

Geopolitical Implication of Iran Nuclear Agreement

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FOREWORD

Under the Asia-Pacific Economic Cooperation's mission of promoting economic prosperity in sustainable ways, this research document proposes a policy framework for understanding the major factors involved in oil & gas supply to the APEC region.

Oil accounted for the second largest share of primary energy demand in the APEC region in 2013 and will likely remain the top energy source in the long term. The external sources for oil are dominated by suppliers in the Persian Gulf region, including Iran, which reached a historical nuclear agreement (JCPOA) with the world powers (P5+1) in July 2015. The JCPOA was implemented in January 2016, which resulted in the comeback of Iran to the oil market, while at the same time caused "concerns" of the surrounding countries, especially the GCC states. This report presents a wide range of analysis to evaluate the impact of JCPOA on both Iran and the oil producing countries in the Persian Gulf region, whose stability is of paramount importance for APEC member economies.

This report is the work of the Asia Pacific Energy Research Center. It is an independent study, and does not necessarily reflect the view of or policies of the APEC Energy Working Group or individual member economies.

Takato OJIMI

President

Asia Pacific Energy Research Centre

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1.0 Geopolitical Implications of the Iran Nuclear Deal

When the Joint Comprehensive Plan of Action (JCPOA) (the so-called “Iran Nuclear Deal”) was signed in July 2015 after negotiations lasting for almost two years from 2013, Iran voluntarily committed itself to reduce the scale and partially terminate its nuclear activities. The negotiating parties with Iran, namely the P5+1 (the UN Security Council’s five permanent members, plus Germany along with the EU), adopted a new resolution as an alternative to the UN Security Council resolutions that had repeatedly urged Iran to stop its nuclear activities, which included uranium enrichment, in exchange for a removal of UN sanctions and repeal or suspension of sanctions against Iran that had been independently established by each country consequent to Iran’s refusal to comply with previous Security Council resolutions. As a result, as of January 16, 2016 (Implementation Day), the situation has changed, with each sanctioning country lifting or mitigating sanctions that had been imposed on Iran based on its nuclear activities.

The situation also suggested the lifting of secondary sanctions against Iran’s crude oil exports that have been in place since 2012 and lesser barriers against investment in upstream oil and gas development in Iran. Thus, it is necessary to clarify the impact on the market.

1.1. Iran Nuclear Deal Reached After Many Difficulties

Since 2006, the United Nations Security Council has been exclusively responsible for clarifying the suspicious nuclear development by Iran and the diversion of nuclear technology for military purposes. As one of the signatory countries of the Nuclear Non-Proliferation Treaty (NPT), Iran was allowed to engage in nuclear development for peaceful purposes. Domestically, a nuclear power plant built by Russia has been in operation in Iran since September 2011. However, it was pointed out in 2003 that Iran had failed to report its activities, including in particular the transfer of uranium and the use of fissionable materials, at the necessary timing in compliance with the Comprehensive Safeguards Agreements. In addition, there was increasing suspicion that Iran was developing technologies that could lead to weapons development. Despite several UN Security Council resolutions adopted based on Chapter VII of the UN Charter intended to clarify the allegations, Iran refused to provide additional information as requested by the International Atomic Energy Agency (IAEA). For this reason, Iran was isolated and various sanctions were imposed against its nuclear and ballistic missile development based on UN Security Council resolutions. At that time, the United States, Europe and other countries separately imposed wide-ranging economic sanctions against Iran. Accordingly, with the risk that Iran might raise its technological level in violation of the requirements of the UN Security Council, the sanctions against Iran escalated further.

Despite these measures by the international community, Iran continued to work on improving its uranium enrichment technology and increased the number of centrifuges. Iran had already constructed an underground site inside a mountain and installed a second uranium enrichment facility there. Later, Iran also started work on elevating to nearly 20% the concentration of low-enriched uranium produced in the country. Despite UN Security Council resolutions, Iran also maintained its course in constructing a heavy-water reactor, widely regarded as suitable for producing plutonium. As a result, Iran came closer to acquiring fissionable material necessary for nuclear weapons, greatly reducing the time required to produce highly-enriched uranium or weapons-grade plutonium needed for building a one-shot nuclear weapon. A set of stiffer economic sanctions against Iran took effect, aiming to reduce the speed of nuclear development, but failed to prevent Iran from enhancing its technological capabilities while

developing nuclear power for “peaceful purposes.”

Amid growing irritation with Iran in the United States and Europe, the United States and Israel overtly and covertly debated the pros and cons of military strikes against Iran’s nuclear facilities. In the midst of the debate, cyber attacks using malware were carried out, and Iran’s uranium enrichment facilities suffered great damage. However, both sides returned to the negotiating table, aiming to resolve the crisis through diplomatic means. This was partly because Iran was suffering from restrictions on trade and investment caused by the sanctions imposed on the country, and because the United States and Europe realized that sanctions alone would not cause Iran to change course. The negotiations between the United States and Iran, which do not have diplomatic relations, were arranged by Oman, which is located on the Arabian Peninsula. The negotiations gained momentum after the change of administration in Iran in the summer of 2013.

In November 2013, Iran and the P5+1 entered into a tentative agreement valid for an initial six months, which helped prevent the situation from escalating further prior to the establishment of the Iran Nuclear Deal, by placing a certain cap to nuclear development by Iran. Then, after intermittent talks held in Geneva, Lausanne, Vienna and other places, the Iran Nuclear Deal was finalized under the name of “Joint Comprehensive Plan of Action” (JCPOA) on July 14, 2015.

1.2. Framework of the Iran Nuclear Deal

Under the Iran Nuclear Deal, Iran may continue to produce enriched uranium for peaceful purposes, but is obliged to reduce or refrain from certain nuclear activities for a mutually agreed period of time. Rather than having Iran to totally relinquish its enrichment capabilities, the Iran Nuclear Deal places emphasis on restrictive measures to delay the time until Iran obtains highly enriched uranium essential for weapons development, if it ever decides to do so, by reducing the number of centrifuges for uranium enrichment, halting enrichment activities in the second enrichment facilities at Fordou, accepting voluntary restraint from enriching uranium to a concentration of more than 3.57%, reducing the scale of research and development work on new generation of centrifuges, and reducing the inventory of low-enriched uranium stockpiled to date. As a result of these restrictions, it was estimated that it would take Iran more than a year to obtain weapons-grade highly enriched uranium, giving the international community enough time to make contingency plans. In addition, in order to reduce the risk of developing plutonium-type nuclear weapons, Iran irreversibly removed the core of its heavy-water nuclear reactor that had nearly been completed, and agreed to replace it with a newly designed core that prevents the extraction of weapons-grade plutonium. Iran also promised not to reprocess spent fuel in the future, and not to stock more than a certain amount of heavy water produced domestically.

Furthermore, Iran agreed to take measures to improve the transparency of its future activities as well as to provide information on its activities in the past. Pursuant to the agreement, Iran allowed IAEA inspectors to visit the military installations in the suburbs of Tehran, the most controversial part of the suspected development of nuclear weapons, for the first time in approximately eight years, to obtain environmental samples. In addition, after agreeing to the installation of the latest monitoring equipment at its nuclear facilities, Iran promised to provide the IAEA with all information about newly planned nuclear activities at the political decision-making stage.

The Iran Nuclear Deal includes a dispute settlement mechanism, which allows the countries concerned to request a joint committee to deliberate a suspected violation or non-fulfillment of the Iran Nuclear Deal by Iran in order to

work toward a solution within a certain period of time. On the other hand, in cases where Iran fails to fulfill its obligations, the UN Security Council sanctions will be revived against Iran. However, only Iran is subject to such penalties due to violation or non-fulfillment; there are no provisions in the Iran Nuclear Deal that could have any disadvantages for the P5+1.

As a result of implementing the various measures mentioned above, Iran has been able to secure the lifting and easing of economic sanctions in consideration of its obligations under the Iran Nuclear Deal. Meanwhile, the international community was able to resolve the crisis through the Iran Nuclear Deal, without resorting to military force. However, despite the characteristics of multilateral diplomacy, there is no guarantee in the Iran Nuclear Deal that Iran would never “nuclearize” in the future. Therefore, after maximizing its effectiveness for a certain period of time, the next phase will involve new actions taken under the environment existing at that time. This kind of solution reflects the limitations and reality of diplomacy. In addition, as Iran has virtually been given the go-ahead for uranium enrichment, some parties are concerned about the Iran Nuclear Deal in light of the conventional nuclear nonproliferation regime. The conflict between principles and reality is clear.

1.3. Various Impacts of the Iran Nuclear Deal

As discussed above, the Iran Nuclear Deal caused repercussions in the nuclear nonproliferation regime, possibly stimulating mainly non-allied countries to pursue uranium enrichment. Others contend that the deal has started a nuclear arms race in the Middle East along with Iran. There have been various significant effects, and the impact on geopolitics in the Middle East cannot be overlooked, with growing awareness of the threat of Iran as a regional power after the deal.

It has long been said that the Middle East, including Iran, tends to suffer conflict every decade. However, the world was surprised by the Arab Spring which started in Tunisia toward the end of 2010 and expanded dramatically and rapidly. Some six years after the Arab Spring, most of the countries that experienced the socio-economic phenomenon remain mired in confusion and anxiety.

The current confusion since the Arab Spring is considered in some ways to be related to the “Obama Doctrine” configured by the former U.S. President Barack H. Obama, which was contrary to the policy of his immediate predecessor, George W. Bush, who continued to actively intervene in the Middle East. In fact, the United States, which had been perceived, rightly or wrongly, as a strong supporter of the authoritarian regimes in the Middle East, did nothing about Egypt even when the Mubarak regime was threatened. This had a tremendous impact on other less democratic regimes in the Middle East. In view of the rising human rights movement among the Shiite population in Bahrain where the political situation has long been unstable, it is not surprising that Saudi Arabia and other Arab monarchy countries are feeling uneasy about their future.

Amid the growing political instability due to widespread social movements, followed by the completion of the Iran Nuclear Deal as a result of nuclear negotiations between the United States and arch-enemy Iran, the Sunni-dominant Arab countries were shocked by the United States’ sudden change in policy. Furthermore, under pressure from shale resource development in the United States as well as the announcement of a pivot to Asia, Saudi Arabia and its neighbors like the UAE became very concerned about being “abandoned” by the United States. These Arab monarchy countries now realize that their domestic security should not be left to the United States, and are starting to pursue their own diplomacy and security policy.

However, as each country begins to pursue its own policies and benefits in stages, confusion in the Middle East has worsened. To make matters worse, the extremist organization Da'esh, or Islamic State, is exploiting the confusion and asserting its presence in Syria, Iraq, Egypt, Libya, Yemen and other countries. The threat of terrorism has even spread to European countries, North Africa, South Asia and Southeast Asia.

Iran's "nuclearization" was regarded as a serious threat not only for the international community but also for regional countries. This is because some countries that have political problems with Iran firmly believe that the purpose of Iran's nuclear development is to acquire nuclear weapons, which will be aimed at them. Regardless of what the true plans and intentions of Iran are, these perceptions are widespread.

In view of this, the Iran Nuclear Deal, which will significantly reduce the probability of Iran acquiring nuclear weapons, should be welcomed wholeheartedly. Even if the effectiveness of the parts of the agreement is limited for a certain length of time, diplomacy and security environment in the Middle East could be greatly improved, and Iran's current regime could even undergo a transformation. As pointed out earlier, one of the important aspects of diplomatic negotiations and agreements is to serve as a bridge until then.

However, Saudi Arabia and other countries, which have become increasingly distrustful of Iran, were put out that Iran enjoyed the lifting of sanctions through the Iran Nuclear Deal and was again welcomed by the international community. This is rooted in the fear that Iran, its rival in the region, would regain national power and a stronger voice. Saudi Arabia and other countries were uneasy about the United States' close talks with Iran before the Iran Nuclear Deal, and conveyed their concern to the Obama administration. The acrimony has worsened since the deal was signed.

In addition, it was widely assumed that the United States, a party to the Iran Nuclear Deal, might seek some sort of cooperation with Iran with respect to the military operations against Islamic State in Syria. This caused bad feelings among the United States' allies in the region, especially Saudi Arabia and Turkey.

Even Israel, which considers the Islamic Republic regime of Iran an "existential threat", considered the Iran Nuclear Deal to be a "historic mistake" (Prime Minister Benjamin Netanyahu), criticizing the United States and the EU for making concessions to Iran comparable to the "Munich Agreement (1938)" which tolerated the hegemony of Nazi Germany. However, Israel, under an ambiguous strategy, is believed to be the only country with nuclear weapons in the Middle East. Therefore, Israel has put strategic emphasis on Iran's threat to its exclusive status in the Middle East.

Without doubt, Iran has strengthened its position in the region with the full-scale implementation of the Iran Nuclear Deal. This means that Iran is returning to its position as a regional power. The rivalry in the region between Iran and Saudi Arabia (Arab), which cannot accept Iran's role in the region, is often attributed to ethnic or sectarian conflict. However, it is actually a strategic conflict in a region with overlapping spheres of power and influence. In particular, with regard to Syria and Yemen which have been embroiled in civil war in the confusion of the Arab Spring, these two civil wars are often called proxy wars between Saudi Arabia and Iran, each of which has provided support to respective side of the conflict.

The conflict between the two countries is being aggravated by the differences in their security stances. Saudi Arabia deems Shiite organizations, working in favor of Iran in the region, to be the largest terrorist threat and security risk to their own country. On the other hand, Iran considers that the current spread of terrorism is attributable to the exclusive Sunni-Salafist ideology derived from Wahhabism that is promulgated by Saudi Arabia. However, Iran does not regard Saudi Arabia as a security threat. In view of these situations, rhetoric and gestures from one

side often lead to excessive reaction by the other side.

Taking an opportunity to contain the moves of Iran, Saudi Arabia broke off diplomatic relations with Iran in January 2016 when the Saudi embassy and consulate in Iran were set on fire during riots. Saudi Arabia also persuaded other Arab Islamic countries to align with Saudi Arabia with the aim of keeping Iran isolated. In addition, Saudi Arabia led a military alliance against terrorism, which was launched with great fanfare at the end of 2015 and consisted of members other than Iran and countries having close relations with Iran. The makeup of this coalition is indicative of the hidden agenda behind Saudi Arabia's posture in its fight against terrorism. The anti-terrorism alliance also represents the real intention of the Arab side, which is sensitive to changes in the regional power balance due to the "resurrection" of Iran that benefited from the Iran Nuclear Deal.

The state of tension on the north-south shore of the Persian Gulf could be referred to as the "Gulf Cold War", rather like the former Cold War between the United States and the Soviet Union. The disputes have spread to the Strait of Bab el Mandeb and Gulf of Aden, which are geographically separate from the Strait of Hormuz. At the moment, these opposing relationships seem unlikely to evolve into full-scale conflict, and neither country appears to have such intentions. However, due to concerns for their own security, more and more countries are actively pursuing their own regional policies, amplifying the chaos and friction among the countries inside the region. The ongoing arms race reflects strong rivalries, and in certain circumstances, some countries could seek to employ ambiguous strategies with the aim of securing the nuclear option. Thus, a tense situation persists in the Arabian Peninsula, situated between the Persian Gulf to the north and the Red Sea to the south.

Indeed, Iran's nuclear activities have become more transparent and the state of progress can be monitored all the time. However, it is becoming increasingly difficult to declare that the Iran Nuclear Deal is a perfect success, as the tensions among neighboring countries have not been resolved at all. In view of these regional conditions and geopolitical risks, Asia must be vigilant and ready to review its energy security due to its dependence on this region for supply of crude oil and gas.

2.0 Economic Effects of the Iran Nuclear Deal and Lifting of Sanctions

Following the lifting of the nuclear-related sanctions against Iran in January 2016, economic activity related to Iran has increased. With the fourth-largest reserves of crude oil and the largest reserves of natural gas in the world as well as a population of 74 million, Iran has attracted much economic interest since a tentative agreement (Geneva Agreement) was reached in November 2013. The sanctions were then lifted with the implementation of the JCPOA after the Iran Nuclear Deal (JCPOA) was reached in July 2015, triggering active business negotiations in various fields for Iran. In this section, we examine the current situation of the lifting of sanctions and their economic effects.

2.1. Current Situation of Sanctions Relief

2.1.1. Current Status of Financial Sanctions

Looking back on one year after the JCPOA was implemented, Iran has faithfully implemented the JCPOA, because it urgently needed the sanctions lifting to revive its economy, and the nuclear negotiations that resulted in the JCPOA were made possible because of these needs. Iran has since been able to resume exports of Iranian crude oil that had been made the target of the international boycott, and export volumes are recovering to the level prior to the sanctions.

On the other hand, the lifting of sanctions promised by the P5+1 has not been realized so easily. Even after the sanctions were nominally lifted, various restrictions have remained in dealing with Iran. This is because the United States, a member of the P5+1, has continued to impose sanctions for various reasons in addition to nuclear issues. Sanctions against Iran for the reasons such as “support for terrorism” and “abuse of human rights” remain, even after the nuclear-related sanctions were lifted.

Pursuant to its own Iran Sanctions Act, the United States still prohibits Americans and U.S. companies from dealing with Iran directly. As a part of this measure, the United States also prohibits the use of US dollars for transactions with Iran. As a result, major European and Japanese financial institutions, which have business bases in the United States, have hesitated to resume transactions with Iran based on their fear that they may be subjected to US persecution that may result in losing its privilege to handle US dollar denominated transactions. In other words, even if such institutions have the intention to enter Iran after the lifting of sanctions, problems remain that prevent them from handling financial transactions easily.

