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María del Mar Hidalgo García

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and security**

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Iran sanctions lifted: economy and security

Abstract:

The IAEA, the agency responsible for verifying the implementation of the JCPOA in accordance with resolution 2231 of the UN Security Council, presented a report which confirms that Iran is complying in terms of time and form with the requirements agreed in the plan. The most immediate consequence has been the lifting of the sanctions which will allow Iran to develop its commercial potential and will provide the necessary boost to become a regional power capable of balancing the power in the Middle East. On the contrary, Saudi Arabia, its main strategic rival wants to counteract the power of Iran by limiting the influence of Shiites in majority Sunni populations and maintaining an artificial and hardly sustainable oil price drop.

Keywords:

Iran, JACOP, Saudi Arabia, sanctions.

The fulfilment of the nuclear deal

On the 16th of January, the International Atomic Energy Agency (IAEA), in accordance with UN Security Council resolution 2231 (2015)¹, submitted a report confirming that Iran was complying, in terms of time and form, with the deadlines established in the Joint Comprehensive Plan of Action (JCPOA). According to this plan, signed in June 2015 between Iran and the P3 + 3 group (United States, China, Britain, France and Germany), Iran had to implement transparency measures to enable the IAEA gain a greater insight into its nuclear program and sign the Additional Protocol to allow inspectors free access to information and facilities, hitherto prohibited. The last condition was indispensable for the verification of the peaceful nature of Iran's nuclear program.

In general, the inspections confirm that the Arak heavy water research reactor has been rendered unusable for the proposed purposes and that the possibility of developing a plutonium-based bomb has therefore been neutralized. The entrances to the reactor have been sealed with cement and will be redesigned for other activities. Inspections have also revealed that Iran is not enriching uranium above 3.67% in any of its facilities and that the stock of enriched UF₆ above 3.67% did not exceed the established 300 kg either because the surplus had been diluted or sold out of country². In addition, Iran has dismantled two-thirds of its centrifuges.

Inspectors have also had access to the uranium mine and the main buildings in Natanz in accordance with the transparency measures imposed on Iran in the JCPOA. The visit to these facilities has always been one of the bones of contention between the IAEA and Iran, since the inspectors did not have access to them, hence fuelling suspicions about the peaceful nature of the Iranian nuclear program. This new situation constitutes a great success and demonstrates that with these new transparency measures, Iran intends to demonstrate the veracity of its commitment of exclusively peaceful use of its nuclear program.

¹ In this resolution, the Security Council requests the IAEA to verify the fulfillment of Iran's commitments during the enforcement of the JCPOA.

² Iran had to shed 98% of its enriched uranium, which was around 11339 kg. Russia has been the receiving country. <http://www.theguardian.com/world/2015/dec/28/iran-ships-uranium-russia-nuclear-deal>

A new geopolitical landscape in the Middle East

Following the presentation of the IAEA report, President Obama has come to claim that "the world will be more secure."³ However this statement should not be understood as an axiom but as the opening of a new geopolitical panorama in the Middle East. For the moment, what is most evident is that Iran is gaining prestige and is earning the confidence of the international community. However, it should not be forgotten that the measures taken in the JCPOA are an intermission in the development of the Iranian military nuclear program. The delay in the development of an atomic bomb has passed from two or three month to a full year, as Iran does not have the sufficient amount of enriched uranium at this moment. On the other hand, even if Iran strictly complies with the agreement in the JCPOA, this plan has a durability of 10 years, after which Iran can re-develop nuclear military capability.

The most relevant aspect of the IAEA report, leaving aside the verification of the temporary neutralization of the nuclear military program, is that the date of its publication constitutes the "Implementation Day": the date on which the US, the EU and Japan immediately lifted the sanctions imposed on Iran regarding its nuclear program. However, the US-imposed sanctions related to the development of ballistic missile technology, conventional weapons, support for terrorism or abuse of human rights will remain in force⁴.

The lifting of the sanctions will enable Iran to develop its full commercial potential and provide the necessary momentum to become a regional power capable of maintaining the balance of power in the Middle East. For Iran, this is the starting-point of a period of technological modernization and economic growth. For the Western countries, this is an opportunity for investment and the return to the market of a new supplier of oil and gas that allows a greater diversification in the energy supply, as is the case of the EU.

President Rouhani's path of negotiations in Europe (the first by an Iranian president in twenty years) is focused on renewing strategic sectors of his country, such as the aerospace and automotive industries. The investment in the country will increase by

³<https://www.whitehouse.gov/the-press-office/2016/01/17/statement-president-iran>

⁴<https://www.whitehouse.gov/issues/foreign-policy/iran-deal>

around 3000-3500 million dollars in a couple of years. Iran needs about 500 aircraft in the following three years, so it has started hiring 114 Airbus and negotiations have been established to also acquire the Boeing. Furthermore, automotive brands like Peugeot and Renault intend to start operating again in the country. And these are just a few examples of the fact that this new phase of Iran's modernization and commercial opportunities has already begun, in line with the fulfilment of the nuclear agreement.

