

# THE ECONOMIC CONSEQUENCES OF THE US WITHDRAWAL FROM THE NUCLEAR DEAL

Murat Aslan





**Center for Iranian Studies in Ankara**

## **Copyright**

Copyright © 2018 Center for Iranian Studies in Ankara (İRAM).

All rights reserved. No part of this publication may be fully reproduced, distributed, transmitted, displayed, published or broadcast without the prior written permission from İRAM. For electronic copies of this publication, visit [iramcenter.org](http://iramcenter.org). Partial reproduction of the digital copy is possibly by giving an active link to [iramcenter.org](http://iramcenter.org).

The views expressed here do not necessarily reflect the views of İRAM, its staff, or its trustees. For electronic copies of this report, visit [www.iramcenter.org](http://www.iramcenter.org).

### **Center for Iranian Studies in Ankara**

Oğuzlar, 1397. St, 06520, Çankaya, Ankara, Türkiye

Tel: +90 (312) 284 55 02-03 Faks: +90 (312) 284 55 04 [info@iramcenter.org](mailto:info@iramcenter.org) | [www.iramcenter.org](http://www.iramcenter.org)

Cover design by İRAM

ISBN: 978-605-7559-02-9



## The Economic Consequences of the US Withdrawal from the Nuclear Deal

ABD'nin Nükleer Anlaşmadan Çekilmesinin Ekonomik Sonuçları

خروج آمریکا از معاهده هسته ای: پیامدهای اقتصادی

### About the Author:

#### **Prof. Dr. Murat ASLAN**

Graduated from Hacettepe University, majoring in public finance, with distinction in 1993. In a nationwide exam, ranked 1st among 236 candidates taking a field exam in economics, and he was awarded a full scholarship from the Turkish Ministry of Education to pursue graduate education in the US. He received his MA degree from The American University, Washington DC in 1997 and his Ph.D. from George Mason University, Virginia US in 2004. He returned back to Turkey and worked as an assistant professor and later an associate professor at the Eskişehir Osmangazi University (2004-2012). He has been working as an associated professor for the Yıldırım Beyazıt University, Ankara since 2012. His main research areas are political economy and public economics.

## CONTENTS

<b>Summary</b> .....	<b>3</b>
<b>Introduction</b> .....	<b>4</b>
<b>1. The Background of Iran Sanctions</b> .....	<b>5</b>
<b>2. The JCPOA and US Commitments</b> .....	<b>7</b>
2.1 Some Technical Details.....	7
2.2 The US Commitments .....	8
<b>3. The Implication of the US Withdrawal from the JCPOA</b> .....	<b>9</b>
<b>4. What is Next</b> .....	<b>10</b>
4.1 Redefinition of the Iran Sanctions .....	10
4.2 The Positions of the Other Major Powers.....	12
4.2.1 Russia, China and Other Asian Countries.....	12
4.2.2 The EU .....	16
<b>5. Turkey’s Position</b> .....	<b>19</b>
<b>6. Conclusion</b> .....	<b>20</b>
<b>References</b> .....	<b>22</b>
<b>Tables</b>	
<b>Table 1: The US Iran-Related Sanctions System</b> .....	<b>9</b>
<b>Table 2: Wind-Down Periods for Re-Imposition of Sanctions</b> .....	<b>11</b>
<b>Table 3: Top Trading Partners of Iran, 2017</b> .....	<b>13</b>
<b>Table 4: Crude Oil Importing Countries from Iran (bpd, thousands)</b> .....	<b>14</b>
<b>Table 5: Iran, Trade with the World and with the EU (million €)</b> .....	<b>17</b>
<b>Table 6: US Trade with the EU (Mio €)</b> .....	<b>18</b>
<b>Table 7: Turkey Iran Foreign Trade (million \$)</b> .....	<b>19</b>

## Abbreviations

<b>EU</b>	European Union
<b>US</b>	United States
<b>UN</b>	United Nations
<b>UNSC</b>	United Nation Security Council
<b>CNPC</b>	China National Petroleum Company
<b>E3</b>	EU member states: France, Germany and the United Kingdom
<b>JCPOA</b>	The Nuclear deal signed between the P5+1 and Iran
<b>P5+1</b>	Signatories of JCPOA: The US, France, Germany, China, Russia and the United Kingdom
<b>OFAC</b>	Office of Foreign Assets Control, administers and enforces economic sanctions programs
<b>SDN</b>	Specially Designated Nationals. US persons are generally prohibited from dealing with them
<b>NDAA</b>	National Defense Authorization Act-NDAA of 2012

## SUMMARY

- With the withdrawal of the US from JCPOA, the secondary sanctions imposed on Iran will come into force again in November 2018 at the latest.
- Foreign firms doing business with any firms or persons cited in the Iranian SDN list may be punished on the basis of American sanctions-system.
- Russia is unlikely to be exposed to secondary sanctions because of low trade volume with the US and Iran.
- Despite Iran's significance for China's energy security China will expectedly look for a middle-way solution not to escalate its relations with the US any further.
- While European states try to keep the JCPOA on the one hand, they seek to minimize the adverse effects of the sanctions on European firms on the other.

**Keywords:** JCPOA, SDN, Iran, E3, oil trade, secondary sanctions.

## ÖZET

- ABD'nin nükleer anlaşmadan çekilmesi ile İran'a uygulanan ikincil yaptırımlar en geç Kasım 2018'de tekrar yürürlüğe girecektir.
- Yasaklılar listesinde yer alan şirketlerle ticaret yapan firmalar, ABD yaptırım sistemine göre ceza alacaklardır.
- Rusya'nın ABD ve İran ile düşük ticaret hacmi nedeniyle ikincil yaptırımlara maruz kalma ihtimali düşük olacaktır.
- İran Çin'in enerji güvenliği için önemli olsa dahi ABD ile ilişkilerini daha da germek istemeyen Çin'in bu konuda ABD ile uzlaşarak bir orta yolu bulması beklenmektedir.
- Avrupa ülkeleri bir yandan nükleer anlaşmanın sürmesini isterken diğer yandan İran'la ticaret yapan Avrupa şirketlerinin ikincil yaptırımlardan daha az etkilenmesi için çabalamaktadır.

Anahtar Kelimeler: Nükleer Anlaşma, E3, petrol, İran, ikincil yaptırımlar

## چکیده

- پس از خروج آمریکا از توافق هسته ای تحریمهای ثانویه حداکثر تا ماه نوامبر دوباره به اجرا گذاشته خواهند شد.
  - شرکتهایی که اقدام به انجام مبادلات تجاری با شرکتهای قرار گرفته در لیست تحریمهای ایالات متحده نمایند از طرف این کشور مورد مجازات قرار خواهند گرفت.
  - روسیه دارای حجم تجاری پایین با ایالات متحده و ایران است. از این روی احتمال روبرو شدن این کشور با تحریمهای ثانوی اندک می باشد.
  - هر چند ایران برای امنیت انرژی چین مهم می باشد ولی به دلیل اینکه چین تمایل به افزایش تنش موجود با ایالات متحده ندارد می توان پیش بینی کرد که این کشور برای یافتن راهی میانه در این موضوع با ایالات متحده به تعامل بپردازد.
  - اتحادیه اروپا از یک طرف در تلاش برای تداوم یافتن توافق هسته ای است. از طرف دیگر هدف این اتحادیه کاهش تاثیر پذیری از تحریمهای ثانویه برای شرکتهایی است که به مبادله تجاری با ایران می پردازند.
- کلید واژه ها:** توافق هسته ای، گروه E3، نفت، ایران، تحریمهای ثانویه

### Introduction

A number of incidents which took place following Iran's Islamic Revolution rapidly escalated the relations between Iran and the Western countries, particularly the US. Thus, throughout the almost forty years since the revolution, numerous sanctions of varying scope and intensity have been imposed on Iran. Although, from the beginning, the US tried to persuade other countries to participate in isolating Iran economically and politically, this wasn't realized until 2006. Therefore, prior to 2006 the US sanction system over Iran had been considered as a domestic legal mechanism or unilateral system binding only US citizens and firms. Consequently, the lack of joint action between the US and other countries contributed to the strategy's failure before 2006. Many countries which have amicable relations with the United States have not contributed to the enforcement of the sanctions against Iran. However, the claims made in 2002 about Iran's secret and non-peaceful nuclear activities changed the course of events as exemplified by the resolutions adopted by the United Nations Security Council (UNSC) between 2006 and 2010,<sup>1</sup> which imposed sanctions on Iran. Moreover, the shock created by the 9/11 terrorist attack played a key role in this process. It provided significant legal and psychological justification for the US military and political interventions in the Middle East. From that date on, the US pursued a tougher stance on Iran (Küpeli, 2016: 106).

Thus, after 2006 unilateral characteristics of the US sanctions on Iran turned into a full court pressure by the international community. It is important to remember that due to the unanimous character of the decision-making processes at the UNSC, the resolutions would not have been adopted had China and Russia, the two major powers with good relations with Iran, not supported them. The EU played a unique role and the distinct legal and administrative measures taken by the EU after 2010 further strengthened the effectiveness of the economic sanctions.

