



Understanding the Ayatollahs

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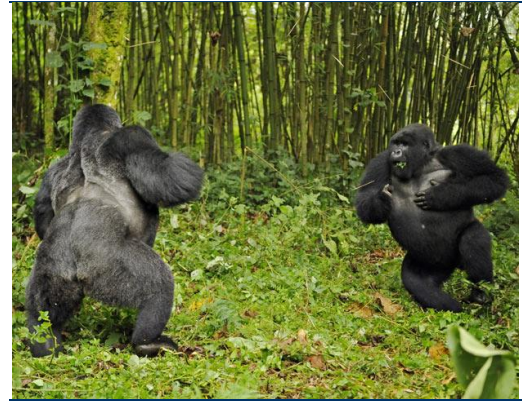
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Mostaque's Musings #1

In this note I take a look at the current state on and in Iran. Key takeaways:

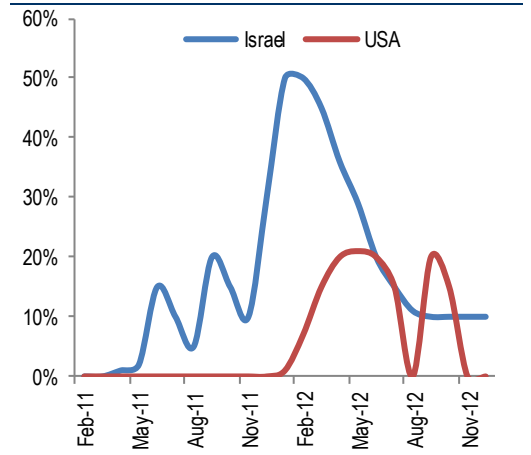
- ❖ **Past peak danger:** After a bellicose start to the year (Fig 1), I believe we have now passed the point of peak probability of an Israeli attack on Iran (Fig 2) with the US imposing harsh sanctions and indicating they've got Israel's back. The probability of a US strike (including retaliatory) will likely peak into the backend of April and thereafter be dependent on US elections. (2 pages)
- ❖ **Miscellaneous thoughts:** Given the plethora of fact, fiction and opinion on Iran in recent times I have put out some general thoughts for your edification (1 page)
- ❖ **Understanding the Ayatollahs:** The Iranian leadership has repeatedly stated nuclear weapons are forbidden. I take a look at how these viewpoints are constructed and the constraints upon changing them. There are few truly crazy/evil leaders and the key decision maker in Iran, Ayatollah Khamenei, has not to my knowledge ever been placed near this camp (let me know if he has by anyone credible), but is by all accounts a rational, highly political figure focussed on preserving the nation and the clerics' position within it. (4 pages)

1. Visualization of media discourse on Iran



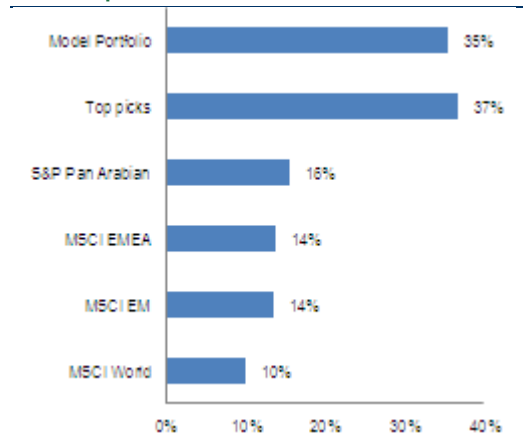
Source: The Independent

2. Probability of an attack on Iran



Source: Religare Noah Research

3. Model portfolio 21/06/11 to 04/04/12



Source: Religare Noah Research, Bloomberg

Geopolitics

Past peak danger, the current situation

Having peaked in February/March as Iraqi air space opened up, the general populace became inured to talk of an attack, Iran's proxies were neutered, more centrifuges were stuck under a mountain and so on, I believe the probability of an Israeli strike is now dropping into summer.

