



## US-Iran relations in 2018

### Oxford Analytica Conference Call summary

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Has US President Donald Trump neutered the Iran nuclear deal without actually tearing it up? And if so, what are the costs and the consequences? On January 12, Trump renewed waivers on nuclear sanctions against Iran but said that he would not do so again unless European allies agreed to fix its “terrible flaws.” He also ordered further targeted sanctions on Iranian individuals and institutions and demanded a congressional bill imposing new conditions on Iran. Yet Tehran has said the deal is not re-negotiable, Russia has said the same thing and Europe has shown no signs of going along with Trump’s wishes. Meanwhile, Tehran is recovering from the aftershocks of popular protests that appeared to have taken the regime by surprise. These protests also appear to have been misread by the Trump administration.

### What is the Trump’s administration strategy on the nuclear deal?

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To understand where President Donald Trump is coming from we need to look at his belief that the 2015 multilateral nuclear deal is the worst deal that the United States has ever struck with any foreign power. In his view, it is not in the US interest: of particular concern is the fact that it is not permanent and that it excludes ballistic missile technology, which has led him to believe that Iran could be cheating. The deal also excludes Iran’s support of terrorism abroad and human rights. However, Iran would never have accepted a deal that included this wide range of issues. It is unlikely that the Trump administration would secure what it is seeking if there were to be a re-negotiation. There are other reasons driving Trump’s position: it is an Obama-administration deal, and Trump has a pathological hatred of anything from that era. He is trying to unpick what his predecessor agreed to a degree that we have not seen with previous presidents. Several high-ranking members of the Republican Party have a deep mistrust of Iran dating back to the Iranian revolution, and they believe that Iran is cheating on the agreement. There is also the issue of US-Israeli relations and the power of the Israeli lobby, which has re-asserted its position and influence over this administration.

The problem facing Trump is that other signatories such as the United Kingdom, Germany, France, Russia and China believe that the deal is working; they see that Iran is adhering to it and cannot see a better way to limit Iran’s ambitions on the nuclear front. Trump made a threat to Congress last week: he announced that he would not sign the waiver again and called on European nations to renegotiate in 120 days, but this is unlikely to happen. The Trump administration has labelled Iran as a rogue state along with North Korea and Trump tweeted his support of the recent protests in Iran. Beyond this rhetoric there are limited places for the Trump administration to go and nobody thinks the threat of military action is a strong one. The consensus in Washington is that this would be counterproductive. It is unlikely that the Trump administration can persuade its European allies to shift their position in the next 120 days. However, any unilateral action by Trump would be undermined by his EU allies, who are determined to stick with the deal.

### What is Iran’s perspective?

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There are two main strands within the government in Tehran. The president and foreign minister are supportive and committed to the nuclear deal. At its signing, they hailed it as a great achievement and hoped that it would lead to improved relations with the United States. However, that hope was killed with Trump’s election. What they want to do now is keep the deal in place and find ways to get more out of it as it has not delivered what was hoped for. Foreign Minister Mohammad Javad Zarif, who was in Europe just before Trump announced the waiver, was pleased that the Europeans are standing firm and has called this a great achievement. On the other hand, the hardliners, including the Supreme Leader, are more sceptical. They have said from the beginning that the United States cannot be trusted and that it is an enemy of the Islamic Republic. The Supreme Leader does not think Washington will keep its word. The Trump administration conforms much more closely to the hardliners’ worldview than the Obama administration did. So from an ideological point of view, the hardliners are back in their comfort zone.

The way that Trump keeps the world on tenterhooks as to whether he will sign the waiver has been sufficient to undermine the deal. This is not wasted on Iranians who realise that the deal is not delivering. Major western corporates and banks are not investing because they fear that their US interests will suffer or they will face possible prosecution.

Washington's take on the demonstrations was largely wishful thinking. The protests took the regime by surprise and it took time to get them under control. This led to expectations of popular discontent calling for regime change and a view that there was a problem in re-establishing security control. Neither interpretation is correct. The protests were not political or organised by cohesive forces. Instead, they were started by young, unemployed men damaging property. The second bit of wishful thinking regarding the authorities' apparent inability to quash the protests is explained by the fact that the conservative wing hoped to use the demonstrations to undermine President Hassan Rouhani as the protests were largely triggered by austerity measures. As the protests became more threatening the hardliners changed their narrative to that of 2009, when they claimed protests were instigated by foreigners in Washington, Tel Aviv and London.

