

Iran: Facing a Year of Decisions and Changes

Sima Shine and Raz Zimmt

After a string of achievements in the Middle East and the start of an economic recovery following the removal of the sanctions, Iran was confronted in 2018 with growing external and domestic challenges. These challenges undermine the strategic stability that was the basis for Iranian policy in recent years, particularly since the nuclear agreement (the Joint Comprehensive Plan of Action – JCPOA) was achieved.

These challenges are evident in all the areas relevant to Iran's strategic situation. In the internal arena, the ongoing difficulties have led to demonstrations, strikes, and protests against the regime throughout the country, prompted by economic distress, a serious water crisis, and popular criticism of the government's corruption – all problems with no solution in sight. In the regional arena, there are problems in Iraq, where political forces supported by Iran are failing to achieve political leadership, and in Syria, due to Israel's policy of attacks against Iranian military consolidation there and transfers of weapons to Hezbollah. Disagreements have emerged between Iran on one side, and Russia and Turkey on the other regarding the continuation of the Assad regime, although the parties are trying to build bridges in view of their shared interests. Meanwhile, in the background there is the growing crisis between Iran and Saudi Arabia, Bahrain, and the Emirates. However, the central and most influential challenge is in the international arena, where there have been highly significant developments as far as Iran is concerned – first and foremost, the decision of US President Donald Trump to withdraw from the JCPOA and reinstate sanctions, including secondary

ones. This has forced the Iranian leadership to change its paradigm, from a reality of agreements to a reality of conflict.

The Internal Arena

Over the past year, Iran's internal arena was characterized by a wave of demonstrations that began in December 2017 and continued, although with less intensity and on a smaller scale, throughout the year. In May 2018 thousands of truck drivers went on strike in protest over their terms of employment, and this quickly spread to dozens of cities throughout Iran, becoming the country's largest drivers' strike in recent years. In late June, a strike by Tehran's bazaar traders led to a closure of the bazaar for a few hours and even sporadic violent clashes between traders and the security forces. Meanwhile other citizens, particularly laborers, continued to protest at the decline in the value of the local currency (the rial), the withholding of wages, and the collapse of pension and savings funds.

Over the year there were other demonstrations of a non-economic nature, including a women's protest against the mandatory hijab, violent clashes between the security forces in Tehran and members of the Sufi Nematollah Gonabadi order, protests against the worsening water crisis by civilians, including farmers in a number of regions of southern Iran, and demonstrations in the town of Kazerun in the southwestern province of Fars against the government's intentions to carry out an administrative division of the town.

The ongoing wave of protests, unusual in extent, is the most significant since the 2009 riots, which erupted after the presidential elections. The emergence of the protest movement indicates the depth of public frustration with the severe economic problems, particularly among weaker segments, and exposes the intensity of the citizens' distrust of the regime, which has failed to respond to their distress. Over the past year the rial has lost about two thirds of its value, and its exchange rate in the free market fell to an unprecedented low of over 100,000 rials to the dollar. This sharp decline opened a gap of dozens of percentage points between the rate determined by the market and the official exchange rate, indicating the public's loss of trust in the local economy. At the same time, the crisis of unemployment continued; in 2017 the rate was slightly less than 12 percent, climbing to over 40 percent among educated young people. The effects of the economic crisis

are particularly striking against the expectations of improvement following the achievement of the JCPOA. The expectations failed to materialize, even in the two years in which the US was part of the agreement, and were replaced by deeper disappointment and despair when the US administration withdrew from the agreement and the sanctions were reinstated.

Protests were also fed by the widening alienation between the citizens – and particularly the younger generation – and the regime’s institutions; by the worsening water crisis; and by the extent of the corruption spreading through the country’s political and economic systems. At this stage, the protests are sporadic, local, and lacking organized leadership, although it is possible that some demonstrations are organized by local activists. While they are largely fed by the economic crisis, in some cases they have assumed a political, anti-establishment character, and slogans have been heard challenging the regime’s very existence. Chants such as “Conservatives, reformists, the story’s over for you all” indicate a lack of public trust in both main political camps. The protests have also decried the regime’s activity outside Iran and its continuing support for the Syrian regime and terror organizations, which exacts a heavy economic price and is at the expense of attention to the distress of the locals. The scope of the protest is relatively limited, with hundreds or thousands of protestors participating in most demonstrations. However, the geographical spread of the protest is relatively broad. The Iranian regime, which learned the lessons from the 2009 riots and is not interested in escalation, has meanwhile avoided the use of severe measures to repress the protest, and generally tried to reach some understanding with the demonstrators. This policy has been partially successful so far, and most protests died down after a short time.