The US has pushed through sanctions more punitive than any before, even though the administration has complained that some of these are damaging to the US, such as the Kirk-Menendez bill that passed the Senate by 100 votes to 0. The current likely understanding between the Israeli and US government is that following the events of the last few months, the US will have Israel's back in the event of any conflagration (ie full and automatic backing) and deal with Iran itself if it does develop nuclear weapons. This provides some security for Israel as its ability to attack Iran's centrifuges (no need to attack the reactors in my opinion) is diminishing into Q2/Q3. The US administration has also indicated an increasing awareness that a limited Israeli strike may actually be beneficial for Iran as I outlined last year.

There has also been significant success in a campaign to take containment of a nuclear Iran off the table (despite this policy having prior success, in contrast with sanctions) and introducing the concept of regime change, which is the only real way to stop Iran's nuclear program.

This is still a dangerous situation, as can be seen by guessing the likely retaliation had any of the bombings earlier this year in Georgia, India or Thailand killed an Israeli diplomat, or if the purported Washington DC attack of last year (the veracity of which has been fully backed by the US) been successful.

I believe there is now a chance of the US actually carrying out a strike in the short-term, which will peak into the end of April after the P5+1 talks (likely presaged by some sort of terrorist activity) as the US fills the Persian Gulf with warships. This probability includes that of a joint US-Israeli strike and the US protecting Israel, as well as incorporating the probability of Iranian action spurring an attack or a false flag operation by a third party (have to cover all bases). The following comment by Defense Secretary Leon Panetta (someone not prone to hyperbole) to AIPAC last month highlighting how the internal dialogue in the US is shifting:

"No greater threat exists to the security of Israel and to the entire region — and indeed to the United States — than a nuclear-armed Iran,"

It is difficult to see how a nuclear Iran could pose any threat to the super-nuclear USA, but this was an expected shift that fed into my raising the probability of a US attack to above 0% in January.

The purported US rationale has also shifted (as outlined by President Obama in an interview with the Atlantic's Jeffrey Goldberg) to a new and somewhat troubling doctrine, going from preventing an attack on the US/their allies to preventing an arms race in the region, which is rather strange given the consequences of any US strike (although the "Iran will be crazy with nuclear weapons and calm and collected if their program is blown up" argument is also spreading).

After November it comes down to the result of the US elections.

If Gingrich or Santorum are elected, a US strike is almost certain, likely using "tactical" nuclear armament to ensure efficacy.

If Paul is elected then no strike will occur.

If Romney is elected then, given the composition of his foreign affairs advisors and public statements on the matter, a conventional strike is likely.

If Obama is re-elected then the probability of a strike is medium-low.

There are other permutations in the run up to the elections depending on the Republican candidate, but no attack will occur by the US in Hajj or Ramadan season. The two to three year view looks rather unpleasant in light of the above.

The fallout from a US attack will be an order of magnitude worse than that from an Israeli strike, which I maintain will likely be relatively contained (although in war nothing is certain).

In the short-term, there is a teeny tiny possibility that the US will take upcoming negotiations seriously as they have acknowledged for the first time that the Iranian government may be truthful when they say that development of nuclear weapons is strictly forbidden in Islam (as discussed below). This would suggest that the main stumbling block to sorting out this horrendous mess is both sides agreeing on appropriate checks as Clinton noted this weekend in Istanbul (an echo of Reagan's "trust, but verify", a position we are far from today)

<http://www.haaretz.com/news/middle-east/u-s-calls-on-iran-to-prove-its-nuclear-program-not-intended-for-military-means-1.421986>

