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An Inflection Point in Lebanon

On the afternoon of August 4, there was a [massive explosion at the Port of Beirut](#). The explosion was one of the largest non-nuclear blasts in history, a seismic event with a magnitude of 3.3 on the Richter scale. At latest count, 220 have been confirmed dead, 110 are missing, and over 6,000 were injured.

The Middle East is undergoing significant change. The U.S. is clearly reducing its footprint, leading nations within and outside the region to adapt. The explosion occurred amid this evolving environment and it has the potential to be a catalyst to accelerate changes.

In this report, we will begin by detailing the event, followed by an examination of Lebanon's political and economic backdrop to frame how these conditions contributed to the accident. The third section will discuss the U.S. withdrawal and the scramble by players both inside and outside the region to gain control or protect their interests. This discussion includes a look at the states affected by the machinations of others. As always, we conclude with market ramifications.

The Event

In November 2013, the MV *Rhosus*, a Moldovan-flagged, Cyprus-based cargo ship, arrived at the Port of Beirut carrying 2,750 metric tons of ammonium nitrate. Although it remains unclear exactly what

transpired after arriving at port, the ship was eventually declared unseaworthy and part of its crew and all of its cargo remained in port waters. In February 2014, Beirut port officials seized the vessel due to unpaid bills. The cargo was eventually brought onshore and the *Rhosus* sank in the harbor in February 2018.

Customs officials attempted, at least six times, to dispose of the cargo. A reflection of government dysfunction, their requests were ignored. As a result, this large cargo of dangerous ammonium nitrate remained onshore in harbor storage.

It [remains uncertain](#) exactly what caused the blast. There were reports that welders had been repairing security fences around the facility and their activities may have inadvertently triggered the blast. There were also reports of fireworks being heard before the ammonium nitrate detonated. The most recent explanation was that a [warehouse maintenance accident](#) caused the disaster.

To frame the degree of the blast, it is estimated that 2,750 metric tons of ammonium nitrate has the blast equivalency of [1,800 tons of TNT](#), which would be a blast potential of 1.8 kilotons. The "little boy" nuclear bomb dropped on Hiroshima is estimated to have had a blast force of 13 kilotons. The Halifax accident in 1917 had a blast force of 2.9 kilotons. Timothy McVeigh's terrorist bombing of the Murrah Federal Building in Oklahoma City, OK in April 1995 used 2.3 metric tons of ammonium nitrate.

The damage from the blast was extensive. The Port of Beirut was severely damaged; about 60% of the country's imports pass through this port. As pictures of the area show, a large set of grain silos were either destroyed or heavily damaged. [These silos represented strategic grain storage for Lebanon](#), capable of holding 85% of the national grain storage. [It does appear that there was little grain in the facility at the time of the blast](#); economic conditions have been so dire that the government was reducing this storage, so at least notable losses of grain were avoided.

The blast was wide enough to where an [estimated 300,000 are homeless](#). The explosion was felt on Cyprus and in northern Israel.

This disaster was just another crisis upon another. The country is in the midst of a debt default, its currency has been under pressure, annual inflation was 89.7% in June and the country has been hard hit by the COVID-19 pandemic. Lebanon's government has been under stress and ineffectual for some time. The fact that this terrible accident [occurred mostly due to administrative neglect](#) further undercuts the current regime.

Background

To understand how Lebanon devolved to this state, it is important to review its history. Lebanon was part of the Ottoman Empire for 400 years; this membership ended in 1918 in the aftermath of WWI. Based on the Sykes-Picot agreement between France and Britain, the former was granted control over what became Lebanon and Syria. France maintained control of Lebanon until the end of WWII, when the former colony became independent.

Like other colonial regions in the Middle East, Lebanon was structured in a manner to facilitate colonial control, not create a workable state. Three major religious groups dominated—Maronite Christians, Sunnis, and Druze (nominally Shiite, although with some similarities to the Alwite sect), with a minority of other religions and ethnic groups, including Eastern Orthodox. When a society like this works, it is a cosmopolitan tapestry. And, from 1946 until 1975, it generally did function well enough. The operational agreement was that power was allocated among the various denominational groups based on the 1932 census. This established the Maronite Christians as the majority; this group controlled the presidency, the military, and Parliament. The president of the parliament was allocated to the Shiites and the prime minister role was given to the Sunnis.

