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SITUATION ASSESSEMENT

Renewed US Sanctions on Iran: Potential for Escalation or Containment

Policy Analysis Unit | August 2018

The US Takes a Strategic Gamble with Renewed Pressure on Iran

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Introduction

US President Donald Trump announced the imposition of a renewed set of sanctions on Iran on August 7, 2018, warning countries and multinational corporations from the “dire consequences” of doing business with the country¹. This followed from Trump’s decision in May to withdraw from the Joint Comprehensive Plan of Action, the deal orchestrated by the Obama Administration together with a group of European countries aimed at containing Iranian nuclear ambitions. Trump claimed at the time that the deal would not prevent Tehran from building a nuclear bomb².

The Trump Decision in Detail

Trump’s latest announcement signaled that the first 90-day grace period offered to a large number of multinational companies had expired. The August 6 deadline was intended to allow multinational companies a chance to “wind down” their commitments in Iran before becoming subjected to sanctions by the US Treasury Department. A second grace period, due to expire on November 4, was aimed specifically at oil and gas companies³. Aside from financial and insurance enterprises, which will find it more difficult to underwrite Iran-based activity, the aviation, automotive, software and high-technology industries will be affected. Likewise, the import of Persian carpets and pistachios from Iran by other countries will be prevented. The US is also advising its allies to end their purchases of Iranian oil by November, hoping in that way to deprive Tehran of its main source of foreign currency. Trump personally emphasized the harshness of his Administration’s sanctions on Iran through tweets⁴. The president further undertook to bring countries which have trade relations with Iran into step with Washington’s

¹ “Statement from the President on the Reimposition of United States Sanctions with Respect to Iran,” The White House, 6/8/2018, accessed on 9/8/2018, at: <https://goo.gl/cGMo4S>

² See “Remarks by President Trump on the Joint Comprehensive Plan of Action,” The White House, 8/5/2018, accessed on 9/8/2018, at: <https://www.whitehouse.gov/briefings-statements/remarks-president-trump-joint-comprehensive-plan-action/> and also “Will Trump Revoke the Joint Comprehensive Plan of Action?,” Situation Assessment Series, Arab Center for Research and Policy Studies, 16 October, 2017, available online: https://www.dohainstitute.org/en/PoliticalStudies/Pages/Trump's_Administration_policy_Toward_Iran.aspx

³ See details in: “FACT BOX:

⁴ “Trump: Sanctions reinstated against Iran for ‘world peace’,” CNBC, 7/8/2018, accessed on 9/8/2018, at: <https://goo.gl/HK8Gz7>

plans. In justifying these moves, Trump stated—with no supporting evidence—that Iran had used the monies it had accumulated since the JCPOA to build nuclear-capable missiles and to fan the flames of regional conflicts⁵.

Background to Trump's Move

From the beginning of his candidacy, Trump broadcast his opposition to the Iranian nuclear deal, using it as a battering ram to constantly attack the Obama White House.

With that departure point, the Trump Administration set out a list of 12 conditions for Iran to meet in order for the Iran nuclear deal to be ratified as part of the periodic, six-month approval process set in the original agreement. The new requirements included a stipulation that Iran would abandon all enrichment of fissile materials as well as open all its facilities—whether civilian or military—to inspection by international observers. Further conditions placed included the ending of Tehran's ballistic missile program and its "destabilization of the region". US Secretary of State Mike Pompeo further added that Iran would have to abandon support for groups which Washington considered terrorist, specifically Hezbollah and Hamas, as well as withdraw all of the militias it controlled from Syria; not intervene in Iraqi politics; and release all nationals of the US and its allies presently detained in Iran⁶.

