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BACKGROUNDER

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# U.S. Iran Policy After the Demise of the Nuclear Deal

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**Abstract**

*The Trump Administration has embraced America's traditional role of backing its allies in the Middle East and defending their vital interests against Iran, even if that means hurting Europe's marginal commercial interests in trading with Iran. Preventing a single power from dominating Persian Gulf oil resources has been a prime goal of U.S. Middle East policy since the Truman Administration. The Obama Administration neglected this goal in an ill-considered and overreaching diplomatic effort to reach a détente with Iran. Washington should support the right of Iranians to challenge the heavy-handed repression of the Islamist dictatorship, but it should not publicly endorse specific opposition leaders or movements. The CIA should provide covert financial and material assistance to pro-democracy opposition groups similar to the non-lethal aid that the United States extended to Poland's anti-Communist Solidarity movement during the Cold War. The Trump Administration should work with Congress on legislation to impose additional sanctions.*

Secretary of State Mike Pompeo unveiled ambitious goals for the United States' Iran policy in his first major policy speech on May 21 at The Heritage Foundation. Speaking two weeks after President Donald Trump announced the U.S. withdrawal from the Iran nuclear agreement, Pompeo warned that the U.S. would impose "the strongest sanctions in history" to inflict "unprecedented financial pressure unless Iran halted its uranium enrichment program and hostile regional policies."[1] This marks a return to the historical framework of U.S. Iran policy, which was abandoned by the Obama Administration in its rush to reach an illusory and one-sided détente with Tehran.

## Key Points

- Tehran is clinging to the nuclear deal because it knows that the agreement does not permanently block, but only delays, Iran's nuclear ambitions.
- Iran has played the victim card and is seeking to drive a wedge between the U.S. and the EU to prevent the formation of a united front on sanctions.
- Washington must impose clear and mounting costs on Tehran for its hostile policies, or the regime will not change course. Congress also can play a role by holding hearings to expose and condemn the regime's human rights abuses and investigate additional ways of penalizing the regime for those violations.
- The Trump Administration should work with Congress on legislation to impose additional sanctions. The U.S. should also work indirectly to expose and publicize the corruption, stolen wealth, and hypocrisy of Iran's leaders.

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Secretary Pompeo made it clear that the U.S. would not renegotiate the Joint Comprehensive Plan of Action (JCPOA), as the 2015 nuclear deal is known, but would be open to future negotiations with Tehran on the nuclear issue, as well as other concerns. He proffered carrots as well as sticks. Secretary Pompeo offered to lift sanctions, restore full diplomatic and commercial relations, give Tehran access to advanced technology, and support Iran's integration into the global economy if Tehran agreed to (1) give a full account of the prior military dimensions of its nuclear program, and permanently and verifiably abandon such work; (2) end uranium enrichment and never process plutonium; (3) offer international inspectors unfettered access to all nuclear sites; (4) release all U.S. citizens, as well as citizens of our partners and allies, jailed unjustly; (5) stop its proliferation of ballistic missiles and development of nuclear-capable missiles; (6) end support for Houthi rebels and work toward a peaceful political settlement in Yemen; (7) end its support of the Taliban and other terrorist groups in Afghanistan, and cease harboring al-Qaeda leaders; (8) withdraw from Syria; (9) end support to Middle East terrorist groups, including Hezbollah, Hamas, and the Palestinian Islamic Jihad; (10) respect Iraq's sovereignty and permit the demobilization of Shia militias; (11) end the Revolutionary Guards' support for terrorists and militants around the world; and (12) stop threatening U.S. allies, including Israel, Saudi Arabia, and the United Arab Emirates (UAE).

These 12 goals are admittedly ambitious, but it is better to publicly commit to attaining them than to turn a blind eye to Iran's hostile regional policies to preserve a flawed nuclear agreement, as the Obama Administration did.[2] The Trump Administration is going big: expanding the parameters of possible negotiations while staking out broad red lines to deter Iran's malign behavior and offering a vision of mutually beneficial bilateral relations. The diplomatic ball is now in Iran's court. Iran's Supreme Leader, Ayatollah Ali Khamenei, is likely to reject further negotiations with Washington, but his successor will face mounting pressure to return to negotiations.

## What Comes Next?

Although Tehran previously had threatened to escalate its nuclear activities if Washington torpedoed the JCPOA, it has announced its willingness to remain in the deal if the European Union, China, and Russia can protect the economic benefits that Iran gained under the deal from renewed U.S. sanctions, which go into effect in two phases in August and November. This reflects how advantageous Iran sees the JCPOA as being, even without U.S. participation. EU trade with Iran has soared from $9.2 billion in 2015 to $25 billion in 2017.

Tehran is clinging to the JCPOA because it knows that the agreement does not permanently block, but only delays, Iran's nuclear ambitions. Iran reaped huge economic benefits from sanctions relief in exchange for making temporary and easily reversible nuclear concessions that it can discard when it serves its interests, as it has done repeatedly before. The JCPOA amounted to little more than a diplomatic speed bump for the ruthless and duplicitous Islamist regime.[3]

Tehran announced that it is preparing to expand its uranium enrichment capacity, but would remain within the parameters of the JCPOA, if the EU can deliver sufficient sanctions relief. Iran has played the victim card and is seeking to drive a wedge between the U.S. and the EU to prevent the formation of a united front on sanctions. To this end, Iran has even sued the United States at the International Court of Justice in a dubious effort to nullify U.S. sanctions, which Tehran disingenuously contends violate a 1955 bilateral treaty.[4]

Ayatollah Khamenei gave Iranian President Hassan Rouhani permission to negotiate with the EU to gain protection from U.S. sanctions in a May 23 speech.[5] He set several onerous conditions for stay-

