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# IRAN'S ECONOMIC REINTEGRATION

Sanctions Relief, Energy, and Economic Growth  
Under a Nuclear Agreement with Iran

By Elizabeth Rosenberg and Dr. Sara Vakhshouri



Center for a  
New American  
Security

## **About the Authors**

Elizabeth Rosenberg is Senior Fellow and Director of the Energy, Economics, and Security Program at the Center for a New American Security. Dr. Sara Vakhshouri is President of SVB Energy International LLC, a strategic energy consulting firm based in Washington, D.C.

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## INTRODUCTION

The international community is poised to sign a deal with Iran on its nuclear program, under which Iran would make concessions on its enrichment activities and the United States and others would offer substantial relief from punishing economic sanctions. The removal of the most complex, extensive, and multilateral regime of coercive economic measures promises a windfall to Iran. However, this will be neither immediate nor easy, given the difficulty of reestablishing severed commercial and legal ties between Iran and the global financial system. Removing sanctions will require careful international cooperation and substantial outreach to the private sector. This is critical for the credibility of a deal and for keeping the incentives for Iran's continued adherence in place. It is also fundamental for the United States and its allies to clearly signal the manner in which relations could deteriorate, and sanctions be re-imposed, if Iran cheats on a deal.

The economic opportunities associated with Iran's reintegration into the global financial system and broad commercial trade are substantial for Iran and a variety of trading partners around the world. As a significant global energy producer, Iran would be able to at least double its energy trade over the next several years and would likely initiate a major production expansion, focused in the long term on natural gas development and refined petroleum product and petrochemical export. Its banking sector likely would substantially reconnect with the global financial system, and Iran would see a rush of investor enthusiasm in various other economic sectors. Potential partners and investors in Europe, Asia, and the Middle East will be the first to enter Iran, as some U.S. investors would be relegated to the sidelines due to persistent U.S. sanctions restrictions.

Iran's economic reintegration will not occur quickly or with tremendous ease, and this will test the credibility of a potential deal between Iran and its international negotiating partners – the United States, United Kingdom, France, Germany, Russia, and China, or the P5+1 – as Iran is likely to view its economic opening as insufficiently rapid or substantial. While officials can agree to rescind or suspend sanctions by certain dates, many international investors will remain cautious about engaging Iran, moving slowly to avoid the risk of losing investments or becoming the target of sanctions if a nuclear deal collapses and sanctions are re-imposed.

The private sector sees manifold attractive investment opportunities in the Iranian energy and manufacturing sectors, consumer goods and services, and other areas. However, the risks of a deal unraveling, anxiety about Iran's involvement in regional destabilization, and corruption in Iran, particularly stemming from the era of President Mahmoud Ahmadinejad, create business risks. The absence of many global companies from Iran during the last several years of most intense sanctions, as well as the development of new contracts, investment protocols, insurance products, or self-insurance schemes, will also call for prudence and ample due diligence among foreign investors.

This paper summarizes the manner in which the removal of international sanctions on Iran is likely to proceed and the impact on Iran's economic prospects, with specific attention to its critical energy sector. It discusses some of the key implications of Iran's economic reintegration following a potential deal and offers recommendations to policymakers on steps to clarify and direct the removal of sanctions to enhance both the credibility of a potential nuclear deal and the incentive structure for maintaining such a deal.

## REMOVAL OF SANCTIONS ON IRAN

The removal of the bulk of multilateral sanctions on Iran would offer Iran significant economic relief, enabling the country to reenter the global financial system and expand production and export in its economically key oil sector. This could mean perhaps \$25 billion or more in oil revenue (at current oil prices) and a relatively rapid doubling or more of economic growth rates above forecast levels in the next several years, accelerating the currently projected modest upward growth.<sup>1</sup> It will take time for this transition to occur, despite the urgent investor interest and attractive commercial incentives to move quickly into this promising emerging market. The uncertainty surrounding future political and diplomatic developments, including whether or not Iran will abide by the terms of the deal and reticence of international banks and companies to violate sanctions, will dictate cautiousness on major investments.

