

Iran: Strategic patience put to the test

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- The assassination of Fakhrizadeh, Iran's leading nuclear scientist, is expected to lead to a retaliation. But it will take time as Tehran carefully evaluates how to play its cards.
- While the world awaits the Biden administration's reengagement with Iran, European leaders are expected to help facilitate a quick return to the JCPOA nuclear deal.
- Decisions will need to be made cautiously given the impact on oil markets and, potentially, on the Iranian presidential election next summer.

Iran: Rapid return to nuclear deal unlikely

Democrat Joe Biden's presidential victory has brought with it the promise of an eventual return to the JCPOA deal, with both the US transition team and Iran seeing it as a priority. But a quick and easy return to the old deal is off the table.

- The region is experiencing an uptick in volatility from both President Donald Trump's increased "maximum pressure" strategy and from the Mohsen Fakhrizadeh assassination.
- Iran is eager to re-enter the nuclear deal, at least while President Hassan Rouhani is still in office. But the 18 June presidential election is likely to see a hardliner take the reins.
- With this as a backdrop, hardliners in the Iranian parliament are likely to fight potential successes by the Rouhani administration, delaying the country's return to the negotiating table.
 - Rouhani is also trying to portray himself as tough ahead of the election, asking for sanctions compensation from the US in return for Iran's return to the deal.
 - These demands are unlikely to be met, nor will Iran's demand for the US to return to the full deal immediately.
 - We are more likely to see an interim deal before a full one is negotiated. This would leave the full agreement to be negotiated by a new Iranian president.
- Foreign Minister Javad Zarif has been quick to acknowledge Iran's willingness to return to the deal -- he has even gone as far as stating that the US can re-enter the deal under Biden with three executive orders.
 - Biden, however, is unlikely to start his presidency by embracing Iran, seen by many in the US as an implacable enemy.
- While Iran's current administration may be keen to re-join, the decision on re-engagement falls on Supreme Leader Ali Khamenei, who at times leans towards the hardliners.
 - That said, Tehran remained in the JCPOA even as a hostile US left, suggesting that, ultimately, Khamenei supports a return to the negotiating table.
- Publicly, Khamenei would never voice his support. He much prefers to drive a narrative of Iranian resilience and has advocated for nullifying sanctions rather than cancelling them.
- Behind all this, Iran's continued economic distress is adding harsh pressure on the country to meet outside demands.
 - Iran's GDP is forecast to contract by 5.5% this year, a third consecutive year of recession, before it rebounds into positive territory with lackluster 3.3% growth from a low base next year.
 - This year alone, the rial has depreciated by 49% and is likely to decline even further, contingent on US policy.
 - The unveiling of new sanctions on the Islamic Republic as promised by Trump over the remaining 50 days or so he has left in office will add further pressure on the currency and accelerate inflation.
 - Inflation is expected to reach 30.5% this year, before it eases slightly to 30% next year.
- With further sanctions, Trump -- who is not stepping back for the newly elected president as his predecessors have done -- could

Figure 1 - Iranian Oil Production (Kb/d)¹



make it even harder for the Biden administration to reverse course in the short term.

- The Trump administration's recent sanctions under the US counter-terrorism authority target the Iranian Ministry of Petroleum and its minister, the National Iranian Oil Company, and the National Iranian Tanker Company. To reverse such a designation under the counter-terrorism authority is harder than reversing earlier, mainly economic, sanctions.
- Last month, Trump went as far as weighing a military attack on one of Iran's nuclear facilities. He was dissuaded from the action by his advisers, but various options "remain open".
- After the assassination of the country's leading nuclear scientist Fakhrizadeh, hardliners are calling for retaliation. While Iran will retaliate eventually, it will do so at a time and place that's politically viable.
 - The assassination -- which Tehran blamed on Israel -- was considered to be designed to impede post-Trump re-engagement with Iran.
 - Iran's next move will help to determine how the Biden administration will engage with Iran after the 20 January inauguration.
 - Iranian hardliners, who blame the Rouhani administration for a security blunder, are calling for a swift response. However, the administration is likely to practise restraint.
 - Rouhani has said that Iran "will answer at the right time".
 - This does not upend the potential of re-entering the nuclear deal or negotiating a new one, but the continued cycle of retaliation and counter-retaliation between the Islamic Republic and its adversaries adds an additional hurdle for the Biden administration.

Although Biden is unable to formally liaise with foreign powers just yet, Europe is taking the lead to facilitate a quick return to the JCPOA, laying down the foundation for a new deal when the new, more internationalist president takes office.

- In a joint statement, the leaders of Germany, France and the UK -- known as the E3 -- called for Iran's return to the full set of obligations placed on its nuclear programme.
 - Rushing to return to the negotiating table before Iran's presidential election in June, a meeting by the Joint Commission is set to take place on 16 December in Vienna to lay the groundwork for the JCPOA. Besides the E3, China and Russia will be attending the meeting.
 - This will be instrumental in accomplishing Europe's Iran-focused agenda.
 - The E3 have suggested a potential short-cut to end Iran's sanctions by negotiating directly with Tehran to return to details of the original nuclear deal. In turn, they would ask the US to lift sanctions by executive order rather than wait for the US to rejoin the JCPOA.
- With Europeans anticipating better US-Iranian relations under Biden, European business leaders are planning a Europe-Iran Business Forum next month.
 - The event, running from 14 to 16 December, is the first of its kind since the US left the JCPOA in 2018. It is organised by the UN International Trade Centre and Iran Trade Promotion Organisation.
 - More economic cooperation should follow after an agreement between the US and Iran is reached.

¹ Arabia Monitor; IMF.

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