1. Mike Pompeo, "After the Deal: A New Iran Strategy," remarks at The Heritage Foundation, transcript and video, May 21, 2018, https://www.state.gov/secretary/remarks/2018/05/282301.htm (accessed July 26, 2018).
2. James Phillips, "The Dangerous Regional Implications of the Iran Nuclear Agreement," Heritage Foundation *Backgrounder* No. 3124, May 9, 2016, http://thf-reports.s3.amazonaws.com/2016/BG3124.pdf.
3. James Phillips, "The Most Glaring Flaws in Obama's Nuclear Deal," The Daily Signal, July 14, 2015, https://www.heritage.org/global-politics/commentary/the-most-glaring-flaws-obamas-iran-deal.
4. Rick Gladstone, "Iran Takes U.S. to Court Over Nuclear Deal and Reimposed Sanctions," *The New York Times*, July 17, 2018, https://www.nytimes.com/2018/07/17/world/middleeast/iran-sues-us-over-sanctions.html (accessed July 25, 2018).
5. "Iran's Supreme Leader Gives Europe List of Demands to Salvage Nuclear Deal," *Al-Monitor*, May 24, 2018, https://www.al-monitor.com/pulse/originals/2018/05/iran-khamenei-five-conditions-jcpoa-europe-eu-trump-exit.html (accessed July 25, 2018).

ing in the JCPOA, including that the EU compensate Tehran for oil revenue lost due to U.S. sanctions, guarantee that European banks will continue financing bilateral trade with Iran, and that the EU should not raise the issue of Iran's ballistic missiles or its regional interventions. He even stipulated that the Europeans must vote for a U.N. Security Council Resolution (UNSCR) criticizing Washington for withdrawing from the JCPOA.[6]

It is hard to believe that European leaders, who resent being told what to do by the United States, would swallow these conditions laid down by a theocratic dictator. Even worse, Iran was caught red-handed in a foiled plot to bomb an opposition rally staged by Iranian exiles near Paris. Belgian authorities announced on July 2 that an Iranian diplomat was one of the four suspects arrested for the foiled bomb plot.[7] This foiled terrorist plot came after Secretary of State Pompeo warned in his May 21 speech that Iran's Quds Force, an elite unit within the Islamic Revolutionary Guard Corps, was conducting "covert assassination operations in the heart of Europe."[8]

Iran has orchestrated a long list of other terrorist attacks in Europe, including the 2012 Hezbollah suicide bombing of a bus carrying Israeli tourists in Burgas, Bulgaria, which killed six people. At Iran's direction, Hezbollah also perpetrated a series of terrorist attacks in Europe in the 1980s to punish countries perceived to be supporting Iraq in the 1980–1988 Iran–Iraq war.[9] In addition to Iran's terrorist activities, the regime's repression, human rights violations, and arrests of European–Iranian dual citizens on trumped up charges will continue to undermine and raise questions about misguided European efforts to protect Iran from U.S. sanctions.

On June 6, Iran made a show of inaugurating a new centrifuge production facility that will enhance its future uranium enrichment capacity, signaling the EU and the U.S. that it retains the option to withdraw from the JCPOA and ratchet up uranium enrichment efforts.[10] Iran reinforced this message on June 27 by reopening a "major" uranium facility in Isfahan that converts yellowcake, a uranium powder, into a gas.[11]

**EU Salvage Efforts Doomed to Fail.** The EU is trying to salvage the Iran nuclear deal by assembling a package of economic incentives to induce Iran to remain in the agreement. On June 6, the European Commission updated its Blocking Statute to prohibit EU firms from complying with American sanctions and to protect European companies trading with Iran from secondary sanctions imposed by Washington. But individual companies are more likely to avoid doing business with Iran than invoke this protective measure. U.S. secondary sanctions will force them to choose between conducting business with the United States, the world's largest market, and the much smaller Iranian market.

Iran's Foreign Minister, Javad Zarif, met in Vienna on July 6 with officials from five other countries that negotiated the JCPOA—Britain, France, Germany, China, and Russia—to discuss a package of incentives to keep Tehran from abandoning the deal. Iran remained noncommittal and Zarif cautioned: "The EU package is a commitment, but we have to wait and see how it will be put into practice before the first sanction date" of August 6.[12]

6. A. Savyon and U. Kafash, "Facing New U.S. Comprehensive Strategy Against It, Iranian Regime Officials Cling to JCPOA—Which Gives Iran Nuclear State Status Under UN Security Council Resolution," Middle East Media Research Institute Inquiry & Analysis Series No. 1400, May 29, 2018, https://www.memri.org/reports/facing-new-us-comprehensive-strategy-against-it-iranian-regime-officials-cling-jcpoa-%E2%80%93-which (accessed July 25, 2018).
7. Saeed Kamali Dehghan and Jennifer Rankin, "Diplomat Arrested over Alleged Attack Plot on Iranian Group in France," *The Guardian*, July 2, 2018, https://www.theguardian.com/world/2018/jul/02/belgian-couple-charged-with-planning-terrorist-attack-in-france (accessed July 25, 2018).
8. Pompeo, "After the Deal: A New Iran Strategy."
9. James Phillips, "Hezbollah's Terrorist Threat to the European Union," testimony before the Subcommittee on Europe, Committee on Foreign Affairs, U.S. House of Representatives, Heritage Foundation *Lecture* No. 1038, August 28, 2007, http://s3.amazonaws.com/thf_media/2007/pdf/hl1038.pdf.
10. "Iran Open New Nuclear Facility for Centrifuge Production," Associated Press, June 6, 2018, https://www.apnews.com/4f857da070994f7f99682bf105bd6519 (accessed July 25, 2018).
11. "AP Explains: Iran Reopens Uranium Plant in Its Latest Gamble," Associated Press, June 28, 2018, https://www.apnews.com/f0ace5708bab42098bf69a1b5ed6ef94/AP-Explains:-Iran-reopens-uranium-plant-in-its-latest-gamble (accessed July 25, 2018).
12. Kiyoko Metzler, "With US Out, Others Reaffirm Commitment to Iran Nuclear Deal," Associated Press, July 6, 2018, https://apnews.com/ecaf2fb3df6843f0829a664537081e9c (accessed July 25, 2018).

These efforts are doomed to fail. Tehran will want guarantees that European countries will continue to buy Iranian oil exports and find a way to transfer payments to Iran by circumventing U.S. sanctions. However, the re-imposition of far-reaching U.S. sanctions will dissuade European companies and banks from risking their access to the much larger U.S. market in order to preserve their Iran trade. Total, Maersk, Siemens, and other major European companies have signaled that they will pull back from Iran. Although EU leaders had proposed that the European Investment Bank, the EU's own lending institution, should help compensate Tehran for future economic losses inflicted by U.S. sanctions, a bank official on June 6 criticized the proposed plan because the resulting U.S. sanctions would damage the bank's ability to raise funds in international capital markets.