### Coordinated International Removal of Sanctions

Leaders in the United States and Europe have signaled that under a potential nuclear agreement with Iran, they will coordinate removal of “nuclear-related” sanctions<sup>2</sup> with Iran’s progress on concessions to cease and roll back key elements of its nuclear program.<sup>3</sup> This means that the EU likely will lift the vast majority of sanctions on Iran, including its Iranian oil import ban and sanctions on Iranian banks’ use of the European financial payment messaging systems, at the same time that the United States lifts its secondary sanctions<sup>4</sup> on Iran’s oil, trade, and banking sectors.<sup>5</sup> Specifically, the United States will likely lift restrictions on most foreign companies that deal with Iran, including on those buying Iranian oil and that may wish to invest in Iran’s oil and gas sector. Also, Iran may soon access to \$30–\$50 billion of its foreign exchange reserves held in escrow abroad due to sanctions restrictions immediately.<sup>6</sup>

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The timetable for removal of most EU and U.S. sanctions will correspond with Iran meeting key nuclear-related benchmarks under a deal, which could be in as few as four to six months from the announcement of a deal.<sup>7</sup> Therefore, Iran could see sanctions relief starting toward the end of 2015 at the earliest. Despite Iranian demands that the United States and the EU must “simultaneously” lift sanctions on the first day of a potential deal, U.S. officials have said that would be “unacceptable.”<sup>8</sup> The timing for sanctions relief could stretch out if it takes the negotiators longer to put in place the technical agreements for sanctions removal, or if it takes Iran longer to fulfill the key portions of a nuclear agreement involving dismantlement of two thirds of its centrifuges, forfeiture of 95 percent of its enriched uranium stockpiles, and strict compliance with international inspections.<sup>9</sup> In the EU, lifting sanctions will occur via a consensus decision by the European Council; in the United States, the president has a variety of waiver, licensing, and de-listing authorities to quickly and directly suspend sanctions. While the president can suspend a broad array of U.S. sanctions, Congress must act to remove a variety of sanctions authorities targeting Iran from U.S. law.<sup>10</sup>

The United Nations Security Council will lift its nuclear sanctions on Iran through a new resolution if there is a nuclear deal.<sup>11</sup> The White House has indicated that this will precede the EU and the United States lifting their own sanctions. UN sanctions on Iran related to conventional weapons and ballistic missiles will remain in place under a new Security Council resolution, along with provisions for a procurement channel guiding Iran's acquisition of sensitive, dual-use materials.<sup>12</sup>

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### Remaining Restrictions

Sanctions specifically tied to Iran's support for terrorism, abuse of human rights, or regional destabilization will stay in place after a potential nuclear deal is agreed. These sanctions are not considered "nuclear-related" by the P5+1 and therefore not germane to the nuclear negotiations. Most of these are imposed by the United States. While they number into the hundreds, they have a much more limited economic effect than the dozen or so key statutory sanctions provisions that prohibit foreign companies from doing business with Iran's financial services, energy, and other economic sectors, and that are considered related to Iran's nuclear program.

Several other elements of the current sanctions regime may remain in place, at least in part, after a potential nuclear agreement. One is the prohibition on the use of U.S. dollars in transactions with Iran, which may not be considered nuclear-related and therefore would not be permitted under a potential nuclear deal. Additionally, banks and companies

in the United States or under U.S. jurisdiction do not necessarily expect to be permitted to reenter Iran and engage in new commercial and investment activities with Iran.<sup>13</sup> They are bound by a comprehensive trade and investment embargo, the architecture of which is not widely viewed as nuclear-related.<sup>14</sup> The maintenance of this embargo may have supply chain effects for non-U.S. companies, including requirements for foreign companies to limit or eliminate U.S.-origin goods from their operations in Iran. It may also create challenges for foreign companies to navigate trade finance, insurance, and payment transactions operations in ways that avoid exposure to, and liability in, the U.S. financial system.

