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# A Realistic Path for Progress on Iran

12 Guiding Principles to Achieve U.S. Policy Goals

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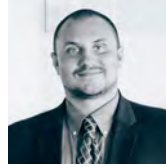
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### Cover Photo

Images/Getty Images; Design/Melody Cook, CNAS

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## 12 Guiding Principles to Achieve U.S. Policy Goals

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### About the Middle East Security Program

The Middle East Security Program conducts cutting-edge research on the most pressing issues in this turbulent region. The program focuses on the sources of instability in the region, maintaining key U.S. strategic partnerships, and generating solutions that help policymakers respond both to fast-moving events and long-term trends. The Middle East Security Program draws on a team with deep government and nongovernment experience in regional studies, U.S. foreign policy, and international security. It analyzes trends and generates practical and implementable policy solutions that defend and advance U.S. interests.

### About the Energy, Economics, and Security Program

The Energy, Economics, and Security Program analyzes the changing global energy and economic landscape and its national security implications. From the shifting geopolitics of energy to tools of economic statecraft, such as trade policy and sanctions, to security concerns tied to a changing natural environment, the program develops strategies to help policymakers understand, anticipate, and respond. The program draws from the diverse expertise and backgrounds of its team and leverages other CNAS experts' strengths in regional knowledge, defense, and foreign policy to inform conversations in the nexus of energy markets, industry, and U.S. national security and economic policy.

# **CHAPTER 1**

## **Introduction and Recommendations**



**T**he Trump administration has adopted an aggressive Iran strategy. The United States seeks to achieve—via the application of maximum pressure—nothing short of a fundamental change to policies that have defined the Islamic Republic for decades, if not since its founding, and have been a constant source of tension with the United States. Although the U.S. decision to withdraw from the Joint Comprehensive Plan of Action (JCPOA) and re-impose sanctions on Iran has garnered most of the attention, the administration also is leveraging diplomatic, law enforcement, informational, and other tools to apply pressure across a range of issues: Iran’s missile program, support for terrorism, regional influence, and human rights record.

The authors of this report believe U.S. interests would have been better served by remaining in the nuclear deal and by retaining its small contingent of U.S. forces in Syria. However, these debates are now moot. Our policy recommendations are therefore tailored toward achieving U.S. objectives assuming there is no American return to the JCPOA, and that President Trump’s decision to withdraw U.S. forces from Syria is implemented.

The stated U.S. goal is to force Iran back to the negotiating table for a comprehensive deal that addresses not just the nuclear and missile program, but the full array of Iran’s destabilizing activities. Although the administration has denied that it seeks regime change, its approach of pushing Iran to the breaking point suggests that collapse of the government is an acceptable, perhaps even desirable, outcome if Iran does not capitulate on U.S. terms.

Last May, following the U.S. withdrawal from the nuclear deal, Secretary of State Mike Pompeo laid out 12 core issues where the administration was seeking change from Iran. (For a detailed list of these demands, see Annex 1.)<sup>1</sup> We do not believe that getting resolution on all of these issues—which are sources of longstanding tension between the United States and Iran—is realistic. But if the administration is serious about making progress on the biggest challenges facing U.S. Iran policy, it must be more than simply aggressive. It also will need a smart, pragmatic, and patient policy.

This report aims to provide guiding principles and concrete policy suggestions for how to make realistic progress in preventing Iran from building a nuclear weapon and countering its destabilizing behavior under the assumption that the United States does not return to the JCPOA and that it continues its current pressure campaign. The recommendations in this report seek



*Secretary of State Mike Pompeo delivers remarks at the Heritage Foundation laying out 12 core issues central to the Trump administration’s Iran policy following the U.S. withdrawal from the JCPOA. (Win McNamee/Getty Images)*

to take advantage of U.S. strengths, but also recognize the limits of U.S. influence and, in some cases, political will. We offer suggestions for where the United States should seek near-term “wins” and where it can accept short-term “draws” while it pursues longer-term efforts to change Iranian policies. This is an approach that ultimately tries to perpetuate Iran’s compliance with the nuclear commitments in the JCPOA even as economic pressure increases. And it is an approach that more effectively pushes back against Iran’s activities in the Middle East without either dramatically increasing U.S. involvement or pulling back from the region.

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Although this is an Iran strategy, it also identifies where U.S. Iran policy intersects with other critical national security priorities such as counterproliferation, maintaining the efficacy of sanctions, and counterterrorism—and makes recommendations for how to navigate potential contradictions in U.S. policy.

## We recommend the following 12 actions:

- 1 Clarify through words and action that the U.S. administration's strategy is not regime change but a "big for big" trade and reinforce the benefits to Iran of reaching a deal.
- 2 Keep communications channels with Iran open while pursuing the goal of high-level talks.
- 3 Foster an environment where Iran continues to adhere to the nuclear restrictions and transparency measures in the JCPOA.
- 4 Develop a set of calibrated options to deter those Iranian nuclear activities that matter most and begin laying the groundwork for a realistic long-term solution to the Iranian nuclear challenge.
- 5 Seek realistic limitations on Iran's missile program and strengthen counter-proliferation efforts.
- 6 Use sanctions policy, and other tools, to maximize pressure by highlighting Iran's non-nuclear illicit activities.
- 7 Mitigate the negative effects of unilateral U.S. sanctions toward Iran on the U.S. economy and preserve the foundation for effective sanctions on Iran over the long term.
- 8 Work more closely with Arab partners to counter Iranian irregular warfare.
- 9 In Syria, manage the withdrawal of U.S. forces in such a way that prioritizes preventing a reemergence of ISIS, but also tries to limit Iranian gains to the extent possible.
- 10 Pursue a patient strategy in Lebanon to slowly undercut Hezbollah's influence by building up viable alternatives.
- 11 Demonstrate a clear, long-term commitment to Iraq.
- 12 Offer the Saudis a clear choice in Yemen: greater U.S. involvement in exchange for a fundamental shift in how the war is conducted or an end to American support.

# **CHAPTER 2**

## **Background**

**T**he U.S. ability to effectively execute its Iran policy will be influenced by the views and actions of key players. Although many U.S. partners—and even its competitors, China and Russia—share the broad U.S. objectives of preventing Iran from developing nuclear weapons and ending its support to terrorism, they sometimes differ sharply on the appropriate means to achieve these goals and the urgency with which they should be pursued. The U.S. withdrawal from the JCPOA and re-imposition of sanctions also has created tension with its traditional European allies, who worry—as does Iran—that the new U.S. strategy aims for regime change.

### The View from Iran

Since President Trump's announcement that he was withdrawing the United States from the JCPOA, the domestic political debate within Iran over the deal has increased significantly.

Hardliners have criticized President Rouhani's failure to secure the national interest and his strong endorsement of the JCPOA. They have reminded their base, and the broader public, that Iranian hardliners were right in warning against trusting America while making concessions to the P5+1 (the United States, Russia, China, France, the United Kingdom, and Germany).

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As Iranian hardliners see it, the implementation of the so-called "resistance economy"—which seeks to withstand U.S. and international sanctions through greater Iranian economic autonomy—not diplomacy, is the key to a resilient and healthy economy. Hardliners reportedly have become a driving force behind some of the unrest in the country, pushing the bazaar and other factions to protest and strike to undermine Rouhani.<sup>2</sup> Hardliners have warned against negotiations on other topics, including the country's missile program, which they view as a core component of Iran's deterrent and necessary to defend against a possible military strike by the United States, Israel, or Gulf countries. Since the U.S. withdrawal



*President of Iran Hassan Rouhani addresses the United Nations General Assembly in September 2018. After the U.S. withdrawal from the JCPOA in May, Iranian hardliners have criticized President Rouhani's failure to secure Iran's national interests and reminded their base, and the broader public, they were right in warning against trusting America. (John Moore/Getty Images)*

from the deal, these views have gained traction among moderates as well.

Meanwhile, Rouhani has lost significant political capital. He has almost exclusively focused his attention on fixing the economy, foregoing other campaign promises. Moderates and reformists face difficulty maintaining relevance at home as protests continue across the country and the general public loses interest in the JCPOA's fate. Today, Iran's elite are sharply divided between those who see the EU as Iran's economic lifeline and those arguing for closer ties with Russia and/or China instead.

Supreme Leader Ayatollah Ali Khamenei—who sets the parameters of acceptable debate within the Iranian system and who has the final say on all issues—has declared that Iran will continue to implement the JCPOA so long as the deal continues to align with its interests, but that Tehran would need “guarantees” from Europe to stay in the deal.<sup>3</sup> At the same time, he instructed the Atomic Energy Organization of Iran to take steps toward an industrial-scale enrichment program, an objective he already had laid out prior to the JCPOA in summer 2014.<sup>4</sup> Still, despite all of the political pressure, thus far Iran has chosen to stay in the nuclear agreement.

Since the U.S. withdrawal from the JCPOA, Iran has tried to increase pressure on Europe to extract more concessions for its continued participation in the deal. Europe has taken some steps in response aimed



at facilitating continued trade between Iran and the European Union. While an important and much-needed political and symbolic boost for Rouhani and other JCPOA advocates within Iran, it is unclear whether Europe's attempts to sustain the economic benefits of the deal amid U.S. sanctions will be sufficient to keep Iran in the deal.

While the future of the JCPOA plays out, the regime also is concerned about possible escalation with the United States. Although the potential for conflict with the United States never leaves the Iranian radar, Iranian officials appear to be more concerned given the administration's hardline policy on Iran and what they view as an unpredictable U.S. president.

Iran's next parliamentary elections will take place in 2020. Generally, the campaign leading to those elections is shorter but involves more politicking than presidential elections. And while presidential elections galvanize the broader population, parliamentary ones tend to rally the regime's base. As a result, the months leading to the 2020 elections are likely to pose a challenge to the JCPOA's implementation and become another source of volatility in U.S.-Iran relations.

### The View from the Middle East

Arab states in the region, as well as Israel, have found an administration in Washington more receptive to broad concerns about, and public condemnations of, Iran's policies. Indeed, these governments now share a platform for escalating rhetoric, if not actions, against Iran. However, President Trump's decision to withdraw U.S. forces from Syria has reopened the discussion among Washington's regional partners who are confused by the conflicting messages they are getting from the United States.

Those Gulf states that see Iran as a geopolitical competitor have taken an increasingly proactive stance on regional issues, pitting themselves against what they view as an emboldened and dangerous Iranian hegemonic campaign. Whether in Yemen, Iraq, Syria, or Lebanon, these states have taken aggressive policy stands, ranging from military intervention to coercive diplomacy and economic statecraft, to push back on the perceived threats from Iran. They also have made the issue of Iran a critical determinant for cutting off other capitals—as underscored by the continuing feud between some of the Gulf states and Qatar.