A key element of the U.S. sanctions strategy will be the campaign to cut off Iran's oil and gas export revenues, which provide over 80 percent of its export earnings. Washington is pushing countries that import Iranian oil to cut their oil imports from Iran to zero by November 4, when the six-month grace period expires for some sanctions announced by the President on May 8. Unlike in 2012, when countries were allowed to continue buying Iranian oil at reduced levels in exchange for waivers on U.S. financial restrictions, the Trump Administration signaled that it will be reluctant to issue waivers on secondary sanctions that prohibit transactions between Iran's Central Banks and other banks.

The threat of U.S. sanctions will diminish European oil purchases from Iran. Iran exported more than 2.4 million barrels per day in May according to the International Energy Agency. That represents about 2.5 percent of world oil production.

Roughly two-thirds of Iran's oil exports are sold to Asian importers, led by China, India, South Korea, and Japan.[13] Japan, which is less dependent on Iranian oil than the other countries, importing about 5 percent of its oil needs from Iran, will probably have the easiest time doing without Iranian oil, but China and India will find it harder to adjust. Secretary of State Pompeo said in early July that Washington would consider issuing waivers for a "handful" of countries to buy Iranian oil.[14] India, South Korea, and a few others were granted such waivers during the previous round of sanctions.

China, Iran's leading oil customer and trading partner, has made it clear that it will not support U.S. sanctions on Iran. It complied with the 2010 U.N. sanctions and reduced its oil imports from Iran by up to one-quarter. However, U.S. officials expect that China will actually increase its imports of Iranian oil to take advantage of discounted prices and will channel payments through a Chinese bank that has a limited exposure to the global financial system, and therefore could evade U.S. secondary sanctions.[15]

**Slow-Motion Crisis.** Once it becomes clear that the EU cannot save Iran from the consequences of its hostile foreign policy, Tehran is likely to abandon the JCPOA and ratchet up its uranium enrichment efforts. But rather than provoking a crisis that could unify the U.S. and EU, as well as increasing the risks of a U.S. military response, Tehran is likely to take incremental steps to revive nuclear activities limited by the JCPOA, thereby preserving its option to negotiate another deal and avoid backing itself into a dangerous corner.

If it rushes to escalate its uranium enrichment efforts, then Tehran would lose diplomatic support from Russia and China, which would be more likely to enforce a new round of sanctions. Such a confrontational strategy would put Tehran on a collision course with a greater number of countries, which would raise the economic and political costs to the regime, as well as the risks that greater economic hardship would fuel political instability or even a popular revolt inside Iran.

## Iran's Deepening Economic Crisis

Iran's long-suffering people have been afflicted by falling living standards, rising inflation, high unemployment, surging food prices, insolvent banks, and shortages of affordable housing, goods, and drink-

13. Jareer Elass, "Oil Market Geared for Instability in Foreseeable Future," *The Arab Weekly*, May 20, 2018, https://thearabweekly.com/oil-market-geared-instability-foreseeable-future (accessed July 25, 2018).
14. Katrina Manson, "Pompeo Says U.S. Could Issue Iran Oil Sanctions Waivers," *Financial Times*, July 10, 2018, https://www.ft.com/stream/366498ab-0944-39b1-b852-f075ff307c19 (accessed July 25, 2018).
15. Sarah McFarlane and Benoit Faucon, "U.S. Expects China to Buy Even More Iranian Oil After Sanctions," *The Wall Street Journal*, July 17, 2018, https://www.wsj.com/articles/u-s-expects-china-to-buy-even-more-iranian-oil-after-sanctions-1531833475 (accessed July 25, 2018).

ing water. Iran's currency, the rial, has steadily lost value since President Trump's October announcement decertifying the JCPOA, signaling his intention to re-impose sanctions. Iranians have moved $59 billion out of the country between March 2016 and March 2018, and the flight of capital is accelerating.[16] The Central Bank of Iran made a bad situation worse earlier this year when it clamped down on foreign exchange bureaus and announced the unification of exchange rates, but failed to provide enough hard currency to stop the slide of the rial.

The reeling state-dominated economy is a major political vulnerability for a regime that has proven to be unable to reform itself or satisfy the needs of its own people. Since late December 2017, Iran has been wracked by widespread popular protests over deteriorating economic conditions, economic mismanagement, corruption, repression, and expensive foreign interventions that have diverted scarce state resources from domestic economic projects. By early January 2018, the protests mushroomed to include more than 75 cities, despite a crackdown by security forces that killed at least 25 protesters and jailed almost 5,000. These were the biggest demonstrations since the 2009 nationwide protests against the fraudulent re-election of former President Mahmoud Ahmadinejad.

Significantly, while the 2009 protests were led by urban middle-class and professional elites that have long chafed under Islamist rule, the most recent wave of protests has included working-class and poor Iranians from provinces and rural areas that formerly were considered bastions of support for the regime. Although nationwide protests temporarily subsided, sporadic protests over local issues, women's rights, water shortages caused by mismanagement during a drought that affects more than 90 percent of Iran, and labor strikes continued sporadically, eventually spreading to 30 of Iran's 31 provinces.

When the unofficial exchange rate in Iran surged to a record 90,000 rials to the dollar on June 24, protests spontaneously erupted in Tehran, as cell phone shop owners shut down their shops and demonstrated against the plummeting value of Iran's currency, which has devastated their businesses. The next day they were joined by merchants in Tehran's Grand Bazaar, a key constituency for the regime that had played an important role in funding the Islamist extremists led by Ayatollah Ruhollah Khomeini who hijacked Iran's broad-based 1979 revolution.[17]

Another salient issue has been the failure of Iran's government to adequately respond to an ongoing drought. This has generated many local protests including major demonstrations in the southwestern cities of Abadan and Khorramshahr in late June. Rather than take effective action to conserve water supplies or expand desalination efforts, the regime has blamed the water shortages on Israel. On July 2, the general in charge of Iran's Civil Defense Organization attributed the shortfall in drinking water supplies to "cloud and snow theft," claiming that "Israel and another country in the region have joint teams which work to ensure clouds entering Iranian skies are unable to release rain."[18]

The latest wave of protests have severely undermined President Hassan Rouhani, who denounced the United States for launching an "economic war" against Iran and vowed to thwart U.S. efforts to "defeat our nation."[19] But many of the protesters see the problem as originating with their own government, chanting: "Our enemy is here! It is a lie that America is our enemy!"[20] Their ire also was directed at Ayatollah Ali Khamenei, Iran's Supreme Leader, whose power and authority greatly outweighs that of the president, under Iran's constitution.

