The JCPOA Decision: Managing Reactions, Evaluating Sanctions

by Katherine Bauer **(/experts/katherine-bauer)** , Patrick Clawson **(/experts/patrick-clawson)** , Michael Singh **(/experts/michael-singh)**

May 18, 2018

Also available in
العربية (/ar/policy-analysis/qrar-khtt-alml-alshamlt-almshtrkt-maljt-rdwd-alafal-wtqyym-alqwbat) /
Farsi (/fa/policy-analysis/tsmym-brjam-mdyryt-waknshha-arzyaby-thrymha)

ABOUT THE AUTHORS

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.

Patrick Clawson (/experts/patrick-clawson)

Patrick Clawson is Morningstar senior fellow and director of research at the Washington Institute for Near East Policy.

Michael Singh (/experts/michael-singh)

Michael Singh is the Lane-Swig Senior Fellow and managing director at The Washington Institute.

Brief Analysis

An expert panel assesses sanctions and the future of U.S. Iran strategy in light of the Trump administration's exit from the nuclear deal.

On May 11, Katherine Bauer, Patrick Clawson, and Michael Singh addressed a Policy Forum at The Washington Institute. Bauer, the Institute's Blumenstein-Katz Family Fellow, is the former senior policy advisor for Iran in the Treasury Department's Office of Terrorist Financing and Financial Crimes. Clawson, the Morningstar Senior Fellow and director of research at the Institute, recently authored the study Tactical Issues Surrounding a U.S. Withdrawal from the Iran Nuclear Agreement **(http://www.washingtoninstitute.org/policy-analysis/view/tactical-issues-surrounding-a-u.s.-withdrawal-from-the-iran-nuclear-agreeme)** . *Singh, the Institute's Lane-Swig Senior Fellow and managing director, served from 2005 to 2008 as senior director for Middle East affairs at the National Security Council. The following is a rapporteur's summary of their remarks.*

PATRICK CLAWSON

In Iran, as elsewhere, most politics is local. Despite the news headlines, neither the Iranian people nor the political elites are fixated on the Joint Comprehensive Plan of Action (JCPOA), as the nuclear deal recently killed by the Trump administration is known. For the elites, the core issue involves determining who or what entity will succeed the current Supreme Leader, Ayatollah Ali Khamenei. Indeed, when Khamenei dies, the system is apt to suffer. This is in part because Khamenei has not allowed any successor to emerge.

The likely beneficiary will be the Islamic Revolutionary Guard Corps (IRGC), which could lead the Islamic Republic toward a more military-secular orientation, following the older models set by Baathist Syria, Baathist Iraq, and Nasserist Egypt. It could thus move from an ideological political regime to a corrupt military one that pretends to uphold its revolutionary credentials—and which engages in aggression abroad to justify its existence. A recent widely circulated op-ed, "In Defense of a Military President," indicates popular support for such a change in the leadership model, and chants at soccer games suggest widening acceptance of the notion.

The IRGC has become the powerful entity it is today by relentlessly exercising its strengths—namely, expanding Tehran's influence in the Middle East. Whether in Iraq, Syria, Lebanon, or Yemen, Iran can point to the policy of regional activism as its single greatest success since the 1979 revolution. Among the merits of the IRGC model is its relatively low cost, especially when compared to the U.S. model of aiding allies. In Iraq, the IRGC presence largely pays for itself through graft and other moneymaking ventures.

As such, sanctioning Iran's oil market will not bring the country to its knees. Although sanctions will certainly reduce Iranian exports, the likely rise in oil prices will have a compensatory effect, perhaps leaving revenues at about pre-sanctions levels. The Iranian economy overall, however, remains vulnerable. As the Iranian rial continues to fall and average Iranians bear the brunt, popular attention has turned to the country's financial problems and their sources. The IRGC, for its part, has sought to deflect any focus on its endemic corruption and cronyism, charges that have been echoed by moderates such as President Hassan Rouhani. Yet Rouhani's own stewardship of the economy, since he became president in 2013, has failed to deliver on his promises. Instead of a JCPOA-facilitated windfall, domestic corruption and bureaucratic muddling have soured hopes for financial growth and foreign investment. Furthermore, the current domestic banking crisis has significantly weakened Iranians' confidence in the ability of their leaders to repair the economic damage.

On the whole, the IRGC has grown in clout since 2013, while moderates like Rouhani are on the decline. A worsening economy will likewise dampen the people's hopes for change through slow reform, in turn reducing prospects for an Iranian return to the negotiating table.

KATHERINE BAUER

While the JCPOA wasn't a golden ticket, it did give Iran the chance to start integrating itself back into the global economy. Specifically, it allowed Iran to reenter the energy market and permitted the country to conduct business with foreign entities and financial institutions that engage in "significant transactions" with designated Iranian entities—and vice versa. Indeed, from a sanctions perspective, the U.S. withdrawal from the JCPOA signals a return to the system in place before the deal: an economic embargo on the Islamic Republic.

