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## CFR Backgrounders

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### The Impact of the Iran Nuclear Agreement

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#### Introduction

Iran has dismantled much of its nuclear program and given international inspectors extensive access to sensitive sites under an agreement known as the Joint Comprehensive Plan of Action (JCPOA). Under its terms, the United States, European Union, and United Nations have lifted sanctions that had crippled the Iranian economy, but more than year after the accord took effect, Iranians have yet to see the recovery that President Hassan Rouhani had promised. Meanwhile, as the Trump administration has vowed a more aggressive approach to Iran and the U.S. Congress considers levying new sanctions, international businesses, sensing uncertainty, have largely held back from investing in the country.

#### What are the terms of the JCPOA?

The JCPOA, which was signed in July 2015 and went into effect the following January, imposes restrictions on Iran's stockpiles of uranium and its ability to enrich it. The so-called P5+1—that is, the five permanent members of the UN Security Council (China, France, Russia, the United Kingdom, and United States) and Germany—negotiated the agreement with Iran over nearly two years. During this period, the Obama administration said its intent was to set back Iran's nuclear program so that any decision to sprint toward producing fissile material for a weapon—an indicator known as “breakout times”—would take [at least a year](#), up from just a few weeks.

*Nuclear restrictions on Iran.* To extend that breakout time, the agreement requires that uranium enrichment at Fordow and Natanz be restricted and a heavy-water reactor, at Arak, have its core rendered inoperable; its plutonium byproduct, the P5+1 countries feared, could have been reprocessed into weapons-grade material. These facilities [are now being repurposed](#) for research, industrial, or medical purposes, and subjected to inspections by monitors from the UN nuclear watchdog, the International Atomic Energy Agency (IAEA). The accord imposes limits on the numbers and types of centrifuges Iran can operate, as well as the size of its caches of enriched uranium. (Mined uranium has less than 1 percent of the [uranium-235 isotope](#), and centrifuges increase that isotope's concentration. Uranium enriched to 5 percent is used in nuclear power plants, and at 20 percent it can be used in research reactors or for medical purposes. High-enriched uranium, at some 90 percent, is used in nuclear weapons.) The JCPOA also aims to guard against the possibility that Iran could develop nuclear arms in secret at undeclared sites.

Many of the JCPOA's [nuclear provisions](#) have expiration dates. After ten years, for example,

centrifuge restrictions will be lifted, and after fifteen years, so too will limits on the low-enriched uranium it can possess, as well as the IAEA's access to undeclared sites.

*Monitoring and verification.* Among the open-ended provisions, Iran is bound to implement and later ratify an “[additional protocol](#)” to its safeguards agreement with the IAEA, which gives IAEA inspectors unprecedented access to Iran's nuclear facilities. (As a signatory to the Nonproliferation Treaty, or NPT, Iran has committed to never pursue nuclear weapons, but it is entitled to pursue nuclear technology for peaceful purposes.) The agency's director-general issues [quarterly reports](#) to the IAEA Board of Governors and UN Security Council verifying Iran's implementation of its nuclear commitments.

The JCPOA established the Joint Commission, with the negotiating parties all represented, to monitor implementation of the agreement. That body, chaired by Federica Mogherini, the EU foreign policy chief, is charged with dispute resolution, and a majority vote of its members can gain IAEA inspectors access to undeclared sites they consider suspect. It also oversees the transfer of nuclear-related or dual-use materials.

*Sanctions relief.* In exchange for these limitations on its nuclear program and opening up access to international inspectors, the EU, UN, and United States all committed to lifting sanctions that they had imposed on Iran for its nuclear program. While the United States has only suspended extant nuclear sanctions, it pledged in the JCPOA to remove specified entities from sanctions lists and seek legislation to repeal the suspended sanctions within eight years, as long as the IAEA concludes that Iran's nuclear activities remain peaceful in nature.

