

Iran: Russian roadblock delays resolution

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- The final round of JCPOA talks have been put on pause after Moscow called for a US guarantee that sanctions on Russia would not impede its trade with Iran.
- Even if negotiations resume and a deal were to be struck next week, it would take several months to lift sanctions, meaning that Iran's return to international markets would be delayed until May or June at the earliest.
- Economic relief for Iran hinges on a deal being signed but economic success is not going to materialise overnight.

Sustainable deal remains in question

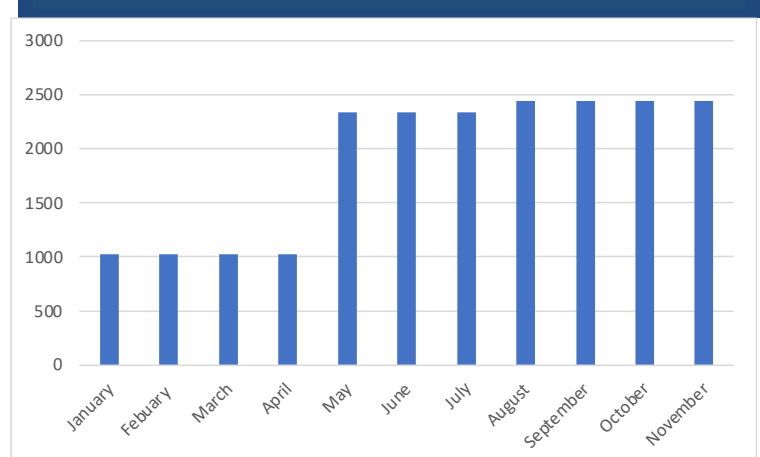
The latest, and possibly the last round of JCPOA (Joint Comprehensive Plan of Action) negotiations appear to be drawing to a close. While the talks seem to be heading towards a resolution, the durability and the longevity of a deal remains in question.

- After a month of negotiations, diplomats have hit the pause button in Vienna. Despite missing deadlines last month to finish discussions by the end of February, the recess does not mean the negotiations have failed.
 - Members of the US and European negotiating teams said that the pace of the talks and of Iran's nuclear activity had pushed them to their breaking point, and to call this round of talks the final one.
 - While diplomats have said that the window for a resolution is closing, this kind of rhetoric has been used since negotiations began. But with Iran's nuclear stockpile levels continuing to increase, the incentive to reach a deal will remain. Negotiations could still drag on for some weeks.
 - Meanwhile, any kind of interim or temporary deal is unlikely.
- Although the talks began in April 2021, the arrival of the conservative administration of Ebrahim Raisi in July meant that any informal agreements with the Iranian negotiating team of Hassan Rouhani were essentially scrapped.
- The months since, with the hardline administration at the helm, saw discussions largely deadlocked. Since the latest round of negotiations started in February, however, both US/European and Iranian negotiators have begun to speed up progress to the extent that European negotiators have said that a resolution was 70% of the way there.
- Even if a resolution were reached however, keeping the agreement afloat remains in question.
 - The Raisi administration wants to be assured that no future US administration can pull out again. This will be hard to achieve since US Republican leaders have promised to pull out of the deal if they retake the White House in the Presidential elections in 2024.
 - The fate of the deal could be determined sooner than the next presidential election. If the Republicans were to win control of the House and the Senate in November they would probably aim to derail the deal as much as possible straightaway.
- For example, they could call for the US to impose sanctions on terrorism or human rights grounds, which would have been conceivably ruled out under the terms of the new deal.
- Additionally, Russia, which was previously a driver of the negotiations, has created a new hurdle.
 - The Russian Foreign Minister, Sergei Lavrov has demanded a U.S. guarantee that the sanctions it faces over the Ukraine conflict will not hurt its trade with Tehran.
 - Essentially meaning that Russia wants to use Iran as a barter tool and sanction buster.
 - Russia may also reason that the return of Iranian supply to the markets could reduce the energy crisis in the West.
- Iran has responded circumspectly, given the close relationship between Moscow and Tehran, saying that Moscow's concerns were legitimate.
 - However, the Iranian FM, Amir Abdollahian sought to reassure Iranian MPs that Lavrov's comments would not affect Tehran's position in the negotiations.

Table 1 - Iran macroeconomic indicators¹

| | 2018 | 2019 | 2020 | 2021e | 2022f |
|---|-------|-------|-------|--------|--------|
| Real GDP Growth (%) | -6.0 | -6.8 | 3.4 | 2.5 | 2.0 |
| Crude Oil Production (M Bpd) | 3.5 | 2.2 | 2.2 | 2.3 | 2.4 |
| CPI Inflation (%) | 30.2 | 34.6 | 36.4 | 39.3 | 27.5 |
| Fiscal Balance (% of GDP) | -2.0 | -5.1 | -5.7 | -6.5 | -7.3 |
| C/A Balance (% of GDP) | 5.9 | 0.6 | -0.1 | 1.3 | 1.0 |
| Total Gov't. Gross Debt (% of GDP) | 38.5 | 47.9 | 39.5 | 33.6 | 33.3 |
| Total Gross Extr'n'l Debt (% of GDP) | 2.3 | 1.6 | 1.1 | 1.0 | 1.0 |
| Gross Official Reserves (Mos. of Imports) | 21.9 | 3.3 | 2.4 | 5.4 | 7.4 |
| Nominal GDP (USD B) | 456.6 | 581.3 | 835.4 | 1081.4 | 1136.7 |
| Population (Millions) | 82.4 | 83.3 | 84.1 | 85.0 | 85.8 |

Figure 1: Iran nuclear stockpile levels in 2021 (kg)²



¹Arabia Monitor; IMF.