Ayatollah Khamenei is unlikely to agree to abandon Iran's nuclear ambitions, for which his regime has sacrificed so much to promote. But Khamenei, 79 years old, is in poor health, and his successor may

16. Saeed Ghasseminejad, "In Iran, Intense Capital Flight Threatens Economy," Foundation for Defense of Democracies *Policy Brief*, June 1, 2018, http://www.defenddemocracy.org/media-hit/saeed-ghasseminejad-in-iran-intense-capital-flight-threatens-economy/ (accessed July 25, 2018).
17. Michael Rubin, "In Iran, Revolution Is Starting in the Bazaar," *Washington Examiner*, June 25, 2018, https://www.washingtonexaminer.com/opinion/in-iran-revolution-is-starting-in-the-bazaar (accessed July 25, 2018).
18. "Iranian General Blames Water Woes on Israeli 'Cloud Theft,'" *The Times of Israel*, July 2, 2018, https://www.timesofisrael.com/iranian-general-blames-water-woes-on-israeli-cloud-theft/ (accessed July 25, 2018).
19. Jon Gambrell, "Protests in Iran as Rouhani Says U.S. Wants 'Economic War,'" Associated Press, June 26, 2018, https://www.apnews.com/8b7bae1279b442879d3f569a29acce68/SOMNIA (accessed July 25, 2018).
20. Middle East Media Research Institute, "Protesters in Tehran Shout: Our Enemies Are Right Here! America Is Not Our Enemy! No To Gaza, No To Lebanon!" June 27, 2018, https://www.memri.org/tv/protesters-in-tehran-shout-america-is-not-our-enemy (accessed July 25, 2018).

be more flexible on the nuclear issue. As Secretary Pompeo said in his May 21 speech: "Ali Khamenei will not live forever. Nor will the Iranian people abide the rigid rules of tyrants forever."[21]

## Trump Administration Resumes Traditional U.S. Role in Middle East

The Trump Administration has embraced America's traditional role of backing its allies in the Middle East and defending their vital interests against Iran, even if that means hurting Europe's marginal commercial interests in trading with Iran. Preventing a single power from dominating Persian Gulf oil resources has been a prime goal of U.S. Middle East policy since the Truman Administration.

The Obama Administration neglected this goal in an ill-considered and overreaching diplomatic effort to reach a détente with Iran.[22] This naïve policy left many U.S. allies in the Middle East exposed to Iranian threats. Israel, Saudi Arabia, and other gulf oil kingdoms grew increasingly alarmed by the overly generous deal that President Obama offered to Tehran at their expense, while backpedaling away from close strategic cooperation with them. President Obama's risky diplomacy legitimized the illicit nuclear program of Iran's rogue regime, strengthened Tehran in the economic, military, and geopolitical spheres, and treated it like a normal government, despite the fact that it had a long history of exporting terrorism and subversion, and had been caught red-handed plotting to assassinate the Saudi Ambassador to the U.S. by bombing a Washington restaurant in 2011.[23]

The Trump Administration also reverted to the historic goals of U.S. nonproliferation policy. For more than five decades, Washington has opposed the spread of sensitive nuclear technologies, such as uranium enrichment, even for its allies. By unwisely making an exception for Iran, the Obama Administration in effect legitimized Iran's covertly built nuclear facilities, which were allowed to continue to operate, with some restrictions.

The Obama Administration handed Iran a better deal on uranium enrichment than previous Administrations gave to U.S. allies, such as South Korea, Taiwan, and the UAE, which were denied that option. It was an even better deal than the Shah of Iran, an American ally, received in 1976, before the Iranian revolution, from the Ford Administration, which denied his request for an enrichment capability.

The JCPOA did a much better job of dismantling sanctions against Iran than it did in dismantling Iran's nuclear program. Moreover, it did too little for too short a period to curb Iran's nuclear program, while ignoring many other threatening Iranian activities.

Rather than focusing narrowly on the nuclear issue, as the Obama Administration did, the Trump Administration has laid down markers on the entire range of Tehran's malign activities. The goal is to deter and penalize the regime's aggressive regional interventions and hold the regime accountable for its export of subversion and terrorism. As part of the effort to maximize diplomatic and economic pressure on Tehran, the United States will implement sanctions against Iran's automotive sector and trade in gold and other precious metals on August 6. Sanctions on Iran's energy, shipping, and financial sectors will be fully restored on November 4, at the end of a 180-day wind-down period to allow foreign companies time to close down their operations in Iran.

By steadily escalating economic sanctions and pushing back against Iranian troublemaking through the coordinated efforts of a network of allies and by firm diplomacy backed up the credible threat or effective use of force, the Trump Administration hopes to induce the Islamist regime to abandon its hostile foreign policy or risk provoking external reprisals or an internal popular backlash that threatens its own survival.

After the U.S. withdrawal of the JCPOA, Iran is no longer on an easy glide path to expand its uranium enrichment to an industrial scale, as a prelude

21. Pompeo, "After the Deal: A New Iran Strategy."
22. Michael Doran, "Obama's Secret Iran Strategy," *Mosaic*, February 2, 2015, https://mosaicmagazine.com/essay/2015/02/obamas-secret-iran-strategy/ (accessed July 25, 2018).
23. Maseh Zarif, Henry A. Ensher, and Will Fulton, "Qods Force Terrorist Plot in the U.S.," American Enterprise Instiute Critical Threats Project, October 11, 2011, https://www.criticalthreats.org/analysis/qods-force-terrorist-plot-in-the-u-s (accessed July 25, 2018).
24. Patrick Clawson, "Iran's Vulnerabilities to U.S. Sanctions (Part 1): Finding the Weak Spots," The Washington Institute for Near East Policy *Policywatch* No. 2983, June 14, 2018, https://www.washingtoninstitute.org/policy-analysis/view/irans-vulnerabilities-to-u.s.-sanctions-part-1-finding-the-weak-spots (accessed July 25, 2018).

to a nuclear breakout. The Supreme Leader and his successor will be forced to make a hard choice: either cling to the regime's nuclear weapons ambitions and hostile foreign policy, thereby risking increasing sanctions-related economic pain that will further erode the regime's narrow base of support, or reform regime policies to invest its oil wealth at home, rather than in exporting terrorism and revolution.

