

## Rouhani and Iran's Nuclear Program

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### Abstract

The election of Hassan Rouhani constitutes an opportunity to change the nature of the relationship between Iran and the West, but it is one that must be approached realistically and with an eye on the domestic determinants and repercussions of engagement.

His victory represents a broad coalition of interests who share a dislike of former President Mahmoud Ahmadinejad and his policies. In effect, Supreme Leader Ali Khamenei has had to bow to the demands of a 'baronial revolt', aggravated by the political and economic crisis engulfing the country.

For all the positive change in tone towards politics and society, Iran's immediate policy is being directed towards economic stabilisation through sanctions relief.

This has been reflected in a new realism within the foreign-policy establishment, led by new Foreign Minister Javad Zarif, with an ambitious timeline for a solution to the nuclear crisis<sup>(1)</sup>.

**Keywords:** Iran, Rouhani, Nuclear Program

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## روحاني والبرنامج النووي الإيراني

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### ملخص

يشكل انتخاب حسن روحاني فرصة لتغيير طبيعة العلاقة بين إيران والغرب، على أن هذه الفرصة يجب مقاربتها بواقعية ووعي بمحددات السياق السياسي الإيراني وتداعيات الانخراط في عملية التفاوض.

إن الانتصار الذي حققه روحاني يعبر عن ائتلاف واسع من المصالح التي جمع بينها قاسم مشترك من الكراهية والرفض للرئيس السابق محمود أحمددي نجاد وسياساته. ولاشك أن المرشد الأعلى علي خامنئي لم يكن أمامه من خيار سوى الرضوخ لحالة الغضب العارمة التي اجتاحت الشارع الإيراني جراء الأزمة السياسية والاقتصادية التي لفت البلاد.

ومع التغيير الإيجابي الذي حمله خطاب روحاني في التعاطي مع السياسة والمجتمع، فقد بدا أن هناك عملية تحول متسارع في توجهات السياسة الإيرانية التي أصبح أحد محاورها الرئيسة تحقيق الاستقرار الاقتصادي عبر الدفع في اتجاه تخفيف العقوبات الدولية على إيران.

وقد انعكس هذا في التوجهات الواقعية التي بدأ في تبنيها مجموعة النخبة الممسكة بملف السياسة الخارجية في إدارة روحاني وعلى رأسها وزير الخارجية الجديد جواد ظريف، والمضي قدما من أجل التوصل إلى جدول زمني طموح لحل الأزمة النووية.<sup>(2)</sup>

**الكلمات المفتاحية:** إيران - روحاني - البرنامج النووي

The election of Iran's new president, Hassan Rohani, in June 2013 came a surprise to many. While many analysts tend to call him a reformer, he is more like a cautious realist or pragmatic. This is what his several previous posts tell us about him, he is not an ultra-conservative, not a reformer but more having a practical vision of a conservative looking to achieve the leadership goals in more realist's terms.

On the other hand, he wants to open a new chapter in Iran's relations with the US and European Union, and also to ease the sanctions on his country, to prevent any military strike to Iran and to engage more actively with the world, but these things will not be achieved easily and it will be hard to fulfil this vision within the internal and external context of Iran.<sup>3</sup>

The first signs of change loomed on the horizon after Rouhani took office and adopted open communication with the West. This is in addition to positive signals to the US by Rouhani and other Iranian parties after eight years of radical conservative rule and after tough sanctions were imposed on the country because of its nuclear program. These included a ban on oil imports from Iran and a boycott of Iranian banks. The sanctions which had been imposed over the past eight years have had negative consequences on the Iranian people and on the overall economic situation, causing Iranians to look for politicians who would adopt new policies to revitalize the economy and reopen the country.<sup>4</sup>

Thanks to his background and track record, the president is in fact in a unique position to mend fences within the system and negotiate with the international community. Rouhani's career was made in the security establishment, as secretary of the Supreme National Security Council between 1989 and 2005, and as Khamenei's representative on the council since then. He is on good terms with actors on the far right of the political spectrum as well as with the leading reformists. Externally, he is known as the man who negotiated an agreement with European powers to temporarily suspend Iran's uranium enrichment programme and implement the Additional Protocol of the Non-Proliferation Treaty in 2004.<sup>5</sup>

Hassan Rouhani's victory in the Iranian election opens a window of hope for an easing of tension between Iran and the west on the strained nuclear file.<sup>6</sup> Since Rouhani took power on August 4, Iran's stance on its nuclear issue has displayed a certain level of flexibility.<sup>7</sup>

For over a decade the Western powers has sought a negotiated deal whereby Iran relinquishes its military nuclear ambitions, but Iran would like to continue on its own to a military nuclear capability while paying a minimum price. Negotiations have played no role in Iran's basic game plan and over the years were regarded more as a nuisance (sometimes hurdle) to be overcome on the road to the ultimate goal. When Iran has come to the negotiations table, it has been in order to demonstrate a semblance of cooperation, for the purpose of warding off the prospect of harsher steps being imposed by the Western powers in response to its ongoing nuclear defiance. Being engaged in negotiations – which must be distinguished from negotiating in order to reach a deal – has sometimes proven useful to Iran as a means of not only avoiding Western pressure and punishment, but gaining time to push its program forward.

The difference now is that Iran has a more concrete reason to bargain with the West. Iran is suffering from the impact of biting sanctions that were put in place over the course of 2012 in response to its indifference to Western demands, so it currently seeks negotiations in order to have these sanctions lifted. This has resulted in negotiations appearing more like a give and take situation – the P5+1 demand that Iran make nuclear concessions, and Iran in turn demands that the P5+1 reciprocate by lifting sanctions.<sup>8</sup>

Despite Rouhani is sincere about a nuclear deal, because the costs of building a nuclear bomb are too high, the demonization of the United States is still the linchpin of foreign policy for a certain faction in Tehran. For them, normalization of US relations would mean the regime's end. Since the hostage crisis 34 years ago, the Iranian regime has made the United States a linchpin of its domestic and international politics. To normalize relations with the US would mean that the regime would have to deprive itself of this linchpin. For a still-powerful faction within the leadership, normalization would spell the

end of the regime. They will thus try to oppose it in any way they can.<sup>9</sup>

Assuming Rouhani truly wants to construct a broad consensus on the nuclear file, he will have to address the concerns of Supreme Leader Ali Khamenei and key constituencies in the Revolutionary Guard Corps. If those two players are not on board, they will have many ways to sabotage any agreement Rouhani might reach. The need to secure their buy-in will certainly complicate efforts to reach an agreement acceptable to the United States, Europe, Israel, and the Gulf Arab states, though there is a (small) silver lining to this cloud: a broadly supported agreement is more likely to be durably implemented.<sup>10</sup>

The results of negotiations on a final nuclear deal between Iran and major powers will have the decisive word in the internal equation of Iran. If the government achieves success and resolves the nuclear issue as well as succeeds in significantly easing sanctions, the reconciliatory and moderate approach will be enhanced and will gain further public support.

If, however, Washington does not respond quickly to Rouhani's openness, it will negatively affect his legitimacy and strengthen his opponents' arguments. The Supreme Leader may then withdraw support for Rouhani's government if Rouhani goes too far in his openness with the US and the West without Khamenei's consent. However, most Iranian analysts believe such a struggle is unlikely because Rouhani is a son of the regime and because everyone is keen to find internal consensus formulas to prevent unproductive conflicts around rapprochement.<sup>11</sup>

This paper, at first, sheds light on the social, economic, and political effects of sanctions against Iran Since 2010. Then it examines the progress in negotiations between Western powers and Iran over its nuclear program under the leadership of new President Hassan Rouhani.

### **Iran on a Hot Tin Roof: Sanctions isolating Iran**

“We’ve imposed the toughest sanctions in history. It is having an impact on Iran’s economy.” – *President Barack Obama, November 14, 2012.*

At the centre of efforts to resolve the nuclear standoff between Iran and the West has been the imposition of ever-tightening economic sanctions, hailed by the U.S. and Europe as the most comprehensive ever enacted. Perceptions differ widely. For many Western officials, they are the key to pressuring Tehran to compromise without resorting to military force. Iranian leaders, while more recently acknowledging their punishing economic impact, reject the notion that sanctions will produce concessions and – particularly in light of other coercive policies, such as assassination of Iran’s nuclear scientists, sabotage and cyber-attacks – see them as evidence that the West’s true goal is regime rather than behaviour change.

Not the product of a single policy, the sanctions regime has mutated over three decades, been imposed by a variety of actors and aimed at a wide range of objectives. The end result is an impressive set of unilateral and multilateral punitive steps targeting virtually every important sector of Iran’s economy, in principle tethered to multiple policy objectives (non-proliferation; anti-terrorism; human rights) yet, in the main, aimed at confronting the Islamic Republic with a straightforward choice: either comply with international demands on the nuclear file, or suffer the harsh economic consequences.<sup>12</sup>

The Obama administration has made sanctions the center of its Iran policy since the first round of negotiations with Tehran collapsed in November 2009, although its motivations for doing so and its public pronouncements about the objectives have varied. Perhaps the most commonly stated objective is changing Iran’s nuclear calculus, with sanctions being the primary tool used to raise the cost of Iran’s nuclear pursuits. The overarching goal is to make the cost of continuing Tehran’s nuclear path too high to bear, thereby leading to a change in its nuclear policy. The strategy envisions a three-part scenario in achieving this goal: devastate the Iranian economy with a

tacit understanding that civilian Iranians will be hurt in the process; as sanctions take root and permeate Iranian society, civilians together with various stakeholders will pressure the government and potentially create regime-threatening protests; with the economy weakened—and new fissures created within Iranian society and among Iranian stakeholders—the Islamic Republic's regional and international strategic objectives become too costly to continue at current levels.<sup>13</sup>

Since 2010, the United States and international partners have ratcheted up sanctions as reports surfaced of the country's progress on potential nuclear weapons capability.<sup>14</sup> The combination of U.S. and international sanctions has adversely affected the Iranian economy and its future outlook. According to GAO's analysis, the Iranian economy has consistently underperformed the economies of comparable peer countries across a number of key economic indicators since 2010. In contrast to its peers, Iran's oil production, oil export revenues, and economic growth estimates have fallen, and its inflation has increased. For example, Iran's oil export revenues fell by 18 percent from 2010 to 2012, while its peers' oil export revenues increased by 50 percent. In addition, professional and International Monetary Fund forecasts of the Iranian economy were downgraded to reflect deterioration in Iran's expected economic performance after the implementation of 2010 sanctions.<sup>15</sup>

Major shifts have taken place in the sanctions against Iran in 2011 and 2012. Washington has sought to further isolate Iran economically through new sanctions on the Central Bank of Iran (CBI) and Iranian companies involved in the nuclear, hydrocarbon, and petrochemical industries. The EU has taken steps of its own to isolate and pressure Iran by enacting an oil embargo, prohibiting investment in Iran's oil industry, prohibiting EU companies from issuing insurance of all types, and prevent Iran from using the SWIFT inter-bank communications network, among other restrictions and bans.

The EU sanctions have targeted various dual-use items, Iranian transportation and shipbuilding services, oil and gas technology, investments in the Iranian petrochemical industry, and maritime

insurance. They also cut Iran off from the international banking system. The EU embargoed Iranian oil and natural gas, which accounted for roughly 23% of Iran's total exports. The EU embargo prohibits the purchase, transportation, and importation of Iranian crude oil, the exportation of petrochemical equipment and technology, as well as related financial investments including insurance.

Additionally, the EU froze the Central Bank of Iran's (CBI) European assets, and banned the trade of gold and other precious materials between Europe and the CBI.<sup>16</sup>

Sanctions leveled against Iran by the US and European Union have had a crippling effect on the country's infrastructure and technological development.

According to the US Energy Information Administration (EIA), OPEC member countries in 2012, excluding Iran, made about \$982 billion from exporting crude, the highest total since the EIA began tracing OPEC revenue in 1975. Iran, once OPEC's second largest oil producer and exporter, was not included in this report because of difficulties estimating Iranian earnings, including price discounts, rewards to customers, and the inability to collect payments from them, the EIA reported. Iran, by providing about 10% commissions to international money dealers and middlemen, usually circumvents some of the sanction on the transfer of oil money.<sup>17</sup>

From July 1st, 2012, however, Iran's non-European buyers faced a new obstacle. The EU's decision to prevent Europe-based insurers from underwriting Iranian crude oil shipments was particularly farreaching: these firms reportedly provide insurance cover for 90% of the world's oil tanker shipments. As a result, even those states that had complied with US wishes to buy lower volumes of Iranian oil and had received exemptions from US sanctions faced escalating barriers to importing Iranian oil.<sup>18</sup>

Iran's oil production in 2012, when effective EU sanctions were put in place, and in 2013, fell to its lowest level since 1986 in the midst of the 8-year-long Iran-Iraq war. Iranian revenue from selling crude oil and oil products in 2010 was \$150 billion and gradually dropped under the sanctions. In 2011, oil revenues totaled \$95 billion,



then fell to \$69 billion in 2012 and further decreased to about \$32 billion (mostly in non-US currencies) in the first 9 months of 2013.<sup>19</sup>

On the other hand, sanctions have rendered Iran unable to develop a liquefied natural gas (LNG) export business. EU sanctions have also derailed several gas ventures, including BP-NIOC joint venture in the Rhum gas field, 200 miles off the Scotland coast, and inclusion of Iran in planned gas pipeline projects to Europe. All foreign firms have pulled out of the South Pars Gas Field Project, which had the potential to greatly grow Iran's natural gas production.<sup>20</sup>

Increased uncertainty about economic policies is impairing the prospects for private investment in the oil and gas sector and in other activities. Sanctions, risk of war and general economic mismanagement have caused most of the major oil companies to delay or halt new investment in exploration and production. Add to this the problems that have emerged due to the Revolutionary Guard strengthening its grip on the economy in recent years by taking control of many larger companies.<sup>21</sup>

Although Iran is home to the world's third largest oil reserves, it does not have the refinement capacity to produce its own fuel and thus it imports a sizeable amount of gasoline. As many major oil companies have refused to do business with Iran, it has faced difficulty in procuring enough fuel to run the country. It is estimated that since the imposition of the US Comprehensive Iran Sanctions Act in 2010, gas deliveries to Iran have fallen 75 percent, from about 3.5 million barrels a day to about 900,000 a day.<sup>22</sup>

According to Iranian reporting, the budget deficit for the 2012/2013 Iranian fiscal year is estimated to reach \$54 billion, 12% of government spending, and oil revenues have forced the government to lower spending on a wide range of programs. Funds earmarked for government investment have declined 70% in the first eight months of the Iranian year starting in March 2012; as an example infrastructure spending was cut by 30% but the head of the Majles said that of the \$35 billion set aside, only no more than \$12.2 billion would be available.<sup>23</sup>

The sanctions have led to transactions between Iranian banks and the global financial system being almost completely blocked. Although the willingness to pay and the money is there, international transactions are very difficult to carry out. Iran has to some extent been forced to switch to bartering by selling oil in exchange for raw materials and other commodities.