²Arabia Monitor; IAEA.

- Abdollahian said that Tehran will not allow any foreign elements to influence national security interests during the negotiations.
- The US State Department spokeswoman, said that the new Russia-related sanctions are unrelated to the JCPOA and should not have any impact on its potential implementation.
- Negotiators are now looking for workarounds, this is complicated by Russia's designated JCPOA role in taking delivery of Iran's uranium stockpiles.
- Saudi Arabia and the Gulf States retain a very high level of interest too in the outcome of the negotiations, and have been staying close touch with the US/Europe to this end.
 - In recent weeks, Qatar has been playing an especially active role, drawing on its excellent links to both the US and Iran.
 - Last month, the foreign ministers of Iran and Qatar met in Tehran following a conversation between the Qatari FM and Anthony Blinken, the US secretary of state.
 - Sheikh Mohammed bin Abdulrahman al-Thani's visit was his second to Iran this year.
 - Washington also requested that Sheikh Mohammed call his Iranian counterpart, FM Amirabdollahian, last week.
 - With strong diplomatic ties to both sides, Doha will continue to play an important intermediary role.

Sanctions relief would mean slow growth

While growth is set to be tepid at best in the absence of sanctions relief, Iran's return to global markets does not translate to overnight success.

- Even following an agreement, it could take several months to confirm Iran's compliance in order to lift sanctions.
 - After the 2015 deal, sanctions were only fully lifted six months later, once Iran's nuclear-related measures under the deal had been verified by the U.N.'s watchdog, the International Atomic Energy Agency.
 - The process could potentially be expedited given the present Ukraine-related energy crisis; but that would mean staring down OPEC+, which has remained firm on restricting output even in the wake of the crisis.
- Iran is expected to ramp up its output following a deal, but analysts warn it could take three to six months to raise exports by 1 million to 1.3 million bpd - with further increases in production taking years and depending on major investment in ageing oil infrastructure.
 - Refiners (bar China) have shunned Iranian oil for several years and they would need time to finalise the technical arrangements to deal with Iranian imports.
- China's appetite for Iranian oil has held firm, especially during the past year.
 - In fact, Tehran has been increasing its production because of increasing Chinese imports, in addition to the anticipation of sanctions relief.

Figure 2 - Iran GDP growth (%)³

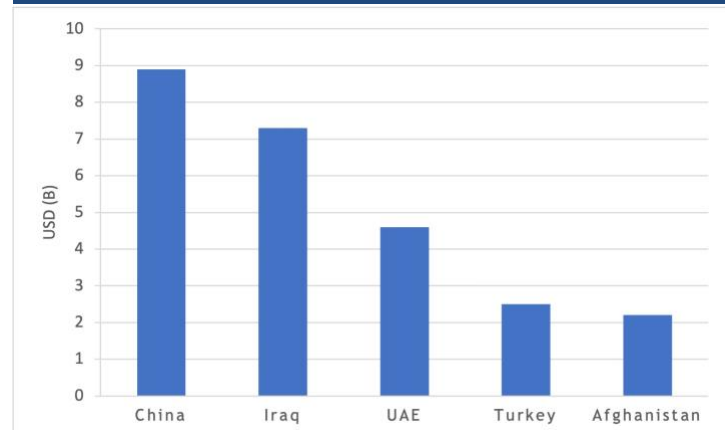
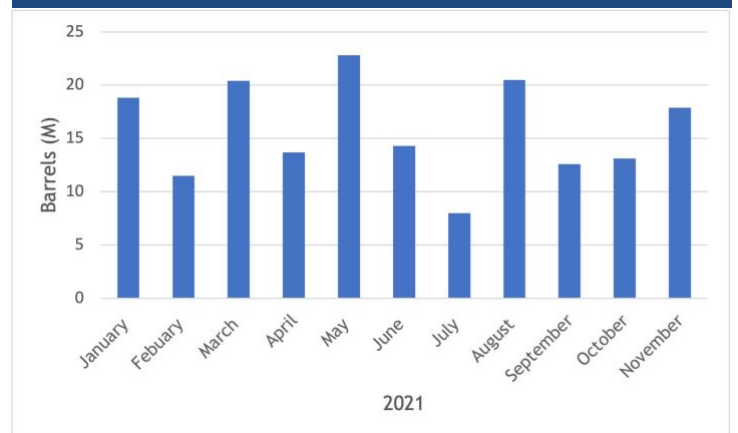


Figure 3 - Chinese imports of Iranian oil (2021)³



- China imported almost 18M barrels of Iranian oil in November 2021, equivalent to around 600K bpd.
 - This represents a 40% increase from October 2021, as well as the largest volume of Chinese oil imports from Iran since August 2021.
- Beijing went on a purchasing spree of Iranian crude in December 2021 after independent refiners were granted additional import quotas.
- According to Kpler, Iranian oil held in floating storage in Chinese waters has jumped from 7.8 million barrels in early January to 14 million barrels now.
- Kpler estimates that Iran had 100 million barrels in floating storage worldwide as of mid-February, meaning it could add 1 million barrels per day, or 1% of global supply from its floating reserves for about three months. But that would only be a short-lived boost.⁵
- Increasing its energy exports would mean that Iran's growth would surpass the IMF's current forecast, but it is unlikely to reach the levels seen after the first deal was signed (13.4%).
 - Conversely, if sanctions remain in place, the IMF estimates growth of 2%; this forecast may even be revised downwards. President Ebrahim Raisi announced that growth could reach 8%, even if sanctions are kept in place. But it is hard for growth to reach such levels under the current US sanctions.

³Arabia Monitor; IMF.

⁵Arabia Monitor; Kpler.

⁴Arabia Monitor; Statista.

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