

February 23, 2015

Détente with Iran: An Update

This report is an update to a similarly titled piece published in 2013 (see WGR, 10/7/2013, [Détente with Iran?](#)). The primary impetus for this update comes from a recent article by Michael Doran outlining President Obama's "secret" Iran strategy,¹ but similar themes have also been offered by other strategists.²

In this report, we will delve further into what appears to be an evolving policy change by the U.S. with Iran, and discuss the basic goals of the U.S. and Iran. With this background, we will examine America's alternatives to achieving our aims in the region. A full examination of U.S. difficulties in making a historic change in policy with Iran will follow. From there, we will discuss the recent pattern of policy in the region and how it supports the notion that improving relations with Iran is probably the reason for this pattern. As always, we will conclude with market ramifications.

U.S. Goals in the Middle East

The primary goal of the U.S. in the Middle East is to ensure that oil flows from the region are unimpeded. This means that no single power in the region controls the flow or any outside power (save the U.S., of

course) affects those flows either. The secondary goal is to execute the primary goal with an economy of effort. After the Cold War ended, the region's importance slipped somewhat. There was no real outside power that could affect the region and the U.S. wanted to focus elsewhere, namely, the Far East. However, that shift has proven difficult because of persistent instability in the Middle East.

Why has the region become unstable? Since WWII, the U.S. has managed the Middle East through a balance of power arrangement, pitting the two largest powers, Iran and Iraq, against each other. Saudi Arabia, with the strongest economy, generally supported Iraq against the Shiite threat from Iran. The best example of how this policy developed was during the Iran-Iraq War. The conflict, which spanned eight years, kept both Sunni and Shiite powers occupied. Neither was able to defeat the other and the war ended with a stalemate.

In general, the Saudis combined with the Hussein regime, and the Emirate States could prevent either Turkey or Iran from extending power in the region. However, this coalition could not have fended off the combined power of Turkey and Iran. Fortunately, those two nations have generally shown little interest in cooperating.

The balance of power strategy fell apart after Saddam Hussein, angry at his inability to sway OPEC (read: Saudi Arabia and the Emirate states) into cutting oil production to lift prices and improve Iraq's economy, invaded Kuwait on Aug. 2, 1990.

¹ Doran, M. (2015, February 2). Obama's Secret Iran Strategy. *Mosaic Magazine*.

² Friedman, G. (2011). *The Next Decade*. New York: Doubleday.

Baer, R. (2008). *The Devil We Know*. New York: Random House.

Within a day, resistance against Iraq had ended and the country was annexed by the Hussein government. In response, after being invited by Saudi Arabian King Fahd, U.S. troops moved into eastern Saudi Arabia to prevent Iraqi troops from moving south. In the coming weeks, the Bush administration pieced together a large international coalition against Iraq. Coalition airstrikes began on Jan. 17, 1991. The ground campaign began on Feb. 24, 1991, and ended four days later.

Although the ouster of Iraqi troops from Kuwait was a stunning success, the aftermath was less clear cut. The Bush administration did not have a mandate to remove Hussein and it wasn't clear that this action would have been prudent. After all, a leaderless Iraq would have hardly been a counterbalance to Iran. Unfortunately, the best the Bush and Clinton administrations could come up with was persistent sanctions, no-fly zones and hope for a coup. The longer sanctions were in place, the weaker Iraq became. Although Iran never threatened Iraq directly, there was a risk that, at some point, Iran would seek revenge for the 1980-88 Iran-Iraq War.

As time passed, the U.S. faced this dilemma. Since Saddam wasn't going away quietly, he would either have to be rehabilitated to restore the balance of power or a new government would need to be installed. In 2003, the George W. Bush administration opted for the latter course with disastrous results. However, for those who criticized the decision, the status quo could not have been maintained indefinitely; at some point, Iran would have attacked Iraq, prompting a broader conflict.