These tensions are increasing as Iran continues to threaten the traditional regional order and fuel instability in Syria, Iraq, Yemen, and beyond, likewise increasing the



*A woman places her ballot in the February 2016 parliamentary elections in Iran, the first since the nuclear deal was signed. Iran's next parliamentary elections will take place in 2020, the first since the United States withdrew from the deal. (Majid Saeedi/Getty Images)*

potential for direct confrontation between regional states and Iran, either by choice or miscalculation.

Tensions between Israel and Iran remain high, though thus far both parties have managed to avoid a direct open military confrontation. Iran's expansion into Syria over the last several years as a means to guarantee Hezbollah's ability to terrorize more effectively Israel's border only has magnified the threat posed by Iran to Israel. Israel is also keeping a close eye on Iran's nuclear program.

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Israel has long sought to confront the multifaceted Iranian threat primarily through the combination of indigenous capabilities and collaboration with and support from the United States. But Israel has acted on its own when necessary, illustrated by a wave of direct attacks on Iranian and Hezbollah related assets in Syria

in recent months.<sup>5</sup> Israel also has sought to increase collaboration with Arab states, including more robust private cooperation with states like Saudi Arabia and the UAE, and has dramatically increased engagement with Russia to pursue its policy of checking Iran in Syria.

Still, Israel is always preparing for a possible direct confrontation with Iran and its proxies throughout the region should Iran successfully provide more strategically destabilizing capabilities to Hezbollah, for example, or expand its nuclear program and get to a potential breakout point.

These regional actors have generally adopted more aggressive approaches against the backdrop of questions over the U.S. commitment to the region. This has persisted despite the Trump administration's shift to a harder line on Iran. Mixed U.S. signals caused by the decision to withdraw its forces from Syria or vocal criticism of U.S. support of regional partners, for example, sow doubt over whether the United States will pursue its retrenchment away from the Middle East. This uncertainty will continue to fuel disagreements with Washington.

### The View from Europe

Europe remains committed to salvaging the JCPOA. Europe views the deal as the most effective way to prevent Iran from developing a nuclear weapon and is doing what it can to blunt the economic impacts of the re-imposition of U.S. sanctions. But Europe also

recognizes that, in reality, its options to do so are limited and mostly symbolic, given that European corporations are not willing to risk losing access to the U.S. market.

The unilateral U.S. withdrawal from the deal also has raised questions in Europe about EU economic sovereignty and the future of the U.S.-Europe relationship. Allies are angry that the Trump administration's choice to spurn the accord includes punishing them if they continue to do business with Iran. Policymakers in Brussels and beyond are starting to ask themselves whether Europe should really be so economically intertwined with America that when the United States chooses to impose secondary sanctions on a country like Iran, in contravention of European interests and policy, the Europeans are helpless to stop it.

## The unilateral U.S. withdrawal from the deal has raised questions in Europe about EU economic sovereignty and the future of the U.S.-Europe relationship.

This has led the EU to devise several economic mechanisms meant to demonstrate its continued support for the nuclear deal, deliver Iran its economic benefits, and assert Europe's ability to chart its own policy path. This past summer, Europe announced two important measures: First, the EU formally revived a 1990s-era blocking law that allows it to protect or compensate European companies exposed to U.S. sanctions.<sup>6</sup> Second, it outlined plans to establish a so-called Special Purpose Vehicle, a financial institution that is technically not a bank but would process payments between Iran and its international trading partners.<sup>7</sup> These measures are unlikely to meaningfully reduce the economic pain on Iran, and it remains unclear whether they will be sufficient to keep Iran in the deal.

Europe also remains concerned that U.S. policy is designed to result in the collapse of the Iranian regime. European experts and EU officials see regime collapse as highly destabilizing and dangerous, potentially causing violence and massive refugee flows into Europe.

Although Europe generally shares U.S. concerns regarding Iran's non-nuclear activities—its missile program, support to terrorist and other militant groups, and deplorable human rights record—it believes that U.S. withdrawal from the JCPOA has made it harder to address these challenges.



*After President Trump announced the U.S. withdrawal from the JCPOA, Israel fortified its defenses along the Israeli-Syrian border in the Golan Heights, deploying tanks. Israeli jets have targeted numerous Iranian-controlled sites across Syria. (Lior Mizrahi/Getty Images)*

# **CHAPTER 3**

## **Engaging Iran**

### Recommended Actions

**Clarify through words and action that the U.S. administration's strategy is not regime change but a "big for big" trade and reinforce the benefits to Iran of reaching a deal.**

- Send clear and credible signals to Iran that the United States will not seek to topple the regime if U.S. concerns are addressed.
- Offer clear and proportional positive incentives to Iran to change its policies.
- Make clear that Iran's refusal to come to the table will result in more economic pressure.
- Look for opportunities to advance U.S. objectives short of a full deal focusing on concrete outcomes.

**Keep communications channels with Iran open while pursuing the goal of high-level talks.**

- Establish a communication channel to address ad hoc issues and to de-escalate when needed.
- If Iran remains unwilling to engage bilaterally, use alternate parties to establish communications.
- Leverage President Trump's cordial relationship with Russian President Vladimir Putin to communicate with Iran's leadership.

### 1. Clarify through words and action that the U.S. administration's strategy is not regime change but a "big for big" trade and reinforce the benefits to Iran of reaching a deal.

The Trump administration claims that the goal of its maximum pressure campaign is to strike a bigger and better deal, which would address all areas of concern pertaining to the Islamic Republic's nuclear, missile, and regional activities. However, its rhetoric and actions—for example, speeches by administration officials in front of Iranian opposition groups, comments that suggest Washington's concerns are with the nature of the Islamic Republic rather than its policies, and a messaging campaign that seems designed to widen the gap between Iran's leaders and its population—suggest that it also may be pursuing a policy of regime change.<sup>8</sup> There appears to be a division inside the administration between those who believe that regime change should be the preferred policy approach versus those who see the rhetorical

threat of regime change as a useful lever to pressure Iran to change its policies. The disagreements among these two viewpoints are papered over for now, but a more direct confrontation between these camps in the months and years to come could emerge.

In order to successfully bring the Iranians back to the negotiating table to strike a "big for big" agreement, the administration must send clear and credible signals to Iran that it will not seek to topple the regime if its concerns with Iran's activities are addressed, that the United States is prepared to live and work with Iran under its current government, and that Washington also is willing to provide proportional incentives to changes by Iran. To do so, the United States should complement its tough rhetoric and policy by laying out the details of the eventual benefits it is willing to provide to Iran should it agree to curb its nuclear, missile, and regional activities. For example, the United States can indicate to Iran that it is prepared to take the extraordinary step of ending the longstanding primary sanctions that stop most American companies from doing business with Iran.

As a smaller but still significant step, Washington could indicate that it would invite de-listing requests from Iranian financial institutions that can demonstrate they do not engage in illicit financial activity and maintain rigorous due diligence procedures, which would allow them to use global financial payment messaging systems. The United States also must make it clear to Iran that it is prepared to strike a permanent deal—such as by seeking congressional ratification or other measures that signal bi-partisan and legislative support—which would provide lasting sanctions relief and economic benefits for Iran.

At the same time, the administration should make it clear that Tehran's refusal to return to the negotiating table will come at a cost, including more economic pressure. As Iran's deteriorating economy intensifies popular dissatisfaction with the government and divisions within the regime, the administration can leverage this discontent to raise the cost of the regime's refusal to resume talks by highlighting the benefits that would await the country should its leaders change course. This is a departure from past practice, where administrations have been careful to outline modest benefits and remain vague or conditional about more substantial and strategic future benefits to comprehensive negotiations.

Failure by the United States to clearly communicate the benefits of engagement to the regime and the public will reinforce Iran's skepticism that America's strategy is regime change masquerading as maximum pressure to trigger a diplomatic process. Such a belief will further



lead Iran to view diplomacy with the United States as fruitless and deter it from reentering talks.

Moreover, the administration should recognize that it is not just the message, but also the messenger, that shapes Iran's perceptions. Key senior administration officials have a strong public track record of calling for the overthrow of the Iranian government and appearing at rallies held by dissident groups, particularly the Mujahedin-e Khalq (MeK), making it critical that these officials take actions to demonstrate that this is not U.S. policy.<sup>9</sup> Failure to do so will lead Iran's decisionmakers to misperceive U.S. intentions—and thus deter them from returning to the negotiating table—while providing ammunition to hardliners who oppose any engagement with the United States.

**While the United States lays the groundwork for a more comprehensive agreement with Iran, it also must manage expectations about what it can realistically achieve and look for opportunities where it can advance its policy objectives before reaching a potential final deal.**

While the United States lays the groundwork for a more comprehensive agreement with Iran, it also must manage expectations about what it can realistically achieve and look for opportunities where it can advance its policy objectives before reaching a potential final deal. The administration can identify viable limits to Iran's problematic policies in part by understanding Iran's domestic political dynamics and focusing on the areas of greatest concern. For example, during the nuclear talks the United States and Iran were able to reach an agreement that minimized the plutonium threat from the Arak reactor but allowed Tehran to maintain that it was modernizing the reactor and justify retaining its heavy water properties—both of which were important for domestic political reasons. Applying this approach to the administration's current policy, the United States should seek to lock in Iran on its self-imposed missile limits rather than trying to roll back its entire program (See Recommendation 5 for details on this proposed action). By focusing on concrete outcomes rather than simply



*President Trump's personal lawyer Rudy Giuliani and National Security Adviser John Bolton stand in front of portraits of deceased members of the Iranian dissident group Mujahedin-e-Khalq (MeK) at a 2013 rally the group hosted to protest President Rouhani of Iran. Key senior Trump administration officials have a strong public track record of calling for the overthrow of the Iranian government and appearing at rallies held by dissident groups, particularly the MeK. (Mario Tama/Getty Images)*

those solutions that aim to exert pain or punish Iran, the administration can make the greatest progress on its areas of concern.

**2. Keep communications channels with Iran open while pursuing the goal of high-level talks.**

Although President Trump has signaled his willingness to talk to his Iranian counterpart without any preconditions, public comments from administration officials suggest that the United States will not engage Iran until it begins taking significant steps to address U.S. concerns.<sup>10</sup> Rather than wait for high-level talks only on Washington's demands—which could take years to begin—the administration should establish a communication channel to address ad hoc issues over the short- to-medium term. By seeking to impose maximum pressure on Iran, the administration is undertaking a policy of escalation. Such a policy needs an “off-ramp”—a way to for Iran and the United States to talk, and to de-escalate if and when needed. Far from a sign of American weakness, such engagement would instead help advance the administration's objectives. It would allow the administration to convey clearly and candidly its positions to Iran, providing a crucial—and potentially more effective—private complement to its public warnings and declarations.



