

Iran at a Crossroads: Emerging Scenarios

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Introduction

On May 8, 2018, President Trump announced withdrawal of the US from JCPOA and signing of a presidential memorandum to institute the "highest level" of economic sanctions on Iran.¹ In a statement, the then Secretary of Treasury, Steve Mnuchin stated that sanctions would be re-imposed subject to certain 90 days and 180 days "wind-down periods."² Reacting angrily, Iran said that since the US had rescinded the nuclear deal unilaterally, she was not bound to honour the agreement. Thus the agreement between the P5+1+EU and Iran on the Joint Comprehensive Plan of Action (JCPOA) cobbled after 20 months of "arduous" negotiations seemed to collapse.

The regime of the clerics (*Ayatollahs*) in Iran has never been on friendly terms with the State of Israel and the Kingdom of Saudi Arabia for different reasons. Iran is openly hostile to the State of Israel and works against her interests. The US' support to the Israel is the reason of Iran's annoyance with her.

Iran-Saudi acrimony lies essentially in the well-known ethnic, linguistic and cultural divergence. Iran has not forgotten that the ancient Iranian Empire was invaded and defeated by the Arabs

Iran's quest for nuclear capability is motivated by one-upmanship over her adversaries in the region. To the US, a nuclear Iran means disturbing the balance of power in the Middle East. The State of Israel and the Kingdom of Saudi Arabia consider nuclear Iran an existential threat to them.

Causes and Analysis

Former Iranian President Hassan Rouhani had reacted calmly to US withdrawal from JCPOA. He did not think that the US' withdrawal meant the deal was dead. He said Iran would continue to remain engaged with other signatories to the deal who had indicated that they would not like

¹ Connor Finnegan, Trump Announces US Withdrawing from Iran Nuclear Deal, ABC NEWS (May 8, 2018), <https://abcnews.go.com/Politics/trump-announce-us-withdrawing-irannuclear-deal-sources/story?>

² Kit Rees, Oil Soars as Trump Dumps Iran Nuclear Deal, Dollar Dips, REUTERS (May 8, 2018), <https://www.reuters.com/article/us-global-markets/oil-soars-as-trump-dumps-irannuclear-deal-dollar>

to roll up the agreement. The friction of sorts between the European powers (UK, France,³ Germany, Russia and the EU) and the USA on the issue of US re-imposing economic sanctions on Iran could be anticipated. After all, they had their oil and trade interests.

Why the US Withdrew

Trump referred to the JCPOA as the worst deal ever negotiated and pledged to renegotiate it.⁴ On May 21, 2018, Secretary of State Mike Pompeo presented the Trump administration's new strategy on Iran after the U.S. violation of the JCPOA in a speech at the Heritage Foundation, promising to "apply unprecedented financial pressure on the Iranian regime" and work with allies to deter Iranian aggression. If the United States were to pursue a new deal, Pompeo listed 12 demands for Iran, including

- (a) Stopping enrichment of uranium, (b) Ending the proliferation of ballistic missiles and the development of nuclear-capable missile systems. (c) Allow the International Atomic Energy Agency to have "unqualified access to all sites throughout the entire country." (d) In exchange, the United States would be prepared to end the principal components of every one of our sanctions (e) Re-establish full diplomatic and commercial relationships and allow Iran to have "advanced technology."

Washington created Iran Action Group, responsible for "directing, reviewing, and coordinating all aspects" of the State Department's Iran strategy. Brian Hook was designated as Special Representative for Iran.

In his address to the UN General Assembly on September 27, 2018, Israeli Prime Minister Benjamin Netanyahu revealed what he described as a secret nuclear warehouse "storing massive amounts of equipment and material from Iran's secret nuclear weapons program."

The first flaw in the deal according to Trump is that it isn't entirely permanent; the restrictions on Iran's nuclear program start to relax about 10 years after the deal was signed. The second is that the deal didn't cover other problematic things Iran was doing like ballistic missile development and its support for violent militias around the Middle East. On October 10, 2015,

³ BBC News, Iran Nuclear Deal: France Condemns US Move to Re-Impose Sanctions, BBC NEWS (May 11, 2018), <http://www.bbc.com/news/world-europe-44079831>.

⁴ <https://www.bbc.com/news/av/world-us-canada-41587428>

Iran tested a medium-range ballistic missile, the *Emad*, a more precise version of the *Shahab-3*, and believed to be capable of carrying a 750 kg payload over 1,700 kilometres. The US raised the issue that testing ballistic missiles violated the Security Council Resolution 1929 (2010), which prohibits Iran from testing nuclear-capable ballistic missiles.

Iran's New Government and Future Expectations

With stalemate dogging the JCPOA after the US withdrawal and sanctions imposed, Iran is reeling under acute economic crisis;⁵ inflation, the rising price of essential commodities and increasing unemployment among the youth. A wave of dissatisfaction runs among the youth who want a change in the existing social undercurrents.⁶

1. Iran's New Hardliner President

The sixty-year-old hardliner cleric, Ebrahim Raisi, who took the oath of office on 5 August, and succeeds somewhat moderate Hasan Rouhani, is considered ideologically close to the Supreme Religious leader Ayatollah Khamenei. Insiders think he could be a suitable candidate to succeed the supreme religious leader when he is no more.

