



## Iran Nuclear Deal Procurement Channel Update: Is it being bypassed?

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March 26, 2018

The procurement channel set up under the Joint Comprehensive Plan of Action (JCPOA), or Iran nuclear deal, appears to be considering fewer proposals than expected and is altogether unused by a traditionally illicit conduit to Iran's nuclear, missile, and non-nuclear programs, namely China. The procurement channel was designed to regulate Iran's imports of nuclear and nuclear-related dual-use goods for nuclear or non-nuclear use. Given that Iran's non-nuclear industries have often imported nuclear dual-use goods, this finding raises the question of whether the procurement channel, and its associated Procurement Working Group (PWG), is simply not being used, but illicit, nuclear dual-use supplies are still going to Iran. Although no evidence has emerged of banned sales going from the United States, Europe, or Japan, which have often been targets of Iranian illicit procurement networks, there is concern that banned sales could be going from parts of Asia. In particular, Chinese entities may be continuing to make sales of nuclear dual-use goods to Iran without using the channel. The United States and its allies should augment efforts to detect and intercept the flow of any strategic goods from China to Iran and from other potentially illicit supplier countries to Iran. China needs to reach out to suppliers or distributors of dual-use goods operating on its territory and ensure that they are informed about China's export control laws and PWG requirements governing the sale of nuclear dual-use goods to Iran's industries, whether they be nuclear or non-nuclear.

### Status and Nature of Proposals

When the JCPOA Procurement Channel was established, some U.S. and foreign government officials, as well as our Institute, were concerned that the procurement channel could be overwhelmed by requests from Iran's industries.<sup>1</sup> According to a senior official knowledgeable about the workings of the procurement channel, the Procurement Working Group, the body that considers proposals submitted by governments on behalf of domestic suppliers, has only reviewed about 30 proposals in total since Implementation Day of the deal, which occurred in January 2016, or over two years ago. Prospective suppliers are required to work with their governments on proposals, which in turn submit them for review by the PWG under the JCPOA Joint Commission. Proposal submissions are administered by the UN Security Council Affairs

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<sup>1</sup> Albright and Stricker, "Status of the Iran Nuclear Deal's Procurement Channel," *Institute for Science and International Security*, August 16, 2017, <http://isis-online.org/isis-reports/detail/status-of-the-iran-nuclear-deals-procurement-channel/20>

Division. Governments must submit proposals for goods with nuclear dual-uses even if they are not intended for the Iranian nuclear program. Such goods require additional scrutiny because they could be secretly diverted to the nuclear program. The number of proposals and their fate are reported every six months by the UN Facilitator on the implementation of Resolution 2231. The latest report was released in December 2017.<sup>2</sup>

The current low rate of the proposals is seen by comparing the current number to the number listed in the December 2017 report from the UN Security Council, namely 24 through December 15, 2017. Over the last three months, about six more proposals have been submitted for an average of two per month. Since Implementation Day in January 2016, the average rate is only slightly above one per month, far less than expected.

Of the roughly 30 proposals submitted up to now, about 20 were approved, two were pending, three were denied (two of which were turned down twice), and five to six were withdrawn. Four other proposals were never officially submitted. All but one of the roughly 30 proposals have involved Nuclear Suppliers Group (NSG) Part 2 goods, or nuclear dual-use goods. Only one involved a Part 1 nuclear item, which involved natural uranium shipped from Russia as part of the initial implementation of the JCPOA.

Since the Institute's last report on the PWG in August 2017, the type of goods in the newer proposals have remained similar to those requested earlier.<sup>3</sup> Many of the more recent proposals involve machine tools or spare parts for frequency converters. One of the main end-users remains the Iranian automobile industry. Germany remains the main supplier of the goods in the proposals submitted so far.

The denied proposals came from Russia and Germany. The Russian proposal was the most contentious, involving a large quantity (tonnes) of carbon fiber suitable for use in Iran's advanced gas centrifuges but intended for its automobile industry. The original proposal was denied and resubmitted with less carbon fiber and more extensive end use verification. Nonetheless, the second proposal was denied as well. Russia is reportedly evaluating its options, including appealing the decision to the Joint Commission or resubmitting the proposal. Given the extreme sensitivity of carbon fiber, Russia can likely expect resistance to this export.

One request from Germany was denied because the chain of supply appeared too complicated. The proposal listed a broker or middleman, in addition to a manufacturer, and the roles of these entities were unclear. This proposal will likely be resubmitted.

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<sup>2</sup> UN Security Council, Facilitator for the implementation of resolution 2231 (2015) Sebastiano Cardi, *Fourth Six-Month Report of the Facilitator on the implementation of Security Council resolution 2231 (2015)*, S/2017/1058, December 15, 2017, [http://www.un.org/ga/search/view\\_doc.asp?symbol=S/2017/1058&Lang=E](http://www.un.org/ga/search/view_doc.asp?symbol=S/2017/1058&Lang=E)

<sup>3</sup> Albright and Stricker, "Status of the Iran Nuclear Deal's Procurement Channel."

Not all countries are willing to participate in the procurement channel. Japan reportedly decided not to approve any proposals for submission to the PWG because it views the process as too complicated and sensitive.

### **End-Use Verification**

End-use verification of the goods supplied to Iran, which the Institute has long advocated, is occurring and is a priority of the PWG. Some of the approved goods have taken up to six months to a year to actually make their way to Iran after the PWG approval of a proposal.

### **Bypassing Procurement Channel?**

No country so far has reported to the UN Security Council on NSG Part 2 items going to Iran without passing through the PWG. However, the low number of proposals has raised the question of whether Iranian companies are simply ignoring the JCPOA requirements. When asked about the low number of proposals, Iran told officials that Iranian industries are depending on domestic production and that its industries do not trust the Europeans out of fear of not obtaining spare parts in the future. (Spare parts are specific to equipment, so an inability to obtain them in the future may render certain equipment inoperable). This, however, is at odds with Iran's plans to increase industrialization across many industries, which would require NSG Part 2 parts that Iran does not make. This would be an incentive for Iranian industries to go elsewhere for the needed goods. Is Iran telling the truth when it says its industries are living without these essential dual-use goods, or is it buying these goods outside of the procurement channel?

Strikingly, no proposals have been submitted by China, which was a major illegal supplier of NSG Part 2 dual-use items to Iran prior to the implementation of the JCPOA. This omission has raised questions in the minds of officials involved in the PWG.

### **Checking for Unauthorized Sales to Iran**

The United States and its allies should step up efforts to determine if Iran is bypassing the procurement channel, and in particular obtaining NSG Part 2 dual-use goods in China or other Asian countries. The U.S. government and its allies should also evaluate whether Iran is buying goods with specifications that fall just below control limits, a strategy to undermine the effectiveness of the procurement channel. In any case, China needs to inform suppliers or distributors about prohibitions on the sale of nuclear dual-use goods to Iran without approval from the PWG.