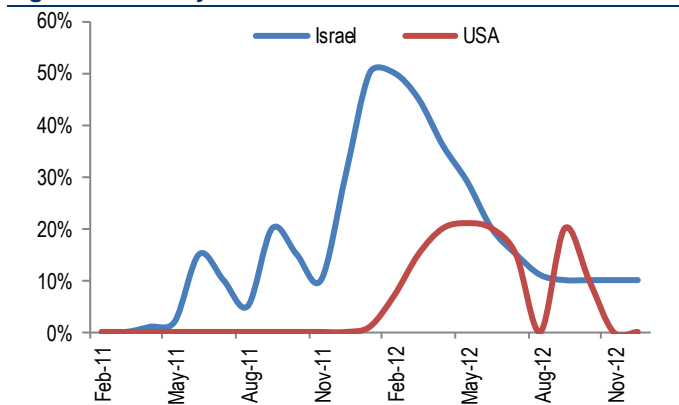
Intriguingly some of the current ideas floating around on how to do this are the exact same proposals that the Iranians made in 2003, when Khatami was rebuffed and in 2010, when Brazil and Turkey acted on US suggestions for a fuel swap but were barred from doing so by the US (the window of real engagement between the Obama administration and Iran was a few days).

What do the humps even mean?

As an aside, the probability chart I sketched in my 2012 Geopolitical Outlook (5th January 2012) did not quite live up to its purpose of providing an easy visual indicator of my views and model output on when a strike might occur if at all. An increase in the overall probability of a strike from 0% was a key result of the Arab Spring as I saw it in my initiation piece "Short-term pain, Long-term gain" last March and events have steadily increased the likelihood.

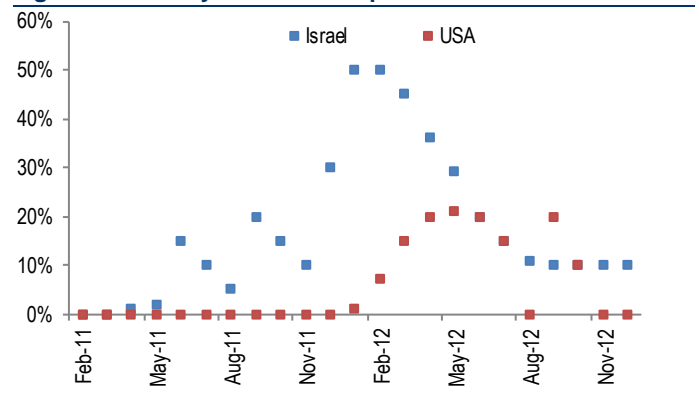
On any given day this shifts, for example being 0% when Netanyahu was in Washington and being 0% in terms of a US strike during Ramadan (August) or Hajj (November). The interpolation of the smoothed curve doesn't really capture this (see underlying "data points in Fig 2) and the percentages are a rough approximation of the output of my geopolitical model based on the likeliest scenarios. Given the significant level of qualitative input as well as quantitative analysis, this will never be exact, but it has done remarkably well over the last year in predicting geopolitical outcomes. Always good to take any model of the real world with a pinch of salt.

