

# Silver bullets and neutron bombs

*Alastair Crooke*

‘The Americans did not act on what they promised in the nuclear accord [the Joint Comprehensive Plan of Action or JCPOA]; they did not do what they should have done. According to Foreign Minister [Javad Zarif], they brought something on paper but prevented materialisation of the objectives of the Islamic Republic of Iran through many diversionary ways,’ the Supreme Leader, Khamenei, said in March, addressing a large group of people in the holy city of Mashhad. This sentence, uttered during the Supreme Leader’s key *Nowruz* (New Year) address, should be understood as flashing amber light: it was no rhetorical flourish. And it was not a simple dig at America (as some may suppose). It was perhaps more of a gentle warning to the Iranian government to ‘take care’ of the possible political consequences.

What is happening is significant: for whatever motive, the US Treasury is busy emptying much of the JCPOA sanctions relief of any real substance (and their motive is something which deserves careful attention). The Supreme Leader also noted that Iran is experiencing difficulties in repatriating its formerly frozen, external funds.

US Treasury officials, since ‘implementation’ day, have been doing the rounds, warning European banks that the US sanctions on Iran remain in place, and that European banks should not think, even for a second, of tapping the dollar or euro bond markets in order to finance trade with Iran, or to become involved with financing infrastructure projects in Iran. Banks well understand the message: touch Iranian commerce and you will be whacked with a

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billion dollar fine – against which there is no appeal, no clear legal framework – and no argument countenanced. The banks (understandably) are shying off. Not a single bank or financial lending institution turned up when President Rouhani visited Paris, to hold meetings with the local business élite.

The influential *Keyhan* Iranian newspaper wrote on 14 March on this matter: ‘Speaking at the UN General Assembly session in September, Rouhani stated: “Today a new phase of relations has started in Iran’s relations with the world”. He also stated in a live radio and television discussion with the people on *Tir*: “The step-by-step implementation of this document could slowly remove the bricks of the wall of mistrust”.’ *Keyhan* continues:

‘These remarks were made at a time when the Western side, headed by America, does not have any intention to remove or even shorten the wall of mistrust between itself and Iran ... Moreover, they are delaying the implementation of their JCPOA commitments. Lifting the sanctions has remained *merely as a promise on a piece of paper*, so much so that it has roused the protest of Iranian politicians.

The American side is promoting conditions in such a way that today even European banks and companies do not dare to establish financial relations with Iran – since all of them fear America’s reaction in the form of sanctions [imposed on those same banks]. Actually, the reason for the delay in the commencement of the European banks’ financial co-operation with the Iranian banks and the failure to facilitate banking and economic transactions, is because many of the American sanctions are still in place, and Iranian banks’ financial transactions are [still] facing restrictions. Moreover, given their continuing fear of the biting legislations and penalties for violations of the Americans’ old sanctions, European financial institutions are concerned about violating the American sanctions that continue to be in force ...

It is pointless to expect the US administration to co-operate with Iran given the comments of the US officials, including Susan Rice, since the Americans’ comments and behaviour reveal their non-compliance with their obligations and speak of the absence of the US administration’s political will to implement even its minimum obligations.’

[Here *Keyhan* is specifically referring to Susan Rice’s observation to Goldberg in *The Atlantic* that, ‘The Iran deal was never primarily about trying to open a new era of relations between the US and Iran. The aim was very simply to make a dangerous country less dangerous. No one had any expectation that Iran would be a more benign actor.’]

*Any action on the international scene calls for suitable and appropriate reaction.* Therefore, we cannot expect a government like the US administration that seizes every single opportunity to restrict our country, to lift the sanctions.

Rice's recent comments are only a small part of the increasing anti-Iranian rhetoric of the American officials in recent months. These remarks should actually be regarded as a sign ... that the dream of the JCPOA is nothing but wishful thinking and far from reality.' (Emphasis added).

The Supreme Leader's nudge, therefore, was intended for the ears of the government: do not build too much politically on this accord: beware its foundations may turn out to be built on sand.

