadegh became the first democratically elected Prime Minister and wanted to put an end to the profiteering oil companies of the West at the expense of Iran.

In 1951 Iranian parliament decided to nationalise the oil industry which endangered the interests of the British. Britain imposed an embargo and a blockade halting oil exports and hitting the economy. The Shah left the country in 1953 while Mossadegh was ousted in a coup in 1953 led by British and American intelligent services. General Fazlollah Zahedi became the President and the Shah returned. US and Iran signed an agreement on nuclear co-operation in 1957. The Shah started a White Revolution in 1963 which was a land reform programme and social and economic

modernisation. He used the secret police Savak to crush the opposition. His authoritarian rule witnessed strikes, mass demonstrations and riots. Iran signed the NPT in 1968 committing itself to a civilian nuclear programme. After 1971 US policy was to supply Iran huge arms and ammunitions to develop a strategic partner in the Gulf. The Iranian government made energy production a top priority.

The 1973 Arab-Israeli war and OPEC oil embargo against US and Israel changed the equations. With OPEC embargo continuing till March 1974, oil prices shot up from \$2.90 per barrel to \$11.65 per barrel. Iran's revenues surged and the funds were used for industrialization and militarization .

In 1979 as political situation worsened the Shah and his family went into exile and Khomeini returned to Iran bringing about an Islamic revolution. He declared the US allies as puppets and unIslamic. The Islamic revolution in Iran and the rise of Ayatollah Khomeini was seen by Iran as an assertion of self identity. Under the banner of Islam he could rally people against USA and Israel. The threat of Iran blocking the Straits of Hormuz loomed large. After the Islamic revolution in 1979 Iran withdrew its membership of SEATO and CENTO and joined NAM.

In 1979 the Islamic militants took 52 American hostages in US embassy in Teheran. They demanded the extradition of the Shah who was in the US for medical treatment. US severed diplomatic ties with Iran, seized its assets and banned trade. Iran was also declared as a state sponsor of terrorism. The Iran-Contra deal rocked the world when President Reagan revealed secret arms deal with Iran in violation of US embargo. The funds were to be used to assist anti-communist guerrillas in Nicaragua.

Geo-political equations switched during the Iran-Iraq war. US , Britain, France provided massive assistance to Iraq which was a former ally of USSR. Iraq was allowed to import uranium from Portugal, France and Italy and construct centrifuge enrichment facility. It was also helped to develop its missile programme. US turned a blind eye to the use of chemical weapons by Iraq and refused to condemn it in the UN. Iraq was removed from the list of 'state sponsor of terrorism'. US shared satellite data with Iraq showing the movement of Iranian troops. After Ayatollah Khomeini's death in 1989 President Khameni was appointed as the new Supreme leader and Ali Akbar Hashemi Rafsanjani was sworn in as the new President .

III. DUAL CONTAINMENT:

Post 1991 the US viewed the world as unipolar and took upon itself the security of West Asia. The eight year war between Iran and Iraq had weakened their economies. UAE, Qatar, Bahrain considered Iran as a bigger threat than Iraq. US was convinced that a long term presence in Persian Gulf was required to prevent future aggression. With the support of allies in the region viz-Egypt, Israel, Turkey and the GCC states of Saudi Arabia, Kuwait, Bahrain, Qatar, Oman, UAE, the new US policy wanted to control Iran and Iraq. The dual containment policy to neutralise both Iran and Iraq was outlined by Martin Indyk, the Special Assistant to the President for Near East and South Asian Affairs. It spelt out sanctions, embargoes and limitations on transfer of sensitive technologies to Iran and Iraq. Any company investing 40 USD million or more in Iranian oil and gas was to face sanctions under Iran-Libya Sanction Act (ILSA) .The US policy aimed at regime change in Iraq and to prevent other nations from establishing defence ties with Iran. The Dual Containment policy was made stringent by passing it through an executive order which imposed arms ban, dual use

technologies ban, import ban on Iranian goods entering US and blocking all lending to Iran by financial institutions. But this policy isolated the US in the Gulf and could not prevent Iran from supporting Hezbollah, Hamas, and Palestinian Islamic Jihad groups. It opened new and larger markets with Europe, Japan and Russia.

