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## Rethinking Iran: Restraint Through Reconciliation

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### EXECUTIVE SUMMARY

In 1980, President Jimmy Carter stated the flow of Persian Gulf oil was a vital U.S. interest and that Washington would use “any means necessary, including military force” to protect it. The statement became known as the Carter Doctrine. The U.S. has been engaged in the region ever since. As part of the engagement, The United States’s grand strategy application in the Middle East accounts for Iran’s influence in the area. However, strategic decisions to isolate Iran have failed and only increased tensions. American hawks consistently cite Iran’s behavior to defend their commitment to lengthy military engagements and allies in the region. Those arguments often overlook the inflammatory actions of those vested in preserving hostility and exposing the two nations to a military confrontation.

This paper will argue that Iran is critical to U.S. grand strategy calculus, but incremental agreements meant to curb specific behaviors are vulnerable to political climate without solidified relationships. It will also contend that strategic restraint and an offshore balancing force posture best serve U.S. interests. Consequently, the paper argues that building multiple parallel paths of sequential steps towards normalized relations with Iran best serves U.S. interests. The report relies upon the economic peace theory premise. The goal is to use trust-building mechanisms to create an environment in which economic benefits heal open wounds. Then, pursue diplomatic and institutional relationships to cement a new era of cooperation.

The paper will proceed in three parts. Section one will argue that the heavily utilized sanctions policy of the United States is unreliable and counterproductive to U.S. grand strategy. Section two will identify two areas in which the U.S. and Iran can create a confidence-building partnership and construct a normalized relationship pathway. The first arena is energy cooperation with two sub-sections: fossil fuels and renewables. The second arena is maritime security. The paper will propose a security partnership with Iran that secures freedom of passage through the Strait of Hormuz as the U.S. endorses the Hormuz Peace Endeavor. Section three will begin with a single recommendation to formalize relations with Iran, then justifies its necessity and how it can help.

## Introduction

The Carter Doctrine has betrayed the American military, the American people, and American policymakers. In Andrew Bacevich's book, *America's War for the Greater Middle East*, he writes, "From the end of World War II until 1980, virtually no American soldiers were killed in action while serving in that region. Within a decade, a great shift occurred. Since 1990, virtually no American soldiers have been killed anywhere except the Greater Middle East."<sup>1</sup> The Carter Doctrine has damned the United States to an enforcer role even as American reliance on Middle East oil decreases. The United States assumed hegemonic duties, and continuous overreach of U.S. power has followed. The overreach has driven an uninterrupted force presence. Resulting, interventions have isolated the U.S., and choosing sides in regional disputes has manufactured adversaries. Those alliances have, in turn, bound the U.S. to additional action and blurred any semblances of identifiable U.S. interests, all while costing the American taxpayer money and American military lives.

This paper rests upon restraint and an offshore balancing posture as the best vehicles to achieve American interests in the Middle East. The most common arguments against restraint and offshore balancing are that the removal of U.S. presence will create a power vacuum and that a regional hegemon will emerge to control the area's resources. Iran is often cited as the most significant potential perpetrator. As a result, U.S. policy has been to contain Iran. Joshua Rovner argues in chapter five of *Crude Strategy*, "After America: The Flow of Persian Gulf Oil in the Absence of U.S. Military Force," that no regional hegemon will emerge in the Middle East, including Iran, which is too weak to win and consolidate hegemonic power in the Middle East over the next twenty years regardless of U.S. force posture.<sup>2</sup>

This paper concedes that hostility with Iran impacts American policy decisions and recognizes the enmity as a significant obstacle even as overall regional relevance decreases. However, it agrees with Rovner's claim that Iran's existential threat to the U.S. and Middle East region is minimal. Therefore, restraint and offshore balancing best serve U.S. interests. The U.S. last employed offshore balancing during the Nix-

on Administration's Twin Pillar strategy. To formulate a similar conducive environment, the U.S. must repair the damaged relationship with Iran. However, a severe trust gap between the two parties currently exists. To close the trust gap, the U.S. must build parallel pillars of sequential steps to reverse its flawed sanctions policy, promote economic integration and institutional security cooperation, then formalize and normalize diplomatic relations with Iran.

## The Failure of U.S. Sanctions Policy Against Iran

For decades, sanctions were tools of war meant to impose a higher cost on the adversary. More recently, sanctions have replaced military action as the preferred coercive measure of the United States and implemented on an equally endless timeline, like military actions.<sup>3</sup> Sanctions take several forms. The macro-level division is primary and secondary. Primary sanctions target U.S.-Iran transactions directly, while secondary sanctions target non-U.S. entities who may conduct business with sanctioned entities within Iran, making themselves vulnerable to punitive measures which exclude them from U.S. markets. Within the two categories, broad sanctions target whole industries and targeted sanctions that aim at individuals. The complete plethora of sanctions at the disposal of the U.S. government is on full display in Iran. Those sanctions have failed to produce the desired results, even creating a "sanctions economy" that profits from thwarting the punitive measures through illicit activities. The U.S. must reverse its comprehensive sanctions approach to Iran to build trust and promote its legitimate economy.