A private communications channel would provide the United States with a reliable and politically low-cost means to issue warnings, clarify intentions, and emphasize to Tehran the costs and benefits of its choices. It also can be used to raise sensitive issues such as Iranian detention of Americans citizens. Public messaging sets expectations for action and necessitates a response, which can unintentionally fuel an escalatory cycle. While public messaging is required in some instances, a private channel provides an avenue for offering more nuanced points outside of public scrutiny.

Although Tehran has signaled publicly it is not willing to talk to the United States at this time,<sup>11</sup> a standing U.S. offer for a private, bilateral communications channel also could make it easier for Tehran to change its position, because it would be out of the domestic political spotlight and Iran could publicly deny any communications. While the United States can leverage Europe's channels of communication with Iran, direct conduits would afford Washington the ability to ensure Tehran receives a single, unified message from the administration rather than conflicting messages that have been passed on from one capital to another.

**By seeking to impose maximum pressure on Iran, the administration is undertaking a policy of escalation. Such a policy needs an “off-ramp”—a way to for Iran and the United States to talk, and to de-escalate if and when needed.**

If Iran remains unwilling to engage bilaterally, the administration still should try to use alternate venues and parties to establish communications. These include multilateral mechanisms and platforms—for example, on the sidelines of the U.N. General Assembly annual meeting. Using the “Oman channel” also is a potential option to affirm messages and reinforce positions, and has the value of being a format with which the Iranians are familiar. The United States also can continue to use the Swiss embassy, which has represented U.S. interests in Iran in the past on less controversial or non-strategic issues, as an alternative to the E-3.

Finally, President Trump also could try to leverage his cordial relationship with Russian President Putin to communicate with Iran's leadership. This channel

could be particularly useful in the Syrian conflict and other scenarios where quick communication is needed to de-escalate a situation. This approach has risks. It empowers Russia to build its bona fides as a mediator, potentially increases its leverage over the United States, and Putin will almost certainly use his role to try to shape U.S. policies in a way that favors Russian interests. Relying on Putin—or any third party who may not fully share U.S. interests—increases the potential for muddying U.S. messages. But in the absence of direct contact at empowered levels, this avenue may be the best tool available. Should the United States pursue a third-party messenger, it also should consider using multiple parties to send a single, reinforced, message. Past experience using such channels, particularly to deliver stern warnings to Iran, suggests that they are most successful when employed together (rather than sequentially) and with a consistent message.

## **CHAPTER 4**

### **Constraining Iran's Nuclear and Missile Programs**

### Recommended Actions

#### **Foster an environment where Iran continues to adhere to the nuclear restrictions and transparency measures in the JCPOA.**

- Avoid actions that would stymie European, Chinese, and Russian efforts that encourage Iran to abide by its nuclear commitments in the JCPOA.
- Consider limited steps to enable Iranian access to the financial system if doing so could dissuade Iran from ramping up its nuclear program.
- Work with allies to track Iran's compliance with the deal; share intelligence; and enable European partners to resolve disputes through JCPOA mechanisms.

#### **Develop a set of calibrated options to deter those Iranian nuclear activities that matter most and begin laying the groundwork for a realistic long-term solution to the Iranian nuclear challenge.**

- Resist responding to minor Iranian nuclear developments with vague threats of punishment.
- Develop a playbook of diplomatic, economic, and military options to dissuade Iran from resuming the most problematic activities, including actions that could quickly or significantly reduce breakout time lines, efforts to reduce IAEA access, or the development of new capabilities that could improve pathways to weapons production—such as a plutonium reprocessing capability.
- Prioritize monitoring and verification over lengthening breakout time lines.

#### **Seek realistic limitations on Iran's missile program and strengthen counterproliferation efforts.**

- Secure a formal commitment from Iran to adhere to its self-imposed missile limits of 2,000 km.
- Sanction private Iranian companies tied to missile or proliferation activities to expose logistical networks and signal risk to partnering with Iran's military.

- Improve guidance and policy on countering proliferation financing, and better link trade control regimes with banks and money service businesses.
- Plan for the eventual end of U.N. restrictions on Iran's missile program, procurement, and proliferation codified in UNSCR 2231, and develop a new framework to contain these threats.

### **3. Foster an environment where Iran continues to adhere to the nuclear restrictions and transparency measures in the JCPOA.**

Since President Trump's May announcement that the United States was withdrawing from the JCPOA, the administration has been mostly silent on its preferences for the future of the deal. While it has been clear that it expects the international community to support its pressure campaign and has encouraged businesses and banks to distance themselves from Iran—lest they become the target of U.S. sanctions—it has been outwardly agnostic about the fate of the deal itself. There are no costs to the United States if Iran chooses to abide by its nuclear restrictions in the JCPOA. In the absence of a more comprehensive and long-lasting deal, Iran's continued compliance buys the administration time to implement its pressure campaign. As such, the United States should not stand in the way of the remaining participants' efforts to persuade Iran to continue adhering to the nuclear restrictions and transparency measures in the JCPOA.

**There are no costs to the United States if Iran chooses to abide by its nuclear restrictions in the JCPOA. In the absence of a more comprehensive and long-lasting deal, Iran's continued compliance buys the administration time to implement its pressure campaign.**

This approach need not require public recognition of the benefits of the deal by the administration, but rather simply avoiding actions that would stymie European, Chinese, and Russian efforts that encourage Iran to abide



*Iran's Arak Heavy Water Reactor sits south of the Iranian capital Tehran. Under the nuclear agreement, its core was rendered inoperable, and the reactor is being redesigned to produce substantially less plutonium. (Majid Saeedi/Getty Images)*

by its nuclear commitments in the JCPOA. For example, the United States should not attempt to prevent or penalize—including by sanctions or interdictions—Iran's procurement of materials and technologies via the procurement channel or the completion of the redesigned and repurposed Arak Heavy Water Reactor and Fordow enrichment site. The procurement channel and redesign of Iran's nuclear facilities make Tehran less capable of producing a nuclear weapon and provide the international community with a measure of control and insight into Iran's nuclear procurements—undermining them therefore would go against the U.S. national interest. While the administration indicated last November it would issue sanctions waivers for some JCPOA-related nuclear projects, it has not provided any further details publicly.

The administration also should consider taking limited, specific steps to enable Iranian access to the financial system if, in the course of P4+1-Iran dialogue, it becomes clear that such steps could make the difference between Iran continuing to abide by its nuclear commitments in the JCPOA or ramping up its nuclear program. For example, the United States could work with a European central bank to create a channel for legal and permitted business in Iran to more freely be financed in the international system. Such exceptions will have to be done on a case-by-case basis, and the administration will need to carefully weigh their impact on its maximum pressure strategy.

At the same time, the United States should work with the European Union—and where possible, Russia and China—to track Iran's compliance with its commitments. This includes sharing any relevant intelligence that Iran is skirting its requirements and encouraging and enabling European partners to resolve technical disputes through established JCPOA mechanisms.

Iran might decide to push the limits of the JCPOA for domestic political reasons—particularly heading into the 2020 parliamentary elections—and to keep the pressure on the P4+1 to deliver additional economic benefits. It is not in the interests of the United States or Europe that Iran be allowed to roll back its commitments without costs. As such, the United States and Europe should work together to develop graduated response options to deter Iranian nuclear advances. (See Recommendation 4 for details). Here, the United States can play “bad cop” to Europe's “good cop,” and lean on Europe to address areas of mutual importance where the P4+1 might have more credibility—and thus success—with Iran. Ensuring continued IAEA access to Iran's nuclear program is one

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such area. If Iran and the P4+1 reach terms to salvage the JCPOA, Europe should not hesitate to raise actions that Iran can take to help strengthen the deal, such as ratification of the Additional Protocol at the earliest possible date.

By working with Europe to develop adequate responses to these scenarios before they arise, Washington can rest assured that Europe is willing to take a tough stand and not be held hostage to a deal that is no longer working. In exchange, European capitals can have confidence that the administration will not over-react if faced with Iranian threats or developments that have little impact on Iran's nuclear capabilities.

#### **4. Develop a set of calibrated options to deter those Iranian nuclear activities that matter most and begin laying the groundwork for a realistic long-term solution to the Iranian nuclear challenge.**

Having abandoned the JCPOA, the United States is now faced with trying to keep the deal's limitations and transparency measures in place while building pressure on Iran—ostensibly for a bigger, better deal.<sup>12</sup> Tehran has responded by trying to shift the onus onto Europe to save the agreement.<sup>13</sup> It also has announced new nuclear activities that, while in line with JCPOA commitments, appear intended to signal that Iran is prepared to quickly expand its nuclear program should the agreement collapse.<sup>14</sup> Although at the time of this writing Iran appears willing to stay in the deal for now, if sanctions begin to bite and pressure increases, Iran could reconsider this decision, creating an escalatory cycle. This outcome is more likely than a new grand bargain between the United States and Iran for the foreseeable future.

**The administration should identify and separate “redlines”—Iranian activities that truly matter and require a serious response—from those Iranian actions that are visible or provocative but have a negligible impact on Iran’s actual ability to produce nuclear weapons.**

The United States, therefore, must think anew about what Iranian nuclear activities are unacceptable, how to deter Iran from engaging in these activities, and how to lay the groundwork for a realistic long-term solution to the Iranian nuclear challenge.

As a first step, the Trump administration should resist responding to minor Iranian nuclear developments with vague threats of military action. Rather, it should identify and separate “redlines”—Iranian activities that truly matter and require a serious response—from those Iranian actions that are visible or provocative but have a negligible impact on Iran’s actual ability to produce nuclear weapons. (For recommendations on how the United States should work with European allies to deter Iran’s nuclear advances, see Recommendation 3.) To borrow a historical analogy, the United States needs to shift from a policy of “massive retaliation” to a doctrine

of “flexible response,” whereby the U.S. reactions are tailored and proportional to the Iranian actions they are intended to deter.

There are a range of small steps that Iran could take on its nuclear program that—while intended by Tehran to defy Washington and extract concessions from the P4+1—do not shorten Iran’s time to a bomb or materially improve its ability to produce one. Iran’s announcement last summer that it was commissioning a new centrifuge production facility fit into this category.<sup>15</sup> The United States should avoid reacting to these provocations with military threats and, for those measures that could be JCPOA violations, at least initially allow Europe time to resolve them through established JCPOA mechanisms. The administration also should remember that even Iranian activities such as marginally exceeding the amount of material it has on hand or re-installing a token number of new centrifuges—while more worrying—would almost certainly not be indicative of an Iranian dash for the bomb.<sup>16</sup> The United States will have ample time to formulate a response. President Trump will need to listen closely to his technical and intelligence advisors to understand what these developments mean, should they occur, and to calibrate the U.S. response appropriately.

