Deal on Iran sanctions relief strikes good balance, experts say

By NIV ELIS

The $7 billion of sanctions relief that Iran won in Sunday's interim nuclear deal struck a good balance, offering Iranian President Hassan Rouhani a domestic win while leaving the Iranian economy in enough pain to keep them negotiating, according to several experts.

Prime Minister Binyamin Netanyahu balked at US President Barack Obama's characterization of the deal as offering Iran "modest relief, while continuing to apply our toughest sanctions" and promising that "if Iran does not fully meet its commitments during this six-month phase, we will turn off the relief and ratchet up the pressure."

Even moderate relief, Netanyahu has argued, would leave "a gaping hole in the sanctions through which the air could escape from the pressure of the sanctions."

But according to Kenneth Katzman, an Iran expert at the Congressional Research Service, the sanctions relief is small potatoes.

"I personally found the sanctions relief to be extremely modest at this stage," he said. "I'm even surprised Iran took the deal at all, because I see it as being one-sided. Iran gave up a lot here."

Meir Javedanfar, an Iranian-born scholar who teaches at the Interdisciplinary Center in Herzliya, said, "The amount of sanctions lifted as part of the interim deal are by no means sufficient to save the Iranian economy from the downward spiral that it's been facing for the last year."

Although there has been a sanctions regime against Iran in place since the US Embassy hostage crisis in 1979, the Islamic Republic learned to cope with them fairly well until last year, when tough, internationally supported sanctions cut off its access to the financial system and blocked its oil exports.

The sanctions drove its oil sales down 60 percent from their 2011 levels and pushed its oil revenues, which account for half its government budget, from $100 billion to $35 billion. Its economy shrank 19.9 percent from March 2012 to March 2013, its first economic contraction in 20 years, and is expected to shrink another 1.3 percent by March 2014. Unemployment soared to 20 percent.

The relief offered in the deal would suspend sanctions on precious metals, the auto sector and some petrochemical exports, valued at $1.5 billion, allow Iran access to $2 billion of oil sales it has been unable to shore up due to financial restrictions and give $400 million in assistance to educational institutions.

The rial, Iran's currency, rebounced by 3 percent following the agreement, strengthening from 30,000 against the dollar to 29,000, according to Reuters. But that exchange rate is still significantly weaker than September 2011 rate of 13,000.

The White House attempted to downplay the sanctions relief in a fact sheet about the deal.

"In total, the approximately $7 billion in relief is a fraction of the costs that Iran will continue to incur during this interim phase under the sanctions that will remain in place," it said.

"The vast majority of Iran's approximately $100 billion in foreign-exchange holdings are inaccessible or restricted by sanctions."

The relief, though modest, is expected to strengthen Rouhani's hand against his domestic critics.

"He'll be able to say, 'This is far more than the conservatives achieved in eight years, and I did it in less than a hundred days,'" Javedanfar said.

While some argue that stronger sanctions might push Iran to eliminate any form of enrichment in a final deal, according to Katzman, "the lion's share of Iran experts in this business simply don't feel that's achievable, no matter what you do."

Brookings scholar Kenneth M. Pollack said the international community must believe the US is making a goodwill effort, otherwise support for the more pressing sanctions will fall apart.

"Once international opinion turns against sanctions, trying to enforce them means fighting with your allies and trade partners, rather than the targeted country. That makes sanctions virtually impossible to sustain," he wrote in The Washington Post, adding that the sanctions regime against Iraq disintegrated in the mid-1990s for that precise reason. Whatever the perceived flaws, Javedanfar said, the relief is temporary. None of the legal codification for the sanctions has been removed. Obama relied on temporary waivers instead. Though some types of sanctions — such as those on oil, which are expected to continue costing Iran $5 billion a month in lost revenue — would be tough to reinstate if they were dismantled, the sanctions in the agreement will fall back into place if final deal is reached six months.

"It's just an interim deal," Javedanfar said. "Will some one tell the prime minister to calm down?"