## Busting Makes Sanctions Unreliable

Sanctions-busting is a well-established practice. Iran has faced U.S. sanctions since 1979. This continuous reality for Iran has forced the country to develop world-class circumvention techniques of U.S. international economic sanctions. An infamous example is the "gas for gold" scheme between 2012 and 2013.<sup>4</sup> At the time, Iran's access to the Society for Worldwide Interbank Financial Telecommunication (SWIFT), used by most financial institutions to facilitate international financial transactions, had been handcuffed. Iran still had access; however, no one

from the Belgium-based network would respond to communication attempts.

The busting actions that followed were ingenious. Iran sold gas to countries, accepted payment in Turkish currency, and it left in local banks. Iran then purchased gold bullion, which is unencumbered by international sanctions. It was then shipped to UAE using individual couriers, in accordance with Emirate law. From there, it dispersed to Iran clandestinely.<sup>5</sup>

Bryan Early's book *Busted Sanctions* identifies two types of sanctions-busting archetypes: trade-based and aid-based. Trade-based busting is often motivated by increased profit opportunities created by the sanctions. Aid-based busting is politically motivated by the desire to see sanctions defeated.<sup>6</sup>

The "gas for gold" scheme is an elaborate trade-based example. However, less secretive methods are also a current reality. Despite U.S. sanctions, Iran and China have agreed in terms of a significant economic integration deal. In March 2021, China will import 856,000 b/d from Iran, up 129% from February and its highest total since 2019.<sup>7</sup> According to a report obtained by the New York Times, the deal grants China a significant presence within many Iranian sectors, including infrastructure and banking, in exchange for a discounted Iranian oil for the next 25 years.<sup>8</sup>

The 25-year agreement builds on Iran's entrance into the Chinese-led Belt and Road Initiative (BRI) in 2018. American analysts have already raised concerns that the BRI is a Trojan Horse for Chinese regional and militaristic expansion.<sup>9</sup> Sanction busting created the perfect opportunity for China to gain regional influence and undermine U.S. political goals simultaneously.

## Sanctions Are Counterproductive

The expanded Sino-Iranian relationship is not the only unintended consequence of U.S. sanction policy in Iran. The Trump administration's decision to abandon the Joint Comprehensive Plan of Action (JCPOA) and reimpose sanctions through "Maximum Pressure" created two problems. First, the decision damaged civil society within Iran. Second, it wasted the political goodwill established by the JCPOA.

The first counterproductive consequence of the U.S. sanctions policy on Iran is the damage to civil society. Sanctions are a tool of war; they aim to kill. Their goal is to erode the will of the sanctioned country to resist the agenda of the imposer. Comprehensive sanctions like the Iran Sanctions Act, and the Iranian Revolutionary Guard Corps (IRGC) designation as a Foreign Terrorist Organization (FTO), target the government's monetary streams. Sanctions have decreased foreign investment and increased inflation. Since 2018, the Rial has lost 68% of its value; Inflation hovers around 30%; GDP has shrunk 6.5%, and unemployment is nearly 11%.<sup>1011</sup>

According to former Secretary of State Mike Pompeo, some of this is intentional. In February 2019, he stated, "Things are much worse for the Iranian people [with the U.S. sanctions], and we are convinced that will lead the Iranian people to rise up and change the behavior of the regime."<sup>12</sup> According to University of Memphis political scientist Dursen Peksen and University of Missouri's Cooper Drury, this logic is flawed. According to their co-authored report, sanctions shift society's balance of power in the regime's favor as the government intervenes in markets to minimize the cost on its ability to rule.<sup>1314</sup>

This reality is evident in Iran. First, U.S. sanctions have stifled private enterprise leaving only companies backed by the regime to flourish. Deals with ten major global companies collapsed while the IRGC-backed companies increased in value.<sup>1516</sup> The National Iranian Oil Company (NIOC), a victim of targeted U.S. sanctions for its connection to the IRGC, is the largest benefactor of the Sino-Iranian oil deal.

Sanctions wreak havoc on civil society, disproportionately impacting middle-class women who are significant social change drivers.<sup>17</sup> A 2012 study by the International Civil Society Action Network found that traditional gender roles pushed women from the job market during previous windows of increased sanctions.<sup>18</sup> Iran faces this reality currently. From March to September 2020, women in Iran lost 717,000 jobs compared to 637,000 for men despite accounting for 17.5% of the workforce.<sup>19</sup> This devastating job loss comes after losing nearly 685,000 jobs from spring 2019 to spring 2020.<sup>20</sup>

Media forms have seen specific impacts. Inflation has driven up the price of paper. As a result, fewer people are buying books. “People are moving closer to the poverty line; they’re spending money on meat and diapers,” said an unidentified publisher.<sup>21</sup> The Rouhani regime, which relaxed censorship on forbidden literature in 2013, allowed female translators to make between \$700-\$3000 per book and produce two books a year. According to Azadeh Moaveni and Sussan Tahmasebi’s NY Times article, those same women now have no orders at all.<sup>22</sup>

