Impact of Interim Deal with Iran

JINSA's Gemunder Center Iran Task Force

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Overview

More than three months since the implementation of the interim deal with Iran over its nuclear program, formally known as the Joint Plan of Action (JPA), we thought it valuable to offer an assessment of the impact of the agreement. Evidence suggests the JPA has set back Iran's breakout timing by nearly one month. However, that benefit is more than offset by provisions which: allow Iran to enrich uranium more rapidly than before the deal; steadily reduce the pressure on Tehran from sanctions; and fail to resolve international concerns about Iran's weaponization activities. As a result, in our judgment the JPA is not making a comprehensive agreement on Iran's nuclear program more likely to be achieved.

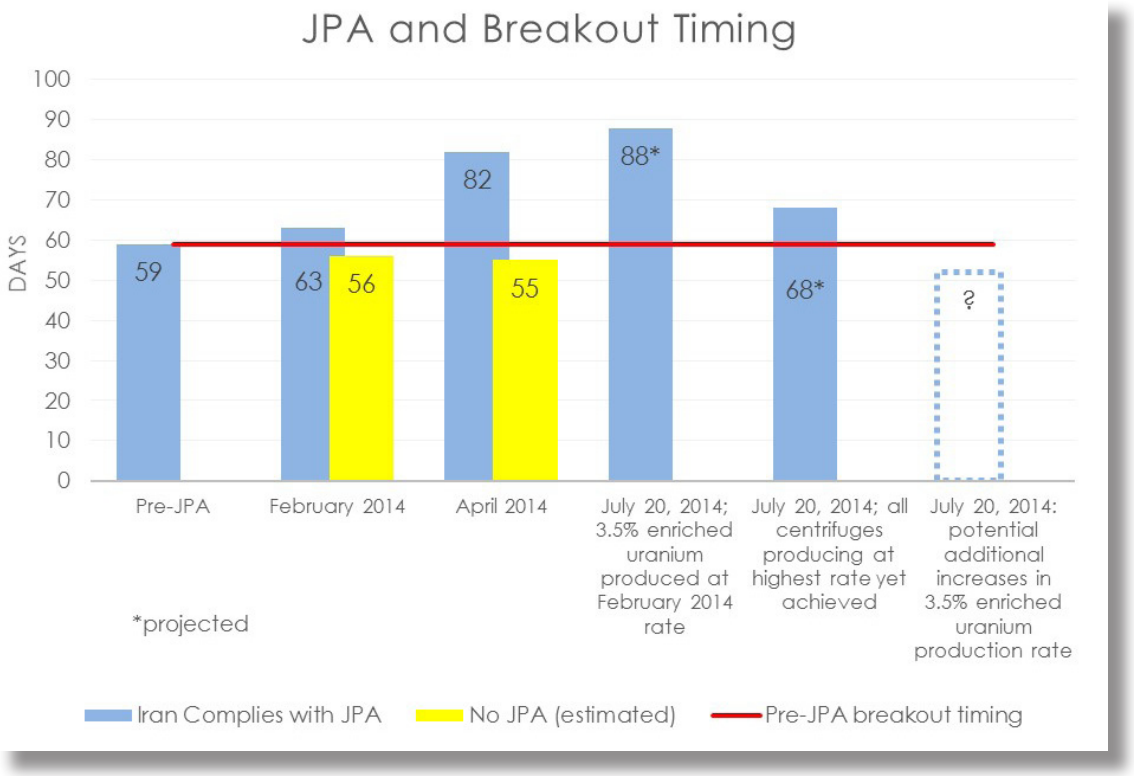
This is based on three key trends we observe thus far, all of which are permitted under the JPA. First, increased centrifuge efficiency could negate the ongoing neutralization of Iran's most advanced uranium stockpile. As a result, Tehran's overall progress toward nuclear weapons capability could be unchanged, or even advanced, during the interim period. Second, even as the JPA leaves Iran's potential breakout timing unchanged, it is decreasing U.S. leverage for compelling Iran to conclude and adhere to an acceptable final deal. Specifically, we estimate increased oil exports resulting from the JPA's unlacing of sanctions will yield Iran $9-13 billion more in revenue between the deal's announcement in November 2013 and the end of the six-month interim deal than if it had not been agreed. Third, despite some transparency improvements, Iran continues to deny the International Atomic Energy Agency (IAEA) full access to suspected military dimensions of its nuclear program. As before the JPA, this leaves inspectors largely in the dark about the true extent of Iran's nuclear weapons program.

