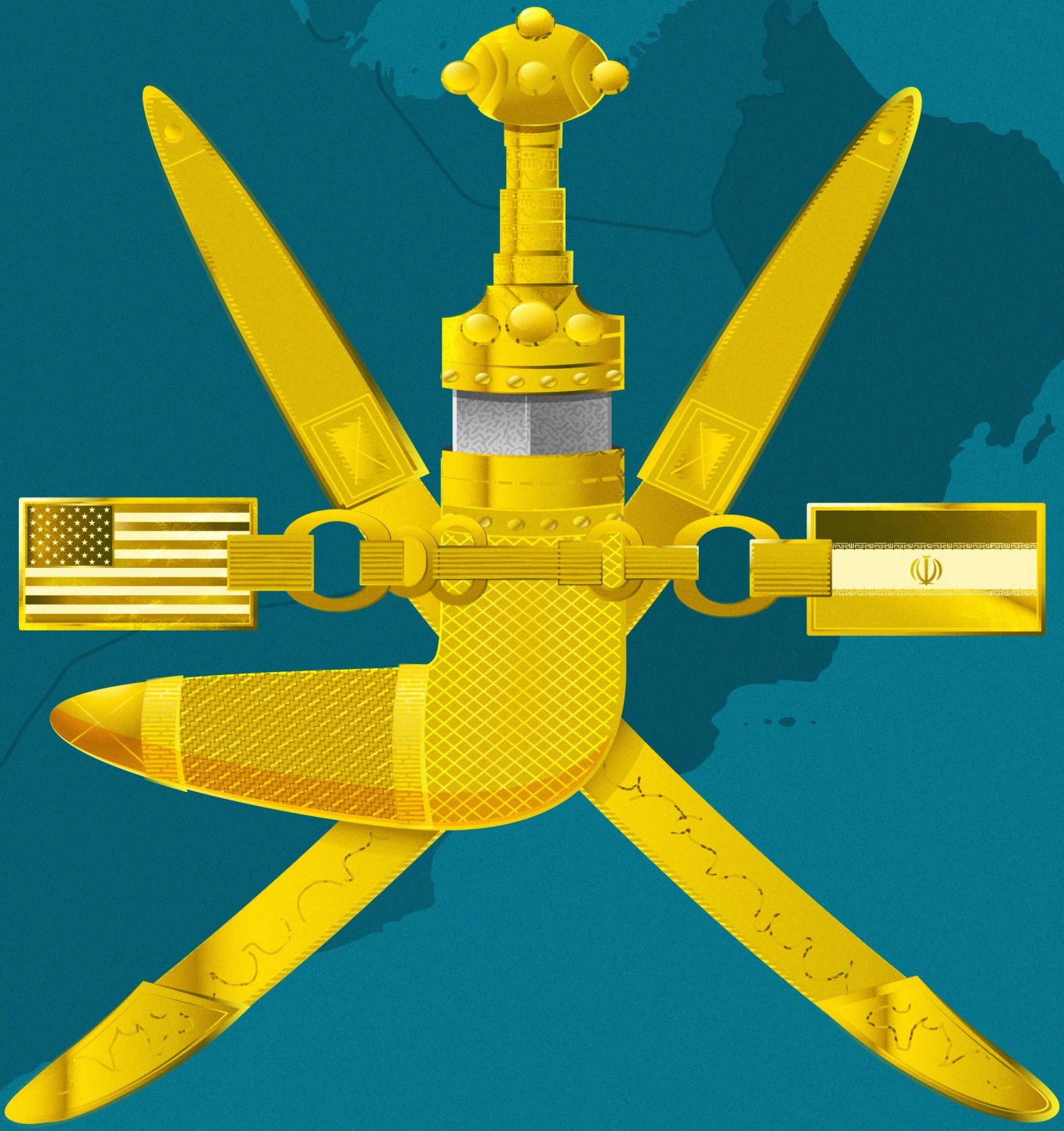
FOUNDATION FOR DEFENSE OF DEMOCRACIES

Oman in the Middle

Muscat's Balancing Act Between Iran and America

Jonathan Schanzer & Nicole Salter

May 2019



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Introduction

The Obama administration praised the Sultanate of Oman just a few short years ago for establishing a backchannel between the United States and Iran that ultimately resulted in the 2015 nuclear deal, formally known as the Joint Comprehensive Plan of Action (JCPOA).[1] The Trump administration last year withdrew from the deal and erased what Oman viewed as a major achievement.[2] Oman is now betwixt and between.

