

July 30, 2018

Iran Sanctions and Potential Responses: Part I

In May, the Trump administration withdrew from the nuclear deal with Iran, officially known as the Joint Comprehensive Plan of Action (JCPOA). The European participants (the other signatories were the U.K., Russia, France, Germany and China) tried to convince President Trump that leaving the pact would be a mistake, but President Trump has never been comfortable with the arrangement. Clearly, it wasn't perfect. The agreement did not end Iran's nuclear threat, but merely delayed it. Furthermore, the agreement did not force Iran to address its missile program and did nothing to slow its attempts at regional hegemony.

It has been our position that the Obama administration concluded that its superpower obligations had become overly burdensome. Of the three areas of the world where the U.S. essentially provided security, Europe, the Far East and the Middle East,¹ the Obama administration determined that the Middle East was the least important and wanted to "pivot" to the rapidly growing Asian region. However, to reduce America's "footprint" in the region, the U.S. had to put a regional hegemon in place. It appears Obama believed that Iran was the only country that could fill the role. That decision was clearly controversial. Iran had been at odds with the U.S. since the 1979

¹ For a summary of our views on American hegemony and frozen conflicts, see Weekly Geopolitical Report, [The Mid-Year Geopolitical Outlook](#) (6/25/18)

Iranian Revolution and the hostage crisis. Nevertheless, the idea was not without its supporters.² In fact, in an ideal situation, the U.S. would try to foster another nearly equal power in the region that would oppose Iran's designs and they would balance each other. Unfortunately, none of the Sunni powers appear to be strong enough for that role and Israel lacks strategic depth. Only Turkey could act as a counterweight but the Erdogan government did not seem interested. Although the nuclear deal did not install Iran as the regional hegemon, we suspect President Obama assumed Hillary Clinton would be his successor and she would complete the "pivot."

Instead, Donald Trump won the election. The Gulf States and Israel moved quickly to improve relations with Washington that had deteriorated under the previous administration. Candidate Trump was critical of the Iranian nuclear deal and vowed to end it. As noted above, he did so in early spring.

Although the rest of the signatories remain committed to the original agreement, the U.S. is planning to implement sanctions on Iran in two phases; the first in early August with a second round in November. Given the universality of the dollar in global trade, only China and Russia can likely afford to remain in the pact. The European nations³

² Baer, Robert. (2008). *The Devil We Know: Dealing with the New Iranian Superpower*. New York, NY: Penguin Random House.

³ <https://www.reuters.com/article/us-iran-oil-europe/european-refiners-winding-down-purchases-of-iranian-oil-idUSKCN1J21F0> and <https://www.washingtonpost.com/world/europe/europeans-scramble-to-save-iran-nuclear-deal-but->

are too dependent on the U.S. financial system for their companies to risk sanctions by doing business with Iran. Already, Japan⁴ and South Korea⁵ have indicated they will reduce or end their purchases of Iranian crude oil. Although China could offset some of the lost investment from Europe, the Xi government probably would exact onerous terms. Russia may be helpful in the geopolitical arena but won't be a significant contributor to Iran's economy.

Therefore, Iran, which views the Trump administration's actions as hostile, is trying to effect a response. While Iran has indicated it wants to keep the nuclear pact in place, the deal is only useful if it helps expand its economy. And, if the U.S. intends to harm Iran's economy, the regime has to contemplate retaliation, which may include rescinding its participation in the agreement.

This will be a three-part report in which we will examine Iran's options for responding to the return of sanctions. In Part I, we will discuss the possibilities that Iran ends the JCPOA and moves to build a deliverable nuclear weapon as well as increases its power projection in the region. In Part II, we will analyze the ever-present Iranian threat to disrupt shipping in the Strait of Hormuz and perhaps elsewhere. In Part III, we will touch on the potential for Iran to deploy a cyberattack against the U.S. along with the possibility that Iran uses allies to end sanctions and enter into direct

[face-new-concerns-over-us-sanctions/2018/05/09/39937066-536f-11e8-abd8-265bd07a9859_story.html?utm_term=.befb864c5230](https://www.reuters.com/story/face-new-concerns-over-us-sanctions/2018/05/09/39937066-536f-11e8-abd8-265bd07a9859_story.html?utm_term=.befb864c5230)

⁴ <https://asia.nikkei.com/Politics/International-Relations/Japan-set-to-halt-imports-of-Iranian-oil>

⁵ <https://www.reuters.com/article/us-southkorea-iran-oil/south-korea-suspends-iranian-oil-loading-in-july-for-first-time-since-2012-sources-idUSKBN1JW07R>

negotiations with Washington. We will conclude with market ramifications.