2.1.2. Concerns about Re-imposition of Sanctions

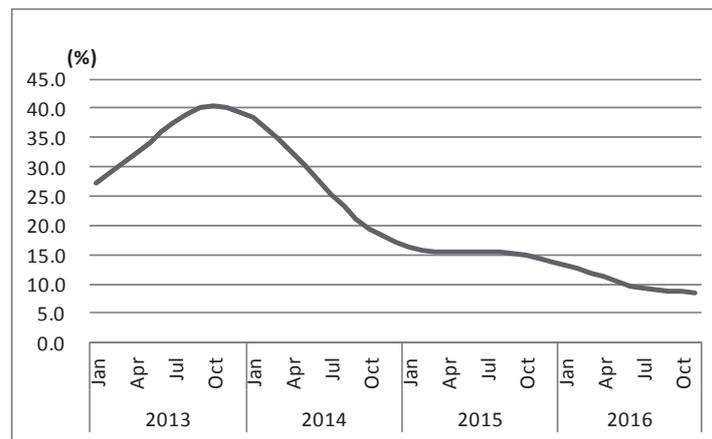
One of the reasons why financial institutions continue to hesitate to deal with Iran is their concern regarding until when the JCPOA framework will be maintained, in addition to the pressure by the United States. There is a provision in the JCPOA that if Iran fails to comply with the Iran Nuclear Deal, then the series of sanctions lifted by the JCPOA will be re-imposed. In other words, as it is still not certain whether the JCPOA framework will survive, financial institutions cannot easily reach the decision to make investments in Iran that requires a long-term commitment. Accordingly, since the JCPOA was implemented, Iran’s oil exports have greatly increased, but many investment projects in Iran remain at the level of memorandum of understanding (MOU).

2.2. Effects of Sanctions Relief

2.2.1. Macroeconomic Indicators and Indexes

However, with the lifting of sanctions, the macroeconomic indicators of Iran have steadily recovered as future prospects have become much brighter. The Rouhani administration has been working to curb inflation as a priority in the domestic economy since its inauguration in June 2013. The inflation rate was over 40% (year-on-year) immediately after the inauguration, but had fallen to 8.4% by October 2016 (see Chart 1).

■ Chart 1: Trend of inflation rate



Source: Prepared on the basis of CBI data

Next, looking at the GDP growth rate, as shown in Chart 2, the growth rate fell to minus 6.6% following the boycotting of Iranian crude in 2012. However, when sanctions were partially lifted after the interim Nuclear Deal was signed in November 2013, the growth rate recovered to 4.3% in 2014. Later, the growth rate remained at a similar level until the enactment of the JCPOA in January 2016. According to IMF estimates, the growth rate in 2016 would be 4.5%.

■ Chart 2: Trend of Iran's GDP growth rate

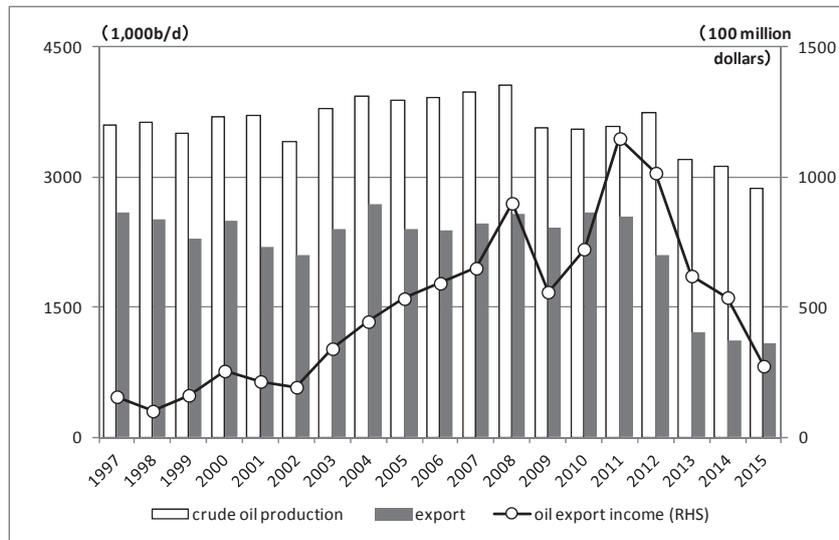
	2012	2013	2014	2015	2016(IMF Estimate)
GDP Growth (%)	-6.6	-1.9	4.3	0.4	4.5

Source: IMF "World Economic Outlook" October 2016

2.2.2. Development of the Petroleum Sector

Even though Iran has long stated its policy for decreasing dependence on oil, the backbone of the Iranian economy still depends on revenues from oil exports. The trends of the change of Iranian crude oil production, export volume and export income are shown in Chart 3. Since the boycotting of Iranian crude oil in 2012, coupled with the fall in oil prices, revenues from crude oil exports have continued to decrease.

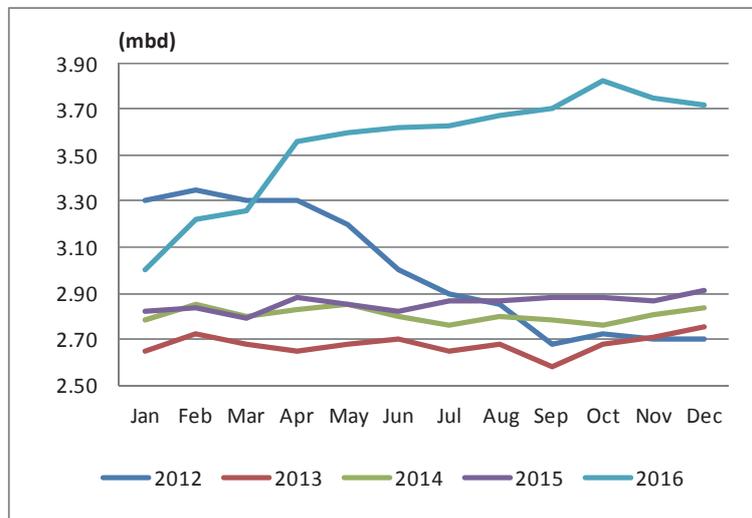
■ Chart 3: Trends of Iranian crude oil production, export volume and export income



Source: IEA (International Energy Agency) for crude oil production, OPEC statistics for crude oil export volume and export income

However, crude oil production has recovered remarkably since January 2016. As shown in Chart 4, in 2016, production of Iranian crude oil temporarily exceeded 3.8 million barrels per day.

■ Chart 4: Trend of Iranian crude oil production



Source: IEA Oil Market Report (back issues)

According to an announcement by the IEA, with the increase of crude oil production, exports have also been growing steadily. Reportedly, exports of Iranian crude oil in 2016 doubled from the previous year to 2 million barrels per day (OMR, January 19, 2017).

2.3. Situation of the Upstream Sector

Iran's Rouhani administration is keen to attract foreign investment in the upstream sector to boost production, but this has not happened as much as Iran had expected. As of January 2017, at least ten international oil companies (IOCs) have signed memorandums of understanding (MOUs) on development with National Iranian Oil Company (NIOC) and/or its subsidiaries, but none of them has yet signed a final contract. In addition, although 29 IOCs authorized to bid for development project inside Iran were announced in January 2017, the schedule of the bid itself remains uncertain.

There are several reasons for this. First, there is a problem on the Iranian side. The Rouhani administration drew up a new formula called IPC (Iran Petroleum Contract) as a more attractive contract formula for foreign capital in order to attract foreign capital and accelerate development of the upstream sector. The IPC sought to revise the unpopular aspects of the buy-back contract that was introduced in the mid-1990s, including the short contract period and high risk/low return for foreign capital, and the revision was originally scheduled to be announced officially in February 2016. However, since the *Majles* (Iranian Parliament) repeatedly stated that "preferential treatment for foreign capital must not be excessive," the approval of IPC was prolonged until September 2016.

On the other hand, IOCs claim that various uncertainties prevent reaching final investment decision on Iran. As mentioned earlier, unlike simple export contracts to Iran which gets completed upon payment, investments require a longer-term commitment to the country. Given that the future prospects for the JCPOA are uncertain following the inauguration of the Trump administration, the environment for foreign capital aiming to enter the upstream sector is not favorable.

Accordingly, Iran has been forced to depend on domestic companies to develop the upstream sector for the time being. In October 2016, an oil company under the umbrella of the Supreme Leader's office was granted the right to develop several oil fields as "the first contract based on the IPC" in the form of an HoA. Then, in December 2016, Khatamolanbia, a general contractor affiliated to the Islamic Revolutionary Guards Corps, was invited by NIOC to study five oil and gas fields in total.

It would appear that the former project aims to establish a joint venture with IOC, given the words "based on the IPC." However, with regard to the latter project involving Khatamolanbia, the conclusion of the agreement between NIOC and Khatamolanbia may have been the result of growing criticism that was observed in December 2016 from the Islamic Revolutionary Guards Corps that "no project development which Iranian companies can handle should be entrusted to foreign companies." How the companies under the umbrella of the Islamic Revolutionary Guards Corps will be involved in developing the upstream sector remains to be seen.

2.4. Other Economic Effects

2.4.1. Purchase of Commercial Aircrafts

The implementation of the JCPOA has enabled Iran to import commercial aircrafts, which had been prohibited due to the sanctions imposed by the United States since the 1979 revolution. Based on the JCPOA, Iran has already entered into separate agreements with Boeing of the United States and Airbus Industry of France to purchase nearly 100 new aircrafts from each of them, and the first aircraft from Airbus has already been delivered to Iran.

2.4.2. Establishment of Joint Ventures on Iranian Soil

However, amid the new situation after the lifting of sanctions, Iran has put top priority on foreign direct investment in the country by foreign capital. The socio-economic problems suffered by Iran under the sanctions are not limited to recession and high inflation. Iran suffered from rising unemployment under the sanctions and the Rouhani administration has promised to “create 800,000 jobs.” The establishment of joint ventures with Iranian companies by foreign capital is expected to bring not only desperately needed funds and technology but also employment to Iran.

As of January 2017, France has made the greatest contribution desired by Iran. In June 2016, PSA (Peugeot Citroen group) signed a memorandum of understanding related to the launch of a joint venture with Iran, and Renault also entered into an MOU on a joint venture in September the same year.

German companies have also been active. Siemens of Germany announced its intention to participate in high-speed railway and power plant construction projects in Iran, and the German government also agreed to set up a credit line for the country. Furthermore, Italy wishes to participate in various infrastructure projects including highway construction.

As mentioned at the beginning of this section, there are still many unilateral sanctions imposed by the United States on Iran, and these could be tightened under the new US administration of Mr. Trump. However, since European companies in particular are keen to expand economic relations with Iran in compliance with the framework of the JCPOA, Iran is expected to restore its economy to the extent possible under the framework of the JCPOA. The ideal scenario for the Rouhani administration in this situation therefore is to develop the upstream sector by attracting foreign capital, for increasing production and exports of petroleum and natural gas, in order to formulate and implement economic development plans based on export income.

3.0 Reactions of Countries Concerned and Resulting Situations

3.1. Six Countries of the Gulf Cooperation Council (GCC)

3.1.1. Saudi Arabia

Saudi Arabia was affected by the Iran Nuclear Deal (JCPOA). Since the Implementation Day of the JCPOA in January 2016, Iran has gradually regained national power thanks to the lifting of various economic sanctions imposed on it due to its nuclear activities. Saudi Arabia, which disagrees with Iran over several problems in the region, could not ignore it. In addition, Saudi Arabia has felt growing frustration with Iran's return to the international community in the process leading up to the JCPOA, including close contact with Iran and the P5+1 including the United States, which has traditionally had good relations with Saudi Arabia.

There have been deep-rooted conflicts between Saudi Arabia and Iran, which have intensified since the "Arab Spring" toward the end of 2010. When massive demonstrations against the government were held in Syria calling for Syrian President Assad to resign, Saudi Arabia provided the dissidents with military support in the form of weapons, while Iran dispatched the Islamic Revolution Guards Corps to assist the Assad regime. In Yemen, since March 2015, a Saudi-led military coalition has continued air strikes against the Houthis, a Shiite insurgency group, as the Saudis believe that Iran has been supporting the group. In addition, Saudi Arabia strongly believes that Iran has provided both material and spiritual support for the Shiite population living in Bahrain and the Eastern Province of Saudi Arabia.

Despite the conflicts, in July 2015, King Salman of Saudi Arabia expressed his support for the JCPOA, saying to U.S. President Obama who had backed the JCPOA, "Saudi Arabia guarantees to prevent Iran from acquiring nuclear weapons, and supports any agreement that includes an inspection mechanism for all facilities." However, the JCPOA involves the lifting of sanctions, which could allow Iran to regain national strength. Saudi Arabia seemed to have supported the JCPOA in the belief that its inclusion of such a mechanism would be sufficient to prevent Iran from acquiring nuclear weapons.

In addition, the active cooperation in the area of security by the United States also encouraged Saudi Arabia to accept the JCPOA. For example, in May 2015, John Kelly, Secretary of the Department of Homeland Security, expressed support for GCC countries regarding assisting in defense against Iran's ballistic missiles. Then, President Obama decisively expressed US support for GCC countries, including military action in case of emergency. Thus, the United States has said that it would defend Saudi Arabia against the Iranian threat in order to obtain Saudi Arabia's support regarding the nuclear negotiations with Iran. The United States also expressed early support for Saudi Arabia's important military operations against the Houthis in Yemen, and has provided assistance in the form of arms and intelligence, affecting the stance of Saudi Arabia.

In this way, Saudi Arabia agreed with the JCPOA itself but stated that it resolutely opposes Iran's expansion of influence in the Middle East related to the JCPOA. In December 2015, just one month prior to the Implementation Day of the JCPOA, Mohammed bin Salman, Deputy Crown Prince of Saudi Arabia, suddenly announced the formation of the Islamic Military Alliance to Fight Terrorism, led by Saudi Arabia and consisting of 34 countries. The military alliance aims to fight terrorism, but excludes Iran and Iraq, a friend of Iran. In fact, the alliance is characterized as a "loose coalition" to prevent Iran from expanding its power.

In addition, on January 2, 2016, immediately prior to the Implementation Day of the JCPOA, Saudi Arabia executed Nimr Baqir al-Nimr, a domestic Shiite jurist, together with al-Qaida terrorists. Nimr had been sentenced

to death in October 2014, for calling for the separation and independence of the Shiite-dominated district from the Eastern Province of Saudi Arabia in 2009, and for insulting the late Crown Prince Nayef in a sermon in 2012. Given that the Saudi Arabian government concluded that Iran had provided support to him behind the scenes, the execution of Nimr sent a signal that Saudi Arabia will not allow Iran to interfere in the domestic affairs of Arab countries, including Saudi Arabia.

On January 3, 2016, some rioters, angered by the execution of Nimr, attacked the Saudi Arabia Embassy in Tehran, and also damaged the Consulate General of Saudi Arabia in Mashhad. In response, the Saudi Arabian government severed diplomatic relations with Iran, and required neighboring countries to do the same. Bahrain, Sudan, Djibouti, and Somalia subsequently severed diplomatic relations with Iran, and the Arab League and Islamic Cooperation Organization (OIC) issued a statement condemning Iran.

When the OIC Summit was held in Istanbul, Turkey on April 11, 2016, in the presence of Iranian President Rouhani, the joint statement incorporated the following statement strongly supporting Saudi Arabia's intention: "The Conference deplored Iran's interference in the internal affairs of the States of the region and other Member States including Bahrain, Yemen, Syria, and Somalia." Such growing conflicts between Saudi and Iran have also cast a shadow on the crude oil market. At the OPEC meeting held at Doha, the capital of Qatar, on April 17, 2016, the country leaders failed to strike a deal to freeze output.

Saudi Arabia and Iran also sparred over the hajj pilgrimage. In April 2016, the Hajj-Umrah Ministry of Saudi Arabia met with representatives of the Hajj and Pilgrimage Organization of Iran. However, the meeting failed to resolve disputes regarding the issuance of pilgrimage visas, airlines used by pilgrims, safety of the pilgrims and so forth. As a result, Ali Jannati, Minister of Culture and Islamic Guidance of Iran, announced in May 2016 that Iranians would be prohibited from making a large pilgrimage to Mecca. In September 2016, Khamenei, Supreme Leader of Iran, cited the fact that hundreds of pilgrims had died in an accident in 2015, and condemned Saudi Arabia's handling of the pilgrims. However, Muhammad, Crown Prince of Saudi Arabia, counter-argued that it was Iran that had endangered their safety.

At the GCC Summit held in December 2016 in Manama, the capital of Bahrain, the final statement noted that: "the GCC blames Iran for interfering in domestic affairs for GCC countries and the entire region," and "Iran must comply with the Iran Nuclear Deal with P5+1 enacted in July 2015, and the GCC urges the IAEA to apply effective mechanisms to prove that the Iran Nuclear Deal is being implemented." Thus, while the GCC asserts that Iran's nuclear development must be tightly restricted under the JCPOA, the GCC is also strongly opposed to Iran exercising influence on Arab countries.

This position was also confirmed in a telephone conversation between King Salman of Saudi Arabia and U.S. President Trump in January 2017. In the conversation, both leaders agreed to the important points: "The JCPOA must be strictly implemented" and "the two countries will deal with Iran's activities to destabilize the region." During the election, President Trump also mentioned the possibility of abandoning or re-negotiating the JCPOA, but he changed his stance and called for strict enforcement of the JCPOA as demanded by Saudi Arabia. Ironically, the United States had previously asked Saudi Arabia to agree to the JCPOA, but has now changed its stance in line with that of Saudi Arabia.

3.1.2. Kuwait

Shiites in Kuwait account for approximately 20-30% of the Kuwaiti population, a significant proportion of whom have historically moved from Iran. Therefore, many of them maintain relationships with their ancestors' homeland. In addition, the Al Sabah, the ruling family of Kuwait, has historically maintained good relations with Shiites with the aim of restraining the powerful Sunni merchant families and intellectuals who were mired in political tension. During the period from the Islamic Revolution in Iran to the Iran-Iraq War, the relationship between the Al Sabah and Shiites collapsed temporarily, but later, both parties restored the relationship. Kuwait's diplomacy with Iran aims to restrain Iran as a regional superpower in alliance with Saudi Arabia and other allied countries, while aligning with the trends among domestic Shiites and Iranian residents.

With this background, among the Gulf countries Kuwait had a historically close relationship with Iran, and naturally accepted the country's nuclear development for peaceful purposes prior to the enactment of the JCPOA, consistently seeking a peaceful solution and opposing military action against Iran as a nuclear power.

