



### US WITHDRAWAL FROM JCPOA: IMPACTS FOR IRAN AND THE P5

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*(Views expressed in the brief are those of the author, and do  
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**“Pakistan believes that International treaties and agreements concluded through painstaking negotiations are sacrosanct,” emphasized a statement from the Ministry of Foreign Affairs following US President Donald Trump’s withdrawal from the Joint Comprehensive Plan of Action (JCPOA).<sup>1</sup> The JCPOA is a preventive binding agreement among P5 members of the United Nations and Iran signed in 2015 to curb the latter’s efforts to acquire nuclear weapons.**

However, after Trump’s decision to pull the United States out of this deal, it hangs precariously between rest of the P5 and a furious Iran. Pakistan has joined the group of countries who have strongly condemned Trump’s unilateral disregard for a multilateral deal that will have far reaching implications of global magnitude.<sup>2</sup> While a flurry of diplomatic activity is underway throughout Europe, Iran, China and all parties concerned, the deal still stands; for now. Those with financial, strategic and political stakes in the situation are actively striving to salvage what they can of the deal. Although it might be too soon to gauge the full fledged repercussions of this event, however, some substantially conclusive analysis can still be carried out. It is no secret this will spell out more trouble for Iran’s economy.

<sup>1</sup> News Desk, “Tearing up Iran deal: Pakistan counts the cost of Trump move”, *The Express Tribune*, May 9, 2018. <https://tribune.com.pk/story/1706197/1-pakistan-concerned-trumps-decision-scrap-iran-nuclear-deal/>

<sup>2</sup> Naveed Siddiqui, “US withdrawal from Iran deal complicates matters: Foreign Office,” *Dawn*, May 9, 2018. <https://www.dawn.com/news/1406606>

Before the agreement of 2015, the Iranian economy was experiencing a recession, but it saw a growth of 12.5% after sanctions were lifted as part of the JCPOA. The sanctions before the nuclear deal had cut Iran's oil exports in half to around 1.1 million barrels per day in 2013. After the deal in 2015, the number rose to 2.5 million barrels per day. Thus, when the sanctions go back in place against Iran, all countries buying oil from it will have to significantly decrease their imports from Iran.

Trouble is most definitely in the offing for Iranian oil economy, however, there are always multiple factors in bringing down economic growth, rates of foreign investments and lowering of living standards of people in a country. Internal factors like mismanagement by the previous governments, especially the two terms of Ahmadinejad's presidency have had adverse impacts on the Iranian economy. The recent blow dealt to the Iranian economy by the United States' withdrawal from the JCPOA will be difficult to bear not only for Iran, but for the countries that have invested billions of dollars in its energy sector. Total, the French energy giant which had invested \$5 billion in 2017, has now issued notice to the Iranian authorities that it is pulling out and unwinding all operations in Iran unless it is issued a waiver by the United States.<sup>3</sup> Other private businesses from EU such as the Italian steel giant Danielli, Danish shipping company Maersk Tankers and the German insurer Allianz are also set to follow suit.<sup>4</sup>

Many European and American companies had announced plans to invest after the sanctions had been lifted in 2015. European and American businesses will lose an export market and billions of dollars in investments. Among companies, those who had started to or planned to invest in Iran were the Royal Dutch Shell, the Franco-German aircraft manufacturer Airbus, French automakers Peugeot and Renault and the German Volkswagen. Their future in Iran also seems uncertain and they might follow the example of Total and the others to protect their economic interests by remaining in the good books of the United States.