To address Iran's nuclear and regional challenges, the Trump Administration should:

- **Rally Allies to Apply Maximum Sanctions Pressure.** Iran was compelled to negotiate on the nuclear issue in 2013, after crippling sanctions slashed its oil revenues and cut off its access to the international banking system. The Trump Administration must mount an intensive diplomatic campaign to mobilize international support for enforcing renewed sanctions against Iran. European allies played a key role in ratcheting up sanctions pressure in 2012 and 2013, and they remain an important vector for restoring sanctions pressure now.

  The Trump Administration should reach out to European allies disgruntled over the U.S. withdrawal from the JCPOA, and seek to minimize rifts that Teheran could exploit. It should explain how the withdrawal and restoration of sanctions advances a broader strategy for rolling back Iran's baleful influence and containing its threats. The Administration should hammer home the point that Prime Minister Benjamin Netanyahu's revelation of Israel's intelligence coup in seizing Iranian nuclear documents, which many European governments continue to ignore or dismiss, proved that Iran failed to account for the military dimensions of its nuclear program, as promised by the Obama Administration. Moreover, the fact that Iran retained the documents is an indication that it intended to renew those weaponization efforts, if it has not done so already.

President Trump's May 8 re-imposition of U.S. nuclear-related sanctions on Iran gave importers of Iranian oil a 180-day period to significantly reduce purchases of Iranian oil or risk being hit with U.S. secondary sanctions. Renewed oil sanctions are unlikely to be as damaging to Iran as the previous ones, in part due to opposition of many countries to the U.S. withdrawal from the JCPOA, which could lead them to defy or ignore sanctions. Rising oil prices also may undermine the impact of sanctions. Patrick Clawson, a leading expert on Iran's economy, has warned:

> Moreover, with the world economy heating up and oil giant Venezuela melting down, prices may be robust enough to offset any major sanctions-related drop in Iran's export volume. Since January, Tehran has sold its heavy crude at an average of $64 per barrel, compared to the 2017 average of $51; this means its revenue would be constant even if its volume fell by 20 percent.[24]

European cooperation will be important for reducing Iran's oil exports, particularly because China and Turkey, two of Iran's biggest oil and gas customers, have announced that they will not comply with U.S. sanctions against Iran. The EU's 2012 oil embargo helped to reduce Iranian oil exports from about 2.5 million barrels per day (mbd) in 2011 to 1.1 mbd in 2013. But it is unlikely that such a sharp fall in Iranian oil exports can be expected anytime soon, given today's tight global oil market with rising prices.

Reinstatement of U.S. sanctions could reduce Iran's oil exports by up to one-third by the end of the year.[25] Iran's oil exports already have started declining, after topping 2.6 mbd in April, and could fall below 2 mbd by early August.[26] In addition to the loss of oil sales, Tehran would be hurt by the curtailment of foreign investment and access to technology, which would significantly set back the development of its natural gas exports.[27]

25. Simon Martelli, Amena Bakr, and Oliver Klaus, "The Big Picture: Dark Clouds Over Vienna," *Energy Compass*, Vol. 29, No. 24 (June 15, 2018), p. 1.
26. Ibid., p. 2.
27. Amy Myers Jaffe, "The Complicated Geopolitics of U.S. Oil Sanctions on Iran," Council on Foreign Relations, blog, May 25, 2018, https://www.cfr.org/blog/complicated-geopolitics-us-oil-sanctions-iran (accessed July 25, 2018).

One prominent concern is the impact of the oil sanctions on global oil prices. Renewed sanctions eventually could diminish Iran's oil exports by up to 50 percent, but Saudi Arabia, the UAE, and Kuwait claim to have enough excess oil production capacity to offset that shortfall.[28] Saudi Arabia issued a statement within hours of President Trump's May 8 announcement on withdrawing from the Iran agreement, promising to increase oil production to offset any shortages caused by renewed U.S. Iran sanctions. Washington should also ask Saudi Arabia, the UAE, and other Arab oil producers with excess production capacity to replace Iranian oil exports to Europe and Asia.

Iran's mismanaged banking sector is also vulnerable to U.S. sanctions. Economist Patrick Clawson has concluded, "Unlike in 2012, banks, not oil exports, are the Iranian regime's greatest economic vulnerability."[29] Another expert on Iran's economy, Bijan Khajepour, has noted: "The key shortcoming in the Iranian economy is the nonexistence of a proper capital market."[30] Iranian banks are already suffering from major capital shortfalls, politicized management, and lack of transparency. As U.S. banking sanctions are resumed and Iran grows more isolated from the global financial system and more starved for capital, the regime will face an unpalatable choice: cut spending, which would boost unemployment, or print money, which would boost inflation.

In addition to reapplying previous sanctions, Washington should impose new sanctions on Iran. It should levy new sanctions against the Islamic Revolutionary Guard Corps (IRGC), the regime's enforcers and the primary conduit for exporting revolution and terrorism abroad. The IRGC already was designated by Washington as a terrorist organization in October 2017, but few other countries have followed suit. The Trump Administration should expose the IRGC's crimes inside and outside Iran and ask allies to impose their own sanctions on it. Congress should also expand the IRGC sanctions to target entities owned or controlled by the IRGC, including entities in which the IRGC owns less than 50 percent. The Trump Administration also should work with Congress to impose new sanctions on Iranian officials and on construction, mining, and other key sectors of Iran's economy.

- **Keep the Door Open for Negotiations with Iran.** President Trump stated that he was "ready, willing and able" to negotiate a "new and lasting deal" in his May 8 speech announcing U.S. withdrawal from the JCPOA.[31] Tehran has initially balked at new negotiations with Washington and will explore the strengthening of ties with the EU, Russia, and China to offset U.S. sanctions pressure.