The tougher sanctions mean that most of the Iranian banks, including the Central Bank, are blacklisted by the US and EU. The Iranian banks that are listed by the EU are also prohibited the use of the electronic communication tool SWIFT, which makes it difficult for these banks to conduct international business. International payments have been forced away from the banking sector to the unofficial financial networks and Iranian exporters have been forced to barter.<sup>24</sup>

It seems that the private sector as a whole is being seriously squeezed and making foreign investment by even non-western companies, or the pursuit of joint ventures, a risky and unattractive proposition. Many Iranian and even Iraqi banks have proven incapable of offering the most rudimentary of financial services such as letters of credit or cash transfers.

Another consequence of U.S. financial sanctions has been that many companies now refuse to sell autoparts to Iranian automobile companies. As a result there has been a 36% decrease in car manufacturing, which will lead to widespread layoffs and could lead to serious labour unrest. 10,000 workers have already signed and addressed a petition to the Minister of Labour complaining of their declining purchasing power and the general state of the economy.

The automobile industry, moreover, is by no means an exception here, as many other industries are finding it extremely difficult to pay foreign suppliers. The weak rial is also hurting importers, who are lobbying against a devaluation, arguing that a strong rial will keep down producers' costs.<sup>25</sup>

Meanwhile, the sanctions have halved Iran's oil revenues. This has contributed significantly to the precipitous decline in the value of the rial. With its foreign exchange earnings halved and unable to transfer its oil earnings back to Iran, the Iranian government has found

it difficult to supply the requisite funds to support its currency. As a result, inflation has sharply increased, to at least 50 percent by some estimates, and higher in some sectors. The standard of living of all wage earners has plummeted and a rising number of unemployed individuals and their families living in the country's urban centers are being pushed into poverty and malnutrition.<sup>26</sup>

By June 21, 2012, the price of a liter of milk had risen to 8,000 rial and the price of a kilogram of meat had risen to 5,000 rial. This put a burden on producers selling to the government at the official prices of 6,300 and 4,200, rial respectively. The Jomhuri Eslami newspaper stated that producer costs had increased between 34 percent and 37 percent within Iran in their last fiscal year. Additionally, Omid Karimien, a member of the Iranian Parliament Economic Committee, stated that the fluctuations in the rial, "were a testimony to the lack of solidarity in our economy." The Iranian Central Bank then made the decision to let the official rate depreciate to 1 U.S. dollar for 12,249 rial while the market value slightly strengthened to 1 U.S dollar to 18,300 rial. Central Bank efforts alone have not been able to close the gap between the two rates.<sup>27</sup>

High levels of economic distress stoke existing levels of social unrest. With about 60 percent of the Iranian population under 30, high unemployment means that many young adults are willing to participate in opposition movements and advocate change. Although the regime attempts to suppress any uprisings, there is evidence of increasing domestic and political unrest.<sup>28</sup>

For example, the price of chicken doubled from 2011 to 2012, leading to a surprise wave of protests during the summer of 2012, which caught the government off guard. Similar unrest was seen in October, when the value of the rial plunged sharply and Tehran's bazaaris closed their shops in protest. With basic living costs increasing and no corresponding rise in the average salaries of Iranian workers, it is inevitable that thousands will be squeezed out of the middle class.<sup>29</sup>

The plunge in the value of the rial was accompanied by a massive loss in Iranian state foreign reserves. According to the

International Monetary Fund, at the end of 2011, Iran held 106 billion dollars in official foreign reserves, mainly deposits in Euros and other European currencies, enough to cover 13 months of imports of goods and services into Iran. But these declined rapidly, so that by November 2012 Iran announced it plans to stop holding dollars and Euros as reserves.

Iran has already cut the portion of its reserves held in US dollars, no doubt out of fear that America will again freeze its funds. It has reason to worry. In 1979 the US froze \$12 billion in Iranian assets in response to the hostage crisis. Later, in 2009, the American government froze another two billion dollars in Iranian funds held in the US. While Iran keeps its level of reserves secret, Nader Habibi, an economist at the Crown Center for Middle East Studies at Brandeis University, estimates that by September 2012, these had plummeted to 50-70 billion dollars from an estimated 100 billion dollars at the end of 2011.

Fereydoun Khavand, a professor of economy at the Paris Descartes University and an Iran expert, claims that the economic downturn is now serious enough that it is threatening to destabilize the regime. "There is growth stagnation plus inflation, a dangerous combination that might make Iran compromise."<sup>30</sup>

In addition to currency depreciation and rampant inflation, Iranians are also coping with price increases in a variety of sectors controlled by the state itself. The government has long subsidised basic goods as gasoline, energy and certain foodstuffs, but began phasing out many of these subsidies in late 2010 due to the high economic toll on state coffers. The removal of the subsidy on bread has had a particular effect, with the cost of this staple in the Iranian diet jumping approximately 1500% in the two years to July 2012. The Iranian government describes these moves as a 'price correction' or even as a 'victory for Iran'. The sanctions regime has pressured the government into taking sudden and drastic action, even in the face of public protest.<sup>31</sup>

In order to cushion the impact of the price increases, cash payments of roughly equivalent to \$45 per month have been deposited in people's bank accounts. Since 2011, however, due to inflation this

figure has rapidly diminished as the rial's value continues to decline against the dollar. The cash payments have been of little consequence for the much of the middle class, many even deeming the payments not worth the time of registering for their receipt.

The Iranian government spends approximately \$70 billion annually on subsidies, a significant proportion of which will be saved as a result of the reforms. Even so, many Iranians' purchasing power has severely deteriorated, and they are as a result trying their utmost to make ends meet by cutting back on "luxuries" and economizing.<sup>32</sup>

As in other countries, for the most vulnerable, poverty will lead to risky survival strategies including child labour and sex work - informal sectors which have expanded in Iran in recent years. Likewise, those most affected by price increases and the end of subsidisation will be those teetering on the brink between the lower class and the poverty line, or between low-waged labour and unemployment.<sup>33</sup>

Searching for a safe haven for investments, panicked Iranians have rushed to purchase dollars and euros. Over time, propping up the rial became unsustainable. Iran's currency suffered two precipitous plunges, in January and October 2012, losing nearly 80 per cent of its value against the dollar. Strong currency fluctuations simultaneously destabilised the business sector.

Anxiety over potential sanctions-induced shortages pushed both government and households to stockpile staples, which in turn compounded inflationary pressures; annual inflation rose from 12 per cent in October 2010 to 27.4 per cent in December 2012, with peaks in the housing and stock markets. Other indicators followed. According to parliament's research centre, between October 2011 and October 2012, production fell 40 per cent and unemployment grew by 36 per cent, while the price of consumer and primary goods rose by 87 and 112 per cent, respectively. An Iranian business consultant remarked: "The doom and gloom is reminiscent of the war years".<sup>34</sup>

The decline in the nation's manufacturing sector, and, with it, the condition of Iran's roughly 15 million workers and their dependents, has been particularly pronounced. The sanctions have

reduced access to and substantially raised the cost of the hard currency that manufacturers require for the purchase of indispensable inputs, raw materials, spare parts, machinery, and capital goods. At the same time, by imposing restrictions on and increasing financial, transportation, and insurance costs, sanctions have increased operating costs.

The combined impact of mismanagement and sanctions has been devastating for manufacturers. Since the imposition of the 2012 sanctions, the number of bankruptcies, layoffs, plant closures, and delayed payments of salaries has substantially increased.<sup>35</sup>

Sanctions have also affected small and large merchants, making obtaining trade financing, insurance, and shipping availability difficult and driving up their costs by an estimated 40%, if merchants could complete transactions at all. Iranian merchants are increasingly using the hawala system to complete transactions due the difficulty of using banking systems.<sup>36</sup>

Crucially, the combination of sanctions and mismanagement has also reduced the availability and quality of medication and medical devices, and increased the cost of receiving treatment, especially for life-threatening and incurable ailments. As a result, the quality and accessibility of healthcare has plummeted.<sup>37</sup>

There are many problems in healthcare field, including X-ray, access to radioactive medicines used in different types of CT scan and MRI, anesthetic medicine used in usual surgeries, lack of laboratory kits which make them to send a blood sample or urine sample to Turkey for a simple test.

Further sanctions on cargo shipment and shipping insurance limited the government's ability to provide humanitarian goods such as medicine and medical equipment. The global sanctions targeting Iranian banking system and money transaction effectively influenced the entire economy and import\export processes of the country.

Every day with the imposing of new sanctions, Iranian drug manufacturers find it harder to work and indeed the quality of medications are questionable as the manager at Abidi pharmaceuticals said, "sometimes pharmaceutical product's transfer and shipment is delayed up to 8 months, this not only poses a drug shortage but

certainly affects the drug's quality which hadn't been stored in an ideal condition". Therefore sanctions have cut off manufacturer's access to key pharmaceutical and medical supplies and have made it difficult to import key materials for manufacturing pharmaceuticals which comprises 90 percent of Iran's pharmaceutical market.

Whenever importation of a kind of bulk material was restricted from western sources, manufactures shifted to Indian or Chinese sources, although this procedure was costly and time consuming due to paper work, legal issues and the need to repeat quality control tests and stability tests to determine the products' quality, but manufactures at the end were able to partially retain their pre-sanctions production rates. This nevertheless was at the cost of decline in overall quality since alternative sources are generally less qualified and partially have unknown side effects.

The low-quality primary sources need purification and also processing devices which cannot be imported due to their dual usage in nuclear issues, except through smuggling the pieces separately to the country. And then there are maintenance problems and if the device breaks down and need repair, there would be problems with the manufacturer company.

By banning and sanctioning main roots of import or at least making it extensively difficult, the foreign companies or entities reasonably lose their interest to deal with Iran. The international community has opened the door for illegal smuggling of medicines. Many patients refer to black market to buy vital medicines, sometimes at prices 3 times higher than the original price. These medicines are of unknown by origins, haven't been stored properly and might be actually counterfeit.

Although US law technically exempts food and medicine from sanctions in order to minimize the impact on civilians, the increasing implementation of financial sanctions has discouraged exporters from shipping to Iran, because they face problems getting paid, due to barring of money transaction and additional banning of insuring shipments to Iran, and because the U.S. Treasury Department's licensing requirements are too time consuming and complicated. Most

of vital medicines like chemotherapy medicines, medicines for treatment of Thalassemia and other blood complications such as anti-bleeding medicines for hemophilia and immunosuppressive medicines for patients undergoing transplant surgeries are manufactured by western companies. The sanctions, although put some relief for importing medicines from China and India which are very strict regarding importations from western countries, this has led to many miseries and loss of lives.

Data from June 2012 until September 2012, shows an average monthly shortage of 83 drugs, but from October 2012 the number of drug shortages dramatically rises from September 2012 until June 2013, when the average drug shortages was 144. There is a significant gap between the shortage of imported drugs and manufactured drugs in Iran.<sup>38</sup>

Sanctions also have come at the expense of aviation safety. A U.S. ban on the purchase of aircraft and spare parts has prevented Iran from upgrading its worn-out fleet, arguably a key factor in the unusually high number of airplane accidents.<sup>39</sup>

### **Rouhani's Election**

Many Iranians may be realistic enough to realize that Rouhani may not be a transformative figure. They voted for Rouhani not because they love him, but because they are desperate to change their country. Rouhani was the least dogmatic and hard-line of the eight candidates, and offered the best chance of an even slightly better future.

Rouhani's election is a reaction to internal and external pressures, including sanctions. The livelihood of many Iranians, including the middle class, is in grave jeopardy. Khamenei and Ahmadinejad's policies, especially on the nuclear program, threatened to unravel the Islamic Republic.<sup>40</sup>

Before the election, the Iranian regime's primary goal was to prevent a replay of the disputed 2009 election and the ensuing mass protests that were met with brutal force. The Iranian regime, especially the Revolutionary Guards, described the 2013 election as an "engineered election" meant to produce a president loyal to the



system. Khamenei's main goal was to produce a stable and undisputed election that maintained an aura of legitimacy. Moreover, Khamenei has used the Guardian Council, a constitutional body, to ensure the selection of candidates who will not challenge the system.

Ahead of the vote, many Iranians assumed that Khamenei supported the hardline Saeed Jalili, as the next president. Jalili's insistence on "resistance" in Iran's interaction with world powers over the nuclear program left voters fearing that the economy would worsen and nuclear war could become a real possibility after the election.

The supreme leader tried hard to allay voters' concerns ahead of the poll and in rare comments urged even those who did not believe in the Islamic regime to vote for the sake of their country, promising to protect their ballots.

Khamenei possibly even voted for Jalili but he realised that he would not lose the election by letting Rouhani win and played a key role in preventing his [own] loyalists from intervening in the election.

Analysts say Khamenei realised that the popular uprisings convulsing the region and Iranians' growing frustration at the impact of sanctions on their daily lives could put his regime's survival at risk, leaving him with no choice but to be flexible.

Iran's domestic media have reported that Rouhani wrote to the top leader one week before the election and reassured him that he would remain loyal to the Islamic regime if elected.<sup>41</sup>

The immediate victor in this election, in many ways, was Khamenei himself. For all his anxieties, the electorate had by all accounts delivered a healthy turnout which had served to heal the scars of 2009. No one had complained and no one had protested. The popular elation and elite relief was palpably felt, and was akin to a country slowly awakening from a nightmare, such that an extraordinary exercise in retrospective rationalisation took effect almost immediately. The first beneficiary of this was Khamenei himself, who was immediately shielded from any responsibility for the previous eight years and 'thanked' by almost everyone across the political spectrum for having managed the 'political epic' with such

finesse – with perhaps the most ironic chants of ‘dictator, dictator, thank you, thank you’ coming from a populace elated that he had chosen not to interfere after all.

The corollary of that, of course, was to heap all responsibility for the past eight years onto the ‘deviant current’, and the personality of Ahmadinejad in particular, as loyalists swiftly moved to disavow him. The other major exercise in the historical settling of scores was the insistence that the epic of 2013 had effectively proved the protesters in 2009 wrong; Rouhani now spoke of the protesters in derogatory terms, and added, for good measure, that the political slate had been wiped clean. Khamenei himself was more forceful, demanding an apology from his critics. Khatami and his legacy were sidelined, while the reliably hard-line Kayhan newspaper made clear in an editorial that Rouhani is ‘one of us’ and that those who hankered after substantive change were likely to be disappointed.<sup>42</sup>

Hassan Rouhani’s election as president demonstrates the Iranian people’s frustrations and deep opposition to their leaders’ decisions. His election is repudiation of the policy of “resistance” on the nuclear program pursued by Supreme Leader Ali Khamenei and President Mahmoud Ahmadinejad, which has led to Iran’s growing isolation and its economic devastation.

Rouhani’s presidency may provide a better opportunity to solve the nuclear crisis through diplomacy. His past experience as a capable nuclear negotiator and a moderate on foreign policy is encouraging. Iran’s foreign policy may be ultimately controlled by Supreme Leader Khamenei, and it will not change dramatically. For example, Iran is unlikely to abandon its support for the Syrian regime. But Rouhani will nevertheless have an opportunity to reshape Iran’s position on the nuclear program.<sup>43</sup>

There is no doubt the Iranian leadership will profit from Rouhani’s election victory when it comes to the crippling sanctions imposed on Iran and the threat of a military attack against its nuclear program, both of which are the result of failure to make any progress in negotiations with the EU, the five veto powers at the UN and Germany (EU-5+1). The chances of a breakthrough in the EU-5+1 negotiations are very much dependent on the willingness of the EU-3

(Germany, France and Great Britain) and the USA to offer a solution that will allow the Iranian leadership to save face.