The biggest concern about Iran's nuclear development for Kuwait is environmental rather than military problems. The Bushehr Nuclear Power Plant in Iran is much closer to Kuwait than Tehran, the capital of Iran. If an accident were to occur and the ocean became contaminated, Kuwait would be severely affected since it depends on desalinated seawater for most of its drinking water.

After the conclusion of the JCPOA, Sabah al-Ahmad, the Amir of Kuwait, sent a congratulatory message to Iran to the effect that the JCPOA will help strengthen security and stability in the region, and the JCPOA was highly regarded by the Kuwaiti media, which have greater freedom of expression than in other GCC countries. In addition, the good relationship between the two countries is evidenced by the fact that Kuwait was the first foreign country to be visited by Zarif, Foreign Minister of Iran, after the conclusion of the JCPOA.

Even so, Kuwait's policy toward Iran does not directly conflict with that of Saudi Arabia. For Kuwait, Saudi Arabia is an ally in terms of security. Therefore, Kuwait's policy toward Iran is to maintain good relations, without offending Saudi Arabia, and to maintain a good balance with both countries.

When the sectarian conflicts intensified in Bahrain in 2011 and the Shiites caused chaos, Saudi Arabia and the UAE actively intervened in Bahrain by dispatching troops and police. In contrast, the Kuwaiti Navy just docked vessels at a port in Bahrain, keeping its distance from the sectarian conflicts. In addition, in the intervention in Yemen, Kuwait dispatched relatively low-profile military aircraft, while hosting peace talks between Yemen's legal government and the Houthis (allegedly supported by Iran). Kuwait's mediation efforts were not successful, but reflected the relationship of Kuwait with Iran and Shiites.

When Saudi Arabia's diplomatic facilities were attacked by a crowd in Iran in January 2016 and Saudi Arabia broke off diplomatic relations with Iran, Kuwait recalled its ambassador in Iran, a very different response from that of Bahrain, which cut diplomatic relations with Iran in line with Saudi Arabia. In fact, it was a more moderate measure than even the UAE, which downgraded its diplomatic representation in Iran to that of a charge d'affaires. Kuwait's reaction was intended to leave room for mediation to restore relations with Iran in the future. However, some Sunni forces among the National Assembly argued that the response was too soft, demanding the government to take more forceful action. Other movements included the arrest of an "Iranian spy" in Kuwait and subsequent conviction, and the designation of Hezbollah, Lebanon's Shiite organization, as a terrorist organization.

However, at the GCC Summit held in December 2016 in Bahrain, Sabah, the Amir of Kuwait, called for

constructive dialogue between the GCC and Iran. Accordingly, the Kuwait Ministry of Foreign Affairs initiated contact with Iran, leading to a sudden visit by Foreign Minister Sabah Khalid to Iran in January 2017.

The Foreign Minister visited Tehran on January 25, 2017, met Iran's President Rouhani, and handed over a personal letter from Kuwait's Amir, Sabah al-Ahmad, on behalf of the GCC. The letter emphasized the need to improve relations between the GCC and Iran. According to Vice Foreign Minister Khalid Jarallah, Iran expressed willingness to understand and respond positively to the letter.

However, this mediation by Kuwait will not immediately lead to improved relations between Saudi Arabia and Iran. Both countries' government officials still repeatedly make disparaging comments about each other, showing deep-rooted mutual distrust. Nevertheless, Kuwait's mediation diplomacy has value and could serve as a first step toward reducing the mutual distrust between Iran and the GCC countries.

3.1.3. Qatar

3.1.3.1. Diplomatic Policy¹

- Cooperation and solidarity with the GCC and Arab countries is the cornerstone of Qatar diplomacy. With regard to the Middle East peace process, even though it supports the Palestinian position, Qatar also maintains contact with Israel (however, in January 2009, the Qatar government condemned Israel's invasion of Gaza and announced the closure of Israel's trade representative office in Doha), and supports a peaceful resolution of this problem.
- Regarding Iran which has great importance in relation to its own security, Qatar has developed cautious diplomacy while maintaining amicable relations.
- While advocating multi-directional diplomacy, Qatar places emphasis on relations with the United States for security. In 2002, a forward base of the U.S. Central Command² was placed in Doha, and the Al Udeid Air Base has been the hub of U.S. Central Command since 2009.
- Qatar has actively conducted diplomatic mediation on regional and international problems, including dialogue between Lebanese factions, the cease-fire agreement between opposing parties in the Yemen conflict, mediation efforts in Sudan's Darfur conflict, and support for the settlement process in Afghanistan. It has also sought to host various international conferences and sports tournaments (World Championships in Athletics 2019, FIFA World Cup 2022, 2028 Olympics?), thus raising its stature in the international community.³

3.1.3.2. Qatar's Position in the Iran Nuclear Negotiations

- In July 2006, the UN Security Council adopted, with an overwhelming majority of affirmative votes (consisting of all permanent members and nine non-permanent members), Resolution 1696 submitted by Britain, France and Germany calling on Iran to suspend its uranium enrichment program. However, Qatar, then a non-permanent member, was the sole country to oppose the resolution. Qatar's ambassador to the United Nations voted against the resolution for the reason that it is premature in view of the political unrest in

¹ Japan Cooperation Center for the Middle East, "Middle East Cooperation Forum," Ministry of Foreign Affairs.

² James Norman, current United States Secretary of Defense, previously served as the 11th Commander of United States Central Command (office from August 2010 to March 2013).

³ J.E. Peterson, "Qatar and the World: Branding for a Micro-State," *Middle East Journal*.

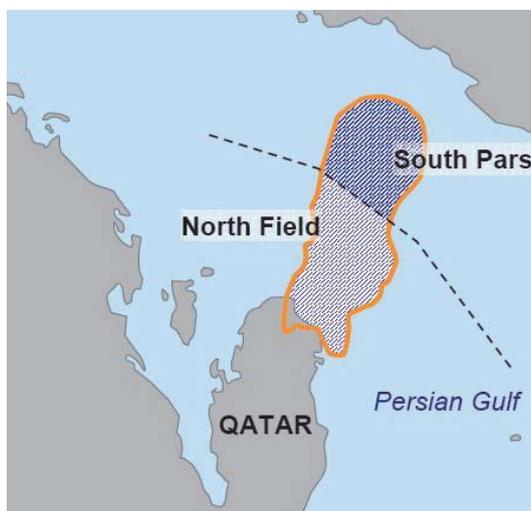
the Middle East since the Iraq War, while agreeing on the conditions of the resolution. Since then, Qatar's stance has moved closer to Iran.

- Nine years later, in July 2015, the P5+1 and Iran reached a final agreement in the Iran nuclear negotiations. At that time, Attiyah, Foreign Minister of Qatar, welcomed the agreement.

3.1.3.3. Moves after the Conclusion of the JCPOA

- The world's largest gas field exists on the Arabian Gulf, straddling territory in both Qatar and Iran. The Qatar side is called the North Field gas field, with recoverable reserves of 25 trillion cubic meters according to the latest statistics, and the Iran side is called the South Pars gas field with recoverable reserves of 13.5 trillion cubic meters.⁴

■ Chart 5: World's largest gas field



Source: hydrocarbons-technologies.com

- In November 2016, Total of France and China National Petroleum Corporation entered into an agreement with National Iranian Oil Company (NIOC) with a transaction value of US\$4.8 billion, for gas development in the South Pars Gas Field phase 11. This was the first deal between international oil companies and NIOC since the implementation of the final agreement between the P5+1 and Iran in January 2016.
- Iran is eager to increase production in the South Pars gas field. In December 2016, MEED, a Middle East economic magazine, forecasted that Iran would increase production per day in the gas field and in the whole of Iran in the first quarter of 2017 to 530 million cubic meters and 830 million cubic meters, respectively.

3.1.3.4. Future Prospects

- Development of the South Pars gas field in Iran's territory is expected to be continued aggressively. In this case,

⁴ Arab Oil & Gas Directory 2015.

even though the minable years of natural gas in Qatar is 100 years or more,⁵ an international framework for joint development will be needed, in view of the impact on the reserves of the North Field gas field in Qatar.⁶

- The lifting of sanctions by the Iran Nuclear Deal is expected to give a positive impact on economic exchanges with GCC countries located on the other side of the Arabian Gulf, including Qatar. Other than gas field development, the Tehran City Council has offered assistance to support the 2022 FIFA World Cup Tournament in Qatar.⁷ Accordingly, there could be further cooperation between Qatar and Iran in the future.
- As discussed earlier, Qatar advocates a multi-directional diplomacy, while placing emphasis on relations with the United States for security. However, if the United States under the Trump administration takes a tough line against Iran, Tamim Thani, Emir of Qatar, and Muhammad Thani, Foreign Minister, would have difficulty in steering diplomacy against Iran.

3.1.4. Oman

3.1.4.1. Diplomatic Policy

- Oman advocates a non-aligned, neutral, good-neighbor diplomacy, focusing on strengthening relations with GCC countries. Of the Arab countries, Oman takes a friendly stance toward the West. Therefore, in terms of military cooperation and diplomatic policy, Oman serves as a mediator between the West, including the UK and the United States, and the Middle East.
- Oman follows an independent path with regard to Iran. In August 2013, Qaboos, the Sultan of Oman, visited Teheran for the first time since the Iranian Revolution in 1979, and met Rouhani, President of Iran, and Khamenei, Supreme Leader. In March 2014, President Rouhani visited Muscat. Following these mutual visits, the two countries signed a memorandum of understanding on a collaborative project, under which Iran will deliver natural gas produced at the Iranian South Pars gas field to Oman through a pipeline on the seabed, and Oman will convert natural gas to LNG and export it globally.

3.1.4.2. Oman's Role in the Iran Nuclear Negotiations

- Oman played an important role in the Iran nuclear negotiations. When Baeidinejad, Head of the Foreign Ministry's Political and International Affairs Department of Iran, visited Japan in February 2016, he confessed that, regarding the Iran nuclear negotiations on which a comprehensive agreement had been reached with the P5+1 in July 2015, talks with the United States through Oman's intermediary role had served as the impetus for commencing the negotiation.⁸
- According to Baeidinejad, the talks between Iran and the United States through Oman as an intermediary were carried out in two stages: initially they were directed by Khamenei, Supreme Leader of Iran, in 2012 during Ahmadinejad's presidential era, and then again after Rouhani became president in August 2013.
- Oman told Iran and the United States, "As long as there is mutual distrust between both countries, it will be

⁵ "Statistical Review of World Energy," *BP* June 2016.

⁶ "Iran-Qatar gas race and lack of unitization," *Tehran Times*, August 17, 2014.

⁷ "Iran Offers Help to Qatar in 2022 World Cup Preparations," *Kayhan*, September 14, 2014; Track record of participation in FIFA World Cup: Iran 4, Qatar 0 (Surveyed by IEEJ), Iran has more experience in the tournament than Qatar.

⁸ *The Mainichi Newspapers*, February 17, 2016.

difficult to reach a comprehensive agreement.” Oman advised both countries to take a two-step approach: first enter into a basic agreement, and then aim at a comprehensive agreement, which the countries accepted. The two countries commenced negotiations and reached a basic agreement with the P5+1 in November 2013, and continued negotiations towards a comprehensive agreement.

3.1.4.3. Moves after the Conclusion of the JCPOA

- In August 2016, Rumhy, Minister of Oil and Gas in the Sultanate of Oman, mentioned in an interview with Reuters that, regarding the natural gas subsea pipeline project connecting Oman and Iran, Oman had agreed with Iran to change the route in order to avoid the territorial waters of the UAE. Initially, the planned sea depth was 300 meters, but this was revised to 1,000 meters under the new plan. The pipeline will be used to transport natural gas from Iran, to satisfy domestic demand in Oman and for export to the international LNG market. The construction cost under the original plan was reported to be US\$1 billion.⁹ However, Reuters suggested that it could rise to US\$1.5 billion due to the change in route. According to the minister, this plan has reached the final stage, and EPC contractors will be determined by bidding. It appears that Oman has already contacted Japanese, Korean and Chinese companies.
- In November 2016, MEED, a Middle East economic magazine, reported that National Iranian Oil Company (NIOC) is considering surveying crude oil production in the Gulf of Oman on the basis of the sixth National Development Plan. According to MEED, a Director at NIOC commented that it is about to commence a geological survey. Iran and Pakistan lie on the north side of the Gulf of Oman and the UAE lies to the west of it. Therefore, this movement suggests that Iran intends to increase crude oil production after the lifting of nuclear-related sanctions.
- At a regular meeting held in November 2016, the OPEC member countries, including Iran, agreed to mutual production cuts for the first time in eight years. In December 2016, they also agreed to coordinated production cuts with non-OPEC member countries for the first time in 15 years. Iran was treated as being outside the scope of the coordinated production cuts. Accordingly, Iran obtained approval for a net production increase of 90,000 barrels per day with the ceiling of approximately 3.8 million barrels per day, a slight increase from the current production level. Iran aims to restore production to 4.0 million barrels per day, the level prior to the economic sanctions.
- WTI Crude Oil, which serves as an indicator of the crude oil market, is fluctuating around US\$51 to 54 per barrel as of January 2017, the highest level since July 2015. Since the market could soften as U.S. shale oil producers ramp up production in the future, Iran is expected to continue working hard to increase crude oil production for the time being, including developing crude oil in the Gulf of Oman.

3.1.4.4. Future Prospects

- Qaboos, the Sultan of Oman, has long ruled Oman. Adored by the people, Qaboos has monopolized power, including the posts of prime minister, finance, foreign affairs and defense.
- Qaboos has reigned as Sultan for 47 years, and will turn 77 this year. There are concerns about his health, and

⁹ Middle East Institute of Japan, “Chuto Kawaraban (Middle East Weekly News),” March 14, 2014.

it was reported that he had returned to Oman after receiving treatment in Germany. His successor is not yet known.

- Regarding the future of Oman and Iran, the key point is whether the successor after Qaboos will follow an independent path with Iran or not. If the successor continues to adopt a moderate diplomatic stance, Oman will continue to carry a heavy responsibility in diplomatic policy with Iran. However, if the new Sultan changes the current diplomatic policy and takes a tough line against Iran, the Middle East would face a new problem. At the end of 2016, it was reported that Oman will participate in the Islamic Military Alliance to Fight Terrorism led by Saudi Arabia.¹⁰ Will Oman change its independent path with Iran or not?

3.1.5. UAE

For the UAE, the JCPOA agreed between the P5+1 and Iran contains both threats and opportunities. This is because the UAE traditionally has two viewpoints regarding Iran. First, the UAE considers Iran with regional power to be a threat and as a potential enemy. Secondly, the UAE also views Iran as an important economic partner for good investments and trade relations. Regarding these two viewpoints, the former is the view of the Emirate of Abu Dhabi, and the latter is the view of the Emirate of Dubai. For this reason, the UAE's diplomatic policy toward Iran is ambivalent, a complex mix of the two viewpoints. A good example can be seen in the UAE's reaction: in January 2016 when Saudi Arabia broke off diplomatic relations with Iran, the UAE did not follow Saudi Arabia, an ally, but recalled its ambassador and downgraded its diplomatic representation in Iran.

First, let us consider why the JCPOA could threaten the UAE. The UAE officially expressed support for the JCPOA as a GCC member country. This is because the JCPOA will prevent Iranian development of nuclear weapons and reduce the nuclear threat in the Middle East and Gulf region. On the other hand, the JCPOA lifts the sanctions against Iran and gives the country a way to return to the international community. Therefore, Iran will be able to take this opportunity to expand its diplomatic and military presence in the regional and international community. The growing influence of Iran surely conflicts with the UAE's policy of raising its profile in the international community since the Arab Spring. The UAE criticizes Iran for supporting the al-Assad regime of Syria, and considers that Iran is boosting its influence in the region by supporting Shiite forces, such as Hezbollah in Lebanon and Houthis in Yemen. Therefore, when considering 1) stability in the region with the implementation of the JCPOA and 2) expansion of Iran's influence in the region, the UAE is more concerned about the latter. In fact, various remarks by ministers and government officials of the UAE, as well as news reports about Iran in the domestic media, claim that Iran is destabilizing the regional situation through sectarianism and intensifying conflicts.

The UAE's awareness of the threat of Iran was raised further by the Yemen War in March 2015. When the insurgent Houthis forces started expanding their controlled areas in Yemen, Arab coalition forces, mainly led by Saudi Arabia and the UAE, launched attacks against them. The UAE's military intervention in Yemen was on an unprecedented scale in its history. Although the actual involvement of Iran is still questionable, the UAE adheres to its claim that Iran has provided military support to the Houthis, worsening the conflict in Yemen. In addition, the United States' approach to Iran could also be as great a threat to the UAE as the growing influence of Iran. The UAE is an ally of the United States in the Gulf, and supported the United States' policy of containing Iran. However, the JCPOA that was agreed by the Obama administration and Iran shocked the UAE and caused considerable anxiety,

¹⁰ "Oman joins Saudi-led Islamic alliance: Gulf sources," *Reuters*, December 28, 2016.

as well as other GCC countries, including Saudi Arabia. Before and after the conclusion of the JCPOA, UAE government officials often made statements attempting to restrain the moves of the United States. In addition, during the years of the Obama administration, the United States refrained from active involvement in the Middle East, increasing distrust in the UAE and other GCC countries. Thus, the UAE fears that implementation of the JCPOA will destroy the complex balance of power in the region.

Next, let us discuss why the JCPOA could benefit the UAE. Historically, the UAE has been actively involved in economic exchanges with Iran, which remains an important trading partner even today. In addition, there are estimated to be more than 500,000 Iranians living in the UAE, and some of the UAE national includes people with origins in Iran. When Iran suffered under the international economic sanctions, it relied on intermediate trade via Dubai, which serves as a lifeline for Iran. In fact, since the 2000s up until today, exports and re-exports from the UAE to Iran have continued to grow steadily. Dubai merchants as well as Iranian merchants based in Dubai will be in a better business position if Iran's market is reopened through the JCPOA. Furthermore, the Iranian government has strong expectations. In fact, in June 2016, just prior to the conclusion of the JCPOA, Ali Tayebnia, Iran's Minister for Economic Affairs and Finance, invited Sultan bin Saeed Al-Mansoori, UAE Minister of Economy, to visit Iran. In September 2015, the two countries gained momentum to strengthen economic relations, including launching flights between Dubai and Mashhad and increasing regular cargo flights by Emirates Airlines.