Crafting and enforcing redlines is more difficult. The United States and its allies should develop a playbook of response options and determine how best to communicate these redlines to Iran. Options should include diplomatic, economic, and, if necessary, military measures to dissuade Iran from resuming the most problematic activities, including actions that could quickly or significantly reduce breakout time lines, efforts to reduce IAEA access, or the development of new capabilities that could improve pathways to weapons production—such as a plutonium reprocessing capability.

For example, an Iranian renunciation of its Comprehensive Safeguards Agreement (CSA)—under which Iran provides access to the IAEA—should constitute a redline because such access is critical for alerting the international community to a breakout or a covert program.<sup>17</sup> More challenging, and perhaps more likely, are those scenarios that might fall short of a redline but require a U.S. response. For example, a decision by Tehran to impede JCPOA-required inspection provisions that go beyond the Additional Protocol to the CSA—such as continuous monitoring of centrifuge production and storage facilities<sup>18</sup>—or marginally exceeding enriched uranium stockpile limits.<sup>19</sup> Neither is immediately detrimental to the international community’s insight into the program or significantly cuts Iran’s time to a



bomb, but the United States and its allies would need to work together to make clear that Iran needed to reverse course quickly.

Such an approach will be difficult for this administration, which has staked its policy on doing everything possible to increase pressure on Iran. Implementing this recommendation would require an adjustment to this policy: It would require the administration hold some elements of its maximum pressure toolkit in reserve so that it can use those sticks should Iran cross U.S. redlines.

Most importantly, U.S. efforts must be informed by an answer to the broader, longer-term question that would have remained relevant even if the United States had stayed in the deal: What type of Iranian nuclear program can the United States ultimately live with? In other words: How much is too much, and why? Developing a bipartisan answer to this question is critical both for setting redlines—including thresholds for military action—and securing a lasting diplomatic agreement. The Trump administration should begin by recognizing (even if it does not communicate this publicly at first) that Iran will not abandon enrichment, come fully clean about its past nuclear weapons program, or accept constraints in perpetuity.<sup>20</sup> Instead of pursuing these unattainable goals, the United States should focus on how much space it needs to put between Iran and the bomb—a function of how quickly the United States and its allies can detect a weapons effort, and how long they believe they will need to act.

In doing so, the United States should strongly consider prioritizing monitoring and verification over temporarily lengthening breakout time lines. Both are important, but a robust and permanent verification regime helps not only warn of an Iranian dash using its known nuclear facilities, but is critical to investigating any potential undeclared activities. The daily inspections of enrichment facilities allowed under the JCPOA as well as the use of online enrichment measurements and other advanced verification tools permitted by the agreement would quickly alert the IAEA to an Iranian attempt to build nuclear weapons using these capabilities. In addition, IAEA monitoring of the entirety of Iran's fuel cycle, including centrifuge production capabilities, positions the IAEA to learn of diversions at multiple points in the process. The enhanced authorities granted by the Additional Protocol also allow the IAEA to request access to undeclared sites to verify the absence of undeclared nuclear material.<sup>21</sup> There are few scenarios where Tehran would risk making a break for the bomb in broad daylight, which would likely result in a military strike. This, coupled with Iran's past history of developing



*Former Iranian President Mahmoud Ahmadinejad tours Iran's Natanz uranium enrichment facility in April 2008. The Trump administration should remember that even Iranian efforts to marginally exceed the amount of material it has on hand or re-installing a token number of new centrifuges would almost certainly not be indicative of an Iranian dash for the bomb. (Office of the Presidency of the Islamic Republic of Iran via Getty Images)*

nuclear capabilities clandestinely<sup>22</sup>—often over the course of many years—suggests efforts should focus on maintaining, and if the administration is lucky, improving on the international community's ability to deter and uncover covert activities.

### **5. Seek realistic limitations on Iran's missile program and strengthen counterproliferation efforts.**

Iran's missile program and its provision of lethal aid to non-state actors occupy critical pillars in Iran's deterrence and defensive strategy, creating a high bar for changing Iran's calculus.<sup>23</sup> As a result, U.S. and international efforts have focused mainly on measures that condemn, slow, and counter these activities, but have fallen short of outright stopping progress or rolling them back, which require enduring political solutions.

The Trump administration is right to reinvigorate U.S. efforts against these threats, which mostly were left unaddressed in the JCPOA, but it must be prepared not to do just "more of the same." Iran is unlikely to end its provision of these systems to militant proxies as a result of U.S. pressure alone; nor will Tehran abandon "nuclear capable" systems—as defined by the Missile Technology Control Regime—which would eliminate large swaths of Tehran's missile arsenal that it views as vital for its deterrent.<sup>24</sup> But there is room for progress. The United States should take an incremental approach to blocking and rolling back the further development of these

capabilities. It should focus on those systems that pose the greatest threat but have not yet materialized, while tightening counterproliferation tools.

To start, the United States should work with Europe to secure a formal commitment from Iran to adhere to its self-imposed missile limits. Iranian officials have declared that Tehran does not need to produce missiles with ranges greater than 2,000 km (which would pose a threat to most of Europe) and that the Supreme Leader has indicated that this range is sufficient for Iran's security needs.<sup>25</sup> By taking "yes" as an answer, the United States and its allies could begin working toward an agreement that could forestall the development, testing, and production of systems that could reach the continental United States and farther into Europe. The terms of a deal could range from an informal agreement that codifies Iran's political commitments to limit the range of its missiles, to a more detailed agreement on the types of technologies and tests prohibited. Even the former would provide important diplomatic leverage should

## **The United States should take an incremental approach to blocking and rolling back Iran's missile capabilities.**

Iran carry out activities inconsistent with its commitments. Although securing an agreement—particularly one with meaningful verification measures—would be challenging, Iran's public declarations provide it with a face-saving mechanism to accept such missile limits at a low domestic political cost. Even an unsuccessful attempt to probe the diplomatic waters would be useful for testing the sincerity, or lack thereof, behind Iran's announced limits. The United States also could use such a negotiating forum to make clear to Iran the seriousness with which the United States would view any ICBM development effort, or any missile cooperation with North Korea.

In addition, the United States also needs to think creatively about how to enhance counterproliferation efforts to impede Iran's missile development and proliferation. U.S. sanctions against Iranian missile entities are already robust. But efforts to designate third parties, while useful, can be limited both by U.S. political will to go after meaningful targets and the willingness of the company and country to cease the bad behavior. To complement these approaches, the United States also should

focus on designating any private Iranian companies that have ties to Iran's missile or proliferation activities. This would help expose Iran's logistical networks and send a signal to companies within Iran that their legitimate business interests are at risk if they partner with the Iranian military.<sup>26</sup>

The United States also should undertake a significantly broader push to improve guidance and policy around countering the financing of proliferation. As the current president of the global standard-setting body on countering financial crime and illicit financial activities, the Financial Action Task Force, the United States must advance a bold agenda around policy adoption and regulatory enforcement related to identifying and halting the financing of proliferation through financial jurisdictions—currently a significant deficiency for many countries and a source of enormous vulnerability in global counterproliferation efforts. Furthermore, the United States should lead efforts at the United Nations, in gatherings of the G20, and elsewhere to advance policy in this area.

To buttress this effort, the United States must consider how trade control regimes—the traditional front line in impeding the proliferation of missile and nuclear components and technology—can be better linked with the banks and money service businesses that handle the financial side of these transactions. Doing so will lead to a more holistic—and effective—system to prevent Iran and others from buying or selling nuclear- and missile-related technologies.

Finally, the United States must begin to prepare for the end of U.N. restrictions on Iran's missile program and procurement. As described in the JCPOA and United Nations Security Council Resolution (UNSCR) 2231, those restrictions will end if and when the IAEA reaches its Broader Conclusion that Iran's nuclear program is peaceful or in 2023, whichever comes first. It also could happen by default: If the JCPOA collapses, the practical relevance of such restrictions in UNSCR 2231 would be questionable. Such a development would make U.S. attempts to rein in Iran's activities much more difficult. The United States therefore needs to begin thinking now about how to create an effective international framework to contain these Iranian threats.

## **CHAPTER 5**

### **Effectively Using Financial Measures to Increase Pressure on Iran**

### Recommended Actions

#### Use sanctions policy, and other tools, to maximize pressure by highlighting Iran's non-nuclear illicit activities.

- Focus on targeting Iran's Islamic Revolutionary Guard Corps (IRGC)-linked entities and Hezbollah, exposing illicit activities and corruption in large Iranian institutions, and highlighting sanctions evasion by Iran in the maritime domain.
- Clarify enforcement posture by offering written guidance and identifying paths for sanctions removal for violators.

#### Mitigate the negative effects of unilateral sanctions on the U.S. economy and preserve the foundation for effective sanctions on Iran over the long term.

- Do not adopt a maximalist enforcement posture with regard to financial payment messaging services that designated Iranian banks may use to access the international financial system.
- Consider working with foreign jurisdictions that continue permitted business with Iran, such as oil purchases through a significant reduction exemption, to develop special purpose bank accounts for allowed business that would be subject to enhanced due diligence.
- Facilitate a payment channel for food and medicine to Iran.
- Pursue re-imposition of sanctions on Iran, mindful of the need to keep the oil market balanced in the present tight conditions.

#### 6. Use sanctions policy, and other tools, to maximize pressure by highlighting Iran's non-nuclear illicit activities.

Tough economic sanctions on Iran are one of the most important pressure tactics the Trump administration can bring to bear against Iran's illicit activities. In addition to their economic pressure, sanctions can expose Iran's threatening activity and create leverage for international diplomacy and changes in Iran's policy.

Unlike the period from 2010–15, when sanctions on Iran were backed by U.N. Security Council Resolutions and a broad international coalition of governments,

Trump's re-imposition of sanctions is largely an exercise in U.S. unilateral sanctions with little international support.<sup>27</sup> While U.S. policymakers argue that most multinational companies will comply with U.S. sanctions regardless of the views of foreign government, the confidence invested by U.S. policymakers in unilateral sanctions is overweighted at present, as is the assumed potential for their success in achieving foreign policy ends.<sup>28</sup> The sanctions surely will have economic effects and constrain Iran's economic prospects. The preeminence of the U.S. financial system and the U.S. dollar means that U.S. sanctions have a very long regulatory reach and will compel foreign companies to comply. However, only when sanctions are used alongside a broad set of diplomatic, intelligence, law enforcement, and military tools will they be effective and credible for inducing Iran to enter into political negotiation. Furthermore, only when they are creatively applied with at least as much attention to their message and political salience as their economic effect will they create the right conditions for constructive progress toward policy change.