It is becoming ever clearer that allowing Rouhani's election to pass smoothly was a deliberate and shrewd maneuver by Khamenei to preserve order in a country beset by a daunting array of foreign and domestic challenges. Khamenei's judicious decision to allow a smooth transition to Rouhani has bought the Islamic Republic some much-needed breathing space. The new president is arguably better suited than anyone else in Iran to simultaneously reboot the economy, clinch a nuclear deal, find a compromise on Syria and release internal pressure for political reform.<sup>44</sup>

However, it must not be forgotten that elections in Iran have always been used as a means of balancing out the power of the established political elite. We cannot ignore the fact that the political process supports a limited and elite form of discourse that excludes almost all forms of opposition. As a result, democratic institutions and laws tend to take a back seat in favour of compromises by the elite. Therefore, the statements Rouhani made during the election campaign, his orientation towards a civil rights discourse and his open criticism of the security apparatus should be primarily understood as criticism of the enforcement of unquestioned claims to power. Even if this appeals to the people, it is always directed to competing factions within the elite of the Islamic Republic of Iran. In this regard, it implies a change of style rather than a paradigm shift in fundamental questions.<sup>45</sup>

So once again we are witnessing the ever-changing cycle between reform and principlism. At this stage, Rouhani is not able to offer long-term political solutions to pressing social issues, nor can he guarantee an end to inflation and depression. However, the Islamic Republic, which has basically been in a perpetual state of emergency since its inception, has at least been able to demonstrate once again that it is not only capable of displaying a degree of political flexibility but is also capable of surviving.<sup>46</sup>

### **Nuclear Negotiations Under Rouhani**

A frequent question being asked in the vast majority of responses to the election is not first and foremost how the result might affect the internal situation in Iran, but how it might affect Iran's nuclear program.<sup>47</sup>

Above all else, Rouhani has made it a priority to relieve the sanctions pressure on Iran to deter its nuclear program. In fact, he staked his political future on getting sanctions relief while maintaining the fundamental elements of that nuclear weapons program. This was the motivating factor for his diplomatic charm offensive, which has already yielded impressive results.<sup>48</sup>

With the important blessing of Iran's Supreme Leader, Khamenei, Rouhani has "full authority" to negotiate with the West on the nuclear standoff.<sup>49</sup> Unlike years past, senior officials on both sides now openly acknowledge that alleged alternatives to diplomacy -- such as an escalation of sanctions, or an escalation in the technical aspects of Iran's nuclear program -- have not only caused the drumbeat of war to intensify, but also narrowed the remaining escalatory options that both sides have at their disposal. This sharpened focus among American and Iranian decision-makers has presented a unique window of opportunity to continue de-escalating tensions and reach a final nuclear deal.

It is fair to point out that the gap between technical solutions and political solutions may be too wide to bridge. However, the likely alternative -- war -- is a stark reminder for both sides that the status quo is neither in their interests nor sustainable. Iranian and American officials are seemingly prepared to make the requisite political investment for diplomacy to succeed. At this point, only one thing is for sure: it won't be easy.<sup>50</sup>

Rouhani's first step was to appoint Iran's most talented diplomat as foreign minister. Javad Zarif impressed the world in his years as Iran's representative to the UN; after living for many years in the US, he understands its politics well. With the Supreme Leader's blessing, Rouhani then transferred the nuclear portfolio from the hard-line Supreme National Council to the Foreign Ministry, which reports to him. He changed the government's tone radically. Though still an

enemy, Israel was no longer “the Zionist entity” but the state of Israel. Just after he won the election, Rouhani tweeted a picture of himself visiting an American-supplied field hospital in southeastern Iran some years before.

Initially, these and other moves were dismissed by critics as a “charm offensive.” In an unusually intemperate speech to the General Assembly, Netanyahu warned that Rouhani was a “wolf in sheep’s clothing” set on duping the international community. But as the weeks passed and Iranian acts added up, most had to conclude that, unlikely as it seemed against the pattern of past decades, this was in fact an Iranian administration with new goals that had, at least for a time, the backing of the Supreme Leader.<sup>51</sup>

At his first press conference on August 6, 2013, Rouhani reaffirmed Tehran’s determination to pursue a “win-win” approach to finding a solution to Iran’s nuclear issue. He said the Islamic Republic is closely monitoring all measures taken by the United States and will respond properly to Washington’s “practical and constructive” moves.<sup>52</sup>

During the annual meeting of the 159-nation International Atomic Energy Agency (IAEA) held in Vienna on September 16, 2013, new Iranian atomic energy chief Ali Akbar Salehi pledged greater cooperation with the U.N. nuclear watchdog and reiterated Iranian President Rouhani’s willingness for “mutual confidence-building and constructive interaction” with the IAEA. “I have come here with the message of the new president of my country for strengthening and broadening our current cooperation with the IAEA in order to put an end to Iran’s nuclear dossier,” Salehi told the 57th IAEA General Conference. Salehi said Rouhani's election and his appointments in nuclear diplomacy had created a "like-minded group" that would "facilitate the resolution" of the dispute if the other side was willing to do so.<sup>53</sup>

In his address to the United Nations General Assembly on September 24, 2013, Obama stated that he had directed Secretary of State John Kerry to pursue, in concert with the five other countries that have been negotiating with Iran on the nuclear issue (“P5+1”—

United States, Britain, France, Germany, Russia, and China), a nuclear agreement with Iran.

Rouhani, whose speech followed Obama's by more than six hours, acknowledged Obama's outreach to Iran aimed at resolving more than three decades of estrangement and recrimination and restated Iran's insistence that it would never pursue nuclear weapons in its uranium enrichment program, saying, "this will always be the position of Iran."<sup>54</sup>

The Obama administration's efforts began on September 26, 2013, with the attendance of Secretary Kerry at a P5+1 meeting with Iran on the sidelines of the U.N. General Assembly meetings. Foreign Minister Zarif represented Iran at the meeting, and he and Secretary Kerry met separately at the margins of that meeting. Secretary Kerry called the day's talks "constructive," and the meetings resulted in a decision to hold another round of high-level P5+1- Iran talks in Geneva on October 15-16, 2013.

In Vienna, home of the International Atomic Energy Agency (IAEA), Iran's new envoy to the (IAEA), Reza Najafi, on Friday September 27, 2013, went into talks with Herman Nackaerts, IAEA deputy director general and head of the department of safeguards, at the Iranian embassy, to resume negotiations on the structured approach to resolving the agency's concerns about the possible military dimensions of Iran's nuclear program. Both sides described the meeting as constructive and agree to meet again on October 28.<sup>55</sup>

### **Geneva Talks**

At the October 15-16, 2013 talks in Geneva, Iran outlined specific proposals during what EU foreign policy chief said in a concluding joint statement with Iran were "substantive and forward-looking negotiations." Under discussion was an interim agreement during which Iran would suspend 20% enrichment and take other steps to improve international oversight, and a more comprehensive end-stage agreement that would sharply limit Iran's enrichment of uranium.<sup>56</sup> Everyone at the meeting agreed to resume the talks in Geneva November 7-8.<sup>57</sup> with an experts level meeting in Vienna on October 30-31 to prepare the next round of high-level talks.<sup>58</sup>

Iran and IAEA held two days of negotiations at two different levels in Vienna on October 28-29. On the first day of the talks, Iran's Deputy Foreign Minister Abbas Araqchi presented the Islamic Republic's new approach to its nuclear energy program in a meeting with IAEA Director General Yukiya Amano. Iran Ambassador to the IAEA Reza Najafi headed the Iranian delegation in the expert-level talks, and the IAEA team was headed by the Agency's Deputy Director General Tero Tapio Varjoranta. After the meetings the IAEA and Iran issued a joint statement that described the discussions as "substantive" and referenced the "new proposal" presented by Tehran. The proposal was described as containing "practical measures" to "strengthen cooperation and dialogue with a view to future resolutions of all outstanding issues". Iran and the IAEA agreed to meet again in Tehran on November 11.<sup>59</sup>

A new round of talks between the P5+1 and Iran took place in Geneva from 7-10 November 2013 in Geneva. Clear divisions emerged among the P5+1 on the final day of the talks. France said it cannot accept the draft text presented by Iran. The talks wrapped up just after midnight on Saturday, after having officially entered their fourth day. No deal was announced. All sides, however, stressed that differences have narrowed and agreed to resume negotiations in 10 days, but on a lower level.

Although a deal had appeared nearly certain, the talks stalled over technical issues, including details of nuclear concessions required of Iran, and the incentives the Islamic Republic would receive in return. Among the obstacles were disagreements between France and other members of the P5+1 group.

Officials said that some of the strongest objections to the draft agreement that is the basis for the talks came from France's Foreign Minister Laurent Fabius, who said the six nations should avoid falling for a "fool's game" that was advantageous to Iran. Fabius was particularly concerned about Israel's security, which he said must be taken "fully into account."<sup>60</sup>

Fabius said earlier that Tehran was resisting demands that it suspend work on a plutonium-producing reactor and downgrade its

stockpile of higher-enriched uranium to a level that cannot quickly be turned into the core of an atomic bomb. His remarks to France-Inter radio were the first to provide some specifics on the obstacles at the Geneva talks.

Fabius mentioned differences over Iran's Arak reactor southeast of Tehran, which could produce enough plutonium for several nuclear weapons a year once it goes online. He also said there was disagreement over efforts to limit Iran's uranium enrichment to levels that would require substantial further enriching before they could be used as the fissile core of a nuclear weapon.<sup>61</sup>

Following technical talks between IAEA and Iranian experts in Tehran on November 11, 2013, the IAEA Director General, Yukiya Amano, and the Vice President and Head of the Atomic Energy Organization of Iran (AEOI), Ali Akbar Salehi, a Joint Statement to outline a roadmap on bilateral cooperation on certain outstanding issues. The statement included an annex that lists practical measures to be taken as a first step by Iran within three months. These include providing mutually agreed relevant information and access to the Gchine mine in Bandar Abbas and the Heavy Water Production Plant, providing information on all new research reactors, providing information regarding the identification of 16 sites designated for the construction of nuclear power plants, and clarification on the announcements made by Iran regarding additional enrichment facilities and with respect to laser enrichment technology.<sup>62</sup>

Obama made a vigorous appeal to Congress on Thursday, November 14, 2013 to give breathing space to his efforts to forge a nuclear deal with Iran, and the prospects for an interim agreement may have improved with the release of a report by international inspectors who said that for the first time in years, they saw evidence that the Iranians have put the brakes on their nuclear expansion.

The confidential report was released to the nuclear agency's member states just minutes before Obama spoke, and he did not mention the findings. But the president made a strong case for diplomacy, trying to quell an effort in Congress to ramp up sanctions against Iran rather than modestly ease them, in return for a six-month halt in the progress of the nuclear program.



Obama administration officials said Iran's restraint was the latest in a series of signals by Mr. Rouhani that he was an agent of change, and that it was an answer to skeptics who have said the Iranian leader was all talk and no action.

But critics in Congress and overseas dismissed the report, saying that Iran had not removed any centrifuges and continued to enrich uranium at a steady rate. Prime Minister Benjamin Netanyahu of Israel, one of the most vocal critics of a deal, said the only reason Iran had not expanded its enrichment capability was that "they don't need to."

For Obama, who has been fending off accusations that the American negotiators were giving away too much to Iran in return for concessions that critics said would scarcely slow its march to nuclear capability, the findings could fortify his argument that the Senate should hold off on new sanctions to avoid derailing the talks.<sup>63</sup>

However, during the third round of Geneva talks between the Sextet and Iran on November 20-24, both sides could agree on a joint plan of action for a period of six months. In this agreement, Iran among other things declared to not enrich uranium over 5%, to dilute half of its stock of 20% enriched uranium stock, to not build new locations for the enrichment of uranium, and allow for enhanced monitoring by the IAEA. In return the E3+3 have decided to suspend US and EU sanctions and to refrain from imposing new nuclear-related sanctions by the UN Security Council.<sup>64</sup>

According to the joint plan of action, Iran is to provide the IAEA with additional information about its nuclear programs—a provision which appears to reiterate Iran's commitments pursuant to its November 11, 2013, agreement with the IAEA. Provision of this information is required by the additional protocol and code 3.1 of Iran's subsidiary arrangement to its IAEA safeguards agreement. Iran agreed to provide IAEA inspectors with "managed access" to its centrifuge assembly workshops, centrifuge rotor production workshops, centrifuge storage facilities, and uranium mines and mills. Access to these facilities, which the IAEA has lacked for some time, will help the IAEA to enhance its understanding of the enrichment

program's scope and thereby improve the agency's ability to detect an undeclared Iranian enrichment program.<sup>65</sup>

The agreement also provides for unprecedented transparency measures, including daily IAEA inspections at the Natanz and Fordow enrichment facilities, which would enhance existing safeguards against any move to create weapons-grade nuclear material. The final phase deal would likely allow even more intrusive IAEA inspections to guard against possible secret nuclear weapons-related activities.<sup>66</sup>

### **Right to Enrichment**

The joint plan of action addresses the issue of Iran's right to enrich uranium. Tehran has long argued that it has the right to enrich uranium pursuant to the NPT, Article IV of which states, in part, that nothing in the treaty "shall be interpreted as affecting the inalienable right of all the Parties to the Treaty to develop research, production and use of nuclear energy for peaceful purposes without discrimination and in conformity" with the non-proliferation provisions of the treaty. For example, Iran demanded in a 2012 proposal to the P5+1 that those countries recognize and announce "Iran's nuclear rights, particularly its enrichment activities, based on NPT Article IV."

According to the agreement, the "comprehensive solution would enable Iran to fully enjoy its right to nuclear energy for peaceful purposes under the relevant articles of the NPT in conformity with its obligations therein." This solution "would involve a mutually defined enrichment programme with practical limits and transparency measures to ensure the peaceful nature of the programme." The solution would also "reflect the rights and obligations of parties to the NPT and IAEA Safeguards Agreements."<sup>67</sup>

There were already indications that Iran and the West were interpreting crucial parts of the six-month agreement differently. Iran's foreign minister, Mohammad Javad Zarif, has asserted that the agreement explicitly recognizes Iran's right to enrich uranium.

Administration officials reaffirmed that the United States has not yet recognized a right to enrich uranium by Iran. But in the interim agreement, the language is more ambiguous, saying that a

“comprehensive solution would involve a mutually defined enrichment program with practical limits.”<sup>68</sup>

### **Sanctions Easing**

On January 30, the U.S. Department of the Treasury's Office of Foreign Assets Control (OFAC) published guidance in the Federal Register on how the U.S. government would proceed to implement Iran sanctions relief while diplomatic negotiations unfold with Iran. On the same day, the European Union implemented temporary sanctions relief, also effective January 20, 2014 - July 20, 2014, in connection with the JPOA. The JPOA provides the Islamic Republic of Iran with temporary, targeted, and reversible sanctions relief for a six-month period in exchange for Iran halting progress on and making meaningful changes to its nuclear program. The U.S. government (USG) retains the authority to revoke this limited sanctions relief at any time if Iran fails to meet its commitments under the JPOA.