Tehran's compliance should not obscure the fundamental character of the regime with which the United States is trying to negotiate a final deal. Amid the hopeful atmosphere surrounding these talks, the Islamic Republic remains the leading international sponsor of terrorism and the backbone of the Syrian regime's brutal suppression of its own citizens. It continues rejecting international law and global norms – including binding U.N. Security Council resolutions calling on it to suspend its nuclear program and comply with its non-proliferation obligations – as self-serving instruments of Western repression. This is part of the regime leadership's conspiracy-laden worldview. Only days before the JPA was announced, Supreme Leader Ali Khamenei claimed publicly the United States used nuclear weapons against Japan after Tokyo was ready to surrender, "with the excuse of war so that it becomes clear whether these bombs work properly or not." During the JPA interim, he described the Holocaust "as an event whose reality is uncertain, and, if it happened, it's uncertain how it happened." This should inform U.S. negotiators' ongoing approach to a comprehensive settlement: how can a regime with such ingrained radical policies be entrusted with sensitive nuclear technologies?[1]

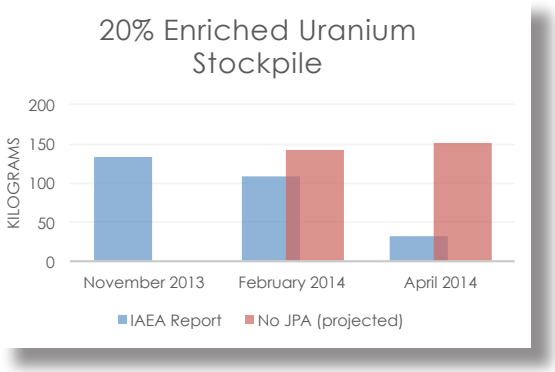
Considering how close the Iranian regime remains to nuclear weapons capability, we therefore believe it is critically important to gauge the effectiveness of the interim deal in the wake of February and April 2014 IAEA reports on Iran's nuclear program. We frame our assessment according to six principles, listed individually below, to which we believe any deal must conform to protect U.S. national security interests.[2]