Despite the reversal of U.S. policy, Oman remains committed to diplomacy. It is often called the "Switzerland of the Middle East,"[3] and Sultan Qaboos bin Said al Said, who has ruled the country since 1970, prides himself on maintaining friendly political and economic relations with Iran, as well as an alliance with the United States.

The U.S. military, in particular, continues to value its longstanding relationship with the sultanate, which grants the U.S. access to strategic air bases and port facilities close to Iran.[4] Oman also works with the U.S. Navy to ensure freedom of navigation through the Strait of Hormuz, the strategic waterway through which 30 percent of all seaborne-traded crude oil passes.[5]

But Oman's commitment to stability in the region has become subject to doubt amid reports that Iran may have smuggled weapons to the Houthi rebels in Yemen by way of overland routes through Oman.[6] American, Israeli, Saudi, Emirati, and Yemeni officials alike have expressed concern and have requested more immediate action from Muscat.[7] Omani officials deny that there is a problem.[8]

Yet Oman is undeniably drawing closer to Iran for economic and political reasons. A 2007 proposed natural gas pipeline between Iran and Oman[9] – as well as other investments – offers Muscat an economic lifeline that neither its Gulf allies nor the U.S. have been able to provide. This has prompted alarm among Oman's neighbors, notably Saudi Arabia and the United Arab

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1. Jay Solomon, "Secret Dealings With Iran Led to Nuclear Talks," *The Wall Street Journal*, June 28, 2015. (https://www.wsj.com/articles/iran-wish-list-led-to-u-s-talks-1435537004)

2. For example, see Omani coverage of the Iran deal: Saleh Al Shaibany, "Oman 'helped' clinch historic United States-Iran nuclear deal," *Times of Oman*, July 14, 2015. (https://timesofoman.com/article/63788/Oman/Government/Omans-efforts-as-a-peace-broker-help-reach-a-nuclear-deal-between-Iran-and-the-United-States)

3. For example, see: "Oman, the Switzerland of the Gulf, feels the strain of a troubled region," *The Straits Times* (Singapore), May 17, 2018. (https://www.straitstimes.com/world/middle-east/oman-the-switzerland-of-the-gulf-feels-the-strain-of-a-troubled-region); Will McEniry, "Succession Uncertainty in Oman Threatens the Switzerland of the Middle East," *Australian Institute of International Affairs*, July 1, 2017. (https://www.internationalaffairs.org.au/australianoutlook/oman-the-switzerland-of-the-middle-east); Kevin Sullivan, "Switzerland of the Middle East," *Real Clear World*, September 23, 2015. (https://www.realclearworld.com/articles/2015/09/23/oman_switzerland_of_the_middle_east.html)

4. U.S. Department of State, "U.S. Security Cooperation With Oman," March 23, 2018. (https://www.state.gov/t/pm/rls/fs/2018/279539.htm)

5. U.S. Energy Information Administration, "Three important oil trade chokepoints are located around the Arabian Peninsula," August 4, 2017. (https://www.eia.gov/todayinenergy/detail.php?id=32352)

6. For example, see: Camille Lons, "Oman: Neutrality under pressure," *The New Arab* (UK), May 29, 2018. (https://www.alaraby.co.uk/english/comment/2018/5/29/oman-neutrality-under-pressure); Ashraf al-Falahi, "Just how neutral is Oman in Yemen war?" *Al-Monitor*, October 12, 2016. (https://www.al-monitor.com/pulse/ru/originals/2016/10/oman-neutral-saudi-war-iran-houthis.html)

7. Yara Bayoumy and Phil Stewart, "Exclusive: Iran steps up weapons supply to Yemen's Houthis via Oman – officials," *Reuters*, October 20, 2016. (https://www.reuters.com/article/us-yemen-security-iran/exclusive-iran-steps-up-weapons-supply-to-yemens-houthis-via-oman-officials-idUSKCN12K0CX); Eli Lake, "The CIA's Secret Talks With Obama's Arab Back Channel," *Bloomberg*, June 20, 2017. (https://www.bloomberg.com/view/articles/2017-06-20/the-cia-s-secret-talks-with-obama-s-arab-back-channel)

8. Conversation with Omani official on March 29, 2018; Roundtable with senior Omani official on May 1, 2018; Conversation with second senior Omani official on November 26, 2018.