### Private Sector Caution in Dealings with Iran

Many international banks and companies are extremely cautious about business with Iran and will move slowly before ramping up new trade and investment. A primary cause for this is Iran's history of secret, illicit nuclear enrichment, sanctions circumvention, and the chance that Iran could cheat on a future nuclear deal.<sup>15</sup> If Iran does cheat, the United States and its allies have promised to re-impose, or "snap-back," sanctions, which could cause international companies to lose their investments and incur harm to their reputations.<sup>16</sup> In this circumstance foreign investors could see their assets tied up and face possible penalties for sanctions violations.<sup>17</sup> Iranian companies may also be reluctant to move money held abroad back into Iran in case a deal collapses, sanctions are re-imposed, and they lose the ability to easily move capital abroad.

As an additional concern, international banks are wary of becoming enmeshed in Iranian corruption, money-laundering activities, or with Iranian companies still under sanctions based on their ties to terrorism and human rights abuses.<sup>18</sup> Foreign investors would have to ascertain the beneficial owners and subsidiaries of their Iranian

investment counterparts – often not clearly defined – to make sure they are steering clear of both prudential and sanctions risks.<sup>19</sup> Global banks and major multinational companies are keen to avoid the risk of expensive and damaging civil and criminal enforcement actions, sometimes costing companies billions of dollars, associated with violation of Iran sanctions or failure to exercise prudent oversight in commercial dealings with Iran.<sup>20</sup> Banks and companies that have faced these actions in the past would be reluctant to resume ties with Iran in the absence of both significant legal opening and clear policy indication that such commercial activities are encouraged.

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Another significant cause for private sector caution in new business in Iran is the potential for the U.S. Congress or the next president to delay, constrain, or eventually reverse the removal of U.S. sanctions on Iran. U.S. legislators are planning to pause implementation of a potential nuclear deal by at least a month from when it is announced while they review its provisions, and may ultimately vote to disapprove a deal.<sup>21</sup> Creating obstacles for the P5+1's implementation of a nuclear deal undermines the agreement, the cohesion between the United States and its international allies, and Iran's incentive to abide by a deal.

In the future, lawmakers could also impose new sanctions on Iran for its support for terrorism or human rights abuses, which would sow doubt and

confusion in the private sector about the direction and scope of sanctions relief and slow the commercial opening and value of economic relief for Iran. Members of Congress are currently considering new sanctions authorities on Hezbollah, which many would see as an indirect effort to sanction Iran due to its material support to the group. For lawmakers concerned that Iran may direct new revenue generated after major sanctions are lifted into illicit activities or to support its partners and proxies in Syria, Yemen, Lebanon or elsewhere, new sanctions may be viewed as an attractive mechanism to counter Iran's spending on its regional security policies.

#### IRAN'S ECONOMIC AND ENERGY DEVELOPMENT AFTER A POTENTIAL NUCLEAR DEAL

Removal of major banking, energy, and other economic sanctions on Iran if there is a nuclear deal would provide both a real and psychological boost to Iran's leadership and economy. Reclaiming the ability to export oil unencumbered and to take control of its oil export revenues, which have been held in escrow by international banks since 2012, would have an immediate economic impact on Iran. This could help Tehran reduce inflation by strengthening and stabilizing its currency exchange rate. Additionally, increasing foreign trade and investment would stimulate job creation, income generation, and public spending. Removing sanctions would not remove the drags on Iran's economy from corruption and poor economic mismanagement, stemming particularly from the period of President Ahmadinejad, but it would remove significant impediments to growth and may create incentives for more transparent, efficient economic management to attract foreign capital.

Iranian leaders have offered ambitious public statements regarding economic transformation following a potential nuclear deal. President Hasan Rouhani said the deal opens “a new page with the world,” paving the way for “progress, development and stability.”<sup>22</sup> Meanwhile, Oil Minister Namdar Zanganeh has added that Iran plans to expand production in its key energy sector by 1 million barrels per day “within a few months” after the deal, reaching production targets of 4 million barrels of oil per day and 1 million barrels of condensate by 2017 or 2018.<sup>23</sup> A more realistic assessment would be an expansion of up to 800,000 barrels per day within six months and a major oil output rebound only after 2016, though even this pace would put Iran on course for a structural shift and acceleration from the current modest pace of economic growth.