As a flurry of diplomatic activity follows Trump's withdrawal, Iran is negotiating with remaining deal partners to salvage the deal. However, the stance from Washington is not that reassuring according to the US National Security Advisor, John Bolton who said there is possibility that the European companies continuing business in Iran might be sanctioned.<sup>5</sup> The uncertainty in this situation is

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<sup>3</sup> News Desk, "Total set to pull out of Iran gas deal without sanctions waiver," *BBC News*, May 16, 2018. <http://www.bbc.com/news/business-44147814>

<sup>4</sup> Frud Bezhan, "Hamstrung By The U.S., Iran Tilts East For Trade Opportunities," *Radio Liberty*, May 17, 2018. <https://www.rferl.org/a/iran-u-s-sanctions-tilts-east-russia-china/29232818.html>

<sup>5</sup> Rob Crilly, "John Bolton threatens sanctions for European companies operating in Iran," *The Telegraph*, May 13, 2018. <https://www.telegraph.co.uk/news/2018/05/13/john-bolton-says-sanctions-possible-european-companies-operating/>

palpable as there is no telling whether the European allies of the US will bow down to its pressure tactics or they will stand their ground and defend the deal they had signed. At the moment, the EU along with Iran is striving to keep the deal alive. But the US approach on dealing further with the dissent in the EU over Trump's unilateral withdrawal will become clear after the Secretary of State Mike Pompeo announces 'Plan B' on the future Iran strategy. It supposedly revolves around pushing for a global coalition to pressure Iran to negotiate a new security architecture that will go beyond Iran's nuclear program.<sup>6</sup>

Iran's reaction has so far been pretty balanced. Understanding the drastic impact this withdrawal could have on the Iranian socio-economic state of affairs is not that easy at the moment. It is important to note that the JCPOA ensured (at least on paper) that Iran will receive the economic dividends of the deal once the crippling sanctions imposed on it had been lifted.

But without such an incentive, what would hold Iran's interest in the deal?

Iran has kept its morale high in negotiations with its European partners in the deal as Foreign Minister Javad Zarif said, "I believe we're on the right track to move forward in order to ensure that interests of all the JCPOA remaining participants, particularly Iran, will be preserved and guaranteed."<sup>7</sup> However, senior Iranian officials like Ali Akbar Velayati, the senior adviser to Leader of the Islamic Revolution Ayatollah Seyyed Ali Khamenei on international affairs, have raised questions over EU's intentions to keep the deal intact. He was quoted saying, "Some European officials say they are not supposed to stand up to America and give guarantees. These contradictions in the comments of European officials raise doubts. We hope that our authorities could get the necessary guarantees in their negotiations. A duplicitous side, which makes contradictory remarks, cannot be trusted."<sup>8</sup> Foreign Minister Javad Zarif has also impressed upon the EU officials that practical steps regarding increasing and safeguarding investments in Iran will have to be taken by the European Union.

However, uncertainty is eating up all hope for attracting investors under this situation. Rather, the already existing agreements have also been overshadowed by doubt. A very important project recently signed between Iran and India regarding the operational control of the Chabahar port given

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<sup>6</sup> Nicole Gaouette and Laura Koran, "Pompeo set to unveil US 'Plan B' to confront Iran," *CNN*, May 20, 2018. <https://edition.cnn.com/2018/05/20/politics/pompeo-iran-speech-scenesetter/index.html>

<sup>7</sup> News Desk, "Iran upbeat on nuclear deal hopes after talks with EU in Brussels," *The Japan Times*, May 15, 2018. <https://www.japantimes.co.jp/news/2018/05/15/world/iran-upbeat-nuclear-deal-hopes-talks-eu-brussels/>

<sup>8</sup> News Desk, "EU making contradictory statements on JCPOA: Iranian official," *PressTV*, May 20, 2018. <http://www.presstv.com/Detail/2018/05/20/562347/Iran-JCPOA-Ali-Akbar-Salehi>