9. Daniel Fineren, "Oman signs MoU to import Iranian gas," *Reuters*, August 27, 2013. (https://www.reuters.com/article/uk-iran-oman/oman-signs-mou-to-import-iranian-gas-idUKBRE97Q0EE20130827)

Map of Oman and region

Emirates (UAE). (This is not their only area of friction. Other areas include the Saudi-led war in Yemen, the UAE's territorial purchases along Oman's borders, and the blockade of Qatar, which is led by both Saudi Arabia and the UAE.[10])

From Washington's perspective, the real concerns could stem from Oman's financial ties with Iran, which include entities that came under U.S. sanctions prior to the 2015 nuclear deal for their connection to the Islamic Republic's terrorism and proliferation networks.[11] A 2018 U.S. Senate report revealed that Omani banks assisted Iran in gaining access to its foreign reserves after the 2015 nuclear deal came into effect. While this transpired with the full knowledge of the Obama Treasury Department, it raises troubling questions about Oman's efforts to provide Iran with financial assistance.[12]

10. Sanam Vakil, "Iran and the GCC: Hedging, Pragmatism and Opportunism," *Chatham House*, September 2018. (https://www.chathamhouse.org/sites/default/files/publications/research/2018-09-13-iran-gcc-vakil.pdf); Stacey Philbrick Yadav, "Oman is a mediator in Yemen. Can it play the same role in Qatar?" *The Washington Post*, July 22, 2017. (https://www.washingtonpost.com/news/monkey-cage/wp/2017/07/22/oman-is-a-mediator-in-yemen-can-it-play-the-same-role-in-qatar)

11. For example, see: "Iran's Bank Melli, Bank Saderat to Reopen Oman Branches," *Financial Tribune* (Iran), May 23, 2017. (https://financialtribune.com/articles/economy-business-and-markets/65047/irans-bank-melli-bank-saderat-to-reopen-oman-branches); Fatma Alarimi, "UPDATE 1-Oman fund, Iran's Khodro sign MoU for $200 mln auto venture," *Reuters*, January 27, 2016. (https://www.reuters.com/article/iran-trade-autos-oman-idUSL8N15B2PP); "Salalah port signs deal with Iran for boosting bilateral trade," *Times of Oman*, March 6, 2016. (http://timesofoman.com/article/78861/Business/Economy/Salalah-port-signs-deal-with-Iran-for-boosting-bilateral-trade); Jonathan Saul, "Oman port targets bigger Iran shipping ties as market opens up," *Reuters*, February 29, 2016. (https://www.reuters.com/article/oman-iran-shipping-idUSL8N15R402)

12. U.S. Senate, Permanent Subcommittee on Investigations, "Majority Staff Report: Review of U.S. Treasury Department's License to Convert Iranian Assets Using the U.S. Financial System," June 6, 2018. (https://www.hsgac.senate.gov/imo/media/doc/2018-06-06%20PSI%20Majority%20Staff%20Report.pdf)

The Trump administration's tougher Iran policy threatens the pipeline and other economic deals with the Islamic Republic. Perhaps this is why Oman is now working to rebuild trust with the Trump administration. Indeed, the October 2018 visit by Israeli Prime Minister Benjamin Netanyahu to Muscat[13] and a March 2019 agreement allowing the U.S. military greater access to Omani ports[14] may have been overtures to try to strengthen ties.

It is a U.S. interest to maintain relations and foster a strong partnership with Oman. American policymakers should be sympathetic as Oman adjusts to the diametrically opposing policies of the Trump and Obama administrations. However, Washington should also demand that Muscat shift back to a truly neutral position on Iran, both politically and economically.

"American policymakers should be sympathetic as Oman adjusts to the diametrically opposing policies of the Trump and Obama administrations. However, Washington should also demand that Muscat shift back to a truly neutral position on Iran, both politically and economically."

