

# Iran's Procurement Channel (Part 1): Salvaging Nonproliferation Gains While Reimposing Sanctions

by [Katherine Bauer \(/experts/katherine-bauer\)](/experts/katherine-bauer), [Elana DeLozier \(/experts/elana-delozier\)](/experts/elana-delozier)

Oct 30, 2018

Also available in

[العربية \(/ar/policy-analysis/qnat-almshtryat-alayranyt-aljz-alawl-anqadh-almkasb-almhqqt-mn-hzr-alantshar-alnwwy\)](/ar/policy-analysis/qnat-almshtryat-alayranyt-aljz-alawl-anqadh-almkasb-almhqqt-mn-hzr-alantshar-alnwwy) /

[Farsi \(/fa/policy-analysis/kanal-tdarkaty-ayran-bkhsh-awl-hfz-dstawrdhay-mn-gstrsh-slahhay-hsthay-hmzman-ba\)](/fa/policy-analysis/kanal-tdarkaty-ayran-bkhsh-awl-hfz-dstawrdhay-mn-gstrsh-slahhay-hsthay-hmzman-ba)

## ABOUT THE AUTHORS



[Katherine Bauer \(/experts/katherine-bauer\)](/experts/katherine-bauer)

Katherine Bauer is the Blumenstein-Katz Family fellow at The Washington Institute and a former official at the U.S. Treasury Department.



[Elana DeLozier \(/experts/elana-delozier\)](/experts/elana-delozier)

Elana DeLozier was the Rubin Family Fellow in the Bernstein Program on Gulf and Energy Policy at the Washington Institute for Near East Policy from 2018-2022, where she specialized in Yemen, the Gulf states, and nuclear weapons and proliferation.



Brief Analysis

## Washington can use sanctions as leverage to demand more vigilance from JCPOA signatories even as it allows certain useful procurements.

The U.S. sanctions set to resume on November 5 threaten to hobble the procurement channel, the mechanism established by the Joint Comprehensive Plan of Action (JCPOA) to monitor transfers of material, equipment, and other assistance required for Iran's nuclear program. The channel oversees procurements for nuclear and some commercial purposes; it is also the route by which Tehran is obliged to notify the UN about certain modifications to its nuclear facilities and related activities. Although the channel has seen only limited use, it retains some value as a nonproliferation tool, so the United States should offer exemptions to some of the companies seeking to employ it. In return, however, Washington should press other governments to support stronger action against Iran's array of illicit procurement activity.

## HOW DOES THE CHANNEL WORK?

Prior to 2003, much of Iran's nuclear and ballistic missile work relied on materials and assistance obtained surreptitiously through front companies, universities, and diplomatic channels. Some of the entities involved in this procurement remain subject to UN sanctions under Security Council Resolution 2231, which endorsed the 2015

nuclear deal. In light of Iran's past behavior, the JCPOA set up a channel to monitor procurements that are allowable under the deal, providing the signatories with much-needed transparency on potentially nuclear-related imports. Specifically, the JCPOA's Procurement Working Group (PWG) reviews two types of transfers:

- Materials and services provided to Iran for allowable nuclear purposes, which are regulated by Part I of the **Nuclear Suppliers Group (NSG) guidelines** (<http://www.iaea.org/sites/default/files/publications/documents/infcircs/1978/infcirc254r13p1.pdf>).
- Dual-use materials that are transferred for commercial, non-nuclear purposes but could be used in the nuclear program. These goods are regulated by Part II of the NSG guidelines.

Under Resolution 2231, most entities that export nuclear or dual-use items to Iran must submit an application to the PWG, which consists of officials from the JCPOA signatory states. If the PWG approves the application, it is transferred to the Security Council for final authorization. Some entities are exempted from this process. Firms involved in modifying the Fordow nuclear facility, modernizing the Arak reactor, or replacing Iran's enriched uranium with natural uranium are not required to seek permission; instead, they need only notify the Security Council and the JCPOA Joint Commission ten days in advance, and be "in a position" to verify the material's end use.

Since the United States pulled out of the JCPOA in May, it is no longer part of the PWG, so intervening to prevent a problematic procurement will be very difficult. Washington will have to rely on other PWG members to reject the application in question, and once it is approved, only a Security Council resolution can undo it.

At the same time, much of the activity in the procurement channel will become sanctionable under U.S. law as of November 5. In nuclear-related cases, sanctions will apply because entities involved in the Islamic Republic's nuclear infrastructure (e.g., the Atomic Energy Organization of Iran) will be returned to U.S. sanctions lists. In cases of commercial procurements, importers may be subject to various sanctions on Iran's energy, shipping, shipbuilding, and automotive industries.

## FEW REAL CONSTRAINTS ON IRAN

**W**hen the procurement channel was created, many authorities expected it to be inundated with requests. Instead, it saw only a trickle. As of June 2018—two and a half years after the JCPOA's implementation—the channel had **received** ([https://www.securitycouncilreport.org/atf/cf/%7b65BF9B-6D27-4E9C-8CD3-CF6E4FF96FF9%7d/s\\_2018\\_602.pdf](https://www.securitycouncilreport.org/atf/cf/%7b65BF9B-6D27-4E9C-8CD3-CF6E4FF96FF9%7d/s_2018_602.pdf)) only thirty-seven requests, of which twenty-four were approved, three rejected, seven withdrawn, and three placed under review.