Over time, population ratios changed. The Christian population declined due to falling birth rates and emigration. Since the Christians controlled the wealth, they tended to have smaller families. The Muslims, being less affluent, tended to have larger families. By the mid-1970s, Christians wielded more power than their numbers warranted, leading to calls for increased Muslim representation. Adding to tensions was a large population of refugees in southern Lebanon belonging to the Palestinian Liberation Organization (PLO). The PLO was heavily armed and upset the delicate political balance.

In 1975, civil war broke out which lasted 15 years and left Lebanon's economy devastated. The central part of Beirut, the capital of Lebanon, was destroyed. In 1989, in the aftermath of civil war, the Ta'if agreement established new power allocations. Interestingly enough, despite

the bloodshed, the allocations of power didn't significantly change. But the civil war did lead to two unresolved issues. First, the allocations of power ossified the government structure, meaning that each religious/ethnic division views the central government as a source of patronage. In other words, there is little incentive to govern well, but every incentive to drain as much resources out of the government as possible. Second, it widened the door for foreign interference. Syria, which viewed Lebanon as its "natural" territory, sent troops to Lebanon to help end the civil war and establish order but in fact looked like an occupier. Syrian forces remained in the country until the aftermath of the 2005 bombing assassination of PM Rafik Hariri. The murder of the prime minister led to the Cedar Revolution and, under pressure from the world community, Syria withdrew its forces. Israel also became involved, invading southern Lebanon to prevent various groups from bombing northern Israel. Finally, Iran used its proxy Hezbollah to expand its influence in Lebanon.

The Jungle Grows Back

A functioning global hegemon provides two public goods to the world. The first is security. That doesn't mean it wins every war, but it keeps small wars contained and intervenes in unstable regions to prevent wars from breaking out. The Middle East was just that sort of region. Although it was clear that the colonial borders were not designed to create functioning states, the U.S. honored those borders or allowed border changes that didn't create broader conflicts. For example, the state of Israel, in its initial configuration, was not strategically defensible and that led to two wars, the 1967 Six-Day War and the 1973 Yom Kippur War. The U.S. was mostly uninvolved in the first and supported Israel in the second.

But the U.S. was also instrumental in bringing a peace accord between Egypt and Israel, lubricating the arrangement with a steady flow of support. [Egypt, for example, has received \\$40 billion in military aid and an additional \\$30 billion in economic assistance. Since WWII, Israel has received \\$142.3 billion.](#) The U.S. prevented Iraq from holding onto the territory it seized in Kuwait in 1990. And, it has provided security for the "high oil reserve/low population" states in the Persian Gulf.

Although these measures haven't led to the complete absence of tensions, they generally prevented broader conflict in the region. Since the fall of the Soviet Union, the U.S. has struggled to define its global role. It has especially found the Middle East difficult. Invasions of Afghanistan and Iraq following 9/11 have led to long and generally inconclusive outcomes. Americans have tired of the hegemonic role and, since 2008, there has been a steady move to reduce U.S. involvement in the region.

This development means that other nations, those in the region and some outside of it, are looking to either expand their influence or protect their interests. There are three vulnerable states—Iraq, Syria, and Lebanon.¹ Iraq remains divided from the aftermath of the U.S. invasion, the rise of al Qaeda in Iraq, and the development of Islamic State. Syria remains a shell of itself after the Arab Spring and the subsequent civil war. Lebanon was always vulnerable but the combination of a financial crisis, the pandemic, and now this explosion has revealed the inadequacy of the current government arrangement, which sadly creates conditions for others to use this as an opportunity to expand influence or to take measures to protect their borders.

¹ We fear Jordan may eventually join this group.

The Players: The Outside Powers

Russia: Russia has had designs on the Middle East since its czarist days. The desire for a warm water port has been a persistent factor in Russian foreign policy. The Ottomans blocked their path for many years. After the fall of the Ottoman Empire, the French and British moved in to prevent the area from falling into hostile hands.

During the Cold War, Syria, Iraq, and Egypt tended to align with Moscow, although Egypt eventually shifted its allegiance to the U.S. After the Soviet Union fell, the U.S. became dominant. However, as the U.S. has shown signs of withdrawal, Moscow has moved in. It has become a major ally for the Assad regime in Syria; without Russian support, Assad might well be out of power.