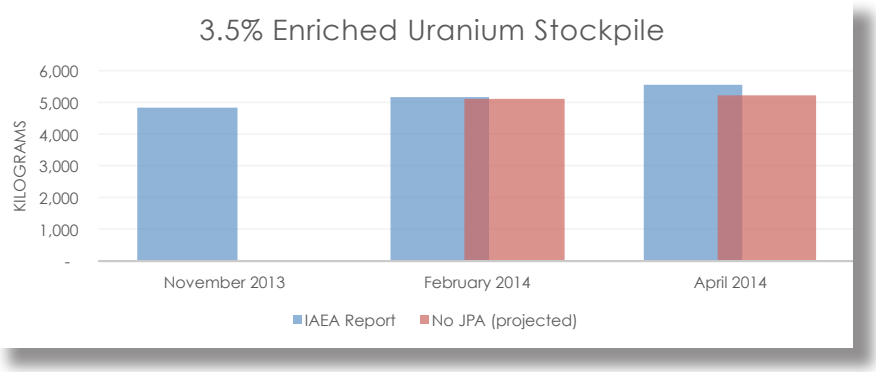
Prevent Nuclear Weapons Capability

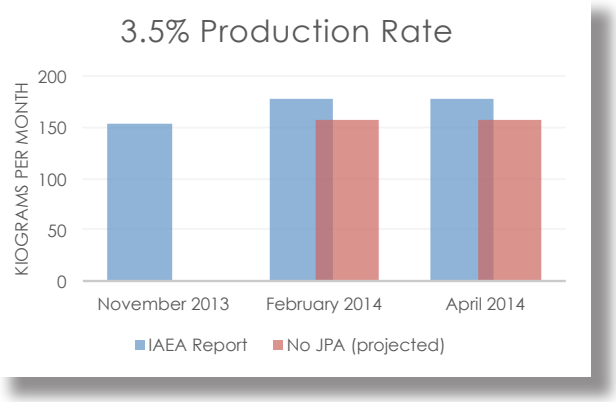
The interim deal has been hailed by the Obama Administration as pushing back Iran's nuclear timeline, thus justifying an easement in sanctions and creating diplomatic space to pursue a final agreement. Indeed, some elements of Iran's nuclear program have been set back, compared to where they would be without the JPA. The pause in 20 percent enriched uranium production, and ongoing neutralization of that stockpile, have expanded Iran's current estimated breakout window from 59 to 82 days. However, the IAEA reports reveal other elements have advanced in ways permitted under the JPA, most crucially an increased production rate of 3.5 percent enriched uranium. If Iran continues to boost this production rate, and/or increases the number of centrifuges operating at higher rates, it could cut its breakout timing to near the pre-JPA level – and even reduce it below this level – by the end of the six-month interim without violating the deal.



Enriching uranium to 20 percent consumes nine-tenths of the time required to reach weapons grade. The JPA has increased Iran's breakout timing by pausing enrichment to this level and neutralizing (though not irreversibly) its preexisting stockpile. According to IAEA reports, Iran's stockpile of 20 percent enriched uranium has dropped 75 percent since November 2013. This keeps it roughly on schedule to convert half to uranium oxide by July 20, having already diluted most of the other half to 3.5 percent enriched uranium by April 20. However, even if Iran completes this entire process, it would be able to recreate its 20 percent enriched uranium stockpile through both reconversion and re-enrichment. Indeed, it can thaw what it must now freeze.







Though less immediately threatening than its 20 percent stockpile, Iran's ability to enrich uranium up to 5 percent still places it fully 80 percent of the way to weapons grade. Under the JPA, it can keep its pre-January 20 stockpile at this level as is, leaving it with more than two bombs' worth. It may also continue enriching at this level using the same number and type of centrifuges it had prior to the deal, though any new 3.5 percent enriched uranium produced during the interim must be oxidized before July 20. However, because Iran is behind the JPA's schedule for completing the relevant facility by December 2013, its 3.5 percent stockpile grew more than 14 percent since November 2013. Even if and when this facility is fully operational, the stockpile created in the interim could still be reconverted.

The production rate to 3.5 percent enriched uranium is currently Iran's highest ever, and is allowed by the JPA. This is due partly to switching operational centrifuges (IR-1) previously enriching to 20 percent over to 3.5 percent, since these IR-1s are now producing 3.5 percent enriched uranium faster than the IR-1s that have been enriching to 3.5 percent all along. This jump also stems from Iran's efforts to make the IR-1 more effective – permissible under the JPA's allowance for enrichment research and development (R&D) activities – and its ability to replace broken units with more efficient versions of the same model. If Iran can bring all operational IR-1s up to the highest rate it has yet reached, the jump in enrichment speed largely would offset the loss of its 20 percent enriched uranium stockpile. If it tunes its operational centrifuges to achieve even greater output, Iran might be able to cut its breakout time below the pre-JPA level, all while conforming to the letter of the deal.[3]