The movie industry faces a similar reality. Independent female filmmakers who manage to receive permission to tackle social taboos and injustices rely on European cultural institutions for funding. Those revenue streams have dried up as a result of sanctions. Consequently, Iran’s security establishment has developed a stronghold in the industry and now pumps out television and film that glorify the IRGC and undermines reformists.<sup>23</sup> The remaining filmmakers have chosen to produce more ideological products that align with the government’s gender norms.<sup>24</sup> Additionally, secondary sanctions have had a profound effect on the health and well-being of ordinary Iranians. Many entities worldwide, scared to violate U.S. sanctions and face punitive measures, have taken the extreme caution or “over-compliance” approach.<sup>25</sup> Specialized bandages, “non-standard” anesthesia, and cancer treatments have all become increasingly difficult to secure.<sup>26</sup> On March 20, 2020, the International Crisis Group, Oxfam America, and the National Iranian American Council issued a joint statement:

*“Sanctions have harmed the public health sector in Iran by slowing or entirely blocking the sale of medicine, respirators, and hygienic supplies needed to mitigate the epidemic, and broad sectoral sanctions continue to negatively impact ordinary Iranians by shuttering civilian-owned businesses and decimating the value of the rial, making it harder to procure food, medicine, and other basic needs.”<sup>27</sup>*

The second counterproductive consequence of the U.S. sanctions policy on Iran has been lost time. The greatest failure of the “Maximum Pressure” campaign was its waste of established political goodwill. “Maximum pressure” destroyed a confidence-building mechanism. The JCPOA created a platform in which the U.S. and Iran could build on common goals and

communicate directly. The JCPOA negotiations established a communication line at the Secretary/ Ministerial level. The Trump administration eliminated that channel in pursuit of “Maximum Pressure.”<sup>28</sup> “Maximum Pressure” wasted four years of potential high-level bi-lateral interaction.

“Maximum Pressure” also destroyed American credibility. It divided U.S. allies in Europe as it forced them to adopt policies counter to their interests.<sup>29</sup> As a result, some allies passed bills to work around the Trump-led campaign. Additionally, Iran’s “Maximum Resistance” response and their ability to persist, with help from China, dulls the threat of U.S. sanctions in the future.

The state of the JCPOA and “Maximum Pressure” campaign prove the need for deeper diplomatic relations with Iran. With established communications, the rivaled nations secured a historic agreement—the Trump administration’s ability to leave that agreement unilaterally damaged U.S. credibility. The Biden administration’s attempt to capitalize on the U.S. withdrawal proves U.S. leadership is obsessed with using leverage and sustaining primacy, not conveying respect. This disposition is evidence that there is a necessity for a more formalized relationship and that one agreement will not survive without greater deconfliction, de-escalation, and normalization.

## Recommendations

- Break the sanctions wall constructed by the Trump administration. Reverse Executive Orders (E.O.) 13846 (revoked previous E.O.s as part of the JCPOA), 13871, 13876, 13902, and 13949. Regardless of their terrorism or human rights redesignation, these sanctions violate the JCPOA, and progress cannot occur without their reversal.
- Waive the triggers 1,3,4, and 5 identified under the Iran Sanctions Act (ISA).
- Officially rejoin the JCPOA and set a timeline of parallel steps to return to full compliance by both parties.
- After returning to the JCPOA, start a dialogue with the Iranian regime. Layout a step-by-step plan to remove the IRGC from the FTO and Iran from the State sponsor list. Signal the goal to normalize relations.

- Develop bi-partisan requirements to rescind the ISA completely

## Economic Integration and Maritime Cooperation

### Economic Integration Through Fossil Fuels

The energy sector remains both a significant obstacle and opportunity for US-Iran relations. Sanctions have specifically targeted Iran's economy through the oil and gas sector. However, economic partnerships of U.S. and Iranian energy sectors can serve as confidence-building pillars. The goal is twofold. First, incorporate Iranian companies into the global market to increase investment into the system. Second, apply the lessons learned from Saudi Arabia. Position Iran to develop production to consumption gap. Such a gap will add insulation against potential price shock situations. Fossil fuels and renewables each present a unique opportunity to cooperate with Iran on multiple fronts while promoting American businesses.

U.S. sanctions directly target the oil and natural gas sector of the Iranian economy. The decades of sanctions have inadvertently created an opportunity for reconciliation. The previous section illustrated the extent to which sanctions stifled private industry within the energy sector and left the IRGC backed NIOC as the chief beneficiary for the Iranian oil industry.