Iran co-operated with the US after 9/11 attacks. When Taliban captured power in Afghanistan with the help of Saudi Arabia and Pakistan, Iran refused to recognise it. It supported the Northern Alliance made of Tajiks, Uzbeks and Shiite fighters. Iran allowed US to transport humanitarian assistance to Afghanistan through Iranian territory. But the co-operation ended when President Bush declared Iran as a member of the 'axis of evil'.

IV. NUCLEAR PROGRAMME

In 2002 Iran's nuclear programme to light with findings of two nuclear sites in Natanz and Arak. Iran defended it by arguing that it was producing nuclear energy for civilian purposes. But the arguments did not convince the West. After criticism from the US, Iran declared that it will suspend its uranium enrichment programme and will allow tougher UN inspections of its nuclear facilities. IAEA concluded that there was no evidence of the programme. In the meanwhile in 2004 conservatives regained the control of the Iranian Parliament and many reformist candidates were disqualified by the Council of Guardians. 2005 onwards Iran resumed uranium conversion at Isfahan plant which violated the Non-Proliferation Treaty. IAEA decided to report the case to the UN Security Council. Iran also resumed uranium enrichment at Natanz. In 2007, IAEA announced that Iran had started making nuclear fuel at its underground nuclear plant and had more than 1300 centrifuge machines. Iran could develop nuclear weapons in 3-8 years. As a reaction US announced tough sanctions on Iran in October 2007. Despite US sanctions China remained the biggest buyer of oil.

The conservatives again came to power in 2008 in Iran by winning two thirds seats in the parliament while pro-reform candidates were barred from contesting. Iran test fired a new version of Shahab -3 long range missile capable of hitting Israel. UN Security Council passed a new resolution demanding Iran to stop uranium enrichment but no new sanctions were imposed due to Russian pressure. Five permanent members of the Security Council plus Germany offered Iran proposal to enrich uranium abroad. Iran agreed in May 2010 but began loading fuel in Bushehr Nuclear power plant. By 2011 Iran possessed nuclear technology needed to make fuel plates and rods for nuclear reactors.



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V. HISTORIC NUCLEAR DEAL

In January 2009 Barack Obama called for a new beginning in ties with Iran .In June 2013 Hassan Rouhani won Iranian elections and promised relief from sanctions and a willingness to negotiate over nuclear issue. Though he faced a powerful opposition in form of revolutionary ideologies and militarists, Hasan Rouhani had the support of the business class and the citizens. In September 2013 Barack Obama spoke with Rouhani on phone which was a first conversation between US and Iranian leader on phone since 1979.

The Joint Comprehensive Plan of Action is the agreement made on July 14, 2015 between Iran, the United States, Russia, China, France, the United Kingdom, Germany, and the European Union that put major restrictions on Iran's nuclear science activities, gave inspectors unprecedented access to Iran's nuclear facilities and gave Iran relief from a range of trade and financial sanctions.