Trump's Aims

The Trump White House aims to coerce Iran into coming to the negotiating table, hoping that it will be able to rectify what it sees as the present flaws in the existing agreement, and to arrive at a series of agreements over its role in regional politics. The US president explains that Iran has one of two choices: either change its "threatening behavior" and try to integrate anew in the world economy or persist in its ways and isolate itself from the rest of the world. Trump added that Washington was still open to all the possibilities, specifically mentioning American willingness to abide by a new, more comprehensive deal which also took in Iran's ballistic missile program and its support for various proxy groups across the region⁷. Equally, observers

⁵ "Statement from the President on the Reimposition of United States Sanctions with Respect to Iran."

⁶ Mike Pompeo, "After the Deal: A New Iran Strategy," Remarks, U.S. Department of State, 21/5/2018, accessed on 9/8/2018, at: <https://goo.gl/zSRitW>

⁷ "Remarks by President Trump on the Joint Comprehensive Plan of Action."

seeking to understand American aims in all of this should not underestimate the importance of Israeli interests in scrapping the 2015 nuclear deal, indicated by the vigor with which the pro-Israel lobby tried to thwart Obama's efforts to arrive at a deal. Indeed, the Israeli media is replete with reports that it was the Israeli prime minister who persuaded Trump to finally take his decisive step.

The White House is betting on an engineered collapse of the Iranian currency giving rise to popular protests eventually forcing the regime's hand and compelling Tehran to come to the table without any preconditions. Trump's National Security Advisor John Bolton, accepting Trump's offer is Tehran's only hope of escaping economic collapse under the weight of the sanctions⁸. Pointedly however, the Trump Administration has made it clear that it intends to rectify Iran's actions—and not to change the regime in Tehran. The US president has even stated his willingness to meet Iran's leaders if it could allow them to come to a new agreement.

Conditions for US Strategic Success

In order to bring Iran to the negotiating table, the US needs to rely on international commitment to the sanctions, especially from Europe. Russia and China do not seem to be committed; Russia, which is also subject to US sanctions sees Iran an ally while China is a major importer of Iranian oil. Most Chinese companies dealing with Iran are state-owned and do not fear sanctions and are therefore likely to continue dealing with Tehran⁹. India and Turkey also both harbor reservations about US sanctions. India, one of the biggest importers of Iranian oil, is under intense American pressure to reduce its purchases of Iranian oil, especially given the strong strategic ties it has with the United States and Israel. Turkey, which has extensive economic ties with Iran, also finds itself in a difficult position, especially recently with the escalation of its own economic dispute with Washington.

Europe is the most susceptible to American pressure. A day before the first phase of US sanctions on Iran, the foreign ministers of Germany, Britain, and France, along with the EU's High Representative for Foreign Affairs and Security Policy, announced in a joint statement that they would work to maintain the flow of funds and oil and gas exports between their countries and Iran. They also enacted a law known as the "Blocking Statute" to protect European

⁸ Babak Deghanpisheh, Peter Graff, "Trump says firms doing business in Iran to be barred from U.S. as sanctions hit," *Reuters*, August 7, 2018, available online: <https://www.reuters.com/article/us-iran-nuclear/trump-says-firms-doing-business-in-iran-to-be-barred-from-u-s-as-sanctions-hit-idUSKBN1KS13I>

⁹ Gardiner Harris and Jack Ewing, "U.S. to Restore Sanctions on Iran, Deepening Divide with Europe," *The New York Times*, 6/8/2018, accessed on 9/8/2018, at: <https://goo.gl/aupZqP>

companies from any US sanctions resulting from dealings with Iran. The text of the statute states that the EU does not recognize any judicial decisions that impose such penalties on companies engaged in business with Iran¹⁰. This legal instrument was first proposed in 1996 in order to protect European companies dealing with Cuba from US sanctions at that time. It prevents EU companies from complying with US sanctions unless they receive an exceptional permit from the European Commission.

Nonetheless, it is unlikely that Europeans will be able to counter US sanctions and persuade large European companies to continue working with Iran. Major European companies that have been quick to cut ties with Iran include as France's Total, Renault and PSA and German automaker Daimler AG. The calculations of these European companies, and more than a hundred others, are based on the fact that the Iranian market is very small compared to the vast American market, linked to these companies through huge interests and investments. There are further indications of European compliance with US threats. The German central bank introduced a change in its business rules in July 2018, which could hinder the transfer of hundreds of millions of Euros from an Iranian bank in Hamburg to Iran¹¹.

