

May 6, 2013

Syria and the Red Line

On Thursday, April 25, Secretary of Defense Hagel acknowledged that evidence that chemical weapons exposure occurred in Syria was probably accurate. This news dominated the Sunday talk shows, mostly because President Obama had indicated that Syrian military use of chemical weapons would be a “game changer” and a “red line” that would trigger a U.S. and international response. Now that it appears that somehow chemical weapons exposure did occur, the world awaits to see what exactly the president meant by a “response.”

In this report, we will discuss the problem President Obama has created, why he likely declared the “red line,” and his reluctance to intervene. This reluctance is varied and complicated—essentially, it is difficult to see how there are any good options for the U.S. in intervening in the Syrian Civil War. At the same time, not taking some sort of action will undermine his and America’s credibility which will be closely watched by North Korea, Iran, Russia and China, as well as by America’s allies. As always, we will examine the ramifications of this event on the financial and commodity markets.

The “Red Line” Problem

Leaders often describe their positions in terms of “lines in the sand” or “red lines.” The goal is to give all those concerned a clearly delineated reference that there will be consequences if some action occurs that violates these limits. As any parent knows, putting down a “red line” and then allowing it to be violated opens up a Pandora’s box of

trouble. The kids will now have the idea that threats don’t matter and punishments won’t be enforced.

On August 20, 2012, President Obama first used the term “red line” with regard to chemical weapons and Syria. However, this threat was made in the context of a steady stream of comments suggesting Syrian President Assad should leave office. Warning against the use of chemical weapons makes sense. The U.S. has no interest in seeing civilians gassed and greatly fears that these deadly weapons could end up in the hands of Hezbollah or other jihadist elements. This sentiment fits into a general belief among Western leaders that the spread of weapons of mass destruction (WMD) is a bad idea. Not only does it make the world more dangerous, it limits the West’s ability to intervene in other parts of the world.

At the same time, the Obama administration has exhibited great reluctance to intervening in Syria. As we will discuss below, there are ample reasons for this stance. However, it also appears callous not to “do something” when, over the past two years, 70,000 to 80,000 people have died, at least 200,000 have emigrated as refugees, and perhaps another four million have been displaced within Syria. The Syrian Civil War has been a humanitarian tragedy. By declaring a “red line,” the president has done something. At the same time, the administration likely made the assessment that Assad’s goal was to remain in power and therefore he would not take the risk of deploying WMD and bringing the U.S. into the conflict.

Essentially, it appears the president made this ultimatum on the assumption it wouldn't be called. At the same time, it is likely that the president assumed that the deployment of chemical weapons would be obvious to the world and using these horrific weapons would force Assad's allies, Iran and Russia in particular, to abandon Syria and make it easier to build an international, U.N.-sponsored force to ensure Assad's removal.

Instead, the evidence is that some civilians were likely exposed to chemical weapons (probably sarin) and ground samples suggest that sarin was spilled. What isn't clear is how it got there. Was this a use of chemical weapons by the regime or the work of a rogue unit? Was this a "false flag" operation by the rebels? Was it even an attack? It might have been an accident, which may indicate that units have chemical weapons but haven't actually used them. If they were used as a weapon, what was the objective? It would seem that if one were willing to risk a "red line" event, they would want to get more out of it. As these questions indicate, there is also no clear chain of evidence as to where the chemical weapons came from, who deployed them and for what purpose.

It is possible Assad decided on a less than obvious attack to undermine the credibility of the U.S. and the West. The lack of dramatic photographic evidence of dead civilians (e.g., Saddam Hussein's gas attack on the Kurds in 1988) allows Russia and Iran to oppose U.S. or European efforts to punish Syria through the U.N. If the U.S. decides to intervene on this evidence, it can be framed to suggest the action is being taken on spotty evidence. If the administration declines to act, it can be portrayed as cowardice.

There are No Good Options

In the face of this human tragedy, there is a pull to "do something." Assad is clearly a brutal ruler, much like his father and his Baathist counterpart in Iraq, Saddam Hussein. The Syrian Civil War has triggered a serious humanitarian crisis and the conflict has evolved into a sectarian war. It appears that Assad's government no longer functions in the eastern and northern parts of the country despite possessing much better military hardware than the opposition. According to reports, Assad is relying on small Alawite units and no longer trusts the larger army, which was populated with Sunnis. In effect, Assad is now running the nation's largest militia.

