

Trump, Iran and the future of the deal

29 November 2016 | Author: Thomas Gradowski

Summary

Donald Trump may be a deal maker, but on the Iran nuclear deal he is a wild card. He has said he would police the strict implementation of the nuclear deal with Iran, which is President Obama's primary foreign policy achievement. He has also said his top priority is to dismantle it. Such contradictory statements are a Trump signature, but make understanding his Iran policy no easier. One thing is clear, he cannot ignore Iran. To uphold the US side of the deal, he must regularly use his executive powers to renew sanctions waivers. The question is, will he do this? There are many possible actions Trump might take as president but only three plausible scenarios for the future of the nuclear deal with Iran.

Donald Trump may be a deal maker, but on the Iran nuclear deal he is a wild card. He has said he would police the strict implementation of the nuclear deal with Iran, which is President Obama's primary foreign policy achievement. He has also said his top priority is to dismantle it. Such contradictory statements are a Trump signature, but make understanding his Iran policy no easier. One thing is clear, he cannot ignore Iran. To uphold the US side of the deal, he must regularly use his executive powers to renew sanctions waivers. The question is, will he do this?

The answer to that question is critical for international firms that trade with, or have already invested in, Iran. Since the lifting of sanctions in January, Siemens has entered several agreements to modernise Iran's energy sector, while aviation giants Airbus and Boeing have signed contracts worth more than \$20 billion each. French carmakers Renault and Peugeot have committed hundreds of millions of dollars and Total has just signed a \$2 billion gas deal. British Airways has restarted flights to Tehran and Lufthansa has expanded connections between Iran and Germany. They and others must now assess what a Trump administration means for the US-Iran relationship, the stability of the nuclear deal and Iran's commercial environment.

What we know...

Despite his inconsistency, we know one thing for sure about President-elect Trump's attitude toward the nuclear agreement: he is not a fan. A few months

after it was signed he spoke at a rally opposing the agreement in Washington. He has criticised the deal in characteristically hyperbolic terms, labelling it: a "horrible contract"; "the worst I have ever seen"; and the "stupidest deal of all time".

Some media coverage has focused on his statement to the American Israel Public Affairs Committee (AIPAC) - one of the most powerful and anti-Iranian pressure groups in Washington - that his "number one priority" is to "dismantle" the agreement. The full record is far more ambiguous. He has also argued that "putting sanctions back in place unilaterally won't do any good" and said: "I would love to tell you I'm going to rip up this contract ... but you know what? Life doesn't work that way". Indeed, in the same AIPAC speech pledging to dismantle the deal he said "we must enforce the terms of the previous deal to hold Iran totally accountable. And we will enforce it like you've never seen a contract enforced before".

Beyond such remarks, there are big questions over how the Iran deal will fit into Trump's wider foreign policy agenda. His inclination toward protectionism, coupled with isolationist instincts which led him to question the terms of US commitment to the security of European and Gulf allies, and emerging signals on a 'realist' approach towards autocratic governments such as Syria, suggest a marked change from the Obama administration. Trump's 'America First' foreign policy is at its core transactional - often simply interested in the financial bottom line - and less driven by considerations about international rules

and public goods. Where the Iran deal fits into this view of the world is an open question.

...and what we cannot

Trump will have several choices to make as president; the first will be to decide whether to uphold the nuclear deal with Iran or not. He also has a number of possible courses of action that could derail it further down the line.

First, he could seek to undermine the agreement. Provocations, such as the imposition of heavy non-nuclear sanctions, could be used to prompt Iran to overreact. Alternatively, he could use technical violations of the deal - such as the recent failings identified by the International Atomic Energy Agency - to provoke a crisis. Such technical violations are hard to avoid given the complicated provisions of the nuclear deal. If Trump wants to exploit them, they will be there to be exploited.

Second, Trump could seek to renegotiate the deal or parts of it. This is what Walid Phares, his adviser for Middle East policy, suggested he would do in July. How this might work is unclear. One way could be to reinterpret its provisions, for instance insisting that ballistic missiles tests which the US, France, Germany and the UK had labelled "in defiance" of the deal, actually violate it. Attempts to change or reinterpret provisions would be risky, complex and met with a hostile response in Tehran.

The deal may hold...

