



## GEOPOLITICS

# Iran: No Deal, No Crisis, Much Danger

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- Talks over reviving a nuclear deal may have broken down, but neither Iran nor the US seek serious escalation.
- Nevertheless, potential conflict points have proliferated with the emergence of Iran's

protest movement, Tehran's drone support for Russia in Ukraine, and a new right-wing government in Israel.

- Deft diplomacy on both sides will be needed to navigate the new regional risk terrain.

The war in Ukraine is driving a lot of this heightened risk, as underlined just last weekend by the drone attack on an Iranian armaments factory. Tehran's decision to supply Russia with drones has in effect see it take sides in the conflict and given its traditional foes in the West one more reason to take a hard line. Less obviously, Iran's Ukraine position plays into Israel's hand. Unusually, both US and Israeli sources quickly came out and (anonymously) attributed this weekend's drone strike as emanating from Israel. By striking Iran, Israel answers criticism that it has not done enough to help Ukraine.

Freshly returned Israeli Prime Minister Benjamin Netanyahu's willingness to "engage in kinetic action in Iran and strike facilities and have those strikes be clearly attributable to Israel is very dangerous," says Iran expert Esfandiyar Batmanghelidj. The Ukraine war may also have played a role in the failure of the talks to revive Iran's nuclear deal, with Tehran's leadership falsely banking on Europe's need to secure alternative energy supplies to take a hard line in negotiations, argues Riccardo Alcaro of Italian think tank Istituto Affari Internazionali.

### **Tougher US Line?**

There is not much more the US could sanction on Iran, but there is scope for "a lot more on enforcement," notes Alex Vatanka, who heads the Iran program at the Washington-based Middle East Institute. Speaking to Bloomberg last week, US Special Representative on Iran Rob Malley conceded that Iran-China oil sales were the biggest sanctions challenge and pledged to intensify talks with Beijing to rein them in.

Roughly half of the Joe Biden administration's sanctions enforcement actions on Iran have been enacted in the period since talks broke down around September-October last year. On oil measures, the US Treasury Department's decision in December to blacklist Turkish businessman Sitki Ayan, a personal friend of Turkish President Recep Tayyip Erdogan, over alleged Iranian oil sales sanctions-busting stands out.

But Tehran's crackdown on protesters and supply of weapons to Russia have been the more popular targets of US enforcement measures. That's partly a reflection of how US policy has changed, with Malley saying the focus is on Iran's actions in Ukraine and against domestic protesters, rather than getting the nuclear deal, or Joint Comprehensive Plan of Action (JCPOA), back on track.

Notably, the Treasury Department's under secretary for terrorism and financial intelligence, Brian Nelson, is traveling to Oman, the United Arab Emirates and Turkey this week to talk about sanctions enforcement related to Russia and Iran. Separately, a US official says recently

enacted anticorruption measures by Iraq's central bank, in coordination with the US Treasury and Federal Reserve, are aimed at bringing Iraqi banks up to international anti-money laundering standards and "have been in the works for years." But the new measures have had an outsized effect on restricting US dollar flows to Iraq's banking system, which Iran has long been able to tap.

Meanwhile, even if JCPOA diplomacy might be dead, nuclear diplomacy is vital to both Washington and Tehran as they seek to establish each other's red lines. It is also where China might find some common cause with the US, with Beijing likely concerned after Tehran's move in November to ramp up uranium enrichment to 60% at a second nuclear facility, Fordow, after nuclear talks broke down.

In this regard Washington's Mideast Gulf allies might play an important role, says Batmanghelidj. It is noteworthy Qatar's foreign minister traveled to Tehran last weekend, carrying a "message from Washington." Concern about regional escalation also lurks, with an attack by Yemen's Iran-backed Houthis on an oil tanker at Yemen's Ash Shihr terminal in November a reminder of 2019's tanker attacks, and Tehran's response to the recent drone strike still unclear.

## Domestic Challenges

Iran's foes have been predicting the Islamic republic's collapse for the last four decades, and for the last four decades Tehran has made fools of these doomsayers. Yet again the regime appears to be weathering the storm, as protests triggered by the death of Mahsa Amini in custody enter their fifth month.

More serious is the state of the economy. Last year marked a fourth consecutive year of 30% plus inflation rates, observed economist Bijan Khajehpour in Amwaj Media recently. "There is no positive outlook for the Iranian economy." But by the same token, the regime does not appear threatened by the depressed conditions. Indeed, key elements of its ruling class, such as the Revolutionary Guard, appear to have been able to exploit the sanctions to strengthen their position in Iran's political economy. In some cases, this has generated resentment. One Iran oil insider refers to the takeover of the international arm of state National Iranian Oil Co. by Revolutionary Guard "smugglers" as a "coup d'etat."

On many levels Iran's economy is a dinosaur. An inability to charge appropriately for domestic gas usage has led to runaway consumption and catastrophic inefficiency, forcing Iran to cut exports to Turkey and reduce flows to its steel and cement industries. But critically, Tehran has managed to build resilience in strategic areas and simply does not depend on oil revenues to anywhere near the same extent as its neighbors.

*For more coverage of the Ukraine crisis, visit [Ukraine Crisis: Energy Impact](#) >*

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