Beyond simply re-imposing the U.S. sanctions on Iran's banking sector, oil exports, shipping, and other sectors that were suspended as part of the JCPOA, the U.S. administration should continue and expand implementation of additional sanctions measures on Iran that will publicly expose and target Iran's dangerous non-nuclear activities. Though sanctions let policymakers see a target-rich environment, they must rigorously prioritize their energy and implementation efforts to achieve the greatest attention to Iran's threatening activities. This will starkly display to Iran's neighbors, its own citizens, and the world the destabilization Iran creates in its region, and the criminality and corruption that Iran facilitates—making the re-imposition of sanctions less about the U.S. withdrawal from a widely supported nuclear deal, and more about the full range of Iran's illicit activity. This approach will help to galvanize international support and collaborative efforts to isolate Iran for such activity, repairing the sense of common cause traditionally shared between transatlantic security partners. Moreover, this approach will best facilitate the pairing of sanctions with other diplomatic and defense tools to support a holistic approach that draws on the many tools of statecraft, and an array of international partners working in collaboration.

The present cohort of U.S. administration policy leaders must continue to prioritize several key Iran sanctions activities over the next year and beyond. First, officials should continue to use sanctions designations to





*President Trump shows his signature on a memorandum that reinstates sanctions on Iran after he announced the United States would be withdrawing from the nuclear agreement. Only when sanctions are used alongside a broad set of diplomatic, intelligence, law enforcement, and military tools will they be effective and credible. (Chip Somodevilla/Getty Images)*

aggressively target entities that are linked to the IRGC—the regime’s preeminent military force that maintains deep political and economic influence—including those that are less than 100 percent owned or controlled by the IRGC. This may help foreign banks and companies to avoid IRGC entities. It will also expose evolving areas of economic activity or ownership and conglomerate structures tied to the IRGC. Even though the present U.S. sanctions push appears to be intent on tarnishing all Iranian entities, driving all international firms away from all Iranian business opportunities, some international firms will seek to continue legal business with Iran. For these firms, it will be very useful to understand the reach of the IRGC to avoid inadvertently partnering with one of its front companies or opaque commercial entities.

To highlight Iran’s ties to Hezbollah, U.S. sanctions officials can consider further sanctions on Lebanese Hezbollah’s leaders, instrumentalities, and holdings. The United States can lead an international effort to consider greater financial due diligence requirements for Lebanese financial institutions and international financial institutions linked to them through correspondent banking relationships. Drawing attention to this issue ahead of Lebanon’s next major evaluation by the Middle East and North Africa Financial Action Task Force, the Middle East’s regional anti-money laundering organization, would draw particular focus from the international financial community.

U.S. officials can more aggressively use sanctions designations to expose the illicit activities of larger Iranian institutions or corruption they facilitate and enable. The May 2018 designation of the Central Bank of Iran’s Governor Valiollah Seif was one such example, drawing attention to the institution and its lead administrator.<sup>29</sup> Imposing new sanctions on government officials and offices for corruption is another example. Together they can prompt renewed focus on the involvement of Iran’s core financial institutions in illicit dealings and how reform efforts and the removal of complicit officials could present a path to policy change favorable to the United States and the international community.

Beyond these steps, the U.S. administration should use sanctions as a tool to highlight Iran’s sanctions evasion, particularly in the maritime domain. Given the difficulty and questionable legality of conducting interdictions in international waters to expose Iran’s illegal shipment of cargoes of arms and materiel to the Houthis, and the practical difficulties of interdicting Iran’s overland and air shipments to President Bashar al-Assad’s government in Syria, sanctions designation is a practical and effective way to expose this activity. It is a complement to maritime exercises the U.S. military can perform in the region, and enhanced training and outreach to customs and border officials internationally regarding trade controls and illicit cargo shipments.

To augment these various forms of sanctions implementation, U.S. officials must adopt and publicly clarify their enforcement posture on critical areas of Iran sanctions. Specifically, the U.S. Treasury Department should offer written guidance and conduct public engagement about the enforcement posture for violators of energy sanctions. It should immediately pursue a target bank, shipper, insurer, port operator, or refinery taking delivery of Iranian oil in violation of the sanctions. However, U.S. officials should clarify that there is a clear path for removal of sanctions if these violators cease their activity and offer representations that they will not engage in it going forward. This approach is consistent with a tough application of the current sanctions law but will more clearly communicate to Iran and the international community that the United States is actively interested in a major policy change if Iran and its international business counterparts comply with U.S. sanctions.

## **7. Mitigate the negative effects of unilateral sanctions on the U.S. economy and preserve the foundation for effective sanctions on Iran over the long term.**

As the United States embraces a major unilateral economic pressure strategy on Iran, re-imposing a broad



array of sanctions, it potentially will face both short-term and long-term negative economic and political effects. A primary challenge of sanctions implementation therefore will be the mitigation of those effects now and in the future. Another challenge will be ongoing preservation of the sources of U.S. economic strength that keep Iran sanctions—and economic sanctions targeting other state and non-state actors more generally—forceful and effective over the long term.

One of the most significant potential short-term negative effects is a rise in global oil prices if Iranian crude oil exports fall faster than the market expects. The Trump administration has pressed Saudi Arabia to increase production to offset expected declines in Iranian exports but will need to take other steps to ensure that sanctions on Iran's oil sector do not extensively elevate global oil prices. These could include working to put in place limited significant reduction exceptions for some Iranian oil purchasers or considering a release of strategic stocks in urgent market conditions.

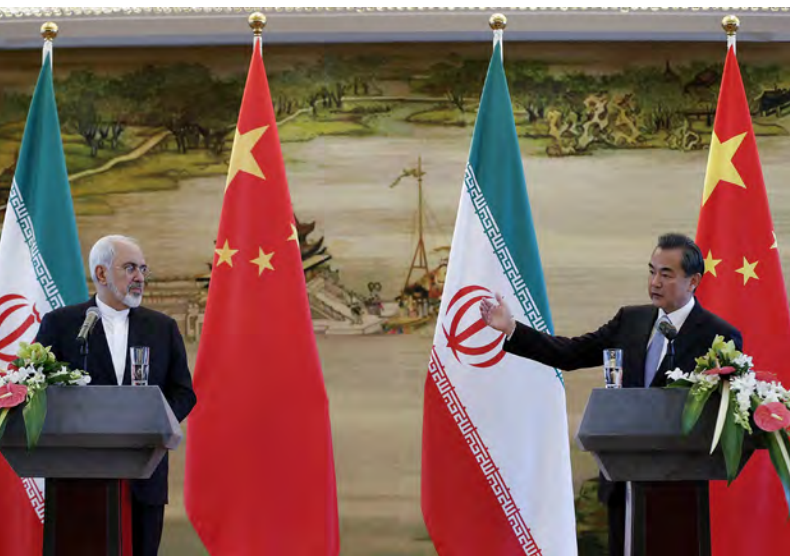
While there is very little direct U.S. trade with Iran, Europe has significantly expanded trade with Iran since the JCPOA and bilateral trade between the E.U. and Iran exceeded 20 billion euros in 2017, up from almost 8 billion in 2015.<sup>30</sup> European leaders have forcefully criticized unilateral U.S. sanctions on Iran that create economic consequences not just on Iranian targets, but on the European banks and companies that do business

with Iran.<sup>31</sup> While most multinational European banks and companies have severed their ties with Iran to avoid facing the negative economic and reputational effects of violating U.S. sanctions, U.S. policymakers likely will continue to face political pressure from Europe over the re-imposition of sanctions. It is quite likely that the United States will consider designating European entities that violate sanctions. The most probable targets will be the small- and medium-sized firms, with limited exposure to U.S. jurisdiction, that will seek to continue business with Iran in willful contravention of the U.S. economic restrictions.

Over the mid-term, the United States may face more significant unintended economic consequences of new unilateral sanctions on Iran from Russia and China, and perhaps India. That is, economies more connected to Iran, relatively more characterized by state-controlled firms, and where political leaders telegraph to U.S. counterparts and their own companies a willful disregard and rejection of U.S. sanctions. As European and other Western companies largely withdraw from Iran in response to the U.S. sanctions, the United States will, in practice, be pushing Iran into the arms of Russia and China. This will create “coalitions of the sanctioned” and perversely may make it more feasible for Iran to cheat sanctions, specifically by developing non-dollar, non-U.S. linked value transfer mechanisms to avoid America's sanctions. Not only will that undermine the effectiveness and credibility of the pressure strategy on Iran, it will make any future sanctions on Iran and Russia, for example, less forceful and less of a deterrent.

It is possible, likely even, that major geo-economic competitors of the United States will seek to more aggressively undermine the U.S. dollar and the U.S. market, advancing alternative currencies and trade and transaction platforms. Indeed, they already have been involved in such efforts. However, the United States should not accelerate this process or give its strategic rivals added incentives, such as evading U.S. sanctions, to develop these alternatives. There are a series of steps the United States can take to mitigate the unintended consequences of a broad, unilateral Iran sanctions policy and to preserve the groundwork for effective sanctions in the future.

First, the United States should not adopt a maximalist enforcement posture with regard to financial payment messaging services that designated Iranian banks may use to access the international financial system. Trump's Executive Order re-imposing sanctions on Iran, E.O. 13846 of August 2018, authorizes the imposition of sanctions on SWIFT and other financial messaging



*Iranian Foreign Minister Mohammed Javad Zarif and Chinese Foreign Minister Wang Yi kick off Zarif's formal visit to China in September 2015. As European and other Western companies largely withdraw from Iran in response to the U.S. sanctions, the United States will, in practice, be pushing Iran into the arms of Russia and China. (Lintao Zhang/Getty Images)*

companies for providing services to sanctioned Iranian banks after November 4, 2018.<sup>32</sup> But the United States would be ill served to further impose heavy penalties on providers of such services without a record of extensive, ongoing, and significant transactions that facilitate Iranian's illicit activities. Doing so may not actually have a more meaningful economic impact on Iran than the current law. Instead, it almost certainly would create powerful negative consequences for global financial markets, corporate valuations, and earnings for the U.S. economy and beyond, and practicality of and trust in traditional global financial value transfer mechanisms. It also is likely to further damage political relationships between U.S. officials and leaders in the EU, in which the preeminent financial payments messaging firm is located.

Furthermore, the United States should consider working with foreign jurisdictions that continue permitted business with Iran, such as oil purchases through a significant reduction exemption, humanitarian, or communications trade, to develop special purpose bank accounts for allowed business that would be subject to enhanced due diligence. This would keep Iran's financial flows within the highly regulated formal banking system, subject to careful oversight, and decrease the motivation of would-be sanctions evaders to pioneer financial work-arounds outside of U.S. jurisdiction. This in fact may satisfy some Iranian and European leaders' ambitions for Iran's international financial connectivity, for the present, thereby sustaining Tehran's willingness to maintain constraints on its nuclear program associated with the JCPOA.