The channel has been underused in part because Iran was unable to get financing. Global banks have been reluctant to deal with Iran in general, so they are even less likely to finance dual-use procurements. Moreover, firms may not have been adequately educated about the channel's existence or requirements, especially in countries with less-developed export control regimes.

Looking at the issue through a less benign lens, the Iranian government and individual institutions have developed sophisticated means of skirting sanctions over the course of three decades, and they **apparently continued** (<https://www.washingtoninstitute.org/policy-analysis/view/irans-vulnerabilities-to-u.s.-sanctions-part-2-working-smarter-not-harder>) using such networks during the period of JCPOA sanctions relief. In this sense, Iranian firms have faced a catch-22: establishing relationships with foreign banks and suppliers proved difficult even under the nuclear deal, so they never fully abandoned their evasion networks, yet it was this deceptive behavior that made international firms reluctant to reengage with them in the first place.

Indeed, some items that required PWG and UN approval were reportedly sent outside the procurement channel. This April, just weeks before the United States withdrew from the JCPOA, the United Arab Emirates informed the UN

Secretariat that it had seized four shipments between May 2016 and December 2017 containing dual-use items for Iran, including “40 cylindrical segments of tungsten, 1 inductively coupled plasma mass spectrometer, 10 capacitors, and 1 titanium rod.” Shortly thereafter, the United States told the UN that Iran had illicitly obtained two NSG-regulated items: aluminum alloys and carbon fiber. The UN did not specify which countries supplied these items, only that they had initiated a review.

Part of the problem with the procurement channel is that it is “the responsibility of the exporting state to seek approval,” as Iran’s permanent representative to the UN emphasized in a June 1 letter to the Secretariat. The letter even encouraged the Secretariat to “address the lack of awareness of these requirements among some member states”—a brazen statement given that Tehran could simply refuse any relevant imports that bypass the procurement channel. During the JCPOA negotiations, Iran insisted on putting responsibility on the exporting state.

## POLICY RECOMMENDATIONS

In the face of reimposed U.S. sanctions and a hobbled procurement channel, Iran’s illicit nuclear proliferation will likely continue (**Part 2 of this PolicyWatch (<https://www.washingtoninstitute.org/policy-analysis/view/irans-procurement-channel-part-2-the-clandestine-factor>)** discusses this clandestine factor in greater detail).

Washington should therefore commit adequate intelligence and other resources to detecting and disrupting procurements outside the channel. This includes asking JCPOA signatories for help on two fronts: greater transparency in reporting procurement activities that serve nonproliferation goals and increased vigilance against Iranian subterfuge.

In return, the United States could pledge not to sanction companies involved in certain procurements. Such a quid pro quo would not apply to the bulk of the channel’s activity (i.e., commercial dual-use procurements), just to those activities with clear nonproliferation objectives, such as the three areas exempted from PWG approval:

1. At Fordow, Iran is supposed to convert its underground uranium enrichment plant to a center for radioisotope production. Enriching uranium can serve weapons-related purposes, while isotope production generally does not, so this is a nonproliferation gain.
2. At Arak, Iran has agreed to redesign its reactor to use low-enriched uranium for fuel rather than natural uranium, thus reducing its ability to produce weapons-grade plutonium.
3. Iran has agreed to ship any enriched uranium it produces beyond the 300-kilogram limit to a third country in return for natural uranium. This would lower the stockpile of material capable of being enriched to weapons-grade level.

Russia and China are key players in these activities, so Washington should press them to fully comply with existing obligations: namely, notifying the Security Council and Joint Commission ten days in advance of any transfer, and verifying the actual end use of their exports.

*Katherine Bauer is the Blumenstein-Katz Family Fellow at The Washington Institute and a former official at the Treasury Department. Elana DeLozier is a research fellow in the Institute’s Bernstein Program on Gulf and Energy Policy and a former nuclear analyst in the New York City Police Department’s Counterterrorism Bureau. ❖*

---

## RECOMMENDED

---



BRIEF ANALYSIS

## [Iran Takes Next Steps on Rocket Technology](#)

Feb 11, 2022



Farzin Nadimi

[\(/policy-analysis/iran-takes-next-steps-rocket-technology\)](#)



BRIEF ANALYSIS

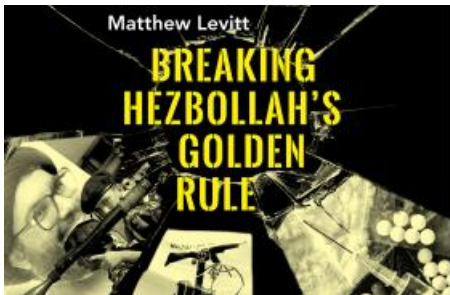
## [Saudi Arabia Adjusts Its History, Diminishing the Role of Wahhabism](#)

Feb 11, 2022



Simon Henderson

[\(/policy-analysis/saudi-arabia-adjusts-its-history-diminishing-role-wahhabism\)](#)



ARTICLES & TESTIMONY

## [Podcast: Breaking Hezbollah's Golden Rule](#)

Feb 9, 2022



Matthew Levitt

[\(/policy-analysis/podcast-breaking-hezbollahs-golden-rule\)](#)

### TOPICS

[Energy & Economics \(/policy-analysis/energy-economics\)](#)

[Proliferation \(/policy-analysis/proliferation\)](#)

[U.S. Policy \(/policy-analysis/us-policy\)](#)

### REGIONS & COUNTRIES