There is also concern that the lifting of sanctions could enable Iran to engage in direct trade with foreign countries, which eventually would eliminate the need for intermediate trade through Dubai and reduce Dubai's importance. However, since Dubai is the largest business and financial base in the Middle East, there are many companies with business bases in Dubai aiming to enter the Iranian market. For this reason, Dubai is unlikely to lose its influence over business with Iran, at least in the short term. In addition, it is expected that natural gas will be exported from Iran to the UAE. In 2001, National Iranian Oil Company (NIOC) reached an agreement on the export of natural gas with Crescent Petroleum in Sharjah. Imports from Iran, which lies close to the UAE, was one of the realistic options since the demand for natural gas as a fuel for power generation is growing in the UAE. However, the agreement was not enforced because of Iran's request for renegotiations on pricing, and Crescent Petroleum won the case at international arbitration in 2014. Although this case is not necessarily related to the sanctions, if the two countries step up the pace of business following the implementation of the JCPOA, it will boost the gas negotiations and considerably benefit both countries.

What will the relationship between the UAE and Iran look like in the future? Needless to say, the implementation of the JCPOA involves many uncertainties, particularly the inauguration of the new administration of President Trump. The UAE is particularly concerned how the United States is going to deal with Iran. The UAE expects the Trump administration to serve as a cornerstone of security in the Middle East as ever, and to help contain Iran. We need to wait and see how the Trump administration will meet the expectations of the GCC countries. In addition, the UAE needs to align the interests of the Emirate of Abu Dhabi and the Emirate of Dubai over their strategy toward Iran in order to formulate its own strategy regarding Iran. So far, there has been no major clash of interests and claims on this issue between Mohammed bin Zayed, Crown Prince of Abu Dhabi, and Mohammed bin Rashid, Emir of Dubai. However, the UAE will need to maintain a balance between pursuing national security as a diplomatic policy and its economic interests.

3.1.6. Bahrain

Bahrain is a small country on the Gulf coast and has always been exposed to the threat from Iran since its founding in 1971. Iran has asserted its sovereign right over Bahrain and been trying to exercise influence over Shiite residents living in Bahrain. 60% of the population in Bahrain are Shiites, but they have been politically suppressed. For Iran, the center of the Shiite world, Bahrain is a modern symbol of the “Oppressed Shiites.” For these reasons, Iran has good cause to “help” the Shiite residents in the region, including Bahrain, which constitutes a core part of the country’s foreign and security policy. During the Arab Spring in 2011, Iran stepped up its criticism of the Bahrain government, asserting that it oppressed Shiite residents. On the other hand, Bahrain stressed that the destabilization of domestic security was due to Iran’s intervention. This process of mutual criticism has been repeated. Bahrain could be considered a powder keg in the Gulf, and the domestic and international situations of the country have had a negative impact on the stability of the Gulf region.

For Bahrain, which is directly exposed to the threat of Iran, the implementation of the JCPOA is not entirely welcome. Officially, as one of the GCC members, Bahrain welcomes the conclusion of the JCPOA between the P5+1 and Iran, and supports the removal of the nuclear threat. However, since July 2015 when the JCPOA was agreed, GCC countries, including Bahrain, have found that Iran is stepping up its activities in the region. GCC countries have successively detected spies who are Iranian or Shiite in their countries, and Iran is considered to be a real threat to domestic security. In addition, as will be described later, GCC countries assert that Iran has supplied weapons and funds to Hezbollah in Lebanon and Houthis in Yemen. Thus, the growing influence of Iran has made Bahrain keenly aware of the threat of Iranian and Shiite forces, which appear to wield considerable influence over the domestic situation, diplomatic policy and security in line with the sectarian division.

First, in view of the domestic situation, Bahrain authorities will be forced to put greater pressure on the Shiite residents and groups. As a result, the sectarian conflict between Sunnis and Shiites in Bahrain could worsen amid increasing mutual distrust. Inside the House of Khalifa, the royal family of Bahrain, there is a force called “Khawaalid”, which controls military and security relationships and is also close to the King of Bahrain. In addition, the force is also known to be hardline anti-Shiite, and close to Saudi Arabia. On the other hand, Prince Salman bin Hamad is a liberal reformist, and preaches reconciliation with the Shiites. Therefore, there could be conflict over the policy toward the Shiites within the royal family and government. This conflicting structure within the government could cause vulnerability to pressure from Iran.

Furthermore, although there is no direct relationship with the JCPOA, the deteriorating security situation in Bahrain has accelerated sectarian conflict. Since the Arab Spring, there have been frequent terrorist attacks targeting police officers and security forces in the suburbs of Manama, the capital of Bahrain, and the Shiite district. Whenever such incidents have occurred, the authorities suggested the involvement of Iran and criticized the country by name, stating that it supported the attack against the authorities under resistance by the oppressed.

Secondly, in terms of diplomacy and security, Bahrain is expected to strengthen its reliance on neighboring Saudi Arabia. Bahrain has always had a good relationship with Saudi Arabia, and the stability of Bahrain is a major concern for Saudi Arabia in view of measures for the many Shiite residents in the Eastern Province, which is a similar situation to Bahrain. In fact, when security in Bahrain was threatened by the Arab Spring, Saudi Arabia and the UAE dispatched security forces to Bahrain. In addition, when Abdullah, the former King of Saudi Arabia, called for a “Gulf Union plan,” there was a possibility of deepening political integration of the two countries. If Iran

expands its influence in the region as a result of the JCPOA, leading to greater military threats, conflict between Saudi Arabia and Iran over Bahrain is likely to intensify. When Saudi Arabia broke off diplomatic relations with Iran in January 2016, Bahrain followed suit. Bahrain's reaction was clearly different from that of the other GCC countries.

As discussed so far, for Bahrain, the JCPOA poses a risk of destabilizing the national and regional situation. The prospects for Bahrain-Iran relations are fundamentally affected by their traditionally unstable relationship, which is unlikely to be resolved by the JCPOA. Even more worrisome for Bahrain is the U.S. Trump administration's involvement in the Gulf region as well as the development of relations between Bahrain and the United States. Given that Bahrain depends on Saudi Arabia and the United States for its own security, it is essential to maintain relationships with allies. However, the United States under the Obama administration advocated a "pivot to Asia" regarding security, and under the new Trump administration has required the allied countries to pay more of the security costs. The positions of allies in the Gulf have been greatly influenced. However, since Bahrain hosts the base of the Fifth Fleet of the United States Navy, it will continue to be a key place both geopolitically and strategically. In addition, the United Kingdom recently expressed its intention to set up a base in Bahrain. Thus, major European countries and the United States have shown active interest in security in the Gulf, and so Bahrain is unlikely to become directly involved in a war with Iran. Nevertheless, Bahrain must pay attention to internal security risks. The greatest concern is that, amid repeated sectarian conflicts in Bahrain, conflict between GCC countries and Iran escalates, resulting in an accidental confrontation.

3.2. Iraq

3.2.1. Iran Nuclear Deal and Reaction of the Iraqi Government

Iraq is governed by Shiite religious parties and therefore is one of the few Arab countries which are friendly with Iran. Many of the senior members of the Shiite religious parties in a position to play a pivotal role in the regime have close relations with Iran, since they worked with Iran in carrying out anti-regime political activities during the Hussein era. As discussed later, the relationship between these two countries then deepened when Iraq went to war following the occupation of Iraqi territory, including Mosul, by Islamic State, an extremist jihad organization, in 2014.

Iraq has been in a difficult position in the Arab world due to its exceptionally close links with Iran. In January 2016, Saudi Arabia and Iran broke off diplomatic relations as their relationship worsened. In the lead-up to the diplomatic break, Iraq voted in favor of a resolution condemning Iran, albeit with reservations, at the Arab League foreign ministers' meeting. Iraq's action was interpreted as thoughtfulness for its relations with Saudi Arabia, given that Saudi Arabia had just appointed its ambassador to Baghdad at the end of 2015 for the first time in a quarter of a century. However, after arrival, the Saudi ambassador dispatched to Iraq faced the wrath of the Iraqi nation for his repeated criticisms of the Iraqi government, and returned to Saudi Arabia less than one year later. As a result, the Iraq-Saudi relationship returned to the baseline. Iraq had wanted to normalize diplomatic relations with Saudi Arabia without impairing its relationship with Iran, but had to abandon the plan due to growing conflict between Iran and Saudi Arabia. Meanwhile, Iraq has continued to maintain its conventional diplomatic policy with priority on the relationship with Iran.

Iraq's relationship with Iran has affected not only Arab relations. Since the Iraq War in 2003, the United States

has played a central role in its nation-building, and so it has been increasingly important for Iraq to maintain political, military, economic relations with the United States. However, until the U.S. forces withdrew from Iraq at the end of 2011, Iran seemed to treat the U.S. forces in Iraq as an occupation that threatened the country, and it is believed that Iran supported the Iraqi Shiite militia's repeated attacks on the U.S. forces. The Iraqi government is highly concerned that worsening relations between the United States and Iran could lead to armed conflict in Iraq on which the two countries have influence. For this reason, Iraq welcomed the historic conclusion of the Iran Nuclear Deal between Iran and major western countries in July 2015, hoping that it will reduce tension between the United States and Iran. In response to the announcement of the procedure for lifting economic sanctions against Iran in January 2016, the Iraqi Prime Minister's Office sent a congratulatory message to the Iranian government and people.

3.2.2. Pros and Cons of Iran's Involvement in the Battle against IS

The period from the final stage of the Iran nuclear negotiations to the conclusion of the Iran Nuclear Deal overlapped with when the battle against IS was in full swing in Iraq. Iran has stepped up its military presence in Iraq by actively helping the Iraqi government fight IS, the common enemy of the two countries. Iraq lost control of a wide swathe of territory, including Mosul, when IS attacked in June 2014, putting the safety of Baghdad, the capital city of Iraq, at risk for a while because the Iraqi forces vanished like smoke. When this happened, Iran was the first country to lend assistance to Iraq. Iran did so to prevent the collapse of the Iraqi government, which is friendly toward Iran, as well as for self-defense. IS headed south from Mosul and also east, in the direction from Syria towards Iran. If the Iraqi forces were completely defeated, IS could reach the Iran-Iraq border. Therefore, Iran dispatched the Islamic Revolution Guards Corps (IRGC) to Diyala Province in eastern Iraq to provide military support for the Shiite militia, including Badr Organization, an old ally. It should be noted that since May 2015, Muthana al-Tamimi of Badr Organization has served as Governor of Diyala Province, and the security of the province is virtually controlled by Badr Organization.

Iran's assistance to Iraq was not limited to government-to-government, but was characterized by substantial support from the IRGC to the Shiite militias. These dissident militias went into exile in Iran during the Iran-Iraq War in the 1980s, but a number of armed groups have formed in a vigilante fashion amid worsening security since the Iraq War. Some of the armed groups reinvented themselves as political parties and went into politics. In addition, since 2011 later, amid escalating fighting in the civil war in Syria, these militias fought in Syria in the name of protecting the holy places of the Shiites, thus indirectly supporting the Assad regime which is backed by Iran. From 2014, as the battle against IS in Iraq intensified, volunteer soldiers joined these Shiite militias rather than the Iraqi forces which have a notorious reputation for corruption. They served as ground forces which are indispensable in the battle against IS. In particular, for the towns which have many Shiite Arabs and Shiite Turkmen, these militia and volunteer soldiers have played a central role in the battle against IS. For example, in Anbar Province which has an overwhelming majority of Arab Sunnis, the Counter Terrorism Service (CTS) led military operations with support from the local Sunni tribal soldiers, as well as from some Shiite militias.

Currently, these militias and volunteer soldiers are loosely organized under the name of Popular Mobilization Unit (PMU), and the national security adviser to the Iraqi government serves as representative of the PMU. From 2016, under the national budget, salaries for the PMU have been allocated by reducing the salaries of civil servants. In November 2016, the Iraqi Parliament enacted the PMU Law, which recognizes the PMU as one of the independent

military forces in Iraq and affiliated with the Supreme Commander (prime minister). Initially, the PMU was temporarily formed for the purpose of fighting against IS, but it has gained a stronger presence in recognition of its performance in the battle against IS in the last two years. International human rights organizations have often pointed out that some of the PMU were involved in slaughtering Sunni residents who were suspected of supporting IS, and Sunni politicians also have often complained about the presence of the PMU. However, the fighters of the PMU are highly admired by Shiite residents and Shiite political parties as heroes who saved Iraq from IS terrorists. Leveraging this, a large number of PMU members will enter politics in the National Assembly elections scheduled for 2018.

However, although the PMU is mainly composed of Shiite militias, the relationship with Iran is not uniform. For example, the Peace Companies (the former Mahdi Army) led by Muqtada al-Sadr, a Shiite religious leader, has allegedly kept its distance from Iran. In addition, organizations that worship Ali Sistani, a powerful figure in the religious world, tend to emphasize the relationship with the Iraqi government rather than Iran. However, it is estimated that, of the total PMU members of 60,000 to 80,000, some 10,000 to 15,000 have close relations with the IRGC, which served as core forces of the PMU. As they are strongly influenced by Iran, they frequently use Shiite-like religious rhetoric and symbols even in battles in areas with many Sunni residents, or openly blame the United States government and U.S. Forces, which is troubling to the Iraqi government. Although the PMU certainly cooperates with the Iraqi government, it is not clear that the government has final control over their actions, which vividly shows Iran's influence over Iraq.

The scale and manner in which the PMU remains in Iraq after the expulsion of IS in the near future is not clear at present, and will depend on how the PMU Law is enforced. However, it is likely that organizations with strong support from Iran will survive, and such organizations are expected to strengthen the links with Iraq in the long term for the benefit of Iran. However, this growing influence of Iran is not welcome for some Shiites, as well as an overwhelming majority of Sunnis and Kurdish, and could intensify conflict within Iraq.

Iraq's battle against IS has reached a climax after the start of military operations in Mosul, the home base of IS in Iraq, in mid-October 2016. Since November 2016, the battle has reached the stage of street fighting, and the eastern side of the town, which is bisected by the Tigris River flowing through the center, has been completely liberated. Regarding the operation in Mosul, Prime Minister Abadi has repeatedly stated that it will be carried out by the official security forces of the Iraqi government, mainly consisting of CTS, Iraqi forces, and federal police. This is because if the PMU moves up to the front line in Mosul, a big city with many Sunni residents, the local people in the center of Arab nationalism in Iraq could mistakenly consider the security forces including the PMU to be occupation forces, instead of liberation forces.

In line with the prime minister's desire, the PMU will engage in liberating not Mosul city itself, but Tal Afar to the west of Mosul and close to the Syrian border. In mid-November 2016, it was announced that Tal Afar Airport had been liberated. As of January 2017, although the operation at Tal Afar has not yet started, the PMU has been in the battle fields at Mosul and on the southwest of Tal Afar. As the PMU is focusing on Tal Afar, it has reason to support the Shiites persecuted by IS because just under half of the population of Tal Afar are Shiite Turkmen, and the PMS wishes to restrain Turkey's growing influence from the north, as well as Kurdish forces that have extended their territory during the battle against IS.

In addition, it is alleged that Iran is focusing on the Syrian situation. Initially, the Iraqi government was trying to end the battle at the town of Mosul as early as possible by surrounding Mosul from the north, east and south to escape the IS combatants and citizens to the west side, which was a strategy used in other towns such as Al-Falluja.

However, as the Bashar al-Assad regime in Syria looks likely to survive, Iran allegedly wished to prevent many fighters against IS from heading toward Syria, and encouraged the PMU to go to the west to act as a blockade between Mosul and Ratla.¹¹ In addition, it is often cited as a reason that Iran could secure land access from Iran via Iraq to Syria by deploying the PMU at battle fields near the Syrian border. Thus, although Iran is not militarily involved in the operation at Mosul itself, Iran is exerting its influence on the PMU indirectly.

3.2.3. Impact of the Iran Nuclear Deal on Economic Relations between Iraq and Iran

With the conclusion of the Iran Nuclear Deal and the lifting of sanctions, Iran is expected to expand economic relations with neighboring Iraq. However, the Iraqi government and companies did not pay as much attention to observing the sanctions against Iran as those in Europe and America. On the contrary, Iraq helped Iran to avoid the sanctions to some extent by allowing it to sell crude oil produced in Iran under the label of oil produced in Iraq, enabling Iran to earn foreign currency through the Iraqi market. Thus, the sanctions were not the biggest factor hindering closer economic relations between the two countries.

Mr. Ebrahim Rezazadeh, Iran's Commercial Attache in Baghdad, announced in January 2017 that non-oil exports from Iran to Iraq in 2015 jumped to US\$6.2 billion, 17 times as large as those in 2005, which was mainly driven by groceries, construction materials and passenger cars.¹² Since the conventional overland trade routes, such as through Jordan and Turkey, were severely damaged by the battle against IS in 2014 and after, trade with Iran has become increasingly important. In 2015, a free trade zone was established in Khuzestan Province of Iran to boost trade with Iraq. In addition, large numbers of Iranian pilgrims visit holy Shiite places in southern Iraq every year, producing significant economic benefits for Iraq. The total trade in goods and services between the two countries in 2015, including tourism, engineering services, and third-country trades, amounted to US\$12 billion.¹³ The relationship has not been significantly affected by the sanctions or their lifting, and will continue regardless of the sanction situation.