It should be noted that Iran has always been willing to negotiate with the US over the sanc-

tions. Moreover, after long sessions of negotiations, the Joint Comprehensive Plan of Action (JCPOA), widely known as the Iran nuclear deal, was signed between Iran and the P5+1 countries, consisting of the US, China, Russia, England, France and Germany. The deal gained a legally binding status by Resolution 2231 which lifted many of the sanctions that were adopted between 2006 and 2010<sup>1</sup>. It was agreed that nuclear-related sanctions imposed on Iran by the UNSC, the US and the EU would be dismantled on the condition that Iran limits its nuclear activities according to the specific targets outlined in the JCPOA. Iran, in turn, guaranteed to substantially reduce its nuclear activities and to open its sites to the International Atomic Energy Agency's (IAEA) periodical inspections. Articles 11 and 12 of Resolution 2231 affirmed that the dismantled sanctions would be re-enacted "in the case of a breach of terms of the agreement by one of the parties (Iran or the P5+1 countries)". Supervision of the agreement was to be carried out by the IAEA on behalf of the UNSC. The subsequent reports issued by the IAEA and US intelligence confirmed Iran's compliance with the terms of the JCPOA.

Nonetheless, the end of the US Obama administration also signaled the end of the JCPOA. Succeeding Obama, Trump, being an uncompromising critic of the deal since the very beginning, made the decision to withdraw the US from the deal on 8 May 2018. As a result, even though technically the agreement remains valid, it lost much of its effectiveness for the US was the main power pushing for the deal. As described in the JCPOA, the US had promised to lift only nuclear-related sanctions on Iran, which constituted only a small portion of its entire sanction system against Iran. To be more specific, the US promised to lift all secondary sanctions and a limited set of the primary sanctions. Yet, even this limited achievement of the deal brought an important opening for Iran's economy. Ultimately, the US withdrawal from the deal deprived Iran from this achievement and a substantial part of the economic benefits promised

<sup>1</sup> With this decision, UN resolutions 1696 and 1737 adopted in 2006, 1747 adopted in 2007, 1803 and 1835 adopted in 2008, and 1929 adopted in 2010 were lifted.

to Iran in case of its compliance with its commitments fell out of scope. Moreover, whether Iran will continue to abide by the JCPOA under these circumstances remains the pressing question.

After its withdrawal, the US announced the imposition of new sanctions on Iran, which will unquestionably further complicate the situation. Accordingly, especially from 4 November 2018 onwards when the sanctions will fully come into force, individuals, companies or institutions resident in a third-country and trade with individuals, companies or institutions located in Iran will face the risk of being accused of violating the US sanctions. Moreover, non-US citizens and non-US companies may potentially be strongly deterred from establishing trade and investment relations with Iran.

The aim of this study is to provide a general understanding of the mechanism of sanctions imposed on Iran by the US and to give an overview of the current options available for other parties especially the EU, China, and Russia following the US withdrawal from the JCPOA. In addition, Turkey's options will also be discussed. Even though the geopolitical context of the topic is crucial, the study mainly focuses on its economic dimension. Thus, the background of Iran sanctions will be covered first. This will be followed in the second part by the technical details of the US sanction system as well as of the JCPOA. This way, a clearer picture of the economic consequences of the US withdrawal from the nuclear deal will be provided and this constitutes the third part of the analysis. The fourth part focuses on the possible steps to be taken by the EU, China and Russia, while the fifth part deals with Turkey's position. In the concluding part, an examination of the challenges which Iran will face in the upcoming period will be given.

## 1. The Background of Iran Sanctions

The hostage crisis of 1979-1981 was an important milestone in the deterioration of US-Iran relations. Consequently, the US took a tougher position against Iran and ultimately US

President Jimmy Carter signed numerous executive orders on the following points:<sup>2</sup>

- Freezing all Iranian assets in the US,
- Banning the direct or indirect import of Iranian goods or services, particularly crude oil, petroleum and petroleum products into the US,
- Restricting the travel of any citizen or permanent US residents to Iran,
- Prohibiting banks and financial institutions from engaging in or otherwise facilitating transactions involving Iran.

The terrorist attack on the US embassy in Beirut, on April 18, 1983, resulting in 63 casualties, as well as the bombing of a Marine compound in Beirut in 1983 in which as many as 241 US service personnel lost their lives further escalated the tension between the two countries. On January 19, 1984, with a crucial executive order of President Ronald Reagan, Iran was put on the state sponsors of terrorism list and was subjected to a wide range of sanctions. Despite all these steps, the US sanctions toward Iran were doomed to failure, mainly due to the absence of an effective enforcement mechanism which at times produced awkward results as exemplified by the breaking of the sanctions by the US state institutions. For instance, despite the aforementioned executive order, the US continued to be the second largest importer of Iran's crude oil between 1981 and 1987. In managing the Strategic Petroleum Reserve Program of the US Department of Energy, American energy companies had continued to buy Iranian oil during that period. Consequently, in 1987, upon the Congressional criticism of the US purchase of Iranian oil by the US Strategic Petroleum Reserve, President Reagan issued executive order number 12613 which strictly prohibited the import of Iranian goods notably petroleum products and crude oil. (Corn et al., 2015)

In the following period, throughout the Clinton administration, during the 1990s, the US considerably expanded the scope of sanctions on Iran. During 1994-1995, President Clinton issued four executive orders (12938, 12957,

<sup>2</sup> The executive orders signed by President Jimmy Carter with respect to Iran: 12170; 12205; 12211; 12277; 12278; 12279; 12280; 12281; 12282; 12283 and 12284.



## The Economic Consequences of the US Withdrawal from the Nuclear Deal

---

12959 and 13059) and prohibited investment and commercial activities by any US citizen, permanent resident alien, or entity organized under the laws of the US in Iran. In 1996, Congress passed the Iran and Libya Sanctions Act (ILSA), which, for the first time, incorporated a “secondary sanction mechanism” into the US sanction system. Investments in Iran’s energy sector by third state parties were limited (investment threshold) with the extraterritorial application of the secondary sanctions under ILSA. Under the same act, doing business with Iran and Libya by an American (individual or entity) was strictly prohibited. Americans could only engage in limited activities (for a few goods and services) in Iran and Libya with a license for each transaction. Although the majority of these “extraterritorial sanctions” on Iran were lifted in the subsequent periods, 1996 marked a critical watershed in the US Sanctions Legislation.

On August 14, 2002, Alireza Jafarzadeh, the President of the National Council of Resistance of Iran (NCRI), shared classified information about the alleged existence of two undeclared nuclear facilities in Iran and claimed that Iran pursued this nuclear program for a deliberate unpeaceful purpose. Consequently, this allegation consolidated the claims about Iran’s incentive to acquire nuclear weapons (Küpel, 2016:106). As a result, the Congress passed a sanction act on Iran under the title of “Iran Nuclear Proliferation Prevention Act” (INPPA). Emphasizing Iran’s efforts to develop weapons of mass destruction (WMD), the bill proposed to impose sanctions on persons who had engaged in transactions involving Iran’s WMD program (Moarefy, 2016).

Therefore, since the early 2000s concerns have been raised about Iran’s nuclear activities in the international community and this unfolded a new phase in Iran sanctions. IAEA inspectors accessed a number of facilities and identified suspicious activities. Subsequently, the findings prompted the UNSC to take action and to adopt a series of resolutions imposing sanctions on Iran after 2006. From 2006 to 2010, the UNSC passed the following 6 resolutions with

the aims of pushing Iran to the negotiation table over limitations on its nuclear program:

- Resolution 1696 (2006)
- Resolution 1737 (2006)
- Resolution 1747 (2007)
- Resolution 1803 (2008)
- Resolution 1835 (2008)
- Resolution 1929 (2010)<sup>3</sup>

It goes without saying that legal legitimacy is a vital component of the effective enforcement of any set of sanctions and the implementation of the UNSC sanctions resolutions by many countries added to the pressure on Iran. Further, resolutions adopted by the UNSC between 2006 and 2010 have been the source of legitimacy for the entire structure of international sanctions. Thus, the UN member states, particularly the US, issued binding legal instruments based on the UNSC resolutions.

With the US actions on Iran, sanctions were further strengthened. Furthermore, the ILSA of 1996 was later extended and modified on the basis of the new developments. Provisions about Libya were excluded and the act was renamed the Iran Sanctions Act (ISA)<sup>4</sup> in 2006. The act also included provisions of related executive orders. As of 2007, the US issued a series of executive orders which expanded the scope of the sanctions on Iran and increased the effectiveness of the existing ones. The US Congress broadened the scope of sanctions with the Comprehensive Iran Sanctions, Accountability, and Divestment Act of 2010 (CISADA). Under the CISADA, the US government added new goods to the list of sanctions and took necessary measures to isolate Iran from the international financial system. This way, doing business with Iran in US dollars and providing financial brokering services in these transactions were prohibited.

The full support of the UN members and their concerted efforts in the enforcement of Iran sanctions were particularly important in the success of the sanctions system. Even China and Russia, Iran’s two traditional supporters in the

<sup>3</sup> Details on these UNSC resolutions can be found in ISIS (2015).

<sup>4</sup> The US Senate passed a 10-year extension of sanctions against Iran in December 2016 and the extension was strongly criticized by the Iranian government.



