

Iran deal one year on

July 2016

Key points

- While the deal is largely being implemented – temporarily pushing Iran back from the nuclear threshold – loopholes, monitoring gaps, and missile testing validate concerns that Iran retains the ambition to pursue nuclear weapons capability when restrictions expire in 10-15 years.
- Iran appears emboldened by the deal in promoting its sectarian regional agenda, fuelling conflict in various theatres.
- The last year leaves doubts about the Western commitment to confront Iran and endanger the deal.
- The deal has reinforced concerns of Sunni Arab states, contributing to heightened tensions between Iran and Saudi Arabia and other Gulf states, and increased Saudi arms spending.
- Despite popular support in Iran for pragmatic-conservatives represented by President Rouhani, hardliners continue to dominate the system.
- Iran has received an economic boost from the lifting of sanctions, but is frustrated by the continuing reluctance of foreign firms to do business with it.
- Israel is using the hiatus in Iranian nuclear development to prepare militarily and diplomatically for a future with Iran on the nuclear threshold, including warmer relations with Sunni Arab states.

Iran Nuclear Deal

Key elements

- The Joint Comprehensive Plan of Action (JCPOA) was signed between Iran and the P5+1 (US, UK, France, Russia, China and Germany) on 14 July 2015, after tough sanctions forced Iran to negotiate.
- Iran was under intense scrutiny after a massive, illegal, secret nuclear program was exposed in 2002, which the International Atomic Energy Agency (IAEA) later determined included a weapons program.
- In the deal Iran agreed to temporary nuclear restrictions and close monitoring, in return for the lifting of most international sanctions. Key restrictions on Iran's uranium enrichment are in place for 10-15 years. Comprehensive US sanctions and other sanctions relating to its terrorism and internal repression remain in place.
- A UN Security Council Resolution (2231) endorsed the deal, and included restrictions on Iranian arms trading for five years and on nuclear related missile testing for eight years.
- In theory any of the P5+1 states can trigger 'snapback' (cancellation of the deal) in the Security Council.
- Proponents of the deal argue it shuts off Iran's paths to a bomb, will make regional cooperation with Iran easier, and moderate Iran's domestic and international policies.
- Critics argue that in the short term the deal will empower Iran economically and strategically to pursue its hegemonic regional agenda, and leaves Iran in a position to develop nuclear weapons capability when restrictions expire.

Is Iran keeping the deal?

Deal on track but concerns over missiles, loopholes, and long-term international resolve

- The path to implementation was paved in December 2015 by the International Atomic Energy Agency (IAEA) closing the file on Iran's past pursuit of nuclear weapons, essentially sweeping under the carpet evidence of Iran's nuclear weapons research, without ever getting credible answers.
- In January the IAEA declared that central elements of the deal restricting Iran's activities had been implemented, but independent experts have raised concerns. Leading non-proliferation think tank the Institute for Science and International Security reports that lack of IAEA transparency could be allowing Iran "to potentially hide minor and significant compliance problems from public knowledge". On the establishment of a special procurement channel for Iranian acquisition of nuclear related equipment they [report](#), "troubling compromises and exemptions have already been made".
- The IAEA has not disclosed if it has visited [Parchin](#), where past nuclear research is suspected, how many centrifuges are now operating at Natanz and Fordow, or precise stockpiles of enriched uranium. The IAEA is producing reports but according to the [Institute for Science and International Security](#), the reports "lack technical details about critical implementation issue".
- Iran is using the period of restrictions on enrichment to develop advanced centrifuges, and retains the capability to reduce breakout times almost to zero (or a few months) in 10-15 years, as allowed by the deal. There are also concerns, [outlined in a recent report by the Foundation for the Defence of Democracies](#), that Iran could be partnering with North Korea to conduct 'off-shore' nuclear research, given the two countries previous cooperation on missile development, and North Korea's [role](#) in building a nuclear reactor for Syria.
- In March 2016 Iran conducted ballistic missile tests in open challenge to restrictions imposed by UN Security Council Resolution 2231, passed to enforce the JCPOA. These tests split the P5+1, with the US, UK, France and Germany [declaring](#) them to be "in defiance"

of UN restrictions, but without Russia and China's support. The US administration has resisted attempts by Congress to impose tough new non-nuclear sanctions, only adding new sanctions on a few individual companies.

- The clear split in the P5+1 and reluctance of the US and Europeans to unravel the deal raises concerns that Iran will not be deterred from testing international resolve in the coming years. Uncertainty surrounds future US policy, with Hilary Clinton supporting the deal but Donald Trump saying he would renegotiate.

How has the deal impacted Iran's foreign policies?