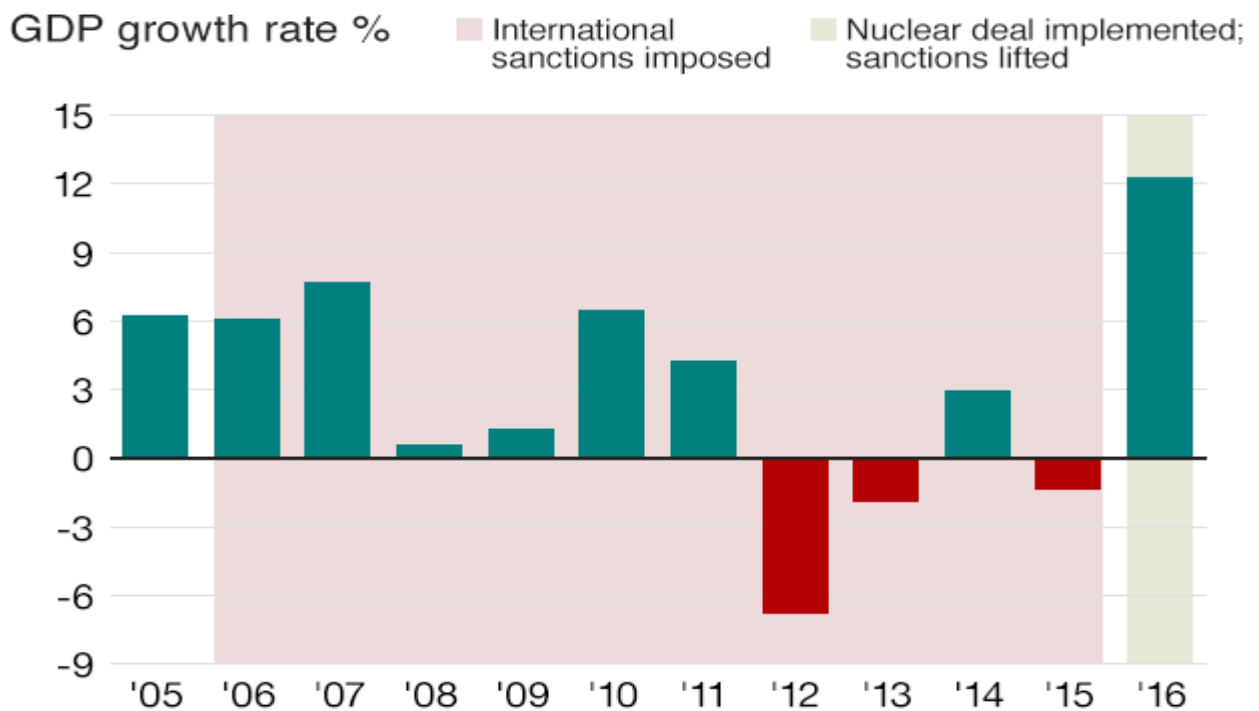
Before the deal Iran had a uranium stockpile to create eight to ten nuclear bombs. As part of the conditions listed under the deal, Iran had to reduce its stockpile of uranium by 98%, and keep its level of uranium enrichment at 3.67% whereby it could not make a bomb. The Natanz and Furdow uranium enrichment facilities had nearly 20,000 centrifuges and tens of thousands of centrifuges were additionally needed to create highly enriched uranium for a bomb. But Iran was compelled to reduce its centrifuges to 6,104 for the next ten years. Further Furdow facility was not to be used for enrichment and Iran could possess oldest centrifuges. Its access to weapons-grade plutonium was also blocked. Iran had to agree to redesign the Arak heavy-water nuclear reactor so it cannot produce any weapons-grade plutonium. All the spent fuel rods had to be sent out of the country as long as the reactor exists. Iran was barred from building a single heavy-water reactor for at least 15 years. The Iranian deal

established a highly specific way of verification protocols and mechanism dealing with potential violations. It covered the most intrusive nuclear inspection arrangements. The inspectors could verify if fissile material was carried away to any secret location. Not only do the inspectors have every right to visit the site they feel suspicious but every stage of fuel cycle can be monitored along with Iran’s supply chain. The Geneva agreement lengthened the dash time. Iran’s capacity to enrich uranium and develop a bomb got severely constrained for ten years. The intervening time was to be used to convince Iran to dismantle large parts of the programme to lift sanctions.

After the deal IAEA verified that Iran had shipped 25000 pounds of enriched uranium out of the country and dismantled two thirds of its centrifuges. It also affirmed that Iran had removed calandria from its heavy water reactor and filled it with concrete. The IAEA inspectors were provided access for monitoring the nuclear facilities and the supply chain. After these compliances the US decided to lift the nuclear sanctions. However other sanctions were to be continued. These were sanctions on missile technologies and conventional weapons and terror list sanctions which identified Iran as a sponsor of terrorism. Iran’s ballistic missile programme, human rights abuses, support to terror groups still remained under scanner. Iranian regime agreed to the nuclear deal because survival was more important for its stability. Being isolated in the Arab world was more dangerous.