The internal political arena was characterized by the weakening of President Hassan Rouhani, who faces growing challenges at home and abroad. The collapse of the nuclear agreement, which was seen as his most important political asset, the wave of protest, and the internal tensions typical of the Iranian political system made it hard for him to realize his promises to the public or even promote the limited reforms he sought to implement. Eighteen months after his reelection to the presidency, it is clear that Rouhani is finding it ever more difficult to fulfill his promises, particularly in the fields of the economy and individual freedoms. His freedom to maneuver is restricted

by the conservatives, who under Supreme Leader Ali Khamenei and the Revolutionary Guards control most of the focal points of power.

Early in the year, the President was forced to introduce significant changes to the budget proposal that he submitted to the parliament (Majlis) for approval shortly before the outbreaks of protest. The proposal included price hikes, heavier taxation, and significant reduction in the number of people eligible for government benefits. The President's efforts to stabilize the rial by freezing the official rate and stopping dollar trading by money changers in order to combat the black market trade in foreign currency also failed. In July 2018, the President retreated from his intention to combine the official rate and the free rate, and was even forced to remove the Governor of the Central Bank, Valiollah Seif. In early August, the Majlis took the unusual step of dismissing the Minister of Labor and Welfare in the Rouhani government, Ali Rabeie, against the background of ongoing unemployment. Subsequently some additional ministers resigned, and at the same time, the Majlis has threatened the continued tenure of the Foreign Minister.

In view of the deteriorating situation with the United States, President Rouhani decided to toe the line of the conservative right wing and adopt more extreme rhetoric as part of the regime's efforts to put on a united front, if only for show, for both domestic and foreign consumption. He hinted at the option of a serious move – closing the Strait of Hormuz – if an embargo was placed on Iranian oil, and also warned President Trump against taking military action against Iran. The President's statements were fully backed by the Supreme Leader and senior figures in the Revolutionary Guards, who are aware there is no suitable replacement for the President at this stage. However, this backing does not disguise the deep internal disagreements among the Iranian elite. Moreover, the worsening economic crisis has encouraged Rouhani's political enemies, among them the Supreme Leader himself, to sharpen their criticism of him in order to deflect public criticism away from themselves and present him as the person responsible for the crisis. In a speech on August 13, 2018, Khamenei voiced strong criticism of the President, charging that his failures in the negotiations with the United States and in other areas were the cause of the crisis.

The re-imposition of sanctions, which began to show results in the final months of 2018, is expected to exacerbate the economic situation even further,

increasing its damaging effects on the Iranian public and perhaps feeding more protests. The foreign currency crisis has already contributed to an acceleration of inflation and rising prices, including the prices of basic foods. The need to deal with the sanctions is forcing the Iranian regime to backtrack from essential reforms. It seems likely that the economic uncertainty will prevent the regime from committing to unnecessary budgetary expenses, and it will thus continue its policy of no investment in the essential infrastructure needed to improve living conditions. The exit of several large European and Asian corporations from Iran has already had an effect, and it will be hard for Iran to compensate for the loss of European investments that were intended to improve the labor market, even with the expanded activity by Russian and Chinese corporations. Nor is the shaky banking system likely to be amended in the foreseeable future, in view of the ongoing dispute over laws concerning money laundering and other demands of the international system. The imposition of the second wave of US sanctions (November 5) on the global clearing system, SWIFT, could be fatal for the Iranian economy. The effort by European countries to set up an alternative system for money transfers (SPV – Special Purpose Vehicle) has so far been unsuccessful, but if and when it is established, it will only provide a partial substitute for trade payments between countries.

Oil exports are one of the most significant issues facing Iran. The Trump administration has announced that it seeks to reduce Iranian exports to zero – a scenario that did not happen even during the severe sanctions in place under the Obama administration. Iranian exports between June and September 2018 fell by about 25 percent (some 600,000 barrels per day), and starting from the renewal of sanctions on oil in November 2018, are expected to fall by a further 500,000 barrels per day. The most dramatic significance is that compared to peak sales of 2.7 million barrels per day, in 2019 Iran is expected to reach exports of about 1 million barrels per day.¹ However, at this stage the temporary exemption granted by the Trump administration to eight countries – China, Japan, India, Korea, Italy, Greece, Taiwan, and Turkey – partly to prevent a steep rise in the price of oil, plays into Tehran's hands because it can continue to export an amount that enables it to meet the revenue targets of the annual budget. The situation stands to worsen in

about half a year, if the United States decides to cancel the waiver for the eight states.