Aligned against Assad is a myriad of opposition groups, many of which have Salafist tendencies. Although there are some elements which are non-sectarian, they do not seem to dominate the battlefield.

When outside powers intervene in a civil war, there is a temptation to try to stand in between the two groups to bring peace. However, this rarely works as it usually triggers both sides to fight against the outsider. This is what happened in Iraq after Saddam was ousted. Instead, the more effective course is to select a side and create a winner. However, in Syria, this tactic is a Hobson's choice. The West could side with Assad to ensure that jihadists would not dominate Syria. Of course, this would entail saving this murderous regime and indicate that the West, for reasons of stability, was willing to back a tyrant. Or, the West could side with the rebels and run the risk of creating a Taliban-era Afghanistan in Syria. Even worse, the rebels may not cooperate with each other and set off further civil conflict similar to Lebanon in the 1970s.

What about lesser options? A no-fly zone is often recommended. Such a zone would protect civilians not aligned with the government and the rebels from air attacks. Such zones seemed to work in Iraq. However, there are a couple of key differences with Syria. First, none of the surrounding nations would be supportive of providing air bases. Turkey would be a natural choice as NATO already has airbases there. However, providing support will appear to be aligning against the regime and could be unpopular with the mostly secular military. And, any nation in the region that allowed NATO or the U.S. to use their territory for conducting a no-fly zone would have to contend with retaliation from Iran and Hezbollah. Second, unlike Iraq, Syria has state of the art anti-aircraft defenses. Even Israel, when it bombed a suspected nuclear site in 2006, launched its attack outside Syrian airspace to avoid these anti-aircraft installations. Over the weekend, Israel conducted two airstrikes against alleged weapons convoys which may have been carrying sophisticated missiles. When Israel made these airstrikes, they carefully avoided entering Syrian airspace. Instead, the air-to-surface missiles were launched from outside Syrian airspace to avoid these formidable defenses. Although we have no doubts that the U.S. Air Force would eventually suppress such defenses, the key word is “eventually.” There would be downed airmen and casualties.

On the Sunday news shows, broadcast over the weekend of April 27-28, some Congressional leaders talked about “surgical strikes” against key targets. However, what would be the target and the goal? If the chemical weapons repositories were bombed, there is a risk they could inadvertently spread and poison the surrounding population. Bombing other targets may or may not harm the regime.

Attacking a symbolic target, such as the presidential palace, is possible but it runs the risk of appearing like President Clinton’s ineffectual attacks on al Qaeda training bases after the U.S. Embassy attacks in 1998 in Africa.

There have also been discussions about a military campaign to secure the chemical weapons depots. Although such a move would secure the weapons and prevent the regime from using them and rebels from distributing them into the wrong hands, it would not be a simple operation. Estimates suggest that a minimum of 70,000 troops would be necessary; although this seems high, it should be remembered that the initial estimates for the invasion of Iraq was at least several hundred thousand troops, which was disastrously rejected by Secretary of Defense Rumsfeld before the Iraq War. Once the troops secure the facilities (assuming there is enough intelligence to know where they are), it will be difficult to prevent any U.S. or Western soldiers from being drawn into the conflict; like the Marines in Beirut in 1983, they will be vulnerable to attack by numerous groups.

It should be noted that Iran, Russia and China would not be all that upset if the U.S. were to become involved in another Middle East war. Russia still has designs on recreating the Soviet Union, and a distracted U.S. will give them a window of opportunity to make progress toward that aim. China would like to delay the U.S. pivot to Asia. Iran knows that if the U.S. is tied up in Syria, it probably won’t be able to use military action to thwart its design for a nuclear weapon. These nations have no interest in cooperating and would howl if the U.S. intervenes militarily, and impede U.N. support, but not prevent a “coalition of the willing.” In fact, Israel’s attacks last weekend may draw the U.S. into the conflict

by escalating it to the point where Iran becomes involved. A regional conflict would likely bring the U.S. into the theater.

Perhaps another bad outcome would be to arm the rebels with heavier weapons. This decision would run the risk of putting serious weapons in the hands of jihadists and, as noted above, tip the scales to the rebels and run the risk of a longer civil war or the creation of a sectarian state.