Fig 1 - Probability outlook smoothed curve



Source: Religare Noah Research

Fig 2 - Probability outlook data points



Source: Religare Noah Research

General, unsorted thoughts on the whole situation

1. Iran won't shut down the Strait of Hormuz unless the US invades. Even then it is unlikely as the US will mine their ports. This would be a very bad situation.
2. The Iranian Rial did depreciate 50%, but this bought it in line with the expected devaluation based on the REER given high inflation and a stable currency in recent years and simply addressed currency overvaluation.
3. Iran has the equivalent of \$120bn in reserves and 907 tons of gold as backup. Plus certain individuals are skilled at shipping oil in spite of sanctions for their cut and have doubtless been visiting Tehran. Simplest deal would be for Iran to fill up China's strategic reserves at a nice discount to spot.
4. Why would the GCC develop arms if they can use the US nuclear shield? Nuclear weapons are defensive. Unless you're crazy. Of course, if Iran stops being a threat and integrates with its neighbours then the GCC would no longer need protection, undermining US interests...
5. Iran's advanced centrifuges (IR-2, IR-4 etc) are built with carbon fiber and maraging steel, both of which are in short supply and subject to sanctions, making them key targets
6. Iran's reactor at Bushehr doesn't produce much plutonium, unlike US/Russian fast breeder reactors (the energy was a by-product, these were made for creating bombs), so isn't a target
7. Given how current sanctions are almost equivalent to a blockade of Iranian ports, it's tough to see they are not technically at war already
8. Global support for Iranian sanctions excludes the BRICS and suchlike, most of whom aren't threatened at all by Iran but would quite like their resources, expect them to break away (ex SA). Iran's exports to Asia actually rose in March.
9. Regime change is the end target now, but will be an order of magnitude more difficult than Iraq
10. Although Congress acted remarkably quickly and in unison to install sanctions, removing them will be a long and tortuous process, something I doubt we will see for many years (as such, Iran's motivation is rather limited)
11. Indeed, there is no real sensible way that sanctions can now be lifted
12. If Shia-led Iran ships their oil to Shia-led Iraq for onward processing, will the US sanction Iraq? Unlikely... In the long-term, Iraq seems a much better ally to Iran than Syria, although the weapons now openly being given to the Syrian rebels will eventually be used in Iraq
13. A number of nations have put temporary cuts on Iranian oil imports, but that is more to allow them to apply for a sanctions waiver from the US rather than any real conviction
14. After the probability of an Israeli-led attack bottoms this summer, the only time I see it rising again is if one of their diplomats is attacked or if Israeli elections are called (always a dangerous time). Israeli defenses are not quite fully operational yet, but will be by the middle of next year given increasing US support and a drop in Hezbollah and Hamas capability
15. Calling Iran's leadership "Mullahs" is like calling America's leaders community organizers.
16. If Iraq was halfway normal and Iran not sanctioned, we would have ~5mbpd of extra oil supply available to the market now and oil would not be triple digits. Granted, neither of these are likely to happen, but there must be some culpability given the impact on the global economy
- 17.

Inside Iran, the irrelevance of Ahmedinejad

Taking a look at Iran itself to understand what's up with their nuclear program and their intentions, it is tempting to think that President Ahmedinejad calls the shots in Iran in a typical dictator-for-life position with rigged elections and so on due to his populist rants.

His various pronouncements have been dissected and analyzed (ie did he say wipe Israel off the map or shove the "Zionist" government in the dustbin of history?), but the reality is that most of these statements are pandering to his largely lower-class supporters and even if he was misconstrued in some of these, he has always been eager to internally play up his positioning against America and Israel as part of the resistance/non-aligned axis.

Ahmedinejad is on his way out next year having served his two fixed terms and holds very little power in comparison to the real ruler of Iran, Ayatollah Khamenei. Ahmedinejad has had a bit of a power struggle in the last year with Khamenei due to his own personal belief that the return of Imam Mahdi (12th generation scion of the Prophet Muhammad (ﷺ)), who went into "occultation" 1,138 years ago) was imminent and as Iran was an Islamic state, oversight of the jurists was no longer really required.

Thus (a touch ironically), he is for separation of "church" and state and could well be thought of as a secular nationalist. Khamenei does not share this millennialist view and clipped Ahmedinejad's wings, indicating that maybe it was time for the position of President to go, just as the position of Prime Minister was abolished in 1989.

He does not actually have the power to do so under the Iranian constitution directly, but he could well use his general influence to push this through and bring back the prime ministers position. Khamenei's power over Ahmedinejad has been seen on several occasions over the last year, most notably when he reinstated intelligence minister Haidar Moslehi after Ahmedinejad fired him, leading Ahmedinejad to boycott cabinet meetings for a while (sulk). Indeed, Khamenei has been arresting Ahmedinejad's allies such as press officer Ali Akbar Javafekr.