Iran's foreign currency reserves of \$120 billion, sufficient for 15 months of imports, give it some breathing space even in the event of a considerable drop in exports. It can therefore be assumed that in the short term Iran will not suffer a shortage of basic foods, but the desire to avoid rapid erosion of its foreign currency reserves has led to greater supervision of imports, at present on expensive goods, and it is certainly possible that this will later affect the market as a whole.

The public's reaction to the reinstitution of sanctions, as expressed on social media, reflects a growing concern regarding aggravation of the economic crisis. Similar to reactions to previous rounds of sanctions, the responses today indicate public reservations regarding the use of sanctions as a means to political ends and the imposition of Western dictates on Iran. Many Iranians reject the claim of the US administration that the sanctions aim to target the regime, not the Iranian people. And many on social media contend that the most harm is suffered by ordinary citizens, whose ability to weather the sanctions is far less than that of senior regime officials and their associates. At the same time, the public is divided on responsibility for the situation. While many point an accusing figure at the US administration, and particularly President Trump, many hold the regime responsible for not doing enough to ease the difficulty.

As the economic crisis deepens, it is likely to inflame the protest movement and cause it to reach other sectors that have so far remained outside the demonstrations, including the urban middle class, which for years has been considered the backbone of the movement for social and political change in Iran. At the same time, the effect of the economic crisis on public activity is not unequivocal. In the past, the economic crisis forced most citizens to focus on the struggle for daily survival. It also increased the dependence of employees on the regime, as they work primarily in the public sector, and this lessened the chances that they would risk their economic and employment security by participating in political protests. Moreover, in spite of the criticisms of the regime, the demonstrations do not necessarily reflect a desire by the majority of protesters themselves, and certainly not a

majority of Iranian citizens, to topple the government, in part due to a fear of political chaos that would intensify their problems.

At the same time, the protests create potential that could be exploited by radical elements challenging the very continuation of the Islamic regime, and although this seems unlikely at present, fan the flames into an extreme scenario that could undermine the regime's stability and even topple it. The collapse of the regime depends on several factors, including: the ability of the ruling elite to maintain internal unity, the regime's readiness to use means to suppress dissent, and the public's ability to organize effective protest. However, a collapse would not necessarily lead to a more moderate, pro-Western government. It is not impossible that the political chaos would actually be exploited by radical elements in the Revolutionary Guards and the political system to take control. Escalation of the internal challenge will force the regime to use stronger methods of repression, and in a worst case scenario, transfer powers from the President to the Revolutionary Guards. Over the past year, radical groups have already called for such a transfer and the appointment of an "army president" from the ranks of the Guards who can use his extensive powers to lead the country and solve its problems more effectively.

Therefore, in the coming year, in view of the growing challenges, President Rouhani is expected to focus on the promotion of solutions to prevent further deterioration of the economic situation. The renewal of sanctions is expected to strengthen the power of the Revolutionary Guards, who will once again benefit from their ability to run smuggling and straw companies for trading links and money transfers. Rouhani's focus on economic matters and his limited powers will again prevent him from fulfilling his promises to the public, such as reducing Islamic restrictions and increasing individual freedoms to some extent. It appears that the President is not prepared to risk confrontation with the Supreme Leader, out of recognition of his limitations and the need to protect his political status before the future struggle over who will succeed Khamenei. Therefore, stronger disagreements between the President and his supporters in the reformist camp can be expected, particularly with the approach of the 2020 parliamentary elections, which will be an important test of the balance of internal political powers in Iran.

The Regional Arena

Iran's presence and influence in the Middle East grew stronger over the past decade due to developments throughout the region, which saw the removal or significant weakening of its main enemies – the Taliban in Afghanistan, Saddam Hussein in Iraq, and most recently, the Islamic State in Iraq and Syria. Nevertheless, in the past year Iran has also experienced difficulties in various arenas.

In Iraq, Iran's backyard neighbor with the longest and most important border for Iranian security, Iranian involvement in Shiite militias began while Saddam Hussein was in power and accelerated as soon as he was removed. The Shiite militias that were armed, trained, and formed by the Quds force led by Qasem Soleimani were an important element in the defeat of the Islamic State. Cooperation between the Shiite militias and the Iraqi army, heeding the call by senior cleric Ali Sistani, led to the overthrow of the Islamic State and the removal of most of its strongholds in Iraq. The establishment of a majority Shiite government in Iraq allowed Iran to increase its political and economic influence, as well as its military involvement. However, in the past year Iran experienced its first political failure in Iraq: in the parliamentary elections of May 2018, the Shiite militias, supported by Iran, did not win a majority of votes. Meanwhile there was a growing trend of Iraqi nationalism, including anti-Iranian positions. The most striking expressions of this were the summer demonstrations in Basra, where calls were heard to oust Iran from the country, pictures of Supreme Leader Khamenei were burned, and the Iranian consulate was set on fire.²