U.S. troops exited Iraq in 2011 after the Obama administration could not work out a plan to leave a residual force in place.

According to reports, Iran insisted that U.S. troops leave Iraq; it appears the Obama administration didn't press against this demand.³ And so, at present, the U.S. is reluctantly playing the role of balancing power in the region.

Iran's Goals in the Middle East

Iran's primary goal is regime preservation. It wants to end U.S. threats of regime change. This includes eliminating the long-term threat from a historically hostile Iraq. This concern is also why Iran appears to be undertaking a nuclear weapons program. As part of this goal, Iran also wants a stronger economy, which will likely require an ending of sanctions and higher oil prices. Its secondary goal is regional hegemony. It wants to dominate the Middle East, which will require at least a partial withdrawal from the region by the U.S.

Iran knows it faces opposition from the Sunni powers in the region and from Israel. In general, it has little interest in invading Saudi Arabia or attacking elsewhere; in fact, Iran tends to operate covertly and does not have a very strong conventional military. But, in the absence of the U.S., Iran will almost certainly become the dominant power in the region.

America's Alternatives

After the loss of Iraq as a balancing power, the U.S. has three unpalatable choices. First, it can remain the balancing power in the region by adding military forces. In fact, invading the area currently controlled by Islamic State (IS) and carving up Iraq into Sunni and Kurdish zones would be a reasonable outcome and would likely create

³ Filkins, D. (2014, April 28). What We Left Behind in Iraq. *The New Yorker*.

Filkins, D. (2013, September 30). The Shadow Commander. *The New Yorker*.

Also see WGR, 5/19/2014, [Iran's Iraq](#).

American bases of operation. It would thwart Iran's expanding influence into Lebanon and what remains of Syria and reassure the Emirate States, Jordan, Turkey and Israel that the U.S. intends to stay. Unfortunately, such a plan will be very costly and tie up resources that may be better spent elsewhere. For example, taking this step would probably prevent the U.S. from actively curbing Russian ambitions in Europe and Chinese expansionism in the Far East.

The second option would be to foster another Middle East war, this one a religious conflict between Sunnis and Shiites. This is a frighteningly risky strategy. For example, what if IS or a similar radical Sunni group becomes dominant? What if Iran wins? There is no guarantee that the conflict would remain contained and oil flows would likely be interrupted.

The third option is to let Iran become the dominant power in the region. This would reduce costs to the U.S. and could likely bring stability to the region. However, there is no guarantee that Iran would be an effective or benign hegemon. We would expect the Emirate States to come to arrangements with Iran but other groups or nations may be less likely to play along. Turkey, for example, may be inclined to oppose this decision; Israel will as well. In the short run, Iran would probably dominate; in the longer run, it would likely be forced to compete with Turkey for regional dominance. In addition, if Israel is abandoned by the U.S. (or feels that way), it will likely search for a new large country partner; China or Russia might well be interested.

Obviously, none of these alternatives are attractive. The U.S. is becoming disenchanted with the superpower role.

Many Americans see the role as simply costing them their jobs (through globalization and the dollar's reserve currency status) and leading the U.S. to fight inconsequential wars. Thus, the idea of "doubling down" on playing the role as the balancing power in the Middle East is a hard sell. An insight into the problems of creating a broad conflict can be observed in how the Arab Spring is evolving. To date, neither Libya nor Syria exists as a functioning state. Egypt has moved from authoritarianism to democracy and back again. Essentially, starting such wars has no clear way forward. The last alternative, normalizing relations with Iran and allowing it to become a regional power, is also difficult. It appears that the Obama administration has concluded that this last alternative is the best of the three bad options.