Still, [other U.S. sanctions](#) [PDF], some dating back to the hostage crisis in 1979, remain in effect. They cover matters such as ballistic missile production, support for U.S.-designated terrorist groups, and domestic human rights abuses. The United States has stopped enforcing its sanctions on oil exports, freeing Iran to trade on international markets again, but [restrictions on financial transactions](#) remain in place. Many banks and other companies, including foreign subsidiaries of U.S. businesses, are [wary of doing business](#) in Iran for fear of incurring fines or being barred from dealing on Wall Street. A major exception to U.S. primary sanctions allows Boeing to [sell aircraft](#) to Iranian airlines.

New Security Council resolutions are periodically needed to keep UN sanctions suspended, so, by alleging a major violation, any one of the P5 members can veto a new resolution. This “snapback” mechanism is set to remain in effect for ten years, after which point the UN sanctions are set to be repealed.

### **Has Iran upheld its obligations?**

Implementation Day, on which [sanctions were lifted](#), came once the IAEA certified that Iran had met preliminary requirements, including taking thousands of centrifuges offline, rendering the core of the Arak heavy-water reactor inoperable, and selling excess low-enriched uranium to Russia. Since then, the IAEA has mostly found Iran in compliance with the JCPOA's requirements. Iran twice exceeded the amount of heavy water that it is allowed under the agreement, the IAEA reported, but [quickly resolved it](#).

*“Monitoring is a physical act, but verification is a political act.” —Christopher Bidwell, Federation of*

*American Scientists*

The challenge inspectors face is that they are “looking to prove the negative,” says [Christopher Bidwell](#), a senior fellow at the Federation of American Scientists. “IAEA reports talk about where Iran is compliant, but then are silent on known rough issues,” he says, highlighting military sites, for which inspectors must seek access from Iranian authorities or adjudication by the Joint Commission. Also [omitted from the public record](#), the International Crisis Group notes, are reports on Iran’s caches of low-enriched uranium and research on centrifuges. “Monitoring is a physical act, but verification is a political act,” Bidwell says. “How sure are you that what you’ve monitored has told you what you want to know?”

**Have the P5+1 countries upheld their obligations?**

The United Nations, European Union, and United States all repealed or suspended the sanctions that the JCPOA specified be lifted on Implementation Day, and since then the United States has also unfrozen or delivered to Iran certain seized funds. (Liquid assets freed up in European and Asian banks might have totaled some [\\$50 billion](#), according to a U.S. Treasury official; in addition, the United States refunded \$1.7 billion delivered for an arms deal that was signed before the 1979 revolution but never fulfilled.) Most significantly, the United States is no longer enforcing secondary sanctions on Iran’s oil sector, which has allowed Iran to ramp up its oil exports to [nearly the level](#) it had been prior to sanctions. The International Monetary Fund (IMF) [estimated in October](#) [PDF] that Iran’s GDP was growing at 4.5 percent in 2016 as it boosted its oil production to 3.6 million barrels per day.

**How is Iran’s economy performing?**

Iranians have not seen as robust an economic recovery as many had expected to follow the JCPOA’s implementation. A morass of U.S. sanctions unrelated to the nuclear program has discouraged major international banks from investing in the country and made many companies wary of expanding into Iran. They fear being held liable for transacting with the numerous sanctioned entities associated with, for example, the [Iranian Revolutionary Guard Corps](#) (IRGC), which is ubiquitous in some industries. Uncertainty over whether the nuclear sanctions might be restored persists.

But factors unrelated to sanctions are also hampering the recovery. Corruption, mismanagement, and aging infrastructure are widely acknowledged [barriers to industry](#), and, at about \$50 a barrel as of April 2017, oil is trading at less than half the price it was five years earlier, so the revenues to be made from export don’t go as far. The IMF projected that Iran’s growth would [“taper sharply”](#) [PDF] in 2017 as it would have trouble surpassing its pre-sanctions level of oil production, and in March 2017 Iran said it would [limit its oil production](#) to 3.8 million barrels per day if OPEC members’ agreement to cap their production—a bid to raise oil prices—holds.