The ongoing presence of the United States in Iraq, along with last year's rapprochement between Saudi Arabia and the Iraqi government, is worrisome for Tehran, which sees Riyadh as part of the American opposition to Iran. Moreover, Iraq's reconstruction requires financial investments that Iran is unable to provide, and recently it even stopped supplying electricity to Iraq for a short time due to a debt; this move aroused much protest and demonstrations among Iraqi citizens. Iraq's importance and the many years of investment in Shiite militias and political and economic elements will continue to guide deep Iranian involvement in Iraq's political life.

From the outset of the Syrian civil war, Iran came to help President Bashar al-Assad retain hold of his regime. Later, in view of the mounting successes

of the Islamic State and other jihadist elements that posed a genuine threat to Assad's rule, Iran and its allies – Hezbollah and the Shiite militias that it recruited in Iraq, Afghanistan, and Pakistan – became more deeply involved in the Syrian war. After some seven years of fighting, in which Iran and its allies paid a heavy price in casualties, Tehran could claim that it had achieved the objectives it set itself: defending the Assad regime, strengthening and consolidating its presence in Syria, maintaining Syria as an essential land bridge from Iran through Iraq and Lebanon to Hezbollah, and creating a stronghold with the potential to threaten Israel.³

Moreover, in the past three years, since the start of Russian involvement in Syria, cooperation between Tehran and Moscow has intensified and they have coordinated their military activity in Syria. Russia is the air power and Iran and its allies fight alongside Syrian forces on the ground. Iran and Russia have a joint war room in Syria as well as in Iraq, and this supplements the political process they are trying to promote in Syria, in collaboration with Turkey.

However, as President Assad took control of large parts of Syria on the way to his ultimate goal – renewal of his rule over the entire country – Iran was also required to take steps to secure its status in Syria when the fighting stops. As well as integrating the Shiite militias into the Syrian forces and recruiting Syrian militias that were trained by Iran and Hezbollah and will remain linked to them in future, Iran is helping Assad rehabilitate Syrian military industries, while establishing infrastructures to manufacture precision missiles as part of the arsenal intended to serve Hezbollah. Over the past year this led to increased friction with Israel, which has displayed its determination to prevent Iranian military entrenchment in Syria, with the emphasis on advanced weapon systems. Israel has attacked attempted transfers of advanced armaments to Hezbollah and Iranian weapons infrastructures in Syria several times. Against this background, and looking toward future moves to reach a settlement in Syria, the Iranian Defense Minister during a visit to Damascus (August 26, 2018) signed a defense and cooperation agreement with his Syrian counterpart.⁴

Iran's ongoing determination to entrench itself in Syria – and Israel's determination to prevent this – presents high potential for military escalation. At the same time, the strong Russian presence that will remain in Syria for

the long term and the developments following the downing of a Russian spy plane over Syria (September 18) have already established new rules of the game. This was affirmed by Deputy Foreign Minister Mikhael Bogdanov, quoting Defense Minister Sergey Shoygu, on “the changed rules” following the incident. Subsequently, Russia supplied Syria with a new S-300 air defense system, demanded that Israel adjust its parameters in advance of any future attacks, and thus far has continued its partial cutoff from the Israeli political leadership.

The Iranian presence and the Russian presence could present Israel with serious political-military dilemmas in the future. Of course, Russia’s long term interests in Syria differ in part from those of Iran, but over the coming year and beyond, it will still need Iran for the fighting in Syria. Therefore, Russia has made it clear to Iran that the forces required to leave Syria are those that were not invited by the Assad regime – the forces of the United States and Turkey – while the forces asked to help him – from Russia and Iran – are legitimate and will remain on Syrian soil until their mission is accomplished. At a press conference on the fringe of the annual UN General Assembly (September 2018), Russian Foreign Minister Sergey Lavrov also clarified that “Iran is a country with hundreds of years of history, and cannot be caged within its borders like an animal; it has legitimate interests like Saudi Arabia and others,”⁵ implying Russian legitimacy for the continued Iranian presence in Syria. Iran is also working to increase its economic involvement in Syria. For example, Iran and Syria signed an agreement whereby Iran will build a power station in Syria with a capacity of 540 MW,⁶ and other projects in the fields of education and religion are under discussion.