The U.S.-Iran-Oman Triangle

Historians often attribute Iran's longstanding influence in Oman to a long and complex history that connects the two nations that straddle the Strait of Hormuz.[15] For the purpose of this study, we will focus on the contemporary factors that have drawn the current Omani leadership to the regime in Iran, and highlight how they often conflicted with U.S. policy.

Sultan Qaboos assumed power in 1970 after he overthrew his father. The new sultan needed assistance quelling a rebellion, which had begun in 1962, in Oman's southern Dhofar province. The United Kingdom provided training assistance to Qaboos' troops,[16] while Saudi Arabia, the UAE, and Kuwait provided financial assistance.[17] However, it was Iran's Mohammad Reza Shah, at Qaboos' request, who sent troops in 1973.[18] The revolt was put down in 1975,[19] yet Iranian forces remained until 1977.[20]

Regional dynamics changed dramatically after the February 1979 Iranian Revolution. Iran began to export its revolutionary ideology to the region, which

13. Tovah Lazaroff, "Netanyahu Makes Historic Visit to Oman," *The Jerusalem Post* (Israel), October 26, 2018. (https://www.jpost.com/Israel-News/Netanyahu-makes-historic-visit-to-Oman-570388)
14. Phil Stewart, "With an eye on Iran, U.S. clinches strategic port deal with Oman," *Reuters*, March 24, 2019. (https://www.reuters.com/article/us-usa-oman-military/with-an-eye-on-iran-u-s-clinches-strategic-port-deal-with-oman-idUSKCN1R50JD)
15. For example, see: Bonna Walter, *History of Oman: Government, Politics, Economy, Society, Religion, Tourism* (Digital Light Publishing, 2016); Jeremy Jones and Nicholas Ridout, *A History of Modern Oman* (New York: Cambridge University Press, 2015).
16. Alexander Schade, "Counterinsurgency Strategy in the Dhofar Rebellion," *Small Wars Journal*, April 21, 2017. (https://smallwarsjournal.com/jrnl/art/counterinsurgency-strategy-in-the-dhofar-rebellion)
17. "Foreign Relations," *Persian Gulf States: Country Studies*, Ed. Helen Chapin Metz (Library of Congress, 1994). (http://countrystudies.us/persian-gulf-states/67.htm)
18. Hamid Alavi, "چهلمین سالگرد عملیات ظفار (The Fourtieth Anniversary of the Dhofar Operation)," *BBC* (UK), October 18, 2015. (http://www.bbc.com/persian/iran/2015/10/151018_me_40th_anniversary_dhofar_rebellion); Eric Pace, "Iranian Troops Helping Oman to Quell Rebels," *The New York Times*, February 7, 1975. (https://www.nytimes.com/1975/02/07/archives/iranian-troops-helping-oman-to-quell-rebels.html)
19. Eric Pace, "Shah of Iran Uses Oman to Train Armed Forces," *The New York Times*, January 25, 1975. (https://www.nytimes.com/1976/01/25/archives/shah-of-iran-uses-oman-to-train-armed-forces-bombarded-rebel-area.html)
20. Thomas W. Lippman, "Dhofar's Bitter Rebellion is Over, But Tension Remains," *The Washington Post*, February 2, 1977. (https://www.washingtonpost.com/archive/politics/1977/02/02/dhofars-bitter-rebellion-is-over-but-tension-remains/59b3992d-74b7-4cf5-8b33-c0c2c0b036d7)

threatened the security of the Gulf states.[21] Oman, unlike its Gulf neighbors, embraced a strategy of engagement rather than hostility. In June 1979, Oman dispatched its undersecretary for foreign affairs to Tehran to ensure that preexisting agreements with Iran remained intact.[22] (The Carter administration also initially sought a relationship with the new Iranian government, but that effort ended when Iranian students invaded the U.S. embassy that November, taking 52 American diplomats and citizens hostage.[23])

While drawing closer to Iran, Oman pursued a strategic relationship with the United States as an insurance policy. The sultanate signed the Oman Facilities Access Agreement on April 21, 1980, making it the first Gulf state to formalize defense relations with the U.S. This allowed the U.S. to use Oman's Masirah Island air base later that year in the failed attempt to rescue the American embassy hostages in Iran.[24]