With regard to elections in Iran, such as those that have just happened (lots of "reformists voting"), it is worth noting that even though there was plenty of noise around the Iranian elections in 2009, the "Green" candidates such as Mir-Hossein Mousavi were still pre-vetted members of the government who would continue with the nuclear program and work within the current system, indeed, it is difficult to see anyone in Iran who would give up the nuclear program given national pride. Indeed, I would say that the Green movement is as weak as it has been and several reformists participating in the election (and the re-appointment of Rafsanjani to the head of the expediency council) shows how government control is solidifying.

The more notable split in Iran is between insiders and outsiders (khodi/gheyr khodi), or those who can play the system/are connected are those who can't/aren't (plus a few additional layers as one would expect).

This is something that sanctions, regrettably, only serve to accentuate as imported goods are controlled by connected individuals and even more is skimmed off the top, with "crippling" sanctions hurting those who need the most help. The 2009 election served to highlight some of these divides, but it wasn't the good versus evil/freedom versus tyranny battle that some have put forward.

Ahmedinejad's own position on nuclear weapons is that they are unnecessary and prohibited, but it is worth noting that he takes quite a bit of his religious guidance (although not all of his positions) from Ayatollah Mesbah-Yazdi, a super-conservative anti-Western cleric who is rather pro-military action (including possibly nuclear weapons) and whom former President Khatami called "a theoretician of violence". As he leaves office, some of these influences will drop away from policy making activities. It is notable that while Mesbah-Yazdi is far more hardline than Khamenei and disagrees with his position on many issues, he defers to him as Supreme Leader.

How to become an Ayatollah

As Ayatollah Khamenei is the key decision maker/supreme ruler who will actually decide whether Iran builds a nuke/EMP and attacks Israel or the USA due to being a crazy, it is worth having a look at how he actually thinks and whether he is a crazy.

Khamenei ascended to the leadership of Iran in 1989 when his predecessor Khomeini passed on and he was elected Supreme Leader, gaining the rank of Ayatollah (usually given by Ayatollahs to those they thought were as learned as they) in the process and moving from the post of President. There was a bit of controversy over his elevation to Ayatollah rank from the lower position of “Hojjat al-Islam”, but this was sorted relatively amicably.

As such, it could be argued that Khamenei’s initial position was thanks to politics rather than religious fortitude/scholarship. However, as time passed and he consolidated power, he started issuing more fatwa (Islamic legal rulings) after he was declared a “marja” in 1994, a legitimate Source for Shia Muslims to follow and one of the highest authorities in Shia Islam (also known as a Grand Ayatollah). In this way his legitimacy has shifted from political to religious and the validity of his standing within the clerical community is judged on the rationality of the construction of his legal judgments within the established framework of Shia jurisprudence.

What is a fatwa anyway? The origins of Islamic jurisprudence

I touched upon some of the formative elements of Shia Islam in my December geopolitical monthly, but it is important to have a quick look (1 page!) at how authority and legal rulings were developed in the first few formative centuries of the religion to understand how this affects the nuclear situation.

Essentially, Muslims believe that the Prophet Muhammad (ﷺ) received the revelation of the Qu’ran, the eternal Word of God and, as the last Prophet and Messenger, lived his life in an exemplary manner that was an example to all of how best to live their lives.

During his lifetime it was pretty straightforward to find out what the “correct” way of doing things were as you’d just ask him or one of his Companions and they’d tell you. Being in possession of revelation, you could be sure this was the right path.

After his death in 632 CE, things became a bit more complicated. Initially, most, particularly the “Sunnis”, just asked his Companions what they thought, as they had repeatedly been referred to as the best of people and had had a front stage view of how he acted. The Shia believed that physical and spiritual leadership was passed on down his family line through first Ali and then his descendants, with the current mainstream Shia concept of “Imamah” positing that these individuals who inherited leadership of the Muslim nation were both infallible and possessed of the ability to accurately ascertain Divine commands.