The United States also can preempt criticism about the humanitarian impacts of its sanctions policy by actively working to facilitate a payment channel for food and medicine to Iran. On October 3, the International Court of Justice (ICJ) ruled that, for humanitarian reasons, the United States must lift any sanctions-related restriction on trade in 1) medicines and medical devices, 2) food and agricultural commodities, and 3) parts to maintain the safe operation of Iran's civil aviation sector.<sup>33</sup> While the ICJ has no power to compel U.S. compliance with this ruling, facilitating such a payment channel will provide strategic benefits for the United States. It will create material benefits to the people of Iran and emphasize that the United States seeks policy change from Iran's leaders rather than to engage in collective punishment. It also would support Secretary Pompeo's message to Iranians that the United States stands by them, while undermining the Iranian hardliner narrative that the United States is targeting the Iranian populace. To create such a payment channel the United States can explore

a replication of the channel that the Office of Foreign Assets Control helped to establish in 2014 as part of the JPOA, the interim deal with Iran prior to agreement by the parties to the JCPOA.

In the energy arena, the United States should pursue its re-imposition of sanctions on Iran mindful of the need to keep the oil market balanced in the present tight conditions. U.S. policy leaders must continue to expand their outreach to producers with spare oil production capacity, particularly given the expectation that Saudi Arabia may not quickly or ultimately add 2 million barrels of supply as its leaders have discussed.<sup>34</sup> Ultimately, the U.S. administration must time the pace of reductions in Iran's oil exports to track realistic, projected increases in supply. This may require innovation in the framework for relief from Iran oil sanctions, the State Department-managed significant reduction exceptions, use of the waiver in the oil sanctions that allows the President to set aside the sanctions temporarily if there is insufficient oil on global markets to enable reductions in Iranian crude,<sup>35</sup> or, in extreme circumstances, a release of oil from the U.S. Strategic Petroleum Reserve.

Finally, the U.S. administration must undertake a rigorous exploration of non-sanctions authorities, such as law enforcement authorities, that may help to advance the goal of imposing economic pressure on Iran but limit the direct use of policy measures in the banking and trade domain. There are, of course, myriad ways to expose Iran's threatening and destabilizing conduct, isolate it diplomatically, and limit its foreign trading partners and investors. U.S. policy officials must not sacrifice the availability of cogent sanctions for the future by neglecting a broad array of options and overusing banking sanctions at present.

## **CHAPTER 6**

### **Countering Iran's Destabilizing Influence in the Middle East**

## Recommended Actions

### **Work more closely with Arab partners to counter Iranian irregular warfare.**

- Model efforts to counter Iranian irregular warfare on the U.S. response to ISIS—a strategy based on working “by, with, and through” partners.
- Establish a center in the Middle East with key partners to improve joint capabilities and develop strategies to counter Iran’s irregular warfare capabilities, including a joint campaign plan.
- Establish joint training missions and exercises, an intelligence fusion center, and a system to continually refine training to stay ahead of Iran’s capabilities.

### **In Syria, manage the withdrawal of U.S. forces in such a way that prioritizes preventing a reemergence of ISIS, but also tries to limit Iranian gains to the extent possible.**

- Support a diplomatic arrangement between Russia, Iran, Turkey, Assad, and the Syrian Democratic Forces (SDF) that prevents a new conflict in the eastern part of Syria.
- Apply diplomatic pressure on Turkey not to invade SDF territory in northeastern Syria, and instead support a negotiated deal that brings the Kurdish areas of northern Syria back under Assad control.
- Provide diplomatic support for Israel’s continued strikes against Iranian targets in Syria.
- Use the specter of a potential Israeli-Iranian war in Syria to motivate the Russians to restrain Iranian gains in eastern Syria.
- Withdraw last from the strategic areas of al-Tanf and the Middle Euphrates Valley, which are high priorities for Iran.

### **Pursue a patient strategy in Lebanon to slowly undercut Hezbollah’s influence by building up viable alternatives.**

- Work with Arab partners to identify and empower local Lebanese actors that can act as a viable alternative to Hezbollah.

- Continue to build the capabilities and professionalism of the Lebanese Army and remain engaged in projects that improve the socioeconomic well-being of the Lebanese.
- Increase funding to branches of the Lebanese government that monitor and evaluate their programs, institute measures to combat corruption, and can demonstrate that they are independent of Hezbollah’s political control.
- Carry out targeted sanctions against Hezbollah and certain key allies that support the Assad government or Hezbollah’s activities.

### **Demonstrate a clear, long-term commitment to Iraq.**

- Communicate consistently in public and in private that a strong and long-term relationship with Iraq is in the U.S. strategic interest.
- Announce a multi-year package of support for humanitarian assistance and economic development.
- Maintain the long-term American military advisory mission to support the Iraqi security forces.
- Mobilize the Gulf states to fulfill their commitments to expand humanitarian assistance and economic development projects in Iraq.

### **Offer the Saudis a clear choice in Yemen: Greater U.S. involvement in exchange for a fundamental shift in how the war is conducted or an end to American support.**

- Offer Saudi continued U.S. support only if Riyadh changes its approach, brings the United States into the decisionmaking process, and implements American recommendations to shift to a more viable strategy that mitigates the worst humanitarian impacts.
- If Riyadh agrees, take over some of the strikes and potentially put in more advisors to help with targeting on the ground.
- If Riyadh does not agree, pull U.S. support.

### 8. Work more closely with Arab partners to counter Iranian irregular warfare.

One of the major challenges posed by Iran is its capacity to conduct irregular warfare through the IRGC Qods Force. While Iran is concerned about the proliferation of failed states in its neighborhood, it also takes advantage of security vacuums, using them as opportunities to cultivate new proxies and surrogates that step into the breach. Over the past four decades, and especially since the Iraq War and Arab Spring, Iran has leveraged a number of non-state actors in the region to increase its influence. Iran has used this model with Hezbollah in Lebanon, the Popular Mobilization Forces in Iraq, and various militia groups inside Syria.

The most effective way to counter this strategy is by working with local actors who have political legitimacy with the population and real incentive and capacity to build security forces that can counter Iranian proxies. This has been one of the central lessons of the U.S. experience in Iraq, Afghanistan, and northeastern Syria. Large-scale counterinsurgency strategies with 150,000 troops, in which the United States provides security for the population, do not work at the scale the United States is capable of pursuing effectively. The human and financial costs for the United States are too high, and political support at home is unsustainable. The other lesson is that withdrawing from these conflicts altogether has proven equally ineffective, as evidenced by the U.S. pullout from Iraq in 2011 and the re-emergence of ISIS in its

aftermath.<sup>36</sup> In fact, in some areas, the mere announcement of a U.S. withdrawal is enough to undo years of hard work by U.S. forces. This was the case in Afghanistan, where the Taliban gained ground following the U.S. announcement that it was winding down its presence.<sup>37</sup>

The recent U.S. response to ISIS—a strategy based on working “by, with, and through” partners—serves as a useful model for countering Iranian irregular warfare when the United States put the requisite resources, patience, and policy flexibility into this approach. Specifically, under this model the United States provided: (1) a small number of forces who can train local actors; (2) certain types of military investment that only it is capable of providing, such as enablers or airpower; and (3) political weight behind the effort to build international support. The question is how the United States can work with its regional partners in the Middle East—especially Saudi Arabia, the United Arab Emirates (UAE), Egypt, and Jordan—to further improve this model and use it to counter Iran’s strategy. Traditional models of support generally have focused on selling U.S. partners expensive, big ticket weapons platforms such as aircraft and missile defense, which do not necessarily address lower-end threats and even exacerbate the situation.

**The recent U.S. response to ISIS—a strategy based on working “by, with, and through” partners—serves as a useful model for countering Iranian irregular warfare when the United States put the requisite resources, patience, and policy flexibility into this approach.**

To begin to address these gaps, the United States should set up a center in the Middle East (likely in Bahrain or Kuwait) with key partners—Saudi Arabia, the UAE, Jordan, Egypt, Bahrain, and Kuwait—where representatives from the United States and these countries would come together to improve joint capabilities to develop strategies to counter Iran’s irregular warfare capabilities. This does not mean building a “multinational force,” as Washington’s Arab partners are not willing to work with each other on such an effort. It also is not about replacing America’s role, which should remain central. Instead, such an initiative would start to improve the capabilities of all of America’s partners,



*Kurdish forces watch a U.S. military war plane flying over the front line with ISIS in northern Iraq. The recent U.S. response to ISIS—a strategy based on working “by, with, and through” partners—serves as a useful model for countering Iranian irregular warfare. (John Moore/Getty Images)*



while keeping the United States as a central node in dealing with these challenges.

As part of the work of this joint center the United States and its partners should develop a joint strategic campaign plan for countering Iranian irregular warfare. This starts with a high-level dialogue, including both the Department of Defense and the CIA, on how to deal with these challenges at the strategic level followed by more detailed military planning for a strategy that would need to play out over a long time horizon. Establishing a shared, unified theory of victory is critical before the United States and its partners can work together to address the problem. The United States also should make clear to its partners that its assistance does not come without ethical and operational requirements. Right now, this common perspective does not exist between the United States and its partners. For example, in Yemen, Saudi Arabia and the UAE are using tactics and strategies that cause significant civilian harm and complicate efforts to counter the irregular warfare threat posed by Iran.<sup>38</sup>

As part of this campaign plan, the United States should

### **The United States and its partners should develop a joint strategic campaign plan for countering Iranian irregular warfare.**

determine how each partner with its unique capabilities can best contribute to the plan. The United States will need to provide logistical enablers and lift to be able to quickly move forces throughout the region along with some of the advanced air capabilities to provide targeted strikes. But many U.S. partners can help by contributing small numbers of forces to provide on the ground training and work with local actors—especially since these partners have a better understanding of the local cultural and political environment and are native speakers of Arabic.

This effort also would benefit from joint training missions and exercises to improve interoperability, an intelligence fusion center to ensure the U.S. and its partners see a common operational picture, and a system to continuously develop and improve each country's special forces so that they can stay ahead of Iran's irregular warfare capabilities.

Although such an approach would require a high-level U.S. political push, it would significantly enhance the ability of the United States to shape the capabilities and

approaches of its Arab partners toward more productive ends, and enhance the abilities of both to counter Iranian irregular warfare. In Yemen, it could help convince Arab partners to pursue a more constructive approach. In Syria, it could allow for greater support from U.S. partners. But most importantly, it would mean that the United States and its partners would be prepared to respond in future conflicts where Iran might deploy the Qods Force to achieve its objectives.