When the Iran-Iraq War (1980-1988) erupted, Oman reportedly gave Iraq permission to use its bases, but withdrew the approval at the request of the U.S.[25] Muscat then assumed a position of neutrality throughout the war.[26] In 1981, Oman joined Saudi Arabia, the UAE, Kuwait, Bahrain, and Qatar in forming the Gulf Cooperation Council (GCC) – an alliance largely formed to deter Iran.[27] However, Oman, along with the UAE, opposed Saudi Arabia's plan for the GCC to completely sever ties with Iran.[28] Muscat had the challenge of patrolling the Strait of Hormuz with its small navy,[29] and believed it needed Tehran's assistance.[30] Throughout the war, Oman maintained diplomatic relations with both Iran and Iraq. It even reportedly hosted talks between the two sides in Muscat during the war.[31] Sultan Qaboos also reportedly maintained personal ties with Iran's supreme leader, Ayatollah Ruhollah Khomeini.[32]

Meanwhile, Iran-backed Hezbollah began kidnapping Americans and Westerners in 1982. In an effort to obtain their release, the Reagan administration tried to engage Iranian pragmatists to no avail. After Hezbollah's 1983 bombing of the U.S. marine barracks in Lebanon, the U.S. designated Iran a state sponsor of terrorism in 1984. This prohibited Tehran from

21. U.S. Central Intelligence Agency, "Iran: Exporting the Revolution," March 1980. (https://www.cia.gov/library/readingroom/docs/CIA-RDP81B00401R000500100001-8.pdf). For example, see how pro-regime outlets narrate Iran's relationship with Bahrain: "بازتاب انقلاب اسلامي ايران بر كشور بحرين (The Reflection of the Islamic Revolution of Iran on the Country of Bahrain)," *Navid-e Shahed Website* (Iran), April 18, 2009. (http://navideshahed.com/fa/news/204951/بازتاب-انقلاب-اسلامي-ايران-بر-كشور-بحرين)
22. Jeremy Jones and Nicholas Ridout, *A History of Modern Oman* (New York: Cambridge University Press, 2015), page 189.
23. Gary Sick, "The Carter Administration," *United States Institute of Peace*, accessed April 25, 2019. (https://iranprimer.usip.org/resource/carter-administration-0)
24. Kenneth Katzman, "Oman: Reform, Security, and U.S. Policy," *Congressional Research Service*, June 28, 2005. (https://apps.dtic.mil/dtic/tr/fulltext/u2/a474886.pdf)
25. "Telegram from the American Embassy in Muscat to the Secretary of State, 'Oman to give Iraq access to facilities for attack on Iran,'" September 27, 1980, accessed via the History and Public Policy Program Digital Archive at the Jimmy Carter Presidential Library. (https://digitalarchive.wilsoncenter.org/document/208197.pdf)
26. Gerd Nonneman, "The Gulf States and the Iran-Iraq War: Pattern Shifts and Continuities," *Iran, Iraq, and the Legacies of War* (New York: Palgrave Macmillan, 2004). (https://www.researchgate.net/publication/304752686_The_Gulf_States_and_the_Iran-Iraq_War_Pattern_Shifts_and_Continuities)
27. "Charter of the Gulf Cooperation Council," May 25, 1981. (https://www.files.ethz.ch/isn/125347/1426_GCC.pdf)
28. Dilip Hiro, *The Longest War: The Iran-Iraq Military Conflict* (New York: Routledge, 1991), page 236.
29. Drew Middleton, "On Vital Strait, Omani 'Traffic Cops,'" *The New York Times*, December 22, 1986. (https://www.nytimes.com/1986/12/22/world/on-vital-strait-omani-traffic-cops.html)
30. Dilip Hiro, *The Longest War: The Iran-Iraq Military Conflict* (New York: Routledge, 1991), page 237.
31. Bonna Walter, *History of Oman: Government, Politics, Economy, Society, Religion, Tourism* (Digital Light Publishing, 2016), page 103.
32. Elizabeth Dickinson, "A Test for Oman and its Sultan," *The New Yorker*, December 8, 2014. (https://www.newyorker.com/news/news-desk/will-oman-survive-sultan)

receiving U.S. financial assistance and arms sales, and from purchasing dual-use items.[33]