3.3. Yemen

The conflict in Yemen has been called a proxy war between Saudi Arabia and Iran for a long time. Amid the regional confrontation between the two countries, the Iran Nuclear Deal has intensified the perception of Iran as a threat to Saudi Arabia. The Saudi Arabia-led military intervention in Yemen was motivated by concern for the security of Saudi Arabia, as Iran exercised influence on the Houthis, armed forces which opposed the government and subverted Yemen's transitional government. The civil conflict between Yemen forces took place amid the regime shift, causing complicated military interventions from abroad. Saleh, Yemen's former president who resigned in 2011, allied with the Houthis to form an anti-government coalition.

This section focuses on the changing players in the drive for peace in the Yemen conflict. In particular, for one year after the start of military intervention (March 2015), the United Nations supported the peace initiative as if it

¹¹ Dominic Evans, Maher Chmaytelli and Patrick Markey, "How Iran closed the Mosul 'horseshoe' and changed Iraq war," *Reuters*, December 7, 2016.

¹² Fars News Agency, "Official: Iran, Iraq Economic Ties on Right Track," January 03, 2017.

¹³ Tamer Badawi, "The rise of the Islamic State has created both challenges and opportunities for Iranian trade networks in Iraq," Carnegie Endowment for International Peace, July 27, 2016.

was taking concerted action with the progress of the Iran Nuclear Deal. Later, from March 2016, efforts toward peace in Yemen proceeded independently of the Iran Nuclear Deal. This section examines the changing players in the drive for peace in Yemen and their motivations.

3.3.1. Peace Talks on Yemen Facilitated in Parallel with the Iran Nuclear Deal

First, we examine the period up to early 2016 when the United Nations was attempting to bring about a cease-fire and peace through two peace talks in Geneva. These meetings were held between the Yemen government and anti-government party at the mediation of the UN special envoy in charge of Yemen, in order to discuss the way forward for peace. These peace talks were closely related to the Iran nuclear negotiations. The first peace talk was held in Geneva from June 15 to 19, 2015, and the second peace talk in Bern from December 15 to 20, 2015. Although there was no specific progress toward achieving peace, the talks were very timely, being held just one month prior to the important progress seen in the Iran Nuclear Deal. To be more precise, the first peace talk in Geneva in June 2015 was one month prior to the final agreement of the Iran Nuclear Deal concluded in July 2015, and the second talk in December 2015 was one month prior to the Implementation Day of the Iran Nuclear Deal in January 2016.

Since these two Geneva peace talks broke down within a few days, when there was almost no movement toward the Yemen peace on the final agreement date and the implementation date of the Iran nuclear negotiations, the United Nations took the next best measures. When the first peace talk broke down just four days after the start as the date of the final agreement of the Iran nuclear negotiations approached, the UN called for a humanitarian ceasefire because of the fasting month of Ramadan. A few days earlier, the UN raised the state of crisis to the highest level of 3, to attract the attention of the international media. However, this ceasefire effort was ineffective. The second Geneva talk also broke down a few days after the start in December 2015, but the UN special envoy, the mediator, announced the intention to resume the peace talk on January 14, 2016, just two days prior to the implementation of the Iran Nuclear Deal (January 16, 2016). However, the peace talk was not resumed, mainly due to the execution of Nimr in Saudi Arabia and the severance of diplomatic relations with Iran by Saudi Arabia in January 2016. Thus, the United Nations supported the peace initiatives for Yemen as if working in concert with the progress of the Iran Nuclear Deal.

3.3.2. Initiatives to Bring Peace by Saudi Arabia and U.S.

After the two Geneva peace talks, specifically after mid-March 2016, there were new initiatives toward peace for Yemen. The civilian damage and humanitarian crisis caused by aerial bombing of Yemen attracted the attention of the international media. In response to growing criticism of the situation, Saudi Arabia, which was conducting the military intervention, and the United States, which was supporting Saudi Arabia, commenced initiatives toward peace. As discussed earlier, the two peace talks held by the United Nations coincided with the timetable for the Iran Nuclear Deal. However, after the two peace talks, the peace initiatives were led by the country conducting the military intervention, and the country providing logistical support. These initiatives were not linked with the Iran Nuclear Deal, but were due to the individual motivations and interests of the intervening country.

In March 2016, the Houthis dispatched a delegation to Riyadh to negotiate with Saudi Arabia. As a result, both parties reached an agreement, including a ceasefire in the border areas and an exchange of hostages. This agreement

served as a basis for the peace talk in Kuwait that began in April 2016. The peace talk was hosted by Kuwait at the mediation of a UN special envoy, to bring representatives of the Yemeni government and anti-government party together to negotiate an approach to peace in accordance with a draft agenda prepared by the United Nations.

The peace effort reflected the desire of Saudi Arabia, which engaged in military intervention, to deflect growing media attention and criticism as the first anniversary of the start of air strikes approached. After the direct negotiations between Saudi Arabia and the Houthis, the United Nations' special envoy declared a ceasefire in Yemen and the start of peace talks from March 23, 2016. The announcement and implementation dates – a ceasefire from April 10, 2016, the start of peace talks the following week from April 18, 2016, and an announcement by the United Nations on March 23, 2016 – were designed to straddle March 26, 2016, the anniversary of the start of aerial bombing in Yemen. In other words, just when media interest in the air strikes in Yemen would reach a climax on the first anniversary, constructive news about the ceasefire and peace talks helped suppress criticism of Saudi Arabia for a time.

However, the peace talks in Kuwait ended on August 6, 2016 without an agreement. The Arab coalition forces stepped up air strikes immediately thereafter and damaged non-military facilities, including schools and markets. In particular, air strikes against hospitals being supported by Médecins Sans Frontières (MSF), an international NGO, located in northern Yemen, attracted criticism from the media. The United States immediately initiated fresh negotiations toward peace in consultation with Saudi Arabia. Since the attempt in Kuwait had failed, the peace initiative faced difficulties, but the United States began to drive the peace initiative aggressively.

Behind the scenes, the United States was concerned by criticism of the US from the humanitarian perspective of the air strikes, expanding combat into Mandeb Strait and the U.S. presidential election. As already discussed, the United States took action in response to criticism of the humanitarian crisis caused by civilian damage and infrastructure destruction by the air strikes. In addition, the expansion of the Yemen conflict into the sea area also affected the United States and marked an important turning point. In October 2016, UAE ship and U.S. warships were attacked by Yemeni anti-government protesters in the waters of Mandeb Strait, a key route for international maritime trade, located adjacent to Yemen. The U.S. warships fired missiles against the attackers. Although the United Nations Security Council was divided over the Yemen conflict, it issued a press statement to the effect that freedom of navigation in and around Mandeb Strait must be upheld. Since the chair's country at the UNSC in October 2016 was Russia, which was understanding of the position of the Yemeni anti-government protesters, the UNSC emphasized that it would not allow any expansion of the conflict to critical sea lanes in line with the attitude of the international community. In addition, amid the heated debates of the U.S. presidential election in November 2016, Washington's support of the military intervention attracted international criticism, which negatively affected Hillary Clinton who broadly followed the stance of the Obama administration and the Democrats. After the election, the Obama administration actively engaged in diplomacy to bring peace to Yemen, to achieve at least a ceasefire within the remaining term of office. Since the peace talks in Kuwait, the United States has led the efforts to secure peace independently.

3.3.3. Dynamism over Peace Talks in Yemen

As discussed above, the Iran Nuclear Deal had a significant impact on the Yemen conflict in the first year after the start of the military intervention. The UN attempted to secure peace in Yemen to prevent escalation of the

conflict due to the development of the Iran Nuclear Deal. For Saudi Arabia, the progress of the Iran nuclear negotiations and the JCPOA was a nuisance. This was because Saudi Arabia expected the United States superpower to guarantee the security of Saudi Arabia, but the US negotiated with Iran, Saudi Arabia’s potential enemy, allowing Iran to return to the international community and boost its influence in the region. Saudi Arabia, which considered that the Shiite militants, supported by Iran, were attempting to seize political power in neighboring Yemen, decided to keep a tight rein on the military intervention in Yemen amid the development of the Iran Nuclear Deal. On the other hand, Yemeni anti-government protesters anticipated the intention of Saudi Arabia and prepared for the military intervention. Intensification of armed conflict was inevitable. When the anti-Iranian sentiment of Saudi Arabia grew as the Iran Nuclear Deal progressed, peace talks between Yemeni anti-government protesters and Saudi Arabia helped to ease the worsening conflict. The United Nations called for a ceasefire in accordance with the peace talks, attempting to curb the use of force. At the same time, from the perspective of the United Nations and P5+1 which wanted to obtain support for the Iran Nuclear Deal from the Gulf countries which were skeptical of it, the Sunni-Shiite proxy war in Yemen was unacceptable. Of course, even the cooling of the Yemen conflict did not make them welcome the deal. However, amid the confusion caused by neighborhood support for the Shiite militants, their attitude narrowed to bless the “historic agreement” between the international community and Iran. These situations caused the United Nation to take action by combining the Iran Nuclear Deal and Yemen peace talks. Then, one year after the start of air strikes, the drive for peace in Yemen was driven by a different logic: the aggressor attempting to limit the damage caused by growing international criticism.

■ Chart 6: Iran Nuclear Deal and the Yemen Conflict

		Iran Nuclear Deal	Yemen Conflict
2002		Nuclear development problem occurred	
2011			Saleh resigned
2013	8	Rouhani appointed as President	
	11	“First phase Iran Nuclear Deal” agreed by P5+1 and Iran (24th)	
2014	9		Sana’a occupied by Houthis
2015	1		Transitional government collapsed
	3		Military intervention by Saudi Arabia
	5	Iranian flight carrying humanitarian goods refused permission to land in Yemen	
	6		First Geneva talk (June 15 to 19, 2015)
	7	Final agreement of Iran Nuclear Deal (14th)	UN called for ceasefire during Ramadan
	9	464 Iranians killed in pilgrimage accident	
	9	War actions by IRGC increased in Syria	
	12		Second Geneva talk (December 15 to 20, 2015); to be resumed on January 14, 2016 (place to be determined)
2016	1	Saudi executed 47 terrorists including Nimr	
	1	Saudi Arabia’s diplomatic facilities attacked by crowds in Iran	
	1	Saudi Arabia severed diplomatic relations with Iran (3rd)	
	1	Implementation of the final agreement between P5+1 and Iran (16th) and listing and temporary halt of sanctions	Saudi Arabia formed anti-terrorism military alliance
	3		Secret negotiations between Saudi Arabia and Houthis

	4	(Iran submitted Yemen Settlement Letter to the UN) →	Peace talk in Kuwait ← The first anniversary of commencement of aerial bombing in Yemen
	8		Peace talk in Kuwait ended
	8		Kelly visited Saudi Arabia; New peace proposal (25th) ← Air strikes against hospitals (15th)
	9		Four Nations Meeting in the U.S., Joint communiqué issued (22nd); Anti-government party also proposed ceasefire (25th) ← First TV debate session (26th)
	10		Four Nations Meeting in London (16th); Joint communiqué issued; ceasefire declared (19th) ← Final TV debate session (19th), UAE ship and U.S. warships bombed and air strikes in Sana'a
	11		Kelly negotiated with Yemeni anti-government protesters in Oman (14th), ceasefire declared (19th) ← The U.S. Democratic Party lost the presidential election
	12		UK and GCC expressed support for roadmap (7th)
		U.S. Senate passed the extension of Iran Sanctions Act	Kelly visited Saudi Arabia; Four Nations Meeting; Joint communiqué issued (18th)
2023		Iran to ratify Additional Protocol with IAEA; U.S. to lift sanctions against Iran	Trump Administration (2017 to 2021)
2025		If Iran complies with JCPOA, Iran nuclear issue will be removed from the UN Security Council's agenda.	

Source: Prepared by the Author

3.4. Israel's Response to Iran's Nuclear Ambitions

3.4.1. Israel Harshly Criticizing JCPOA

Israel regards Iran as dangerous, calling it an “existential threat.” Particularly, with regard to Iran's nuclear program, Israel has consistently argued that it is not for peaceful purposes but for developing and manufacturing nuclear weapons. For this reason, the Israeli government has continued to criticize the Joint Comprehensive Plan of Action (JCPOA), an agreement concluded between Iran and the P5 (the UN Security Council's five permanent members, plus Germany). Immediately after the JCPOA was enacted, Prime Minister Netanyahu of Israel denounced the agreement as a “historic mistake,” expressing its position that the Israeli government will not be bound by the agreement.

Israel has three main criticisms against the Iran Nuclear Deal:

- (1) The Deal enables Iran to continue nuclear development, including “legitimate” uranium enrichment, and produce nuclear weapons after 10 to 15 years, starting immediately after the agreement period expires;
- (2) The monitoring mechanism in the agreement is insufficient, allowing Iran to develop nuclear weapons secretly; and
- (3) By using revenues earned from the lifting of sanctions, Iran can build up its arms, such as ballistic missiles, and support terrorist organizations.

3.4.2. Netanyahu's Administration Emphasizing “Threat of Iran”

Israel's strong perception of Iran as a threat is due to repeated hostile remarks by Iran's post-revolution regime

about Israel and continued military expansion. In particular, Israel considers that Iran's current regime will not accept the very existence of the Jewish state based on its dogmatic interpretation of Islam. Wariness of Iran is shared by almost the whole of Israeli Jewish society, and so the government has been forced by voters to take a tough line against Iran.

In the case of Prime Minister Benjamin Netanyahu, he is committed to achieving security for Israel "by force" in order to expand the support base in Israel, deliberately emphasizing the threat of Iran. In 2012 and 2013, Israel seriously considered launching military attacks against Iran's nuclear facilities. This damaged the relationship between Netanyahu and U.S. President Obama, who was strongly opposed to any such military attack by Israel, placing priority on signing an agreement with Iran.

3.4.3. Focusing on Working with President Trump

However, despite its criticisms of the JCPOA, Israel, a non-contracting party, was not in a position to invalidate the agreement or to suspend the implementation process. In addition, under the continuing regime based on the international agreement, Israel could not take military action and its options were limited.

However, the situation for Israel has changed with the inauguration of Donald Trump as U.S. President, as he has repeatedly threatened to tear up the Iran Nuclear Deal. In an interview with CBS in the United States in mid-December 2016, Prime Minister Netanyahu expressed strong hopes for the Trump administration, stating that Israel and the United States could jointly invalidate the JCPOA, citing five ways to do so. However, he did not reveal the details.

Thus, Prime Minister Netanyahu appears to be keen to discuss with President Trump measures against Iran, including the nuclear issue. On January 23, 2017 immediately after Mr. Trump was inaugurated as president, the two leaders talked by telephone. According to an official announcement of the White House, the two leaders agreed to continue close consultation on a number of issues, including the threat of Iran. Prime Minister Netanyahu also mentioned this telephone conversation in his speech on January 26, 2017, stating that President Trump had touched on the dangers of the Iran Nuclear Deal. Starting with a meeting between the leaders when Mr. Netanyahu visits the United States in February 2017, two countries are planning full-fledged talks on what to do with the JCPOA.

3.4.4. Israeli Defense Forces Cautious about Abrogation of the Iran Nuclear Deal

However, the domestic debate in Israel has not reached a consensus that it should rely on the Trump administration to destroy the Iran Nuclear Deal. According to the "Haaretz" paper dated January 21, 2017, information recently submitted by the Israeli Defense Forces to Prime Minister Netanyahu points out that the United States breaking the JCPOA could be a serious mistake, even while pointing out a number of problems with the JCPOA. The reasons include: (1) Iran has complied with the JCPOA for one and a half years since it was enacted; (2) unilateral cancellation of the JCPOA by the United States could open up a rift between the United States and the other signatory countries, especially Russia and China; and (3) Iran's promise not to manufacture nuclear weapons could lose its meaning, and the "breakout time" postponed for a few years could be shortened again.

Mr. Amos Yadlin, a former Military Intelligence Directorate of the Israeli Defense Forces (currently Executive Director of Tel Aviv University's Institute for National Security Studies [INSS]) made the same point. In an article

he contributed to “Ynetnews,” an online Israeli news website, he pointed out some problems in the JCPOA: while the JCPOA has positive aspects such as the establishment of a strict monitoring system of Iran’s nuclear activities, it places no restrictions on Iran’s nuclear development from the middle of the implementation period, and that Iran’s non-nuclear actions such as missile development could be unregulated. On that basis, Mr. Yadlin asserts that Israel should demand the Trump administration to maintain the JCPOA rather than cancel it, and also should encourage the United States to build new cooperative ties to complement the JCPOA. More specifically, he proposes: (1) to construct an information system to detect any violation by Iran under the JCPOA; (2) to agree to a set of measures taken in the event of a violation by Iran; (3) to include military action by Israel as a last resort to prevent Iran acquiring nuclear weapons; (4) to formulate an action plan between the two countries to prevent Iran from supporting terrorism and developing ballistic missiles.

3.4.5. Anxiety about U.S. Isolationist Trend

In fact, the Netanyahu regime and the Trump administration do not appear to have a clear plan for dealing with a nuclear Iran, in particular the JCPOA. During the election, President Trump continuously stressed that he would seek to cancel or renegotiate the JCPOA. However, at a U.S. Senate hearing, both James Mattis, the U.S. Secretary of Defense, and Rex Tillerson, the U.S. Secretary of State, did not mention cancellation of the JCPOA, but emphasized the threat of Iran.

Irrespective of whether the Trump administration eventually cancels the JCPOA or not, Israel is concerned about the Trump administration’s policy in the Middle East, including his erratic behavior and strong isolationist tendencies.

In a speech by satellite link from the Saban Forum held in December 2016 by the Center for Middle East Policy, Brookings Institution, Prime Minister Netanyahu said, “I do not believe that Mr. Trump, the next president of the United States, will put aside the world’s problems. Quite the opposite.” Netanyahu thus expects the Trump administration to keep playing a major role in the Middle East. Lieberman, Defense Minister of Israel, also said in his speech at the same Saban Forum, “The United States can not be isolated from the world. We need the United States to play an active role in the Middle East,” hinting at fears of isolationism.