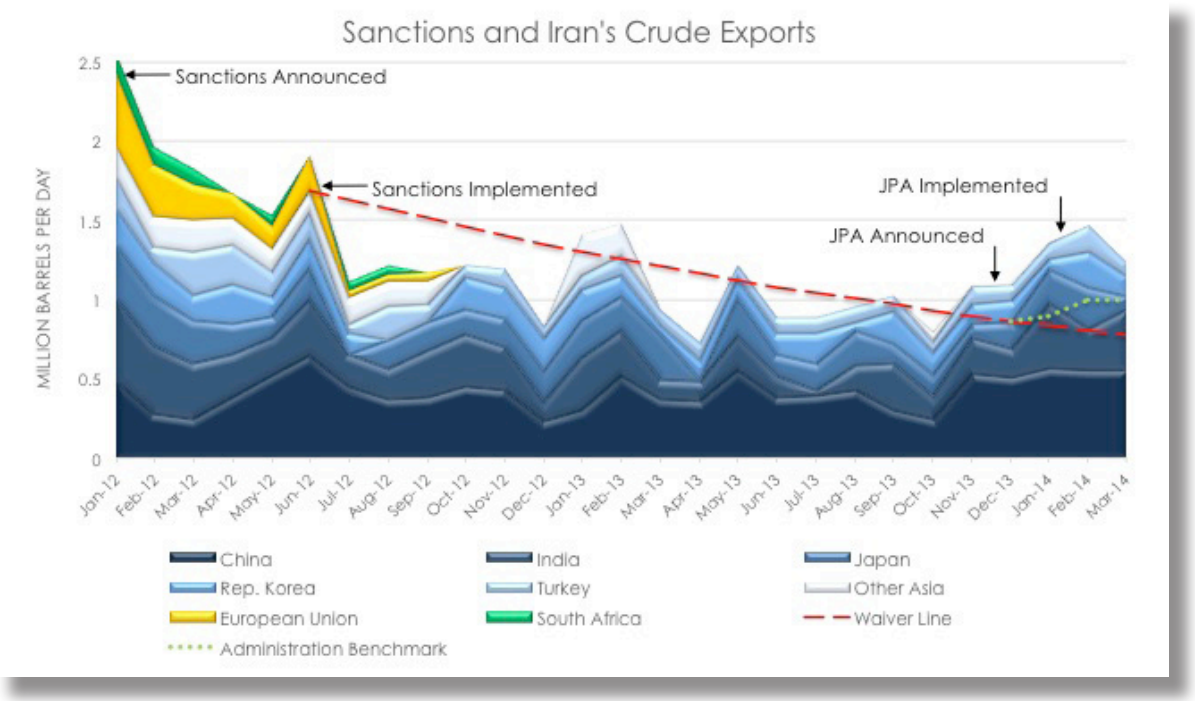
Separately, Iran is adhering to the JPA requirement that it pause construction on the heavy water reactor (IR-40) at Arak and related fuel assemblies. However, it has continued producing heavy water necessary for weapons-grade plutonium (not covered by the JPA), and a potential agreement to reduce Arak's plutonium output under a final deal would still allow Iran to keep its heavy water stockpile and production facility.

Negotiate from a Position of Strength

For the United States to have any hope of achieving an acceptable final settlement, Iranian leaders must believe they have more to lose than their U.S. counterparts. However, the pause on oil sanctions is undermining this pressure by boosting Iran's export revenues, and by making it increasingly difficult to re-impose suspended sanctions if diplomacy fails. Iran could emerge from the interim period facing less international pressure, even if its breakout timing ends up largely unaffected by the deal.

The primary loss of U.S. leverage comes from Iran's rejuvenated crude oil exports, which prior to sanctions were more than half the government's budget (including the nuclear program). Average monthly exports fell 40 percent year-on-year for the twelve months prior to the JPA being announced, from 1.7 million barrels per day (mm b/d) to 1 mm b/d, as Iran's buyers cut imports to receive periodic U.S. waivers. Monthly oil exports rebounded 50 percent since then, from 800,000 b/d in October 2013 to 1.2 mm b/d in March 2014.[4]

Iran is accumulating windfall oil export revenue as a result. Using the Obama Administration's figure of 1 mm b/d as the level permitted by the JPA, through March Iran earned $5 billion more than it would have if sanctions were not paused. Compared to the maximum Iran could export if its customers had to continue reducing purchases to receive waivers ("waiver line" in chart below), the figure rises above $6 billion. Both estimates are significantly more than the JPA's sticker price for Tehran's cooperation: the tranches unfrozen during this period totaled $1.6 billion. If Iran's exports for the first quarter of 2014 hold steady to the end of the six-month interim, this would be an estimated additional $4 billion windfall compared to the Administration's benchmark (and $7 billion more than the maximum allowable under waivers). This would be 50-70 percent more than it could earn legally if sanctions were in place over the same period, and notably more than the $2.8 billion it is set to receive in remaining unfrozen assets.[5]



The United States retains some leverage here, since financial sanctions hinder Iran from directly repatriating much of this windfall revenue. Nevertheless, the Obama Administration has publicly vowed to veto new sanctions, even though they would only start at the end of the interim or if Iran cheats, have the support of a bipartisan majority in Congress and would not violate the JPA.[6] This could make Iran less inclined toward concessions necessary for an acceptable final deal.