to India now also seems to be drowning in improbability.<sup>9</sup> India has previously proven it can quite aptly walk a tightrope between conflicting parties and it has also in the past conducted transactions with Iran in rupees to avoid the wrath of American financial institutions. But this project which had the potential to fulfill India's dream of linking up with Central Asian states through Afghanistan will, for now, come under a dark cloud. The US sanctions under the Trump administration have been especially designed to hit Iran where it actually hurts and it would be difficult for India to come up with an arrangement in which it could work with Iran under new restrictions as it had during the Obama administration. Primarily, the new sanctions aim at the energy sector in Iran, limiting other countries from importing oil from Iran which will also put India into a bit of a pickle as Iran has been the 3<sup>rd</sup> largest oil supplier to India. Also, India has committed \$85 million to develop a berth at the Chabahar port where it has been planning to invest about \$500 million.<sup>10</sup> Exemptions granted to India under the previous Obama administration might not be granted under Trump's strict policy on Iran, especially when the current US stance is also to refuse exemptions to European businesses investing in Iran.

The Iran-Pakistan gas pipeline project would also most likely face further delays as it had previously due to sanctions against Iran. Having completed the construction of the pipeline on its own side, Iran had decided to impose a fine on Pakistan for delaying the project which was later decided against by the Iranian government.<sup>11</sup> However, there could be a faint glimmer of hope for the pipeline project, since as per China's stance on Trump's unilateral withdrawal from the JCPOA, it will not cut off business ties with Iran. The latter has shown interest in participating in the China-Pakistan Economic Corridor (CPEC) and China's petroleum bureau has also offered to build the pipeline on the Pakistani side. Thus, if China steps in to help both Iran and Pakistan, this project can still see the light of day. However, it does not appear to be a priority for China at the moment. Besides, any energy sector transactions with Iran are certain to invite US wrath.

On the other hand, Iran may not have benefitted entirely from the fruits of the deal, but it still kept a hope of prosperity alive among the people of Iran. They had seen the immediate benefits of the deal go directly into the government's coffers, but the people of Iran had still been waiting for this arrangement to improve their living standards. But now, the situation seems altogether bleak. Iran and the European world powers will have to stand their ground to keep the deal intact, but undue

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<sup>9</sup> Seema Guha, "Why end of Iran nuclear deal puts India in a spot of bother," *dailyO*, May 10, 2018. <https://www.dailyo.in/politics/iran-nuclear-deal-donald-trump-chabahar-port-paris-climate-accord-russia/story/1/24020.html>

<sup>10</sup> Ibid.

<sup>11</sup> News Desk, "Iran seeks \$1.2 billion penalty from Pakistan over IP gas pipeline," *Corridor.pk*, February 28, 2018. <http://corridor.pk/2018/02/28/iran-seeks-1-2-billion-penalty-pakistan-ip-gas-pipeline/>

US pressure will most likely bend its European allies to its will. It is also important to note that the European countries in this matter are apprehensive of US administration's true motives behind abandonment of the deal, i.e regime change in Iran. British Foreign Secretary Boris Johnson also told his parliament that regime change in Iran was not a policy Britain should pursue.<sup>12</sup> French officials have also voiced the same concern. Such apprehensions highlight the rift that has now emerged between the United States and the European Union subsequent to Trump's belligerent move to abandon the Iran deal. They also further solidify the case for illegal US withdrawal from the deal which is based not on legalities under the JCPOA, but under suspicions which were in no way addressable under the aforementioned agreement.

There has been a frenzy of diplomatic activity between the E3 (France, Germany and UK) and Iran following Trump's decision. Iranian Foreign Minister Javad Zarif has also met with his Chinese and Russian counterparts in a bid to salvage the deal. Iran's adherence to the deal is also conditional to the benefits that the JCPOA framework entails. It is true that the European Union has a number of options to exercise with regards to shielding their businesses with Iran from the glare of the sanctions, but these are bold choices that are unprecedented to date. It is difficult to predict whether the EU would simply roll back businesses in Iran, or they would stay put and consider retaliatory sanctions using the blocking statute which would allow them to shun compliance to the US sanctions. Exercising such options could put EU firms at risk of incrimination in the United States. Hence, the following statement by a senior EU diplomat holds little hope:

"Let's not fool ourselves that there are dozens of things we can do. We don't have much to threaten the Americans. Optimism doesn't abound."<sup>13</sup>

Here, a question arises that what are other options for Iran to shield itself from the plague of sanctions? Russia and China also seem inclined towards helping Iran circumvent the US sanctions. Targeting the automobile sector, civil aviation, banking, shipping, energy and individual US citizens and companies doing business in Iran are the primary areas on which sanctions will be imposed. Iran also won't be allowed to use US banks or deal in global reserve currency which the US dollar.<sup>14</sup> But the silver lining lies in the cooperation that Russia and China seem to be offering Iran. During the previous economic embargo on Iran, Russia and China had dealt with the Iranian energy sector in Chinese Yuan, barter deals and the oil for goods program of Russia through which Iran could buy

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<sup>12</sup> News Desk, "With few options, Iran, Europe try to save nuclear deal," *CNBC*, May 15, 2018. <https://www.cnbc.com/2018/05/15/with-few-options-iran-europe-try-to-save-nuclear-deal.html>

<sup>13</sup> Ibid.

<sup>14</sup> Kevin Breuninger, "Here are the sanctions that will snap back into place now that Trump has pulled the US out of the Iran nuclear deal," *CNBC*, May 9, 2018. <https://www.cnbc.com/2018/05/08/here-are-iran-sanctions-returning-after-trump-leaves-nuclear-deal.html>

Russian goods like oil pumps, gas drilling equipment, metal, wood, leather, and wheat in exchange for its oil. The Russians have also offered a Free Trade Zone between Iran and the Eurasian Economic Union Trade bloc which has lowered tariffs on hundreds of goods.<sup>15</sup> As far as the Chinese commitment is concerned, a mixed opinion exists. Iran's Oil Minister Bijan Namdar Zanganeh was quoted by the Iranian media on May 17 as saying that China's state-owned CNPC, a minority shareholder in the South Pars gas field, was ready to replace Total if the French energy giant pulled out.<sup>16</sup> Also, there are several projects in Iran where the Chinese Yuan is being used for funding.

The situation for China is also quite complicated. The trade volume between China and the United States is 7 times that of the Iran-China trade volume. Besides, a Chinese electronic firm, ZTE is under US sanctions due to its continued business with North Korea which is worrisome for China. By the same example, Chinese companies could face heavy penalties for their economic cooperation with Iran. In this particular case of the ZTE, Trump has offered sanctions waiver to China if it plays a constructive role in the upcoming US-North Korea negotiations.<sup>17</sup> But China will hold no such leverage in Iran.

There is no doubt that President Trump's blatant decision to abandon a multinational agreement secured after years of tenacious efforts is not a move that befits the President of a world power. This step has also discredited American fidelity around the globe as it shows that the American pledge to abide by any international agreement that aims to ensure peace or stability for all is doubtful. Whether the deal survives, hinges on the effectiveness of European tenacity to keep it alive in face of American displeasure. Nonetheless, it has certainly provided room to Russia and China to play a wider role which would further antagonize the United States. It is a move that will only bring more instability and uncertainty to an already unstable and volatile region of the world.

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<sup>15</sup> News Desk, "Russia-led bloc seeks free trade area with Iran," *The News*, May 18, 2018.

<https://www.thenews.com.pk/print/317985-russia-led-bloc-seeks-free-trade-area-with-iran>

<sup>16</sup> News Desk, "Iran says China group ready to replace Total on gas deal," *Arab News*, May 17, 2018.

<http://www.arabnews.com/node/1304321/business-economy>

<sup>17</sup> News Desk, "Donald Trump 'offered to ease ZTE sanctions to persuade China to help with North Korea summit," *South China Morning Post*, May 21, 2018.

<http://www.scmp.com/news/world/united-states-canada/article/2146993/donald-trump-called-south-korean-leader-advice-kim>