This was a bit trickier for the Sunnis as they believed accurate interpretation of the Divine died with the Prophet Muhammad (ﷺ), so they set about trying to formalize the process of analyzing the interlinkage between the eternal Qu’ran and the temporal life of the Prophet Muhammad (ﷺ), on the basis that if you could accurately determine these connections in a systematic way then you could figure out the most accurate position in new matters using the Qu’ran as the framework and the prior actions of the Prophet Muhammad (ﷺ) as prior “case law”.

Due to the inability of obtaining infallible analysis, the epistemology of Sunni Islam required that the default position on matters that were not explicitly spelt out in the Qu’ran as timeless principles or that the vast majority of the community agreed upon was for learned scholars to do the best they could and agree to disagree if the other scholar was sufficiently educated and followed their process and agreed upon axioms correctly. To determine the case law, they relied on sayings attributed to the Prophet (ﷺ) and his Companions, known as “hadith”, authenticated by a system akin to cross-referenced Chinese whispers, the society of the time being very verbal.

For Shia this was initially easier thanks to the apparent link to the Divine, right until the 12 generation of Imam, Imam Mahdi, who went into hiding (occultation) in 874 CE when he became Imam aged 5 after the previous 11 generations had been murdered and told his people what to do via 4 intermediaries/deputies. Eventually he went into full occultation in 941 CE with a promise to come back and bring justice to the World nearer the End of Days. Some Shia groups disagree with this, but the majority (“Twelver”) Shia (such as those in Iran) believe this.

Thereafter they adopted a similar system of jurisprudence to the Sunnis, but with different agreed upon sayings/descriptions of the temporal life of the Prophet (ﷺ) as they placed a different level of trust in various narrators. There were a couple of competing methods to pull this all together, which came to a head at the end of the Safavid empire in the 18th century (“akhbari” versus “usuli” schools), but the final result was that suitably qualified scholars could extrapolate from existing rulings and agreed upon texts (a process known as “ijtihad”) to deliver “fatwas”, or Islamic legal rulings, on various topics even where a literal interpretation was not available.

Shia Islam tended to be more stratified than Sunni Islam due to its origins and while the scholars traditionally took the role of advisors, this changed in the Iranian revolution as the works of individuals such as Ali Shariati caught on and pushed the clergy into a more prominent role, with the principle of “vilayat-e faqih”, or guardianship of the Jurists moving from clerical oversight of purely religious matters, leaving secular matters to the rulers of the time, to oversight of all elements, as championed by Ayatollah Khomeini. Thus the Supreme Leader in Iran has a dual obligation to provide secular and religious leadership.

What Ayatollah Khamenei thinks about Nukes

Ayatollah Ali Khamenei issued a fatwa forbidding the production, stockpiling and use of nuclear weapons on August 9, 2005, amongst other occasions (these have been somewhat ignored by press).

To construct this fatwa, he relied on three primary juristic principles (after you look through enough fatwa, you pick out and formalize certain common elements) to highlight that the development of these weapons is impermissible under normal circumstances.

The first of these is the principle of burden (“vezr”). This is directly based on a few different Qu’ranic verses (17:15, 35:18), which state that no soul should bear the burden of another, interpreted as meaning that the punishment should fit the crime. Nuclear weapons do not fit the bill due to their indiscriminate nature and impact beyond just a single generation.

The second is the principle of stopping an “attempt of corruption” (“sai bar fesad”). This is based on verse 2:205 of the Qu’ran, which is interpreted as meaning that any actions that can lead up to a corruption of the earth are impermissible, such as a nuclear arms race for example. It is the attempt and not just the actual action of corruption when one has the capability to do so.