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The enthusiasm and groundwork of eager international investors notwithstanding, it will take responsible international investors some time to strike new deals. Iran has hosted a multitude of trade delegations from all regions of the world, in sectors ranging from real estate to health care to insurance. However, responsible investors in all of these areas would have to navigate new credit and insurance (or self-insurance) terms and conduct significant due diligence once the details of sanctions removal are clear.<sup>24</sup>

## New Business Activities

After a lifting of sanctions, European, Asian, Middle Eastern, and other non-U.S.-firms will be the first to move into Iran, establishing energy and financial deals. Early business activity would also include non-U.S. company investment in other economic sectors, such as agriculture, shipping, construction, automobiles, communications, hospitality, and airlines.<sup>25</sup> Initial deals would likely involve new trade or short-term deals with very rapid payback or amortization. This may include sales of Iranian oil from storage, consumer and manufactured goods, and some agricultural products.

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Some Asian or Middle Eastern banks and companies are less deterred by the prospect of violating sanctions or taking on high-risk investments and will move fastest to strike new deals with Iran. However, these companies generally will not be able to provide the same technical expertise and large amounts of capital that Western companies can offer. Therefore, investing millions or billions in Iran’s most attractive energy and infrastructure projects will proceed more slowly, due to the more cautious entrance of better-capitalized and more technically sophisticated Western companies.<sup>26</sup>

## Spotlight on Energy

### DEVELOPMENT PLANS AND POTENTIAL

Iran's priorities for development of its attractive energy sector are threefold: a near-term restoration of oil export volumes to the levels prior to the painful energy sanctions of 2012, or roughly 2.5 million barrels per day; attracting foreign capital to expand natural gas production to serve the domestic consumer demand and refining and petrochemical sectors in the near term, and gas pipeline export to Iraq and South Asia in the medium term;<sup>27</sup> and completion of a long-term push to expand its export refining and petrochemical production capacity to serve demand centers primarily in South and East Asia.

Lucrative energy investment opportunities in Iran extend far beyond these three areas, however, and Iran will seek to cultivate its various energy sector advantages to spur investment in a wide variety of projects. Energy production costs in Iran are among the lowest in the world, from \$5 to \$10 per barrel for oil, for example, and Iran's advantageous geographic position between major demand centers to the east and west makes it highly attractive as an energy investment target. Additionally, in comparison to other major energy resource states such as Russia or Saudi Arabia, Iran looks as though it could be relatively open for business after the potential lifting of sanctions.

With new investment in a post-sanctions environment, Iran is ambitiously planning to expand its energy production goals. Under its fifth five-year plan, from March 2011 to March 2016, Iran planned to attract \$155 billion of investment to new and current oil and gas fields, increasing production to 5.152 million barrels per day.<sup>28</sup> This surpasses pre-sanctions oil production capacity of above 3.5 million barrels per day.<sup>29</sup> The new target level relies on a goal of injecting 330 million cubic meters per day of gas, as well as water, into its mature fields to stem natural production declines.<sup>30</sup>

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However, sanctions have blocked access to technology, capital, and procurement and have caused Iran to achieve only 60 percent of its enhanced oil recovery gas injection plans.<sup>31</sup> Iran puts its production capacity now at 3.8 million barrels per day.<sup>32</sup> Following the removal of sanctions, Iran will work to accelerate its production as rapidly as possible toward its current planning goal.

In comparison to Iran's priority oil and gas production expansion projects, major development of an Iranian liquefied natural gas (LNG) industry is not a realistic investment prospect in the near term. The surfeit of LNG production capacity planned to serve global LNG demand through the early 2020s makes new projects for this time period, and in a low energy price environment, not very attractive. Additionally, it is likely that some of the sophisticated technology necessary for liquefying gas, which is produced by Western companies, would remain restricted by sanctions and trade measures even after a potential nuclear deal and lifting of sanctions. This means that it would be difficult or impossible for foreign companies to develop a substantial Iranian LNG export industry for at least a number of years.