Recently, US Treasury Secretary Jacob Lew gave a talk at *Carnegie* on the 'Evolution of Sanctions and Lessons for the Future', on which David Ignatius of the *Washington Post* commented:

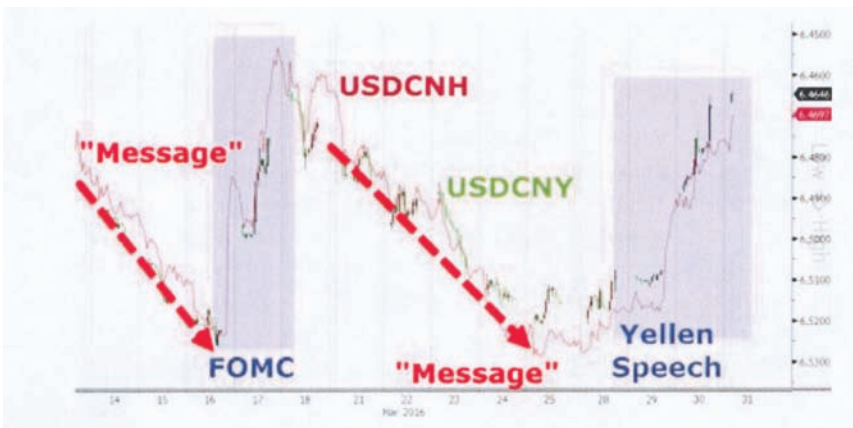
'Economic sanctions have become the "silver bullet" of American foreign policy over the past decade, because they're cheaper and more effective in compelling adversaries than traditional military power. But Jack Lew warns of a "risk of overuse" that could neuter the sanctions weapon and harm America. His caution against overuse comes as some Republican members of Congress are fighting to maintain US sanctions on the Iranian nuclear program despite last year's deal limiting that Iranian threat.'

So what is going on here? If Lew is warning against sanction overreach, why is it that it is precisely his department that is the one that is so assiduously undermining sanctions relief for Iran – 'particularly since Lew's larger point is that sanctions won't work if countries don't get the reward they were promised – in the removal of sanctions – once they accede to U.S. Demands', in the paraphrase by Ignatius himself? One reason for this apparent contradiction implicit in Lew's remarks probably is China: recall that when China's stock markets were in freefall and haemorrhaging foreign exchange, as it sought to support the Yuan – China blamed the US Fed (US Reserve Bank) for its problems – and promptly was derided for making such an 'outlandish' accusation. Actually, what the Fed was then doing was stating its intent to raise interest rates (for the best of motives naturally!) – just as those, such as Goldman Sachs, have been advising. US corporate and bank profits are sliding badly, and in 'times of financial depletion', as the old adage goes, 'bringing capital home becomes the priority' – and a strong dollar does exactly that.

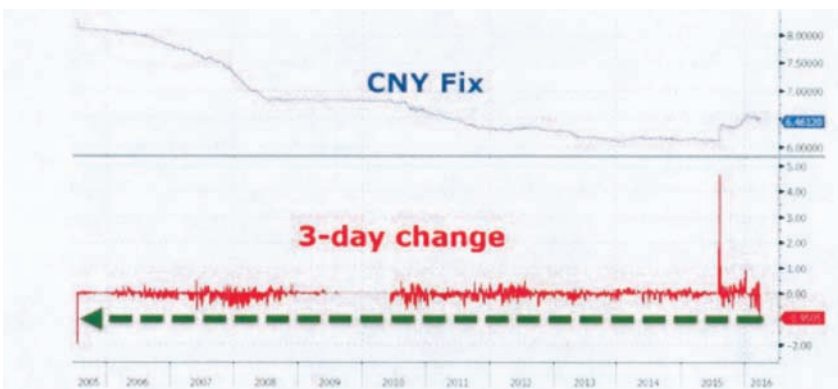
But the Peoples' Bank of China (PBOC) did a bit more than just whinge about the Fed actions, it reacted: *it allowed the Yuan to weaken*, which induced turmoil across a global financial world (already concerned about China's economic slowing); then raised the Yuan value to squeeze out speculation, betting on further falls in the Yuan; then let it weaken again as the Fed comments started to slide in favour of interest rate hikes, and a

strong dollar – until finally, as *Zero Hedge* [financial analysis website] has noted,