The Difficult Choice

It is rare to see an American president make deals with sworn enemies. Usually, this decision is made because there is a greater objective to be attained. The two deals that are on par with normalizing relations with Iran are Roosevelt's alliance with Stalin in 1940 and Nixon's normalization with China. The former was a difficult decision that was widely criticized. Stalin was a murderous tyrant bent on at least European, if not global, domination. He represented a system antithetical to democratic capitalism. However, Roosevelt pressed Congress to include the U.S.S.R. in the Lend/Lease program after Hitler invaded Russia against stiff opposition. Without massive military support, there is no way the Soviets could have turned back the Nazis. In Roosevelt's mind, Hitler was a greater threat and he was willing to support Stalin to defeat the Nazis.

In the second case, Nixon was a renowned anti-communist. He was a member of the

“better dead than red” crowd that was part of the Republican Party in the 1950s. He was a member of the House Un-American Activities Committee and personally pressed for the investigation of Alger Hiss. Making a deal with Red China would appear rather unlikely. However, Nixon saw normalizing relations with China as necessary to divide the Communist Bloc. Strains had developed between the Soviet Union and China and Nixon was able to exploit those divisions through this bold act. At the same time, it effectively disenfranchised the Nationalist Chinese who had created an alternative China on Taiwan. Nixon was able to make this controversial move because there were no doubts about his anti-communist credentials.

Is it Obama’s goal to normalize relations with Iran? Doran makes a good case. Although Obama has implemented harsh economic sanctions against Iran, he has also supported Iranian goals in the region. The following are some key arguments supporting the notion that Obama is moving to build relations with Iran.

The Campaign Promise: Candidate Obama promised to offer a new foreign policy that was a mirror image of the belligerent policy of President G.W. Bush. In his inaugural address, the newly elected president said, “If countries like Iran are willing to unclench their fists, they will find an extended hand from us.”⁴ Of course, five months later Iran was roiled with the Green Movement, protesting the sham re-election of Mahmoud Ahmadinejad. Obama’s response was meek; in retrospect, it appears the new U.S. president wasn’t willing to upset Iranian leaders over this issue.

Assad Remains in Power: There are really two key points to this factor. First, the U.S.

has been very hesitant to supply arms to various rebel groups. Although some were clearly unsavory, others were not and yet the administration was clearly offering only half-hearted support. Second, although there have been numerous comments from the administration that Assad should go, when the Syrian leader was accused of using chemical weapons against his people, crossing an administration “red line,”⁵ the president failed to act. Up to that point, the expectation was that the U.S. would launch airstrikes if Assad used chemical weapons against Syrian rebels. However, after Assad used such weapons, President Obama took a series of steps to avoid attacking Syria. He asked for Congressional approval. He allowed the Putin regime to offer him a face-saving way out. At the time, critics suggested the president was weak. However, viewed from the perspective of improving relations with Iran, keeping Assad in power was an important goal for Ayatollah Khamenei. Thus, deciding not to successfully arm rebels or bomb Syria was probably done to improve relations with Iran.

The Withdrawal from Iraq: As we noted above, Iran insisted on a total withdrawal of U.S. troops from Iraq.⁶ As we previously noted, one of Iran’s goals is regime preservation and eliminating the constant threat from Iraq would be a key part of ensuring Iran’s security. The U.S. eliminating Saddam Hussein was a huge gift to Iran; the ayatollahs wanted to ensure that they could create a compliant Iraq which meant repression of the minority Sunnis. Iran supported Nouri al-Maliki who engaged in a program of suppressing the Sunnis. A number of analysts have criticized the Obama administration for not pressing the case to keep a residual force in Iraq;

⁵ See WGR, 5/6/2013, [Syria and the Red Line](#).

⁶ *Op. cit.*, WGR Iran’s Iraq.