### NEW TERMS FOR ENERGY INVESTMENT

The National Oil Company of Iran (NIOC) is planning to introduce 40 projects for competitive bidding after the removal of sanctions. NIOC officials have already begun sharing information on the projects with potential foreign investors. They have also announced a revision to regulations focused on energy production and a new contract model, the Iran Petroleum Contract (IPC), to replace older buyback contract structures previously offered for foreign investment. The IPC model is supposedly designed to engage investors for a longer period of time and involve them in the production process. Additionally, NIOC claims that the ceiling for investor profits will be higher than under older buyback contracts offered by Iran in the 1990s and 2000s. Furthermore, NIOC has promised international investors that investment risks will be lower.

Notwithstanding an enthusiastic marketing campaign, NIOC has not yet clarified to foreign investors significant details about new energy contracts. It has not signaled, for example, whether the Iranian government will allow international investors to book reserves, something currently prohibited due to Iran's constitutional limitations on resource ownership. This is a major drawback for international investors. It has also failed to clarify whether it will offer attractive production-sharing contract arrangements, like those offered by the Kurdish Regional Government for example, to international investors, which would allow investors to achieve a generous profit margin. If Iran does not offer sufficiently attractive investment terms on reserves and production, it will not induce major international energy companies to assume a significant degree of risk and enter a high-stakes, high-reward Iranian market.

If Iran does offer attractive terms to investors in the energy sector and sanctions are lifted pursuant to a nuclear deal, Asian and European oil

companies, such as Total and Eni, will likely immediately start negotiating and position themselves for bidding on potential projects. They cannot sign any official deal with Iran until sanctions are removed. However, they have already begun positioning themselves for new investment over the last year and a half and collecting information on the projects NIOC will introduce for competitive bidding.<sup>33</sup> American oil companies, such as ExxonMobil and Chevron, will still be subject to U.S. restrictions, putting them at a competitive disadvantage. They would not be able to enter Iran for some years, unless the U.S. administration offers licenses permitting energy sector activity.

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## IMPLICATIONS OF IRANIAN ECONOMIC REINTEGRATION

Following the lifting of major sanctions, there are several effects of Iran's potential economic reintegration into the global economy that would offer U.S. leaders cause for concern and present some important economic implications. As a major stakeholder in both global energy market stability and security and in Middle Eastern political stability and security, the United States has a keen interest in how Iran's leaders may change course following a potential deal. Iran's current economic managers may struggle to accommodate a very rapid injection of liquidity once sanctions are lifted, as over \$100 billion of Iranian foreign exchange reserves held in escrow abroad are progressively repatriated after sanctions are rolled back. However, they have an established record of creativity and diligence, having turned economic growth positive in the recent past, and are projecting confidence about their ability to oversee the transition in their economy.

### Energy Market Effects

The potential removal of sanctions on Iran would not affect a radical near-term shift in global energy markets, even though this may have a material impact on short-term oil prices and substantial near- to medium-term improvements in Iran's ability to attract energy sector investments and generate energy revenues. Additionally, Iran's intensive focus on natural gas production capacity in the medium to long term may mean that Iran will not have a radical effect on oil market balances in the longer term, even while its large resource base creates such potential. It may, however, significantly change and improve the dynamics of regional gas use and trade, particularly by pipeline, in that timeframe. New supply of natural gas from Iran could significantly benefit U.S. ally Iraq by providing crucial feedstock for much needed electric power. Iranian gas supplies

would also help Pakistan, which would similarly benefit from new natural gas-generated electric power. In both cases, the ability of the central government to access affordable pipeline natural gas supplies and provide more electricity for the population could help to manage and alleviate poverty and political instability.