As set forth in the Guidance, the temporary sanctions relief relates to the following: (i) Iranian exports of crude oil; (ii) Iranian exports of petrochemical products; (iii) transactions involving gold and other precious metals; (iv) transactions relating to the Iranian automotive industry; (v) transactions relating to civil aviation in Iran; and (vi) humanitarian and other assistance.<sup>69</sup>

The U.S. government (USG) retains the authority to continue imposing sanctions during the JPOA Period for activities that occurred prior to January 20, 2014. Moreover, the USG retains the authority to impose sanctions for activities occurring during the JPOA Period to the extent such activities are materially inconsistent with sanctions relief described in the JPOA. The USG also retains the authority to continue imposing sanctions during the JPOA Period for activities occurring before and during the JPOA Period under other authorities, such as those used to combat terrorism and the proliferation of weapons of mass destruction. During the six-month period, the U.S. government will continue to vigorously enforce other U.S. government sanctions against Iran outside the scope of the limited relief.

With the exception of civil aviation and humanitarian activities, none of the sanctions relief can involve a U.S. person or, as applicable, a foreign entity owned or controlled by a U.S. person.<sup>70</sup>

### **Analysis of Sanctions Relief**

Rouhani, who took office in August 2014, inherited an economy in recession and pressured by international sanctions, with some \$67 billion in debt from former President Mahmoud Ahmadinejad's period in office, even though the country had earned \$600 billion in oil revenue during his eight-year presidency.<sup>71</sup>

The sanctions relief that the P5+1 offered in the Geneva agreement is substantial and can have a significant positive impact on Iran's dire economic conditions, despite being temporary.<sup>72</sup>

The White House estimates that sanctions relief during the six-month JPOA period amounts to between \$6 billion and \$7 billion, although the higher figure appears to incorporate the humanitarian aid and the spare parts for Iran's civilian aircraft.<sup>73</sup> The P5+1 and EU also committed to facilitate Iran's access to \$4.2 billion in restricted funds on a set schedule at regular intervals throughout the six-month period. The White House noted that the relief is structured so that the overwhelming majority of the sanctions regime - including measures targeting Iran's oil, banking, and financial sectors - remains in place, and stressed that they will continue to be vigorously implemented.<sup>74</sup>

It is difficult to gauge the economic significance of all these concessions — but even if the positive impact of these concessions is quite modest, the psychological impact is clear: if the Islamic Republic's regime had been concerned that the deteriorating economic situation might lead to dissent, discontent and political upheaval, Iran now has some breathing space from crippling sanctions.<sup>75</sup>

Tehran has reaped significant economic benefits from the deal, in addition to the sanctions relief. The Tehran Stock Exchange's Tedpex index has surged 9 percent since the Geneva agreement was signed on Nov. 24, and the rial gained about 2 percent on unofficial markets. And outside economic analysts estimate Iran's economic growth is expected to stabilize in the current fiscal year after contracting by 6% during the previous one.<sup>76</sup>

Recent economic indicators suggest that even before the Geneva interim agreement comes into effect, Iran's economy is now on a more positive trajectory compared to the dismal conditions of 2012 and 2013 when tough US and EU financial and energy sanctions threatened to precipitate a balance-of-payments and financial crisis.

overall, Iran's economy is showing signs of recovery after years of sanctions, due in no small part to the recent sanctions relief offered in Geneva, changing market psychology, and a perception that the Obama administration may no longer be committed to ratcheting up the economic pressure.<sup>77</sup>

Some felt that the sanctions imposed on Iran by the US and other world powers in 2012 were not enough to keep the pressure on Iran to fulfill its part of the agreement, leading Senators Robert Menendez (D-NJ) and Mark Kirk (R-IL) to co-write the Nuclear Weapon Free Iran Act of 2013, which proposes new sanctions.

Menendez and Kirk's sanctions bill would take aim at the shipping, mining, and petroleum industries if no long-term deal is reached or if the interim agreement is violated. President Obama would be allowed to waive the sanctions every month during the temporary deal if all conditions are being followed and there are no state-sponsored acts of terrorism. If a long-term deal is reached and Obama waives the sanctions, Congress may file a joint resolution to stop the waiver. There is also a non-binding resolution within the bill that states that the US must support Israel if Israel takes military action against Iran in self-defense. The House of Representatives version of this bill has already been passed.

Many others, such as Senators Rand Paul and Elizabeth Warren, as well as the Obama Administration, have warned against the detrimental effects of further sanctions on a long-term deal. They fear more sanctions would take away any incentive to negotiate on Iran's part. In his State of the Union speech, Obama said he would veto any new sanctions that came across his desk. Also, earlier in March, Secretary of State John Kerry reassured Iran Foreign Minister Javad Zarif that no more sanctions would be passed during the course of the interim deal. Even the American Israel Public Affairs

Committee (AIPAC), one of the staunchest supporters of the sanctions, stated that it believes the bill should not be voted on until negotiations are through, though it still supports the bill overall. According to a study from Stanford University, sanctions are generally used as a substitute for military action, not diplomatic action, which is the first choice before either of the other two.

Some of the supporters of the sanctions have backed down since the threat of the veto, including co-sponsor Senator Chris Coons, saying the deal would hurt negotiations. There has instead been support for a non-binding resolution that just states that there should be strict boundaries set during the negotiations, including stopping all uranium enrichment. According to Reuters, which spoke with sources close to the administration, Obama will likely object to this as well because it would still jeopardize the chances of reaching a diplomatic agreement. Kirk and Menendez stand by the new sanctions. While both referred to votes by Iranian government hardliners that would keep nuclear infrastructure as evidence as of the continued need for sanctions, these votes themselves were in response to the threat of new sanctions. A group of Republican Senators also sent a letter to Majority Leader Harry Reid calling for a vote on the bill, showing that though there is significant opposition, support for the bill is not dying down. This may be because all Senators, regardless of their party, want to have a good relationship with AIPAC, while every Democrat that supported the bill is up for re-election and, thus, wants to appear tough on foreign policy.<sup>78</sup>

There seems to be no need at this point for Congress to pass additional sanctions legislation. Indeed, doing so would violate the letter and spirit of the Geneva agreement. Rushing ahead with fresh penalties now would almost certainly collapse the interim deal and likely end the prospects for a diplomatic solution to the Iranian nuclear challenge altogether.<sup>79</sup>

Analysts view the main benefit of the accord with Iran may be the psychological impact on markets, businesses, and investors.

Before Nov. 24, when the framework agreement was signed in Geneva, even those who could conduct legitimate business with Iranian counterparts were hesitant to do so. Driven by fear of

economic loss and legal sanctions, they were risk averse. The world had built an economic minefield around Iran that most businesses were loath to risk exploding.<sup>80</sup>

The tide may now be turning. Though many legal restrictions remain in place, the sanctions relief agreed to in Geneva may ultimately undermine the psychology of fear that drives investors and companies away from Iran. What was once plainly illegal or prohibitively risky economically now becomes at least thinkable. What was once questionable or dicey now looks entirely legitimate and even attractive. According to Western advocates of sanctions, sanctions were extremely effective before Geneva. If so, the impact of the Geneva deal will be enormous, moving large numbers of deals out of a forbidden or dark-gray zone into one where the gray is much lighter. Moreover, while U.S. enforcers may try to hold the line, don't expect Europe to be so punctilious.<sup>81</sup>

The net result could be an economic "windfall" for Tehran and a substantial weakening of sanctions efficacy, reducing P5+1 leverage going into talks on a final accord.<sup>82</sup>

Also, while it is easy to roll back sanctions, it will be much more difficult to reinstate them should the Iranians renege on their part of the deal. And cracks in the sanction regime combined with the tremendous pressures of business interests to resume "business as usual" with Iran might result in more economic relief than intended.<sup>83</sup>

Under sanctions relief, there is also a remarkable recovery of the rial. After a three-year free fall that took Iran's currency from the official 10,308 to \$1 dollar rate in 2010 to a crippling 38,500 in September 2012, the rial has climbed back to 24,873 (as of January 21, 2014). Global auto companies are returning to Iran to renew business relationships in a sector that, until sanctions, provided almost \$50 billion in annual Iranian GDP. Iran's stock exchange is also surging on renewed investor confidence, including in the petrochemical sector, which experienced steep price rises immediately after the Geneva agreement was signed.

### **Gross Domestic Product**

According to the World Bank's data, Iran's GDP shrank 2.9 percent in 2012 and 1.5 in 2013, but it is expected to grow by a modest 1 in 2014, and 1.8 percent in 2015. The IMF also sees Iran's economy beginning to rebound with an estimated growth rate of 1.3 percent and 1.98 percent in 2014 and 2015 respectively.<sup>84</sup>

### **Inflation**

Rouhani's administration inherited an economy with a 5.8 percent contraction rate and an inflation rate of over 40 percent, according to the Central Bank of Iran.<sup>85</sup>

Iran's inflation rate fell to a two-year low in February 2014, fulfilling President Hassan Rouhani's vow to halt rampant increases in the cost of living.

Consumer prices rose 23 percent in February 2014 from a year ago, compared with 29 percent in January and as high as 45 percent in June, according to the central bank. Inflation rates fell in nine of the 10 sub-indexes tracked by the central bank, including clothing, food and transport.<sup>86</sup>

The Central Bank of Iran has announced that the inflation rate for the 12-month period ended the tenth Iranian calendar month of Dey (ended on January 20, 2014) hit 38.4 percent, a 0.9 percent decline compared to the previous month.

Meanwhile, the point-to-point inflation rate hit 28.8 percent.<sup>87</sup>

This is while the Statistical Center of Iran on January 28 put the 12-month and the point-to-point inflation rates for the mentioned period of time at 35 percent and 27.5 percent, respectively.<sup>88</sup>

Also, the Statistical Center of Iran on March 1 put the 12-month and the point-to-point inflation rates for the eleventh Iranian calendar month of Bahman (Jan. 21 - Feb. 19, 2014) at 33.7 percent and 22 percent, respectively.

Iranian President Hassan Rouhani said on Nov. 27 his government plans to decrease the inflation rate to below 25 percent by the end of Iranian calendar year 1393 (March 20, 2015).<sup>89</sup>

### **Tehran Stock Exchange**

In the meantime, however, Iran's economy is improving—and



its stocks are absolutely booming. The Tehran Stock Exchange, which rose 130 percent in 2013, is up another 33 percent since November, when the P5+1 group reached an interim accord with Iran. Trading volume broke records in December.<sup>90</sup> So there's a huge flow of fresh money from individual investors to the stock market. Perception changed completely after the election of Rouhani and as political risk, the risk of war, and risk of more sanctions decreased.

On average in 2013 through November, \$203 million of shares changed hands each day, up from \$83 million two years ago and \$20 million in 2006, according to data from the exchange.

The 2013 rally follows a 55 percent advance in 2012 and 24 percent gain the previous year. The market value of all companies on the exchange has climbed almost two-thirds in dollar terms since 2011, to \$174 billion. The price-to-earnings ratio of stocks included in the benchmark index rose 34 percent in 2013, to 7.8, data compiled by the exchange show. That remains below the multiple of 11.8 for the MSCI Emerging Market Index. The biggest gainers among the 314 stocks on the exchange include banks and oil companies. Bank Saderat Iran, subject to European Union sanctions since 2010, climbed as much as 142 percent in 2013 from its 52-week low, and Parsian Oil & Gas Development has surged 87 percent from its trough. Economists who follow Iran say the stock market has risen “too much, too quickly” and that the gains are “mostly based on sentiment rather than fundamentals.”<sup>91</sup>

### **Future Investments**

The nuclear deal struck between Iran and several world powers in November prompted a renewed look at the investment case for Iran, as has been the case for other markets that have come in from the cold after international isolation, most recently Burma.<sup>92</sup>

Many economists say the withdrawal of sanctions on a more permanent basis would make Iran a big new opportunity, one that has been on the shelf for most foreign investors for over three decades.<sup>93</sup>

Foreign investors are keen — a thawing of relations with the West has triggered a race among multinationals to explore business

opportunities in Iran. In February 2014, more than 100 executives from France's biggest firms visited Iran.<sup>94</sup>

Kerry had complained to French Foreign Minister Laurent Fabius after the French business delegation's visit to Iran for commercial opportunities, reminding him that the interim deal was only temporary and there was yet a long way to go before finalizing the matter.

But other State Department officials saw it differently. "We hope people don't go to Tehran," said undersecretary of state for political affairs Wendy Sherman, the administration's lead Iran negotiator. "That is our preference. But those who go raise hopes that the Rouhani administration's going to have to deliver on."<sup>95</sup>

Prior to the French team's visit, a large Turkish delegation visited Iran in late January. The group was headed by Turkish Prime Minister Recep Tayyip Erdogan, who said the neighboring countries aimed to more than double their trade volume to \$30 billion in 2014.<sup>96</sup>

Delegations from the Netherlands, Germany, Italy, South Korea and other countries have made similar trips since Iran and six world powers reached the landmark interim deal.<sup>97</sup>

Meanwhile, rumours are rife in Tehran that American companies through their representatives in other countries are also negotiating with senior Iranian officials.

In April 2014, over 300 German and Iran business officials gathered at a week-long conference in Berlin, discussing how to bolster bilateral relations between the two nations.

There is a decades-long history of economic cooperation between Germany and Iran. Therefore, for all German companies that have traditionally worked with Iran there is interest in lifting sanctions in order to reactivate their economic relations.

Due to EU sanctions imposed in 2012 in response to Iran's nuclear policy, total trade between Germany and Iran plunged from €4.7 billion (\$6.5 billion) in 2010 to €2.1 billion (\$2.9 billion) in 2013, according to the German-Iranian Chamber.<sup>98</sup>

European countries have historically strong trade ties with Iran - more so than the U.S., which has had tougher sanctions in place for longer. European sanctions only began in limited form in 2007.

The possibilities for growth are obvious judging by how much trade has fallen. Imports by the 28-nation EU, Iran's biggest trading partner, plunged from 16.5 billion euros (\$22 billion) in 2011 to 5.6 billion euros in 2012 and a mere 395 million euros in the first half of 2013.

Exports from the bloc to Iran dwindled from around 11 billion euros to 7.4 billion euros in 2012.<sup>99</sup>

Many European companies, including from France, Germany and Italy, either left Iran or scaled back in recent years due to the imposition of sanctions and anti-western policies pursued by former president Mahmoud Ahmadi-Nejad, which resulted in unattractive investment terms.<sup>100</sup>

With the election of President Hassan Rouhani, a moderate keen to lure foreign capital. Iranians envision a nation restored to its pre-Islamic Revolution role as a strategically situated magnet for world trade, bolstered by the legions of Iranian expatriate businessmen in Istanbul, London, Los Angeles and elsewhere.

The interim nuclear deal opened the investment floodgates for Western companies seeking to capitalize on a new business environment in Iran.<sup>101</sup>

Yet even if European Union sanctions are fully lifted, there will remain severe logistical and financial challenges to doing business in the Middle East nation. European banks and Society for Worldwide Interbank Financial Telecommunication have completely withdrawn from Iran – rendering prospects of foreign direct investment nearly impossible unless financial sanctions are lifted as well. Another concern is Iran's inflation, which remains above 25 percent despite recent efforts by the administration of President Hassan Rouhani to fight price increases.