With the economy underperforming compared to what Rouhani had promised, some Iranian politicians have accused the United States of dealing in bad faith. Supreme Leader Ali Khamenei, who has expressed ambivalence about the JCPOA, [criticized the faltering recovery](#). But so too has Foreign Minister Javad Zarif, who negotiated the agreement. He said at CFR in September 2016, [“it takes a lot to change the global climate](#) that is afraid of the United States taking action against any bank that does any business with Iran.” Referring to U.S. Treasury regulations,

he added, “there is one sentence that it’s OK to do business with Iran and about five pages of ifs and buts,” discouraging banks from entering the market.

### **Do U.S. politics jeopardize the JCPOA?**

On the campaign trail, Trump pledged to dismantle or renegotiate the nuclear agreement, echoing the criticisms made by some members of Congress as the agreement was being finalized. Many objected to sanctions relief on the grounds that it would enrich Iran and allow it to expand its influence in regional conflicts like the Syrian civil war. Critics also said that monitoring provisions in the JCPOA offered no guarantee that Iran could not covertly develop a nuclear weapon.

Trump could reimpose waived sanctions or add new ones by presidential prerogative, enact statutory sanctions passed by Congress, or allow the presidential waivers of nuclear sanctions to lapse when they come due for renewal. Any of those measures could be perceived by either Iran or other members of the P5+1 as the United States renegeing on its commitments.

After Iran tested ballistic missiles in late January 2017, the administration [extended sanctions](#) to twenty-five individuals and entities associated with either the missile program or the IRGC’s expeditionary Quds Force. (Though ballistic missiles could be used to deliver nuclear weapons, they are beyond the scope of the JCPOA; the UN Security Council resolution that codified the JCPOA contains only [nonbinding language](#) on the matter.) “It wasn’t a drastic departure from previous policy, including from the Obama administration,” says [Ariane M. Tabatabai](#), a visiting assistant professor at Georgetown’s Edmund A. Walsh School of Foreign Service.

A bill [cosponsored by the top Republican and Democrat](#) on the Senate Foreign Relations Committee could prevent the president from fulfilling the U.S. obligation to delist certain entities within eight years of implementation; it could also be construed as impeding the benefits Iran can accrue from sanctions relief. That would “[threaten the ongoing implementation](#) of the nuclear deal,” says the Arms Control Association, an independent Washington-based nonproliferation group.

### **Do Iranian politics jeopardize the JCPOA?**

The JCPOA is contentious in Iran as well. Rouhani is running for reelection on May 19, and “the main thing he’s being judged on by the electorate is the economic recovery,” Tabatabai says.

“The Rouhani government oversold its ability to generate economic recovery following the sanctions relief,” she says, “and so now it is dialing back expectations of what is realistic.” The government is now arguing that the recovery will take more time, and that its lag cannot be attributed to sanctions alone.

Hard-liners in Iran argue that the United States is angling to keep the Iranian economy depressed and that Rouhani was hoodwinked into unfavorable terms, a view they say is bolstered by extreme rhetoric from some members of the Trump administration and Congress. They argue that Iran has “redesigned its nuclear facilities while the sanctions have only been suspended,” and so the United States can reinstate sanctions with relative ease even as the Iranian nuclear program has been permanently set back, says [Mohammad Ayatollahi Tabaar](#), an assistant professor at Texas A&M University’s Bush School of Government and Public Service

While some U.S. lawmakers continue to criticize the JCPOA, the other members of the P5+1 are

firmly behind it. Many close watchers of the accord say that if the United States were to reinstate sanctions without presenting clear evidence of Iranian cheating, its negotiating partners would be unlikely to follow suit and resurrect the global regime that drove Iran to the negotiating table. “Iran’s goal is to create a gap between the U.S. and EU,” says Tabaar, so Iran likely won’t renege on its nuclear commitments. Instead, he says, hard-liners might push back against the United States in areas beyond the scope of the JCPOA, such as testing ballistic missiles or boosting its support for its clients in Iraq, Syria, or Yemen.

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