



## New Rules of Engagement for US-Hezbollah Arm Wrestling in Lebanon

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Lebanon is the only country in the Middle East where US policy is actively seeking to deter Iran's regional influence. Washington is directly targeting Hezbollah's financial assets in the country by enforcing a US law through the Lebanese banking system. This development has led to a confrontation between the Iranian-backed Lebanese Shiite group and the US-supported Central Bank, culminating on June 12 in an explosion in Beirut targeting BLOM Bank, Lebanon's second largest financial institution. Since then, new rules of engagement have emerged with a compromise limiting the impact of US sanctions against Hezbollah.

### **US policy shift: Targeting Hezbollah at home**

In recent years, the US has intensified its global campaign to disrupt Hezbollah's financial facilitators and procurement networks around the world. However, Lebanon has been historically excluded in the US policy against the group. Under former Prime Minister Rafiq Hariri, Hezbollah enjoyed the benefits of the Lebanese banking system. During the last two decades, there was a tacit US acknowledgement that confronting Hezbollah in Lebanon using the Lebanese military or banking system would impact the country's fragile stability. Even during the recent peak of US intervention in Lebanon, between 2005 and 2009, there was no attempt to change that approach.

Now, with the Hezbollah International Financing Prevention Act (HIFPA) signed into law in December 2015, there is a major US policy shift in directly attempting to target Hezbollah's assets in Lebanon. [Law No. 114-102](#), known as HIFPA, primarily imposed sanctions on all activities of Hezbollah's TV station al-Manar and prohibited banks that facilitate transactions or engage in money laundering for Hezbollah from having correspondent accounts in the U.S. While Hezbollah has chosen not to react publicly to the US campaign around the globe, the group saw the recent US measures in Lebanon as an existential threat to its support base in the Shiite community.

However, this US policy shift has not yet been fully clarified nor integrated beyond the technicalities of sanctions. The US Treasury discussed a campaign "to destroy Hezbollah's financial networks," but

the State Department has been more cautious. The State Department's Spokesperson John Kirby [said](#) on April 15, 2016 that "the safety, soundness, and security of the Lebanese financial system is a great priority to the United States, and the US Government will act only on the strongest evidence and the most solid evidence in our efforts to isolate Hezbollah from the international financial system." What seems to matter most for the White House is to leverage the sanctions against Hezbollah to make the point that Iran's nuclear deal still allows the US to deter Tehran's regional activities.

While this new approach is cornering Hezbollah and impairing its relationship with the Central Bank in Lebanon, it will likely not impede the bulk of its funding. The US Treasury has [recognized](#) that the primary funding sources for the Shiite group is the "hundreds of millions of dollars" coming from Iran in addition to "millions of dollars" from a global network of supporters and businesses. On June 24, 2016, Hezbollah's Secretary General Hassan Nasrallah [confirmed](#) this US assessment of Iranian cash flow by noting that "as long as Iran has money, we have money...just as we receive the rockets that we use to threaten Israel, we are receiving our money. No law will prevent us from receiving it." Yet, the United States is primarily focusing on Hezbollah's global network as it tries to separate US rapprochement with Iran from the US Hezbollah policy.

### **Implementing HIFPA in Lebanon**

The teeth of US sanctions against Hezbollah lies in the ability of the correspondent banks in New York to prevent Lebanese banks from accessing US dollars and markets if there was a breach in compliance to the HIFPA guidelines. This is especially damaging because Lebanon has a highly dollarized economy. The US Treasury has been flexing its muscles in Lebanon in recent years. The most notable case was when the US government unilaterally [seized](#) in August 2012 an amount of \$150 million from the escrow account in New York of *Société Générale de Banque au Liban (SGBL)*, forcing the bank to pay a \$102 million settlement in US courts. This impact on the Lebanese market was enhanced in 2014 with the Treasury Department signing separate agreements with over 120 Lebanese banks and financial institutions to implement the Foreign Account Tax Compliance Act (FATCA). All these major milestones in the US approach towards the Lebanese banking system served as a build-up to enable the implementation of HIFPA.

Once the US Treasury Department's Office of Foreign Assets Control ([OFAC](#)) identified the sanctioned Hezbollah institutions and individuals under the law on April 15, 2016, the Central Bank

Governor Riad Salameh issued on May 3 Circular [No. 137](#) instructing Lebanese banks to implement the US law and promptly notify the Special Investigation Committee (SIC) of the measures taken. Instead, Hezbollah wanted Salameh to prohibit Lebanese banks from freezing any suspicious accounts without the Central Bank's approval. Under pressure, Salameh issued a second circular on May 27 instructing Lebanese banks to wait 30 days for approval before freezing any account. However, when Salameh [told](#) CNBC on June 8 that 100 accounts had already been frozen and that the Central Bank "only implement[s] automatically" the US Treasury's decisions, Hezbollah called his position "ambiguous and suspicious." The BLOM explosion on June 12 compelled the Lebanese banking system to show more [flexibility](#). The Central Bank subsequently established a mechanism for Hezbollah to file complaints, allowing Salameh to directly intervene in cases in which the concerned account does not pose a threat of money laundering or terrorism activities. With this formula, the Banking Control Commission of Lebanon will follow-up on Hezbollah's complaints while the Special Investigation Committee (SIC) will process US requests and regulate the measures taken by the Lebanese banks.

### **The limits of US Sanctions**

A case scenario of how Lebanon and its banking system have the ability to cope with US pressure and continue business as usual occurred in June 2015. Within one week of being notified that the US Treasury will designate the chairman of the "Middle East and Africa Bank" Qassem Hujiej as a Hezbollah supporter, Salameh worked out a deal with Parliament Speaker Nabih Berri that ended in electing Ali Hujiej, Qassem's brother, as chairman of the board.

The significant leverage of Hezbollah in Lebanon and the complexity of the Lebanese system make it less likely for the US to outmaneuver the Shiite group in Lebanese politics. Hezbollah allies in Lebanon provide political support to the Lebanese banking system as they continue to generate large amount of profits and significantly shape the parameters of the Lebanese economy. Hezbollah recently hinted that rethinking this political support might not be necessary if the Lebanese banks show more flexibility in implementing HIFPA.

In reaction to Hezbollah's tactics against HIFPA, the US did not seek to balance the Shiite group politically to implement the law neither does it have partners in Lebanon willing to do so. The Lebanese government and the Sunni-backed "Future Movement" stayed mostly on the bench during the past two

months of this confrontation. Washington has had no Lebanon policy since 2011, except for urging the government to host Syrian refugees. Later in 2014, the rise of the Islamic State in Iraq and the Levant (ISIL) reinforced the Pentagon's support to the Lebanese military. Hezbollah's robust involvement in Syria also made it more probable to target its assets in neighboring Lebanon.

The soft US deterrence has been merely to ensure that Hezbollah is not exploiting the US banking system, yet it has no mandate or jurisdiction to significantly neutralize the group's ability to receive cash. The only way to end Hezbollah's core funding starts either by stopping the source in Tehran or the cash route, as the group maintains control of both the airport in Beirut and the border with Syria. For now, no one is interested in picking that fight.