Not Doing Anything Isn't Attractive Either

Syria's slow implosion threatens to redraw the borders in the region. Turkey is taking steps to improve its relations with the Kurds in what appears to be a plan to expand its influence (see WGR, 4/8/13, [The Return of the Ottomans](#)). Early last month, the Islamic State of Iraq, an al Qaeda-affiliated group, announced a merger with the Syrian jihadist group, Jabhat al-Nusra. The latter is one of the strongest rebel groups opposing the Assad regime. Given the difficulties the Maliki government is facing in Iraq, it isn't a stretch to imagine western Iraq and eastern Syria creating a state and the Kurds joining a Greater Turkey.

If the U.S. continues to stand aside, it will have little influence in how the region's borders are redrawn. In some respects, that may be a defensible policy, given how much strife the colonial borders brought. If the U.S. does not intervene, however, it must live with the outcomes which may not be favorable. Once these borders start shifting, it could become something of a free-for-all leading to unexpected outcomes.

Perhaps the biggest risk lies with the loss of U.S. credibility. Political leaders on both sides of the aisle have noted that the president has created an expectation that a chemical weapons attack would trigger

consequences. If the Obama administration fails to act, it could bring other states to either stop believing in U.S. promises or to test the boundaries of acceptable behavior. The two most obvious worries are North Korea and Iran, but both allies and competitors will be concerned about expectations surrounding U.S. involvement in a number of issues.

From a domestic political perspective, the president is trying to fend off Wilsonians from the left and right (see WGR, 1/9/2012, [The Archetypes of American Foreign Policy](#)). Wilsonians believe that foreign policy should be based on moral considerations. From the left, Wilsonians want to prevent genocide and believe in moral crusades to oust tyrants. The intervention in Serbia was pushed by the Wilsonian left. On the right, Wilsonians tend to be neoconservatives. They want to spread the "gospel" of democracy and Western values and do so by military means if necessary. The Iraq War was supported by the Wilsonian right.

Both sides of the political spectrum are pushing for intervention in Syria. The left wants to end the carnage, while the right wants to oust Assad and put a democratic government in place. The problem for the left is that such intervention would require choosing sides in a conflict lacking saints. For the right, the costs of creating a democratic government in this part of the world are enormous. The region remains mostly tribal and the notion of power sharing and a loyal opposition appear absent.

Our position is that a superpower tempts fate by conducting foreign policy based on Wilsonian ideals. But politically, Wilsonian positions speak to "our better angels" and can be very popular. Thus, President

Obama will be facing strong pressure from both sides of the political spectrum to “do something.” This situation will become increasingly difficult.

Ramifications

The president’s problem is that he created expectations by creating the “red line.” Unfortunately, the alleged crossing of that line wasn’t bright enough to make it evident to all that a violation took place. On the other hand, something clearly occurred and a response is necessary.

We expect the administration to move very cautiously, calling and waiting for further evidence. Not only does this position seem to reflect the personality of this president, it is probably warranted given the paucity of good options. It is highly probable that there was an offensive use of chemical

weapons. We expect the president to refrain from direct military action but, to quell domestic political pressure, supplying the rebels with heavier armaments is likely. This action will make the war bloodier but probably won’t be enough to break the stalemate.

From a market perspective, as long as the war remains contained in Syria, the effects are minimal. However, if the conflict spreads, oil prices will likely benefit.

Bill O’Grady
May 6, 2013

This report was prepared by Bill O’Grady of Confluence Investment Management LLC and reflects the current opinion of the author. It is based upon sources and data believed to be accurate and reliable. Opinions and forward looking statements expressed are subject to change without notice. This information does not constitute a solicitation or an offer to buy or sell any security.

Confluence Investment Management LLC

Confluence Investment Management LLC is an independent, SEC Registered Investment Advisor located in St. Louis, Missouri. The firm provides professional portfolio management and advisory services to institutional and individual clients. Confluence’s investment philosophy is based upon independent, fundamental research that integrates the firm’s evaluation of market cycles, macroeconomics and geopolitical analysis with a value-driven, fundamental company-specific approach. The firm’s portfolio management philosophy begins by assessing risk, and follows through by positioning client portfolios to achieve stated income and growth objectives. The Confluence team is comprised of experienced investment professionals who are dedicated to an exceptional level of client service and communication.