

Global Hot Topics

The Iran deal: a positive step in the centrifuge-oil balance

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The P5+1 countries and Iran announced a comprehensive action plan last week which should be completed before next June. The presented parameters means a significant reduction on Iranian nuclear capacity and, even more important, an increased role for monitoring. In exchange for it, sanctions on Iran would be removed gradually. Uncertainty about the oil price impact remains.

Differences before and after the nuclear deal

Source: Belfer Center, April 2015

	AFTER accord	BEFORE interim agreement
Uranium route		
First generation centrifuges installed	6,104	18,472
Advanced centrifuges installed	0	1,008
Breakout time for weapon	1 year	1-2 months
Research & Development of new centrifuge technology	Constrained	Unconstrained
Stockpile of low-enriched uranium	660 lbs	15,770 lbs
Stockpile of medium enriched uranium (close to bomb grade)	0 lbs	430 lbs
Plutonium route		
Arak reactor	Core dismantled and reactor reconfigured	Under construction to produce 1-2 bombs-worth of plutonium annually
Verification and Monitoring		
Previous research on nuclear weapons	Iran to address IAEA concerns	No cooperation
Unknown nuclear sites	IAEA access to suspicious nuclear facilities anywhere	No mechanism
Inspection regime	Strictest IAEA protocols implemented	Not implemented

The P5+1& Iran deal: centrifuges and barrels

Last week, EU high Representative Federica Mogherini and Iranian Foreign Minister Javad Zarif made a [joint statement](#) announcing that the P5+1 countries and Iran had reached solutions on key parameters of a Joint Comprehensive Plan of Action (JCPOA). The P5+1 and Iran will now work on a detailed text including its technical details to be completed before 30 June.

The JCPOA details can be read in the four-page [‘parameters’ fact sheet](#) released by the US. **According to experts, the agreement is substantial.** By eliminating **12,000 centrifuges (two-thirds of the current total)** and five bombs’ worth of low-enriched uranium, the accord **extends the breakout timeline for Iran to produce sufficient highly enriched uranium core for the core of a single bomb** to one year. By requiring the reconfiguration of Iran’s planned plutonium-producing reactor at Arak, the accord essentially **closes this door to Iran building a plutonium bomb**. Last, but not least, by agreeing to establish a new mechanism that will allow unprecedented access for the International Atomic Energy Agency (IAEA) to suspicious sites, **monitoring has been clearly enhanced**.

Barrels: sanctions relief

In exchange **sanctions to Iran will be eased sequentially and gradually by the UN, the European Union and the US**. The precise phrasing is critical to understanding how the sanctions will be eased:

- First, **UN Security Council sanctions (related to nuclear weapons and technology proliferation rather than economic matters) will be lifted, though the UN resolution** will still include language on restricting Iran from accessing nuclear-related weapons and technology. The UN Security Council resolution is not important for its immediate impact on Iranian trade, but for laying the political foundation for the European Union and United States to ease sanctions.
- **The EU "will terminate" the implementation of all nuclear-related economic and financial sanctions**, because it will have the political leeway to do so cleanly with an EU vote.
- **The US will “cease application” of all sanctions simultaneously with IAEA verification of Iran’s commitment. This will have to entail the president relying on his executive power to suspend sanctions through his waiver authority** for consecutive 120-day periods. There is no limit to how many times he can extend the waiver period.

It is likely that **EU sanctions will be removed first** (firstly the oil embargo and then other economic and financial sanctions). **Shortly after, financial sanctions on Iran’s use of the swift system** for international banking **would be lifted**. **The US administration would then issue waivers on corresponding US sanctions**.

Uncertainty about the oil price impact

Initially, the oil market reacted strongly on the downside as markets started to estimate the impact of new oil supply on the market. The IAEA already announced two months ago that its forecasts were done on the “no policy change principle” so any positive result of the negotiation on oil supply should be included in updated forecasts. **Later, the oil price recovered as there is some uncertainty about the impact.** First, **the new supply is estimated in a range of 500-1,000 million barrels per day**. Second, **the range of barrels at sea (stored in Iranian bunkers) has been estimated at 30 to 40 million barrels**. Last, but not least, there are still **doubts about the potential schedule, with most analysts signaling that the first removal of sanctions will be next year**.

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