UNSC, voted in favor of the UN sanctions as the rest of the international community. Therefore, it should be stressed that the UN member states, especially the US, greatly supported the UNSC resolutions at the expense of their own national interests.

Moreover, proactive and effective functioning of the agencies in charge of enforcing the US sanctions has also played a key role in the process. The steps taken by the US institutions to enhance the effectiveness of sanctions in the mid-2000s, bore fruit after 2010. Furthermore, the US Department of Treasury plays a major role in enforcing the sanctions. In 2012, under the authority granted by the executive orders and laws, Iran sanctions and the duties and functions of the related Treasury offices were defined in detail (US Federal Register, 2012). The US Treasury officials kept a tight rein on global financial institutions and pressured them into not doing business with Iran (Clawson and Jacobson, 2007; Zarate, 2013:298). Furthermore, officials held meeting with the managers of global financial institutions engaged in businesses relating to Iran in which the US position was clarified, and warnings were made in case they continued doing business with Iran. Starting in 2006, the pressure continued to increase with each passing year.

In 2008, the US Treasury Department took a key step towards enhancing the effectiveness of sanctions and revoked the authorization for “U-turn” transfers. Thus, the global financial system transformed into a vital tool to implement the sanctions and the ban on “U-turn” transfers played a critical role. By the “U-turn transfer ban” banks and other financial intermediaries were banned from providing financial services in transferring US dollars to Iran.

In addition to the “U-turn transfer ban”, Iran’s access to the global financial system was further inhibited with the removal of Iranian banks from the SWIFT system in 2012. The Brussels-based financial messaging service, SWIFT, had to knuckle down to the US pressure and disconnected all Iranian banks from its international network. The “U-turn” revocation

as well as Iran’s removal from the SWIFT system, created major difficulties for Iran in accessing its oil revenues. This notably hit Iran’s oil exports, which constitute an essential component of Iran’s economy. By the success of the financial restrictions, Iran was no longer able to receive its oil revenues in foreign currencies even if it was able to find avenues to continue its oil export. Countries which were willing to purchase Iranian oil either faced difficulties in transferring payments to Iran or were forced to stop their imports altogether. As the international community tightened the measures, the Iranian economy started buckling under the sanctions.

## 2. The JCPOA and US Commitments

On July 14, 2015, the JCPOA was signed to come into force on January 16, 2016. Under the JCPOA, Iran agreed to substantially curb its nuclear program. In turn the UNSC would terminate all provisions of previous resolutions on the Iranian nuclear issue (1696 and 1737 (2006), 1747 (2007), 1803 and 1835 (2008), 1929 (2010)) at once.

### 2.1 Some Technical Details

The JCPOA is a complex and detailed text with 104 pages. An in-depth analysis of the JCPOA does not fall within the scope of this study. However, to explain the technical details of the nuclear deal and the US sanctions program will be beneficial to understand the magnitude of the consequences of US President Donald Trump’s decision to withdraw from the deal.

The Office of Foreign Assets Control (OFAC) is the federal agency in the US Department of the Treasury in charge of economic sanctions programs. Though the establishment of the OFAC goes back to the 1800s, its organization within the US state system started in the 1940s and it gained its current official status in 1950. The OFAC’s mission is to administer economic, financial and trade sanctions based on US foreign policy and national security goals; to carry out investigations about sanctions; and to ensure effective implementation of the sanc-

tions. Besides foreign countries, the OFAC targets specific individuals and entities considered threats to the national security, foreign policy or economy of the US. Therefore, as part of its enforcement efforts, the OFAC publishes a list of individuals and companies who are charged by the US government for activities threatening US national security. The Specially Designated Nationals and Blocked Persons list (SDN), internationally known as the “Black List”, has been frequently updated by OFAC. Prior to the JCPOA, this list included dozens of Iranian individuals and institutions. The lists which are designated primarily under the statutory authority of executive orders and relevant laws can be classified into three main categories:

- i. Engaging in or providing support for nuclear weaponization activities,
- ii. Involving in or supporting the international terrorist activities or terrorism,
- iii. Committing or supporting human rights abuses.

In other words, Iranian individuals and institutions were placed on the SDN lists for reasons not related to nuclear activities.

The provisions of the US Sanctions Legislation can be divided into two categories: “nationality” and “targeting activities” (See Table 1). The US Sanctions Legislation includes provisions for citizens and non-citizens. Thus, the primary and secondary sanctions are defined by citizenship. Primary sanctions regulations apply to citizens (or citizenship applicants) of the US and entities organized under the laws of the United States. The sanctions relating to non-US citizens and legal (foreign) entities are defined as secondary sanctions. Prior to the JCPOA, non-US persons and entities engaged in commercial/investment activities with Iranian citizens, companies and other legal entities (resident in Iran) listed on the SDN list had been subject to sanctions. The second category is related to the type of undesired activities targeted by the US sanctions.

It should be noted that due to the complexities of the US sanctions system, the aim of the

table is clarifying the matter not to provide a conclusive classification. So, the sanctions can be divided into two groups as “primary” and “secondary” in accordance with the “nationality” principal. The US sanctions on Iran can be classified as sanctions related to “nuclear activities” and “other objectionable behaviors” according to “targeting activities”. Therefore, before the nuclear deal, the US sanctions system was grouped into four types: A, B, C and D (see Table 1).

### 2.2. The US Commitments

Commitments of the UNSC, the US and UN countries have been described in Annex II of the JCPOA.<sup>5</sup> Commitments of the US have been specified in Section B of the annex. In that, it reads:

“...The United States commits to terminate **all nuclear-related sanctions**”.

The JCPOA came into effect with the executive order 13716 of President Obama on January 16, 2016 and was not submitted for Senate ratification as a treaty. Moreover, almost all economic sanctions which aimed at curbing Iran’s nuclear activities were issued in the same manner. Under the JCPOA, the US has clearly committed to the revocation of these executive orders. Furthermore, in line with the JCPOA, with executive order 13716, previous executive orders 13574, 13590, 13622, and 13645 were revoked and executive order 13628 was significantly amended.<sup>6</sup> So, with executive order 13716, almost all the executive orders issued between 2006-2010 were revoked.

Table 1 illustrates that the US lifted only type-B or secondary sanctions in connection with the JCPOA. Moreover, the US committed to terminate only a limited number of primary sanctions. As set forth in Section 5 of Annex II of the deal, and of the most fundamental issues that the US committed to softening its stance with regard to primary sanctions, is the sale of commercial passenger aircraft and related parts and services to Iran (including, US company, Boeing).

<sup>5</sup> For full text of the Joint Comprehensive Plan of Action see: UNSC (2015)

<sup>6</sup> For full text of the Executive Order 13716 see: White House (2018)

**Table 1: The US Iran-Related Sanctions System**

Target Activities		Nationality Principle	
		Primary Sanctions	Secondary Sanctions
Nuclear Activities <sup>(1)</sup>		A	B
Other Objectionable Activities <sup>(2)</sup>		C	D

**Notlar:**

(1) Notes: (1) Includes executive orders and laws related to nuclear activities.

(2) Includes executive orders and laws related to terrorism, human right abuses, etc.

Besides, the United States committed to terminate all secondary sanctions covering the following areas:

- 1. Financial and banking measures:** Sanctions on the Central Bank of Iran (CBI), other specified Iranian financial institutions (e.g., the National Iranian Oil Company (NIOC), Naftiran Intertrade Company (NICO), National Iranian Tanker Company (NITC)) and certain designated individuals and entities on the SDN list;
- 2. Insurance measures:** Sanctions on the provision of underwriting services, insurance, or reinsurance;
- 3. Shipping, shipbuilding and port sectors:** Sanctions on transactions with Iran's shipping and shipbuilding sectors and port operators, including IRISL, South Shipping Line, and NITC, and the port operator(s) of Bandar Abbas;
- 4. Energy and petrochemical sectors:** Sanctions on the purchase, acquisition, sale, transportation, or marketing of petroleum, petrochemical products and natural gas from Iran and sanctions on investment in Iran's oil, gas, and petrochemical sectors;
- 5. Gold and other precious metals:** Sanctions on Iran's trade in gold and other precious metals;
- 6. Software and metals:** Sanctions on trade with Iran in graphite, raw or semi-finished metals such as aluminum and steel, coal, and software for integrating industrial processes;
- 7. Automotive sector:** Sanctions on the sale, supply or transfer of goods and services used in connection with Iran's automotive sector.