As discussed above, Israel is worried that Iran’s nuclear development could be misused and lead to armament. However, regarding specific issues such as dealing with the JCPOA, there are differences even within the Israeli government. Furthermore, if Israel attempts to prevent Iran from nuclear armament, it will be unable to do so alone and will need agreement and cooperation from the United States, including military attacks. The key point is how Israel maintains relations with the isolationist Trump administration.

3.5. Turkey

3.5.1. Introduction: Turkey and Iran Competing for Regional Leadership

In July 2015, Iran reached an agreement with six major countries to drastically limit its nuclear development. European countries and Japan welcomed the agreement, and Iran thus took the first step toward returning to the international community. Likewise, Turkey’s policy toward Iran has been changing since the Iran Nuclear Deal.

First of all, Turkey initiated negotiations between Iran and the United States as a mediator jointly with Brazil in 2010, and opposed placing additional sanctions on Iran as a non-permanent council member at the United Nations Security Council. Furthermore, as a member of the Treaty on the Non-Proliferation of Nuclear Weapons (NPT), Turkey strongly supported Iran's right to the civilian use of nuclear energy. However, since the Iran Nuclear Deal, Turkey has become increasingly cautious about Iran strengthening its influence in northern Syria and northern Iraq by supporting the Shiite forces. In addition, while Iran has avoided diplomatic isolation, Turkey's relationship with Western countries has worsened due to the Syria conflict and the aborted coup attempt in July 2016, and so Iran has become a greater threat to Turkey.

With this background, this section examines the relations between Turkey and Iran since the Iran Nuclear Deal from the perspective of Turkey. First, we review the recent Turkish domestic political situation and then consider the struggle for power between Turkey and Iran over Syria and Iraq. Finally, we discuss future prospects for Turkey-Iran relations.

3.5.2. Turkey's Troubles Both at Home and Abroad

The Justice and Development Party (AKP), an Islamic ruling party that formed a stable single-party administration in 2002, successfully raised the profile of Turkey in the international community by taking measures to deliver steady economic management, political reforms toward negotiations on joining the EU, and diplomatic policy to improve relations with neighboring countries. However, from around 2010, the party took an authoritarian policy in favor of Islamic forces, leading to massive anti-government movements and serious corruption scandals in 2013.

Despite these crises, Prime Minister Recep Tayyip Erdogan was elected president in a referendum, Turkey's first, in August 2014. In the general election in June 2015, the AKP promoted a manifesto of moving toward a presidential system with stronger powers for the president amid difficulties in gaining public support. As a result, the AKP failed to hold its majority in the parliament for the first time since the party's establishment. However, in the re-election in November 2015 due to a breakdown of coalition talks, the AKP held its majority in the parliament again. In July 2015, after the collapse of peace talks between the Kurdistan Workers' Party (PKK) and the Turkish government, PKK resumed terrorism. At this time, terrorism by the extremist organization Islamic State (IS) began to spread to Turkey. Therefore, in the re-election in November 2015, the Turkish people once again supported the AKP with a focus on political stability.

On July 15, 2016, a part of the Turkish forces suddenly rose up in revolt in Ankara and Istanbul. The rebellion was crushed the next day, but more than 200 citizens were killed. After the incident, the Turkish government concluded that it had been carried out by officers in favor of the Gulen movement, Turkey's largest Islamic movement. The government declared a state of emergency, executed large numbers of government and military people involved in the Gulen movement, and applied pressure to those media outlets which were critical of the government.

The abortive coup attempt damaged the relationship between Turkey and Western countries. The Turkish government demanded the United States to hand over Fethullah Gülen, leader of the Gulen movement who resides in the United States, to Turkey. However, the Obama administration refused, fueling anti-American sentiment in Turkey. In November 2016, the European Parliament adopted a resolution to break off the EU accession negotiations with Turkey due to the repressive actions of the Turkish authorities after the coup attempt. In response, Turkey stopped accepting Syrian refugees in violation of its agreement with the EU.

After the coup attempt, Turkish nationalism surged amid strong anti-Western sentiment. The PKK and IS also frequently committed terrorist acts. The economy slumped, which President Erdogan attributed to “the work of forces hostile to Turkey,” and instructed the public to exchange any U.S. dollars they had for Turkish lira, to prevent the lira from falling.¹⁴ In January 2017, the Turkey Parliament passed by majority vote a constitutional amendment to introduce the presidential system with stronger powers for the president. The government insists that a strong presidential system for Turkey is the only solution for Turkey due to the unprecedented crisis, and aims to win approval in the referendum scheduled for April 2017.

3.5.3. Turkey’s Diplomatic Offensive against Syria and Iraq along with Iran Factors

The AKP administration improved relations with neighboring countries one after another until the Arab Spring in 2011, aiming to increase its power in the Middle East. However, since then, its relations with Egypt, Syria, Iraq and other major Arab countries have worsened. As the United States withdraws from Syria and Iraq, Turkey is struggling for power with Iran after the Iran Nuclear Deal.

Iran has maintained its influence over Lebanon, Syria, Yemen and others through Hezbollah and Shiite insurgents. In Iraq, Iran has not only provided political support for the Abadi administration, a Shiite government, but also helped the Iraqi forces recapture Tikrit and Fallujah from IS through military support to the Shiite militias. Turkey viewed these activities as Iranian pressure on Turkey’s sphere of influence. When the Iraqi forces launched the military operation to recapture Mosul with many Sunni residents in October 2016, Turkey insisted that Turkish forces should also join the battle. However, Iran and Iraq rejected the request.

The operation to recapture Mosul by Iraq fueled Turkish nationalism. Originally, Mustafa Kemal (later Ataturk), founder of the Republic of Turkey, regarded Mosul, Kirkuk, Aleppo and other regions where many Turkish are living, as Turkish territory to be observed during the Fatherland Liberation War, which was fought against Western powers.¹⁵ Eventually, these areas became separated from Turkey, which still recognizes them as “territory unjustly taken from Turkey.” When Iraq began to consider military operations in Mosul in 2016, Turkey’s map of “a larger version of Turkey,” including Mosul and other cities, appeared many times in the media. Iran surely read these as signs of Neo-Ottomanism expansionism by Turkey.

While the conflicts with Iran and Iraq remain unresolved, Turkey maintains a good relationship with the Kurdistan Regional Government (KRG). Turkey needs the KRG’s help for PKK operations, while the KRG needs access to international markets as a foothold in Turkey. The Turkish army dispatched approximately 700 squad members to Bashika Base located to the north of Mosul, to provide training for Peshmerga, the security forces of KRG, and the Sunni militias. The Turkish forces in Iraq are viewed as an attempt to curb the expansion of Shiite Iran’s influence in northern Iraq where there are many Sunni inhabitants.

Turkey has called for Syrian President Bashar al-Assad to resign, and has supported the anti-government forces such as the Free Syrian Army. On the other hand, Iran has been supporting the Assad regime. The two countries’ diplomatic policies are incompatible. To counter Iran’s growing influence in Syria, Turkey approached Saudi Arabia,

¹⁴ “Erdogan Calls for Turkish ‘National Mobilization’ to Defend Lira,” *Reuters*, January 12, 2017. <http://www.reuters.com/article/turkey-lira-idUSL5N1F21CO>

¹⁵ Rod Thornton, “Erdogan and the national pact: The Fallout Today from the British Army’s Seizing of Mosul in 1918,” *Defence-In-Depth*, January 7, 2017. <https://defenceindepth.co/2017/01/04/erdogan-and-the-national-pact-the-fallout-today-from-the-british-armys-seizing-of-mosul-in-1918/>

which conflicts with Iran over the Muslim Brotherhood, and strengthened its support for the dissidents. However, when Russia started military intervention in support of the Syrian government in September 2015, anti-government forces assisted by Turkey were forced to retreat. The Turkish government has gradually softened its attitude towards the Assad regime, and Russia finally arranged a ceasefire proposal for Syria by getting Turkey involved in the proposal at the end of 2016. Mehmet Şimşek, Deputy Prime Minister of Turkey, accepted Turkey's change in policy, stating on January 20, 2017, "The situation has changed significantly. Without President Assad, resolution of the conflict is no longer realistic." Talks on peace in Syria were held in Kazakhstan on January 23 and 24, 2017, where Russia, Turkey and Iran agreed to fully comply with the ceasefire by monitoring each of the supporting forces.

The current key issue for Turkey's diplomacy with respect to Syria is what to do with the Kurds. Turkey dispatched troops to Syria in August 2016 and launched "Operation Euphrates Shield" in order to restrain the Kurdish rise. In Turkey's eyes, the Kurdish forces are a sister organization of the Kurdistan Workers' Party (PKK). Therefore, Turkey cannot allow the Kurds to gain autonomy in Syria. However, Turkey also wants to use Kurdish forces to curb the growing power of Iran in Syria.¹⁶ The conflict between Turkey and Iran is a concern for the Astana Peace Accord.¹⁷

Both Turkey and Iran have been involved in the Astana Peace Talks as regional superpowers, but it is generally considered that Iran has won the power struggle in Syria.¹⁸ Turkey was forced to abandon its aim of overthrowing Bashar al-Assad. In addition, Turkey had requested Saudi Arabia and Qatar to join the peace talks as a supporter, but was refused by Russia and Iran.¹⁹ Furthermore, the ceasefire proposal excluded the Syria Conquest Front (Nusra Front) which has been practically supported by the Turkish government as a terrorist organization.

When the Syrian government forces recaptured Aleppo, which was the base of anti-government forces, in December 2016, there were protest demonstrations in Turkey against Iran which supports the Assad regime. Nearly 1,000 people surrounded the Consulate General of Iran in Istanbul in spite of the state of emergency. The growing sentiment against Iran will make it difficult for the Erdogan regime to reach a compromise with Iran.

3.5.4. Future Prospects for Turkey-Iran Relations

The current relationship between Turkey and Iran involves mutual distrust and conflicts of interest, which could destabilize the situation in the Middle East. Both governments may need to create a confidence-building mechanism at a high level and confirm common interests rather than conflicts.²⁰ However, unlike Israel and Saudi Arabia, Turkey regards Iran not as an enemy but as a competitor. Therefore, direct armed conflict between the two countries is unlikely.

So far, Turkey and Iran have been cooperating in energy and trade amid the political tensions. The volume of trade between the two countries under the AKP administration increased significantly from US\$1 billion in 2001 to US\$22 billion in 2012. In 2014, the two governments signed a preferential trade agreement. In the talk between

¹⁶ "Reading Between the Lines of Turkey's Foreign Policy," *Stratfor Analysis*, December 1, 2016.

<https://www.stratfor.com/analysis/reading-between-lines-turkeys-foreign-policy>

¹⁷ "The Soft Belly of Consensus: Turkey and Iran's Rivalry," *Deutsche Welle*, December 21, 2016. <http://www.dw.com/en/the-soft-belly-of-consensus-turkey-and-irans-rivalry/a-36866092>

¹⁸ Zülfikar Doğan, "Turkish-Iranian Rivalry May Derail Syrian Peace Efforts," *Al-Monitor*, January 3, 2017.

¹⁹ Doğan, "Turkish-Iranian Rivalry."

²⁰ Ali Vaez, "Turkey and Iran's Dangerous Collision Course," *New York Times*, December 18, 2016.

https://www.nytimes.com/2016/12/18/opinion/turkey-and-irans-dangerous-collision-course.html?_r=0

President Erdogan and President Rouhani in April 2016, the two leaders agreed to increase the trade volume between the two countries up to US\$30 billion in the future.²¹ Also, since both countries have large Kurdish populations, they could strategically cooperate against the Kurds.²² In the long run, in response to Russia's re-expansion in the Middle East, Turkey and Iran could take concerted action against Russia.²³ At present, the two countries are cooperating with Russia for a ceasefire in Syria, but they have historically resisted Russia's policy of southward expansion.

If the continuing Operation Euphrates Shield by Turkish forces expands further in Syria and the Turkish forces remain in northern Iraq in the future, tensions between Turkey and Iran will not ease. Iran considers that sweeping operations against IS in Syria should be initiated not by Turkish forces but by Syrian forces. In addition, Iran is demanding Iraq to urge the Turkey forces to withdraw from Iraq.²⁴ Therefore, it is necessary to keep monitoring the extent to which Turkey promotes military intervention in Syria and Iraq.

²¹ "Turkey and Iran Agree to Strengthen Economic Ties," *Al Jazeera*, April 17, 2016.

Al<http://www.aljazeera.com/news/2016/04/turkey-iran-agree-strengthen-economic-ties-160416155434319.html>

²² International Crisis Group, *Turkey and Iran: Bitter Friends, Bosom Rivals*, December 13, 2016, pp. 4-7.

²³ Bülent Aras and Emirhan Yorulmazlar, "Turkey-Iran Relations: A Long Term Perspective," *Center for American Progress*, July 11, 2016. file:///C:/Users/Masaki%20Kakizaki/Downloads/TurkishEssay_Aras.pdf

²⁴ Sevil Erkus. "Iran Does Not Favor Turkey's al-Bab Offensive, Prefers Regime Operation," *Hurriyet Daily News*, January 14, 2017. <http://www.hurriyetdailynews.com/iran-does-not-favor-turkeys-al-bab-offensive-prefers-regime-operation.aspx?pageID=517&nID=108514&NewsCatID=352>

4.0 Positioning of the Iran Nuclear Deal under the New U.S. Administration

In the future, the Iran Nuclear Deal will involve not only Iran itself curtailing its nuclear activities, but also implementation and compliance by the contracting countries, namely the United States, European states, Russia and China. Obviously, the implementation status and stability of the Iran Nuclear Deal will depend most on the response by the United States, which has no diplomatic relations with Iran and is a key nation with substantial influence on the lifting of sanctions against Iran.

In the United States, even prior to Republican Donald Trump's victory in the presidential election in 2016, the party has tried to strengthen sanctions against Iran by strongly opposing the JCPOA through Congress members. In addition, since the new president has continued to criticize the Iran Nuclear Deal since the election campaign, the inauguration of the new administration has made the future of the deal highly uncertain.

4.1. President Trump's Stance on the Iran Nuclear Deal

The new president was critical of the Iran Nuclear Deal even before he became a presidential candidate for the Republicans. When the deal was concluded, he immediately said, "Not only unreasonable for the United States, but also bad even for Israel." While campaigning to be president he said, "I will immediately abolish the disastrous agreement with Iran (if I become president)," and "I will scrap the agreement on my first day as president," suggesting he already had a solid position. However, one time he retracted his position with the words, "I will renegotiate the deal (with Iran like NAFTA)," which he criticized the latter as an "unfair trade," and another time he said, "I will impose strict implementation (on Iran)." In fact, his comments were not a consistent response to the agreement, merely dissatisfaction with the current situation. What he really wants has become unclear over time.

On the other hand, in Congress, it was not only the Republicans who were united in opposition to the deal, but also some Democrats did not conceal their opposition. Immediately after the deal was signed, they forced the Obama administration to go through an "approval" procedure in Congress, and a majority of both the Senate and the House of Representatives voted against the deal but fell short of overriding Obama's veto. There was concern that members would take action to cancel the JCPOA in line with the "commitment" of Trump when he became president, but then there was a change of attitude in Congress. Bob Corker of the Republican Party, currently chairman of the United States Senate Committee on Foreign Relations, has sponsored Iran sanctions bill in the Senate in recent years and strongly criticized the Iran Nuclear Deal. However, he changed his stance to continue the agreement while supporting policies and measures to strictly monitor implementation by Iran. His current position does not totally resonate that of the President.

In view of these circumstances, despite the "attraction" of a test launch of a medium-range ballistic missile by Iran, the newly inaugurated Trump administration is unlikely to declare a sudden withdrawal or breakaway from the JCPOA. In addition, as the EU also reaffirmed the usefulness of the deal before Trump's inauguration and announced that it should be continued, the only vocal opposition to the deal among the P5+1 is the United States. Needless to say, Rouhani, President of Iran, noted that the JCPOA should continue while rejecting any chance of renegotiation.

4.2. New U.S. Administration's Policy toward Iran

Even without an immediate cancellation of the agreement, compared to the former Obama administration, the

situation surrounding implementation of the JCPOA has become tough and could worsen.

First of all, the impact on trade of third countries with Iran due to the primary sanctions imposed by the United States (economic embargo on United States citizens and entities against Iran) is unclear. The United States Treasury could refrain from actively providing additional information that is vital for making a decision. Conventionally, even if individuals or companies of third countries try to gauge the risk of recommencing or expanding trade with Iran, the final judgment is made by the US. Therefore, if the provision of new information or guidance is restricted, individuals or companies of other countries are unlikely to change their cautious stance dramatically. This subtle attitude of the U.S. government will provide the President at least the following three merits: (i) it is unlikely that it would be judged as being in violation of the JCPOA; (ii) it can be easily implemented with little associated cost; and (iii) it is expected to apply significant pressure on Iran.

In addition, there are many department secretaries and staff at the White House known as hardliners against Iran, not only against the Iran Nuclear Deal. It is not clear amid the changing politics as to who among them will take the initiative. On the other hand, people who might initiate negotiations against Iran cannot be identified, even including the president himself. Furthermore, it remains to be seen what policy will be introduced through adjustments and circumstances by the administration, because it is still early days for the new administration. However, even though the evidence is limited, the Trump administration appears to be rigorously going after Iran for its test launch of a medium-range ballistic missile at the end of January 2017.

The key points are surely Iran's "state support for terrorism" and development of ballistic missiles capabilities. On the Implementation Day of the Iran Nuclear Deal, the United States returned to Iran assets worth US\$1.7 billion that it had been frozen since the Islamic Revolution. However, both the Republican Party as well as President Trump were reluctant to return the assets to Iran. Some consider that the restitution of assets could threaten the safety of the United States and its citizens if Iran uses the money to fund terrorist organizations, together with growing revenues following the lifting of secondary sanctions imposed against Iran's export of crude oil. Preventing terrorist financing by Iran will remain a good excuse, unless Iran cuts off relations with Hezbollah, Shiite militias in Lebanon, and other groups.