Expecting a tough and decisive European position against US sanctions is simply unreasonable. Some US officials suggest that Washington is confident that Europe will eventually abide by the sanctions placed on Iran. According to US national security adviser John Bolton, "While some of the [European] governments still want to adhere to the nuclear deal, their companies are running from it. The amount of business they are doing in Iran is down substantially."¹²

The Iranian Position

Tehran insists it will not be subject to US blackmail, that it will triumph over sanctions and will not accept renegotiations under threat, especially with Russian, Chinese and European assurances that they will not abide by the sanctions and will respect the nuclear deal as long as Iran does. But the European commitment, as demonstrated above, is far from guaranteed. This prompted Iran to threaten to close the Strait of Hormuz to prevent the flow of oil through the Gulf, with the United States responding by warning Tehran against threatening international

¹⁰ "Iran nuclear deal: EU shields firms from US sanctions law," *BBC*, 6/8/2018, accessed on 9/8/2018, at: <https://goo.gl/GKspt6>

¹¹ Harris and Ewing.

¹² "Bolton: Trump Admin Wants to Put 'Unprecedented Pressure' on Iranian Regime."

shipping lines in the region¹³. On the other hand, Iran is living in a state of popular unrest and protests due to mounting economic pressure. Since April 2018, the Iranian Rial has lost half of its value amidst threats to resume US sanctions, and inflation has risen sharply. The International Monetary Fund estimated in March 2018 that Iran's foreign exchange reserves fell to \$ 110.7 billion in fiscal year 2017, and are projected to fall to \$ 97.8 billion in 2018, enough to fund only 13 months of imports¹⁴.

Iran is faced with a real dilemma, and the regime now fears widespread popular unrest erupting that may affect its stability, especially if the Europeans cave in to American pressure. Iranian President Hassan Rouhani made clear that Iran welcomes "dialogue and negotiations" and that he had "no preconditions. If the US government is willing, let's start right now". This may be an indication of a relative loosening of Tehran's position.

In any event, the Iran-US confrontation appears to have two possible outcomes. First, American pressure to push Iran to the negotiating table could fail. In this case, popular pressure on the Iranian regime will mount with continued US sanctions. This could lead Iran to withdraw from the nuclear agreement and resume Uranium enrichment, while escalating operations to destabilize and target US interests and those of its allies in the region, in turn heightening the possibility of confrontation. The second, more likely, possibility, is that the parties will resort to secret negotiations and reach a new agreement, as Trump requested with communications appearing to be going through Oman and possibly other countries. Ultimately however, Trump is only interested in achieving a new agreement in order to replace the Obama deal, so that he appears in the eyes of his voters to have made an achievement through tough sanctions policy. It could even be forged within the same framework, with some marginal improvements for the US on some of the conditions.

Conclusion

Trump has expectedly launched an adventurous policy that bows to Israel and the political right in the United States, and the results are difficult to predict. The pressure has been laid on Iran in the wake of their operation to save the war criminals in Syria in cooperation with Russia. These late sanctions do not serve the Syrian revolution or the Syrian people but the sanctions may be pressure on Iran in Iraq. In Iran, the Iranian regime is under intense domestic pressure, the results of which are yet to be known. Trump's policy is just one more example of how the

¹³ Ibid.

¹⁴ Lesley Wroughton and Parisa Hafezi, "Renewed U.S. sanctions target Iran's economy, Tehran cool on talks," Reuters, 6/8/2018, accessed on 9/8/2018, at: <https://goo.gl/MmYZiF>

White House is putting more distance between the US and its traditional European allies. One consequence of this is that it likely undermines the prospects for US-led efforts at political dialogue, casting doubt on Washington's ability to peacefully resolve the dispute in the Gulf.