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If sanctions are lifted in the summer of 2015, Iran could add up to 200,000 barrels per day of oil to the global market in the last quarter of 2015 and see a broader production rebound toward the middle of 2016. Currently low oil prices have a repressive impact on non-OPEC production and its growth in the next year or two, making room for a gradual rise in Iranian oil and condensate production and export to the global market over this period. The primary effect of this increased Iranian export would be a prolonging of the low oil price environment in the near term, especially if Iran's OPEC partners do not trim

their production to accommodate Tehran's higher exports. Thus, Iran's reentry into the global oil market would have troubling implications for U.S. oil producers in the near term, while consumers would benefit from the continued low prices.

Over the longer term, a robust rate of Iranian domestic energy consumption, combined with some energy sector mismanagement challenges, aging oilfields, reservoir depletion, and the residual difficulty of navigating sanctions, will keep Iran's energy ambitions in check. This means that it is unlikely to effect a radical shift in global oil market supply patterns or, of itself, help to create a significantly larger consuming country dependency on Iran or OPEC for oil supplies. Additionally, it is unlikely that Iran's crude oil capacity growth will exceed 4.5 to 5 million barrels per day by the early 2020s, or 5.5 million barrels per day by 2030. The most optimistic scenario for Iran's oil production growth is a peak above 6 million barrels per day, matching Iran's pre-1979 high. However, it is more likely that Iran will not expand its oil production capacity over 5.5 million barrels per day and will instead focus on producing natural gas. Also, despite its vast natural gas resources, Iran is unlikely to obtain more than 1 percent of the global gas market and cannot be expected to play a major role in the LNG sector.

Among Gulf oil producing countries, Iran is likely to struggle with its regional neighbor and OPEC's unofficial leader Saudi Arabia over market share as low oil prices persist for the next year or more. Saudi Arabia is producing at historic high levels in spite of the low oil prices and market expectations for Iran's reentry, and is hardly likely to yield its market share or revenue-generating potential for Iran to assume a broader market role. This would put downward pressure on oil prices, with negative budget implications for Saudi Arabia, Iran, and all other oil producers, including those independent producers in the United States. This would in turn have favorable pricing implications for global oil consumers, including Americans, who lead this pack.

The oil supply competition between Iran and Saudi Arabia is unlikely to translate substantially into the political domain, notwithstanding a history of poor relations and competition between the two countries. It would put them in greater commercial competition when it comes to oil trading with Asian consumers, but would make them similarly invested in maritime security of oil trade from the Gulf, through the Strait of Malacca, and in the South and East China Seas.

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## RECOMMENDATIONS

Poised to open new economic and diplomatic doors with Iran in the wake of a potential nuclear deal, the United States and its allies should take a variety of steps to clarify the potential removal of sanctions, guidelines for acceptable, new commercial activity, and criteria for the re-imposition of sanctions. The United States should also move to allow some classes of U.S. commercial involvement in Iran for strategic purposes. Several specific recommendations are listed below.

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### **Clarify and Coordinate the Removal of Sanctions and Criteria for their Re-imposition**

The United States and EU leaders, specifically those at the U.S. Treasury Department and at the EU Council, should be entirely aligned in clarifying the removal of sanctions in their jurisdictions, including the use of parallel language wherever possible, and written, interpretive guidance for compliance professionals and on-site federal supervisors at banks and companies. This guidance should offer an unprecedented level of specific detail on the degree of continuing exposure to U.S. sanctions for non-U.S. banks and companies, as well as the priority concerns for financial regulators, overseers, and enforcement officials. This would help to mitigate confusion and cheating on sanctions. It would also demonstrate seriousness of purpose on the part of the P5+1 to create pathways for permitted new commercial activity with Iran and to implement a nuclear agreement, both of which would enhance credibility of a deal and the incentive structure for Iran's adherence.

Officials at the White House, Treasury, and counterparts in the EU and at the UN Security Council should also offer coordinated public guidance on the criteria and mechanism for the re-imposition of sanctions on Iran if Iran is out of compliance with a potential deal. This should include clarifying protocols for freezing or winding down private sector activity that may no longer be permitted if sanctions are re-imposed.

