

International allies opposed to US “decertification” of Iran deal

The US President’s provocative “decertification” of the Iran nuclear deal to the US Congress places a cloud of uncertainty over the future of the Iranian economy. But the whole-hearted rejection of the US stance from international community presents an opportunity for Iran to pursue constructive engagement with the rest of the world economy regardless. Other signatories to the JCPOA are pleased that it is going to plan and would like it to continue. For Iranian businesses, maintaining this fragile trust is vital to prosperity.

The US President’s move to stiffen the US posture against Iran and hand the question of sanctions-“snap-back” over to the US Congress has placed the Iranian economy on an uncertain path. His announcement was not unexpected, following comments on the Presidential campaign trail and more recently, at the UN General Assembly. But it is widely acknowledged, even amongst the White House’s most senior security advisors, that there is no case to “decertify” the deal on the grounds of Iranian non-compliance. Instead, the move is seen as an attempt to reopen the deal and negotiate new terms. Hawks in the US administration aspire to a longer term for the agreement, a stricter inspection regime and a broader scope – one that stretches to the Iranian missile programme and its role in regional conflicts. Pragmatists argue that the deal is working in its current form, and the broader scope is dangerously unrealistic.

The financial sanctions now at the disposal of Congress can be a potent deterrent to firms doing business in Iran. Foreign companies considering transactions with sanctioned Iranian entities could face being cut off from the US market, or indeed from dealing in US dollars. Mr Trump’s decision to designate the Islamic Revolutionary Guards Corps (IRGC), by executive order, will complicate matters further. The IRGC’s pervasive but opaque role in the Iranian economy, including the energy sector, will mean extensive due diligence will be required for any foreign firm wishing to steer clear of US anti-terrorism sanctions, which are imposed separately from the JCPOA.

Iran’s oil exports, which recovered to around 2.3 million barrels per day after sanctions were lifted, again represent its core vulnerability. Hundreds of companies, individuals and organisations in the financial, transport and energy sectors were removed from the sanctions “black-list” when the JCPOA was signed. If the deal collapses, as well as causing severe financial damage, a wholesale sanctions “snap-back” could dramatically upset Iran’s oil export revenues, its chief source of foreign exchange. Perhaps even more damagingly it could throw sand in the wheels of much needed inward foreign investments in line to reinvigorate domestic oil and gas production with foreign capital and technology.

Fig 1. TEDPIX (All Shares) Index

01 Sept 2017 to Present



However, a return to the pre-2015 sanctions regime is not a done deal: the international community has loudly and clearly rejected the US position. The UN atomic energy watchdog has confirmed 8 times that Iran is fulfilling its commitments. The cosignatories to the multilateral deal, have stated their satisfaction that the deal is working. In fact, the premiers of Germany, France and the UK quickly followed President Trump's announcement by issuing a joint statement to reconfirm their commitment to it. The European Union's Foreign Policy Chief, Francesca Mogherini said publicly that no single country has the right to terminate it. Chinese and Russian representatives have explicitly stated their hope that the deal remains intact.

The immediate reaction from President Rouhani reflected the mixture of anger and indifference in the Iranian public, aiming personal attacks at President Trump but reinstating Iran's conditional commitment to the JCPOA. With #NevertrustUSA trending on Twitter, President Rouhani pointed to the "huge gap" dividing Mr Trump's position from that of his European allies. Later, Foreign Minister Zarif recalled the 1990s when the European Union legislated to protect European firms from extra-territorial US measures. This is an important precedent, although the European Union would face further complexities this time round: a technicality means the US could potentially trigger a reinforcement of UN sanctions too.

President Rouhani will likely come under increased pressure from Iran's hard-liners, who will feel vindicated for their long-held and vociferous scepticism towards the US motivations behind the deal. The Supreme Leader has been pushing a strategic imperative in Iran for the last few years, to develop a "Resistance Economy", no longer so dependent on oil exports and imported goods and services, and thus insulated from outside pressures. Unfortunately, such a vision is easier stated than realised in today's globalised economy and the administration has been focused on first delivering the more pressing matters of macroeconomic stability and lower levels of unemployment. Iran's economy is and will remain vulnerable to the political decisions of the world's major trading and financial centres.

This means that for Iranian businesses and the Rouhani administration – recently elected on a JCPOA platform, the priority must be to capitalise on goodwill in European and Asian markets and keep non-US trade and financial channels open. With inflation down to single-digits and stability restored in the foreign exchange markets, Rouhani's second term was supposed to push forward economic reforms in Iran, rebalance the economy and tackle high levels of unemployment. Recent investments from the likes of Total and Renault were indicators of Iran's barriers to foreign investment finally breaking down. To keep oil revenues flowing and foreign investors engaged, the Iranian authorities face the challenge of managing provocations from the US, whilst sticking closely to the terms of the JCPOA in order to keep its other, more lucrative trade lines with the rest of the world open for business. Its reaction over the coming months will determine the boundaries of what the "global economy" means for Iran. If it continues to include European and Asia, there is hope for the Iranian economy yet.

Fig 2. Brent Crude Spot Prices

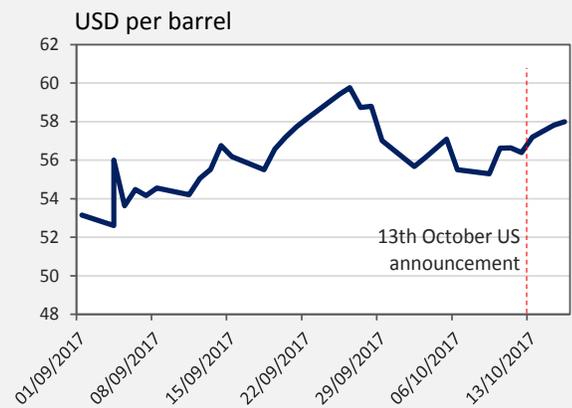


Fig 3. Iranian Crude Oil Exports

Mbpd, 2008-2017 (average).