⁴ *Op. cit.*, Doran.

however, we doubt Iran could have expanded its influence with U.S. troops in the country. And so, to maintain positive relations with Iran, the Obama administration did not press to maintain a residual force in Iraq.⁷

Managing the Conflict with Islamic State:

Unfortunately, Iran miscalculated in its goal of suppressing Sunni power; Maliki's behavior supported the development of IS which offered to protect Iraqi Sunnis from the Iranian-backed Iraqi government. Given the medieval behaviors of IS, the Sunni tribes that live under its rule must have concluded that living under Shiite dominance was even worse. We note that Sunni tribal leaders from Iraq recently visited Washington to discuss the war against IS at great personal risk. According to reports, the administration mostly gave their concerns the brush-off; one of their key requests was direct transfer of weapons to Sunni tribes, bypassing the Shiite-dominated regime in Baghdad. The administration flatly refused. However, former President G.W. Bush met with the group and offered to support them. Bush arranged meetings with GOP Congressional leaders and other military officials. Reports indicate the administration would not directly send arms to Sunni tribes because it didn't want to offend Iran.⁸ Instead of trying to duplicate the lessons of the 2007 "Surge," which supported and armed Sunni tribes opposed to al Qaeda, which led to the latter's defeat, the Obama administration is conducting the war against IS on Iran's terms, which means that winning against IS isn't worth it if it means strengthening Iraqi Sunnis.

⁷ It should be noted that candidate Obama called for an end of U.S. military involvement in Iraq, so this was a goal of Obama's even without the Iranian issue.

⁸ Perry, M. (2015, February 12). George Bush is Intervening in Iraq—Again. *Politico*.

The Obstacles

There are three primary obstacles to Obama normalizing relations with Iran. These are the Sunni states in the region, Israel and domestic opposition.

The Sunni States: The U.S. has been the primary protector of the Sunni states since 1945. The Carter Doctrine, which states that no other outside power will be allowed to influence the region, clearly reflects the U.S. position. Saudi Arabia and the Emirate States all look to the U.S. for protection, especially against Iran. The Sunni states view the Iran-U.S. thaw with great concern. If Iran dominates the region, it will likely try to impose its oil policy. Unlike the high reserve/low population Arab oil producers, Iran is a high reserve/high population nation. The Arab states tend to support lower oil prices to extend the value of their reserves and can get away with it due to their relatively low populations. Iran, on the other hand, needs revenue now. *Until the rapid growth of the U.S. shale industry, Sunni and U.S. oil interests were aligned. This may no longer be the case.* And so, the U.S. may be more open to allowing Iran to dominate the region.

Israel: Israel is the only Western-style democracy in the region.⁹ Although Israel faces no immediate military threats on its borders, it is a small nation. A determined coalition of local powers could threaten to overrun the country. Thus, throughout its history it has sought outside allies, which have included France and the U.S. Due to vicious rhetoric from Iran and support for its proxy, Hezbollah, Israel views Iran as an existential threat, especially if it develops into a nuclear power. Israel wants the

⁹ Although one could argue that Turkey is as well, a history of frequent coups and recent constitutional changes suggest that the country is behaving more like the authoritarian regimes in the region.

international community (read: U.S.) to guarantee that Iran cannot build a nuclear weapon by preventing the country from enriching uranium. Since it is unlikely that Iran will ever completely give up such activity,¹⁰ Israel wants the U.S. to attack Iran's nuclear facilities. If the U.S. normalizes relations with Iran, Israel will likely feel abandoned; it may attack Iran itself or find a new outside sponsor (such as Russia or China).

Recently, House Speaker Boehner invited Israeli PM Benjamin Netanyahu to speak before the House, a highly unusual move. According to reports,¹¹ the Obama administration may be actively working to undermine Netanyahu's chances in upcoming elections to be held on March 17. VP Biden won't attend Netanyahu's speech which will "give cover" to Democratic Party members to avoid the talk as well. Israeli voters are unhappy with the deterioration of U.S./Israeli relations; although President Obama is not held highly in Israel,¹² the risk is that Netanyahu's actions may lead to a full rupture of relations. One of the jobs of an Israeli leader is to manage the relationship with the U.S.; failing at that task is a major problem. It should be noted that, in 1992, G.H.W. Bush denied Israel housing loan guarantees due to settlement activity, which may have swung a close election to their favored candidate, Yitzhak Rabin. One way the administration may be trying to manage Israeli opposition is to deal with a different Israeli government.