In addition, on the issue of missile development, the United Nations Security Council Resolution 2231 calls for Iran to exercise self-restraint in the "development of ballistic missiles capable of delivering a nuclear weapon." But of course Iran does not consider this to be mandatory and claims that there will be no nuclear weapons program. In addition, Iran maintains that its missile development is an integral right as a sovereign nation to strengthen defense capabilities as long as the JCPOA requires Iran not to possess nuclear arms. Therefore, regardless of whether Iran intends to provoke the United States, Iran is expected to conduct test routine launches two or three times a year. Each time Iran conducts such a test launch, the United States will claim it is evidence of Iran's unacceptable and provocative behavior.

Another point requiring attention is the new US administration's overall policy toward the Middle East amid widening gap from the former Obama administration. Some Middle East countries allied with the United States are alarmed by the changing balance of power in the region toward Iran as a result of its improved relationship with the United States as enemy through the nuclear negotiations. This concern was reflected in the close talks between Kelly and Zarif behind the scenes. Accordingly, leaders of Israel and Saudi Arabia lost their ability to communicate with the White House. In other words, the leaders view that the US's long-term policy toward Iran in the Middle East is no longer functional, and that the United States has created a new power balance in the Middle East led by

Iran.

Let us apply this background to the situation in 2017. The trend of the Iran Nuclear Deal under the Trump administration is likely to be affected by the changing power balance in the Middle East. The leaders of Israel and Saudi Arabia have already referred to the issue of Iran in phone talks with President Trump. Prime Minister Benjamin Netanyahu was asked to visit the United States promptly. King Salman of Saudi Arabia also called President Trump, agreeing to set up a safety zone in Syria and Yemen “to advance the fight against terrorism.” These calls suggest that President Trump is paying more attention to the allied countries’ interests and views in the Middle East. Although this does not guarantee stability in the region following the problems, the important point is how the United States responds to the allied countries’ demands toward the JCPOA.

4.3. Iran’s Response to the New U.S. Administration

How does Iran view the change in US policy following Trump’s inauguration?

First of all, Iran does not have high expectations for the new administration. In fact, Supreme Leader Khamenei has not shown any interest in the inauguration and new Republican administration for the reason that there is no difference between the two political parties in the United States: both are hostile toward Iran. Looking at the history in the past 20 years, the Clinton administration declared a trade embargo against Iran and enacted the Iran Sanctions Act (ISA). Following President George W. Bush’s aggressive stance against Iran as the “axis of evil” and military attacks, the Obama administration intensified the sanctions. The Supreme Leader continues to strongly distrust the United States, and so would not be surprised by a hard line approach by the new U.S. president.

On the other hand, President Hassan Rouhani who governs the country and the negotiating team that completed the Iran Nuclear Deal are under pressure to prepare immediate countermeasures against the new U.S. president who has repeatedly criticized and attacked the Iran Nuclear Deal itself. The envisaged actions are firstly to ensure the survival of the deal, and secondly to construct a channel for dialogue with the United States’ chief negotiator (probably the new Secretary of State) in the negotiations with the P5+1. The former is mainly to ensure the acceptability and transparency of the restrictions on nuclear activities related to the Iran Nuclear Deal by Iran. On the other hand, such action could be a good reason for a hard stance and criticism by the United States in case of controversial activities such as test launches of a medium-range ballistic missile by Iran, even if it does not violate the UN Security Council Resolution 2231 and the JCPOA. It should be noted that Iran carried out test launches of missiles “for national defense” in October 2015 after the signing of the JCPOA and again in March 2016 subsequent to the Implementation Day of the JCPOA. In response, the United States government announced measures under the Iran Sanctions Act in January and March 2016, respectively.

Iran may struggle to build up a new hotline between Tillerson and Zarif as an alternative to the hotline between Kelly and Zarif thanks to the personal relationships between them. First, the United States administration has an incentive to actively promote individual dialogue with Iran which does not have diplomatic relations with the United States. In addition, Iran has been unable to ease the anti-Iran stance of the president and administration officials at the White House, and is not in a good position to maintain and promote negotiations with the United States due to weak political support from the political elites in Iran. Even public dissatisfaction has gradually increased, viewing that the relaxation of sanctions has been delayed due to the inaction and negative response of the United States while giving ammunition to the hardliners. As the presidential election in Iran in May 2017 draws near, the current

president has found himself in a difficult phase for re-election. To make matters worse, the sudden death of Mr. Akbar Hashemi Rafsanjani, the former Iranian president, in January 2017 had a negative impact on President Rouhani, since Mr. Rafsanjani supported the Rouhani administration and understood President Rouhani well. The Rouhani administration might face great difficulty in dealing with negotiations against the United States without a counterbalance against Supreme Leader Khamenei who is strongly suspicious of the United States.

Given these domestic environments, Rouhani's immediate response should be integrated efforts to maintain the Iran Nuclear Deal. However, Iran might be thinking of Plan B. In particular, hardliners against the United States, including Khamenei, might envisage isolation of the United States depending on the policy of the Trump administration, and even if the JCPOA collapses due to unilateral action of the United States, European and Asian countries might refuse to cooperate with sanctions against Iran reintroduced by the United States. Of course, there is no guarantee that these countries would take such actions envisaged by Iran. However, depending on circumstances, Iran's hardliners are likely to incite and provoke the United States in attempt to isolate it.

5.0 Mid-Term Implications: Scenario Study

This chapter examines scenarios for the impacts of the enactment of the Iran Nuclear Deal (JCPOA) in January 2016 on the Middle East situation, including the neighboring countries of Iran, and how the situation is expected to develop in five years from now. The scenarios consider the medium-term implications of the JCPOA, indicating reasonably likely outcomes, based on cause-and-effect relationships derived from several factors with potential impact on the Persian Gulf in the future, using the method of scenario planning.

5.1. Potential Factors in the Persian Gulf and Envisaged Scenarios

In considering how the scenarios may develop in the future, it is first necessary to consider what kinds of factors could drive scenarios differently in the future. Such factors include the following:

- (a) whether the U.S. Trump administration takes tough measures against Iran
- (b) whether the JCPOA loses its meaning
- (c) whether new crude oil sanctions are imposed against Iran
- (d) whether Iran-Saudi relations improve

The Trump administration inaugurated in January 2017 has overturned a succession of policies implemented by Obama, and also repeatedly criticized the JCPOA. It is often pointed out that the United States cannot “break” the JCPOA unilaterally as long as Iran complies with the agreement, since the JCPOA is not a bilateral agreement between Iran and the United States but an agreement between Iran and six countries including the United States (the UN Security Council’s five permanent members, plus Germany, generally called the “P5+1”). In addition, in view of the current situation, while Iran greatly limits its nuclear technology development in compliance with the JCPOA, the substantial lifting of sanctions has been significantly delayed. This suggests that it might not be wise for the United States to abandon the JCPOA.

However, the Trump administration has made it clear that it will step up pressure on Iran, and is likely to do so in some way or the other. Accordingly, this section focuses on whether US-Russia cooperation over Syria will develop or not, as a factor that could affect the pressure applied on Iran by the United States as a starting point for the scenarios.

The initiative over the future course of Syria has been largely handed to Russia since during the Obama era. However, the Trump administration has made defeating Islamic State a top priority, which suggests that the United States could work more closely with Russia over Syria in order to destroy IS. In this case, the Trump administration could even indirectly cooperate with Iran, which has been supporting the Assad regime together with Russia over the Syria problems.

5.1.1. If US and Russia Cooperate on Syria

If the Trump administration, while making relatively mild remarks against President Putin, deepens cooperation with Russia in order to stabilize Syria and destroy IS in Syria, will the cooperation with Russia affect the Trump administration’s policy toward Iran, which it shares a common position on Syria?

5.1.1.1. If the Trump administration cooperates with Iran

The possibility that Trump administration might cooperate with Iran is not very high. Since the Obama administration launched sweeping operations against IS in Iraq, a neighboring country of Syria, Iran has already participated in the operation against IS, together with the United States. Nevertheless, US government officials have repeatedly emphasized that Iran is the “source of destabilization in the Middle East.”

If the Trump administration cooperates with Iran over Syria in any way, it will be when it finds benefits in working with Iran in the sweeping operation against IS. As to the Syria problem, peace talks were held in Astana, Kazakhstan in January 2017. If a compromise which also satisfies Saudi Arabia can be reached regarding the future of Syria, it could serve as a valuable step for stability in the Middle East.

The relationship between Iran and Saudi Arabia has significantly worsened due to the Arab Spring which spread throughout the Arab countries from the end of 2010. In particular, when there was a protest in Bahrain, situated next to Saudi Arabia in March 2011, Saudi Arabia crushed the protest by dispatching troops to Bahrain. Saudi Arabia denounced the protest as “intervention by Iran,” which was then used as the basis for suppressing the protests.

Later, when the confusion intensified in Yemen on the south border of Saudi Arabia, Saudi Arabia strongly condemned Iran. The Shiite “Houthis” rose up against the central government in northern Yemen in 2004. However, the emergence of the Houthis after the Arab Spring was attributable to cooperation by Saleh, the former President of Yemen, who was forced to resign due to the Arab Spring. In addition, with regard to the relationship between Iran and the Houthis, it is not clear what specific support has been provided.

However, since Saudi Arabia will never accept Iran’s involvement in Yemen, its own backyard, it began air strikes in Yemen together with the UAE and other affiliated countries. Although the air strikes have continued so long, Saudi Arabia has not explained why it launched the airstrikes in the very beginning, nor stated what the purposes of the air strikes are. However, if Saudi Arabia is able to cooperate with stabilizing Syria, it could somehow invite a “concession” from Iran in Yemen too, which could lead to a solution both Saudi Arabia and Iran could accept.

If the Yemen problem can be resolved following the Syrian stabilization, it would significantly weaken the basis of Saudi Arabia’s denouncement of Iran as a “threat to regional stability.” If Saudi Arabia tones down its denouncement of Iran, then Saudi claim that economic benefits achieved by Iran under the JCPOA will be “used for Iran’s policy for regional destabilization” would also be weakened. This might cause a more significant lifting of the sanctions under the provisions of the JCPOA, which could help Iran attract foreign capital and increase upstream production as had been projected by Iran.

However, as a result of this scenario, Iran could restore and even strengthen its presence and influence within OPEC, while the Iranian influence had grown much weaker while the sanctions were there. Even if Saudi Arabia will remain the leading oil producer among OPEC countries, Saudi Arabia might be forced to make concessions to Iran if it regains its power and influence based on JCPOA.

In such a case, the tensions between Iran and Saudi Arabia could grow again, with Saudi Arabia extremely cautious about the growing influence of Iran. In addition, the cooperation among OPEC members might collapse once again. If that happens, the coordination for production cut could collapse again, which will probably result in the oil prices fall.

5.1.1.2. If the Trump administration does not cooperate with Iran

Next, let us consider a scenario where the Trump administration does not cooperate with Iran. Even if it decides to work with Russia over Syria, the possibility that the US administration will rule out cooperation with Iran is still high. If the Trump administration decides not to cooperate with Russia over Syria, then automatically, there will be no cooperation between Iran and the United States. This option is discussed below.

5.1.2. If the US and Russia Do Not Cooperate on Syria

If cooperation between the United States and Russia over Syria is shelved, the Trump administration is unlikely to cooperate with Iran. In response to the action by the United States, Iran is likely to (i) wait and see, or (ii) respond strongly against the United States.

5.1.2.1. If Iran does not respond to actions by the United States

First, if the United States fails to cooperate with Iran, and Iran decides to wait and see what the new US administration's approach towards will be, the JCPOA will likely gradually lose its substance for Iran. The practical lifting of sanctions under the JCPOA has been delayed due to the continued US sanctions against Iran. This trend could intensify if the Trump administration leaves the JCPOA as it is. Under the Obama administration, with regard to the "gray zone" caused by the sanctions solely imposed by the United States, there were efforts to eliminate the ambiguity related to trade with Iran, including the announcement of guidelines by the Office of Foreign Assets Control (OFAC) of the US Department of the Treasury. However, if the Trump administration does not take such action and just leaves the gray zone related to Iran trade as it is, financial transactions with Iran would not proceed.

While leaving the JCPOA untouched, the United States may try to tighten the sanctions against Iran without conflicting with the JCPOA. In that case, the United States would impose sanctions for reasons other than "nuclear activities." Iran conducted a test launch of a medium-range ballistic missile on January 29, 2017, and the United States imposed sanctions on certain entities and individuals that support ballistic missile development on February 3, 2017. Also, the United States could use "supporting terrorism," "human rights abuses", etc. as a pretext for strengthening sanctions against Iran.

One of the important points for the countries that import Iranian crude is whether the United States extends the scope of new sanctions to entities other than the US person (secondary sanctions). In 2010, the United States included a provision in the NDAA (National Defense Authorization Act), which was related to countries importing Iranian crude. The provision was on "imposing constraints on trading with a U.S. financial institution by a financial institution whose country fails to significantly reduce crude oil imports from Iran every six months." The sanctions act helped reduce the imports of Iranian crude oil from 2.5 million barrels per day to approximately 1 million barrels per day. If the United States once again enacts secondary sanctions targeting Iranian crude oil, the export volume of Iranian crude oil may gradually fall again.

Even if the United States does not trigger secondary sanctions that target Iranian crude oil, if the JCPOA does not take effect, Iran could not easily develop its upstream sector. As a result, Iran's crude oil exports would not increase anymore. If exports of Iranian crude oil are gradually reduced or have peaked, the market is expected to remain strong.

5.1.2.2. If Iran responds strongly against actions by the United States

Next, let us consider a scenario where Iran responds strongly against actions by the United States. In this case, the Islamic Revolutionary Guards Corps (IRGC) is expected to step up its activities. GCC countries are already highly distrustful of the Islamic Republic regime. If the IRGC becomes more active, the so-called Gulf Cold War could prolong for a long time.

There is a possibility that the spread of turmoil in the Eastern Province of Saudi Arabia, which Saudi Arabia says is supported by the IRGC, could exacerbate the Shiite turmoil in Bahrain. In this case, anti-Iran hardliners in the Gulf countries could strengthen their influence. Traditionally, Oman has played an important role in mediating between Iran and Saudi Arabia. However, since there is the leadership change is approaching in Oman, the GCC countries might need a new mediator. On January 25, 2017, the Foreign Minister of Kuwait visited Iran. The presence of a country that can serve as a mediator will become increasingly important in the future.

On the other hand, if the turmoil intensifies in Bahrain and the Eastern Province of Saudi Arabia, such turmoil could spread to the oil fields located in the Eastern Province of Saudi Arabia. In addition, as the sweeping operation against IS in Iraq continues, IS combatants are expected to return to their home countries, where they may cause another series of trouble. In addition, amid the ongoing civil war in Yemen, al-Qaeda is said to be building a base in the area that is beyond the control of the Yemeni central government, which could accelerate the destabilization of the region.

In this situation, there could be an accidental clash between the GCC countries and Iran, which could escalate if the actors misread each other's actions and intentions. If Iran's opposition against the United States takes the form of greater activity by the IRGC, the motivation for dialogue between Iran and Saudi Arabia will decline, raising the risk of collision. If a clash occurs during military exercises, such conflict could escalate, given the capabilities in cyber attack or drone strikes have increased in recent years.

If military confrontation between Iran and Saudi Arabia escalates in the Persian Gulf, the safety of navigation in the Strait of Hormuz would become a serious issue. Even if confrontation does not cause a blockade of the Strait of Hormuz, crude oil prices could soar. If tensions continue for a long time, it might endanger the stable supply of oil to countries that depend on oil from Persian Gulf countries.

5.2. Summary

As discussed above, whether the Trump administration deepens cooperation with Russia or not, the key to future scenarios remains to be the Trump administration's policy toward Iran. If the US steps up pressure on Iran and Iran's antagonism toward the United States worsens, the existing mutual distrust between Iran and Saudi Arabia would intensify, causing greater instability in the Persian Gulf. However, even if the Trump administration increases its pressure on Iran, there is a possibility that Iran's reaction remains to be restrained. In such a case, since the volume of the Iranian crude supplied to the market is expected to decrease, or at least not increase from the current volume, a significant decline in crude oil prices would be prevented. On the other hand, if the US decides to cooperate with Iran, relations between Iran and Saudi Arabia are expected to become more strained for other reasons. In that case, cooperation among OPEC members would be deadlocked again, causing oil prices to fall.

The outlook for the policies of the Trump administration remains unclear. No specific policies have been clarified except a declaration by US government officials “to strengthen pressure” against Iran. However, when analyzing the various factors that may affect the future scenarios, it is important to always remember that excessively strong pressure could cause strong reaction that would lead to greater problems in the region.

6.0 Conclusion: Impact on the Asian Energy Situation

While the economic sanctions are being relaxed under the Iran Nuclear Deal, Iran has been working on increasing crude oil production to 4 million barrels per day, and has indeed increased exports of crude oil. Regarding the impact of the Iran Nuclear Deal on the energy situation in Asia, it is necessary to first identify how much Iranian crude oil flows into Asia and the volume of Iranian petroleum products supplied to the Asian market. On that basis, this chapter examines the possible influence in Asia of increased imports of Iranian crude oil. This chapter will also study the impacts on OPEC's oil policy as well as the potential participation of Asian oil companies in oil and gas development in Iran.

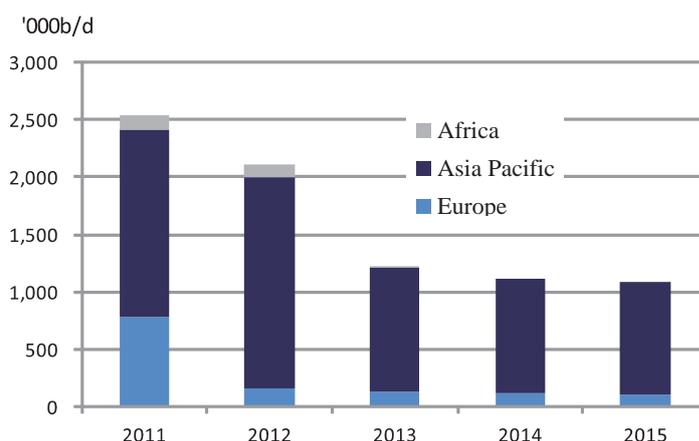
Iran's crude oil has a medium to heavy gravity and high sulfur content, while Asian crude oil has a wide range of specific gravity from light to heavy, and low sulfur content. Therefore, Iranian crude oil is unlikely to directly compete with Asian crude.