Despite his strong language, the most likely scenario is that Trump's administration adopts a harsher rhetoric towards Iran, but ultimately decides to honour the deal. In this scenario, he uses executive powers to uphold US commitments and Congress tolerates this, albeit grudgingly. Further sanctions relief or clarifications from the US government would be unlikely, but could not be ruled out.

There are a number of reasons to think this relative continuity will apply. Provoking a new standoff with Iran that demands time and resources would run counter to Trump's other foreign policy priorities. The US objective in the Middle East, which he defined in his foreign policy speech in April, is "to defeat terrorists and promote regional stability, not radical change". The fight against ISIS is set to be his number one priority, a view he shares with his designated national security adviser Michael Flynn. Trump also seeks a rapprochement with Moscow and a resolution of the Syrian civil war, potentially at the expense of the armed opposition. Renewed tensions with Iran would require more US security commitments to Gulf allies, not less.

President Trump will also be unequivocally advised that US unilateral actions would hurt relations with the other parties in the negotiation with Iran, including the EU, France, Germany, the UK, Russia and China. The EU, in particular, was a crucial participant in the nuclear talks and is a strong supporter of the deal. A few days after Trump's election, EU foreign ministers reiterated Europe's commitment to the deal and a readiness to develop closer relations with Tehran. For what it is worth, the deal is also underpinned by a UN Security Council resolution that gives it some force in international law - although this may not count for much with a Trump administration.

Although few but the most optimistic will be considering the possibility, there is a chance Trump might even ultimately encourage US companies to get into Iran. After the announcement in early 2016 that Iran would buy 118 Airbus planes, he complained that Iran is "spending all of their money in Europe ... It's so unfair and it's so incompetent. We're handing over \$150 billion. We get nothing." He also suggested Iran should have been obliged to use some of its unfrozen assets for purchases from the US. Far-reaching policy changes of this kind would, however, require the cooperation of a reluctant Congress to relax the US trade embargo on Iran.

...but a collapse is still possible

Nevertheless, a scenario in which the nuclear deal collapses and both the US and the Europeans reinstate their previous sanctions regimes cannot be ruled out. In this circumstance, the only question for most European companies would be how quickly they could get out.

Domestic pressures in both Washington and Tehran are the main reason why this is possible. Trump's administration is likely to include many hardliners on Iran who oppose the deal. The future vice president, Mike Pence, has signalled a willingness to back out of the deal. Potential candidates for secretary of state, such as Newt Gingrich, Bob Corker, John Bolton and Rudy Giuliani, have all also opposed the deal. Majorities in both houses of Congress opposed the deal when it was first agreed, including more than 20 Democratic lawmakers. Opposition is unlikely to have weakened since the election. Important US allies in the Middle East who opposed the deal, notably Israel and Saudi Arabia, are also likely to renew their lobbying efforts against it once the new administration enters office.

A unilateral US withdrawal from the deal would be met by a swift Iranian reaction. The government of President Rouhani is heavily invested politically in

the deal, but would face considerable pressure from hardliners to restart prohibited parts of Iran's nuclear programme. It is likely the Supreme Leader - who is the ultimate decision maker in Iran - would back hardliners. Tehran's reaction could include additional ballistic missiles tests and the harassment of ships in the Persian Gulf. In these circumstances, faced with a deal that Iran is no longer honouring, the EU would have little choice but to follow the US lead and re-impose sanctions, effectively leaving the commercial field clear for emerging markets, in particular Russia and China, to refuse to cooperate in any future sanctions against Iran.

Could Europe stay in?

Is it possible that the US withdraws from the deal but the Europeans do not? Although possible, this would require the Iranian government to walk a fine line domestically and with European countries - remaining compliant enough with the deal to give the Europeans sufficient grounds for honouring their commitments. This is unlikely for the simple reason that it would require Tehran to make the same concessions, for less commercial benefit. The Iranians already complain that US primary sanctions, that remain in place even now, are deterring international companies from doing business with Iran. Pride, and pressure from hardliners, would create strong incentives to abandon the deal altogether or else risk preventing President Rouhani's re-election next year.