### **Support Enforcement and Regulatory Outreach**

The U.S. Congress should allocate new resources to the State and Treasury Departments for ongoing Iran sanctions oversight, compliance, and sanctions removal activities. The substantial new requirements associated with the removal of sanctions in particular demand new teams of staff dedicated to this effort. These agencies should create a robust group of officials dedicated to engaging the public and the private sector about the changes in Iran sanctions. This new team would also be critical to help with enforcement and licensing in the future, a task that will be significantly more complicated and nuanced as sanctions rules change and more foreign companies engage in commercial ventures in Iran.

### **Allow U.S. Companies to Engage in Iran in Some Areas**

The Treasury Department should issue several general licenses to allow U.S. companies to participate in some proscribed financial services and energy investment and trading activities in Iran. This would put U.S. companies on an equal footing with global businesses on some areas of investment in Iran, allowing them to compete for potentially lucrative business opportunities. It would also give European companies, many of which are highly exposed to U.S. laws because of their participation in the U.S. economy, a confident signal that they may proceed with permitted investments and trade. Ultimately, this would go a long way to

facilitate the entrance of U.S. and European companies into Iran, balancing the expansive business ties that China seeks to forge with Iran immediately upon the lifting of sanctions.

Additionally, creating opportunities for U.S. companies to engage in Iran would constitute a form of constructive, commercial diplomacy. Greater opportunities for commercial interconnection may have the effect of encouraging Iranian entrepreneurs to forge new ties with counterparts in the West, and advocate to their own leaders in Tehran a broader strategic and diplomatic opening with the West. This can help to develop more communication between Iran and the outside world and interconnections between the U.S. and Iranian economies. These new commercial and communication ties may ultimately support and facilitate productive engagement between Iran and the United States on areas of continuing security concern.

### Encourage Economic Resilience in Gulf States

Officials in the U.S. State and Treasury Departments should engage Gulf countries, particularly key allies Saudi Arabia, the United Arab Emirates, and Iraq, to increase economic resiliency in the face of potentially sustained lower oil prices resulting from OPEC's continued strong production. This includes a greater production role for Iran as an OPEC producer following the removal of sanctions. This is important to shore up financial resources as oil prices and revenues are low and military spending to counter regional threats is high. Slowing Gulf government spending should include, primarily, a push toward broad subsidy reform, as well as energy demand mitigation and conservation. Success in this area would put the rulers of these countries in a more stable position to combat serious security challenges.

## CONCLUSION

A nuclear deal with Iran will not initiate an unchecked windfall of capital into Iran, a factor that may undermine Iran's confidence in a deal and the incentive structure for its adherence. The maintenance of some sanctions on Iran, even in a best-case scenario for nuclear diplomacy, and the threat of re-imposing tough economic sanctions if Iran circumvents the deal will serve concomitantly to temper what would otherwise be enthusiastic and potentially ubiquitous investment into Iran. Moreover, international banks and companies will be slowed in their investment plans by the need to put in place appropriate risk management and insurance products and contract formats that will guarantee strong commercial terms, particularly in the key energy sector.

The United States would best serve its strategic interests if it gives clear, proscriptive guidance to facilitate commercial engagement with Iran as it, along with allies, lifts sanctions under a potential nuclear deal. Making the legal pathways for new business abundantly clear to the private sector would support constructive commercial engagement that can facilitate greater communication and exchange between Iran and the United States. In turn, this would be important to addressing ongoing issues of concern between the two countries, as well as regional stability and energy market stability. Additionally, the lifting of sanctions may be the best insurance policy in nuclear diplomacy, offering Iran powerful incentives to comply with a nuclear accord and, with the threat of re-imposition of sanctions if Iran falls out of compliance with the accord, a powerful deterrent to cheating.

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### **Center for a New American Security**

1152 15th Street, NW  
Suite 950  
Washington, DC 20005

TEL 202.457.9400  
FAX 202.457.9401  
EMAIL [info@cnas.org](mailto:info@cnas.org)  
[www.cnas.org](http://www.cnas.org)

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