Iran emboldened in sectarian and anti-Western regional agenda

- Proponents of the deal suggested that it would help moderate Iran's sectarian regional agenda. However, Iran appears emboldened, and is fuelling conflict in various theatres.
- Iran is seeking to upgrade its conventional arms (despite UN restrictions), planning a reported US\$8bn [procurement](#) from Russia, including advanced fighter jets. In April 2016 Iran [showed off](#) parts of the advanced S-300 anti-aircraft system it had received from Russia.
- Tensions with Saudi Arabia have further increased. Saudi Arabia cut diplomatic ties with Iran in January 2016 after Iranian mobs ransacked the Saudi embassy in Riyadh following the execution of a leading Shiite cleric in Saudi Arabia.
- In Syria, Iran has sent thousands of Islamic Revolutionary Republican Guards (IRGC) forces in the fight to [maintain Assad's position](#), especially around Aleppo, despite an international peace plan calling for transition.
- Iran's dominance in Lebanon, including through its proxy Hezbollah, has increased, with the State Department recently reporting that Iran had supplied the Shia organisation with advance long range missiles in violation of UN Security Council Resolution 1701 and 1747. Meanwhile Iran's influence in Lebanon is so dominant that in February Saudi Arabia halted its US\$4bn funding to the Lebanese government and army. Indeed whenever

Lebanon had to choose between Arab unity and Iran, it chose the latter. In March 2016, Lebanon defied the Arab League by [rejecting](#) a Saudi-sponsored motion to label Hezbollah as a terrorist organisation. Meanwhile, at an Arab League meeting held in January, [Lebanon objected](#) to (but did not join other member states in voting to condemn) the attacks on Saudi Arabia's diplomatic missions in Iran that took place earlier that month.

- In Yemen, Iran continues to train, fund and [arm](#) Houthi rebels against the Saudi backed regime of President Abd Rabbuh Mansur Hadi, with the US intercepting Iranian arms in the Arabian Sea in April 2016.

organisation with [US\\$70 million](#) in funds directly from the IRGC's treasury to the Quds Force. In June, Iran also renewed its [public relationship](#) with, [as well as its funding of](#), Hamas.

- Iran has expanded naval activities, including live-fire naval exercises in close proximity to commercial shipping.
- Anti-US and anti-Western rhetoric continues, particularly from Supreme Leader Ali Khamenei, backed by hostile actions including arrests of Iranian-American dual nationals and capturing American sailors whose vessels strayed into Iranian waters.

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Stated Goal	Outcome
Block Iran's pathway to a bomb	Main terms implemented; but concerns over missile tests, loopholes, and Iran's long term goals
Deter Iran from violating the deal	Lack of unity and resolve raise fears for future enforcement; uncertainty over next US president's policy
Moderate Iran's regional behaviour	Iran emboldened in sectarian and anti-Western regional agenda
Improve regional stability	Arab states clashing with Iran, increasing arms spending
Strengthen moderates in Iran	Hardliners keep control despite popular support for pragmatists

- In Iraq, Iran's increasing role in the fight against ISIL, arming, training and directing Iraqi Shia militia forces as well as providing support to the Iraqi army, risks stoking sectarian tensions. The existence of powerful Shia militias loyal to Iran also risks undermining the functioning and authority of a democratic central authority for the country.
- Following a two-year cessation, Iran [renewed](#) financial support for Palestinian Islamic Jihad in Gaza, reportedly agreeing to provide the

How has the agreement impacted wider regional politics?

Arab states clashing with Iran, increasing arms spending

- Iran is seen by Arab states as the big winner in the deal, reinforcing Sunni Arab concerns over US intentions to allow Iran to expand its regional role and to reduce its own commitment to their security and presence in the region as a whole.

- Saudi Arabia is deeply suspicious of Iran, and has increased its own [arms spending](#) and embarked on a more assertive regional policy, exemplified by its military campaign against Houthi rebels in Yemen.
- Israeli officials report warming ties with Saudi Arabia, with senior Saudis holding public meetings with Israeli officials. For decades Iran successfully fuelled the Israeli-Palestinian conflict to position itself positively with Sunni Arab opinion and prevent the formation of an Arab-Israeli anti-Iranian alliance. But Iran's increasing regional threat is motivating Israel and Arab states to overcome this barrier.
- “Whatever the Iranians have, we will have, too” has been the consistent message of leading Saudi diplomat Prince Turki bin Faisal on matching Iranian nuclear capabilities, though there is no evidence of an Arab race to a bomb so far. There remains a widespread belief of an understanding in principle for Pakistan to assist the Saudis in acquiring nuclear weapons, though no concrete evidence.

