

Iran: After Vienna, What are the Prospects for a Comprehensive Agreement?

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Summary

Iran and the P5+1 were unable to reach a comprehensive agreement in Vienna this month on Iran's nuclear programme and have instead extended the Geneva interim agreement by four months to allow further negotiations. The outcome was no shock: while progress has been made in the negotiations, significant gaps remain on key issues such as Iran's enrichment programme. The incentives to strike a comprehensive deal remain strong on both sides. The key question is whether political space exists in Washington and Tehran to make the required trade-offs. The new deadline of 24 November, coming after the US mid-term elections and during the lame duck session of Congress, is well chosen. A second extension looks unlikely. The next four months will therefore determine whether the dangerous stand-off between Iran and the west is resumed or relations are to move decisively towards normalisation, opening up new commercial opportunities in Iran's consumer market and energy sector. More work is needed in capitals as well as in Vienna if the next phase of negotiations is to succeed.

In the early hours of Saturday morning, amid the splendour of the Colburg Palace Hotel in Vienna, negotiating teams from Iran and the P5+1 agreed to extend the interim nuclear deal until 24 November - one year from the date it was signed in Geneva - to allow more time to reach a comprehensive agreement. In many respects this is as predicted when the negotiations began in earnest in February this year. The issues are difficult to solve and the politics constraining; equally the costs of failure are too high for either side to walk away. So six months on are we any closer to reaching a comprehensive agreement that would begin the long, hard process of normalising Iran's relations with the west and open up commercial opportunities in the country's large consumer market and energy sector?

Extra time required

The terms of the extension announced by the lead negotiators - EU High Commissioner Baroness Ashton and Iranian Foreign Minister Mohammad Javad Zarif - preserve the balance and the modest nature of the interim agreement. Iran will continue to receive what the US describes as "limited, temporary, targeted and reversible sanctions relief." This allows automotive imports, petrochemical exports and trade in gold. Iran will gain access to another \$2.8bn in frozen oil revenues payable in six tranches, one every three weeks from 1 August. This is proportionate to the \$4.2bn allowed during the first six months of the interim agreement.

In return Iran has made some new commitments. Iran will convert more of its stock of 20 percent enriched uranium into a form which will make it much harder to use in a weapons programme and dilute its entire stock of two-percent uranium. Iran will also close two alleged “loopholes” in the original agreement, by allowing the International Atomic Energy Agency (IAEA) to inspect facilities producing rotors for advanced centrifuges and by only producing advanced centrifuges to replace damaged machines. These details are dry and technical, but essential. They are also just a small part of the broader negotiation.

The interim agreement in practice

The implementation of the interim agreement has been smoother than most expected, but probably more so from a US perspective than an Iranian one. Senior US officials say they have been “very pleased” with its implementation, with Iran “meeting all of its commitments.” In some ways the interim agreement has even “over performed”. Limits on sanctions relief have not been breached as critics in Washington, Israel and elsewhere predicted. Some US and many European businesses have shown interest in potential future opportunities in Iran, but have been equally cautious about pursuing them now. The only obvious exceptions have been in sectors where trade is explicitly allowed under the interim agreement, such as automobiles. There are only modest signs of other countries, outside the EU and US, stepping in to trade more with Iran, although again the interest is there, as the number of business delegations and trade ministers visiting Iran has shown.

The reasons for the interest without action are twofold: for western firms the reputational risks remain high; and for all firms the practical hurdles are huge, given the financial sanctions. Indeed, this is where the implementation may well have been too successful. The Iranians have struggled to execute financial transactions allowed under the interim agreement, requiring the US Treasury to provide assurances to the banks involved in order for the transactions to proceed.

So far it would appear the Iranians have received only a modest dividend from the interim deal. Iranian GDP fell 3.2% in the first half of the year, compared with the same period the year before, although that is an improvement from the tailspin seen during 2013. Inflation has fallen, largely due to better macroeconomic management, but remains in double digits. In the six months to the end of June the TEPIX index of the Tehran stock exchange fell by almost 20%, contrasting with the 131% increase

seen during 2013. This is well short of the strong economy that President Rouhani promised when he was elected.

Progress and problems in Vienna

Significant progress has been made during the month of negotiations in Vienna. The parties now have a draft text. The problem is the “number of brackets and blank spaces in that text” according to John Kerry.

As in any negotiation, nothing is agreed until everything is agreed. But substantial gaps have been closed in several areas. US officials say they have found an acceptable compromise regarding the Arak reactor, which would “effectively close off the plutonium path to a bomb”. They say they have established a different purpose for the underground enrichment facility at Fordow, which will ensure it cannot be used in a weapons programme. They are also confident that a mutually satisfactory arrangement for enhanced monitoring and verification is obtainable.