In Yemen, civil war has been raging for over three years between the Houthis, who want to seize power from President Abdrabbuh Mansur Hadi, who is supported by Saudi Arabia. In this war, which has been described as the most serious humanitarian disaster in recent decades, Iran has supported the Houthis and supplied them with weapons, including missiles targeting Saudi Arabia, which is fighting alongside forces from the Emirates and numerous mercenaries to defeat the Houthis and al-Qaeda elements that control parts of the country. All attempts by the international system at a political resolution – a joint European-Iranian working group and the UN envoy – have so far failed. This war gives Iran the opportunity to damage

Saudi Arabia and threaten freedom of shipping in the Bab el-Mandeb Strait. For its part, Saudi Arabia is paying a heavy economic, military, and political price, in addition to the damage to its image in Europe and the United States. Meanwhile, in the United States there are growing voices, particularly in Congress, demanding that the US cease all military cooperation with Saudi Arabia in Yemen. Thus far, the administration has limited its response to an announcement on stopping to refuel Saudi fighter aircraft in Yemen.

Reversal: The Trump Administration Withdraws from the JCPOA

Since the announcement by President Trump (May 12, 2018) on the US withdrawal from the JCPOA and the renewal of sanctions on Iran, a long line of corporations from different countries have left the Iranian market. Oil exports have fallen and are expected to decline even further, which has serious economic implications for Iran's revenues.

The other parties to the JCPOA – Britain, Germany, France, Russia, and China – continue to stress their commitment to the agreement. The European countries even describe it as essential to their national security. At the margins of the September 2018 General Assembly, High Representative of the European Union for Foreign Affairs and Security Policy Federica Mogherini announced the SPV as an alternative route for money transfers, to tackle the US sanctions and facilitate trade with Iran.⁷ At this stage, the efforts of the European countries led by the European Union ensure Iran's ability to justify the decision to continue meeting the terms of the agreement, in the face of domestic opposition.

With the approach of 2019, the central question concerns continuing economic pressures and their impact: how will they affect the Iranian economy, the public, and the camp that is opposed to the nuclear agreement. In this context there are three main scenarios, each with its own advantages and disadvantages for Israel:

- a. Iran will resume uranium enrichment and other activities relating to its nuclear program, while continuing to meet its obligations under the NPT.
- b. Iran will start negotiations with the Trump administration on a new agreement.

- c. Continuation of the current situation – “strategic patience and an economy of resistance.”

In addition, two extreme scenarios – a breakout to nuclear weapons and the fall of the regime – are not discussed in detail here. A breakout to nuclear weapons is unlikely, at least in the next year, since Iran is still far from nuclear weapons capability and such a move would be highly risky, as it would expose Iran to military attack and broader sanctions. At this stage, the second scenario is likewise not probable, although it is very hard to predict regime change and even harder to predict who would replace the current regime. Currently there is no organized opposition or alternative leadership, the existing regime is determined to suppress any opposition activity, and the Iranian public fears the kind of chaos seen in Iraq, Libya, and Syria. Even if the regime should fall, control would most likely be seized by the Revolutionary Guards rather than any moderate elements.

In all the scenarios, Iran can and is likely to make use of damage capabilities that are not examined as separate scenarios. They include regional subversion and terror activities, mainly through third parties (proxies) – against the American forces in Iraq, in the Gulf, and in Afghanistan; against regional elements – Saudi Arabia, Bahrain, and the Emirates; and against Israeli/Jewish targets worldwide.⁸ These means, with the emphasis on terror and subversion, could be used by Iran together with other scenarios, as part of its exit from the JCPOA and the return to nuclear activities, as well as from a desire to harm the West while continuing to comply with the nuclear agreement.

Scenario A: Iran Resumes its Nuclear Activities

For Iran, this scenario means a return (possibly gradual) to all its activities that existed prior to the JCPOA, including: converting uranium in Isfahan, extending the number and types of centrifuges for uranium enrichment in Natanz and Fordow, accumulating enriched material and reducing supervision by the IAEA to the level required by NPT restrictions only, while eliminating supervision stipulated by the Additional Protocol and the JCPOA. For Israel, this is a dramatic change from the existing situation. It will create a situation in which the Iranian nuclear program will progress, and the time required for a breakout to nuclear capability will be shortened. Verification according

to the NPT will be only partial compared to the current situation, and the likelihood of concealment activities will increase.