In his maiden press conference, President Raisi made some statements that indicate the broad contours of his foreign policy as well as his perception about the chances of revival of the nuclear deal of 2015. These statements are not encouraging. For example, about the US and the JCPOA, he says: "Iran will not talk to the US on the revival of the Joint Comprehensive Plan of Action (JCPOA) of 2015 unless the US lifts economic sanctions imposed on Iran".⁷ He also declared that Iran would resume its program of enrichment of uranium since the US had rescinded the nuclear deal unilaterally

The US and the Western signatories to the JCPOA think that a hard-line approach to the mission of reducing tension between Iran and the US will not be helpful and even may be counter-productive. In their view Iran with nuclear capability will be a threat to Israel and Saudi Arabia,

⁵ Amir Ahmadi Arian & Rahman Bouzari, Opinion, What Sanctions Mean to Iranians, N.Y. TIMES (May 9, 2018), <https://www.nytimes.com/2018/05/10/opinion/sanctions-iran-nuclear-deal-protests.html>?

⁶ <https://www.aljazeera.com/news/2019/2/11/youth-grappling-with-economic-cultural-hurdles-in-modern-iran>

⁷ *Iran International*, Tehran,

both enjoying not only close friends but also strategically important relations between them. The attack in the waters of Oman on an oil tanker run by an Israeli company is suspected to have been conducted by Iranian terrorists. The British Prime Minister has joined the Israeli Prime Minister in raising the finger of suspicion towards Iran – her denial notwithstanding.

The question that invites our attention is how the extremist conservative President Raisi is going to address the difficult situation facing Iran like (i) the nuclear or JCPOA issue (ii) severe economic crisis resulting from sanctions (iii) unemployment among the youth (iv) resumption of normal relations with the west and the US, and (v) giving space to moderate Islamic ideology in the dynamics of post-revolution Iran and shaping a more tolerant, more robust and more compliant society. Equally important is the issue of containing the clergy within reasonable limits.

2. Onslaught on Economy

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The end of sanctions waivers on oil exports and the restoration of U.S. sanctions in 2018 once again cut deeply into a vital source of national revenue: oil and petroleum products account for 80 per cent of Iran's exports. By mid-2020, oil exports had plummeted to below three hundred thousand barrels per day.

As a result of the sanctions, Iran's Gross Domestic Product (GDP) contracted an estimated 4.8% in 2018 and is forecast to shrink another 8.5% in 2019, according to IMF. The unemployment rate meanwhile rose from 14.5% in 2018 to 16.8% in 2019.

A condition of the waivers was that the importers reduce their purchases of Iranian oil, and by April 2019 Iran's oil exports had fallen to 1 million bpd on average, according to Bloomberg. That reduced the government's revenue by billions of dollars. By October 2019, Iran's crude oil production had fallen to 2.1 million bpd on average, according to OPEC data. Bloomberg reported that only 260,000 bpd on average was being exported.

The plummeting oil sales have also led to a significant fall in Iran's foreign exchange earnings. The IMF estimates that Iran's reserves of foreign currency have been reduced to \$86bn - 20% below their level in 2013.

A senior US official, Brian Hook, said in December 2019 that he believed Iran had access to only 10% of those reserves because of restrictions on its financial sector, and that as a result it would struggle to prop up its currency and prevent inflation.

Additionally, in October of that year, the United States imposed sanctions on eighteen major Iranian banks, causing the Iranian rial to fall further against the U.S. dollar. Inflation is the biggest concern. According to a report by the labour ministry, food inflation crossed the “crisis” threshold in the month ending June 21, with over two-thirds of staples like meat, rice and fruits seeing an average annual price hike of at least 24 per cent.

Meanwhile, the wide range of US sanctions unrelated to the nuclear program has added to the damage. Multinational firms fear being punished by the United States for transacting with sanctioned Iranian entities associated with, for example, the Islamic Revolutionary Guard Corps (IRGC) which holds sway over many industries. With sanctions deterring international trade, black markets have boomed, enriching the IRGC at the expense of the regular economy.

3. Prospect for Agreement

What is the outlook for an agreement? We find that this narrative depends on how deftly stakeholders will handle the JCPOA. As we see, the nuclear impasse is going to become a decisive factor for stabilization or otherwise of the entire Middle East with extensive ramifications. European signatories of the deal, including the EU, are against the sanctions. Most of them have bilateral agreements in the realms of energy, technical and scientific cooperation, trade and commerce, etc. They would not want the disruption of those relations.

While uncertainty prevails at all levels, President Joe Biden has said the United States would re-join the agreement if Iran returns to compliance. But at the same time, he has also said he wants to negotiate a broader deal that can address Iran’s other activities such as its missile program.

On the other hand, Iran wants the United States to return to the original deal. Nevertheless, she has asserted that she is not willing to discuss the expansion of the accord further. "Regional and

missile issues are non-negotiable," said Raisi shortly after he was elected president in June 2021. However, he also said that his government will support the talks with the other JCPOA signatories in Vienna to bring Washington and Tehran back to the original deal. Here lies the role of the European signatories to the deal of 2015.

Significantly, Russia and China both have disapproved of the re-imposition of sanctions on Iran. They demand that sanctions should be lifted. President Biden is not in a mood to widen the gulf of differences with Iran and probably will not give political rivals any chance of maintaining an upper hand in the JCPOA conundrum. In view of a pragmatic approach of the European signatories to the 2015 nuclear deal, and President Biden's indication that he would not want to escalate Iran-US estrangement, we can hope that the deadlock will be resolved and a via media will be found to satisfy the demands of the two sides. Partial lifting of sanction could begin a thaw in frozen relations.