But substantial gaps remain in many other areas. The most important is the enrichment capacity that will be allowed. There are currently around 19,000 centrifuges of varying degrees of sophistication, with only around half are actually functioning. The US wants a substantial reduction in order to raise the “break-out time” required to produce a weapon. The Iranian lead negotiator Zarif has proposed a freeze for now, but with flexibility to increase substantially the capacity later, arguing that this is necessary for Iran’s civil nuclear programme to become self-sufficient.

Progress	Possible approach	
Arak plutonium reactor	Redesign to reduce plutonium production capacity	
Fordow enrichment facility	Conversion to research and development facility	
Monitoring and verification	IAEA monitoring, possibly beyond additional protocol	
Problems	P5+1	Iran
Enrichment capacity ⁱ	< 3,000 centrifuges	Eventually 20,000+
Sunset period	10-20 years	3-5 years
Timing and mode of sanctions relief	Gradual, reversible	Rapid, permanent

ⁱThe number of centrifuges depends on their sophistication. The numbers shown here are indicative figures assuming more advanced centrifuges.

Table 1: State of play on key issues in the negotiation

There are at least two other sticking points. One is the sunset period for the agreement after which Iran will be treated like any other signatory of the Non-proliferation Treaty. US officials now say it “has to be double digits”, while some in Congress want it to be as long as twenty years. The Iranians say 3 to 5 years. The other area is the pace and means by which sanctions relief will be granted. The US wants this to be gradual and reversible in order to retain leverage with measures relaxed in return for actions by Iran. The Iranians want more rapid and permanent progress.

Constraints in capitals

Hard-liners in Tehran are concerned that a deal which opens Iran could weaken the Islamic regime. The Supreme Leader, Ayatollah Ali Khamenei, is the ultimate power. He surprised many when he intervened on 8 July to specify the required enrichment capacity at several times the current level. In so doing he appears to have provided hard-liners in Tehran with a red line they can deploy to constrain Zarif when the negotiators eventually return to Vienna. Optimists note that Khamenei did not specify when this increased capacity will be needed, potentially giving some room for flexibility.

In Washington there is a swell of concern in the Congress that the administration may be ready to agree a bad deal. There is also a disagreement on tactics. Many in Congress would support legislation now to automatically increase sanctions if there is no deal. They argue that a stick of this sort is required to shift the cost-benefit calculation in Tehran. The White House says it would veto new legislation while the negotiations are taking place as this risks undermining P5+1 unity and provoking a response from Iran that will make it harder to secure a deal. But the White House has also said it is willing to support additional sanctions if there is no agreement in four months and no progress that justifies continued discussions.

Russia is a wildcard. Negotiators say there has been little sign that the frosting of relations between the Russia and the west has contaminated the P5+1 dynamic. Most say Russia played a helpful, supporting role when the interim agreement was reached last year. That may seem distant now, when the US and the EU are ratcheting up sanctions on Russia over Ukraine. Even so Russia does not want either a war or a nuclear-armed Iran on its southern doorstep. Nor does Russia have much to offer Iran as an alternative to opening up trade with the west, particularly when financial sanctions reduce this to barter.

Prospects for a comprehensive agreement

According to John Kerry the “very real prospect of reaching a good agreement that achieves our objectives necessitates that we seek more time.” Senior US negotiators say the extension “is not a new status quo, but rather a means of getting us the space to reach an agreement.”

The gaps between the parties are bridgeable even if the constraints imposed in capitals make this difficult, particularly on the core issue of enrichment. The negotiators say they need a break from both the intense negotiations and the buffet at the Colburg Palace Hotel. They need to pause and take stock in capitals. They don’t need new analysis. There is no shortage of ideas and possible solutions to break the deadlock. Tough political choices are what are required now.

Formal negotiations will resume in early September. The UN General Assembly is potentially a key moment. This will bring heads of government together in New York on 16 September. That could be when Presidents Rouhani and Obama meet for the first time, face to face, following their near miss at the same gathering last year. It could also be when some of the tough political judgements and trades are made.

The 24 November deadline comes 20 days after the US mid-term elections. That will have two effects. First, the political context for the negotiations will change once the mid-terms are out of the way. Second, the deadline falls in the lame duck session of Congress when a number of those retiring or voted out still hold their seats. In the past two Congresses more than one in four laws have been passed during the lame duck session, according to Republican lobbyist Bruce Mehlman. It is an open question whether President Obama can push through a deal with Iran using executive waivers for sanctions in the face of opposition from Congress. If he judges that he needs the explicit support of Congress then this may be the best moment to obtain it. Even so, it will be difficult.

24 November now looks like a binding deadline, when a comprehensive deal will or will not be struck. It will be much harder to convince the sceptics, particularly in Washington, that a second extension is justified if there is no agreement by then. According to German Foreign Minister Frank-Walter Steinmeier “the negotiations cannot be continued indefinitely ... [this] could be the last and best chance for a long time to bring about a peaceful end to the nuclear dispute.” The prospects

for a comprehensive agreement remain in the balance. Both sides want a deal. More work is needed in capitals as well as in Vienna if they are to succeed.

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