



# Testing Trump's Iran Strategy

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On Nov. 6, Americans will go to the polls in midterm elections that are likely to reshape the complexion of national politics. But even before they do, U.S. foreign policy will face a crucial test of resolve vis-a-vis the world's leading state sponsor of terrorism.

Back in May, President Trump formally announced that the United States was withdrawing from the 2015 nuclear deal with Iran, and that pre-existing sanctions which had been waived by the Obama administration would begin to "snap back" into place against the Islamic Republic. The first step in this direction was the re-imposition on Aug. 7 of restrictions on Iran's ability to buy U.S. currency, its trade in precious metals, and commercial sales of aircraft and auto parts to the Islamic Republic.

These steps have already begun to have a marked impact on Iran's economy, prompting a veritable exodus of foreign companies from the Islamic Republic and cratering the value of Iran's national currency, the rial. But the second tranche of sanctions, which is set to be reinstated on Nov. 4, promises to be even more serious. The new measures will include massive restrictions on Iran's global oil trade, as well as a severing of Iran's Central Bank from the global financial system.

Taken in isolation, these steps have the power to deal a severe blow to Iran's fragile, energy-dependent economy. Taken together, the impact on Iran's radical regime — which is already said to be on the verge of economic collapse — could be nothing short of catastrophic.

If the sanctions are fully implemented, that is.

During the Obama administration, the impact of congressional sanctions on Iran's energy sector were mitigated by extensive Executive Branch waivers that allowed countries like India and China to continue buying oil from Iran as long as they demonstrated a good faith effort to curtail such trade. This, in turn, permitted the Islamic Republic to continue doing business largely "as usual" with a host of economic partners, thereby limiting the impact of U.S. pressure.

Today, more than a few of Iran's business partners are seeking the same sort of arrangement, and have approached the White House to obtain waivers for their energy-related commerce with Iran. For its part, the Trump administration — which previously ruled out the possibility of providing such exemptions — is increasingly warming to the idea, and is now said to be "actively considering" the provision of such exemptions to Iran's energy clients on a "case-by-case" basis. Depending on the particulars of those conversations, the administration's original objective of seriously disrupting Iran's global oil and gas trade could well fall by the wayside.

Even more important, however, is the current tug-of-war taking place over Iran's banking sector. The Nov. 7 sanctions round is aimed in large part at blacklisting Iran's Central Bank and other national financial institutions, isolating them from the global economy and thereby making it harder for the Iranian regime to fund its malign regional behavior.

The single most potent way for the administration to do this is by demanding that Iran be "disconnected" from the Society for Worldwide Interbank Telecommunications (SWIFT), a key international body that facilitates foreign monetary transactions. Back in 2012, when SWIFT was successfully pressured to remove Iran from its rolls, it sent shockwaves through the Islamic Republic and helped bring the ayatollahs to the nuclear negotiating table. But as part of its concessions during the subsequent talks, the Obama administration allowed Iran to be "reconnected" to SWIFT, paving the way for Tehran to restore normal trade relations with a range of foreign countries.

Not surprisingly, forcing SWIFT to disconnect Iran anew has emerged as a key element of the Trump administration's reinvigorated sanctions strategy. But this effort may soon be abandoned as well. In recent days, Treasury Secretary Steve Mnuchin has suggested that the White House was prepared to allow Iran to remain connected to SWIFT as part of concessions designed to entice reticent European partners to support U.S. policy.

Those potential partners, meanwhile, are actively working against administration sanctions. This summer, the European Union passed a "blocking statute" prohibiting EU businesses from complying with U.S. sanctions — thereby giving those firms an excuse to continue to trade with Iran. Since then, the EU has made progress on a new financial mechanism that will facilitate payments for Iranian exports when it comes online early next year, further enabling European companies to skirt U.S. restrictions.

Thus, just days before its next crucial milestone, the Trump administration's Iran strategy is under fire from multiple quarters. How the White House navigates pressures to dilute its sanctions on Iran's energy trade and financial sector is shaping up to be a crucial test for the Trump administration — and a key barometer of its seriousness on what has become the defining issue of its Middle East policy: Curbing Iran's global menace.