In January 2014, Rouhani attended the annual economic summit in Davos, Switzerland, where he reached out to the world's entrepreneurial elite. He touted investment opportunities, met with European oil executives and emphasized Tehran's desire to conclude a permanent nuclear accord that could result in a total lifting of sanctions.<sup>102</sup>

Thirty-five years since Iran seemed to turn its back on modernity with the overthrow of the shah, it is starting to re-connect with the rest of the world.

If that continues, Iran could very quickly turn into one of the hottest investment opportunities of the next two decades.<sup>103</sup>

The Iranian strategy seems primed to deepen a very particular worry regarding the possibility that the JPOA's partial erosion of the international sanctions regime will prevent financial pressure from being reimposed on Iran: Foreign entities that become invested in Iranian markets are likely to mobilize political pressure to prevent any moves to close those markets back off.<sup>104</sup>

### **Financial Sector**

Sanctions against Iran's banking sector have restricted Iran access to financial markets and services. The Joint Plan of Action (JPOA) promised to relax banking sanctions in the following ways:

- 1) The establishment of a banking channel for humanitarian trade through "specified foreign banks and non-designated Iranian banks";
- 2) Access to banking services for all sanctions' relief related transactions; and
- 3) A ten-fold increase of the European Union's authorization threshold for transactions through its banking channels, from €40,000 to €400,000.<sup>105</sup>

Iran has large amounts of hard currency in banks in China, Japan, South Korea, India and Turkey, the major remaining purchasers of its oil, but has been obliged in recent years to spend the money locally. Iranians seeking to import medicine, for example, from Western countries have experienced difficulties finding legal channels to pay for such imports because of US-led financial sanctions.<sup>106</sup>

However, the United States has refused to open a so-called "blessed channel" between any Iranian and American bank, meaning that any trade has to go through intermediaries.

Despite a diplomatic thaw, Western banks are steering clear of attempts by Iran to get them involved in financing humanitarian transactions, fearing they could be penalised under U.S. sanctions.<sup>107</sup>

There have been increasing reports that Iran is having

difficulty completing even those transactions authorized by the Nov. 24 agreement, in large part because banks remain reluctant to conduct transactions with any Iranian financial institution — even those Iranian banks never specifically sanctioned by the US Treasury Department. The problems extend to Iran's repatriation of frozen oil funds and the purchase of food and medicine, which was not subjected to sanctions in the first place.

These problems could increase foreign leverage on Iran to reach a longer-term deal that lifts restrictions on a more permanent basis. But they could also decrease confidence among Iranian officials that the Barack Obama administration — and its successors — will be able to implement sanctions relief in return for verifiable curbs on Iran's nuclear program. That might encourage Iran to turn to a "Plan B" of sanctions-busting deals — such as a reported \$20 billion oil swap with Russia — rather than rely on Western promises.<sup>108</sup>

### **Iran's Oil Exports**

Iran's oil exports have risen amid a thaw in relations with the West that is showing signs of boosting the Islamic Republic's battered economy.<sup>109</sup>

During the years of economic isolation, Iran lost most of its international oil markets, as other OPEC producers took its market share. The sanctions have hurt Iran's oil and gas field facilities, which became technologically outdated and in desperate need of modernization.<sup>110</sup>

Tough international sanctions in 2012-2013 have cut Iran's oil exports by about half.

Since the Obama administration relaxed sanctions on Iran, oil sales are up 25 percent, from 1.06 million barrels per day to 1.32 million.<sup>111</sup>

The International Energy Agency's monthly report revised February 2014's global crude imports from Iran upwards by 240,000 bpd to 1.65 million barrels per day, the highest since June 2012.

China accounted for 168,000 bpd of the rise in imports in February, India for 93,000 bpd and South Korea for 83,000 bpd.

On the other hand, Japanese imports of Iranian oil were revised lower by 103,000 bpd, according to the IEA.<sup>112</sup>

Iran produced 2.79 million barrels of oil in March, according to the OPEC Monthly Oil Market Report, April 2014. That's 3.5 percent higher than the average reported for 2013 and Iranian Oil Minister Bijan Zanganeh said he thinks production could reach as high as 4.2 million bpd during the Iranian year, which began in March 2014.<sup>113</sup>

The rise in sales to Iran's main clients, mostly in Asia, comes after the Geneva agreement with Iran. The November deal also freed up \$4.2 billion in oil payments to Tehran, but it does not allow for shipments to increase.<sup>114</sup>

The easing of the sanctions against Iran would help Iran's oil and gas sectors attract foreign investment.<sup>115</sup>

World oil giants have voiced their readiness to return to Iran following the EU and US decision to relax economic pressures on Iran in light of the implementation of the Geneva deal.

According to Iranian officials, Spain's Repsol, Royal Dutch Shell, British Petroleum (BP), Malaysia's Petronas, France's Total, Italy's Eni and Russia's Lukoil have shown willingness for investment in Iran's oil sector.<sup>116</sup>

An Iranian director of international investment said as much as \$200 billion in foreign investments may be headed to the nation's oil sector.<sup>117</sup>

Pakistan said that the multibillion dollars Iran-Pakistan gas pipeline project would be undertaken after international sanctions against Iran are removed as result of settlement of its nuclear issue.<sup>118</sup>

The lifting of EU sanctions could also open the gate to Iran's natural gas supply – the second largest in the world at 33 billion cubic meters.

Iran's potential for natural gas reserves has largely been underexploited. These give attractive options for Iran to export in the coming years.

Iran would like to be a long-term natural gas supplier to the EU, especially as Europe seeks to decrease its dependency on Russia. Tehran is already exploring a pipeline that would funnel gas from

southern Iran to the Turkish border, where it would then be transported to Europe.

Even before the country was hit with sanctions Iranian officials had drafted concrete plans to deliver natural gas to Spain, and were conducting feasibility studies for a separate European pipeline.

If the sanctions would be lifted, Iran might play a growing role as natural gas supplier, not only for Europe but worldwide.

Yet due to the capital and time intensity of oil projects, it's unlikely such an untakings would be completed in less than 10 years.<sup>119</sup>

### **Petrochemical Sector**

Iran's oil and petrochemical exports have increased following some sanctions relief on the Islamic Republic after the Geneva agreement, including the EU and U.S. bans on the country's petrochemical exports.

Before sanctions, Iran's petrochemicals export to EU stood at annual 2-2.5 billion dollars. However, under the sanctions, such products are mostly exported to Asian, African and some South American countries.

The country's petrochemicals exports have shrunk by approximately 30% as a direct result of sanctions. In terms of crude and also refined products, the US has allowed select countries to continue purchasing from Iran, but at significantly reduced volumes. Even with permissions from the US, obtaining insurance for cargoes from Iran has significantly impacted trade.

Iran has suffered from lower levels of productivity due to lack of investment, but also from barriers to exporting products.

The sanctions-related market crunch has led Iran's petrochemical sector's capacity utilisation to fall below 80%.

Barriers to markets aside, Iran has also been hit by sanctions in a more obscure way. Although the South Pars/North Field, shared between Iran and Qatar, may be the world's largest accumulation of hydrocarbons, delays in the development of new phases of the field caused by limited access to new technologies, have severely damaged

the country's petrochemical industry.

As a result of the combination of gas feedstock shortages and economic sanctions leading to technical equipment problems and declining exports, the capacity utilisation of Iran's petrochemical sector has declined significantly over 2012-13.

So the easing of sanctions on Iran is very likely to help the country's petrochemical sector to import the necessary equipment and technology to meet growing demand for gas, while also enabling the country to expand export markets. This will be particularly noticeable in Asia, where Iran's petrochemical export markets are already developed.

But for now, even with current and future sanctions relief, the country is unlikely to hit its announced target in its Five Year National Development Plan (2010-2015) to double petrochemical production capacity. The gas feedstock shortage won't be resolved by the temporary lifting of sanctions under the JPOA but can only be resolved if sanctions will be lifted permanently.

It is still unclear how European and American companies will react in terms of investing in Iran's hydrocarbon sector, at least not until a permanent agreement is reached.<sup>120</sup>

In 2012-13, a number of the Iranian petrochemical firms were blacklisted by the US and EU including Imam Petrochemical Co, Bou Ali Sina Petrochemical Co and Mobin Petrochemical Co.

Meanwhile, after taking the first step to implement the Geneva deal on January 20, the US Treasury Department announced that it would soon exclude 14 major Iranian petrochemical companies from the US blacklist.

Iran's Jam petrochemical company too announced on January 26, 2014 that it has been removed from the blacklist of the Office of Foreign Assets Control (OFAC) of the US Department of the Treasury.<sup>121</sup>

With its access to cheap and abundant ethane, Iran was once a major exporter of methanol and polyethylene. Sanctions aside, the country has the capacity to become a formidable player within the petrochemicals sector. According to a report by Platts, the country has a capacity of over 7 million mt of ethylene, representing little under



5% of global installed nameplate capacity, making it the second largest producer and exporter of petrochemicals in the Middle East after Saudi Arabia.

In a normal political environment, Iran would play a major part in setting prices for plastic products such as polyester and bottles and solvents such as paints and cleaning products.

But sanctions have bitten hard, particularly by choking off access to technology, catalysts, cheap shipping and insurance. While Iranian officials have in the past been keen to play down the impact of sanctions, now the country can import catalysts it would start to ramp up production.

If ethylene utilization rates were raised to 90%, it could mean about 1.2 million additional mt on the market. That's equivalent to around 1% of global annual demand.

And it is not just volumes that could increase for Iranian sellers. Somewhat counter-intuitively perhaps, prices of Iranian product could rise as it is more easily traded.

To maintain product flows and to prop up its petrodollar economy, Iran has had to offer petrochemical products at below market value to encourage buyers outside of sanction-hit countries. That could change with the thawing of relations.

Most observers, including distributors of Iranian product, expect that product to head to Asia with Iran keeping an eye on possible arbitrage opportunities to Europe.

According to a February 2014 report by Iran Customs Administration, most Iranian petrochemical exports in 2013 headed to China, Iraq, the UAE, India and Afghanistan, with Chinese customs data revealing that its imports of all grades of polyethylene from Iran doubled over the same period.

In addition, Turkey imports large quantities of polymers from Iran, and Iranian suppliers expect demand for its products to increase globally.<sup>122</sup>

European countries such as Italy, Spain and Greece have resumed imports of petrochemical products from Iran.

Iran witnessed a growth in the export of petrochemical

products during the last Iranian calendar year, which ended on March 20, 2014.

Iran's petrochemical exports rose by about one percent from USD 10.165 billion to USD 10.723 billion from a year ago.<sup>123</sup>

Chinese firms will invest €427 million in the construction of Lordegan Petrochemical Complex, southwest of Iran.

Chinese investors have expedited the process of financing some Iranian petrochemical projects after Iran and the 5+1 group signed the Geneva interim agreement.

Some \$7-8 billion is forecast to be invested by the Chinese investors in petrochemical projects in Iran.

On February 17, 2014, the National Iranian Petrochemical Company's managing director said Iran needs \$31 billion to inaugurate 60 semi-finished petrochemical projects.

Once the projects come on stream, they will increase the country's annual petrochemical output by 55 million tons, he said, adding that \$74 billion is needed to expand the national petrochemical industry in the next 8-10 years.<sup>124</sup>

According to Iranian officials, the country's petrochemical output is projected to hit 100 million tons by 2015.<sup>125</sup>

In an interview with The Wall Street Journal in January 2014, Mohammad-Hossein Peyvandi, deputy head of Iran's state-controlled National Petrochemical Co., said ending a ban on selling petrochemical technologies to Iran would "have an impact on European countries.

"Historically, we have relied more on the European market for technologies," he said, citing Italy, France and Germany as potential beneficiaries.

Peyvandi said Iran's petrochemical sector could generate an annual \$50 billion in revenues by the next decade, up from \$21 billion in the last Persian year ended March 2013.<sup>126</sup>

On February 18, 2014, The construction of four petrochemical plants has begun in Iran's Arvand free zone in the southwest of the country.

Some 622 billion rials, about \$25 million, will be invested in the projects. The plants will produce various types of thinner, paint,

glue, anti-freeze and solvent.

The four plants have a total capacity of producing 78,000 tons of chemical compounds and petrochemicals per year.<sup>127</sup>

During his first official visit to Sistan and Baluchestan Province on Tuesday, April 15, 2014, Hassan Rouhani said that his administration plans to construct a special petrochemical zone in the southeastern Iranian city of Iranshahr in Sistan and Baluchestan Province.<sup>128</sup>

### **Auto Sector**

Production by Iran's domestic car industry, unusually developed for the Middle East, peaked at 1.6 million cars in 2011, the year crippling new sanctions were introduced.

Hundreds of Iran's 2,000 or so car part producers have gone bankrupt or switched to other areas of manufacturing and thousands of workers have been laid off in 2012 and 2013 amid crippling sanctions imposed over the country's nuclear program.

The sanctions caused a sharp drop in automotive imports and led PSA Peugeot Citroën and Renault, the French car producers on which Iran's car industry was dependent, to all but abandon the Iranian market.

An executive order by President Obama on June 3, 2013, against doing business with Iran's automobile sector struck the final blow to what had been an important source of income for the country.

The industry was also hit hard by regulations enacted by Mahmoud Ahmadi-Nejad, Iran's former president, that prevented manufacturers from increasing prices to keep pace with inflation, estimated at almost 40 per cent. This left them unable to afford spare parts.

As a result, Iran's vehicle production, the biggest non-oil sector in the economy, slumped to 920,000 in the year to March 2013, down from 1.6m in the previous 12 months. In first ten months of the Iranian calendar year, which started on March 21, 2013, it has further declined to about 576,000.

Manufacturers hope the temporary lifting of sanctions on the

automobile sector, part of an interim nuclear agreement with the major world powers that came into force in January, and the return of technocrats to the government under Hassan Rouhani, the country's centrist president, will help revitalise the industry, which employs about half a million workers.

Representatives from German, Indian, Japanese and South Korean auto manufacturers attended an International Auto Conference in Tehran, on Nov. 30, 2013. But despite a recent thaw in relations between Iran and the U.S., including a historic phone call between moderate President Hassan Rouhani and President Barack Obama, no representative from a U.S. automaker attended the event. American carmakers have been absent from Iran since its 1979 Islamic revolution and the U.S. Embassy takeover. U.S. law blocks American carmakers from the Iranian market.

That's not to say there's no interest in American muscle cars. An Iranian advertising campaign in recent months promised an exhibition of American-made cars but it was never held. Iranian media did, however, report the arrival of some Chevrolet Camaros to the country earlier this year, apparently through third parties.<sup>129</sup>

Renault and French rival PSA Peugeot Citroën are keen to resume Iranian vehicle assembly and sales with local partners Iran Khodro and Pars Khodro, to rebuild the significant market position they enjoyed before sanctions were tightened.<sup>130</sup>

Renault, which was selling nearly 100,000 cars a year in Iran before sanctions came into force, was quick to resume shipments once the relaxation of sanctions came into effect. This has already led to a rise in daily production.

