Are present efforts enough to salvage the Iran nuclear deal?

Tasneem Tayeb

HISTORY was made on this day in 2015, when Iran agreed to the landmark nuclear deal, better known as the Joint Comprehensive Plan of Action. The counterparties were the P5+1 nations—namely: the United States, the United Kingdom, France, Germany, Russia and China.

With the lifting of UN, US and EU sanctions and opportunity of free trade, the deal was to usher in a new era of economic prosperity for Iran and stability in the Middle East, already mired in various conflicts. And indeed, Iran's economy did witness growth. But it was a dream short-lived.

With the 2016 change in administration in the United States, outlook towards the deal soon changed. There were concerns in the corridors of the Oval Office about the justification of the US staying in the JCPOA—according to dissenting voices, the deal failed to cover key areas including Iran's missile weapons and its role in the region.

Hawkish American officials, including the National Security Adviser John Bolton, who was late last year awarded the "Defender of Israel Award" by the Israeli lobby group Zionist Organization of America (ZOA), had been vocal in their concerns about the terms of the JCPOA.

And one month into office, in May 2018, Bolton, along with his hardline colleagues, put the final nail in the Iran Nuclear deal coffin, by pushing Trump to withdraw from the deal completely, calling the deal "defective to its core". Harsh sanctions on Iran soon followed.

Iran's economy experienced a dramatic slump. With crippling sanctions on the oil, petroleum and banking sectors, the Iranian economy, according to IMF forecasts, is expected to experience negative growth of 6 percent. Inflation has reached a staggering 40 percent. And with fresh sanctions on the metal industries, employing a 600,000-strong workforce, the Iranians are bracing themselves for further unemployment and economic hardships.

The collapse of the Iran nuclear deal will not only mean failure of multilateral diplomacy in the Middle East, it will also perpetuate a dysfunctional world order, which will do no party any good.

PHOTO: AFP

In the face of such harsh economic warfare, Iran appealed to the European signatories of the JCPOA to help the country mitigate losses from the US' unilateral sanctions. After scrambling for months, Europe came up with the solution, a special purpose vehicle (SPV) called INSTEX, that would enable corporates to carry on trade with Iran, circumventing American sanctions.

The system is simple: INSTEX is a barter system that would enable companies to import from and export to Iran, without direct cash transactions with Iran. For instance, a company exporting medical equipment to Iran can register with INSTEX and collect cash from another company, also registered with INSTEX, which is importing nuts from Iran, theoretically at the snap of a finger.

Implementing INSTEX in the real world, unfortunately, is not as simple as it sounds in theory. The major problem is, most companies fearing secondary US sanctions are not willing to join INSTEX. The E3 countries have created a "diplomatic shield" to protect companies trading with Iran through INSTEX, by state-sponsoring the SPV, and creating a governing council consisting of high-level government officials from the sponsoring countries, so that the US cannot create unnecessary pressure on these government-backed companies for conducting business with Iran. Yet, it does not necessarily mean that the US will not bully INSTEX-registered companies, because so far they have displayed little regard for diplomacy.

In addition, the JCPOA signatories also plan to open the SPV to third countries like Russia and China, who might be willing to trade in Iranian oil. In fact, having Japan, India, China and South Korea as traders on INSTEX might help Iran's oil business.

Another major challenge for the JCPOA signatories will be to convince major corporations to register with INSTEX because of the volume of business that they might potentially have to give up with the US, if they trade with Iran. After America slapped Iran with new sanctions, it had a clear message for international business, either do business with the USD 19 trillion US market or the USD 400 billion Iranian one—given the choice, it is not difficult to see why most businesses will shy away from INSTEX.

Another problem is, INSTEX can trade only in humanitarian goods like medicines and food, which are already outside the purview of American sanctions, and will have little positive impact on Iran's crumbling economy.

In April 2018, prior to the imposition of US sanctions on Iranian oil trade, Iran exported 2.5 million barrels per day of crude; the number had plummeted down to 300,000 barrels per day (bpd) in June 2019. Iran has the world's fourth-largest oil reserves and second-biggest gas reserves, and oil and petroleum products account for 70 percent of Iran's total exports; it is the country's main source of income.