What has been the impact on Iran domestically?

Hardliners keep control despite popular support for pragmatists

- Hardliners remain dominant within Iran. Whilst Iran's parliamentary elections in February 2016 demonstrated public support for pragmatic conservatives, typified by Rouhani, over hardliners led by Khamenei, many reformist candidates were barred altogether. Figures loyal to Khamenei were elected to chair both the Majlis (legislature) and Assembly of Experts (which may choose the next supreme leader).
- In any case, the differences are more over economic relations with the West and approaches to diplomacy, rather than the view of Iran's role in the region, influenced both by Iran's hegemonic ambitions and its revolutionary ideology.
- The internal struggle looks set to intensify in the run up to presidential elections due in May 2017, when hardliners may seek a candidate to replace Rouhani.

What has been the impact of sanctions lifting?

Economic boost for Iran, despite frustrations at ongoing banking restrictions

- The Iranian economy experienced an immediate [boost](#), according to the IMF, thanks to the removal of nuclear-related sanctions, particularly on the sale of crude oil, and the [release](#) of US\$100bn in assets frozen in foreign banks.
- Trade and cooperation deals have been signed with [China](#), [India](#), [South Korea](#), [France](#), [Italy](#) and [South Africa](#). Iran offers a potentially enormous investment opportunity in the coming years, not least in its energy sector, having the world's second largest gas reserves and fourth largest oil reserves. [UK Trade and Investment](#) estimates that EU trade with Iran, currently around US\$8bn, is expected to quadruple in the next two years. In January 2016 Lord Lamont was appointed the UK's trade envoy to Iran. Deal sceptics fear that the reintegration of Iran into the international economy will progressively reduce motivation to ‘snapback’ sanctions in the case of future Iranian violations.
- However, Iran is frustrated that non-nuclear financial sanctions imposed by the US due to Iranian support for terrorism, which prevent US banks and businesses trading with Iran, continue to make it difficult for Iran to operate in the international financial system. This has led the Supreme Leader to accuse the US of reneging on the deal, a charge rejected by the US.
- International banks and firms have so far been wary of returning to Iran. Risk of bribery and corruption, illicit finance and money laundering are widespread. Firms also fear violating US sanctions by trading with affiliates of designated organisations or individuals, [given the involvement](#) of Iranian security services and IRGC in many companies. According to data from Dow Jones Risk & Compliance, the IRGC currently either owns or has significant shares in [over 1,000 companies](#), including banks. The lack of clarity regarding IRGC ownership or control is further complicated by the fact that the IRGC often does business through the use of front companies that it does not own outright, but has ties to through former commanders or rank-and-file IRGC members

serving in top tier positions. US Secretary of State John Kerry surprised many by actively encouraging European banks to do business with Iran, apparently in response to Iranian complaints, which he has no obligation to do under the deal. Kerry's intervention increases concern of excessive US sensitivity to Iranian complaints about the deal.

- The potential for foreign investment in the economy divides Iran's elite. Whilst pragmatists welcome the potential for investment to grow the economy, the IRGC fears threats to its own dominant economic position and Supreme Leader Khamenei warns of the corrosive threat of foreign influence.

How is Israel responding?

Seeking increased US military aid and closer Arab ties

- Israel has shifted to a more pragmatic policy of seeking to contain the deal's most harmful elements, having campaigned unsuccessfully to prevent the deal. Addressing a security conference in Israel last January, IDF Chief of Staff Gadi Eisenkot stated that “[t]he sanctions relief and the nuclear deal with Iran represent a strategic shift that the IDF will have to tackle over the next decade,” noting that the agreement is a significant change of course for Iran. There are many risks but also opportunities. We are re-evaluating this shift in the IDF's corridors of power.”
- Former National Security Advisor Yaakov Amidror told an audience in May that “we are preparing ourselves for the day after”, implying military and diplomatic preparations for when Iran's nuclear restrictions expire and it sits on the nuclear threshold.
- Israel is seeking to ensure its qualitative military edge by negotiating a renewed US military aid package worth up to US\$3.7bn a year, to replace the existing deal which expires in 2018. Israel will receive its first F35 fighters by the end of the year and also reportedly seeks V-22 Osprey aircraft. Both could be used in intelligence and strike missions against Iran's illicit arms trafficking to regional proxies or even future missions against Iran's nuclear facilities.

- Israel is also seeking to warm its ties with Sunni Arab states, especially Saudi Arabia, to counter the threat posed by Iran, though Israelis debate the extent to which this is possible without a breakthrough on the Palestinian issue.

This strategic assessment was produced by BICOM's Research Team.

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