Its rival Peugeot, which sold 458,000 cars in Iran in 2011 – nearly a third of the total market – is also poised to return to the country, which was once its second largest market after France.<sup>131</sup>

Between 2012 and 2013, the production of the two carmakers dropped by almost 50 percent due to the sanctions.<sup>132</sup>

French automakers are cautious, however, as the success of the next round of talks will determine whether the sanctions on auto parts and other goods are permanently lifted, and also whether financial sanctions are relaxed allowing money transfers back to France.<sup>133</sup>

According to the government data, Iranian traders have imported more than 61,000 cars, worth \$1.27 billion, over 11 months ending Feb. 20, 2014 to meet the growing appetite in the country for Western-made cars. The figure shows a 60% growth compared with the same period last year. The cars, mainly imported from the United Arab Emirates (77.4%) and China (14.9%), sell for 2.5 times more than their original price.

Many believe that Rouhani is preparing for a return to former President Mohammad Khatami's era, when foreign investors were largely involved in joint venture projects with Iranians. The moderate president, along with top administration officials, has already invited giant manufacturers to avail opportunities in different sectors, including the automotive one.<sup>134</sup>

### **Post-Geneva Accords**

A team of inspectors of the International Atomic Energy Agency (IAEA) visited Iran's Arak heavy water reactor on Sunday, December 8, 2013. This was the third visit to site by the IAEA inspectors.

Iran has invited the International Atomic Energy Agency (IAEA) to visit the plant as part of the Nov. 11, 2013 agreement on a wider inspection of the country's nuclear sites to remove ambiguity over its disputed nuclear program.<sup>135</sup>

It was the first time in more than two years that the International Atomic Energy Agency (IAEA) had been allowed to go to the Arak heavy water production plant, which is designed to supply a research reactor under construction nearby.<sup>136</sup>

A letter sent to IAEA Director General Yukiya Amano from EU High Representative Catherine Ashton on behalf of the P5+1 group, concerning the Joint Plan of Action agreed with Iran on Nov. 24 in Geneva, highlighted the important role of IAEA in the verification of the nuclear-related measures which were agreed in Geneva.<sup>137</sup>

However, on December 12, an intense four-day expert-level talks between representatives from Iran and the six world powers were

put on hold after the administration of US President Barack Obama issued new sanctions against more than a dozen Iranian and foreign companies and individuals for “providing support” for Tehran’s nuclear program, a move aimed in part at dissuading Congress from imposing additional trade penalties.

The US Treasury Department said it was freezing assets and banning transactions of entities that had attempted to evade the sanctions against Iran.

The companies designated as sanctions violators include Eyvaz Technic Manufacturing Co., an Iranian company that the Treasury said was involved in procuring sensitive items for use in Iran’s centrifuge program, and the Exploration and Nuclear Raw Materials Production Co., a subsidiary of the Atomic Energy Organization of Iran, which was cited for overseeing uranium discovery, mining, and mineral processing operations in Iran.

The Treasury also said it targeted companies, including Singapore-based Singa Tankers, for providing support to the National Iranian Tanker Co.<sup>138</sup>

During a phone conversation with US Secretary of State John Kerry on Monday, Dec. 16, Iranian Foreign Minister Mohammad Javad Zarif “expressed Iran’s dissatisfaction” with new US sanctions.<sup>139</sup>

It was the first time that Zarif and Kerry have talked by phone since Iran and the P5+1 group clinched the nuclear deal in Geneva.

According to the Iranian foreign ministry, Zarif has also exchanged views with European Union Foreign Policy chief Catherine Ashton on the nuclear deal and the US new bans.

On Sunday, the Iranian foreign minister said the Islamic Republic would continue negotiations with the six major world powers but would respond prudently to any unconstructive and inappropriate action on the part of the Sextet.<sup>140</sup>

On Tuesday morning, Iran’s deputy foreign minister and a top member of Iran’s team of nuclear negotiators, Seyed Abbas Araqchi met with EU foreign policy chief Catherine Ashton to discuss ways of restarting the expert-level talks.

Araqchi lashed out at the US for its stance against Iran and urged

American officials to avoid taking such measures if they want the negotiations to go on but reaffirmed that Iran would continue talks with the G5+1 experts on its nuclear energy program.

While Iranian officials say the sanctions run counter to the spirit of the Geneva deal, White House spokesman Jay Carney responded by clarifying that the designations “were related to the enforcement of existing sanctions, and we have made clear all along that we would continue to enforce existing sanctions.”

The blacklisting is widely seen as an attempt to head off moves in US Congress to impose tougher sanctions on Iran that would be in clear breach of the Geneva agreement.<sup>141</sup>

Following technical talks between IAEA and Iranian experts in Vienna December 11, 2013, IAEA has confirmed its inspectors plan to visit the Gachin uranium mine in Iran's south before February 11.<sup>142</sup>

Iran's Ambassador to the IAEA Reza Najafi led the Iranian delegation while the UN agency's team was led by Tero Varjoranta, the IAEA deputy director general and head of the Department of Safeguards.

They said they had reviewed progress in implementing the initial steps of a cooperation pact the two sides signed last month, under which Iran agreed to grant the U.N. agency access to two nuclear-related sites within three months.

Varjoranta said work under the November 11 accord was “proceeding as planned”.<sup>143</sup>

The parties also initially planned to meet again on Jan. 21 to finalize the measures. The meeting was later postponed at the request of Iran to Feb. 8.<sup>144</sup>

Iran and the 5+1 Powers resumed technical talks on Thursday, December 19, 2013, over implementation of the November 24 interim nuclear deal.

Hamid Baeidinejad, the director general for political and international affairs at the Foreign Ministry, led the Iranian delegation, with experts from the nuclear, banking, oil, and transportation sectors. Stephen Clement, an aide to the European Union's foreign policy chief Catherine Ashton, led the 5+1 team.<sup>145</sup>

Iranian nuclear negotiations continued in Geneva on December 30 and December 31 with progress described as "good" by Iran's senior nuclear negotiator, Abbas Araqchi, and concurrence on a January implementation date for the interim nuclear agreement signed in November.<sup>146</sup>

Senior officials from the European Union and Iran met in Geneva on Thursday and Friday (January 9-10, 2014) to iron out remaining practical questions related to the implementation of the Nov. 24 deal.

Six world powers and Iran agreed on Sunday, January 12, to start implementing an interim nuclear deal on Jan. 20.<sup>147</sup>

The agreement was reached after seven weeks of negotiations over the details on how to put in place the compromises in principle outlined in November by Iran and the so-called P5-plus-1, the five permanent members of the Security Council and Germany.<sup>148</sup>

Senior U.S. officials said some sanctions relief would start on the first day of the six-month agreement's implementation - January 20 - and some will be withheld until its final day.

In Washington, President Barack Obama said Sunday the United States and other nations would begin to give Iran "modest relief" on economic sanctions as long as the Islamic Republic lived up to its end of the agreement.

Obama said he would veto any new sanctions passed by the U.S. Congress during talks on a long-term deal with Iran, but added Washington would be prepared to increase its sanctions if Iran fails to abide by the agreement.<sup>149</sup>

The permanent members of the United Nations Security Council, plus Germany (the "P5+1"), announced on Monday, January 20, that they are beginning to implement the November 24, 2013 Joint Plan of Action (the "JPOA") for containing Iran's nuclear program.

Under the temporary agreement, Iran began suspending most advanced uranium-fuel enrichment and halted other sensitive elements of its nuclear program. In exchange, it received what the United States called "limited, targeted and reversible sanctions relief for a six-month period."

The agreement expires on July 20 and was intended to give



Iran and the P5-plus-1 powers more time to negotiate a permanent accord.

This six-month period can however be extended by mutual agreement. According to the November 24 interim deal, the parties aim to conclude negotiating and begin implementing it within a year.<sup>150</sup>

The announcement that the plan for sanctions relief was activated came after the United Nations' nuclear watchdog, the International Atomic Energy Agency, confirmed Monday that Iran had met its part of a November agreement. The deal called for Iran to cease enrichment of uranium above 5%, begin the process of diluting some of its stockpile of 20% enriched uranium, and verify that it has not installed additional centrifuges at two key nuclear facilities.<sup>151</sup>

Ali Akbar Salehi, the head of Iran's atomic energy organisation (AEOI), said his country has a total of 196 kilograms (432 pounds) of 20 percent enriched uranium and will convert half of it to oxide over a period of six months. The remaining half will be diluted to a level below 5 percent level within three months.<sup>152</sup>

Iranian scientists cut the links feeding centrifuges in the Natanz plant and at Fordow, an underground site near Qom, in the presence of inspectors from the International Atomic Energy Agency.

Iran has also agreed not to commission its heavy-water reactor in Arak.

IAEA inspectors have visited the reservoirs on Saturday and Sunday, January 18 and 19, and witnessed that there is no heavy water stockpile in the reactor and its reservoirs; they have also checked to see that no fuel has been transferred to the reactor.

The IAEA team, led by Massimo Aparo, head of Iran Task Force in the Department of Safeguards of the IAEA, was tasked with reporting to the UN nuclear body on the start of the implementation of the Geneva nuclear deal.<sup>153</sup>

"The agency [IAEA] confirms that, as of 20 January 2014, Iran ... has ceased enriching uranium above 5% (U-235) at the two cascades at the pilot fuel enrichment plant (PFEP) and four cascades at the Fordow fuel enrichment plant (FFEP) previously used for this

purpose," IAEA said in a document on Monday.<sup>154</sup>

In a January 18 letter to the Vienna-based IAEA, Iran had enclosed information on centrifuge assembly workshops, storage facilities and centrifuge rotor production workshops, the report added.

"The Agency and Iran have also agreed on arrangements for increased access by agency inspectors to the nuclear facilities at Natanz and Fordow, including in relation to weekends and holidays in Iran," the IAEA said.

The inspection presence in Iran will "roughly double" in order to monitor the implementation of Tehran's agreement with the powers, chief IAEA inspector Tero Varjoranta said.<sup>155</sup>

The U.S. Treasury said hours following news of the Iranian move that it has suspended sanctions on foreigners engaged in transactions related to Iran's oil exports, and some trade in gold and precious metals.<sup>156</sup>

The US state department spokeswoman, Jen Psaki, described Monday's events as "an unprecedented opportunity" to resolve global concerns about Iran's nuclear programme.

In a statement, Catherine Ashton, the European Union's top foreign policy official and the lead P5-plus-1 negotiator with Iran, called the carrying out of the agreement an important step. She also expressed hope that new talks with Iran would begin in the next few weeks.

The nuclear agreement dominated the news in Iran, where several officials welcomed the start of the deal and Iranian news media reported on every step taken by the I.A.E.A.'s inspectors.

Iranian critics of the deal, who fear Iran conceded too much, expressed anger. The front page of the conservative newspaper Vatan-e Emrooz was published in black and white, as if in mourning, with a headline that declared "nuclear holocaust" had been committed.

In Israel, where the interim agreement has been severely criticized as a capitulation to Iran, Prime Minister Benjamin Netanyahu said the deal would not stop the "Iran nuclear train" and what he called its intent to develop nuclear weapons.<sup>157</sup>

The Obama administration penalized nearly three dozen companies and individuals in eight countries on Thursday, Feb. 6,

accusing them of evading Iranian sanctions. It was the administration's most extensive enforcement action to target Iran since reaching an interim deal with Tehran in November.

Announced by the Treasury Department office that oversees sanctions enforcement, the punishments were at least partly devised to send a message that the United States is not relaxing economic pressures on Iran, apparently to blunt an atmosphere of optimism that has resulted from the temporary nuclear agreement.

A Treasury announcement said the enforcement action had singled out "a diverse range of entities and individuals located around the world" for evading American sanctions aimed at Iran. There was no immediate comment from the Iranian government.

The Treasury said its latest actions "reflect the United States' sustained commitment to continue enforcing our existing sanctions as the P5+1 and Iran work toward a comprehensive solution to address the international community's concerns over Iran's nuclear program."

Alongside Thursday's statement, though, Treasury published a new list of foreign sanctions evaders, implementing an executive order issued in 2012 that gave Treasury the authority to bar identified individuals and entities from the U.S. financial and commercial systems. Treasury first used the authority in May 2013.

Eighteen businesses and 14 individuals were identified as violators in the Treasury announcement, in a list of countries that included Turkey, Spain, Germany, Georgia, Afghanistan, the United Arab Emirates, Liechtenstein and Iran. Some were accused of helping Iran circumvent American sanctions on financial transactions and oil sales. Others were accused of involvement in what the United States regards as Iran's illicit activities in Afghanistan and Syria.

Treasury on Thursday named three Georgia-based Iranians, Pourya Nayebi; Houshang Hosseinpour; and Houshang Farsoudeh — and eight companies they control — to the new sanctions-evader list. They had established companies and financial institutions in multiple countries, and used the companies to facilitate transactions on behalf of people under U.S. sanctions on Iran, Treasury alleged.

Messrs. Nayebi, Hosseinpour and Farsoudeh acquired majority

shares in a Georgian bank through a Liechtenstein-based foundation they control, Treasury alleged. Then they used the Georgian bank to facilitate transactions worth the equivalent of tens of millions of U.S. dollars for multiple blacklisted Iranian banks, Treasury alleged. A senior Treasury official said to reporters on a conference call that the bank they used wasn't identified as a sanctions evader because Georgian authorities worked with the U.S. to "evict" the three individuals from the bank, and to "put the bank on track into more legitimate hands."<sup>158</sup>

A Spanish company, Advance Electrical and Industrial Technologies SL, and its sole shareholder, Pere Punti, were penalized for helping Iran procure specialized nuclear equipment. A Turkish citizen, Ali Canko, was penalized for helping an Iranian company's attempts to reverse-engineer an armed speedboat to be used by Iran's Islamic Revolutionary Guards Corps. An Iranian-owned airline in the United Arab Emirates, Blue Sky Aviation, was accused of obscuring banned financial payments for aircraft, engines and parts.

An Uzbek citizen, Olimzhon Adkhamovich Sadikov, was identified by the Treasury as a facilitator of what it called an Al Qaeda network in Iran that operates with the knowledge of Iranian authorities — even though they have a well-known animosity toward Al Qaeda.<sup>159</sup>

The Treasury last imposed Iran sanctions in December, shortly after the interim deal was struck, blacklisting several companies and individuals for supporting Iran's nuclear program.<sup>160</sup>

The U.S. Treasury Department's sanctions enforcement office issued an amended general license on Friday, Feb. 7, that widens the authorization to export communication tools and services to Iran. Treasury's action followed new designations on Thursday that highlighted brinkmanship between Washington and Tehran as they each stake out tough positions at home ahead of February's scheduled talks between global powers and Iran over its nuclear program.

The amended license expanded on rules granted in May 2013 that allowed Americans to export "to persons in Iran" things such as mobile phones, satellite phones, radio equipment, modems, laptops, anti-tracking software and anti-censorship tools, along with support

systems for their use. Under the amended license, the exports can be made by foreigners and “to Iran,” rather than merely to Iranians.

The amended license allowed for exports of certain fee-based hardware and software by a U.S. company located outside the country to Iran, so long as it’s not subject to export control regulations. It also clarified an authorization, allowing someone traveling between Iran and the U.S. to carry certain items, like smartphones.