As tensions escalated between the U.S. and Iran, the U.S. Army Corps of Engineers reportedly spent $250 million in the 1980s modernizing Oman's military bases at Masirah Island, Sib, Thumrait, and Khasab.[34] Having successfully secured the trust of both sides, Muscat served as an intermediary between Washington and Tehran regarding the return of Iranians captured during naval skirmishes.[35]

Following the end of the Iran-Iraq War and the death of Ayatollah Khomeini, U.S. administrations were open to improving relations with Tehran. "Goodwill begets goodwill," President George H.W. Bush famously said to Iran in his 1989 inaugural address. But the U.S. remained alarmed over Iran's efforts to acquire nuclear weapons and the means to deliver them, its support for terrorist organizations (especially Hezbollah, Hamas, Palestinian Islamic Jihad, and the Popular Front for the Liberation of Palestine-General Command), its potential to threaten shipping through the Strait of Hormuz, and its efforts to undermine the Israeli-Palestinian peace process.[36]

During the 1990s, ties expanded between Oman and Iran. After Iraq invaded Kuwait in 1990, Oman joined the U.S.-led multinational coalition to liberate Kuwait.[37] As it did in the Iran-Iraq War, Oman retained diplomatic ties with all the belligerents.[38] Following Kuwait's liberation, Sultan Qaboos and his foreign minister, Yusuf bin Alawi, both argued that Iraq was a greater threat to the region than Iran. They contended that the West should talk with Iran rather than isolate it.[39]

In May 1990, the Omani oil minister visited Iran to explore joint ventures. Oman also reduced tariffs for Iranian vessels entering Omani waters. In 1993, the commander of the Omani navy traveled to Iran as part of a bid to ensure security in the Strait of Hormuz. In 1995, the commander of the Iranian navy toured a base in Oman. Cultural and trade agreements soon followed.[40]

Washington remained concerned about Tehran's nuclear program, however. In the 1990s, the U.S. persuaded Argentina, India, Spain, Germany, and France to prohibit the sale of nuclear technology to Iran. Nonetheless, Tehran received assistance for its

33. Kenneth Katzman, "Iran: U.S. Policy and Options," *Congressional Research Service*, January 14, 2000. (https://apps.dtic.mil/dtic/tr/fulltext/u2/a476007.pdf)
34. This amount has not been adjusted for inflation. Judith Miller and Jeff Gerth, "U.S. is Said to Develop Oman as its Major Ally in the Gulf," *The New York Times*, March 25, 1985. (https://www.nytimes.com/1985/03/25/world/us-is-said-to-develop-oman-as-its-major-ally-in-the-gulf.html)
35. Kenneth Katzman, "Oman: Reform, Security, and U.S. Policy," *Congressional Research Service*, June 28, 2005. (https://apps.dtic.mil/dtic/tr/fulltext/u2/a474886.pdf)
36. Kenneth Katzman, "Iran: U.S. Policy and Options," *Congressional Research Service*, January 14, 2000. (https://apps.dtic.mil/dtic/tr/fulltext/u2/a476007.pdf)
37. Sgt. James Bunn, "Kuwait, US remember liberation 25 years later," *United States Army*, February 5, 2016. (https://www.army.mil/article/161939/Kuwait__US_remember_liberation_25_years_later)
38. Joseph A. Kechichian, "Oman: A Unique Foreign Policy Produces a Key Player in Middle Eastern and Global Diplomacy," *RAND Corporation*, 1995. (https://www.rand.org/pubs/research_briefs/RB2501.html)
39. Judith Miller, "Creating Modern Oman: An Interview with Sultan Qaboos," *Foreign Affairs*, May/June 1997. (https://www.foreignaffairs.com/articles/oman/1997-05-01/creating-modern-oman-interview-sultan-qabus); Omani Foreign Minister Yusuf bin Alawi bin Abdallah, "Oman's Foreign Policy: From Gulf Security to the Peace Process," *The Washington Institute for Near East Policy*, May 10, 1996. (http://www.washingtoninstitute.org/policy-analysis/view/omans-foreign-policy-from-gulf-security-to-the-peace-process)
40. Calvin Allen Jr and W. Lynn Rigsbee II, *Oman Under Qaboos: From Coup to Constitution, 1970-1996* (London: Frank Cass Publishers, 2000), pages 191-192.