The response from the international community will probably be mixed, given the lack of full agreement regarding the need to exert extraordinary pressure on Iran, including in the framework of UN Security Council resolutions. Some European countries, particularly those that were involved in reaching the JCPOA, will see the new situation as a danger and may join the United States in imposing sanctions on Iran. However, others, particularly Russia and China, will likely demonstrate “understanding” of Iran’s motives, and as long as Iran remains under IAEA supervision and the NPT framework, these countries will prefer to continue their ties with Tehran. An Iranian decision to resume nuclear activities will probably reflect its assessment that it can deal with the implications of sanctions. The US administration, which has likely not prepared a plan in the event that Iran withdraws from the agreement, will in those circumstances have to present an alternative strategy, apart from sanctions, in order to force Iran to halt its progress towards the nuclear threshold. In that case, the challenge will be to define the red line that if crossed by Iran will require military action. At this stage, US administration threats do not include any military reference, and then-US Secretary of Defense James Mattis even stressed that the reinstatement of sanctions is a diplomatic move without military implications. Moreover, the possibility of military involvement is not attractive to the US security establishment, and President Trump himself is not keen to send the US military back to the Middle East. In the latter half of 2019, the US political system will start to prepare for the next presidential elections, and it is doubtful if in these circumstances the administration will choose such a radical and controversial option.

Scenario B: Negotiations between Iran and the United States

Negotiations leading to a better agreement, covering not only the nuclear issue but also missiles and regional policy, have been defined by the Trump administration as a central aim of its Iranian policy.⁹ Iranian spokesmen, for their part, continue to underscore that they do not intend to negotiate with an administration that chose unilateral withdrawal from the nuclear agreement, since it cannot be relied upon. Before any meeting or return to

negotiations, Iran demands removal of the sanctions or at least a freeze. The position of Supreme Leader Khamenei is particularly severe, since from the beginning his attitude toward negotiations on nuclear matters was reserved and suspicious. He sees the US decision to withdraw from the agreement as proof that he was right, that Iran cannot trust the West and particularly the United States, and that the economy can only be improved by means of an “economy of resistance,” which means mainly reducing Iranian dependence on foreign elements.¹⁰ Moreover, in his view, which is shared by President Rouhani, the goal of the Trump administration is to bring about a regime change in Iran, so there is no point in negotiating with the US.¹¹ Just as Khamenei drew clear red lines in the negotiations with the Obama administration and insisted on retaining Iran’s existing capabilities, so he is not expected to soften his position in view of what he sees as the more far-reaching demands of the Trump administration.

While there are a few voices in Iran expressing support for a dialogue with the United States, which apparently sent several requests to Tehran for a high level meeting, the emerging picture is that Khamenei and the security-political elite in Iran estimate that they are unable to agree to the US demands (the 12 points listed by US Secretary of State Mike Pompeo),¹² and that starting talks from their current position of weakness is not advisable.

However, if there is any change in the Iranian position over the coming year and the parties start negotiations, Israel must address two preliminary questions: will it be informed in advance of contacts between Iran and the US and be a partner in formulating the basis for renewal of talks? In addition, will talks between the parties lead to any broader understanding between the US and Russia, for example, or between the US and the European countries? If these countries are also parties to the negotiations, Israel’s ability to influence the process will likely be reduced.

Any analysis of this scenario must assess the possibility of compromise on both sides, and the limitations/red lines of each side. The very launching of a dialogue will presumably earn the Trump administration broad support in the international arena, and strengthen the President’s image as a deal maker. The US starting point will be a demand for the negotiations to deal with all the issues, as Trump insisted, and based on the 12 points presented by Pompeo. The Iranian starting point will be the demand to remove or at

least freeze the sanctions, plus a complete non-waiver of the right to enrich uranium. Presumably if neither side can achieve its opening demands, there is room for possible mutual concessions. Iran, for example, can extend the terms of the JCPOA and agree to some restrictions on its missile project, for example a freeze on the current situation for a number of years, and it could even agree to give up its activity in regional issues. All this in return for an American undertaking to remove all the sanctions and restore blocked projects.

Israel must take into account the serious possibility of a meeting like the summit between Trump and North Korean leader Kim Jong Un, where the importance lies in the fact of having a meeting, though the achievements are vague. In any event, the start of negotiations will allow Iran to drag its heels, hoping that Trump will be a one-term president; the very fact of opening a dialogue will reduce the pressure on Iran; all the international elements that oppose the US sanctions will be happy to get back to business with Iran, while the Trump administration will become more interested in achieving an agreement that it can always present as better than the one achieved by President Obama. In these circumstances there will apparently be a gap between US and Israeli interests. America's room to maneuver is greater than Israel's, and it is therefore possible that the final agreement will fall short of what Israel would like. The question is, will it be better than the original agreement?