Lastly, the license added a new authorization for certain no-cost software to be able to reach the Iranian government. The move was to ensure that sanctions don’t have a chilling effect on companies that want to make their products available to Iranians.<sup>161</sup>

Iran and six world powers on Thursday, Feb. 20, ended nuclear talks with agreement on a framework for future negotiations but little progress on the main issue of what nuclear concessions Tehran must make in exchange for an end to sanctions stifling its economy.

In a joint statement at the end of three-day talks, officials for both sides said they would meet again in Vienna on March 17, continuing a process likely to take at least six months and probably longer.<sup>162</sup>

Separately, the atomic agency said in a report published on Thursday that Iran was meeting its commitments under the six-month deal. The report said that enrichment of uranium to “medium levels” had stopped, and that a part of Iran’s stockpile of that uranium “is being down-blended, and the remainder is being converted to uranium oxide,” as the deal requires. Enrichment to lower levels continues, the agency said, but no additional centrifuges have been installed, and work has been suspended at the Arak heavy-water reactor.

The agency commended Iran's "positive step forward" in granting greater access to nuclear facilities. But alluding to the agency's efforts to identify whether Tehran was working secretly on nuclear weapons, the report said "much remains to be done to resolve all outstanding issues."

Expectations had been modest as the talks started Tuesday. The announcement of an agreement on future talks appeared aimed in part to raise hopes that the negotiations had a chance to succeed.

Catherine Ashton, the European Union's foreign policy chief, said: "We had three very productive days during which we have identified all the issues we need to address to reach a comprehensive and final agreement. There is a lot to do. It won't be easy, but we have made a good start."

The Israeli government, in a statement released Thursday, argued that the interim agreement had not brought about "any change in Iran's nuclear program."

"For a civilian nuclear program there is no need for centrifuges and no need for a heavy-water reactor," it said.<sup>163</sup>

IAEA Director-General Yukiya Amano on Monday, March 3, said a nuclear deal between Iran and the P5+1 was being implemented as planned, though there still remained much to do.

Among measures Iran is taking since the interim agreement took effect on January 20 is the dilution of its stock of higher-enriched uranium to a fissile concentration less suitable for any attempt to fuel an atomic bomb.

Yukiya Amano indicated that Iran had made sufficient progress in this regard to receive a scheduled March 1 installment of \$450 million out of a total of \$4.2 billion in previously blocked overseas funds.

These included "the dilution of a proportion of Iran's inventory" of 20 percent uranium gas to a lower enrichment level, which "has reached the halfway mark", he told the IAEA's 35-nation board, according to a copy of his speech.<sup>164</sup>

The March 1 installment depended on Iran following a schedule for diluting part of its stockpile, which Amano's comment suggested it now had. But it was not immediately clear if the funds had already been transferred to Iran.<sup>165</sup>

The second round of talks between Iran and six world powers over Iran's nuclear program ended Wednesday, March 19, with all parties expressing satisfaction with the discussions, which were the most detailed so far on each of the main issues dividing them.

The two sides spoke at the end of two days of negotiations focused on curbing Tehran's atomic activities in exchange for full sanctions relief. Their joint statement was read by EU foreign policy

chief Catherine Ashton, who speaks for the six countries negotiating with Iran, and Iranian Foreign Minister Mohammed Javad Zarif.

They also agreed to hold a new round of nuclear talks in Vienna on April 7-9.

Iran and six world powers were working Wednesday on a compromise over an Iranian plutonium-producing reactor project, delegates said on the second day of negotiations in Vienna.

The reactor, which has yet to be completed, is a central topic at the talks on ending the stand-off over Tehran's nuclear program because the other governments are concerned that Iran could use the plutonium that the facility in the western city of Arak would produce for making nuclear weapons.

The US has made clear it favours shutting down Arak, but Western diplomats have said a compromise could entail technical changes to the reactor so it could not turn out plutonium.<sup>166</sup>

Mr Zarif told reporters on Wednesday that the Arak reactor was "part of Iran's nuclear program and will not be closed down" but did not explicitly rule out modifying it.

Last February, the head of the Atomic Energy Organisation of Iran said it could introduce some design changes to allay the P5+1's concerns.<sup>167</sup>

Iran and the powers aim to wrap up a permanent accord by late July, when their trailblazing interim deal from November 24 expires and would need to be extended, complicating diplomacy.

Zarif voiced optimism about the talks. "At this stage we are trying to get an idea ... of the issues that are involved and how each side sees various aspects of this problem," he said.

Asked whether he expected the negotiating deadline to be met, Zarif said: "Yes, I do ... I am optimistic about July 20."<sup>168</sup>

A senior US administration official in Vienna said that the latest two days of talks saw the parties "really get down to business and into the details", with the meeting "professional, respectful and intense".

Negotiators entered into "the substance of key issues more than we have ever previously," the official said, making "progress in

identifying where the gaps exist and working to bridge those gaps".

However, the official added that "hard work" remained to be done, and a senior Iranian negotiator said earlier Wednesday that more time was needed before starting to draft a final deal.<sup>169</sup>

Although Russia is one of the nations involved in the talks, the tensions over Ukraine did not seem to affect the meetings, diplomats said.<sup>170</sup>

In its March 20 report on the Joint Plan of Action, the IAEA said that since the interim deal entered into force on January 20, Iran had not produced any 20 percent enriched uranium. It has also continued to reduce its stockpile of the 20 percent material and has not conducted "any further advances" at its Natanz and Fordow enrichment sites or the Arak research reactor, the report said.<sup>171</sup>

Though it's not a violation of anything in the deal, the report also said Iran's work on a facility to convert its 3.5% uranium to an oxide form has not been completed, and analysts said that probably means there stockpile of that level is up somewhat.<sup>172</sup>

The confidential report - a monthly update on the interim deal's implementation - by the International Atomic Energy Agency to member states said Iran, in a letter on Monday, had informed the IAEA that the conversion facility would begin operations after commissioning due to start on April 9.

"Iran seems to be fulfilling all its requirements under the agreement," one Vienna-based diplomat said. "However, this is a dynamic process and it will be kept under close review each month."

While Iran under the half-year deal halted its most sensitive nuclear activity, enrichment to a fissile concentration of 20 percent, it is allowed to continue producing uranium refined up to 5 percent.

The powers focused initially on securing a halt to the higher-grade enrichment as this represents a relatively short technical step from bomb-grade uranium. It would take much longer to reach that threshold from the 5 percent level.

Enriched uranium can be used to fuel nuclear power plants, Iran's stated goal, but it can also provide atomic bomb material if refined more, which the West fears may be its ultimate aim.

Experts believe Iran potentially has enough low-enriched



uranium gas (LEU) for a few nuclear weapons if refined much further. Limiting its overall enrichment capacity is expected be one of the thorniest issues in the negotiations on a long-term agreement.<sup>173</sup>

Iran and the group of six major powers negotiating a permanent agreement to resolve the Iranian nuclear dispute concluded a two-day round of talks in Vienna on Wednesday, April 9, asserting that “a lot of intensive work” remained to complete a draft accord by their self-imposed deadline in three months.

The lead negotiators, the Iranian foreign minister, Mohammad Javad Zarif, and Catherine Ashton, the top foreign policy official of the European Union, made the assertion in a joint statement that said the next round of talks would be held May 13. The statement suggested that both sides were still struggling with extensive disagreements and described the further negotiations as an attempt to “bridge the gaps in all the key areas.”

The talks took place against rising tensions surrounding Iran’s estranged relations with the West, punctuated by new flare-ups with both the United States and the European Union on nonnuclear issues. The Americans have objected to Iran’s choice for a new United Nations ambassador, contending that he participated in the seizure of American hostages in Tehran in 1979. Iran has expressed anger at European criticism of the country’s human rights record.

The tensions have been further complicated by the crisis in Ukraine, which has alienated the West from Russia, a member of the six-nation group negotiating with Iran, raising questions about Russia’s commitment to the success of the nuclear talks. The other five members of the group are Britain, China, France, Germany and the United States.

The conclusion of the talks in Vienna coincided with the celebration of the annual National Nuclear Day, held to exalt Iran’s indigenous nuclear advances. Ayatollah Ali Khamenei, the country’s supreme leader, used the occasion to denounce what he called longstanding American malevolence toward Iran and asserted that the Iranian nuclear program would never be curtailed.<sup>174</sup>

The official Islamic Republic News Agency quoted the

ayatollah as saying that the “camp of arrogance” — a reference to the United States and its allies — had used the nuclear issue “as a pretext to forge lies and raise hues and cry against the Islamic republic.” He made the remarks at a reception with officials of the Atomic Energy Organization of Iran.

Ayatollah Ali Khamenei said Tehran's negotiating team should not yield to issues "forced upon them".

"These negotiations should continue," he told nuclear scientists in Tehran, the official IRNA news agency reported. "But all should know that negotiations will not stop or slow down any of Iran's activities in nuclear research and development."<sup>175</sup>

A senior Iranian official said Tehran was seeking to protect its "red lines" in what he said were "difficult" negotiations.

"Iran wants a deal in which its rights have been considered," the official said. "The talks have entered a very difficult stage. Making progress is difficult."<sup>176</sup>

The United States has taken steps to release a \$450 million installment of frozen Iranian funds following a report from the International Atomic Energy Agency (IAEA) verifying that Iran is living up to its part of a landmark nuclear pact with world powers, the U.S. State Department said on Thursday, April 17.

State Department spokeswoman Marie Harf said that "all sides have kept the commitments made" under the agreement. She said that "as Iran remains in line with its commitments," the United States, France, Germany, Britain, China, Russia and the European Union "will continue to uphold our commitments as well."

The report by the U.N. nuclear agency showed that Iran had - as stipulated under the November 24 agreement - diluted half of its higher-grade enriched uranium reserve to a fissile content less prone to bomb proliferation. Tehran has also continued to convert the other half of its stock of uranium gas refined to a 20 percent fissile purity, the IAEA report said.

"Based on this confirmation and consistent with commitments that the United States made under the Joint Plan of Action (November 24 pact), the Department of Treasury took the necessary steps pursuant to the JPOA to facilitate the release of a \$450 million

installment of Iran's frozen funds," Harf told reporters.<sup>177</sup>

Iran and six world powers – Russia, China, France, the US, the EU plus Germany – began a fourth round of nuclear talks on a broader agreement at UN in Vienna on Wednesday, May 14.

The latest round of nuclear talks ended on Friday, May 16, with Iranian and American officials saying that progress was slow and difficult, with serious gaps between the two sides on basic issues like the size of any nuclear enrichment capability Iran would be permitted to retain.

Due to the lack of progress, Iranian Foreign Minister Mohammed Zarif and EU Foreign Policy chief Catherine Ashton did not hold a press conference and no joint statement was issued after the talks, as opposed to previous rounds.<sup>178</sup>

A senior American official, speaking on the condition of anonymity to discuss diplomatic negotiations, said that Iran needed to be more realistic in the talks. Iran's deputy foreign minister, Abbas Araghchi, told Iranian news media that "there was no tangible progress in this round of the talks" and that differences were too large to begin drafting an accord. But he said that the talks would continue next month.

The American official agreed with Mr. Araghchi that "significant gaps" remained after three days of talks. "Iran still has to make some hard choices," the official said. "We are concerned that progress is not being made and that time is short."

A senior European diplomat said that "we had expected a little more flexibility on their side." Iranian officials, for their part, told the IRNA news agency that "the West has to abandon its excessive demands," and that "we had expected the Western side to become more realistic, but this doesn't appear to be the case yet."

Mr. Araghchi said that the two sides would have "one or two more rounds of talks in June," but no date for another round was set in Vienna.<sup>179</sup>

Negotiators have characterized the talks, which have included separate discussions among technical experts, as cordial and workmanlike, with little rhetorical speechmaking. But the cordiality of

the discussions has not made an agreement that restores the Security Council's trust in Iran's peaceful intentions and Iran's trust in Western aims any easier.

Both sides say they want to reach a deal, so negotiations are expected to intensify as the July deadline approaches. Senior Western diplomats familiar with the talks, speaking anonymously in accordance with diplomatic practice, have said that they are skeptical of success by the deadline, but that neither side wants a breakdown in negotiations — Iran because it is being hit hard by the sanctions, and the six powers because a failure of the talks might lead to a military strike on Iran by Israel or the United States, which have vowed never to allow Iran to obtain a nuclear weapon.

Iranian officials have spoken of their desire to expand their enrichment capacity to 50,000 centrifuges of the most modern type, compared with the 19,000 currently installed, some of them outmoded, of which 10,000 are operating.<sup>180</sup>

Washington has said that an enrichment capacity “greater than a few thousand first-generation centrifuges would give Iran an unacceptably rapid breakout capability,” according to Robert Einhorn, a former United States negotiator, writing in *The National Interest* on May 9. Iran's desire for 50,000 modern centrifuges, he wrote, “is a showstopper, and Iran must know that.” Breakout capability means the ability to quickly and quietly produce a bomb.<sup>181</sup>

U.S. Defense Secretary Chuck Hagel pledged to Israeli leaders Friday, May 16, that the U.S. “will do what we must” to prevent a nuclear-armed Iran, while Prime Minister Benjamin Netanyahu vowed, “We must not let the ayatollahs win.”

“I want to assure you of the United States' commitment to ensuring Iran does not get a nuclear weapon — and that America will do what we must to live up to that commitment,” Hagel said.

Hagel was wrapping up a four-day Middle East visit that began Tuesday in Jeddah, Saudi Arabia, where he met with defense leaders from Persian Gulf nations with longstanding security ties to the United States.

Hagel's trip coincided with international talks in Vienna with Iran aimed at drafting a deal to limit Iran's nuclear program, which is a

top-priority issue for the Gulf Arab states as well as for Israel.

In Saudi Arabia Hagel said that "under no circumstance" will the U.S. sacrifice its allies' interests in order to make a nuclear deal with Iran.<sup>182</sup>

On Tuesday 20 May the IAEA and Iran held another technical meeting in Tehran within the Framework for Cooperation agreed between the parties in Geneva on November 24, 2013.

During the meeting the two sides reviewed the good progress that had been made on the seven practical measures which were agreed in February 2014.

Iran and the International Atomic Energy Agency (IAEA) agreed on five additional practical measures to be implemented, in accordance with the Framework for Cooperation by Iran by 25 August 2014. The five practical measures are as follow:

1. Exchanging information with the Agency with respect to the allegations related to the initiation of high explosives, including the conduct of large scale high explosives experimentation in Iran.
2. Providing mutually agreed relevant information and explanations related to studies made and/or papers published in Iran in relation to neutron transport and associated modelling and calculations and their alleged application to compressed materials.
3. Providing mutually agreed information and arranging a technical visit to a centrifuge research and development centre.
4. Providing mutually agreed information and managed access to centrifuge assembly workshops, centrifuge rotor production workshops and storage facilities.
5. Concluding the safeguards approach for Arak's IR-40 reactor.<sup>183</sup>

The International Atomic Energy Agency (IAEA) said in its quarterly report on Friday, May 23, that Iran had cut its stockpile of 20-percent enriched uranium by more than 80 percent under the interim pact.

It also said it had started to engage with a long-stalled IAEA investigation into suspected weapons research.<sup>184</sup>

The IAEA report showed that Iran since January 2014 had

acted to reduce its stockpile of higher-grade enriched uranium gas - a relatively short technical step away from weapons-grade material - by just under 82 percent.