Finally, there is the principle of a ban on committing a grave sin (“ethm”). A grave sin is one (based on verse 2:219, extending from alcohols/intoxicants) where the consequences of the action are quite evidently wrong and this is the bucket that Khamenei has firmly placed use of nuclear weapons. This extends to their production and indeed to other weapons of mass destruction with their concomitant escalation dangers and risks of an accidental conflagration. Thus the potential for sin far outweighs the potential for benefit and it is prohibited.

As the basis of the fatwa is direct quotation from the Qu’ran as opposed to ancillary texts (with less authority) and due to the clear rationale against nuclear weapons and weapons of mass destruction, it is extremely difficult for this fatwa to be rescinded or adjusted while maintaining any claim to religious authority, something that is essential for Khamenei’s political survival.

The high profile nature and extent of damage of weapons of mass destruction also make this different (in juristic terms) from Iran’s support of group such as Hezbollah and Hamas.

It is worth noting that to reach the level of Ayatollah, one needs to have studied Shia jurisprudence in depth, a process that takes decades. This is very similar to studying conventional law for a similar period of time and it shapes the way in which one thinks and provides boundaries for what you can and cannot do/say as you are conditioned in that manner. The unsettling/strange fatwa that we see from some Islamic scholars typically are as a result of a too literal interpretation of the base texts due to a lack of real-life experience on the implications of a literal interpretation or due to political motivations. In this respect, Ayatollah Khamenei has proved himself to have plenty of real-life experience and be politically savvy, but this constrains him in changing his position with a legal basis, particularly on a topic such as this where he has made his position clear providing full reasoning on multiple occasions.

How to force Iran to develop a nuclear weapon

Having said the above, there is a way for the development of a nuclear weapon to be justified by Khamenei if the conditions are right. This is in the case of dire need/a real and immediate threat to Iran, whereby the temporal conditions trump the general impermissibility (ie self-defense). The current situation has clearly been established as not meeting these criteria, but this could (and most likely would) change if Iran was attacked as they have a right to self-defense both in international and religious law.

This can be seen from Iran's interaction with Saddam Hussein, whereby first Ayatollah Khomeini pushed back into Iraq when he could have accepted peace after repelling the initial Iraqi assault and then authorizing the initial development of chemical weapons after hundreds of thousands of Iranian's were killed by Iraqi chemical weapons.

Similarly, there is some evidence as noted by US intelligence, that Iran had started to explore development of nuclear weapons prior to 2003 as they were concerned about Iraq's nuclear weapons program that had been spurred on by Israel's attack on Osirak. However, once he was deposed, all US intelligence agencies agree that Iran suspended any weapons program as the threat was removed. Indeed, it is probably worth mentioning that according to the National Intelligence Estimate (NIE) collating the views of all US intelligence agencies, they are all in agreement that Iran has not had a nuclear weapons program for at least 9 years. A recent US poll showed 84% of Americans believe Iran is developing nuclear weapons, showing a lack of faith in US intelligence services.

Some of the concerns about Iran providing nuclear weapons to terrorist organizations or attacking countries with tremendous second strike capability are really quite puzzling if taken at face value. As discussed in prior notes such as "the neutering of Iran's proxies", 30th Jan, the groups that Iran supports are not their puppets, but rather independent organizations with their own aims that may happen to align with Iran's.

Khamenei's primary motivation is to consolidate power and control Iran and he does not subscribe to the End of Days viewpoint of Ahmedinejad that could provide a rationale for believing that the Iranian government as a whole is crazy. Even if Iran did smuggle a weapon that was used to attack Israel, aside from being destroyed in the second strike retaliation, they would irradiate the Dome of the Rock, one of the holiest places in Islam as well as affect millions of Palestinians as well as Israelis.

North Korea and Pakistan would seem to fit the bill for potential chaos far more accurately, but both have had their nuclear programs successfully contained to date. As such, we need to consider other elements in ascertaining why and how war is being pushed for, as well as some of the key fears and aims of other parties in this equation to figure out how it may unravel.

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