  Sanctions also will take time to restore and have an effect. Moreover, the sanctions may not be as effective as before without buy-in from European governments, Russia, and China. But as the regime's economic and political problems escalate, it will be under considerable pressure to return to the negotiating table. When it does, Washington should be ready to negotiate a stronger nuclear agreement that permanently blocks a nuclear breakout—the time needed to produce enough fissile material for one atomic bomb, estimated to be about 25 kilograms (55 pounds) of highly enriched uranium.[32]

28. Mahmoud Habboush, Anthony Dipaola, and Tracy Alloway, "U.A.E. Sees OPEC Oil Capacity 'Buffer' Offsetting Iran Sanctions," Bloomberg, May 13, 2018, https://www.bloomberg.com/news/articles/2018-05-13/u-a-e-sees-opec-oil-capacity-buffer-offsetting-iran-sanctions (accessed July 25, 2018).
29. Clawson, "Iran's Vulnerabilities to U.S. Sanctions (Part 1)."
30. Bijan Khajehpour, "Will Iran's Economy Collapse?" Al-Monitor, June 25, 2018, https://www.al-monitor.com/pulse/originals/2018/06/iran-rial-devaluation-economic-crisis-cbi-rouhani-seif-irgc.html (accessed July 25, 2018).
31. The White House, "Remarks by President Trump on the Joint Comprehensive Plan of Action," May 8, 2018, https://www.whitehouse.gov/briefings-statements/remarks-president-trump-joint-comprehensive-plan-action/ (accessed July 25, 2018).
32. Simon Henderson, "Technical Implications of Trump's JCPOA Announcement," The Washington Institute for Near East Policy, *Policywatch* No. 2967, May 9, 2018, https://www.washingtoninstitute.org/policy-analysis/view/the-technical-implications-of-trumps-jcpoa-announcement (accessed July 25, 2018).

Under the JCPOA, Iran's nuclear breakout time would have steadily diminished as key restrictions on uranium enrichment expired after 10 to 15 years, gradually reducing Tehran's breakout time to a few days after year 15.[33] The Trump Administration should seek a new nuclear agreement that would permanently bar Iran from acquiring nuclear weapons. At a minimum, this would require banning Iran from uranium enrichment activities; dismantling substantial portions of Iran's nuclear infrastructure; imposing robust inspections on an "anytime anywhere" basis and real-time monitoring of Iranian nuclear facilities; linking sanctions relief to Iranian compliance; ensuring that Iran comes clean on its past weaponization efforts; and establishing a clear and rapid process for reimposing all sanctions if Iran is caught cheating.[34]

Reaching a grand bargain on all of Iran's threatening activities is probably impossible, given the regime's Islamist revolutionary DNA. But it may be possible to make incremental progress on the nuclear issue, particularly if the regime is convinced that its own survival depends on resolving the issue.

- **Maintain a Favorable Balance of Power to Contain and Deter Iran.** Iran's regime is mindful of the balance of power and responds to pressure tactics. It is no coincidence that Tehran suspended some elements of its nuclear program in 2003, including a "structured" weaponization program that involved designing and testing nuclear trigger devices, after the U.S. ousted hostile regimes in neighboring Iraq and Afghanistan.[35]

  It is also telling that the IRGC's harassment of U.S. Navy warships in the Persian Gulf markedly declined after President Trump took office and ended in August 2017. On the other hand, when pressure on the regime is relaxed, it feels free to step up its destabilizing activities. After the 2015 agreement was reached, Iran escalated its military intervention in Syria, started building missile production factories in Lebanon, Syria, and Yemen, provided medium-range ballistic missiles to Houthi rebels in Yemen who launched them at civilian targets in Saudi Arabia and the United Arab Emirates, and stepped up its support for insurgent and terrorist groups in Afghanistan, Gaza, and Yemen.

  The credible threat of the use of force is necessary to deter and contain Iran. Ultimately, it is the most important factor that would deter an Iranian nuclear breakout. Sanctions alone are unlikely to end Iran's nuclear ambitions, just as they failed to stop North Korea's duplicitous path to a nuclear weapon.

  The United States must maintain a robust air and naval presence in the Persian Gulf region to deter Iran, reassure allies, and protect the continued flow of gulf oil exports, which Tehran has threatened to cut off if its own oil exports are reduced to zero. In addition, Washington should focus on building up the capacity of regional partners and promoting interoperability with each other and the United States, so that they can better collectively provide for their own self-defense against Iran.

  The U.S. and its European allies also should strengthen military, intelligence, and security cooperation with Israel and the members of the Gulf Cooperation Council (GCC), an alliance of Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the UAE, founded in 1981 to provide collective security for Arab states threatened by Iran. Such a coalition could help both to contain the expansion of Iranian power and to facilitate military action, if necessary, against Iran. Washington should

33. David Albright, Houston Wood, and Andrea Stricker, "Breakout Timelines Under the Joint Comprehensive Plan of Action," Institute for Science and International Security, August 18, 2015, https://www.isis-online.org/uploads/isis-reports/documents/Iranian_Breakout_Timelines_and_Issues_18Aug2015_final.pdf (accessed July 25, 2018).
34. James Phillips, "The Iran Nuclear Deal: What the Next President Should Do," Heritage Foundation *Backgrounder* No. 4468, October 2, 2015, http://thf_media.s3.amazonaws.com/2015/pdf/IB4468.pdf.
35. Michael Eisenstadt, "Iran After the JCPOA Withdrawal (Part 1): Lessons from Past Pressure Campaigns," The Washington Institute for Near East Policy, *Policywatch* No. 2989, July 16, 2018, https://www.washingtoninstitute.org/policy-analysis/view/iran-after-the-jcpoa-withdrawal-part-1-lessons-from-past-pressure-campaigns (accessed July 25, 2018).

build up GCC defense capabilities, particularly in the areas of missile defense, cyber defense, anti-submarine forces, naval forces, intelligence, surveillance, and reconnaissance, taking care that arms sales to Arab states do not threaten Israel's qualitative military edge in the event of a flare-up in Arab–Israeli fighting.