Additionally, old fields with diminished foreign investment have reduced production.<sup>30</sup> The modern hydraulic fracturing or "fracking" technology advanced by American drilling companies combined with horizontal drilling offers a solution. "Fracking" is a process of injecting water and materials at high pressure to create fractures in shale formations.<sup>31</sup> The process is used for deep plays in which production is either arduous because the rock is "tight" (hard impermeable rock that locks in oil and gas) or production has decreased with age. "Fracking is uniquely American. The concept dates to the American Civil War, but the first commercial hydraulic fractured oil well was completed in 1949 in Oklahoma.<sup>32</sup> Today, fractured wells are 90% of active sites.

Modern horizontal drilling is a process in which wellbores drill horizontally through plays instead of

the conventional vertical well. The process provides access to a greater surface area of oil and gas, which allows for more outstanding production. The first reported horizontal oil well was documented in Texas in 1929.<sup>33</sup> To solve a river crossing issue, a California company first commercialized horizontal drilling in 1971.<sup>34</sup> In 1980, French company Elf Aquitaine proved commercial viability for the oil and gas sector when it drilled its four horizontal wells. In 1990, nearly 1000 of the 1200 horizontal wells in the world were in the United States. According to the EIA, horizontally drilled wells accounted for 75% of new projects in 2019.<sup>35</sup>

The first combination of horizontal drilling and "fracking" was accomplished by the American company Mitchell Energy in Texas in the 1980s. The American shale boom owes its success to the techniques merger. According to the U.S. Energy Information Administration (EIA), as of 2016, 670,000 operational wells in the U.S. have been horizontally drilled and hydraulically fractured.<sup>36</sup> Despite hydraulic fracturing's expansive success in the United States, as of 2018, there wasn't one reported successful fracturing operation in Iran, much less a horizontally fractured well. According to one report, despite Iran trying and failing only four times, suitable layers for "fracking" exist in Iranian fields.<sup>37</sup> A 2019 article refers to the shale potential across the Middle East (Iran included) as promising but challenging.<sup>38</sup> Additionally, it will be expensive to integrate new infrastructure. The U.S. is one of only four countries in the world to have a commercially viable fracking industry. These circumstances leave American companies well-placed to benefit from exporting hydraulic fracturing to Iran. However, secondary sanctions have discouraged companies hoping to do business with the U.S. from investing in Iran. The situation provides the U.S. with the opportunity to invest early but not if primary sanctions remain.

The Biden administration is holding ongoing indirect talks with Iran to revive the JCPOA. The deal must be revived for U.S. interest's sake. However, if the U.S. only removes secondary sanctions but continues to forbid direct U.S. investment in Iran, U.S. businesses will miss a significant opportunity. Investment in Iranian markets and industry are not free from risk, but currently, the U.S. government prevents companies from assuming that risk.

The new deal between Iran and China could further exacerbate that American disadvantage. China recently signed a 25-year agreement with Iran to purchase oil. The details remain hidden, but substantial Chinese investment can be suspected. China is also one of the four countries in the world with a commercially viable “fracking” industry. The U.S. must remove primary sanctions on the Iranian oil and gas industry and use the opportunity to create a pillar of cooperation.

## **Economic Integration Through Renewables**

Wind and solar industries offer unique opportunities for integration. In 2016, under sanctions relief from the JCPOA, the Renewable Energy Organization of Iran (SUNA) developed a plan to expand renewable energy production to 10% of electricity within five years.<sup>39</sup> However, in 2018, Iran produced less than 2% of its energy from renewable sources.<sup>40</sup>

In 2019, the head of the Iranian Renewable Energy department, Seyyed Mohmmad Sadeqzadeh, outlined the goal to increase total renewable capacity to 4000 MW, production to 1000 MW, and industry jobs to 100,000 by the end of the 12<sup>th</sup> administration in 2021.<sup>41</sup> The potential for growth in this area alone is extensive as wind power capacity estimates are between 15 to 100 GW (100,000 MW).<sup>42</sup>

In 2021, American Company G.E. took over the global wind turbine manufacturer’s top spot, unseating Danish Vestas for the first time in five years.<sup>43</sup> However, Chinese companies accounted for seven of the top ten and installed more than half the world’s new capacity in 2020. Additionally, in 2019, seven of the leading fifteen wind operators worldwide were Chinese companies, while only two were American.<sup>44</sup>

Iran graduates the third most engineers a year globally behind the U.S. and Russia. Germany and Denmark, Azerbaijan, and Spain have all moved to capitalize on this workforce, each investing in Iran’s wind industry.<sup>45</sup> In 2017, Iran and China signed an agreement for a Chinese company to construct a wind power station in Lotak, Iran, as part of the Belt and Road Initiative.<sup>46</sup>

However, the U.S. operates five of the ten largest wind farms in the world.<sup>47</sup> The U.S. must allow its companies to compete in Iranian wind markets. The U.S. must use its industrial expertise to build econom-

ic pillars of cooperation and integration as trust-building measures.