Under the JCPOA, another commitment of the US is the removal of some individuals and entities from the SDN list. As mentioned above,

direct or indirect trade, economic and financial transactions with individuals and entities on the SDN list is prohibited under US jurisdiction. Pursuant to the US commitment described in section 4.8.1 of Annex II of the JCPOA, the US accepted the removal of individuals and entities from the SDN list set forth in Attachment 3 and Attachment 4 to Annex II of the JCPOA. Prior to the JCPOA, more than 600 individuals and entities related to Iran sanctions were on the SDN list. The names of those individuals and entities are listed in Attachment 3 and Attachment 4. OFAC removed over 400 individuals and entities from the SDN list. On January 16, 2016, the Department of Treasury issued a notice about the names of individuals and entities that were removed from the SDN list to ensure the coordination between the US domestic law and the JCPOA.<sup>7</sup>

### 3. The Implication of the US Withdrawal from the JCPOA

The JCPOA can be evaluated as a set of political commitments rather than a legally binding "treaty". Criticizing the legislative branch's exclusion from the JCPOA, the Congress enacted the Iran Nuclear Agreement Review Act (INARA) and engaged in a political maneuver by creating a mechanism for congressional oversight over the Obama administration. One of the key provisions of the INARA is that the bill requires the president to submit the agreement(s) and all related documents to the Congress (Chacko, 2018). Under INARA, the

<sup>7</sup> For the changes on the SDN list administered by OFAC on Implementation Day under the JCPOA see: Treasury (2018)

## The Economic Consequences of the US Withdrawal from the Nuclear Deal

President should issue two certifications about the nuclear deal to Congress every 90 days. Moreover, he should certify whether:

1. Iran is complying with its obligations and commitments under the agreement;
2. The suspension of sanctions related to Iran pursuant to the agreement is vital to the national security interests of the United States.

In the event the President did not submit certifications during each 90-day period, INARA gives Congress a 60-day window to consider and potentially enact on an expedited basis “qualifying legislation” to reinstate the US sanctions.<sup>8</sup>

Donald Trump called the JCPOA a “disaster” and suggested renegotiating the deal during his 2016 presidential campaign. In his campaign speeches, Trump stated that if he was elected, he would be open for a renegotiation but would withdraw from the deal and resume sanctions unless its “flaws” were fixed.

Furthermore, both in his campaign and presidential speeches, Trump pointed out two significant problems in the JCPOA. The first problem was related to the sunset clause. Under sunset provisions in the JCPOA, restrictions on Iran’s nuclear activities would be lifted after 10 to 15 years (for a limited period) without any provision in the agreement after it expires. The second problem was that the deal did not contain any limits on Iran’s missile programs. According to Trump, Iran should never acquire nuclear weapons. Moreover, Iran’s efforts to continue long range ballistic missile development are a sign of its malicious intent. While the EU also expresses its concerns about these problems, it reiterates the need to address them by preserving the JCPOA.

Hence, it is plain that Trump sought the renegotiation of these two “flaws” and revision of the nuclear deal or a new deal that includes the JCPOA but incorporates additional measures. Moreover, due to rising tensions with Russia

<sup>8</sup> Qualifying legislation means “A bill reinstating statutory sanctions imposed with respect to Iran”. Moreover, congress could decide to re-impose sanctions suspended or waived pursuant to the JCPOA or do nothing, under INARA. From a legal standpoint, the expiry of deadline (90 days for the president and 60 days for Congress) means that the JCPOA remain intact (Chacko, 2018).

and China, Trump only addresses the EU with these comments. Brian Hook, the director for policy planning at the State Department, conducted the discussions regarding the US and asked the E3 (England, France and Germany) diplomats to devise a formula or supplemental agreement that addresses Trump’s concerns. At a two-day meeting in Berlin, he said, if Trump accepts the supplemental agreement, the US will remain in the deal. Therefore, the other signatories have embarked on a diplomatic marathon after this meeting. The 28 diplomats from the EU held a closed-door meeting in Brussels on March 21 with the officials of Iran’s Revolutionary Guard Corps (IRGC) and informed the IRGC officials about the negotiations on alternative sanction scenarios and launching a new package of sanctions with the support of other members. The EU countries tried to design a package which addressed the perceived problems in the deal. Focal points of this preliminary meeting were again discussed at the EU foreign ministers meeting in Luxembourg on April 16, 2018. However, no sufficient common ground could be found in any of the meetings.

### 4. What Next

#### 4.1 Redefinition of the Iran Sanctions

The US commitments under the JCPOA have been presented in Part 3 of this study. In reference to UNSC Resolution 2231, the US commitments became integrated into the US legal system with the executive order of January 16, 2016. With Trump’s withdrawal from the nuclear deal, all of the executive orders revoked by the Obama administration will be reinstated. However, it is not possible to immediately terminate commercial and investment activities initiated and/or operated during the 26 months between January 16, 2016 and May 8, 2018, with Iranian persons by US citizens and other alike.<sup>9\*</sup> Under the National Security Presidential Memorandum (NSPM) issued by President Trump on May 8, 2018, depending on the type of activities, 90-day and 180-day wind-down periods were established for terminating these activities. In other words, the US Treasury gave

<sup>9\*</sup> The term person means an individual or entity.



**Table 2: Wind-Down Periods for Re-Imposition of Sanctions**

Activities with the 90 day wind-down period <sup>(1)</sup>	Activities with the 180 day wind-down period <sup>(2)</sup>
• The purchase or acquisition of US dollar banknotes by the Government of Iran	• Iran's port operators, and shipping and shipbuilding sectors (3)
• Iran's trade in gold or precious metals	• Petroleum, petroleum products, or petrochemical products
• Direct or indirect sale, supply, or transfer to or from Iran of graphite, raw, or semi-finished metals aluminum, steel, coal	• Transactions by foreign financial institutions with the Central Bank of Iran and designated Iranian financial institutions(4)
• Software for integrating industrial processes	• The provision of specialized financial messaging services described in CISADA (5)
• The purchase of, subscription to, or facilitation of the issuance of Iranian sovereign debt	• The provision of underwriting services, insurance, or reinsurance including activities with individuals and entities
• Iran's automotive sector	• Iran's energy sector
• Significant transactions related to the purchase or sale of Iranian rials, or the maintenance of significant funds or accounts outside the territory of Iran denominated in the Iranian rial	
• Activities undertaken pursuant to specific licenses (Iranian-origin carpets, foodstuffs, commercial passenger aircraft and related parts)	

**Notes:**

- (1) Expiration of the 90 day wind-down period August 5, 2018
- (2) Expiration of the 180 day wind-down period November 4, 2018
- (3) The Islamic Republic of Iran Shipping Lines (IRISL), South Shipping Line Iran, or their affiliates are specially mentioned in the related document.
- (4) These financial institutions defined as financial institutions under Section 1245 of the National Defense Authorization Act for Fiscal Year 2012 (NDAA)
- (5) Under the Comprehensive Iran Sanctions and Divestment Act of 2010 (CISADA), transactions with Iran, including Iranian companies and financial institutions were substantially limited. Prohibitions described in Section 104 of the (CISADA) re-enabled.

**Source :** The US Department of Treasury Frequently Asked Questions Document: [https://www.treasury.gov/resource-center/sanctions/Programs/Documents/jcpoa\\_winddown\\_faqs.pdf](https://www.treasury.gov/resource-center/sanctions/Programs/Documents/jcpoa_winddown_faqs.pdf) [accessed May 11, 2018].

individuals and entities an allocated time depending on the type of activities, for cancellation, termination or fulfillment of a contract. Persons and entities that continue or enter into business after the wind-down period expires, will be violating the US Sanctions Legislation and thus may be subject to enforcement actions. The US sanctions against Iran will be reinstated after the 90-day and 180-day wind-down periods depending on the type of activities listed below in Table 2.

The wind-down period for activities related to the automotive sector, gold and metals (precious or raw/semi-finished industrial) and software is 90 days. The same applies to the purchase or acquisition of US dollar banknotes by the Iranian Government and the purchase of, subscription to, or facilitation of the issuance of Iranian sovereign debt. The wind-down period for the

termination of contracts with Boeing and Airbus, which is crucial for Iran's aviation industry is also 90 days. The wind-down period for activities related to shipping, shipbuilding and port sectors, petroleum, oil and gas and other energy related sectors is set at 180 days. Finally, the wind-down period for the transactions by foreign financial institutions with the Central Bank of Iran and designated Iranian financial institutions is also 180 days.

In line with the JCPOA, on January 16, 2016, the Department of Treasury issued a notice and removed over 400 individuals and entities from the SDN list. On May 8, 2018, the Treasury issued a statement and announced that these individuals and entities will be re-designated within the 180-day period (no later than November 4, 2018). Therefore, leaving aside technical aspects, all US sanctions lifted or waived in connec-

tion with the JCPOA will be reinstated no later than November 4, 2018. The sanctions under category B of Table 1 and the primary sanctions regarding the export of passenger aircraft pursuant to specific licenses will come into force again. Also, it is obvious that with the re-designation of individuals and entities removed from the SDN list under the JCPOA, third-country individuals and entities will be more cautious and vigilant while doing business in/with Iran.

### 4.2 The Positions of the Other Major Powers

After the US withdrawal from the JCPOA, how other signatory countries will respond has been an issue of concern. Although the attitudes of China and Russia toward the withdrawal are crucial, the international community has turned its attention to France, Germany, and England collectively known as the E3. Traditionally, China and Russia have contended with the US in numerous fields. Therefore, the secondary sanctions on Iran may be assessed as an additional contentious field among these global powers and it is expected that there is a possibility of each actor to use this as a bargaining chip against the other, particularly against the US. The position of China, as a leading trade partner of the US, is significant while Russia's attitude does not attract attention due to the extremely low trade volume between Russia and the US.