The Pentagon should expand and institutionalize joint planning and joint exercises to develop a shared strategy for deterring Iranian aggression and defending the U.S. and allies. U.S. and allied intelligence services should expand bilateral and collective intelligence sharing on Iranian military, terrorist, and proxy activities in the region. Washington also should encourage and further expand the tentative rapprochement between Israel and GCC states to facilitate greater strategic cooperation against Iran.

- **Put a High Priority on Missile Defense.** Iran's ballistic missile force, the largest in the Middle East, poses a growing threat to its neighbors. Washington should help Israel to strengthen its missile defenses and help the GCC countries to build an integrated and layered missile defense architecture to blunt the Iranian missile threat. All GCC states except Oman have deployed U.S.-made Patriot missile defense systems, but there is little coordination between states. The Pentagon should help them integrate their disparate missile defense systems into a multilayered regional system with a joint early warning capability.

  The U.S. Navy should be prepared to deploy warships equipped with Aegis ballistic missile defense systems to appropriate locations in a crisis to help defend Israel and the GCC allies against potential Iranian missile attacks as circumstances demand. This will require coordinating missile defense activities among the various U.S. and allied missile defense systems through a joint communications system. The U.S. should also field missile defense interceptors in space for intercepting Iranian missiles in the boost phase, which would add a valuable additional layer to missile defenses.

- **Contain Iran's Expanding Influence, Particularly in Syria.** The United States must raise the costs of Iran's expansionist foreign policy to protect U.S. interests and allies, alter Tehran's cost-benefit calculus, deter aggression, and add fuel to the popular discontent with the regime's policies. President Trump outlined a sensible strategy to contain Iran in a speech last October, which involved working with allies to counter the regime's destabilizing activities, imposing sanctions, and confronting Iran's proliferation of missiles and weapons that threaten its neighbors, global trade, and freedom of navigation.[36]

  Syria stands out as a key theater for containing Iran because of the destabilizing threats posed by Iranian Revolutionary Guards and Iranian-controlled Shia militias to Israel and Jordan. The top U.S. priority in Syria appropriately has been the defeat of the Islamic State (also known as ISIS or ISIL). Now that the Islamic State has been decimated, Washington should make it clear that it will not allow Iran to exploit the Islamic State's military collapse to expand its own influence. Yet the scope and duration of the U.S. military mission in Syria remains unclear, with President Trump publicly indicating that the roughly 2,000 U.S. troops deployed there could be coming home soon. Abandoning eastern Syria would be a mistake that would allow Iran to expand its influence and consolidate supply lines from the Iranian border to Lebanon.

  The outcome of the struggle for control of Deir al-Zour governate in eastern Syria will be a key determinant of the future balance of power within Syria and the region. Deir al-Zour not only contains much of Syria's oil and gas reserves, but could become an important part of Tehran's drive to consolidate control of a land bridge linking Iran to the Levant. Roughly 80 percent of the pro-Assad militias deployed in eastern Syria are controlled by Iran.

  The United States and its Arab and Western allies should cooperate closely in order to derail Iran's plans for tightening its grip on eastern Syria. Part

36. The Whte House, "Remarks by President Trump on Iran Strategy," October 13, 2017, https://www.whitehouse.gov/briefings-statements/remarks-president-trump-iran-strategy/ (accessed July 25, 2018).

of this effort should be to cultivate strong ties to Sunni Arabs in eastern Syria, prevent them from falling back under the shadow of the Islamic State, and block Iranian-led efforts to restore the Assad regime's repressive rule in eastern Syria.

The U.S. should also press Arab allies to assume a greater responsibility for stabilizing eastern Syria with troops and economic support. For example, Saudi Arabia and the UAE could provide special operations forces to replace most of the U.S. forces in Syria, while Qatar and Kuwait primarily could provide economic and humanitarian support for the liberated areas. While this coalition will require continued U.S. air support, logistical help, and intelligence support, it will require fewer American ground forces as Arab allies step forward to replace them.

Although the Russian and Iranian interventions have enabled Assad to regain military superiority over the splintered rebel resistance, President Bashar Assad remains a politically weak and despised figure. His regime is completely dependent on the military and economic support of Russia and Iran. Tehran has spent billions of dollars of economic aid to prop up Assad's regime, at a rate of at least $6 billion per year.[37]

The United States and its Arab allies can help make this economic burden more painful by ratcheting up sanctions on Iran for its multiple interventions and making it clear that they will refuse to help reconstruct regime-controlled areas of Syria until Iran's forces and its foreign legion of Shiite militias have been withdrawn. The long-term U.S. diplomatic goal should be a political settlement in which the Assad regime is replaced by a transitional government that limits the influence of Islamist extremists, including the Iranian regime and Hezbollah.

- **Target Hezbollah and Other Iranian Surrogates with Sanctions.** To develop regional allies, Tehran has exploited sectarianism to mobilize local Shiites. The IRGC was charged with protecting and exporting Iran's Islamist revolution. It was most successful when it fished in troubled waters by enlisting ideological recruits in conflict-ridden countries. This use of proxies enabled Tehran to minimize the risk of blowback or retaliation for its malign activities. Tehran also reduced the risk of suffering Iranian casualties by "fighting to the last Arab" in various conflicts.

In addition to penalizing Tehran for its hostile policies, the U.S. and its allies should also penalize Iran's allies and surrogates, particularly Hezbollah, the Lebanese Shia terrorist organization which has been instrumental in Iran's terrorist campaigns and its interventions in Lebanon, Syria, and Iraq. In 2016, the GCC and Arab League designated Hezbollah as a terrorist group. But the EU still sanctions only the military wing of the organization, paying lip service to the notion that Hezbollah's political leaders somehow are ignorant about or powerless to stop its terrorist operations. Washington should work with Israel, Saudi Arabia, and the UAE to pressure the EU to impose sanctions on Hezbollah. It also should coordinate global efforts to crack down on Hezbollah's criminal operations, illegal drug smuggling, front companies, and banks that do business with it.

UNSCR 2231, which endorsed the JCPOA, maintains a ban on Iran's arms exports for five years after implementation day. Washington should make full use of this authority to intercept shipments of Iranian arms to Hezbollah, Hamas, Palestine Islamic Jihad, and the Houthi rebel group Ansar Allah in Yemen.