Scenario C: Continuation of the Current Situation

Underlying this scenario is an Iranian assessment that in spite of the economic damage caused by the sanctions, it can deal with the pressure and wait for the end of the Trump presidency without taking steps that could endanger the regime. This assessment could be reinforced by the mid-term elections to the US Congress, when the Democrats gained control of the House of Representatives and earned some important gubernatorial seats. This scenario of strategic patience allows Iran to show the international community its good will in continuing to observe the terms of the JCPOA, and to obtain as much economic cooperation as possible in return.

On the one hand, this means an ongoing freeze of the nuclear program with extensive verification, alongside continued economic pressure that

will exacerbate the already severe problems in Iran. On the other hand, as time passes and Iran and the international system become used to economic activity without the US, the effectiveness and deterrence of US sanctions will decline. In view of the gaps between the US and the partners to the nuclear agreement on other issues as well, including the sanctions on Russia, the trade war with China, and Iran's growing experience of handling the sanctions, Iran can gain support and encouragement in its stance against American pressure. In the short term, this is the most likely scenario and it is also good for Israel since it does not allow the Iranian nuclear program to advance. However, its duration is not clear, due to pressure from Iranian conservatives who could swing the balance and bring about change, with timing that is less convenient for the US and Israel.

Conclusion and Recommendations

Over the coming year Iran will face increasing difficulties, with the focus on economic damage resulting from the renewal of the American sanctions, combined with internal unrest that began in the previous year and is expected to intensify.

With regard to Iran's regional conduct, its top national security priority is the continuation of its influence in Iraq, the backyard neighbor with a significant Shiite majority. Iraq is also a very important bridge to Syria and Hezbollah. Iran has several assets in this arena, thanks to many years of investment, and it will continue to wield major influence on Iraq's political developments. However, the United States also wishes to maintain its influence in this theater, which raises the possibility of friction between the US and Iran. This is true particularly in view of the Iranian decision to remain in the JCPOA and its wish to prove that it has a range of options to cause damage, including through third parties whose activities cannot easily be traced to Iran. Senior US officials have already clarified that they will deem Iran responsible for any attack on Americans or their allies by elements identified with Iran. Reports of transfer of missiles from Iran to Iraq and the warning by Israeli Prime Minister Benjamin Netanyahu that Israel will take action wherever it deems Iran to be a threat, with explicit reference to Iraq, mark Iraq as a potential arena for hostilities with Iran.

For Israel, the American presence in Iraq is a significant constraint on its freedom of action.

In the Syrian arena, Iran is thus far benefiting from the fact that both Russia and Syria want its presence there to continue, and it does not intend to renounce its influence in Syria. The heavy price it has paid to save the Assad regime and its fears for its continued stability without a real Iranian presence will drive it to continue establishing an independent military infrastructure, including a military industry, in cooperation with the Syrian army, while playing down independent Iranian aspects. Israel now has less space to maneuver than over the past two years, while independent Russian activity and the supply of S-300 air defense systems – although it is still not clear who will operate them – will make the Syrian arena particularly volatile and severely limit Israel's freedom of action. The possibility that once seemed likely, of a Russian-American dialogue and cooperation to resolve the situation in Syria, now appears more distant. As the investigation of Russian involvement in the election of President Trump digs deeper, the chances of any dialogue between the countries will lessen.

The strategic consideration underlying the Iranian decision not to withdraw from the JCPOA focuses on its attempt to derive the maximum benefit from the political interests of the other partners – the European countries, Russia, and China – to maintain the agreement while attempting to find substitutes for the American sanctions. This joins an understanding that the option to resume all its nuclear activities from before the JCPOA is available to Iran at any time, but its strategic achievements are doubtful and it could put the regime in danger. Against this background, the most widely accepted estimate is that Iran will prefer to continue working to minimize economic damage and wait for 2020, when the US administration will be preoccupied with the presidential elections and will avoid taking risks in the international arena. The Iranians will hope that President Trump will not be reelected for a second term, and then it will decide how to proceed.

For Israel, 2019 is emerging as potentially very volatile. On the one hand, some see the US exit from the nuclear agreement as an opportunity, with the pressure exerted by sanctions and the explicit US demand for a change of Iran's regional policy. However, from the start, the American moves were based on pressuring other elements whose actions would harm Iran,

and indeed, the sanctions are damaging to Iran because of the dependence of international corporations on the American economy. At the same time, however, America's European allies are doing everything they can to stop the drift and to maintain relations with Iran in order to ensure it continues observing the terms of the agreement. Russia and China are determined to help Iran economically, and as part of their struggle against the US on other issues, particularly its sanctions against them. The American strategy was originally built on the anti-Iranian axis with the focus on Saudi Arabia, but this now seems shaky following the crisis with Qatar and the Khashoggi affair. The efforts to promote a new security framework of Arab countries and the US (Middle East Strategic Alliance) to deal with Iran have encountered difficulties and will probably fail; the desire to use American forces in the Middle East directly against Iran is limited, and as the political timetable within the United States approaches the presidential election campaign, is likely to disappear completely. Moreover, Israel must consider the situation created by President Trump's decision to withdraw the US forces from Syria, although he will continue to back "Israel's right to defend itself." Israel must also consider US interests in Iraq, and considerations of broadening the field of action against Iran and its proxies, and driving them back from its borders. These certainly do not encourage Israeli military involvement in this arena.