In view of this, it is not surprising that since May 2018, Iran's economy is on a steep decline. Unless INSTEX allows oil and metal trade, the impact of this SPV on Iran's economy will be minimum and may not be viable in the long-run, as Iran's Oil Minister Bijan Namdar Zanganeh said, in an interview with Bloomsburg Television, "Without oil deal, it's very clear, INSTEX will not work."

Moreover, without oil trade, solvency might become an issue for INSTEX. Without proper import and export volume balance, payments through INSTEX to trading companies might be delayed and ultimately the system might even collapse.

INSTEX might be a good start and sends a strong political message to the US: that even without its support, the other signatories are willing to stand by their commitments to the Iran Nuclear Deal; nevertheless, the SPV in its current format will have very little impact on Iran. The country's Deputy Foreign Minister Abbas Araqchi was right in pointing out the insufficiency of INSTEX to address Iran's economic crisis, "It was a step forward, but it is still not enough and not meeting Iran's expectations".

Europe now must consider making INSTEX sustainable by allowing oil and metal trade though this instrument; the risk of failure remains high otherwise. Iran has so far shown significant restraint by remaining within the JCPOA and appealing to its other signatories for support in the face of strangling US sanctions. Even the country's scaling back of its JCPOA comitments has been measured and they are still allowing the IAEA inspectors to stay on its soil and monitor its nuclear activities.

The collapse of the Iran nuclear deal will not only mean failure of multilateral diplomacy in the Middle East, it will also perpetuate a dysfunctional world order, which will do no party any good. Now the question remains, is INSTEX enough to salvage what's left of the JCPOA?

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Fragile wings, cloudy skies

Ravindra Kumar

Asian Editors Circle
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TO the uninitiated observer, the recent announcement of India's civil aviation regulator that domestic airlines had registered growth of 2.62 percent in the first five months of 2019 in comparison to 2018 may suggest cloudless skies. The reality though is that India's aviation sector is a bird flying with at least one damaged wing. The causes are many and include bad policy, slipshod regulation and slippery entrepreneurs. Sadly now, many of these ills are coming home to roost.

This week, the promoter of the now-grounded Jet Airways, Naresh Goyal, was asked by the Delhi High Court to deposit Rs 18,000 crore (USD 2.63 billion) that the airline owes to banks and others if he wanted to travel out of India—the final humiliation for a man who had once soared majestically over the world's skies.

In April, the airline ceased operations after 26 years, and three months later there is little hope its creditors will ever get paid.

Goyal and his wife wanted to travel via Dubai to London, where another former airline owner, Vijay Mallya of Kingfisher that ceased operations in 2012 is a fugitive from justice, having fled Indian shores in 2014 after his airline failed to pay banks, other lenders and staff.

While Indian authorities have been battling the legal system in the United Kingdom to bring Mallya back to face his creditors and the law, he has managed to stave off these efforts for the entire five years of Mr Narendra Modi's first term as prime minister and now a couple of months into the second.

Earlier this month, Mr Modi's government, in its first budget after re-election, announced it would fast-track plans to disinvest shares in the national carrier, Air India, which carries a debt of Rs 58,000 crore (nearly USD 8 billion) and has been kept afloat for years with taxpayer money. An earlier effort to disinvest met a farcical end when not a single bidder came forward to take over the chronically troubled airline, which has been all but driven into the ground by its owner.

India's largest carrier, Indigo, which in April had a dominant market share of 49.1 per cent, is plagued by internal troubles with its two promoters battling each other over a host of issues, including acquisitions. It has also seen reduced profits. Another private airline, Spicejet, which had changed hands a few years ago, was reacquired by the original promoter in 2015 after it had run up huge losses.

In many ways, the plight of Air India and the demise of Jet Airways and Kingfisher Airlines are emblematic of India's aviation woes.

Until Indian skies were opened to the private sector in the early 1990s, the two state-run airlines, Air India and Indian Airlines, ruled the roost. One operated on international sectors, the other had a monopoly on domestic routes. Both were inefficient, overstaffed and badly run. Both survived only because the government picked up the tab.

While the two carriers were already wounded by the time Mr Manmohan Singh became prime minister in 2004, the first five years of his rule proved catastrophic. In an ill-conceived image makeover exercise, Indian Airlines was renamed Indian. Even before the paint of the new logo had dried on aircraft, Indian was merged with Air India and ceased to exist. Large numbers of new planes were ordered, and costs mounted.