The lifting of sanctions will also lead to a restructuring of the Eurasian energy market. China will also increase trade with Iran. During the sanctions enforcement phase that began in 2011, China remained as Iran's main trading partner. This loyalty has been rewarded with the signing of a \$ 600 billion⁵ agreement between the two countries that will help consolidate the Chinese strategy of "One belt, One road." ⁶

Iran's compliance with the nuclear agreement will also free billions of dollars of frozen funds, allowing companies to re-establish business with Iran. Of the \$107 billion that remained frozen, about 29,000 were released almost immediately and on Sunday, 17 (just one day after the IAEA report was publicly released) Iranian banks re-connected to the global banking system⁷. However, it should be noted that companies may have the perception that certain risks persist because if Iran breaches the agreement, sanctions will be imposed again.

On the other hand, Iran must adequately manage this rapid income rise, first so it can have an impact on the well-being of the population. Secondly, it must adopt appropriate measures in order to avoid neglecting its productive framework since its importers will benefit from the low price of oil, hence making Iranian exporting companies outside the energy sector less competitive in global markets.

The sanctions lift will also allow Iran to continue with its ballistic missile development program and to renew its naval and air fleet by the end of the decade.

⁵http://www.nytimes.com/2016/01/25/world/middleeast/china-deepens-its-footprint-in-iran-after-lifting-of-sanctions.html?_r=0

⁶ According to the Atlantic Council report, available at <http://www.atlanticcouncil.org/en/publications/reports/a-post-sanctions-iran-and-the-eurasian-energy-architecture>

⁷<http://www.businessinsider.com/heres-how-iran-might-spend-its-massive-economic-windfall-from-a-nuclear-deal-2015-7>

Oil as a key sector

The lifting of sanctions on Iran and the liberalization of trade will have an impact on both the price of oil and its bilateral economic relations.

According to a World Bank report, Iran's economy will experience significant growth thanks to the sale of oil, of about 15 billion Euros during the first year. However, it should be mentioned that Iran's economy entered recession in 2012 and 2013 due to the imposition of trade sanctions but quickly reversed the trend reaching a 3% growth in 2014 thanks to the opening of Asian markets.⁸

Along with the oil industry, the sectors that have suffered the most due to the imposition of sanctions have been: the automobile, the construction and the financial sectors. Sanctions have also influenced the environmental sector and in particular the water sector. Like other countries in the region, the management of water resources poses a major challenge to the country's development. Investment in water preservation, reuse and improvements in use is necessary, especially in the agricultural sector. Now that sanctions have been lifted, there are also great possibilities for modernization in this sector.

The Iranian oil sector has been the one to suffer the most from the sanctions, not only because of the EU's reduced import veto but also because of the ban on European companies of securing Iranian freights by preventing its export to other markets, mainly , Asian markets.

In the oil sector, the lifting of sanctions will have both an immediate effect and a medium-long term effect. With regard to the former, the first measure will be to put on the market the 30-40 million barrels that Iran has stored in the Persian Gulf. This would be in the order of 400,000-500,000 barrels per day for approximately three months. During this time, Iran can prompt investments to modernize and reactivate oil production. In 8 or 12 months, Iran can achieve a production of 1 mb/day which, if put on the market, can bring down the price of the barrel by around 14% if no interventionist measures are taken by the OPEC countries or other producers. In the longer term, Iran could reach 3.3 mb/day by the end of 2016 and 3.5 mb/d by the end of 2017. This fall in prices would have consequences on the trade balances of

⁸<http://www.worldbank.org/en/country/iran/overview>

countries in the region, such as Libya and Saudi Arabia, decreasing their GDP by 10% for the first and 5% for the second⁹.

The role of Iran as a regional power

Iran is the second largest economy in the Middle East and North Africa (a region known as MENA) after Saudi Arabia. Iran is also the second country in population with 78.5 million inhabitants, behind Egypt. A young and educated population in which 65% of the people are below 35 and with a number of graduates in engineering which is rated third on a worldwide ranking. In terms of energy resources, Iran has the second largest reserves of natural gas and the fourth of oil¹⁰.

Iran is seen as a key player for the stability of the Middle East, even though its opponents in the area, like Saudi Arabia, are conducting a campaign aimed at establishing a sense of "Iranophobia" in the region. According to Masoumeh Ebtekar, Vice-president of Environment, "There is nothing to fear about Iran, which is an independent state in the region. While it is fully prepared to defend itself it is also fully prepared to work with its neighbours for peace, for prosperity and improving relations." ¹¹ Also President Rouhani has stated that Iran has proven to be in possession of a greater power, which is that of diplomacy, so that the lifting of sanctions opens a way of opening and negotiating with the countries of the region and with the rest of the world.¹²