Solar energy is also viable in Iran. At least three regions receive 300 or more days of sunshine a year. Such conditions make Iran uniquely placed to capitalize on solar energy. Currently, there are plans for a 10,000 MW “energy park” in Khuzestan province.<sup>48</sup>

The solar industry presents a different opportunity. Sanctions have limited Iran’s access to critical technologies like inverters and advanced semiconductors.<sup>49</sup> From top to bottom, China dominates the solar panel supply chain, most notably, the manufacture of silicon wafers essential to solar cells. However, Cadmium Telluride (CdTe) thin-film technology presents an option. CdTe solar cells do not require silicon, and the leading manufacturer of the technology was, until recently, U.S.-based.<sup>50</sup> Although a Canadian investment firm purchased the company, U.S. benefit remains. The supply chain supports jobs in red and blue states, including Arizona, Michigan, New Jersey, Ohio, and Wyoming.<sup>51</sup> Finally, CdTe panels outperform the competition at high temperatures, low light, and shaded environments.<sup>52</sup> These factors produce a scenario in which the U.S. can benefit through a solar energy plan with Iran.

Promoting this unique technology will produce domestic benefits. Estimates expect total U.S. solar energy production to quadruple over the next decade.<sup>53</sup> Currently, that production relies on standard P.V. technologies, which leaves the U.S. pursuit of clean energy vulnerable to Chinese influence on the silicon supply chain. With appropriate maneuvers, the U.S. can build another pillar of cooperation with Iran while also moving to mitigate vulnerability to Chinese market control.

## **Iran’s Threat to the Strait of Hormuz is Overblown**

The Strait of Hormuz security is the most significant obstacle to the U.S. maintaining an offshore balancing strategy. The Strait of Hormuz remains the most critical chokepoint for the world’s oil supply. The passage runs between Iran and Oman and is the only entry and exit point for the Persian Gulf. At its narrowest point is only 21 miles wide. However, nearly 21 million barrels of oil pass through the strait each day which

accounts for almost 1/3 of the global seaborne oil trade. The common criticism is that Iran is the greatest threat to the strait. Iran is considered a threat to the Strait of Hormuz for two reasons. The first is proximity. Iran is the northern coastline for the strait's entire 90 nautical mile length. This proximity has allowed Iran to focus its maritime capabilities on area-denial, including anti-ship missiles, midget submarines, and naval mines.<sup>54</sup> The second, more substantial concern is Iran's rhetoric and behavior.

The frequent assessment of Iran fails to consider U.S. responsibility. National interests compete internally across the world. Security often battles economic prosperity. Iran is no exception. The Strait of Hormuz represents a significant internal struggle of competing Iranian national interests. The strait is an economic passageway to import and export goods and makes the region accessible for strategic influence. U.S. actions (sanctions), presence, and coalitions against Iran prohibit Iran's usage of the strait for economic prosperity and leave the nation with only a security risk. As a result, Iran responds with methods outside international norms.

On numerous occasions, Iran has threatened to close the strait, including 2008, 2009, 2012, and 2019. In other incidents, Iran has moved to seize ships and crew during their passage through the corridor. US DOD also tallied 23 and 35 unsafe incidents between the U.S. and Iran in 2015 and 2016, respectively.<sup>55</sup> However, according to the 2019 Defense Intelligence Agency (DIA) report, more than 90 percent of U.S.-Iranian naval interactions were deemed safe and professional.<sup>56</sup>

In early 2021 Iran seized a ship flagged to South Korea. On the surface, Iran's behavior seems malign. However, their actions coincided directly with American policy decisions. The recent Iranian seizure of the South Korean Ship MT Hankuk Chemi violates maritime law, but South Korea owes Iran \$7B for oil exports that occurred before the Trump administration ended waivers granted during the U.S. exit from the JCPOA.<sup>57</sup> Concurrently, the U.S. blocked Iran's \$5B International Monetary Fund (IMF) COVID relief request even as the nation remained the hardest hit in the region.<sup>58</sup> The seizure was a calculated maneuver by a government with financial options limited by U.S. policy. Iran released the ship and crew once

South Korea agreed to negotiate a resolution to the Iranian assets frozen in South Korean banks.

Iran resides in a hostile neighborhood and remains isolated on numerous fronts, including Shi'a v. Sunni; Persian v. Arab; Republic v. Monarchy and Gulf Cooperation Council (GCC) exclusion. The U.S. falls victim to the fundamental attribution error. U.S. policymakers see their involvement in the Persian Gulf and Strait of Hormuz to benefit world oil markets; Iran sees that same presence as another security threat. U.S. primacy ignores the context in which Iran makes decisions. Actions cited as evidence for Iran's threat to the strait ignore their environment and the exacerbation by U.S. sanctions which force Iran to achieve security by any means necessary. Overestimation of Iran's threat to the Strait of Hormuz is the result.

## **Iran Has an Interest in Free Passage**

An essential factor to consider in the analysis of the Iranian threat to the strait is economics. It is in the best interest of the legitimate Iranian economy for the waterway to remain open. This point has three parts. First, Iran heavily relies on the strait for its economy while its regional competitors have already taken steps to mitigate the strait closure effects. Second, Iran's internal policies would exacerbate the economic hit. Finally, recent events illustrate the world's commitment to economic trade routes.