At the same time Iran evidently is building its own leverage. Relatively moderate regime elements, primarily associated with the Rouhani Administration, are actively courting foreign companies (despite sanctions merely being paused, not lifted) and issuing maximalist redlines for agreeing to a final deal. Iran is simultaneously testing new missiles that could potentially deliver nuclear warheads (even though this is prohibited by a legally-binding U.N. Security Council resolution), announcing plans to send warships across the Atlantic Ocean, using a mock-up of a U.S. aircraft carrier as a target in Iranian naval exercises and shipping weapons to militant groups in Gaza.

Don't Waste Time

Thus far, the JPA has complicated what should be American policymakers' ultimate goal: forcing Iran to give up its nuclear program before it could attain an undetectable nuclear weapons capability. Nor has it met the less ambitious goal of freezing Iran's nuclear progress. However, the P5+1 and Iran appear to be working toward an agreement before the July 20 deadline, even though the interim is renewable.

Impose Strict International Inspections Regime

Inspections are necessary to verify Iran adheres to the interim deal and does not attempt to break out. To this end, the agreement provides for more regular IAEA inspections and enhanced monitoring at Iran's declared enrichment facilities. The February 2014 IAEA report suggests these measures have helped ensure Iran's compliance with the JPA thus far, in particular the freeze on enriching uranium to 20 percent. However, that same report pinpoints the insufficiency of existing IAEA safeguards for verifying Iran has no undeclared activities that could contribute to an undetectable nuclear weapons capability. The JPA provides no such mechanism for the interim, though it commits Iran to ratifying the Additional Protocol to its existing IAEA Safeguards Agreement in a final deal (a decision the Deputy Foreign Minister has since announced is in the hands of Iran's parliament[7]). While not airtight, the Additional Protocol would at least allow inspectors greater access to declared sites as well as suspected undeclared facilities.

Resolve International Concerns about Iran's Nuclear Program

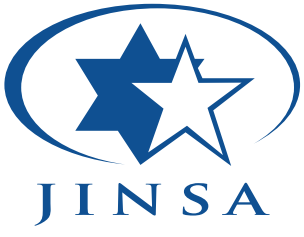
The February IAEA report notes unresolved concerns about Iran's possible violations of the Nuclear Non-Proliferation Treaty (NPT) and its Safeguards Agreement as pertains to weaponization. Since that report's release, Iran's Foreign Ministry said it would "take some time" and "not rush" these concerns. Tehran has also continued to deny inspectors access to Parchin military base – where the IAEA suspects previous weaponization work occurred – maintaining it will allow minimal, "managed access" if and when it accedes to the Additional Protocol (in other words, only after a final deal is agreed). Iran can remain defiant under the JPA, which explicitly does not require Iran to resolve these issues to the IAEA's satisfaction. However, this seriously complicates inspectors' understanding of Iran's progress toward nuclear weapons capability, and signals Tehran is not ready to make its nuclear program more transparent as it negotiates a final deal.[8]

Adhere to International Legal Requirements

Iran's failure to resolve such concerns previously prompted unanimous legally-binding U.N. Security Council resolutions requiring it to suspend enrichment and come clean on possible weaponization activities. Iran has yet to satisfy these requirements and the JPA does not appear to be moving it any closer to doing so. The interim deal calls for all parties – including all of the five permanent UNSC members which passed these resolutions – to address (but not resolve) Iran's violations. Iranian leaders – both in and outside the Rouhani Administration – are unwilling to meet even this standard, demanding instead recognition of their declared "right" to enrich uranium.[9]