### **9. In Syria, manage the withdrawal of U.S. forces in such a way that prioritizes preventing a reemergence of ISIS, but also tries to limit Iranian gains to the extent possible.**

In December 2018, President Trump announced the withdrawal of the approximately 2,000 U.S. forces deployed in eastern Syria.<sup>39</sup> We strongly disagree with this decision. It could create an opportunity for ISIS to regenerate itself in the security vacuum left by the United States and its local partners, especially if renewed conflict breaks out in this region of Syria. The decision could lead to the abandonment of the Syrian Democratic Forces (SDF) coalition, which is America's best local partner in the counter-ISIS campaign and the effort to stabilize eastern Syria. This decision creates the opportunity for Iran to solidify its control throughout Syria by shoring up its lines of resupply and reinforcement across the Levant.<sup>40</sup> By walking away from a region that encompasses nearly one-third of Syrian territory—including its best electricity production, water, oil, and wheat resources—the United States yields its most significant piece of leverage in any negotiation over the final disposition of Syria.<sup>41</sup> Even if President Trump changes his mind, or slows the withdrawal, the damage to the U.S. position in Syria is done.<sup>42</sup> Given this reality, the question is how to best protect American interests.

U.S. policy should focus primarily on ensuring an orderly and peaceful transition in eastern Syria. If American withdrawal is met with renewed conflict between Turkey and the SDF's Kurdish components in the northeast, or between the SDF's local Sunni Arab components and Assad forces supported by Iran and Russia in the southeast, the result could be disastrous. This would be precisely the type of environment in which ISIS's remaining forces in the Middle Euphrates River Valley in southeast Syria, and those that operate in neighboring areas of western Iraq, could thrive and regenerate. It would also cause further misery for civilians and lead to new internal displacement and refugee flows, possibly into Jordan, Iraq, Turkey, and Assad-controlled areas.

Based on the administration's priority to drawdown U.S. forces in Syria, the best remaining U.S. option is to encourage a political deal among the SDF, Turkey, the Assad government, Russia, and Iran, on an area-by-area basis throughout the U.S. zone of control in northern and eastern Syria. But the administration should be realistic about the limits of its leverage and its ability to shape the outcomes in Syria once the drawdown is in full swing.

As a NATO ally, Turkey would at first blush appear to be the preferred partner to assume the burden of maintaining stability in northern and eastern Syria after the United States departs, but that is unrealistic.<sup>43</sup> Despite President Erdogan's promise to Trump that he will fight ISIS, any effort by the Turks to retake parts of eastern Syria is wholly motivated by their desire to limit Kurdish influence and will likely be met with a renewed and ugly conflict. Moreover, ISIS is based primarily in the Middle Euphrates River Valley and western Iraq, far away from the Turkish border, and the Turks have neither the will nor the capacity to move that far south to fight ISIS.<sup>44</sup>

Iran is an even worse option as a partner. Iran's steady entrenchment in western Syria over the course of the conflict has provided the IRGC and its Hezbollah network with the new ability to threaten Tel Aviv with missile strikes from western Syria and provided critical strategic depth for Hezbollah in Lebanon. Israel has responded with air strikes targeting Iranian facilities in Syria.<sup>45</sup> In the wake of the U.S. drawdown, Iran will seek to take over as much territory as possible. It can use this territory to control the Syrian-Iraqi border region and develop new land routes to transport weapons and fighters between Baghdad and Damascus so that it can project power more effectively in the Levant. Iran will be particularly interested in seizing control of the al-Tanf zone, on the Syrian-Jordanian border in south-central Syria, which lies along the best road from Baghdad to Damascus and where American forces have been deployed for the past few years.<sup>46</sup>

Expanding Iranian influence in the aftermath of an American withdrawal will likely lead to increasing tensions with Israel. Thus far, neither side has escalated beyond tit-for-tat strikes, but there is a risk that an accident or miscalculation could spark a larger-scale conflict. The risk increases if the Israelis see Iran as the big winner of the American withdrawal and seek to compensate by escalating their air campaign and other covert efforts against Iranian-backed proxies and Iranian military infrastructure in Syria.

By process of elimination, this means that encouraging the Russians to take on the most prominent role in guaranteeing a political deal in eastern Syria is the best of



*Russia's United Nations Ambassador Vassily Nebenzya speaks at a U.N. Security Council emergency meeting on Syria. If President Trump is intent on leaving Syria, the best the United States can do with the remaining tools at its disposal is try to incentivize the Russians to prevent the reemergence of ISIS and act as a partial check against Iranian expansion in the Levant. (Spencer Platt/Getty Images)*

a series of bad options. The Russians do not wish to see a new conflict in eastern Syria that creates opportunities for ISIS and which slows down the process of getting the international community to pay for the reconstruction of Syria. They also want to avoid a major regional war between Israel and Iran, which would undermine their efforts to consolidate their victory in Syria and be seen as the indispensable power that stabilized and ended the conflict.

Russia, Turkey, the Assad government, and the SDF will need to come to some kind of agreement in northern and eastern Syria. The Kurdish components of the SDF will certainly be more willing to come back under the umbrella of the Assad government, with whom they have already been negotiating and have maintained open lines of communication with over the course of the war.

The question is whether the Turks can accept such an arrangement, or whether they will feel compelled to invade to prevent the creation of a new PKK safe haven. The Russians are best positioned to provide the Turks with a guarantee that they will not allow the PKK to operate in this area, as the Turks have little trust for the Assad government. The United States can also use its relationship with Turkey to encourage restraint.

The Russians have deployed some special forces and private military contractors on the ground in the Middle Euphrates River Valley. Russia and the United States have established a de-confliction zone in this area along

the Euphrates river and continue to maintain a direct communication channel.<sup>47</sup> This channel should be used to coordinate the peaceful handover of territory. As part of this effort, the United States and Russia should coordinate and share information on remaining ISIS-held territory in this region, and ask for a commitment from the Russians to prioritize retaking this territory and preventing ISIS's reemergence.

The other challenge in this territory will be containing Iranian influence. With U.S. forces withdrawing, American leverage is quite limited, but there are still some steps that can be taken. First, the United States can provide unambiguous and vocal diplomatic support to Israel in its efforts to counter Iran through limited strikes in Syria. This should motivate the Russians to look for a solution acceptable to Israel that avoids a major new conflagration that potentially undermines the Russian project in Syria. The United States can leave the complete withdrawal from the Middle Euphrates Valley and al-Tanf—the most strategically important part of eastern Syria for Iran—until last. And it can press the Russians to commit to keeping the Hezbollah network away from Jordan's border and encourage the Israelis and Jordanians to echo this point with the Russians—especially given the proximity of al-Tanf to Jordan's critical and historically vulnerable eastern border region.<sup>48</sup>

The reality is, given dwindling U.S. leverage following President Trump's announced withdrawal, this approach will only have a limited impact at best. Russia is not as motivated or capable as the United States to fight ISIS. Turkish interests in eliminating the Kurdish stronghold on its border may be too strong. Russia may not be committed enough to the SDF and opt for cutting a deal with Turkey, allowing the Turks to invade and conquer large areas of north and east Syria. The Russians do not want to own all of Syria and have only limited leverage over Iran, which has deployed thousands of Hezbollah fighters to Syria and is actively building local Syrian security forces that are loyal to Assad and the IRGC. Iran will inevitably seize some strategic territory as the United States withdraws, and the Russians may not be able to or willing to stop them.

Maintaining a low-level U.S. presence to hold eastern Syria has protected meaningful U.S. interests at a reasonable cost. But if President Trump is intent on leaving, the best the United States can do with the meager remaining tools at its disposal is try to incentivize the Russians to prevent the reemergence of ISIS and act as a partial check against Iranian expansion in the Levant.

## **10. Pursue a patient strategy in Lebanon to slowly undercut Hezbollah's influence by building up viable alternatives.**

The United States should take a patient approach to Lebanon that focuses on further strengthening Lebanon's economy, social programs, and the Lebanese military and supporting local partners to build a diverse, multi-sectarian base of opposition to Hezbollah's policies. As it does so, the United States must recognize that it will take time to dilute Hezbollah's (and Iran's) strong influence over Lebanon's government and internal security. The United States also must confront the reality that current conditions in Lebanon and western Syria, where the Assad government is steadily gaining power, will challenge the effectiveness of U.S. actions.

Over the course of the Syrian civil war, Hezbollah—working with the Assad government and the Lebanese government's security services and military—has overcome most of the challenges presented to it by Salafist-Jihadist groups. In particular, Hezbollah's victories in the areas closest to the Syrian-Lebanese border in western Syria, which it now holds as a closed security zone, mean that the IRGC-linked organization can use this territory in the event of a new war with Israel. By defeating its opponents—primarily Sunni Lebanese who supported the Syrian opposition in Syria—Hezbollah has accomplished the goal set out by Secretary General Hassan Nasrallah in 2013, which called for Hezbollah and its competitors to settle differences “over there” (e.g., Syria).

But a new challenge to Hezbollah is emerging in Lebanon, particularly from other Lebanese sectarian parties that want to limit Hezbollah's power, and from within Hezbollah's own Shia community. Hezbollah has the firepower and the military experience—which has only improved as a result of the Syrian civil war—to win its battles against internal Lebanese enemies, but it likely would be bloodied. Groups within the wider Shia community also are beginning to challenge Hezbollah's ability to provide economic and social relief in a time of rapidly deteriorating economic conditions in Lebanon. As a result, Hezbollah has had to resort to strong-arm mobilization tactics to win districts in more troublesome areas of the Biqa' Valley and around Beirut. Losing turf to Lebanese opponents, or opponents within the Shia community that is its core constituency, would shake Hezbollah's carefully constructed image.<sup>49</sup>

Reducing the influence of Hezbollah in Lebanon ultimately will depend on pressure from within the organization's domestic constituencies, particularly Shia but also the other sectarian communities in the country.



Hezbollah's greatest vulnerability is its dependence on extracting rent from the Lebanese government's relationship with the international community. If Hezbollah is unable to extract this rent to distribute among other underprivileged sectarian communities beyond the Shia, popular discontent against the group could become unmanageable.

The Trump administration can exploit these vulnerabilities through a persistent and carefully balanced strategy. The United States should begin by working closely with Arab partners to identify and empower

## Hezbollah's greatest vulnerability is its dependence on extracting rent from the Lebanese government's relationship with the international community.

local Lebanese actors that can resuscitate the promising political movement that emerged in the wake of the Syrian withdrawal from Lebanon in February 2005 but subsequently was defeated on the streets in and around Beirut in May 2008. This will require the United States to remain active in Lebanon, to continue to work to build the capabilities and professionalism of the Lebanese Army, and to remain engaged in projects that improve the socio-economic well-being of Lebanese who are genuinely suffering from the current economic situation. Hezbollah may have helped Assad hold onto his seat of power, but its greater battle will be effectively and responsibly navigating Lebanon through a dire economic crisis.

The administration also should consider implementing an annual review of U.S. support for Lebanese government and military institutions. This review could include a mechanism for increasing funding requests for support to branches of the Lebanese government that practice effective monitoring and evaluation of their programs, institute effective measures to combat corruption, and can demonstrate that they are independent of Hezbollah's political control.