6.1. Iran's Export of Crude Oil and Petroleum Products

6.1.1. Iran's Export of Crude Oil

As a result of the economic sanctions against Iran, Iran's crude oil exports decreased from 2.5 million barrels per day in 2011 to approximately 2 million in 2012 and to less than 1.2 million from 2013. Looking at the destinations of Iranian crude oil, exports to the Asia Pacific region are overwhelmingly large. According to OPEC statistics for 2015, exports to the Asia Pacific region and to Europe were 970,000 and 110,000 barrels per day, respectively, bringing the total to 1,080,000 barrels per day. As Chart 7 shows, Iran's crude oil exports to Europe dropped sharply from 2011 to 2012. On the other hand, Iran's crude oil exports to the Asia Pacific region decreased from 2012 to 2013, but then bottomed out and remained flat.

■ Chart 7: Trends in the development of crude oil export volume of Iran (by destination)

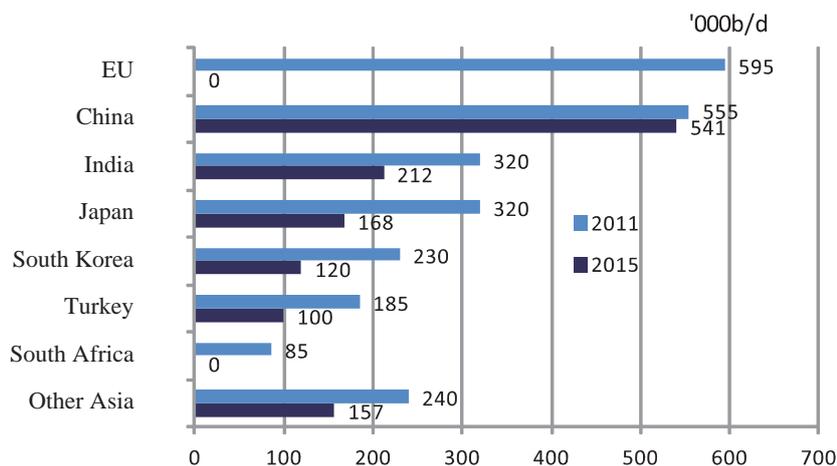


Source: OPEC, "Annual Statistical Bulletin 2016"

Now, let us examine the changes by comparing data on exports of Iranian crude oil by country between 2011 and 2015. According to the statistics of Petroleum Intelligence Weekly (PIW), the major importers of Iranian crude oil in descending order were the EU, China, India, Japan, South Korea, Turkey, and South Africa. There was a dramatic

change in 2015 when Iran’s exports to the EU fell to zero. On the other hand, China’s imports of Iran’s crude oil in 2015 were almost the same as in 2011, but the volume of imports by other countries uniformly fell. India’s imports in 2015 decreased to almost two-thirds of those in 2011, and Japan, South Korea and Turkey almost halved imports of Iranian crude oil, while South Africa suspended the trading of Iranian crude oil.

■ Chart 8: Change in Iranian crude oil exports by export destination (in 2011 and 2015)



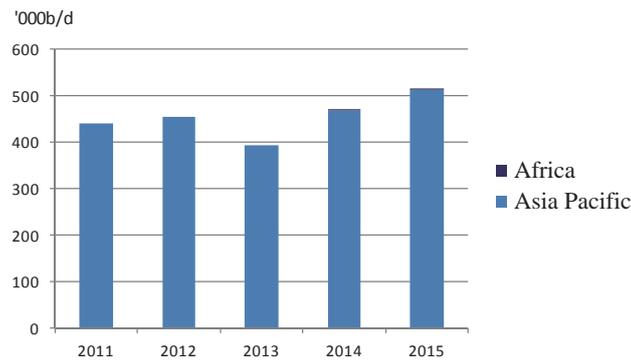
Source: PIW, January 25, 2016

As a matter of course, the flow of Iranian crude oil into the Asia Pacific region was expected to increase after the Iran Nuclear Deal. Looking at the change in trend of crude oil exports in 2015 (before the lifting of sanctions) and 2016 (after the lifting), South Korea and Japan remarkably increased the trade volume. While China remained the largest importer of Iranian crude oil, its import volume did not increase greatly compared with that before the lifting of sanctions. Note that India is also a major importer of Iranian crude oil in addition to China, Japan and South Korea. The trends in trade of Iranian crude oil after the Iran Nuclear Deal are discussed in detail in Section 6.3.1.

6.1.2. Iran’s Export of Petroleum Products

Apart from crude oil, let us look at Iran’s exports of petroleum products. The Asia Pacific region accounts for almost all exports of Iranian petroleum products. Other regions importing Iranian petroleum products include Africa, but the amount is small. While the export volume of crude oil decreased significantly due to the economic sanctions, it is notable that the export volume of petroleum products increased somewhat, from 440,000 barrels per day in 2011 to 510,000 in 2015.

■ Chart 9: Trends in Iran’s exports of petroleum products



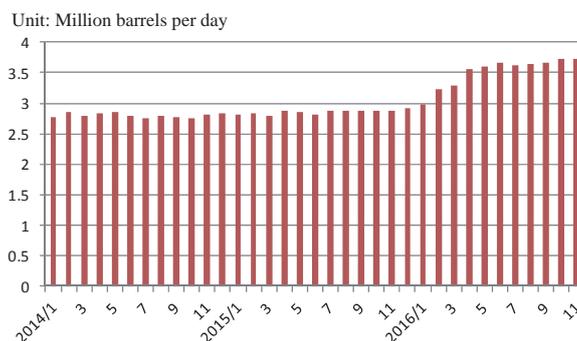
Source: OPEC, “Annual Statistical Bulletin 2016”

After the lifting of economic sanctions, the production volume of both crude oil and petroleum products is likely to increase in Iran, which would then be able to increase exports of petroleum products to the Asia Pacific region. However, Japan and South Korea are in a position to export petroleum products, since their supply capacities exceed domestic demand. Such exports could compete with Iran’s petroleum products. In addition, recently, China has expanded its exports of petroleum products, mainly gasoline, causing very fierce competition in the Asian market. An increase in the supply of petroleum products from Iran could cause even greater competition over product exports in the Asian market.

6.2. Impact on OPEC Oil Policy

While Iran is improving its production share and enhancing its influence within OPEC thanks to the lifting of sanctions, its relations with Saudi Arabia could become more complex in OPEC. Let us examine OPEC’s oil policy, which could have a large impact on the situation in Asia.

■ Chart 10: Trends in the development of Iran’s crude oil production

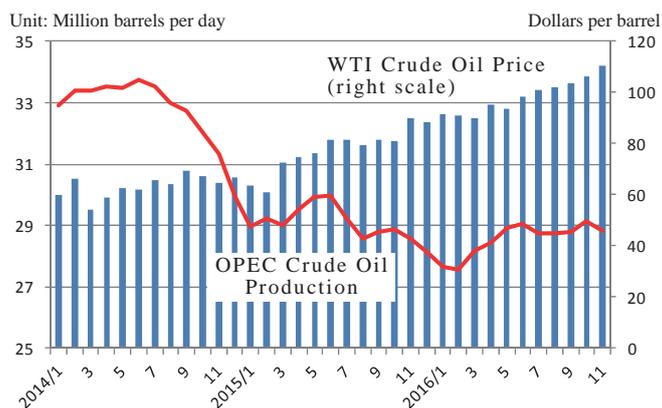


Source: IEA, “Oil Market Report”

Up to now, OPEC’s oil policy has been led by Saudi Arabia, the leader of OPEC itself. However, after the conclusion of the Iran Nuclear Deal, Iran has significantly increased its crude oil production and enhanced its

presence. As a result, OPEC cannot easily set the policy on oil production and the like. In particular, the talks on a plan to freeze output held at Doha in May 2016 could not reach an agreement between OPEC and non-OPEC members. Iran was absent from the Doha conference, and Saudi Arabia refused to join the plan to freeze output after it became clear that Iran would not join the plan. Saudi Arabia put priority on reaching an agreement among all OPEC members.

■ Chart 11: Trends in the development of crude oil production and prices in OPEC



Source: IEA, “Oil Market Report”

On September 28, 2016, OPEC convened an Extraordinary Meeting of the OPEC Conference in Algiers, Algeria, and reached a consensus to reduce crude oil production to 32.5–33 million barrels per day.

The conference was expected to have difficulty in reaching a consensus, because Iran had insisted on increasing production and other countries, such as Nigeria and Libya, planned to increase production after the security situation stabilized. However, contrary to expectations, the conference agreed to cut production. The crude oil market was surprised by this decision, causing crude oil prices to surge immediately. Following the failure to reach a consensus to freeze output in May 2016, behind the scenes Saudi Arabia was urging each country to reach an agreement by submitting a written proposal to them in advance. Saudi permitted Iran and some other countries to increase production, while announcing its decision to reduce production. At the conference meeting, both Saudi Arabia and Iran showed a conciliatory attitude.²⁵ Iran was regarded as a ‘winner’ of the meeting.²⁶ As a result, Iran is allowed to increase production in the future and is well positioned to benefit from rising oil prices.

At the conference meeting held in November 2014, amid the global oil glut, OPEC refrained from reducing oil production and focused on maintaining the market share of each member. Saudi Arabia, leader of OPEC, clearly declared its intention to abandon its role as swing producer. As a result, the crude oil market became more volatile, with oil prices fluctuating sharply. While the conclusion of the Iran Nuclear Deal did not directly affect the market, the prolonged price slump forced resource-related industries to reduce assets, book write-down losses, and suffer slumping business performance.

The decision to agree to reduce production in September 2016 suggests that OPEC, led by Saudi Arabia, intended to resume its role as swing producer. However, Khalid al-Falih, Saudi Arabia’s Minister of Energy, Industry and

²⁵ “Algiers Deal Just Fine Tuning, Saudis Insist,” *PIW*, October 24, 2016.

²⁶ “Iran, OPEC’s Big Winner, Agrees on Landmark Oil Contract,” *Bloomberg*, October 4, 2016.

Mineral Resources, denied this, pointing out that the decision at Algiers was just fine tuning.²⁷ Accordingly, the reason why Saudi Arabia played a leading role in reducing production at the OPEC Conference Meeting was likely attributable to its urgent necessity to drive up oil prices in order to alleviate the severe financial situation in the country.

In the OPEC Conference Meeting held on November 30, 2016, Saudi Arabia and Iran sought game-changing production cuts, with Saudi Arabia demanding Iran to accept production cuts. The two countries were locked in tough negotiations until the end, and finally agreed to reduce production by 1.2 million barrels per day, allowing Iran to increase production by 90,000 barrels per day. Thus, Iran won this meeting too, due to its persistence. In addition, the conference meeting also decided that Indonesia, the only Asian member country, did not make production cuts and suspended its membership of OPEC.

The relationship between Saudi Arabia and Iran seems to have become more cooperative, contrary to the conflict seen in May 2016. Although diplomatic relations have been severed, the two countries are changing their stance, at least at the OPEC Conference Meeting, to avoid conflict and accomplish common goals, including the goal of raising and stabilizing oil prices at the meeting. Since the Iran Nuclear Deal, Iran has increased crude oil production, enhanced its presence, and become more confrontational with Saudi Arabia. However, given that OPEC's oil policy has been led by Saudi Arabia, drastic changes in policy toward Asia are unlikely.

6.3. Energy Situation in Asia

6.3.1. Northeast Asia

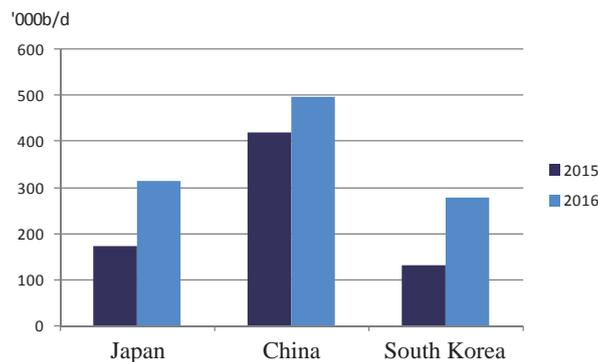
Northeast Asia and India are major importers of Iranian crude oil. Let us confirm changes in crude oil imports before and after the lifting of sanctions, using the latest statistics of crude oil imports in 2016 listed in *Petroleum Intelligence Weekly (PIW)*, an oil magazine. India is not included in the comparison because the data is not disclosed.

In Northeast Asia, the major importers of Iranian crude oil are Japan, South Korea and China. Japan increased crude oil imports from 174,000 barrels per day in September 2015 to 313,000 in September 2016 after the lifting of sanctions, an increase of approximately 140,000. South Korea doubled crude oil trade volume from 131,000 barrels per day in August 2015 to 278,000 in August 2016 after the lifting of sanctions. China remains the largest importer of Iranian crude oil, and increased crude oil trade volume from 418,000 barrels per day in September 2015 to 495,000 in September 2016 after the lifting of sanctions, an increase of approximately 80,000.

Thus, Japan, China and South Korea increased imports of Iranian crude oil from 2015 to 2016. Among the three countries, South Korea increased the volume significantly. The reason is not clear, but the trade value of Iranian crude oil for South Korea could be relatively low and highly price competitive.

²⁷ "Algiers Deal Just Fine Tuning, Saudis Insist," *PIW*, October 24, 2016.

■ Chart 11: Changes in trade volume of Iranian crude oil for Japan, South Korea and China from 2015 to 2016



Source: PIW

Note: Year-on-year comparison from September 2015 to September 2016 for Japan and China, and from August 2015 to August 2016 for South Korea.

6.3.2. ASEAN

ASEAN was founded in Bangkok, Thailand in 1967, and has its headquarters in Jakarta, Indonesia. ASEAN is currently composed of ten countries, namely Indonesia, Thailand, Malaysia, Vietnam, Philippines, Singapore, Brunei, Myanmar, Laos and Cambodia.

As pointed out at the beginning of this chapter, since Iranian crude oil has different characteristics from that produced in Asia, Asian crude oil is unlikely to directly compete with Iranian crude oil. Increasing the supply of Iranian crude oil in the Asian market is likely to intensify competition with the crude oil produced in the Middle East which has similar characteristics. Therefore, it may have minimal impact on crude oil producing countries in Asia.

■ Chart 13: Supply and demand trends of crude oil, petroleum products and gas (2014);

Unit: Thousand tonnes of oil equivalent

	Crude Oil Production	Crude Oil Imports	Crude Oil Exports	Petroleum Products Imports	Petroleum Products Exports	Gas Production	Gas Imports	Gas Exports
Northeast Asia								
Japan	515	168,301	0	45,675	15,466	2,586	105,268	0
China	211,626	308,374	600	46,556	34,413	108,893	46,934	2,183
South Korea	783	128,438	143	39,907	58,883	289	44,003	0
Taiwan	8	45,923	0	18,178	17,181	273	14,324	0
ASEAN								
Thailand	18,896	41,879	573	7,071	12,040	28,978	8,850	0
Brunei	6,349	8	5,891	391	16	9,907	0	6,981
Indonesia	40,841	24,936	14,876	30,466	5,121	65,673	0	29,077
Malaysia	30,764	9,891	11,908	19,435	11,609	58,819	8,489	28,956
Philippines	849	8,718	816	8,612	664	3,058	0	0
Singapore	0	42,394	584	109,330	85,113	0	9,283	0
Vietnam	18,559	0	9,633	12,272	1,388	8,921	0	0
Cambodia	0	0	0	1,797	0	0	0	0
Myanmar	774	1	146	3,555		12,777	0	10,667
West Asia								
India	42,387	193,599	0	20,136	66,541	27,476	15,737	0
Bangladesh	251	1,317	0	4,373	86	19,441	0	0
Pakistan	4,319	8,605	24	12,597	985	26,297	0	0

Source: IEA "Energy Balance of Non-OECD Countries" (2016)

Note: Laos is excluded from the list due to the lack of data.

An increase of petroleum products from Iran could compete with those produced in Singapore or other countries. However, given the supply routes, Singapore is in a better position than Iran in terms of lower costs including transportation costs, since Singapore is closer to other Asian countries than Iran.

6.3.3. Crude Oil and Gas Development in Iran

Iran's reserves of crude oil and natural gas are ranked No. 4 and No. 1 in the world, respectively. In November 2015, 130 oil companies from around the world except the United States gathered in Teheran to attend a presentation on the new contract system hosted by the Ministry of Petroleum of Iran. INPEX Corporation of Japan signed an agreement on joint development of the South Azadegan oil field in 2004, but withdrew in 2010 prior to the commencement of full-scale development of oil, due to stricter sanctions imposed by the United States and Europe over the nuclear problem. Subsequently, CNPC of China signed an agreement on development of the South Azadegan oil field, but also withdrew due to cancellation of the agreement by Iran in 2014. In June 2016, Total of France allegedly signed a memorandum of understanding regarding the development of the South Azadegan oil field. Total is a potential joint partner for the project, but there is a possibility that other competitor(s) could conclude an agreement for the oil field.

On the other hand, regarding natural gas development, Iran signed an agreement with Total and CNPC for the development of Phase 11 of the South Pars gas field.²⁸ Total has a 50.1% interest in the project, CNPC 30%, and Petropars the remaining interest. However, the agreement is at the HoA (Heads of Agreement) stage. If natural gas development accelerates in Iran, natural gas exports into Asia are also likely to increase in the future.

In addition, China is promoting development of the North Azadegan oil field and Yadavaran oil field. If Asian oil companies undertake new oil and gas developments in Iran, it will contribute to the stable supply of oil and gas to the Asia region.

²⁸“Total, China join Iran's first gas deal since sanctions eased,” *Gulf Times*, November 8, 2016.