Endnotes

1. The Office of the Supreme Leader Sayyid Ali Khamenei, "Supreme Leader's Speech in Meeting with Basij Commanders," November 20, 2013. On March 21, 2014, Khamenei's Twitter account tweeted "[the] Holocaust is an event whose reality is uncertain and if it has happened, it's uncertain how it has happened," See: "Khamenei on Nowruz: Questions Holocaust," *The Iran Primer* (United States Institute of Peace), March 21, 2014.
2. This Task Force articulated six principles to which any deal must conform to be acceptable: it must require Iran to resolve outstanding international concerns, adhere to international legal requirements and roll back its nuclear program. It would also need to put in place a strict inspections regime and clear deadlines for Iran to uphold its commitments. Finally, we made the case that to obtain such a deal the United States would have to negotiate and enforce it from a position of strength, to make it unmistakably plain to Tehran that it has the most to lose from the failure of diplomacy. See: "Principles for Diplomacy with Iran," JINSA Gemunder Center for Defense and Strategy, October 14, 2013. We define undetectable nuclear weapons capability as the ability to manufacture fissile material for a nuclear device in less time than will be required to detect and respond to such activity.
3. According to the February 2014 IAEA report, Iran's operational IR-1 centrifuges which formerly enriched uranium to 20 percent are enriching to 3.5 percent at a rate 25 percent faster than the operational centrifuges which have been enriching to 3.5 percent all along. For detailed analysis of the implications of the latest IAEA report on Iran's nuclear program, see: Blaise Misztal, "A Tale of Two Irans in New IAEA Report," Bipartisan Policy Center, February 24, 2014.
4. The waiver line in the chart is the threshold for combined imports of all non-E.U. countries receiving U.S. sanctions waivers, assuming they reduced their purchases of Iranian crude 20 percent over each six-month waiver period compared to the previous six-month waiver period (the Obama Administration's interpretation of NDAA FY2012 Section 1245's requirement that purchasers make "significant cuts" to be eligible for waivers), starting from June 28, 2012, when sanctions initially took effect. The line does not factor in E.U. purchases of Iranian oil exports, which are subject to an ongoing separate Iran oil embargo. Thomas Moore and Mario Loyola, "Outstanding Questions: Why the Iran deal could be a devastating blow to the nonproliferation regime," *Foreign Policy*, December 13, 2013.
5. Estimates for Iranian windfall oil export revenue were calculated using two separate baselines. The first is the Obama Administration's unofficial interpretation of the JPA's language to "pause efforts to further reduce Iran's crude oil sales," as allowing for Iranian oil exports of 1 mm b/d during the interim period beginning January 20, 2014. The second is the maximum total oil export revenue Iran could generate were relevant U.S. sanctions still in place between the November 24, 2013, announcement of the JPA and the six month interim's July 20, 2014, expiration (the waiver line in Endnote 3); and comparing this to Iran's actual oil export revenue over the same period. In each case, monthly revenue was calculated by multiplying average monthly oil price, by days per given month, by average daily oil exports for that month. Data for Iran's actual exports from January 2012 through March 2014 are taken from individual countries' customs administrations, *International Oil Daily* and Reuters. Actual oil prices are taken from OPEC data for Arab Light crude, which is the closest quality match for oil exported by Iran; monthly oil prices for April 1 - July 20, 2014, were forecast using Energy Information Administration projections for Brent crude spot prices, and deducting a $2/bbl discount based on the differential between the two prices for the same period of 2013 (though a rough back-of-the-envelope calculation, this helps guard against overstating the windfall Iran could receive). Iran's forecasted monthly exports through July 20 were simply held at the current 2014 rate, for the lack of any certain projections of significant increases or decreases during that time.
6. White House Office of the Press Secretary, "President Barack Obama's State of the Union Address," January 28, 2014.
7. "Iranian Deputy FM Warns US to Avoid Endangering Nuclear Talks," Fars News Agency (Tehran), March 11, 2014.
8. Laurence Norman, "Iran Wants to Address Questions About Military Work in Nuclear Program Later," *Wall Street Journal*, March 10, 2014; "Iran: IAEA Not Entitled to Visit Parchin," Fars News Agency (Tehran), May 3, 2014.
9. Iran's Foreign Minister and lead negotiator Mohammad Zarif, the week before the JPA was agreed in Geneva: "The mastery of civil nuclear technology, including the enrichment of uranium, on Iranian soil is the absolute right of Iran." President Rouhani has declared this to be a redline. See: Michael Crowley, "The Fight for a 'Right': How an Iran Deal Might Hinge on One Simple Word," *Time*, November 18, 2013.



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