The United States should complement these inducements with targeted sanctions against Hezbollah and certain key allies that support the Assad government or Hezbollah's activities that undermine U.S. interests. The United States must be careful here, however. A sanctions regime that cuts too broadly inside Lebanon could collapse the country's economy. The suffering that would

follow would easily (and from the Lebanese perspective, understandably) be blamed on the United States, and potentially further empower Hezbollah. Any social and political upheaval that results from a sanctions-induced collapse of Lebanon's economy could bring forth a more radicalized and potent threat in Hezbollah's place. The United States will want to guard against these risks with a targeted approach.

## 11. Demonstrate a clear, long-term commitment to Iraq.

Since 2003, the United States and Iran have been locked in a competition to shape the postwar future of Iraq. Neither the United States nor Iran has succeeded in completely dislodging the other. Although there are areas where their interests align—such as the desire for a stable Iraqi government—it is likely that confrontation, not cooperation, will define the relationship for the foreseeable future. For example, rocket attacks against the U.S. Embassy in Baghdad and consulate in Basra, which the United States has blamed on Iraqi Shia militias tied to Iran, demonstrate how the U.S.-Iran competition in Iraq could escalate and result in the loss of American lives.<sup>50</sup>

The rise of ISIS in Iraq, which shattered Iraq's security forces, provided the IRGC with the opportunity to strengthen its position in Iraq through the development of the Hashd Shaabi Popular Mobilization Units (PMU)



*A vehicle deployed with the 82nd Airborne Division drives through Mosul. The division provides advise and assist support to Iraqi forces. To demonstrate its enduring commitment to Iraq, the administration should announce a multi-year, but conditions-based, package of support for humanitarian assistance and economic development, and maintain the long-term American military advisory mission to support the Iraqi security forces. (Martyn Aim/Getty Images)*

militia network. A significant number of PMU groups remain closely tied to the IRGC, with some groups having sent hundreds of fighters to Syria.<sup>51</sup> These groups also are becoming embedded into local and governorate councils throughout southern Iraq.<sup>52</sup> As a result, diminishing the influence of the IRGC-linked PMU groups, some of which have directly threatened the United States, will be a long and highly politicized process. In addition to the PMU threat, Iraq's social, economic, and political challenges also remain significant, and can be used by Iran to its benefit in Iraq.

The good news is that there also are limits to Iran's influence in Iraq, and history demonstrates that when Iran overreaches in Iraq, Iraqis push back. Iraqi nationalism remains a powerful force.

A successful American strategy for Iraq should start by the administration consistently communicating in public and in private that a strong and long-term relationship with Iraq is in the U.S. strategic interest. The large

**The good news is that there also are limits to Iran's influence in Iraq, and history demonstrates that when Iran overreaches in Iraq, Iraqis push back.**

protests in Basra against government corruption, lack of basic services, and the poor economy this past summer highlight that Iraq faces instability beyond the threat of ISIS and similar organizations. To demonstrate its enduring commitment to Iraq, the administration should announce a multi-year, but conditions-based, package of support for humanitarian assistance and economic development, and maintain the long-term American military advisory mission to support the Iraqi security forces.

To supplement its aid package, the administration should mobilize wealthier Arab states such as Saudi Arabia, the United Arab Emirates, Qatar, and Kuwait to fulfill their commitments to expand humanitarian assistance and economic development projects in Iraq, particularly in the areas of the country that have been most impacted by the war against ISIS. The same countries should work to strengthen their security and cultural ties to Iraq. These Gulf Arab nations have taken some steps in this direction, but need to sustain them and do more to treat Iraq as a key Arab state that should be encouraged to balance its ties to Iran by strengthening ties with the Arab world.

Such an approach to minimizing Iran's reach through the PMU would need to be balanced by efforts to build on U.S.-Iraq economic ties and address Iraq's humanitarian and post-conflict reconstruction and rehabilitation needs. Both are important to combating the reemergence of ISIS or a successor organization, and to increasing the influence of the United States and its Arab partner states in Iraq.

## **12. Offer the Saudis a clear choice in Yemen: greater U.S. involvement in exchange for a fundamental shift in how the war is conducted or an end to American support.**

The civil war in Yemen has presented a major challenge to U.S. policy and has sparked controversy and debate in the United States, particularly in Congress, over the rising count of civilian casualties and the worsening humanitarian crisis exacerbated by the Saudi coalition's conduct in its campaign against the Houthis.<sup>53</sup> There is no end in sight given the slow pace of the coalition's gains and the material support provided to the Houthis by the IRGC. The military support that the United States provides the Saudi- and Emirati-led coalition is neither protecting the civilian population nor imposing a military cost on the Houthis that would force them to engage faithfully with the U.N.-led peace process. It also is not protecting the territorial integrity of key regional partner states, particularly Saudi Arabia, nor creating a pause in the war to alleviate the dire humanitarian crisis.

U.S. policy in both the Obama and Trump administrations has been based on the theory that by providing limited support, the United States could exercise some influence on Saudi Arabia and drive more responsible targeting and decisionmaking in Riyadh. This is how General Joseph Votel, commander of U.S. Central Command, continues to defend U.S. support for the coalition.<sup>54</sup>

Pressure also is currently building in the U.S. Congress to withdraw support for the coalition as the U.S. administration continues to make it clear there will be no consequences for problematic Saudi behavior. In September, the administration certified to Congress that Saudis are doing everything they can to avoid civilian casualties despite obvious evidence to the contrary, including objections from most of the State Department officials involved in the policy.<sup>55</sup>

While walking away from the war and ending U.S. support might seem like the right action and most consistent with U.S. values, it will do little to stop the killing. The Saudis view the threat in Yemen as crucial to their interests, so U.S. pressure to end the war altogether





*The majority of the internally displaced peoples camp at Meshqafah Camp in Aden, Yemen, is made up of families who fled the fighting in Yemen. The rising count of civilian casualties and the worsening humanitarian crisis is exacerbated by the Saudi coalition's conduct in its campaign against the Houthis. (Andrew Renneisen/Getty Images)*

will fall short of effecting real change. To the Saudis, preventing Iran from establishing a foothold on their southern border is much more important than procuring U.S. weapons. Rather than walk away from Yemen, they will buy Russian bombs or use less sophisticated weapons and tactics that will kill even more civilians.

Rather than suddenly withdrawing its support for the conflict in Yemen, the United States should offer Saudi Arabia a take-it-or-leave-it deal. U.S. support will continue only if the Saudis change their approach entirely and bring the United States into the decision-making process. The Saudis would be required to share their strategic plan with the United States and implement American recommendations for how to shift to a strategy that is more viable, less dependent on air strikes that harm civilians, and mitigates the worst humanitarian impacts.

If the Saudis do not take this offer, which is the more likely scenario, the United States should suspend military aid and distance itself from the war in Yemen until the Saudis reverse their decision and take the deal or take clear steps to end the war.

If the Saudis do take us up on this offer, the United States should be willing to get more involved. The air war will be conducted in a similar fashion to how the United States conducted the air war against ISIS in Syria and Iraq. American military personnel will have a seat at the table with their Saudi partners and an ability to

veto strikes based on humanitarian or civilian casualty concerns. This will further ensure the Saudis meet a much higher standard when it comes to the laws of war. This likely also would require the United States to take over some of the strikes and potentially put in more advisors to help with targeting on the ground. Part of this effort also potentially could include more U.S. advisors to advise and assist the coalition ground campaign, significantly increasing its effectiveness and creating the conditions to force the Houthis to take the U.N.-led peace process seriously. This approach would require reorienting some U.S. forces already in Yemen, and potentially drawing from deployments in the Horn of Africa to advise and assist the coalition's ground campaign, and shifting some U.S. airpower in the CENTCOM area of operations—which could be done as active combat operations against ISIS wind down in Syria.

If Saudi Arabia were to agree to this deal, the administration would need to explain clearly the significance of the conflict in Yemen to U.S. policymakers and the American public and try to build public support. This would involve making the humanitarian case that while walking away altogether might feel good, a limited

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increase in U.S. involvement based on strict conditions is much more likely to improve the situation in Yemen. Moreover, from a strategic perspective Yemen is located on one of the most important pathways for global trade and maritime lines of communication and hosts transnational terrorist organizations that want to strike the United States and its partners. The continued instability in Yemen, therefore, has negative consequences for global trade, U.S. national security, and the human security of the Yemeni people, and this instability cannot be fully addressed as long as the Houthis are able to prolong the civil war and frustrate the U.N.-led peace process. Even though it would be inaccurate to call them a “Yemeni Hezbollah,” the Houthis have a decades-long relationship with the IRGC and over the course of the Yemeni civil war have become an effective ally for the Iranians, increasing their influence.

This strategy is not without its tradeoffs. If the Saudis say no to the United States, Washington will wash its hands of the situation but at a greater humanitarian cost to the people of Yemen. If the Saudis say yes, the United States' involvement will put U.S. military personnel at greater risk and require the commitment of U.S. military resources in an already active theater. However, as seen in the fight against ISIS in Syria in Iraq, a limited American commitment (significantly smaller than that in Iraq and Syria) can make a meaningful difference on the ground.

The bottom line is that the current course of action in Yemen is not sustainable. The United States should either be willing to get more involved if it can result in a fundamental shift in how its allies conduct the war and speed its end, or Washington should walk away from what thus far has been a disastrous campaign.

# **ANNEX 1**

## **U.S. “Twelve Demands” of Iran**



n May 12, 2018, following the U.S. withdrawal from the Iran deal, Secretary Pompeo in a speech laid out twelve demands that Iran must meet as part of a new agreement.<sup>56</sup> These include:

1. Declare to the IAEA a full account of the prior military dimensions of its nuclear program, and permanently and verifiably abandon such work in perpetuity.
2. Stop enrichment and never pursue plutonium reprocessing. This includes closing its heavy water reactor.
3. Provide the IAEA with unqualified access to all sites throughout the entire country.
4. End its proliferation of ballistic missiles and halt further launching or development of nuclear-capable missile systems.
5. Release all U.S. citizens, as well as citizens of our partners and allies, each of them detained on spurious charges.
6. End support to Middle East terrorist groups, including Lebanese Hezbollah, Hamas, and the Palestinian Islamic Jihad.
7. Respect the sovereignty of the Iraqi government and permit the disarming, demobilization, and reintegration of Shia militias.
8. End its military support for the Houthi militia and work toward a peaceful political settlement in Yemen.
9. Withdraw all forces under Iranian command throughout the entirety of Syria.
10. End support for the Taliban and other terrorists in Afghanistan and the region, and cease harboring senior al Qaida leaders.
11. End the IRG Qods Force's support for terrorists and militant partners around the world.
12. End its threatening behavior against its neighbors—many of whom are U.S. allies. This certainly includes its threats to destroy Israel, and its firing of missiles into Saudi Arabia and the United Arab Emirates. It also includes threats to international shipping and destructive—and destructive cyber attacks.

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