However, Iran's rivalry with its main geopolitical opponent in the region, Saudi Arabia, is instrumentalised through Iran's support for Shiites and by Saudi Arabia's support for Sunnis in all of the conflicts that take place in the region, as in the case of Syria or Yemen: in the former with the support of Iran to the regime of Bashar al Assad and in the latter with the support of Iran to the Houthi rebels. Therefore, this rivalry is commonly associated with a theological struggle when the reality is that it is a strategic rivalry for control of the Persian Gulf. It should not be forgotten that the two

⁹<http://www.worldbank.org/en/region/mena/publication/mena-quarterly-economic-brief-july-2015>

¹⁰<http://www.worldbank.org/en/country/iran/overview>

¹¹<http://www.theguardian.com/world/2016/jan/18/iran-vice-president-masoumeh-ebtekar-removal-sanctions>

¹²<http://www.azernews.az/region/91765.html>

holy cities of Islam, Mecca and Medina are located in Saudi Arabia, making it a benchmark in the Muslim world.

Faced with Iran's possible supremacy after the lifting of sanctions, Saudi Arabia aims to form a common front, made up of Sunni monarchies under the auspices of the Gulf Cooperation Council (Bahrain, Kuwait, Qatar, United Arab Emirates, Oman and Saudi Arabia).

Saudi Arabia intends to counteract Iran's power by limiting the influence of Shiites in Sunni-majority populations, for instance, with the execution of the cleric Nimr Baqr al Nimr. The Iranian population responded by assaulting the Embassy of Saudi Arabia, causing the rupture of diplomatic relations. As proof of allegiance to Saudi Arabia, other Arab countries have also taken diplomatic action as a sign of opposition to Iran's new role in the region. This is the case of Bahrain, Kuwait, Qatar, the United Arab Emirates, Sudan and Djibouti who have withdrawn their ambassadors. On the other hand, countries like Jordan¹³ and Egypt¹⁴ have criticized the interference of Iran in Arab affairs after the murder of the cleric.

From the economic perspective another of the strategies that Saudi Arabia is carrying out to counter Iranian power is the lowering of the price of oil to avoid greater gains by its rival. However, this strategy is not sustainable over time, mainly because one of the main disadvantaged is Saudi Arabia itself, as its economy is not diversified and depends exclusively on the sale of oil. Although Saudi officials have stated that it is possible to keep the low price of oil for a prolonged period of time ¹⁵, the reality is that if the decline continues, Saudi Arabia will have to implement austerity measures. In addition, other producing states such as Russia are also the major losers in the price decline, so it is possible that they will put pressure on the Saudi government to abandon this strategy.

Reaching the stability of the region in the fight against the Daesh and the ending of the conflicts in Syria and Yemen will not be possible without the understanding between Iran and Saudi Arabia, since its strategic rivalry will be used as an argument to promote confrontation between Shiites and Sunnis. This confrontation will obscure

¹³[http://www.europarl.europa.eu/thinktank/en/document.html?reference=EPRS_BRI\(2016\)573913](http://www.europarl.europa.eu/thinktank/en/document.html?reference=EPRS_BRI(2016)573913)

¹⁴<https://www.wam.ae/en/news/international/1395289951997.html>

¹⁵<http://money.cnn.com/2016/01/21/investing/davos-energy-saudi-oil/>

the fight against Daesh throughout the region, but especially in Iraq.

It is also necessary to consider the role that external agents can play in the stabilisation of the region and in the search for a balance of power between the two countries. In addition to the well-known influence of Russia and the US, strategic partners of Iran and Arabia respectively, other states may also exert a force for the stabilization of the area, for instance, Pakistan and China.

Conclusion

Iran's compliance with the JACOP, confirmed by the IAEA, has led to the immediate lifting of sanctions on its nuclear program. This will boost Iran's role as a regional power. It should not be forgotten that, despite sanctions, Iran managed to grow by 6% in 2014, so lifting sanctions will further increase Iran's trade potential.

This escalation in the regional panorama is intended to be countered by Saudi Arabia, through the decrease of oil prices and undermining of any Shiite influence in Sunni-majority populations. However this theological rivalry should not hide the true strategic rivalry between the two powers for the control of the area.

The lifting of sanctions opens a new commercial era for the EU, US and Japan. However companies perceive certain risks, for if Iran breaches the nuclear agreement at any time, sanctions will be re-applied immediately.

With the implementation of the agreement, Iran relinquishes "temporarily" its possibility of developing its nuclear program, as it supposes a slowdown thereof. In case of non-compliance with the JACOP, Iran will only be able to develop the bomb in one year, instead of in two or three months. And in the event that the JACOP is fulfilled to the end, Iran will be able to modernize and acquire new military capabilities during this time to become the predominant power in the region.

The settlement of the conflict in Yemen and Syria and the fight against the Daesh will not be possible without an understanding between Iran and Saudi Arabia. Otherwise, rivalry between the two countries will only encourage the theological struggle between Sunnis and Shiites. Foreign actors could and should contribute to this understanding as the parties principally concerned with achieving stability in the Middle East, for instance, Russia and the US, but also China and Pakistan.

*M^a del Mar Hidalgo García
IEEE Analyst*