What is interesting is that there is a clear division at the top of the leadership with both sides trying to use economic discontent to blame each other and pursue their agendas. The fact that the protests were not quashed promptly will encourage more protests. However, bear in mind that there have been many labour strikes and small protests during the Rouhani administration.

### **What is the impact on the economy and how should foreign investors view developments in Iran?**

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There are two major factors: firstly the global regulations that allow foreigners to do business in Iran, which boils down to the nuclear deal. This is not working in Iran's favour as it is scaring off businesses and banks that are considering doing business. The second factor is the Iranian political system. There has been much political infighting over the past eight to ten years, and recently these disputes have become more visible, raising questions about political stability. Will Iran transition to a reformist government or will it go in the opposite direction? In addition, the Supreme Leader is old and unwell so there will be a new leader in the short to medium term. In terms of the economic structure, there are issues for foreign investors including regulation, transparency, the power of semi-government entities (especially those with military connections) and whether foreign companies will be allowed to compete freely. Rouhani's efforts to present Iran as business-friendly have not succeeded.

The recent protests were different from those of 2009. Rouhani was able to deliver on some of his election pledges in the early stages of his government including dealing with the threat of sanctions and international isolation. This led to a boost in economic growth and lower inflation. However, he has not been able to deliver on improving transparency, banking sector reform, human rights and the citizenship charter. The cost of living has increased, and the detail of the budget allocation made it clear that the government does not have the power to deliver or the will to pursue its reformist agenda. This is demonstrated by the budget for religious institutions, which is 27 times higher than the budget for the environmental protection agency.

### **What is the regional spill-over from a deterioration in US-Iranian relations?**

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The key point is that Iran and the United States are both important powers in the Middle East and a rise in hostility plays out in different ways across the region. A prime example is Iraq, where there are elections in May. Since 2003 the prime ministerial candidate has been backed by both Washington and Tehran. With tensions increasing, it is less clear whether there will be consensus on who the next prime minister will be.

The second aspect is how the Iran-US confrontation plays out in the Gulf Co-operation Council (GCC). The way that politics is shaping up is that Saudi Arabia, the UAE and the United States are looking to take a more confrontational stance against Iran. If the United States ups the ante, so too will Saudi Arabia and to a lesser extent the UAE. There are risks of naval confrontation in the Gulf. There are issues about how Iran might respond and how this plays out for the Shia populations in Kuwait, Bahrain and even Saudi Arabia itself. There are also issues around the Qatar-Gulf crisis and how Qatar's need to reach out to Iran could lead to a destabilising realignment within the GCC itself, which is already split. This raises difficult questions for Iran and Dubai.

Finally, there are the existing and potential proxy conflicts. Stability in Lebanon has always been based on a tacit agreement between Saudi Arabia and Iran and their respective protégées. That was strained in 2017 with the strange events around Prime Minister Saad Hariri's trip to Riyadh. A degree of stability has returned, but that may not last. Yemen is crisis that could be worsened by increased

regional polarisation. In Syria, Iran's role is vital for the Assad regime to stabilise the areas that it controls. However, the United States and Israel are increasingly concerned about that role and are looking to do something about it.

#### **How does Iran expect Saudi Arabia to exploit the current situation to its advantage?**

The standard view in Iran of those involved in state security is that Saudi Arabia is hand in glove with the United States and is working closely with Israel. Saudi Arabia is viewed as a power that is hostile and is seeking opportunities to undermine and damage Iran. What the Crown Prince of Saudi Arabia has said about taking the fight onto Iranian soil has made the Iranians very sensitive to Saudi initiatives around Iran's borders. The 2017 terror attacks on the Iranian parliament building have raised expectations that Iran could see more terrorism on its soil. The Iranians are reciprocating to the extent that they can, but they are not vigorously seeking to stir up trouble in Saudi Arabia. However, they are applauding the Houthis' actions in Yemen, they are enjoying what looks like success in Syria and they want to maintain and increase their positions in Iraq. The Iranian perspective is that Saudi Arabia is part of a hostile axis of Washington, Tel Aviv and Riyadh and that they need to push back against it. Former president Akbar Hashemi Rafsanjani (1989-1997), who was a powerful figure up to his death last year, had wanted to normalise relations with Saudi Arabia but since his demise there is no other prominent figure vocalising that sentiment.

#### **Will new leaders emerge who can challenge the fault lines exposed by the protests?**

Although protesters showed their disagreement with Iran's involvement in foreign military adventures, significant policy changes are not expected as the Iranian security agenda is firmly in the hands of the Islamic Revolution Guard Corps (IRGC), the Supreme Leader and other unelected bodies. They have developed a narrative that they are comfortable with in terms of fighting terrorism abroad and the terror attack in Tehran last summer. The noises coming out of Saudi Arabia have strengthened that narrative.