A scenario in which Europe and Iran continued with the deal but the US pulled out would create a much more difficult commercial environment for international businesses in Iran. US secondary sanctions would mean large non-US companies and banks with US exposure would find it almost impossible to do business with Iran, potentially drawing European countries into a dispute with the US over secondary sanctions. These considerations highlight just how exposed both European policymakers and businesses are to decisions about to be taken in Washington on Iran.

Conclusion

The trade-offs and competing interests that will determine Trump's position towards the Iran nuclear deal once in office probably stack up in favour of the continuation of the accord. One important factor will be the success of EU policymakers and businesses in convincing a Trump administration that the costs and distractions of dismantling the deal - let alone its positive benefits - make continuity the smarter choice. However, that outcome is far from certain.

This Global Counsel Insight note was written by Thomas Gradowski, Associate Adviser at Global Counsel.

To contact the author, email:
t.gradowski@global-counsel.co.uk

The views expressed in this note can be attributed to the named authors only.

Table: Three scenarios for the future of the Iran nuclear deal

| Scenario | No significant policy change | Complete collapse of the deal | Partial collapse of the deal |
|--------------------|--|--|---|
| Description | <p>Washington changes its tone and rhetoric towards Iran, but does not abrogate the deal.</p> <p>Congress tolerates this, albeit grudgingly.</p> <p>The prospects of significant additional sanctions relief are dim. Or conversely, Trump wants more US businesses in Iran and seeks to relax restrictions.</p> | <p>The nuclear deal falls apart and both the US and EU back out. Both reimpose their previous sanctions regimes. The questions for European companies is how to get out quickly.</p> <p>Emerging countries - particularly China and Russia - stay in Iran and refuse to collaborate with the West, in particular when it comes to oil purchases from Iran.</p> | <p>The US withdraws from the deal but Europe and Iran continue to stick to it.</p> <p>US secondary sanctions prevent large non-US companies and banks with US exposure to do business with Iran.</p> <p>This would be damaging for reformists in Iran, raising the possibility that Rouhani may face a serious challenge in the election.</p> |
| Drivers | <p>Trump does not believe tearing up the deal is in the US interest.</p> <p>Relations with major powers are important and would deteriorate if the US withdrew from the deal.</p> <p>Trump's foreign policy priorities.</p> | <p>Trump does not like the deal, and neither does his future administration.</p> <p>Congress remains hostile to the accord.</p> <p>Iran would likely restart prohibited parts of its nuclear programme if the US withdrew.</p> | <p>Iran has an interest in keeping the agreement in place.</p> <p>Europe also wants the agreement and rebuilds greater commercial ties.</p> <p>Iran and Europe agree on the continuation of the deal.</p> |
| Likelihood | High | Medium | Low |

5 Welbeck Street
 London
 W1G 9YQ
 E: info@global-counsel.co.uk
 T: +44 (0)203 667 6500

Although Global Counsel makes every attempt to obtain information from sources that we believe to be reliable; we do not guarantee its accuracy, completeness or fairness. Unless we have good reason not to do so, Global Counsel has assumed without independent verification, the accuracy of all information available from official public sources. No representation, warranty or undertaking, express or implied, is or will be given by Global Counsel or its members, employees and/or agents as to or in relation to the accuracy, completeness or reliability of the information contained herein (or otherwise provided by Global Counsel) or as to the reasonableness of any assumption contained herein. Forecasts contained herein (or otherwise provided by Global Counsel) are provisional and subject to change. Nothing contained herein (or otherwise provided by Global Counsel) is, or shall be relied upon as, a promise or representation as to the past or future. Any case studies and examples herein (or otherwise provided by Global Counsel) are intended for illustrative purposes only. This information discusses general industry or sector trends, general market activity and other broad economic, market or political conditions. This document has been prepared solely for informational purposes and is not to be construed as a solicitation, invitation or an offer by Global Counsel or any of its members, employees or agents to buy or sell any securities or related financial instruments. No investment, divestment or other financial decisions or actions should be based on the information contained herein (or otherwise provided by Global Counsel). Global Counsel is not liable for any action undertaken on the basis of the information contained herein. No part of this material may be reproduced without Global Counsel's consent. This content is copyright © of Global Counsel and protected under UK and international law. All rights reserved. References to Global Counsel shall be deemed to include where appropriate Global Counsel LLP, Global Counsel Advisory Limited, Global Counsel Asia Pte. Ltd. and any other affiliated entity from time to time.