In parallel, the state-run carrier(s) were made by the government to shed several profitable routes, especially to Gulf states and South-east Asia. These routes were allotted to international airlines, principally Emirates and Singapore Airlines, which cornered substantial chunks of India's international traffic. Air India and Indian Airlines were victims of the grossest abuse; they were tormented and maimed by official fiat to an extent that recovery became near impossible.

Jet Airways and to a smaller extent Kingfisher Airlines were beneficiaries of official patronage. As well-known aviation commentator and former airline insider Jitendra Bhargava says in a recent article, Jet thrived because Naresh Goyal knew how to manipulate the political and bureaucratic machinery. Two days before Jet Airways went public with a share offering in 2005, the government allowed it to operate international routes. Bhargava says Jet, which had always enjoyed patronage, found itself unable to cope with competition once other private airlines entered the fray.

Kingfisher was largely a manifestation of its owner's inflated ego which embarked on an expensive trip public banks chose to underwrite without adequate diligence or collateral. Vijay Mallya finagled a seat in the upper house of India's parliament and even became part of a parliamentary committee on civil aviation. All this no doubt facilitated his manipulation of the system. A misogynist who had once boasted (to this writer) that passengers would scramble for aisle seats on his planes because he would "hire the best legs in the country to walk up and down", Mallya had to take to his heels when the costs of his indulgences overshot the revenues of his airline.

India's domestic aviation story is one of sharp paradoxes. The sector has grown at about 16 percent annually in the past decade, from carrying 14 million passengers in 2010-11 to nearly 140 million in 2018. Yet, the Centre for Asia Pacific Aviation predicts consolidated industry losses of between USD 430-460 million this year.

As if dodgy promoters weren't bad enough, the sector bears the burden of other pressures, some common to the industry globally but many that are quintessentially Indian. These include an official edict to ensure regional connectivity at uneconomical rates and the high cost (in comparison to airports in the region) of Aviation Turbine Fuel, inflated by taxes levied both by the Centre and state governments.

Someone wise once said, "Flying starts from the ground. The more grounded you are, the higher you fly."

That's a thought Indian civil aviation would do well to embrace.

PHOTO: HAIDAR HAMDANI/AFP

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The Asian Editors' Circle is a weekly commentary by editors from the Asia News Network, an alliance of 24 media in 20 Asian countries.

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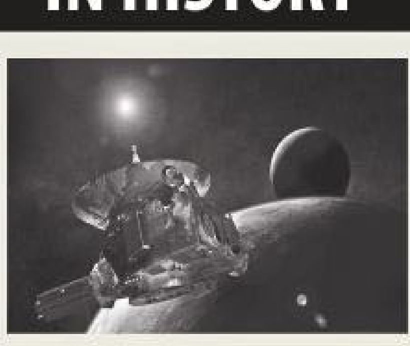

JULY 14, 2015

NASA'S NEW HORIZONS SPACECRAFT BECOMES THE FIRST SPACE MISSION TO EXPLORE PLUTO

New Horizons became the first spacecraft to explore Pluto and its five moons up close. The successful flyby revealed Pluto as a dynamic, complex world and provided the clearest views to date of Charon and Pluto's other small moons.

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ACROSS
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12 Planted
13 Plow pioneer
14 Add a change to
15 Horse house
17 Place of refuge
19 Silent
20 Scenery chewer
23 Paltry
25 Ninny
26 Major routes
28 Abound
29 Place of worship
30 Agreeable answer
31 Fish feature
32 French article
33 Second-largest nation
35 Bolivia's largest city
38 Kathy of "Misery"
41 Martini garnish
42 Deceive
43 Grew more intense
44 School paper

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3 Rink wear
4 Wrongful act
5 Traveling trunk
6 Sacred song
7 Browser button
8 Have debts
9 Kayo count
10 Peculiar
16 Enter dramatically
17 Friendship
18 Zellweger of "Chicago"
20 Kitchenette cookers
21 "Skyfall" singer
22 Role for Heston
24 Sparkler
25 Block up
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31 Disconcerted
33 Spelunking site
34 Speaker's stand
35 Near the ground
36 According to
37 Films, slangily
39 Greek vowel
40 Tofu source

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