The US nuclear-related sanctions against Iran and product exemptions/exclusions will be reinstated by the end of the corresponding wind-down periods (by August 2018 or November 2018) following the US withdrawal. The prominent topic of exceptions concerns petroleum transactions. The US petroleum-related sanctions against Iran are mainly provided under the NDAA-National Defense Authorization Act of 2012 (Katzman, 2018). Moreover, it is necessary to remember that while drafting the bill, the data for the relevant year, 2012, was used. The NDAA provides temporary exceptions from sanctions to some countries for the purchase of petroleum and petroleum products from Iran. Under the relevant section of the NDAA, countries will continue to import if they reduced their

crude oil purchases from Iran by 18% (based on total price/volume). Several countries have maintained exemptions for reductions, including Japan, China, India, Turkey, South Korea and Taiwan.

However, the EU's situation slightly differs. The Council of the EU adopted Regulation no 267 of 2012 concerning restrictive measures against Iran. This regulation is congruent with US sanctions in terms of context and includes very strict provisions. Moreover, under decision no 2012/829 adopted by the Council of the EU, designated individuals and entities are listed on OFAC's SDN list and EU companies are prohibited from transactions with these individuals and entities. The US has considered the Council of the EU regulations sufficient, therefore, no clear arrangement has been made on the EU's purchase of petroleum from Iran. Under the NDAA, there is only one transitional provision for the purchase of petroleum and petroleum products by EU countries. Provisions of Council regulations and decisions implementing sanctions or restrictive measures on Iran have been terminated under the JCPOA. Therefore, the EU's import of petroleum and petroleum products from Iran and the scope of this import exception remain unclear. This area is expected to be regulated until November 2018. Additionally, a meeting is expected to be held between the US and Italy, Greece and France, regarding their importing crude oil from Iran and selling it to Europe after refining.

#### 4.2.1 Russia, China and Other Asian Countries

Chinese and Russian officials confirmed their unwavering support for the implementation of the JCPOA. There are serious disagreements between the US and Russia over numerous issues such as Russian meddling in the presidential election, the Syrian civil war, and the annexation of Crimea. On the other hand, Russia enjoys good relations with Saudi Arabia and Israel, two of America's major Middle Eastern allies. Furthermore, it should be noted that the US and the EU have imposed sanctions on Russia for different reasons. Russia has multidimensional



**Table 3: Top Trading Partners of Iran, 2017**

	IMPORTS			IMPORTS		
	Country	Value Mill \$	World %	Country	Value Mill \$	World %
1	UAE	23,128	29,8	China	18,172	27,5
2	EU-28	12,154	15,8	EU-28	11,328	17
3	China	9,794	12,7	India	10,03	15
4	Turkey	3,422	4,4	S. Korea	7,552	11,4
5	S. Korea	3,186	4,0	Turkey	7,434	11,1
6	Switzerland	2,478	3,2	Japan	3,422	5,3
7	Russia	2,006	2,5	Afghanistan	1,416	2
8	India	1,652	2,1	UAE	1,062	1,5
9	Brazil	826	1,1	Singapore	708	1,1
10	Singapore	826	1,1	Taiwan	708	1,1
	TOTAL	77,644			66,316	

Note: UAE: United Arab Emirates

Source: [http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc\\_113392.pdf](http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113392.pdf) [accessed on May 12, 2018]

relations with the US, Iran and the EU. Thus, the current situation under the JCPOA and the effects of secondary sanctions on Russia also will be multidimensional. Moreover, due to this complexity, Russia's response towards the secondary sanctions on Iran may be evaluated on the basis of this interconnected and complex structure. From an interest perspective, Russia's best response may be to use the current circumstance as an opportunity to strengthen its hand at bargaining other issues. However, keeping a low profile on the Iranian issue is also an option. (Askeroğlu, 2018).

The trade volume between Russia and Iran experienced a strong rise in 2007 and reached to \$3 billion in 2011. The volume of trade had slightly contracted in 2012 and thereafter as the sanctions tightened. In 2017, the trade volume between Russia and Iran was around \$2.4 billion. Russia's exports were around \$2 billion; imports were \$400 million. Iran imports mainly capital goods from Russia; while Iran exports steel industry products to Russia. However, if an assessment is made on the basis of trade volume between the US-Russia and Iran-Russia, the weak trade links may be interpreted as a signal that the secondary sanctions will not substantially upset Russia. For the year 2016, Russia's exports to the United States were \$9.5 billion, while imports were \$3.5 billion. Therefore, there is a low possibility of exposure to

the US secondary sanctions. Within this scope, Iran and Russia are expected to enjoy a limited and stable trade relation as before. The main concern of the US is to prevent other countries from making large scale investments in Iran. As large-scale investments in technology intensive industries by third countries can be recognized as the US's red line. Therefore, Russia can continue its economic relations with Iran as long as Russia does not approach this red line.

China is emerging as a global superpower, but its dependency on foreign energy will be a major obstacle down the road. With China's integration into the world economy, the global industrial production outlook fundamentally changed, and China became a value-added production hub. However, this posed new challenges to the Chinese economy the most important of which the need to find new markets for enormous quantities of products and to deliver these products easily and cost-effectively to old and new markets. The third weakness is related to China's domestic market. Moreover, china's current supply chain may potentially become insufficient in the near future. China's long-term growth and strengthening the middle-income stratum caused the increase and diversification of consumption. On the other hand, to sustain the production growth, increasing the supply of intermediate and capital goods should be cost effective and smooth. In other words, ever-inc-

## The Economic Consequences of the US Withdrawal from the Nuclear Deal

reasing and diversified domestic demand lead China to import more goods from global markets. Access to alternative suppliers and routes in the global supply chains is essential for sustaining economic growth. Consequently, “The Belt and Road Initiative” (BRI) was proposed to eliminate these shortcomings and to empower China in its bid to become a superpower.

Iran plays a key role in China’s energy security policy since the latter is one the biggest importers of Iranian oil. In 2011, China purchased an average of 555,000 bpd crude oil from Iran, however, in 2012, as the sanctions tightened, China’s crude oil imports from Iran plummeted by nearly 26% and decreased to 440,000 bpd (see Table 4). In 2013, China’s crude oil imports from Iran had remained relatively low (430,000 bpd). However, when the sanctions were effectively implemented, China’s crude oil imports from Iran had reached the levels prior to 2012. Changes in China’s imports from Iran during the sanctions periods are quite meaningful. In 2014 and 2015, China did not adopt the reduction exception by 18% under the NDAA. Moreover, after the JCPOA, China’s Iranian crude oil imports rose to a record of more than 600,000 bpd. In the first quarter of 2018, China’s imports from Iran has reached about 650,000 bpd.

Although, after the 180-day wind-down period, it remains to be seen if China’s crude oil imports from Iran continue to be 600,000-650,000 thousand bpd. At the end of 180 days, the import of oil from Iran will be a sanctionable activity and this issue should be addressed. On May 13, 2018, Iranian Foreign Minister Mohammed Javad Zarif, accompanied by a large delegation from Iran, visited China. Officials representing the NIOC held meetings with their Chinese counterparts. News has emerged that during the meeting, Iranian officials asked their counterparts to maintain imports at the end of the 180-day wind-down period but failed to secure guarantees from China (Aizhu, 2018). In July and early August, Chinese officials made frequent statements in the media about their intentions to go ahead with Iranian oil purchase.

Note also that trade disputes between China and the US have been growing since the beginning of 2018. The Trump administration’s tariff policy (imposing 10-25% tariff or increasing the tariff rate) over numerous Chinese products was retaliated by China. However, it seems that thus far each side has tried to avoid a full-blown trade war.

Apparently, China will come to the negotiating table and ask the US for an exemption from

**Table 4: Crude Oil Importing Countries from Iran (bpd, thousands)**

		IMPORTS						
No	Country	Years						
		2011	2012	2013	2014	2015	2016	2017
1	China	555	440	430	550	530	625	625
2	India	300	265	225	280	220	460	470
3	Japan	315	200	180	170	170	225	170
4	S. Korea	250	155	135	125	115	280	360
5	Turkey	185	150	105	105	110	140	245
6	EU(1)	450	50	35	-	-	245	470
	<b>TOTAL</b>	2540	2100	1215	1110	1080	1920	2100

**Note:** (1) The EU countries which import crude oil from Iran are Greece, France, Italy and Spain. Other EU countries do not purchase crude oil from Iran.

**Sources:** • Amount of Iranian crude oil exports: <https://www.mees.com/2018/2/9/transportation/iranian-oil-exports-hit-pre-sanctions-levels-as-european-share-grows/0fecc010-0dbc-11e8-9c19-95e019b95c5e> [accessed on May 12, 2018]

• Data of EU countries <https://ec.europa.eu/energy/en/data-analysis/eu-crude-oil-imports>

• Total crude oil exports: <https://www.ceicdata.com/en/indicator/iran/crude-oil-exports> [accessed on May 12, 2018]

oil-related sanctions on Iran, as China imported around 600,000-650,000 bpd on average from Iran in the first quarter of 2018. However, recently introduced trade preventive measures by the US and China make the sanction issue cumbersome to assess. It is presumed that China may slightly reduce oil purchase from Iran to avert further rifts with the US and China would likely intend to exhibit “goodwill” by reducing oil purchase.