Russia has two goals for this part of the world and faces one major impediment. Its goals are to expand its geopolitical influence and arms sales. The impediment is that it lacks funds and thus finds it difficult to actually generate revenue from many poor nations in the region. For example, Russia has a good enough military to save the Assad regime and improve its situation, but it lacks the resources to rebuild the country. Consequently, Damascus finds itself in the position where it has captured much of its lost territory but can't do much with it because it too lacks the resources to recover.

Russia has tried to make inroads into Lebanon with mixed success. It has argued that it has an interest in protecting Orthodox Christians in Lebanon as a pretext for intervening. We would expect Russia to try to increase its influence in Lebanon with promises of investment in its offshore energy resources, but that support is dependent on generating enough revenue to fund the project and preventing other nations, such as Israel, from gaining control

of those energy resources. Russia would also like a secondary port in Lebanon to complement its port development in Syria. Although an offer to rebuild the Port of Beirut would give Russia a foothold in Lebanon, we doubt it can fund such an endeavor.

France: Although France has been out of this part of the Middle East since 1956,² it remains interested and there is an “institutional memory” from its colonial days. President Macron visited Beirut shortly after the explosion and was greeted warmly by the people. Although France would like to have some influence and does have resources, it isn't clear how aggressively it will try to become involved. It is important to remember that 58 French soldiers died in Hezbollah's truck bombing in Beirut in 1983 that killed 241 American troops. Thus, we doubt France wants to become militarily involved, [although we do note that it has moved naval assets into the area](#), ostensibly to aid [Greece against Turkey](#) in a spat over offshore energy resources. France may consider extensive financial aid, perhaps on the idea that it could reduce refugee flows. The EU may contribute as well.

The Players: The Inside Powers

Iran: Iran has been working to establish a “Shiite arc” from Tehran to Beirut. It has had mixed success. Although it has influence in Iraq, the country has fragmented, and Iran has struggled to establish control. In Syria, it competes with Russia for influence. Its primary source of power in Lebanon is Hezbollah but that group has suffered greatly during its involvement in Syria. In addition, U.S. sanctions have deeply hurt the Iranian

² After the U.S. put a stop to its ambitions during the Suez Crisis.

economy, and the pandemic has added to pressure. The faltering economy and lack of funds have weakened its ability to project power. Thus, Iran is not in a position where it can take advantage of the problems in Lebanon.

Turkey: Since Turkey doesn't share a border with Lebanon, it can't easily affect conditions directly. But, indirectly, it is trying to create buffers around its southern borders to protect itself from the Kurds and Islamist groups operating in what was once Syria. If these operations are successful, it will weaken Iran's ability to project power by further fragmenting Iraq and holding parts of Syria.

Israel: Israel fears Hezbollah's activities on its northern border. If conditions deteriorate in Lebanon, Israel does have a history of direct military intervention. However, given how difficult this history was, we suspect this action would be taken only with great consideration.

Saudi Arabia and the Gulf States: None of these have enough military power to matter, but they do have financial resources. If Russia would use its influence to reduce the power of Hezbollah, these nations would support that effort financially. But, beyond that, we don't see these states as much of a factor.

Ramifications

Essentially, the vulnerable countries, Iraq, Syria, and Lebanon, are going to be acted

upon. The situation in Lebanon is dire; the [government has resigned](#), and it isn't clear who has the power to bring order. There is a caretaker government in place, [but citizens are angry](#), and it may take an outside power to restore order. In the past, Syria would have likely played that role, but that isn't likely to occur given Syria's present state.

If conditions continue to deteriorate, and by all accounts it is highly probable that they will, outside forces will likely be necessary to restore order. If the U.S. continues to avoid involvement (and that's a safe bet regardless of who is in the White House), Russia is the most likely candidate. Israel may get a sphere of influence as well. Iran is likely to be excluded and Hezbollah will make a deal with somebody to maintain its interests.

From a financial market standpoint, this turmoil is a threat to Israeli financial markets; a collapse in Lebanon is unwelcome. Given that Turkey is in economic turmoil already, further complications won't help its situation either. Although oil prices sometimes benefit from turmoil in the region, the world remains oversupplied and any rallies based on this situation will likely fizzle.

Bill O'Grady
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