Currently, 90% of Iranian oil exported through Kharg Island, which lay inside the Persian Gulf and must pass through the Strait of Hormuz.<sup>59</sup> Additionally, Bandar Abbas, which is on the Strait, handles 85% of all Iran's seaborne trade.<sup>60</sup> While Iran is nearing completion of the Goreh-Jask pipeline, which bypasses the strait and creates a terminal on the Gulf of Oman, the project accounts for only half of the 2 million bpd capacity offered by the Kharg Island facility. Conversely, Iran's most prominent regional adversary Saudi Arabia has diversified its export strategy. Saudi Arabia can route 5 million barrels per day (bpd) to its Red Sea port in Yanbu and plan to increase to 7 million bpd.<sup>61</sup> The potential for market disruption and the resulting oil shock motivates the American presence in the Middle East and, in particular, its security guarantee for the Strait of Hormuz.

However, this point often overlooks the effect a price shock would have on Iran. The International Energy Agency estimates that in 2018 Iran spent more than any other nation in the world to subsidize fossil-fuel costs totaling \$69 billion with \$26 billion going to oil subsidies.<sup>62</sup> In November 2019, the government moved to eliminate subsidies partially and enact rationing. The policy changes sparked demonstrations which resulted in over 1,000 arrests and damage to 100 banks and stores.<sup>63</sup>

Critics may argue Iran is willing to suffer economic loss to inflict some on their adversaries; thus, the nation remains a threat to the strait. However, realism says otherwise, and the Suez Canal blockage provides evidence. Realism argues that nation-states are motivated by national interests and that state survival is the highest goal. The recent Suez Canal blockage should illustrate the attention garnished by commerce interruption. The accidental obstruction created a \$9.6B daily loss to the global economy for six days.<sup>64</sup> Unlike the Strait of Hormuz, alternative, albeit more expensive, seaborne routes for the Suez Canal exist. The Suez accounts for 12% of daily global trade, but less than two mbpd traverse the canal while nearly 21 mbpd passes through the strait. A closure, especially intentional, would unite the oil-dependent world in action. That action would become a risk to the Iranian state's survival immediately.

## **Include Iran in a Strait of Hormuz Security Apparatus**

Institutions that support cooperation in a world where little or no basic trust exists facilitates trust in the international community.<sup>65</sup> There is little to no trust between the U.S. and Iran. There are two reasons to cooperate with Iran in a Strait of Hormuz security apparatus. First, Iran wants a regional security cooperative but recognizes global community inclusion needs. Additionally, a security cooperative legitimizes U.S. presence in the region to Iran while building an institution to assume the mission that has bound the U.S. Middle East for so long. Second, a security apparatus with shared goals allows the two countries to build trust through additional parallel but sequential cooperative pillars and benefits from Iran's assets.

The Hormuz Peace Endeavor (HOPE) proposal illustrates Iran's desire to engage with the region and

acknowledges that the global community has a role. In 2019, President Rouhani's HOPE became the latest iteration to the numerous similar proposals since his election in 2013.<sup>66</sup> HOPE aims to create a regional apparatus that promotes solving regional issues with its neighbors. In a letter to the U.N., Foreign Minister Mohammad Javad Zarif said, "our proposed initiative is based, inter alia, on such fundamental principles as equal footing and respect for each other's sovereignty, territorial integrity and political independence, good-neighborliness, non-aggression, non-interference, the peaceful settlement of disputes, rejection of the threat and use of force, arms control, non-proliferation, energy security and freedom of navigation."<sup>67</sup> Iran wants HOPE to be an apparatus that promotes discussions on regional security issues such as energy, arms control, non-aggression pacts, military contracts, and possible weapons of mass destruction (WMD) free zone.<sup>68</sup> Furthermore, Zarif invites the U.N. to exercise its authority under UNSC resolution 598 paragraph 8 to participate in the endeavor.<sup>69</sup>

Iran's naval force structure allows for incremental trust-building. Two parallel pillars can build toward an eventual Strait of Hormuz security institution based on the Iranian navy force division. The Islamic Revolutionary Guard Corps Navy (IRGCN) and the Islamic Republic of Iran Navy (IRIN) compose the Iranian navy. The IRGCN has sole responsibility for the Persian Gulf while the IRIN functions as the "blue water navy," responsible for the Caspian Sea, Gulf of Oman, and beyond. The two forces share responsibility for the Strait of Hormuz.

The IRIN safeguards Iran's economic interests against piracy, interdiction and identifies naval diplomacy and out-of-area operations as critical missions. These key missions present an opportunity for the U.S. navy to engage with the IRIN on shared interests of anti-piracy in the Gulf of Aden and potentially bi-lateral exercises. Such engagements can occur away from the strait with a less politically polarizing force. One opportunity lies near the Chahbahar Port. As stated previously, the U.S. and Iran already cooperate in Chahbahar to bring aid into Afghanistan.