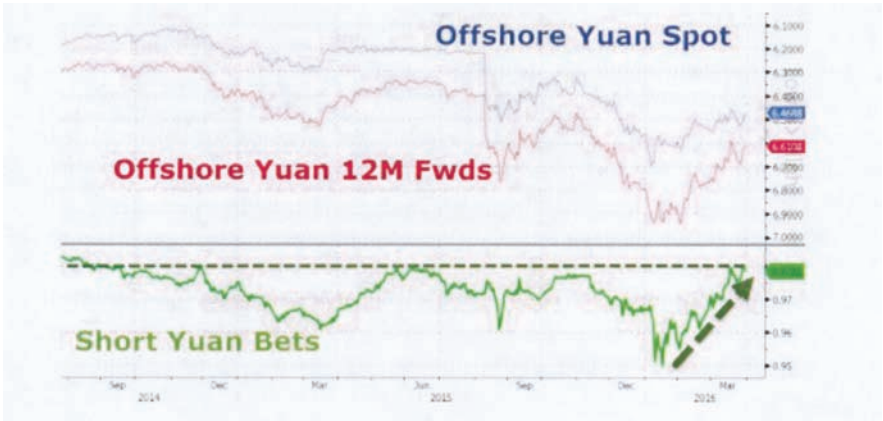
‘it appeared the messaging from The People’s Bank Of China to The Fed was heard loud and understood. Having exercised its will to weaken the Yuan (implying turmoil is possible), Janet Yellen (Fed Chair) delivered the dovish goods [i.e. indicated that global conditions trumped the advice of the likes of Goldman Sachs to strengthen the dollar], and so China “allowed” the Yuan to rally back. In a double-whammy for everyone involved, the biggest 3-day strengthening of the Yuan fix since 2005 also pushed the Yuan forwards, back to their richest relative to spot since August 2014 – once again showing their might against the dastardly speculative shorts.’



*Zero Hedge*: And since Janet delivered, PBOC has strengthened the Yuan Fix by the most since 2005!



*Zero Hedge*: Crushing shorts as Yuan forwards collapse back to their ‘richest’ relative to spot since August 2014.



Source of three graphs: Zerohedge

In short, the Ignatius ‘silver bullet’ of foreign policy (the US Treasury Wars against any potential competitor to US political or financial hegemony) is facing growing ‘hybrid’ financial war, just as NATO has been complaining that it is having to adjust to ‘hybrid’ conventional war – from the likes of Russia. So, as the US tries to expand its reach, for example by claiming legal jurisdiction over the Bank of China, and by blacklisting one of China’s largest telecom companies, thus forbidding any US company from doing business with China’s ZTE, China is pushing back. It has just demonstrated convincingly that US Treasury ‘silver bullets’ can fall short. This, we think, may have been Lew’s point – one directed, possibly, at Congress, which has become truly passionate about its new found ‘neutron bomb’ (as a former Treasury official described its geo-financial warfare).

In respect to Russia, this is important: Russia and America seem to be edging towards some sort of ‘grand bargain’ over Syria (and possibly Ukraine, too), which is likely to involve the Europeans lifting, in mid 2016, their sanctions imposed on Russia. But again, the US is likely nonetheless to maintain its own sanctions (or even add to them, as some in the US Congress are arguing). So, if Russia, like Iran and China, become disenchanted with promises of US sanctions relaxation – then, as the *Keyhan* author noted, a suitable and appropriate (i.e. adverse) reaction, will ensue.

What the Fed and Lew seem to have assimilated is that the US and European economies are now so vulnerable and volatile that China and Russia can, as it were, whack back at America – especially where China

and Russia co-ordinate strategically. Yellen specifically signalled ‘weakening world growth’ and ‘less confidence in the renormalization process’ as reasons for the Fed backtrack.

Ironically, David Ignatius in the *Washington Post* (29.03.16) gives the game away: Lew is not going soft, saying that the US needs to use its tools more prudently; far from it. His point is different, and Ignatius exposes it inadvertently:

‘US power flows from our unmatched military might, yes. But in a deeper way, it’s a product of the dominance of the US economy. Anything that expands the reach of US markets – such as the Trans-Pacific Partnership in trade, for example – adds to the arsenal of US power. Conversely, US power is limited by measures that drive business away from America, *or allow other nations to build a rival financial architecture that’s less encumbered by a smorgasbord of sanctions.*’

This latter point precisely is what is frightening Lew and Ignatius. The tables are turning: in fact, the US and Europe may be becoming more vulnerable to retaliation (e.g. Europe, with Russia’s retaliatory sanctions on European agricultural products) than China and Russia are to unilateral Treasury or Fed warfare. *This is the new hybrid war* (and not the hot air issuing from NATO). Lew and Ignatius know that a parallel ‘architecture’ is under construction, and that Congress’s addiction to new sanctions is just speeding it into place.

So, why then is the US Treasury so zealous in undermining the effectiveness of JCPOA’s agreed lifting of sanctions? Well, probably because Iran has less leverage over the global financial system than either China or Russia. But also, perhaps, because ‘Iran sanctions’ are (erroneously) viewed by US leaders as the Treasury’s ‘jewel in its crown’ of geo-financial success.

What may be missing from this hubristic interpretation, however, is the understanding that Iran’s experience will not be lost on the others, nor on the Shanghai Co-operation Organisation when it convenes its next meetings on how to combat western ‘colour revolution’ operations (with Iran likely joining that organisation as a member, rather than an observer, this summer).

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