Iran's transfer of increasingly sophisticated rockets and guided missiles to Ansar Allah now poses a rising threat to Saudi Arabia, as well as to the free flow of shipping through the Bab al Mandeb strait and Red Sea. In January 2018, a U.N. panel concluded that Iran was in non-compliance with UNSCR 2216 from 2015 that called upon all member states to prevent the transfer of arms to combatants in the Yemeni civil war. The U.S. and its allies have legal authority to tighten efforts to intercept Iran's arms-smuggling efforts. Iran also is in violation of UNSCR 223, which prohibited the transfer of Iranian ballistic missiles for eight years.

37. Eli Lake, "Iran Spends Billions to Prop Up Assad," Bloomberg Opinion, June 9, 2015, https://www.bloomberg.com/view/articles/2015-06-09/iran-spends-billions-to-prop-up-assad (accessed July 25, 2018).

- **Promote Freedom for Iran's People.** Iran's increasingly unpopular regime appears vulnerable to the domestic political fallout of converging economic, political, geopolitical, and social crises. Iran's faltering economy, rising inflation, high unemployment, endemic corruption, and opaque, repressive, and unaccountable government have stoked unrest. In recent protests, frustrated Iranians have chanted "Leave Syria alone, think of our own," a pointed criticism of the warped priorities of the regime, which continues to divert billions of dollars of Iran's oil wealth to propping up the Assad regime in Syria and funding other foreign adventures, while Iranians at home tighten their belts due to adverse economic conditions.[38]

  The re-imposition of sanctions will exacerbate economic hardship, which is likely to fuel more protests and labor strikes that will further undermine and delegitimize the regime. Secretary of State Pompeo has stopped short of calling for regime change in Tehran, but suggested that the Iranian people could rise up against the regime. The State Department's Director of Policy Planning, Brian Hook, explained that "[t]his new strategy is not about changing the regime. It is about changing the behavior of the leadership in Iran to comport with what the Iranian people want them to do."[39]

  Realistically, the U.S. cannot unilaterally impose regime change short of a costly invasion, or control the process once it begins. Regime change is not likely to happen anytime soon, as long as the regime remains unified. The waves of recent protests have lacked a common leader or unified organizational structure. Protests have focused on local issues, economic problems, women's rights, and discrimination against Kurdish, Arab, and Sufi minorities, but have not coalesced into a coherent national movement. Moreover, although the regime is increasingly reviled, no popular uprising is likely to succeed unless it includes Iran's oil workers, who played a critical role in Iran's revolution when they went on strike in September 1978.

  Washington can help accelerate, but not orchestrate, regime change in Iran. Ultimately, it is the Iranian people who will hold the Islamist regime accountable for its repression, corruption, human rights violations, and skewed policy priorities. But Washington can help to publicize and promote the legitimate political, religious, social, and economic grievances of frustrated Iranians and support their efforts to recover freedom from the oppressive and predatory dictatorship in Tehran.[40]

  The State Department should identify officials involved in recent crackdowns and other human rights abuses, and apply targeted sanctions against them under the Global Magnitsky Human Rights Accountability Act. The IRGC, the linchpin of the regime's coercive power, deserves special attention for further sanctions, along with human rights abusers within Iran's Ministry of Intelligence, police, and internal security forces.

  Washington should support the right of Iranians to challenge the heavy-handed repression of the Islamist dictatorship, but it should not publicly endorse specific opposition leaders or movements. The CIA should provide covert financial and material assistance to pro-democracy opposition groups similar to the non-lethal aid that the United States extended to Poland's anti-Communist Solidarity movement during the Cold War.

  Iran's newspapers, television, radio, and social media are heavily censored. U.S. officials and technology executives should help to create reliable and secure Web-based platforms outside Iran that could be used by dissidents to disseminate messages and provide uncensored news to Iranians. If necessary, the Administration should relax Iran sanctions to give Iranian citizens access to technical tools to evade censorship and surveillance by the regime.

38. Radio Farda, "Tehran's Grand Bazaar Goes on Strike as Iran's Economic Crisis Worsens," June 25, 2018, https://en.radiofarda.com/a/iran-bazaar-strike-economic-worsening/29318196.html (accessed July 25, 2018).
39. Laura Rozen, "Trump Administration Denies Pursuing Regime Change in Iran," *Al-Monitor*, July 2, 2018, https://www.al-monitor.com/pulse/originals/2018/07/trump-deny-iran-regime-change-change-cheer-protests.html (accessed July 2, 2018).
40. James Phillips, "How the U.S. Can—and Should—Promote Freedom in Iran," Heritage Foundation *Issue Brief* No. 4836, April 12, 2018, https://www.heritage.org/sites/default/files/2018-04/IB4836.pdf.

The United States should work indirectly to expose and publicize the corruption, stolen wealth, and hypocrisy of Iran's leaders. The U.S. could leak pictures of the mansions, stolen assets, and imported luxury goods accumulated by corrupt officials, both inside and outside Iran, for instance. The information campaign should also document and publicize the billions of dollars that the regime has lavished on its terrorist proxy network and on military interventions and subversion in Afghanistan, Iraq, Lebanon, Syria, and Yemen.

Congress also can play a role by holding hearings to expose and condemn the regime's human rights abuses and investigate additional ways of penalizing the regime for those violations. The Trump Administration should work with Congress on legislation to impose additional sanctions. The overall campaign should make it clear that the United States stands with the Iranian people, not with the repressive regime of the ayatollahs. In the long run, a free Iran is the best hope for peace and security in the volatile Middle East.

## A Return to Reality on Iran Policy

The Trump Administration has reverted to historic U.S. nonproliferation goals rather than accepting the Obama Administration's leap of faith, and returned to the pre-Obama consensus on what Tehran needs to do to be treated as a normal country. Washington must impose clear and mounting costs on Tehran for its hostile policies or it will not change course. Firm and relentless sanctions are required to drive home the message that Iran's current foreign policy course threatens the long-term interests of the Iranian people.

If the regime relents, it might gradually moderate its behavior. A grand bargain is unlikely, but a better nuclear deal that makes it much more difficult for Tehran to stage a nuclear breakout may be possible. If not, Iran will continue to stew in its own toxic juices and the regime risks the continued erosion of its base of support and a possible implosion—or popular explosion.

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