The lifting of nuclear sanctions boosted Iranian economy as its oil output jumped to 3.8 million barrels per day as against 2.8 million barrels per day before the deal. As oil production increased the GDP growth rate reached 12% in 2016.

Economic growth in Iran



Source: Central Bank of Iran



The deal tilted the balance of power in favour of Iran. Israeli PM Benjamin Netanyahu described the deal as a historic mistake. The US was pressurised by the GCC which views Iran as threat to regional stability. Bahrain, UAE, Saudi Arabia are opposed to Iran. Bahrain has a Sunni minority royal family in a Shia majority state. The royal family is apprehensive of Iran stoking rebellion against the royal family. The relations with UAE are strained. Three islands claimed by UAE are under the control of Iran. Relations with Saudi Arabia turned sour after the Islamic revolution in 1979. Saudi Arabia supported Iraq during the Iran-Iraq war. The massacre of 400 pilgrims of Iran in Saudi Arabia in 1987 worsened the relations. Both Iran and Saudi Arabia have been competing for regional dominance in the Arab world. Saudi Arabia fears that Iran may mobilise Shia population of Saudi Arabia which is mainly concentrated in the oil rich eastern region of the kingdom to rise up against the royal family. 40% of Saudi Arabia's oil producing eastern region is Shiah which worries Riyadh. Israel accuses Iran of aiding Lebanese and Palestinians organisations like Hamas and Hezbollah.

VI. INDIA-IRAN

Indo-Iranian contacts go back to sixth century when Punjab and Sind were conquered by Darius. The Mauryas, Guptas, Mukharis, Chalukyas too maintained relations with Persia. The Indian National Congress had passed a resolution in 1927 demanding withdrawal of India's huge troops with British Army in Persia. PM Nehru had organised the first Asian Relations Conference in New Delhi in 1947 in which Iran too had participated. India signed a Treaty of Friendship within Teheran on 15 March 1950 which called for perpetual peace and friendship between the two countries. But Iran was a member of the CENTO and had close ties with USA and Israel. Iran-China-Pak alliance grew. The Shah of Iran visited Pakistan in 1950. When democratically elected PM Dr. Mohammed Mosaddegh who fought for the nationalization of oil companies was ousted, India did not openly come out in his support in the same way as it supported Nasser in Egypt.

The Shah of Iran visited New Delhi in February 1956 and PM Nehru visited Tehran in 1959. The Shah had authoritarian style and had close ties with Israel. He supported the pro-western monarchies while India took a pro-Arab stand. Iran supported Pakistan in 1965 and 1971 wars by providing military and financial assistance. The Shah was suspicious of India's Moscow leanings. He threatened to occupy Baluchistan to deny the Soviets access to warm waters. The Shimla Pact and the release of Pak POWS by India reduced the friction with Iran and Saudi Arabia. Indo-Iranian ties expanded under PM Indira Gandhi.

After the Gulf war India lost two major oil suppliers viz. Iraq and Kuwait and Iran became our second largest oil supplier after Saudi Arabia. In 1991 Iran declared Kashmir to be an integral part of India. Both the countries shared concern about the Taliban in Afghanistan from 1996-2001. PM Vajpayee visited Iran in 2001 and Teheran Declaration was signed. In 2003 India hosted President Khatami as Chief Guest for Republic Day. India voted thrice against Iran in 2006, 2009, 2011 after the nuclear programme came to light. Our trade with Iran in 2011-12 was more than \$ 14 billion of which major chunk were petroleum products. The two countries decided to increase it to \$25 billion in next four years.