¹⁰ Iran is a signatory to the Nuclear Non-Proliferation Treaty, which allows it to develop civilian nuclear power and master the enrichment cycle.

¹¹ Miller, A. (2015, February 12). Obama is Pursuing Regime Change in Israel. *Foreign Policy*.

¹² Ibid. Polls suggest that only 20% view him as reliable on Iran and 50% are concerned about his view on Israel.

Domestic Opposition: Managing domestic opposition is very difficult. Merely referring to the previously referenced events is a clear indication of how hard it is to manage such foreign policy surprises. Roosevelt was one of America's strongest presidents, the only one to win more than two terms in office. He guided the U.S. through the Great Depression and WWII. Roosevelt faced opposition to extending the Lend/Lease to Stalin but he also faced strong disapproval for supporting the British war effort as well. There was a strong streak of isolationism in the United States, as exemplified by the "America First" movement.¹³ Roosevelt managed to overcome this opposition by using his majority in Congress to pass the Lend/Lease Bill along party lines.

Nixon was able to normalize relations with China mainly because he had "street-cred" due to his anti-communist leanings. The American people were generally willing to trust Nixon to negotiate with Mao because of his hardline record.

Obama faces formidable domestic opposition on normalizing relations with Iran. Unfortunately for moving this policy forward, there is virtually no support for helping Iran among Americans. It is hard to see how any Congressman or Senator would vote for legislation that would change U.S. policy toward Iran. This would include easing sanctions. In fact, current bills circulating in Congress would do the opposite. In addition, many Americans feel that Obama has not projected American strength in foreign policy. This perception

¹³ This anti-war and isolationist movement featured numerous prominent leaders, including Charles Lindbergh, Walt Disney, Robert McCormick (*Chicago Tribune* publisher), General Robert E. Wood (Sears—Roebuck), Gerald Ford, John F. Kennedy and Sinclair Lewis.

exists despite the fact that the president has been much more active in drone attacks than his predecessors. Because he is perceived as accommodating, he will have less room to operate in making a deal with an avowed enemy.

So, how will Obama overcome this hurdle? About the only way this can happen is to avoid Congress and use executive orders and the lack of enforcement of existing sanctions to change U.S. policy with Iran. This move would be politically unpopular but it would allow the president to achieve his policy goal.

Will President Obama try to pull off this policy change? We suspect he will move forward if Iran makes a counteroffer on its nuclear program that gives him some cover that a workable program is in place. The real test will be if negotiations fail. At that point, Congress will insist on new sanctions; vetoing this bill would be a major problem for the president. Although Doran suggests rapprochement with Iran is the president's major foreign policy goal, failed nuclear talks will probably mean that this policy goal is unattainable. Thus, to quote Iranian Foreign Minister Mohammad Javad Zarif,

“We [Iran] need to seize this opportunity. It may not be repeated.”¹⁴

Ramifications

The ramifications for Obama's pursuit of normalization with Iran are mostly political. If this unpopular policy move occurs without Congressional approval, it will put the 2016 Democratic Party nominee in an almost impossible position of either embracing the policy and suffering from it or rejecting it and running against one's own party leader. Normalizing relations will probably hurt his party's chances to retain the White House in 2016.¹⁵

From a market perspective, a deal with Iran is probably bullish for crude oil. First, Iran will likely force a change in OPEC policy, pressing the Arab states to restrict output. Second, if the Sunni states resist Iran, the potential for war in the region rises, which would also support higher prices.

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February 23, 2015

¹⁴ Cohen, R. (2015, February 12). Curtail Iran and Win. *The New York Times*.

¹⁵ For background on the influence of Israel, see WGR, 8/27/2012, [Israel and the Evangelicals](#).

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