Under the NDAA, countries may be requested to reduce Iranian oil imports by 18%. Besides, China’s crude oil imports from Iran decreased by 25% between 2011 and 2013. However, under the secondary sanctions, the figures in 2012 and in 2018 are different. Another question is will the reduction exception for China be defined according to the 2012 or 2018 figures. Although this has not been fully clarified, this point should be emphasized.

In 2012, the UNSC built up an international sanctions regime binding on all its member states. Whereas, the current problem for China is unilateral secondary sanctions that are imposed by the US. Chinese officials stated that the US’ withdrawal from the nuclear deal and the re-imposition of sanctions will not affect China’s imports and so China will not retreat from the Iranian oil market (Slav, 2018). However, China will try to maintain the exception for a crucial reduction level rather than experience a confrontation. Using a basic calculation, if the 650,000 bpd is taken as the reference value, China will receive an exemption around the level of 500,000-550,000 bpd (or a reduction around 100,000-150,000 bpd). Additionally, it seems that the bold step taken by China as a means of maintaining Iranian oil purchase will require some sort of “additional discount” for the price of Iranian oil.

Another problematic issue associated with China is related to payments for business transactions with Iran. During 2012-2016, the success of the sanctions was related to the inability to transfer business payments to and from Iran rather than trade in goods and services. The average payment for 600,000 barrels per day is

nearly \$45 million with the crude oil spot price around \$75 per barrel (August 2018). Recently, two important steps on payment methods have been taken. The use of national currencies for trade and a decisive initiative led by China. Within the last two years, Russia and Iran have been moving towards doing bilateral commerce using their national currencies. Despite a number of problems regarding implementation, this method can be activated in the event of tightening pressure on Iran. The dollar has been a major currency for trading oil since crude oil was considered a valuable commodity. Moreover, financial instruments in both futures and spot markets are basically traded in the dollar. Nonetheless, China focused on this issue and launched its first ever yuan-denominated oil futures contracts on April 8, 2018. The introduction of the yuan-denominated crude oil futures, at a predetermined price on a future delivery date, may reduce the impacts of the US sanctions. The effects of this step can be predicted to be fully stated in the future.

Last year, Total, Chinese state-owned oil and gas company (CNPC) and the National Iranian Oil Company (NIOC) signed a \$5 billion contract for the development and production of phase 11 of South Pars. Total had a 50.1% stake while the CNPC holds relatively low stake (30%). Following the US withdrawal from the nuclear agreement, Total announced that it might pull out of the South Pars development project in the face of potential secondary sanctions if it cannot secure a waiver from the US government. Total confirmed that its actual spending to date with respect to the South Pars project was \$90 million. The CNPC has said it is ready to take over Total’s stake in the project and hold the leading stake in the project (more than 50%). It is evident that China can deal with the US secondary sanctions in this field. Even so, whether China’s technological knowledge is sufficient is a debatable topic.

In 2016, trade turnover between Iran and China stood at \$31 billion. China’s exports to Iran amounted to \$16.4 billion and the imports (primarily oil) from Iran \$14.8 billion. In the

same year, trade turnover between the US and China stood at \$520 billion. China's imports from the US were \$135 billion; its exports to the US were \$385 billion. China's goods trade surplus with the US was \$250 billion in 2016. From China's perspective, the US and Iranian markets are quite asymmetric in terms of size. Although China has serious problems in several areas with the US and even if Iran is an important alternative in terms of energy security, China will not risk being on the wrong side of the US due to Iran. Therefore, negotiations between China and the US will likely occur as they do in other conflictual areas and China will seek how to sustain the commercial relations with Iran with the least detrimental outcome.

How can Iran related secondary sanctions be overcome with minimal damage in the context of China's interests? Due to secondary sanctions, of the already existing plethora of disagreements between the US and China, a new one has been added to the "basket of disputes". However, negotiations between China and the US and seeking particular and holistic solutions for these disputes will be continued. Moreover, pursuing the national interests in negotiations and reaching a compromise are expected from both countries. It should be remembered that China is a powerful rival to the US on the global power struggle. It is likely that over the next 20 years, the geopolitical and economic power struggle between China and the US will continue and both countries will not hesitate to utilize tools that will wear each other out in this struggle.

In 2011, prior to sanctions, Iran's crude oil exports averaged 2.5 million bpd and its top importers were China (554,000 bpd), Japan (315,000 bpd), India (300,000 bpd), South Korea (250,000 bpd) and Turkey (185,000 bpd) respectively. With the tightening of the sanctions (2012 and later), India, Japan and South Korea significantly reduced their purchases (Mees,

2018). Therefore, it is expected that the traditional US allies, India, Japan and South Korea, will reduce their oil imports from Iran substantially. Some oil companies and refineries from Japan, South Korea and India have already made announcements stating that they will stop purchasing oil from Iran. However, due to energy security and long-term contracts, it is expected that a zero oil purchase target is unrealistic even for these countries. Among two security options, "energy security" versus "geopolitics security", the US pushes these three countries to make a choice and it seems that they lean toward the second option.

### 4.2.2 The EU

The 28 EU countries have different opinions on the US' withdrawal from the nuclear deal and so the re-imposition of secondary sanctions. As those 28 EU countries have different national interests and political expectations related to Iran.

The E3 countries are the main actors of European history and today's European politics. Since mid-March 2018, the E3 have tried to convince Trump to prevent withdrawal from the JCPOA. At the end of March, the 28 diplomats from the EU had a meeting in Brussels with the officials of Iran's Revolutionary Guard Corps (IRGC) to find "a sufficient common ground" that would satisfy the demands that Trump made, however, it could not be reached. Officials from Germany, France and the United Kingdom suggested imposing restrictions on Iran's ballistic missile program and addressing Iran's activities in the Middle East, mainly in Syria. However, at the meeting, a consensus could not be reached on these restrictions. Iran's trade partners in Europe, Greece and Italy, with support from Austria, Ireland and Sweden, reportedly rejected additional measures on Iran (Emott and Irish, 2018). On April 16, 2018, EU Foreign Affairs ministers met in Luxembourg. There also was no consensus at the Luxembourg meeting,

as in Brussels. Thirdly, in the last three months, Germany, France and the United Kingdom used high level visits to try to persuade Trump to abide by the agreement.

The EU countries, mainly the E3, have been determined to preserve the nuclear deal, following the US withdrawal from the JCPOA on May 8. The Iranian officials- Iranian Foreign Minister Mohammed Javad Zarif at the apparent forefront- have demanded a guarantee for the EU's commitment to the implementation of the nuclear deal. The presidents/prime ministers of the E3 have repeatedly expressed their unwavering support for the agreement at different meetings without giving a definite guarantee. Furthermore, the pressure groups, trade associations and chambers of industry made announcements on the nuclear deal and asked politicians to introduce measures to protect firms from US secondary sanctions (Hucal, 2018). Besides, EU leaders discussed the future of the Iran nuclear deal at the EU-Western Balkans Summit in Sofia, on May 17, 2018. At the summit in Sofia, leaders highlighted that the EU will stay in the agreement as long as Iran remains fully committed to it.

Despite the well-intended efforts of the E3 and the EU, no concrete proposals or formula have emerged. However, some EU companies engaged in Iran have declared that they are waiting for clarification of the EU position and will pull out of their investments in Iran un-

less the EU position is clarified. The officials' announcements that the JCPOA will survive do not convince the business world which is focused on actions rather than statements. Hence, most EU companies professed that they will unwind their operations in Iran or they would not enter into any new contracts. For example, Joe Kaeser, the CEO of Germany's Siemens said they will fulfill commitments within the relevant wind-down period but would not be able to realize any new orders/contracts (Kar and Irish, 2018). The French energy company Total, Britain's Vodafone, multinational European company Airbus, German insurer Allianz and Danish tanker operator Moller-Maersk likewise announced that they will wind down their business in Iran (Kar and Irish, 2018).

On the one hand, Iran demands a definite guarantee about the EU's commitment to the implementation of the nuclear deal, on the other hand, Iran is striving to find a middle ground with the EU. Theoretically, the EU has at least three alternatives to maintain the JCPOA and so the implementation by Iran of its commitments under the JCPOA. The first one is to impose additional measures on Iran and thus to exempt EU companies from US secondary sanctions. Since January 2018, the EU countries have worked on new sanctions on Iran over its ballistic missile program and its involvement in the conflicts in Syria. Although to consider new sanctions which have the power to persu-

**Table 5: Iran, Trade with the World and with the EU (mill €)**

	YEARS									
	2007	2009	2010	2011	2012	2013	2014	2015	2016	2017
Imports	33,2	35,9	50,4	49,5	49,1	39,9	52,4	50,6	54,9	65,9
Exports	57,0	45,9	64,3	80,4	64,8	48,0	48,4	35,4	42,2	56,2
Total Trade	90,2	81,8	114,7	129,8	113,9	87,9	100,4	86,1	97,1	122,3
Exports to the EU	14,0	9,4	14,5	17,3	5,7	0,7	1,2	1,2	5,5	10,1
Imports from the EU	10,1	10,4	11,3	10,5	7,4	5,4	6,4	6,5	8,2	10,8
Total Trade	24,1	19,8	25,8	27,8	13,2	6,1	7,6	7,7	13,7	20,9

Source: [http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc\\_113392.pdf](http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113392.pdf) [accessed on May 12, 2018]



## The Economic Consequences of the US Withdrawal from the Nuclear Deal

ade the US and thus to exempt EU companies from US secondary sanctions could theoretically stand to reason, it seems quite challenging to convince the US and Iran.