VII. NEW SANCTIONS AND CONSEQUENCES:

Trump had always denounced the nuclear deal with Iran during his election campaign and promised to scrap it. But after assuming office he certified twice Iran's commitment to the JCOPA. The new sanctions announced by President Trump have far reaching consequences. After a 90 day wind down period these sanctions target, the purchase or acquisition of US dollar banknotes by the Government of Iran, its trade in gold and precious metals, the booming automobile sector, carpets and foodstuffs, exports of commercial passenger aircraft as well as direct and indirect trade with Iran on graphite and various metals and minerals. The next round of sanctions are more biting and would come into effect after 180 days. These cover Iran's port operators, shipping and shipbuilding sectors, export of oil, transactions by foreign financial institutions with the Central Bank of Iran and underwriting services, insurance and reinsurance. The National Defence Authorization Act (NDAA) will empower President Trump to block banks having transactions with Iran to open an account in the US.

It has to be understood that the Joint Comprehensive Plan of Action (JCPOA), does not 'prohibit' Iran from developing ballistic missiles. Iran considers it as breach of treaty by the US which had compelled Iran to the negotiating table assuring that enmities would be eliminated. Further it has been observed that Iran's Islamic Revolutionary Guards played an important role in neutralising ISIS that was a US creation. Now with the defeat of the ISIS President Trump wants to put sanctions on Iran's Islamic Revolutionary Guard Corps and curb the growing Iranian influence in Iraq, Syria, Lebanon, Yemen.

US sanctions will remove 2.5 million barrel per day of oil from the global market. The price for Brent crude could touch \$90 in the second quarter of 2019. Rise in oil prices will spur investment in oil industry. Though OPEC and Russia have agreed to add extra one million barrels per day but that would not be adequate to meet the global energy needs. Angola, Canada, Iraq, Kuwait cannot compensate to make up the difference while Venezuela and Libya face ongoing conflict and instability. China is Iran's largest trading partner. The Chinese government has stated that it will continue to import oil from Iran. Should the PBoC come under US secondary sanctions for trading with the Central Bank of Iran, China will hit back at US companies. It can devalue its currency and make its exports still cheaper. China can sell stock of US treasuries pushing interest rates in US and increasing the borrowing costs for consumers.

The EU is irked as US trade with Iran is insignificant as compared to Iran-EU trade. The EU partners are completely united in keeping the treaty alive and cite eight IAEA reports that have certified about Iran's compliance of the Treaty. They believe that the 2015 nuclear deal is crucial for maintaining stability and security of Europe. The EU has updated a blocking statute that protects European companies from any penalties imposed by the US for doing business with Iran.

India too faces a dilemma as Iran is India's third largest supplier of oil and in recent months occupied the second position. India imported 27.2 million tonnes of oil from Iran in 2017-18 valued at \$11.11 billion while India's exports to Iran were \$ 3.37 billion. The Indian government plans to use the euro as well as the rupee to continue its trade in crude with Iran. The UCO Bank which has no dealings with the US will be

used for rupee trade so that it cannot be sanctioned. 30% of the crude will be paid in rupees so that Iran can use it to pay for Indian goods such as rice, tea, pharmaceuticals, auto parts and farm machinery imported by it. India also wants to expand the strategic Chabahar port and Chabahar-Zahedan railway. The external Affairs Minister Sushma Swaraj has declared that India will comply with UN sanctions and not any country specific sanctions.

At stake are also other exporters to Iran. Medical and pharmaceutical products from Germany, steel, agricultural products and wood from Russia, machinery, industrial equipment, engineering and maintenance services from Italy, agricultural products and meat from Brazil, Peugeot's cars, airplanes from France, corn, soyabean from Ukraine, automobiles and electronic devices from Japan, palm oil from Malaysia are likely to be affected. Besides Iran is a key player in the finding a solution to the Afghan conflict. The Taliban still control 43% of Afghanistan. Iran has always opposed Taliban and wants to create an economic sphere of influence in Herat by investing in infrastructure projects and prevent the flow of Narcotics to Europe and Persian Gulf through Iranian territory. Trump believes that the economic crisis will bring the government of Iran on its knees and effect a regime change by creating unrest against the government. But it also entails a risk of Iran bringing to power a more hardliner government. It is highly unlikely that Iran will give up its nuclear programme. It can take it underground. Unilateral withdrawal from the nuclear deal has damaged the image of the US and the credibility of US sanctions would be eroded.

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