While there are no new leaders on stage at the moment, leaders can emerge unexpectedly in Iran. This was demonstrated by the leaders of the Green Movement, Hossein Mousavi and Mehdi Karubi, two older politicians who suddenly emerged as charismatic and powerful public speakers. However, the enduring pattern is that of moderate reformists and pragmatists doing well in elections. The conservative hardliner factions have not found a way to challenge the moderates at the ballot box other than by the means that they used in 2005 and 2009.

#### **What is the extent of Iranian involvement in Afghanistan and its effect on US operations?**

Iran is active in Afghanistan in many ways. It is a neighbouring country and there are problems with migration and narcotics trafficking. There was a fear that Afghanistan could be used as a base for a US attack when the American military were active there. There is a long-standing rivalry with Pakistan in Afghanistan, although the Iranians are the weaker player. Over the past ten years, Iran has invested heavily in infrastructure. Iran is embedded and will remain in Afghanistan. Iran's presence is neither challenging nor helping what the United States is trying to do in Kabul, but is contributing to economic development. Others would argue that Iran is building a power base in the north-west. Recently Tehran has been repatriating Afghan refugees and migrants from Iran. In addition Iran has been using Afghan foot soldiers for military campaigns in Syria, leading to criticism that Iran is exploiting gullible and vulnerable Afghans. This policy is unlikely to change. The Iranian security establishment is convinced that the model of local militias in pursuing its interests in Syria is working.

#### **What impact would a regional war have on the oil market?**

A full military confrontation that affected Saudi Arabian oil production would be very bad for the oil market in spite of the growth of US shale. If only Iran's production is affected, this would have a smaller impact. However, a full military confrontation is extremely unlikely. The heightened tension is more likely to play out in proxy confrontations and/or small naval clashes.

These could nevertheless have a huge social impact in Iran. People are very responsive to domestic and international events and they mobilise quickly, as demonstrated by the recent cases of the earthquake and the sinking of an Iranian oil tanker.

**If Iran is cut off from the Western financial system, are there new mechanisms? Are there opportunities for Russia and China?**

Iran has created and tested many alternative solutions and channels for payments. It has exchanged oil for gold and consumer products. It has opened credit lines with tier two regional banks in central Asia, China, Turkey, India and Russia. Some of these mechanisms are viable. The key problem with all these alternative solutions is the evaporation of assets coming into the Iranian economy, with nearly 50% going in costs and corruption. Economically it is not viable for Iran to sustain these costs.

**How will domestic US issues influence Trump's Iranian policy?**

Trump is coming under pressure from his hardline supporters who believe his rhetoric. He cannot take the middle line indefinitely as there is opposition from the more hardline elements of his party and the Israeli lobby, both of which are important in electoral terms. The Democrats have different positions; some think that the nuclear deal is not a good idea. Although the role of Congress could be side-lined by an executive order allowing the re-imposition of sanctions by Trump, it is likely that Congress will play a significant role given the November congressional elections. The Democratic Party position is that the deal needs defending as the best way to prevent the Iran nuclear programme coming back on line. There will be strong congressional opposition to the deal being broken and also some opposition from within the Republican Party.

**Is the Trump administration unified in its view of Iran as an adversarial power?**

There are more military men in Trump's circle with the rise of the defence department in policy making and elevation of people like HR McMaster. Their prevailing view is that the nuclear deal is the best way to keep Iran in place. What would the consequences be of breaking the deal and how might Trump be regarded in the future? Look at the view that Truman lost China. This would be contrary to the US interest. Trump may be looking for a face-saving position whereby he can use strong rhetoric and impose unilateral sanctions on specific issues whilst keeping the nuclear deal, as the consequences of leaving the deal could be more damaging. There are not many options available for the European allies. In a recent EU summit meeting members questioned what Trump wants and what he mean by "fixing this deal." Shifts in the US Congress might help Trump on this front by allowing the adoption of legislation that extends the period of time that Trump has to make the decision so it becomes less of a focal point.

**Are the Europeans between a rock and a hard place?**

The Europeans will not back down on the Iran issue. They genuinely believe that the nuclear deal is the best option, that it is doing its job and that that has been confirmed by the International Atomic Energy Agency (IAEA). However, it is unlikely that Washington will want to act in a way that makes it look like the United States destroyed the deal.