



TENSIONS RISING WITH IRAN, BUT THREAT TO OIL UNCLEAR

In its continuing efforts to prevent Iran from acquiring nuclear weapons, the U.S. is imposing economic sanctions on financial institutions that conduct business with the Central Bank of Iran, which in turn has encouraged the threat of a European oil embargo against Iran. Iran has responded by threatening to cut off the flow of oil through the Straits of Hormuz. With the competing military forces confronting each other in the narrow Straits, and the recent assassination of a leading Iranian scientist raising tensions, the possibility of actual fighting in the region has risen.

ESAI estimates that about 12.5 million b/d of crude oil transits the Straits of Hormuz (petroleum products would be in addition to this volume). Maximum spare pipeline capacity that could bypass the straits equals close to 4.5 million b/d if the idled Iraq-Saudi pipeline could be restarted. Abu Dhabi is planning on opening another 1.5 million b/d pipeline next summer. In addition, the IEA has stated it is ready to consider a significant strategic stock release in the event the Straits are closed. Finally the US Navy has indicated that it will counteract efforts to close the Straits or harass shipping.

In sum, tensions are rising, but there remain many possible outcomes and responses. Most of which will ensure that oil continues to flow.

Tensions have risen again in the Persian Gulf. The United States is working to tighten sanctions on Iran in response to continued concerns about the military nature of Tehran's nuclear program. One of Iran's senior scientists at its Natanz uranium enrichment plant was assassinated, and the Iranian government suspects either that either the United States or Israel is responsible. Iran has threatened to close the Straits of Hormuz to all commercial and military vessel traffic if Washington pursues the new, tighter sanctions. When one U.S. aircraft carrier exited the Persian Gulf, Iranian authorities demanded that it not re-enter. In addition, Iran has promised retaliation against those it believes responsible for the assassination of its scientist. Tehran has also been holding a series of military exercises, something it does regularly, to show off its capabilities. The Iranian authorities have also, after a long hiatus, agreed to allow inspectors from the International Atomic Energy Agency (IAEA) to enter the country and visit a new enrichment facility. The U.S., in its turn, has threatened a response if Iran attempts to block shipping. Washington now has two aircraft carrier battle groups in the region (both in the North Arabian Sea) although military spokesmen have indicated that this was a long-planned doubling up for awhile in what is usually a rotational situation where only one carrier battle group usually cruises the waters of the northwest Indian Ocean. The possibility that either Israel or Washington may decide to strike Iran's nuclear facilities is a constant backdrop to the continued tensions. All of these tensions exist against the backdrop of the close and regular interaction between U.S. Navy vessels in the Persian Gulf and the forces of Iran's two navies – the regular Iranian Navy and the Iranian Revolutionary Guard Corps (IGRC) Navy.

The Iranian government has three primary goals in mind with its latest statements and mix of actions. First, it is attempting to influence the United States and others as they consider tightening economic sanctions. Japan has postponed a decision on whether to reduce the amount of oil it imports from Iran. Second, Iran is looking to deter attacks on its nuclear enterprise. These attacks come in two forms – one the potential for a conventional military

strike from either Israel or the United States and two an ongoing covert series of attacks ranging from computer viruses to assassinations. Finally, the government is looking to shore up domestic support by showing that it can and will defend the country from a variety of outside threats. This last point is particularly important in the context of ongoing domestic economic difficulties and fighting among various domestic factions for political primacy. The threat to cut off the oil flow through the Straits of Hormuz is, on the one hand, a particularly potent political threat because of its potential impact on all countries of the world – whether those states support increasing pressure on Iran over its nuclear activities or not. On the other, the threat lacks some degree of credibility because it would also lead to the complete cutoff of Iranian oil exports – the exact thing that Tehran is seeking to avoid through the imposition of sanctions by the West. It is an ongoing game of diplomatic “chicken,” but it is not clear how close the two cars are to collision.

The U.S. and its allies are seeking two primary and one secondary goals. The first is to coerce Iran into slowing or stopping its pursuit of a nuclear weapon – an effort that has seen little success over the past decade since Iran’s efforts were highlighted by the IAEA. It seems clear that, accompanying the effort at political and economic coercion is a covert effort on the part of some states to slow or stop Iran’s nuclear weapons capability. The second is to deter Iran from any military or intelligence activities that would threaten the flow of oil through the Straits of Hormuz or otherwise harm or destabilize the Gulf Arab states or Israel.

The interaction of these goals, and the various efforts to pursue them, has led to increases and decreases in tensions in the region over the past ten-plus years. The current period is one of the spikes in tensions. Three possibilities could send this period of tensions into open conflict. The first is if Israel or the United States decides to strike Iranian nuclear facilities. Both Washington and Tel Aviv have stated that they cannot live with a nuclear weapons-armed Tehran, but it is not clear exactly how close Iran is to crossing that threshold. The second is if the Iranian government believes that the imposition of further economic sanctions would so damage its domestic political support that it is tantamount to war and therefore chooses to begin some sort of hostilities because it believes that this will rally internal support. Similarly Iran could believe that a preemptive strike on its nuclear facilities is imminent and choose to strike first. Finally, the close proximity of U.S. Navy and particularly Iranian Revolutionary Guard Corps forces in the relatively small confines of the Persian Gulf and the Straits of Hormuz could lead to a small scale clash that could escalate. Any large-scale hostilities will involve Iran attempting to seal the Straits of Hormuz to commercial ship traffic. Iran has the capability to sink commercial ships (via mines, small boats, and anti-ship cruise missiles) and make it too risky to traverse the narrow Straits. However, the U.S. Navy has indicated that it could reopen the Straits in a fairly short amount of time. Any armed conflict will not resolve the outstanding issues between Iran and the West or its Arab neighbors. While it may lead to some respite if Iranian military, nuclear, and intelligence capabilities are significantly damaged, over the long run it will only further increase regional tensions and lead to a new period of mistrust and strategic competition.