Response #1: Going Nuclear

Although the nuclear deal was negotiated in order to prevent Iran from developing a nuclear weapon, it was never completely clear if actually having a weapon was Iran's true goal. Israel intends to remain the only nuclear power in the region. Officially, Israel has never acknowledged it possesses such weapons; however, it is widely believed that it does. If Israel thought Iran had a nuclear weapon and a reliable means of delivery, it is reasonable to assume that Israel would view this development as an existential threat. Israel lacks the strategic depth to survive even a limited nuclear attack. The country is small and thus only a few weapons could render Israel uninhabitable. Iran, on the other hand, is larger and much of its geography is mountainous, meaning it would have a higher probability of survival. It is believed Israel does have "second-strike" capabilities through its nuclear-capable submarines. Unfortunately, the knowledge that an adversary would be eliminated offers limited comfort and may not prevent suffering a first strike if the enemy is determined.

So, if Israel believed Iran was on the threshold of an atomic bomb, it should attack Iran with its own nuclear weapons before it can fully develop that threat. Israel cannot eliminate Iran's program with conventional weapons. It simply lacks the conventional capacity to attack Iran's well-protected and widely dispersed nuclear facilities. Although Israel has famously eliminated Iraq's and Syria's facilities through daring airstrikes, Iran's facilities are not vulnerable to single attacks. Since Iran can make this same calculation, it is quite possible that Iran never intends to finish the work; simply put, the threat of developing a

bomb may be more beneficial than actually having one.

At the same time, it is unmistakable that having a nuclear weapon is perhaps the only guarantee of regime longevity in the post-Cold War world. The U.S. has either directly caused regime change (in Iraq) or supported regime change (in Libya), two nations that attempted to develop nuclear weapons but were either unable to complete the process or gave up the programs. North Korea has clearly gotten the message that the chances of regime survival improve with nuclear weapons. Iran knows this too and thus wants to at least be a threshold state, one that may not have such a weapon but can make one quickly. We note that some analysts hold that President Trump's openness to Russia is due, in part, to Russia's massive nuclear arsenal. This tendency has not gone unnoticed in Tehran (as well as Beijing and Pyongyang).⁶

Accordingly, Iran could respond to the U.S. withdrawal from the JCPOA by going full bore to develop a nuclear weapon. However, the fear of an Israeli or U.S. attack in response to overt actions to develop a warhead will probably prevent Iran from taking this step. Instead, we would expect Tehran to skirt as close as possible to violating the JCPOA without actually doing so. This would mean aggressive testing of ballistic missiles and the purchase of nuclear equipment, including centrifuges.

⁶https://www.thecipherbrief.com/column_article/nu-clear-message-to-the-world?utm_source=Join+the+Community+Subscribers&utm_campaign=57b6abc3f8-EMAIL_CAMPAIGN_2018_07_24_02_43&utm_medium=email&utm_term=0_02cbee778d-57b6abc3f8-122505017&mc_cid=57b6abc3f8&mc_eid=9676368d73

Response #2: Projecting Power

Iran has projected power in the Middle East through asymmetric means, including covert activities and supporting insurgent and paramilitary groups. Although Iran is Shiite, it has supported Hamas in the Gaza Strip to threaten Israel. Hamas is an offshoot of the Egyptian-based Muslim Brotherhood, which is Sunni. The Iranians have also supported al Qaeda groups and other radical Sunni organizations. In order to threaten Saudi Arabia, a longtime regional adversary, Iran supports the Houthis in Yemen. The Houthis are Zaidis, a sect of Shia Islam that is theologically closer to Sunni Islam. Iran has a long relationship with Hezbollah. Simply put, Iran will offer support to any group, even those that may oppose it theologically, to project power. Iran has also been a longtime supporter of Bashar Assad in Syria, although Assad's allegiance may be more aligned with Russia at present. Iran is also deeply involved with the Shiites in Iraq.

One of the concerns of the Trump administration has been that, despite the nuclear deal, Iran remains active against U.S. allies in the region. Iran can argue that the nuclear deal was separate from its other activities in the region. The Trump administration's position is that these activities should have been included in the original nuclear deal and thus the U.S. should not remain in the Obama-era agreement without a change in Iran's broader behavior. It is quite possible the Obama administration hoped that Iran would reduce or end its support for insurgent groups in the region as the result of further negotiations. In other words, it appears that President Obama assumed his predecessors would work to normalize relations with Iran. But, from Trump's perspective, the previous administration made a bad deal and he withdrew from it to force Iran to renegotiate.

In the past, Iran has sponsored terrorist actions outside the region. The most infamous was the 1994 bombing of the Argentine Israelite Mutual Association in Buenos Aires.⁷ Although Iran hasn't been tied to other events outside the region, this bombing shows it has the capacity to do so.

As we will discuss in subsequent parts of this report, Iran may be forced to renegotiate

⁷ https://en.wikipedia.org/wiki/AMIA_bombing

the nuclear deal. If it does renegotiate, it will want to improve its bargaining position. Therefore, fomenting unrest around the Middle East may be one way that Iran can improve its ability to negotiate.

Next week, we will discuss Iran and the threat to the Strait of Hormuz.

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