As for the Iranian nuclear program, as long as it does not advance Israel can benefit from the continuing restrictions. However, if Iran decides to withdraw from the agreement, resume uranium enrichment and installation of advanced centrifuges, and reduce IAEA supervision to a minimum, Israel must deal with a new situation, where its position is not supported by European countries. Indeed, many of these states see Israel as part of the problem created by Trump's exit from the JCPOA, while the United States for its part sees no immediate threat in the progress of the nuclear program as long as it remains within parameters that do not constitute a breakout to nuclear weapons. In any case, the United States is not keen to put the military option on a higher footing. Therefore Israel may find itself "alone in the arena."

To deal with these challenges, Israel must first and foremost conduct a deep strategic dialogue with the Trump administration on the significance of

each of the scenarios presented. Such a dialogue at a senior working level, and not just at a head of state level, will clarify the limitations of American policy and is essential for the formulation of Israeli policy. If Iran decides to leave the JCPOA, Israel must seek an Israeli-American agreement with red lines, including the manner of responding when they are crossed by Iran. At the same time, and notwithstanding European anger at Israeli conduct in the context of the JCPOA, it is essential to maintain a dialogue, particularly with Britain, France, and Germany, and reach agreement with them about the red lines for the progress of the Iranian nuclear program. After all these essential actions, Israel must also prepare for the possibility of having to demonstrate a credible military option, if only for deterrence.

Notes

- 1 Clifford Krauss, "Trump Hit Iran with Oil Sanctions. So Far, They're Working," *New York Times*, September 19, 2018, <https://www.nytimes.com/2018/09/19/business/energy-environment/iran-oil-sanctions.html>.
- 2 Barbara A. Leaf, "Containing Iranian Proxies in Iraq," Testimony submitted to the House Foreign Affairs Subcommittee on Terrorism, Nonproliferation and Trends, September 26, 2018, <https://bit.ly/2PUYZYc>.
- 3 Hanin Ghaddar, "Iran and Hezbollah in Syria: U.S Policy Options," Testimony submitted to the U.S Representatives Subcommittee on Middle East and North Africa, September 27, 2018, <https://bit.ly/2EFx6ls>.
- 4 "Iran, Syria Sign New Deal for Defense Cooperation," *PressTV*, August 27, 2018, <https://bit.ly/2RehFXC>.
- 5 Alexey Khlebnikov, Twitter account, September 28, 2018, <https://twitter.com/alekshlebnikov/status/1045806868617138176?s=21>.
- 6 "Iran Signs Deal to Build 540 MW Power Plant in Syria," *PressTV*, October 3, 2018, <https://bit.ly/2P5WnqA>.
- 7 Bijan Khajepour, "Will EU's 'SPV' be Able to Sustain Iran Trend, Investment?" *al-Monitor*, October 4, 2018, <https://bit.ly/2NnTGPr>.
- 8 "Iranian Military Commanders Visit Bases in PG to Warn Enemies," *Mehr News Agency*, November 23, 2018, <https://bit.ly/2QHiloW>.
- 9 Lesley Wroughton, "U.S Seeking to Negotiate a Treaty with Iran," *Reuters*, September 19, 2018, <https://reut.rs/2CqmoNy>.
- 10 "By Defeating Sanctions, Iran Will Once Again Slap the U.S. Govt: Ayatollah Khamenei," *Khamenei.Ir*, October 4, 2018, <https://bit.ly/2BtZ0go>.
- 11 "U.S wants 'Regime Change' in Iran: Rouhani," *Reuters*, October 14, 2018, <https://reut.rs/2A8IIPv>.

- 12 The conditions stated by Mike Pompeo include: a demand for Iran to stop the enrichment and never again engage in plutonium processing; give the IAEA full access to all sites in Iran; stop developing ballistic missiles and supporting terror groups in the Middle East, including Hezbollah, Hamas, and Palestine Islamic Jihad; stop supporting Shiite militias in Iraq, the Houthis, and the Taliban; stop threatening its neighbors – many of whom are US allies; stop threatening to destroy Israel; and stop firing rockets into Saudi Arabia and the Emirates.