

IRAN'S ECONOMY A YEAR LATER, STILL IN THE PENALTY BOX

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The Joint Comprehensive Plan of Action (JCPOA) was to usher in a new era for Iran's economic development.

Unfortunately, while Iran has implemented all the curbs and safeguards on its nuclear program as confirmed by the International Atomic Energy Agency (IAEA), the pace of economic relief that Tehran believed the deal was predicated on has not materialized.

This has caused a great deal of anxiety across the Iranian political spectrum. Hardliners feel that the reform-minded administration of President Hassan Rouhani was duped into accepting concessions on Iran's nuclear program while getting little back in return. Backers of the president who believed the nuclear deal would bring a new era of economic prosperity have turned despondent. With presidential elections looming next year, the wisdom of the nuclear deal and further dealings with the West will be front and center in the psyche of the Iranian electorate.

Perhaps in no other area has the lifting of UN and EU sanctions benefited the Iranian economy as in the area of energy. Before the lifting of sanctions in January, Iran was struggling to sell its crude oil as its traditional customers had turned away or demanded deep discounts. Furthermore, Iran had difficulty accessing proceeds of what little oil it did sell as it was essentially locked out of the international financial system.

Since January, Iran's crude production has soared. Tehran has doubled exports to 2 million barrels a day from a year ago. Slowly but surely, Iran's traditional

customers in Asia and Europe have returned and its market share of global crude exports is becoming commensurate with the pre-sanctions level.

Aside from the strides made in the energy sector, there are few signs that point to a gold rush of foreign investment. There have been grand pronouncements of deals signed with Boeing and Airbus for new aircraft. Yet, it is unclear how such transactions get financed—and therein lies the biggest impediment of the nuclear deal: banking and finance. While the deal lifted EU and UN sanctions on Iran's banking and energy sector, unilateral U.S. sanctions on the Iranian economy remain.

Iranian banks and foreign banks that are processing Iran-related transactions are not allowed to transact in U.S. dollars—the global reserve currency. The U.S. Treasury Office of Foreign Assets Control (OFAC) maintains a robust sanctions program on Iran. European and Asian conglomerates that would otherwise invest in the Iranian market do not want to run afoul of existing U.S. sanctions. These sanctions extend to entities and individuals with ties to the Islamic Republic Revolutionary Guard Corps (IRGC), who by some estimates control over 40 percent of the Iranian economy.

These sanctions place the onus on foreign companies to conduct extensive due diligence on their Iranian counterparties to make sure that there isn't even unsuspecting contact with entities on the U.S. sanctions list. If companies engage in transactions with such entities, even unknowingly, heavy

finances from OFAC can ensue. Additionally, entities can be cut off from conducting business in the United States—the world’s largest economy. Such regulations remain a powerful disincentive for businesses considering expanding operations into Iran.

Without foreign direct investment and international banks willing to underwrite projects in Iran, the fruits of the nuclear deal will elude the Iranian public. Banking and finance are the arteries of global commerce and investment. U.S. Secretary of State John Kerry has tried to offer assurances that the United States will not interfere with legitimate commerce between Iran and the rest of the world; however, his assurances ring hollow. European banks remain skittish.

Over the past decade, BNP Paribas, HSBC, and Deutsche Bank have paid billions of dollars in fines for Iran-related activity. From Iran’s perspective, unless the United States takes more concrete steps to alleviate concerns of European banks that they can engage in commerce with Iran, the Iranian people will continue to view the nuclear deal as one-sided. If such a narrative begins to take hold, the Iranian public’s views of the United States and the nuclear deal will change—such an occurrence will make a broader rapprochement between Iran and the West all but impossible.

At the one-year mark of the nuclear deal much remains unclear. As the United States goes into a general election, the rhetoric surrounding Iran is bound to become more negative. Secretary Hillary Clinton has been discussing ramping up pressure and sanctions for Iranian activity on its missile program and presumptive Republican nominee Donald Trump has been campaigning on scrapping the nuclear deal altogether. Such views are bound to illicit adverse reactions in Tehran.

This is the most challenging aspect of the deal. Unless the Obama administration does more to see that Iran gets the benefit of the bargain it struck, the deal will end up doing more harm than good.

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