The amount that remains after most of the material was either converted or diluted to less proliferation-prone forms - under 40 kg - is far below the 250 kg which experts say is needed for one bomb.

The report came a week after a fourth round of talks between Iran and the P5+1 in Vienna, which ended with no apparent progress towards a comprehensive deal over Tehran's nuclear programme.

Failure to reach a deal by July 20 could spark a conflict - neither Israel nor the US have ruled out taking military action - and set the stage for a nuclear arms race in the Middle East.

Iran's President Hassan Rouhani insisted on Thursday, 22 May, however that a timely deal by the end of July 2014 was "very likely." Contrary to some reports that Iran was not co-operating with the IAEA, the report said that in technical meetings in late April and earlier this week in Iran, Tehran had provided "information and explanations, including showing documents, to substantiate its stated need and application of EBW (Explosive Bridge Wire detonators)," which is a dual-use technology.

"Iran showed information to the agency that simultaneous firing of EBW was tested for a civilian application," the report said. "This is the first time that Iran has engaged in a technical exchange with the agency on this or any other of the outstanding issues related to possible military dimensions to Iran's nuclear program since 2008."<sup>185</sup>

The EBW issue was part of seven "practical measures" Iran agreed with world powers under the interim pact and due to be fulfilled by May 15.<sup>186</sup>

All have been implemented, the International Atomic Energy Agency said in its report, indicating that Iran was sticking to its commitments.

A senior official close to the Iran dossier said Friday that it was "still too early" to say if the latest information provided by Iran - including on the detonators - was credible, but welcomed the atmosphere during discussions between the UN agency and its

member state.

"We have a lot of new information, which is a good thing... the engagement and cooperation has been improving all the time. In that respect that's a positive development and a positive step forward."<sup>187</sup>

The head of the U.N. nuclear watchdog said on Monday, June 2, that Iran had begun to engage substantively with a long-thwarted probe into suspected atom bomb research, but that more was needed to clear up his concerns.

Describing the investigation as a "jigsaw puzzle", Yukiya Amano made clear that it would not be finished before the July 20 deadline that Iran and six world powers have set for the conclusion of broader talks to settle a long-term dispute over Iran's nuclear program. But Amano said he did not believe the major powers expected the International Atomic Energy Agency (IAEA) to finish its investigation by then. "That is not our timeline. It is their timeline. We will take the necessary time to resolve all the outstanding issues," he said.

U.S. officials said it is vital for Iran to address the IAEA's concerns if the United States, France, Germany, Britain, China and Russia are to reach a long-term accord with Iran, setting a framework for its nuclear activity and ending international sanctions.<sup>188</sup>

On June 5, representatives from Iran and the six world powers have ended their second day of expert-level talks over Tehran's nuclear program.

The two sides brought up and accurately discussed detailed expert-level issues during the intensive, technical talks that began on Wednesday, June 4, said Hamid Baeidinejad, director general for political and international affairs at the Iranian Foreign Ministry.<sup>189</sup> The talks were held on the sidelines of the International Atomic Energy Agency Board of Governors' quarterly meeting.

Baeidinejad headed the Iranian negotiating team while Stephen Clement, an aide to European Union foreign policy chief, Catherine Ashton, represented the other negotiating delegation in the two-day talks.<sup>190</sup>

In a sign that Iran had been complying with its obligations under the interim nuclear agreement signed with world powers, Iran's

central bank governor said on Sunday, June 8, that a sixth tranche of unblocked funds worth \$550 million was being delivered.

The money is part of \$4.2 billion in blocked oil funds that were to be made available to Iran under the deal signed in November.<sup>191</sup>

Officials from Iran and the US opened their first scheduled bilateral talks in 35 years on Monday, June 9, meeting in Geneva in pursuit of a comprehensive nuclear agreement.

The talks continued on Tuesday, with representatives of the European Union also participating. Deputy Secretary of State William Burns was leading the US delegation, while the Iranian team headed by Deputy Foreign Minister Abbas Araqchi.

However, Araqchi indicated that a settlement may not be reached by July 20, when an interim Joint Plan of Agreement expires.<sup>192</sup>

"But the good thing is all parties are seriously committed to meet that goal," he said of the July 20 target. "Whether we can do it or not is something else," he told Iranian media in Geneva.

Araqchi had earlier spoken of a possible half-year extension to the talks. Western and Iranian officials have already said an extension appears increasingly likely.

France's foreign minister said Iran should drop a demand to have thousands of uranium enrichment centrifuges. Instead it should restrict itself to a few hundred of the machines used to increase the concentration of the fissile isotope of the metal - a process that can make a weapon, though Iran denies it wants to do that.

Iran - which says its nuclear program is peaceful and mainly aimed at generating electricity - has around 19,000 centrifuges, of which roughly 10,000 are operating, according to the U.N. nuclear agency. Enriched uranium can have both civilian and military uses, depending on the degree of refinement.

"We are still hitting a wall on one absolutely fundamental point, which is the number of centrifuges which allow enrichment," Foreign Minister Laurent Fabius told France Inter radio. "We say that there can be a few hundred centrifuges, but the Iranians want thousands, so we're not in the same framework."



Reporters in Washington asked State Department spokeswoman Jen Psaki about Fabius' comments. She said the focus should be on the actual negotiations taking place behind closed doors, not on what parties to the talks are saying publicly.

"I've seen those remarks," she said. "We feel our efforts should be directed towards the negotiations happening behind the scenes on the tough issues and not on public demands."

Paris has long held out for strict terms in the negotiations. Based on Psaki's remarks, it appeared that Fabius was not necessarily speaking for the other five powers - the United States, Germany, Britain, China and Russia.

French Foreign Ministry spokesman Romain Nadal said the priority was not the July 20 deadline, but to achieve a deal to guarantee that Tehran would not obtain a nuclear weapon.

Close U.S. ally Israel, which in the past has threatened to attack Iranian nuclear sites, has made clear its deep scepticism about the chances of a deal that sufficiently denies Iran any nuclear weapons capability.<sup>193</sup>

The fifth round of talks between Iran and the six world powers on the Islamic Republic's nuclear program ended in Vienna on Friday afternoon, June 20, with substantial differences still remaining and only slight progress to account for.

Representatives from Iran and the six powers – the U.S., Russia, China, Britain, France and Germany – held since Monday, June 16, intensive and difficult talks in Vienna. The sides began formulating the draft for the permanent agreement concerning Iran's nuclear program, but encountered deep differences on central issues such as the future of uranium enrichment and the timetable for removing international sanctions.

Iran's Foreign Minister Mohammad Javad Zarif said at a press conference after the talks that despite work having commenced on the wording of the draft agreement, its text includes many "words in brackets" – in other words, more controversial topics than points the sides agree on.

"We have disagreements on basic issues," Zarif said. "In some

cases the other party is not realistic."

Zarif also spoke about the differences between the sides regarding future uranium enrichment in Iran. Tehran seeks to expand its array of centrifuges, while the world powers expect it to drastically reduce their number.

According to Zarif, his country needs to continue to enrich uranium for "practical needs," chief among them the production of fuel for the nuclear plant in Bushehr. He said that some of the stances taken by the world powers concerning Iran's practical needs were "very radical" and "maybe only good for being said in interviews," but not in negotiations.

Zarif added that Iran expects the U.S. and the rest of the world powers to remove all of the sanctions as part of a permanent agreement. "Without that, there will be no solution," he said.

In contrast with Zarif's pessimistic message, representatives of the world powers tried to paint an outlook that was less bleak. The head of the Chinese negotiating team said that the talks yielded certain progress in light of the fact that the sides began work on the draft of a permanent agreement.

Chief U.S. negotiator Wendy Sherman told reporters following the talks that it was "still unclear" whether Iran would be willing to take the necessary steps to ensure the world that its nuclear program was strictly meant for peaceful purposes.

Sherman noted there had been some progress in the talks' fifth round, seen in the fact that Iran and the world powers have begun to formulate a "working document" that will serve as the draft of a joint permanent settlement. However, she stressed that the working document includes many heavily bracketed articles, in light of the remaining differences.<sup>194</sup>

In the meantime, India made a \$550 million payment to Iran on Tuesday, June 17, to partly clear pending oil dues, under an interim deal that allows Tehran access to \$4.2 billion in blocked funds globally, industry and government sources said.<sup>195</sup>

Iran and six world powers agreed late Friday, July 18, to extend their talks on Tehran's nuclear program for four months, insisting that they have made progress toward a historic deal despite

disagreements.

Negotiators agreed to extend most of the features of an interim deal the countries signed in November. They also agreed to give Iran access to \$2.8 billion in Iranian funds that have been frozen abroad under sanctions and added further restrictions to Iran's nuclear program.<sup>196</sup>

Germany - one of the major powers trying to persuade Iran to curb its nuclear program - warned that the extended talks might be the last chance for a long time to reach a peaceful solution.

Echoing the views of other envoys, a Western diplomat said there had been some progress during nearly three weeks of marathon discussions in Vienna's 19th century Coburg palace and that gaps in positions were not "unbridgeable".

But, the senior diplomat added: "We cannot accept that Iran stays at current levels of enrichment."

The announcement to give diplomacy until Nov. 24 came in the early hours of Saturday, a day before the July 20 deadline that Iran, the United States, Britain, France, Germany, Russia and China had earlier set for an agreement.

"These few months until November could be the last and best chance for a long time to end the nuclear argument peacefully," German Foreign Minister Frank-Walter Steinmeier said.

"Iran must show it is willing to dispel all doubts about the peaceful nature of its nuclear program," he said.

Under the terms of the extension of the negotiations, Iran will be able to access during this time a relatively small portion of an estimated more than \$100 billion held abroad, in return for limits to its nuclear program.<sup>197</sup>

Secretary of State John Kerry said that under the extension, Iran would get access to \$2.8 billion in assets that have been frozen in the United States, but sanctions against oil sales and other major sources of income would not be lifted. "Let me be clear," Kerry said in a statement, "Iran will not get any more money during these four months than it did during the last six months, and the vast majority of its frozen oil revenues will remain inaccessible."

Iran, in return, has agreed to dilute additional stocks of material or turn it into reactor fuel. Once the material is made into the metal plates that fit into its research reactor, it is extremely difficult to turn it into bomb-grade fuel.

Iran's foreign minister, Mohammad Javad Zarif, described an Iranian proposal that would essentially freeze the country's operations at current levels for three to seven years, allowing it to continue limited production. But after that, Iran would be free to produce as much nuclear fuel as it wants.

The United States and its negotiating partners have argued that Iran must dismantle major elements of its uranium enrichment program, and they envision the restrictions going on for a decade or more. It is unclear whether, in four months, the two sides can bridge that gap.<sup>198</sup>

### **Conclusion**

There are no easy solutions to the Iranian nuclear crisis. Past negotiations have revealed difficulties in dispelling mutual distrust and making the necessary concessions on both sides.<sup>199</sup>

After years of diplomatic paralysis and increasingly confrontational rhetoric, the election of Iranian President Hassan Rouhani, a relative moderate, has opened windows to a deal that would head off the risk of a new Middle East war.<sup>200</sup>

Rouhani's emergence is surely breathing new optimism into Iran's relations with the United States and the West. Unlike the last eight years of Ahmadinejad's presidency, when antagonism was the order of the day, Iran's nuclear issue and over-all relations with the West would lose their prickliness. The rehearsed military strikes against Ahmadinejad's Iran will now be shelved.

Hassan Rouhani's election victory offers a rare and small window to resolve the nuclear crisis peacefully and also to start getting biting sanctions lifted from Iran and perhaps even chart a new course of mutual cooperation with the United States after 35 years of enmity.<sup>201</sup>

The relationship between the Islamic Republic of Iran and the United States of America remains an anomaly in international

relations. The two sides have not had diplomatic relations for over thirty years, a longer period than the diplomatic cutoff after the 1917 Bolshevik Revolution and the communist takeover in China in 1949. Throughout the Cold War, the US and USSR maintained open channels of communication precisely because they were enemies who wished to avoid a spiraling conflict. In the case of US-Iran relations, a series of constraints is preventing the two sides from even talking to one another.

The main causes of the failure to engage are mistrust and fear on both sides. For Iranian officials, media reports of American covert operations to destabilize the Islamic Republic, sanctions, suspicion that the US is pursuing regime change, and the accusation of being part of an “axis of evil” have created mistrust of the United States, prompting Supreme Leader Ali Khamenei to say that the best response is to not retreat from the enemy, “not even one step.”<sup>202</sup>

Obama and Rouhani are uniquely positioned to reach a detente and establish their historical legacies. But to achieve this Herculean task, they must first lower their expectations and realize that bilateral talks cannot end years of animosity. Rather, they would constitute one giant step toward establishing a new mechanism to manage their conflict.<sup>203</sup>

A degree of skepticism surrounding the diplomatic process is understandable. However, an overemphasis on this skepticism risks overlooking the theoretical bedrock upon which this entire process rests, reaffirmed for all to see when the interim deal was reached in Geneva: It is in the interest of both sides to develop a peaceful, diplomatic solution to the nuclear impasse.<sup>204</sup>

It is time for cautious optimism that, after three decades of mutual hostility, the United States and Iran could open a new chapter. There are major hurdles on the path toward a rapprochement, and both sides must have strategic patience. If it sounds difficult, that is because it is. Nevertheless, even the earliest attempts to improve ties will have their rewards. Rapprochement could start to change the landscape of the Middle East, allowing the United States to proceed with its pivot toward Asia. It would ease American withdrawal from Afghanistan in

December 2014. It would also begin to open up Iran's vast oil and gas reserves to Western companies. Better ties between the United States and Iran would give Washington a new lever to slow down Russian expansionism in Central Asia and the Caucasus. The benefits for Iran are equally compelling: The crippling sanctions could be lifted. Iran's isolation could end. It could become reintegrated into the global economy, once more attracting foreign investment.<sup>205</sup>

However, after the decision to extend negotiations over Iran's nuclear program for four more months, the U.S. faces a disadvantage: Even if there is ultimately no agreement, Tehran will pocket the considerable concessions Washington has already made. Iran will then argue to the world that it has proven its reasonableness and that sanctions should no longer be respected; failing that, it will begin the next round of talks having established a new nuclear baseline.<sup>206</sup>

In addition, there is little to indicate that reaching an agreement would be any easier during a second four-month period than it has been during the first, given the increasingly rigid positions being staked out publicly by Supreme Leader Ali Khamenei and the view of American negotiators that they have compromised as much as they can. Iran's oil exports average a bit over one million barrels per day, a level that is low but not crippling. Furthermore, crises in Iraq, Libya, and other oil-producing states portend future increases rather than decreases in oil prices, while mounting U.S. tensions with Russia and China promise to make sanctions enforcement more difficult as time passes.

Obama has indicated that the military option remains "on the table," but such warnings are widely deemed to lack credibility in light of U.S. hesitation to use force in Syria, Iraq, and elsewhere.<sup>207</sup> Still, it remains to be seen how far Washington wants to go and how much authority Supreme Leader Ali Khamenei will delegate to President Rouhani in the nuclear negotiations.<sup>208</sup>

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