Some of the sanctions will go back into effect after ninety days, but after 180 days, effectively all the bans lifted pursuant to the JCPOA will be reimplemented, including prohibitions on energy (oil and gas), the shipping industry, as well as on the Central Bank of Iran. Concurrently, about four hundred mostly Iranian individuals and entities will be sanctioned once again. While the administration has a fair amount of discretion, it now faces the question of how to implement these key sanctions provisions, mainly with regard to interpreting what qualifies as a "significant transaction" and the terms for a "significant reduction waiver."

Ultimately, a political decision will need to be made on the degree of enforcement. President Trump has said he wants to create "maximum pressure" on the Iranian regime, but it may make sense to delay or waive implementation—or license certain activities. This would build political goodwill with European counterparts and avoid diplomatic train wrecks, especially where vigorous implementation might not have a significant impact on policy objectives.

European governments will be looking to minimize the fallout from a U.S. withdrawal from the JCPOA, both for their own firms and to retain the benefits to Iran. But they have few straightforward options for doing so. Guidance from the Office of Foreign Assets Control, for example, has been clear: it will not grandfather contracts signed prior to reimplementation of the sanctions since conducting business in non-U.S.-dollar currency will still incur exposure to U.S. sanctions. Furthermore, the penalty that financial institutions risk is not simply a monetary fine, but possible loss of access to the U.S. financial system and the U.S. dollar.

Consequently, the U.S. government should first seek to provide maximum clarity in reimposing these sanctions. While some may argue that leaving the rules vague would compel certain firms to "derisk" by completely pulling out of the Iranian market, this trend would undermine U.S. efforts to get its allies on the same page. Moreover, it could threaten an international backlash aimed at circumnavigating the U.S. financial system altogether, which would make U.S. sanctions less effective across the board in the long run. As such, the Treasury Department should also emphasize that these prohibitions are not meant to punish the private sector, and that cooperation is essential to achieve U.S. policy goals.

Finally, it will be important to put forward a clear narrative basis for new sanctions. A good example is the recent designation of a currency-exchange network that was deceptively procuring bulk cash in U.S. dollars for the IRGC-Qods Force to fund its regional proxies. This evidence-based approach has been, and will likely continue to be, the best chance for coordinated multilateral action.

MICHAEL SINGH

Three substantial factors influenced the president's withdrawal from the JCPOA. The first related to a criticism of the substance of the deal itself, rather than concern about Iran's compliance. Specifically, U.S. government officials were concerned that the deal did too little to prevent hostile Iranian behavior, such as developing a nuclear weapons capability, for too short a period. In exchange, they saw the sanctions relief given through the JCPOA as too broad and too lasting. In addition, the deal limited U.S. policy options for dealing with Iran's concerning behavior regarding both ballistic missile development and support of forces hostile to U.S. interests throughout the region.

Second, the administration sensed economic and political vulnerability in the Iranian regime at this moment.

The third factor relates to the announcement of renewed talks with North Korea, which occurred four days before the actual sanctions waivers came up for renewal. In the run-up to possible negotiations with the DPRK, the administration was seeking to project a view that the United States will not settle for just any deal. Here, the administration may have in mind a desire to replicate the North Korean model with Iran—"maximum pressure" combined with a willingness to enter into broad negotiations. In reality, though, the decision on Iran is competing with North Korea, tariffs on steel and aluminum, and many other foreign policy priorities in Washington.

In prior campaigns for sanctions on Iran, administrations pursued a tremendous amount of diplomacy to ensure that these financial, market-based control mechanisms would be multilaterally implemented and adhered to. In 2006, for example, the United States adopted a series of UN Security Council resolutions that laid the diplomatic foundation for coordination with the European Union as well as Russia and China.

This will be the first time Washington has sought to erect this type of sanctions regime amid such a sharp strategic divergence with its diplomatic allies. The Europeans, especially, will be focused on mollifying Tehran and keeping the deal together, in turn giving Iran the leverage to negotiate a sweeter deal with the remaining signatories.

From here on, the United States should try to mend some of the rifts with its European allies by keeping talks ongoing specifically with Britain, France, and Germany (the EU3) and other players—even if this comes with some concessions on the sanctions. Washington should also set the withdrawal from the JCPOA in the context of a broader Iran strategy. A holistic approach, coupled with support from the EU3, would allow the kind of coordination Washington needs to exert maximum pressure on the Islamic Republic.

This summary was prepared by Erika Naegeli. ❖

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

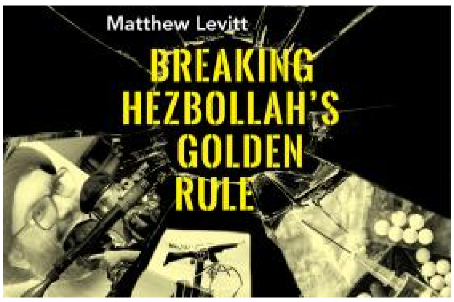
Saudi Arabia Adjusts Its History, Diminishing the Role of Wahhabism

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

Proliferation (/policy-analysis/proliferation)

U.S. Policy (/policy-analysis/us-policy)

REGIONS & COUNTRIES

Iran (/policy-analysis/iran)