The second option is to activate “blocking statute”, which was first adopted in 1996 “to exempt” EU companies from the US extraterritorial economic sanctions on Cuba. The EU has long been raising objections against the extraterritoriality implementation of (secondary) sanctions. In the 1990s, the addition of US secondary sanctions in the sanctions program (Cuba sanctions) raised concerns of EU companies that had been in good trade relations with Cuba. Therefore, the EU adopted “blocking statute” in 1996. This regulation forbade EU persons from complying with US secondary sanctions. There are provisions that enable the member states to sanction EU companies complying with the US sanctions. Thus, the EU companies would present this regulation as a legal basis in case of investigation/prosecution/trial by US courts for their commercial ties with Cuba. Adoption of this regulation in 1996 by the EU meant that the EU rebelled against the US in commercial terms. After the adoption of the regulation, EU and US officials held political meetings and finally, they reached a political solution to protect the interests of EU companies. Owing to the political solution, “blocking statute” has never been used.

Will the EU adopt a blocking regulation as in 1996? Iran’s expectation from the EU is

probably a step in this direction. However, this option includes some risks. Such a step taken by EU countries would cause the already strained relations between the US and EU to become tenser. Besides, it has the risk of evolving into a trade war with the US. Iran trade relations with the EU is figured in the above table (Table 5). In the next table (Table 6) the US trade relations with the EU is figured. The EU’s foreign trade with Iran reached €21 billion in 2017 while its trade volume with the US was at a level of €630 billion. Moreover, the EU’s trade surplus with the US that year reached €112.9 billion. Although the JCPOA is crucial for the EU in a political context, the EU countries are not expected to jeopardize the US market. Theoretically, the adoption of this option would be possible, but it has a slim chance. The third option is to support the euro-denominated trade of European small and medium-sized enterprises (SMEs). Conducting transactions in US dollars with respect to Iran does not seem possible due to the US domination of the global financial system. The first mechanism that enables countries to bypass US sanctions is to use non-dollar financial channels. In this regard, the EU is in an advantageous position. Euro-denominated trade has the power to challenge the US supremacy. The second phase of this option is to encourage European companies which have no opportunity, desire or chance to engage in financial or commercial activity with the US to trade with Iran. The US secondary sanctions are primarily based on the prohibition of US persons from doing business

**Table 6: US Trade with the EU (mill €)**

	YEARS							
	2010	2011	2012	2013	2014	2015	2016	2017
Exports	963	1,065	1,203	1,118	1,219	1,356	1,313	1,368
Imports	1,484	1,586	1,771	1,707	1,767	2,020	1,977	2,073
Total Trade	2,448	2,651	2,974	2,896	2,986	3,376	3,291	3,441
Exports to the EU	174	194	209	199	209	249	250	256
Imports from the EU	243	264	293	289	311	371	364	376
Total Trade	418	458	502	489	521	621	614	632

Source: [http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc\\_113392.pdf](http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113392.pdf) [accessed on May 12, 2018]



**Table 7: Turkey Iran Foreign Trade (mill \$)**

	YEARS							
	2010	2011	2012	2013	2014	2015	2016	2017
Exports	3.044	3.589	9.921	4.192	3.886	3.664	4.966	3.259
Imports	7.645	12.461	11.964	10.383	9.833	6.096	4.699	7.492
Volume	10.689	16.051	21.886	14.575	13.719	9.760	9.666	10.752
Balance	-4.600	-8.871	-2.043	-6.190	-5.947	-2.432	266	-4.232

Source: Ministry of Economy

with the third country individuals and entities engaging in trade or other transactions with Iranian entities on the SDN list. Large corporations are more likely to be exposed to the secondary sanctions risks due to their US operations and also financial operations in the US system. Therefore, large corporations' trade relations with Iran and especially Iranian entities on the SDN list fall into the scope of extraterritoriality and these activities would cause the political tension to rise between the US and the EU. Consequently, it would be a more rational solution to engage in transactions with Iranian entities not on the SDN list by SMEs and other companies that have no chance to engage in financial or commercial activity with the US. However, gradually hardening US attitudes towards Iran and the existence of numerous justifications supporting that the ultimate goal of the US is to make a "regime change" rather than a nuclear deal even make this option difficult.

### 5. Turkey's Position

Since the early 2000s, trade relations between Turkey and Iran have been steadily rising. Trade volume between Turkey and Iran peaked (\$21.9 billion) in 2012, then fell slightly in 2013 as the sanctions tightened. Although the Turkish and Iranian presidents set the bilateral trade target at \$30 billion after the JCPOA, the trade volume did not exceed the 2015 level (see Table 7). Energy products dominate Turkey's imports from Iran (oil and natural gas). Turkey's natural gas consumption is approximately 45-50 bcm/year and 99% is imported. Iran supplies nearly 17% (8 bcm/year) of total gas imports. In 2017, Turkey imported 25.8 million tonnes (180 mil-

lion barrels of oil), 17% of its oil (11.5 mtoe) from Iran. Turkey's total energy bill was nearly \$37 billion in 2017 as the average oil price was around \$60 per barrel.<sup>10</sup> Therefore, oil and natural gas constituted a substantial part of Turkey's imports from Iran, which stood at \$7.5 billion in 2017<sup>11</sup>.

The most critical component of the US sanctions program with regard to energy is the NDAA, and after the NDAA, the energy-related sanctions imposed under the executive orders. Under the NDAA, Turkey has received an exception for natural gas and thus eliminating any issue in this context, however, there are some uncertainties about oil imports. Under the NDAA of 2012, Turkey maintained exemptions for significant reductions as an 18% purchase reduction based on the average of the total volume of oil imports in 2011. While Turkey's crude oil import from Iran was 9.3 mtoe (65 million barrels of oil) in 2011, it contracted to 7.6 mtoe due to sanctions.

After the JCPOA, Turkey's oil imports from Iran has sharply increased and reached 7 mtoe (49 million barrels of oil) in 2016 and 11.5 mtoe (80 million barrels of oil) or 220,000 bpd in 2017. As compared to 2011, Turkey's oil imports from Iran has substantially increased. Although the Trump administration frequently expresses their objective about zero Iranian oil export, this is not sustainable for Turkey. Due to logistics, costs and energy security reasons, full compliance (or zero oil and natural gas import

<sup>10</sup> Note also that oil prices in the second quarter of 2018 reached \$75 as a result of uncertainty mainly due to Iran.

<sup>11</sup> As Iran paid a compensation to Turkey in line with a decision of the International Court of Arbitration, to mention the exact amount could not be possible.

## The Economic Consequences of the US Withdrawal from the Nuclear Deal

---

from Iran) seems to be unwieldy, particularly for natural gas. Note also that since Iran and Turkey are neighboring countries, the implementation of these secondary sanctions by Turkey has costs beyond the economic realm. If the sanctions caused significant human tragedy (i.e. a significant number of Iranian citizens migrate to Turkey), the US should give a guarantee in advance. The costs of the Syrian crisis on Turkey are frequently overlooked by western allies. Officials of the Ministry of Economy, Ministry of Foreign Affairs and Ministry of Energy and Natural Resources are expected to hold meetings with US officials on the scope of an exemption and other issues in details.

Turkey is expected to shape its relations with Iran in accordance with the EU's steps for the maintenance of the JCPOA. Therefore, the future of the nuclear deal will be determined by the concrete steps taken by the EU. It is noticed that almost all parties concentrate on the behavior of the EU.

Important steps have been taken to improve Iran-Turkey trade relations in the last 20 years. With the preferential trade agreement (PTA) signed in 2015, tariffs on almost 300 items were mutually reduced. During the visit to Tehran on October 4, 2017, along with a group of Turkish ministers and advisors, President Erdoğan met with President Rouhani and a number of important agreements were signed for improving the trade between Turkey and Iran. Additionally, important topics such as the use of national currencies in trade, the improvement of mutual investment, the 24 hour operation of border gates and the development of the extent of PFA have been discussed and agreements were signed between the two countries.

Turkey has been pursuing a balanced policy based on the development of economic interests for a long time. Unlike EU countries, Turkey shares land borders with Iran and as a consequence of being neighbors, the nature of the trade relations differs from those countries. Therefo-

re, the current situation imposed by the conjuncture is not likely to influence Turkey's trade relations with Iran as mechanically. In the near future, due to secondary sanctions, Turkey's trade relations with Iran will be partially affected. However, Turkey also should expand trade volume and develop alternatives to eliminate the effects of the US secondary sanctions after the wind-down period.