The IRGCN presents a different challenge and opportunity. First, the IRGC faces primary and secondary U.S. sanctions. Direct interaction is illegal under U.S. law. Critics also often cite their ability to swarm



large ships with smaller, more maneuverable boats as a threat.<sup>70</sup> However, the IRGCN's asymmetric force posture is an asset in a strait security apparatus.

In 2019, the United States and the United Kingdom, along with Albania, Bahrain, Estonia, Lithuania, Saudi Arabia, and the United Arab Emirates, formed the International Maritime Security Construct (IMSC) in response to the threats to freedom of navigation of Middle Eastern international waters.<sup>71</sup> Bahrain, Saudi Arabia, and the United Arab Emirates are heavily reliant on the U.S. for their military technology. Furthermore, excluding the United States, according to the Global Firepower Index, the total naval assets of all partners (305) are less than Iranian naval assets (398).<sup>72</sup> Iran also ranks 14<sup>th</sup> in overall military power in the same index, the highest in the Persian Gulf. Iran would rank third in the IMSC behind the U.S. and the U.K.

For the U.S. to adopt strategic restraint using an off-shore balancing posture, the U.S. must feel confident that the Strait of Hormuz's free passage is secure. To do so while reducing its footprint, the U.S. must empower the region to address its issues internally. Iran's naval force structure and core strategic interest make their participation valuable.

## Recommendations

- Revoke E.O. 12957 and all subsequent extensions. E.O. 12957 declared a national emergency to deal with the unusual and extraordinary threat to the national security, foreign policy, and economy of the United States.
- Negotiate a strait of Hormuz security arrangement with Iran. Begin cooperative efforts at sea with the IRIN. Then repurpose the newly formed International Maritime Security Construct (IMSC) to phase in Iranian IRGCN participation.
- Invoke U.N. Security Council resolution 598 paragraph 8 and support the creation of the Hormuz Peace Endeavor.<sup>7374</sup>
- Create a timeline that decreases the IMSC role and in which security responsibility is transitioned to HOPE and non-regional states become observers.
- Ratify the United Nations Convention for the Law of the Sea (UNCLOS)

## The U.S. Should Formalize and Normalize Relations with Iran

Iranian diplomats already reside in the U.S. at the permanent mission to the United Nations. Iran maintained that mission throughout their revolution and ever since. The permanent mission to the U.N. provides an opportunity for incremental diplomacy. The Biden administration eased the extreme travel restrictions imposed by the Trump administration on the U.N. mission and reinstated the 25-mile limit granted to other nations with poor relations with the U.S. The Biden administration should allow Iran's permanent mission to travel to the State Department in Washington, DC as a trust-building pillar.

## Historical Precedence for Formal Relations

According to U.S. policymakers and regional allies: Iran is the most significant threat to U.S. interests and partners in the Middle East; Iran is the greatest threat to the maritime passage through the Strait of Hormuz; Iran is a bad actor; Iran is pursuing nuclear weapons. The U.S. shoulders the burden of mitigating all these threats. Despite all of this, there remains no formal, direct line of communication between Washington and Tehran. If the greatest threat to U.S. interest is Iran, then the U.S. must engage with Iran directly.

Critics will offer the counterargument that Iran is our enemy. Former Israeli Prime Minister Yitzhak Rabin once said, "you don't make peace with your friends; you do so with your enemies," as he lobbied for Middle East Peace between Israelis and Palestinians. That same argument applies to U.S.-Iran relations.

Additionally, the Cold War offers a historical rebuttal to the proposed counterargument. Throughout the Cold War, the U.S. and the Soviet Union maintained embassies within each other's borders. At times, U.S. held a mission in four-power controlled East Berlin. Washington and Moscow also kept a direct communication line. In 1962, those direct communications between Washington and Moscow resolved the Cuban Missile Crisis.<sup>75</sup> That incident advanced the two side's belief that communication wasn't efficient enough and met in Geneva to sign the "Memorandum of Understanding Establishment of a Direct Communication Line."<sup>76</sup> The line, popularly known as the "red phone"

(despite never being an actual phone), was first used during the 6-day war in 1967.

## Recommendations

- Signal the desire to normalize and formalize diplomatic relations. Allow Iran's Permanent Mission to the U.N. to travel to Washington for formal talks. Revoke E.O. 12170, which blocked property and interests Iran under U.S. jurisdiction

## China is Ready to Cooperate Without Dictating Terms

Iran has proven its desire to establish a relationship with the U.S. Iran has even proven its willingness to forfeit a potential security guarantee for economic prosperity, despite realism's priority goal. Since Iran's sacrifices have gone unrequited, it is willing to form other alliances to advance its interest. The deal between China and Iran is proof that American actions have consequences. The U.S. is ceding influence in the region. China's deal with Iran is only the latest bi-lateral economic partnership that China has signed in the region. China's economic value to the area, including Saudi Arabia, has surpassed the United States.