On May 21, US Secretary of State, Mike Pompeo's announcement on Iran and a list of 12 US demands for Iran indicate that the US attitude towards Iran will gradually harden. Some experts claim that the US is seeking a "regime change" rather than a nuclear deal and some imply or say that the military and economic options or a combination of both to counter Iran are on the table. Speculations aside, the incentives for the US to weaken the Iranian regime is to preclude large scale investments in Iran. The corporations' and large-scale companies' investments, especially in technology, oil, natural gas, manufacturing industry and other sectors, have not been desired. However, Iran needs foreign investments in these sectors to solve its current issues. Hence, the preclusion of large scale investments by third countries can be recognized as the red line set by the US. Moreover, if the US secondary sanctions hinder the investments in these areas, it will exacerbate the structural problems of Iran. Actually, the aim of the US is the reaction of the Iranian people and thus the end of the Iranian regime. As the main objective of secondary sanctions is formulated in this way, the US would likely not welcome the activities of the Turkish corporations and large Turkish companies in Iran. In this regard, there are two focuses to bypass the US secondary sanctions:

Trade in non-dollar payments (mainly in national currencies);

1. Trade facilitation measures for companies that do not fall under the scope of the US secondary sanctions (companies that do not to

engage in commercial activities with the US and whose customer focus is non-SDN individuals and companies).

2. It should be noted that to consider the US incentive is central for the future of the strained relations between Turkey and the US.

## Conclusion

Several countries, mainly the EU countries, are trying to minimize their losses resulting from the US withdrawal from the JCPOA. Therefore, the future of the nuclear deal will be determined by the EU's attitude. Following the US withdrawal from the JCPOA on May 8, the E3 leaders criticized the attitude of the US and declared their determination for the continuation of the agreement. Despite this statement's political importance, the key determinant will be concrete steps rather than statements. Moreover, Iran has been waiting for the E3 and other signatories to take action and has demanded a definite guarantee regarding them. Although Iran's demand for a guarantee is intelligible, it is not yet possible to predict exactly to what degree this demand will be met by other countries, especially the E3. Statements by Turkey indicated that the trade relations with Iran would likely continue, however, it can be anticipated that Turkey would possibly wait for the EU's actions and shape its agenda accordingly.

It is very difficult to terminate the US secondary sanctions completely, so the countries will attempt to minimize their losses. In that regard, these steps, on the one hand, should ensure the implementation of the JCPOA, on the other hand, should not be entirely at variance with the US. Moreover, there are varying levels of political relations that EU countries have with the US and Iran. Therefore, the concrete steps taken by the EU have to consider the reaction of the US, although, they should aim for a middle ground which will satisfy the member states. For this reason, as a rational solution, small and medium-sized enterprises (SMEs) can be encouraged

to trade with Iran through euro-based sovereign credit lines and incentive mechanisms. However, it is essential to consult and caution SMEs regarding the actors on the SDN list.

In the short run (2019-2020), Iran's oil exports, which in 2018 is nearly 2.3 million bpd, is expected to fall to approximately 1.5-1.7 million bpd, representing a drop of 300,000-500,000 bpd. However, as oil prices are expected to trade around \$70 to \$80 per barrel, a decrease in Iran's revenues from oil exports would be limited in the near future. In 2018, Iran's GDP has not reached 2010 levels. Subsequently, Iran's oil revenues are expected to drop further within the next years. Besides, due to diminishing oil revenues, the presence of the secondary issues such as unemployment and inflation should also be considered. Marking the socioeconomic and political problems of Iran, the long-needed foreign direct investments would not transpire in Iran. Ultimately, the US secondary sanctions leave the hands of corporations, global companies and large-scale companies tied. So, the diminishing oil revenues and foreign direct investments will fuel the deepening of the socioeconomic problems in Iran.

### References

- Aizhu, C. (2018). Exclusive: Iran asks Chinese oil buyers to maintain imports after U.S. sanctions – sources. [Accessed on May 20, 2018] <https://www.reuters.com/article/us-iran-nuclear-china-oil-exclusive/exclusive-iran-asks-chinese-oil-buyers-to-maintain-imports-after-u-s-sanctions-sources-idUSKCN1IH0VL>
- Askeroglu, S. (2018). Trump’ın Kararı İran’ın Suriye’deki Varlığını ve Tahran-Moskova İlişkilerini Nasıl Etkiler? IRAM: [Accessed on May 18, 2018] <https://www.iramcenter.org/trumpin-karari-iranin-suriyedeki-varligini-ve-tahran-moskova-iliskilerini-nasil-etkiler/>
- White House (2018). Executive Orders [Accessed on May 11, 2018] <https://www.whitehouse.gov/the-press-office/2016/01/16/executive-order-revocation-of-executive-orders-with-respect-to-Iran>
- Chachko E. (2018). Trump Withdraws from the Iran Nuclear Agreement: What Comes Next. Lawfare: [Accessed on May 15, 2018] <https://lawfareblog.com/trump-withdraws-iran-nuclear-agreement-what-comes-next>
- Clawson, P. and Jacobson, M. (2007). “How Europe Can Pressure Iran”. [Accessed on May 11, 2018] <http://www.wsj.com/articles/SB11939533432079580>
- Corn G., Gurule J., Jensen E. and Margulies P. (2015). National Security Law: Principles and Policy (Aspen Student Treatise). Kluwer.
- Emmott, R., and Irish J. (2018). European powers press for Iran sanctions to buttress nuclear deal. [Accessed on May 10, 2018] <https://www.reuters.com/article/us-usa-trump-iran-eu/european-powers-press-for-iran-sanctions-to-buttress-nuclear-deal-idUSKBN1H4253>
- Hucal, S. (2018). US exit from Iran nuclear deal rattles EU companies doing business there [Accessed on May 20, 2018] <https://abcnews.go.com/International/us-exit-iran-nuclear-deal-rattles-eu-companies/story?id=55042999>
- ISIS (2015). United Nations Security Council Resolutions. [Accessed on May 10, 2018] <http://www.isisnucleariran.org/documents/unscl>
- Kar, S. and Irish J. (2018). France’s Total to quit Iran gas project if no sanctions waiver. [Accessed on May 15, 2018] <https://www.reuters.com/article/us-iran-nuclear-france-total/frances-total-to-quit-iran-gas-project-if-no-sanctions-waiver-idUSKCN1IH1XK>
- Katzman, K. (2018). Iran Sanctions. Congressional Research Service 7-5700. [Accessed on May 12, 2018] <https://fas.org/sgp/crs/mideast/RS20871.pdf>
- Küpeli Ş. M. (2016). Sanctions as a Foreign Policy Tool: Impact of Sanctions on Iran. Turkish Journal of Middle Eastern Studies. Volume: 3, Issue: 1, 2016, pp.97-135.
- Mees (2018). Iranian Oil Exports Hit Pre-Sanctions Levels As European Share Grows. [Accessed May 18, 2018] <https://www.mees.com/2018/2/9/transportation/iranian-oil-exports-hit-pre-sanctions-levels-as-european-share-grows/0fecc010-0dbc-11e8-9c19-95e019b95c5e>
- Moarefy, S. (2016). Partially Unwinding Sanctions: The Problematic Construct of Sanctions Relief in the JCPOA.
- Harvard Law School, National Security Journal. [Accessed on May 9, 2018] <http://harvardnsj.org/2016/07/partially-unwinding-sanctions-the-problematic-construct-of-sanctions-relief-in-the-jcpoa/>
- Slav I. (2018). Iran Sanctions Threaten The Petrodollar. [Accessed on May 18, 2018] <https://oilprice.com/Energy/Energy-General/Iran-Sanctions-Threaten-The-Petrodollar.html>
- Treasury (2018). JCPOA-related Designation Removals [Accessed on May 10, 2018] [https://www.treasury.gov/resource-center/sanctions/OFAC-Enforcement/Pages/updated\\_names.aspx](https://www.treasury.gov/resource-center/sanctions/OFAC-Enforcement/Pages/updated_names.aspx)
- UNSC (2015). Full Text of the Joint Comprehensive Plan of Action [Accessed on May 16, 2018] [https://www.un.org/en/ga/search/view\\_doc.asp?symbol=S/RES/2231\(2015\)&referer=https://www.un.org/en/sc/2231/&Lang=E](https://www.un.org/en/ga/search/view_doc.asp?symbol=S/RES/2231(2015)&referer=https://www.un.org/en/sc/2231/&Lang=E)
- US Federal Register (2012). Iranian Transactions Regulations. [Accessed on May 16, 2018] [http://f.datarvr.com/fr1/312/17418/Federal\\_Register\\_OFAC\\_10.22.12.pdf](http://f.datarvr.com/fr1/312/17418/Federal_Register_OFAC_10.22.12.pdf)
- Zarate, J. (2013). Treasury’s War: The Unleashing of a New Era of Financial Warfare. New York: Public Affair









**Center for Iranian Studies in Ankara**

## About İRAM

Center for Iranian Studies in Ankara is a non-profit research center dedicated to promoting innovative research and ideas on Iranian affairs. Our mission is to conduct in-depth research to produce up-to-date and accurate knowledge about Iran's politics, economy and society. İRAM's research agenda is guided by three key principles – factuality, quality and responsibility.



Center for Iranian Studies in Ankara

Oğuzlar Mh. 1397. Sk. No: 14 06520 Çankaya, Balgat, Ankara, Turkey  
Phone: +90 312 284 55 02 - 03 Fax: +90 312 284 55 04  
e-mail: [info@iramcenter.org](mailto:info@iramcenter.org) [www.iramcenter.org](http://www.iramcenter.org)

All rights reserved. No part of this publication may be reproduced or transmitted without the prior written permission of İRAM.