In 2015 China became the largest importer of crude oil. Nearly half of that import comes from the Middle East.<sup>77</sup> China has trade partnerships with 15 Middle Eastern countries, played a critical role in persuading Iran to sign the JCPOA, taken a security interest in the Strait of Hormuz, and supplied arms to countries in the region.<sup>78</sup> Saudi Arabia, Iraq, and Oman were all in the top five oil exporters to China in 2015.<sup>79</sup> Iran, Kuwait, and UAE were also in the top 11. While China has been careful to separate economics from geopolitical interference, their consumption alone increases their influence across the region.

China's presence in the region may motivate some to double down on U.S. commitment. That conclusion is flawed as the U.S. dependence on Middle East oil decreases. Currently, China is free-riding on U.S. security guarantees. Their soft power grows as the U.S. remains the face of regional interference, all while the strategic importance to U.S. interests dwindles. The U.S. must use this development to decrease its foot-

print and shift the cost burden of secure passage to those benefiting from the transactions.

The Sino-Iranian agreement's most critical issue is that it further exacerbates something for China that the U.S. doesn't possess. The deal with China builds on its substantive relationship with Iran to match its ties with Saudi Arabia. The two countries form the twin pillars of the Nixon administration, the last President to maintain an offshore balancing posture in the region. For the U.S. to move back to the offshore balancing posture on its terms and not pushed out, the U.S. must cooperate, integrate, and formalize its relationship with Iran.

## Direct Communication Builds the Relationship

A U.S. embassy in Tehran is not a core mechanism to the U.S. operating from an offshore balancing force posture. It won't guarantee U.S. restraint in the Middle East. Nor does it need to. The U.S. could establish both those policies without any cooperation with Iran. However, an embassy is a core mechanism of a diplomatic relationship, and diplomacy helps.

In 2016 direct communications with Iran benefited the U.S. Ten U.S. sailors were captured inside Iranian territorial waters days before the JCPOA implementation day. The sailors were held for fifteen hours and returned without additional incident. The Obama administration later cited the quick resolution as a positive outgrowth of diplomatic channels established by JCPOA negotiations. Direct diplomacy won; an embassy can do even more.

Relationships require a foundation of trust. Trust is a necessary precondition for peace and prosperity.<sup>80</sup> However, bilateral relationships are complicated. An embassy team is the only state representative with a real-time assessment of the host country.<sup>81</sup> Embassies and the necessary staff require budgets. Frankly, budgets are policy. Budgets are where strategies meet resources. Opening an embassy shows a commitment to the relationship. Additionally, embassies facilitate less controversial and politicized work, such as environmental and global health issues, not just national security concerns.

Embassies also facilitate public diplomacy activities that produce international trust.<sup>82</sup> According to Nicholas Cull, listening, advocacy, cultural diplomacy, exchange programs, and international broadcasting are significant public diplomacy components. These activities build horizontal relations amongst citizens. According to the United Nations, three-quarters of the world's major conflicts have a cultural dimension which makes the horizontal dynamic crucial to public opinion at home.<sup>83</sup> However, as Cull further notes, the best public diplomacy is no substitute for bad policy, but public diplomacy makes productive behavior known and contributes to soft power.<sup>84</sup>

Finally, the proposed trust-building pillars recommended in this paper require open communication networks operating to express and receive mutual expectations in real-time. Additionally, there must be a monitor and evaluation process for HOPE's progress and a transition team. A formalized presence in Iran can help to promote success in these endeavors.

## **Conclusion**

The United States must take back ownership of its interests and agenda-setting. No place is that more crucial than the Middle East. The United States's commitment to regional allies and the security of Persian Gulf oil relies on two flawed arguments. The first is that the regional actors are incapable of solving their issues without American involvement, and any change to U.S. force posture would doom their security partners. The second flawed argument is that containing Iran is in U.S. interests because Iran is an existential threat to U.S. security and regional goals.

A recent article in *Foreign Policy* provides evidence against the first common conclusion. The report highlights that since the Biden administration has taken office and increased U.S. military withdrawal expectations, officials from Saudi Arabia, United Arab Emirates, Jordan, and Egypt have all participated in diplomatic discussions with Iran addressing Yemen, Syria, Lebanon, among other issues.<sup>85</sup> The article sees optimism in the efforts even as it remains cautious about the potential outcome. This paper has argued against the second erroneous conclusion. This paper has argued that unchecked U.S. involvement in the Middle East has led the U.S. down a path counterproductive to its interests. More specifically, the report

has conceded that Iran is an essential factor in U.S. Middle East policy decisions. However, this paper has argued that the current approach is flawed, mutually beneficial trust-building mechanisms exist, and formalized relationships facilitate issue resolutions. Finally, this paper concludes that to implement a restraint policy effectively, the U.S. must maintain relationships with all regional powers, which requires the U.S. to rethink its approach to Iran.

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