Bushehr nuclear power plant and missile technology from Russia, Pakistan, China, and North Korea.[41]

In 1995, President Bill Clinton issued Executive Order 12957, which barred U.S. firms from investing in Iran's energy sector,[42] and Executive Order 12959, which prohibited U.S. companies from trading with, re-exporting U.S. goods to, investing in, and financing loans for Iran.[43] The Iran and Libya Sanctions Act of 1996 further barred non-U.S. businesses from investing more than $20 million in Iran's energy sector.[44]

Following the election of Iranian President Mohammad Khatami, President Clinton sent him a letter via Oman.[45] The letter indicated that the U.S. had evidence of IRGC involvement in the 1996 bombing of Khobar Towers, which killed 19 American servicemen and wounded almost 400. However, the letter also expressed interest in improving relations with Iran.[46] Clinton made public remarks as well about improving relations and eased some restrictions on Iran, though most U.S. sanctions remained in place.[47]

The George W. Bush administration tried engaging with Iran, as well. After the 9/11 attacks, both Washington and Tehran supported the first post-Taliban government in Afghanistan. U.S. and Iranian envoys also held talks after the 2003 ouster of Saddam Hussein in Iraq. However, this cooperation soon collapsed. Iran provided weapons, training, and funding to the Taliban in Afghanistan and to Shiite militias in Iraq for their respective battles with U.S. and coalition forces.[48]

All the while, international concern over Iran's nuclear ambitions continued to mount. Following revelations in 2002 about Iran's secret nuclear sites, Tehran agreed to the 2004 Paris Agreement, which required it to suspend uranium enrichment activities.[49] This was short-lived, however, and Iran resumed uranium enrichment. In response, the United Nations sanctioned Iran in 2006, 2007, and 2008 for its nuclear and missile programs, imposed asset freezes and travel bans, and prohibited arms sales.[50]

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41. Chris Hedges, "Iran May Be Able to Build an Atomic Bomb in 5 Years, U.S. and Israeli Officials Fear," *The New York Times*, January 5, 1995. (https://www.nytimes.com/1995/01/05/world/iran-may-be-able-build-atomic-bomb-5-years-us-israeli-officials-fear.html)
42. U.S. Executive Order 12957, "Prohibiting Certain Transactions With Respect to the Development of Iranian Petroleum Resources," March 17, 1995. (https://www.treasury.gov/resource-center/sanctions/Documents/12957.pdf)
43. U.S. Executive Order 12959, "Prohibiting Certain Transactions With Respect to Iran," May 9, 1995. (https://www.treasury.gov/resource-center/sanctions/Documents/12959.pdf)
44. Iran and Libya Sanctions Act of 1996, Pub. L. 104-172, 110 Stat. 1541, codified as amended at 104 U.S.C. (https://www.congress.gov/104/plaws/publ172/PLAW-104publ172.pdf); Kenneth Katzman, "Iran: U.S. Policy and Options," *Congressional Research Service*, January 14, 2000. (https://apps.dtic.mil/dtic/tr/fulltext/u2/a476007.pdf)
45. Bruce O. Riedel, "The Clinton Administration," *United States Institute of Peace*, accessed April 25, 2019. (https://iranprimer.usip.org/resource/clinton-administration)
46. Message from President Clinton to President Khatami, June 1999, accessed via the Clinton Presidential Library. (https://nsarchive2.gwu.edu/NSAEBB/NSAEBB318/doc02.pdf)
47. Bruce O. Riedel, "The Clinton Administration," *United States Institute of Peace*, accessed April 25, 2019. (https://iranprimer.usip.org/resource/clinton-administration); Kenneth Katzman, "Iran: U.S. Policy and Options," *Congressional Research Service*, January 14, 2000. (https://apps.dtic.mil/dtic/tr/fulltext/u2/a476007.pdf)
48. Stephen J. Hadley, "The George W. Bush Administration," *United States Institute of Peace*, accessed April 25, 2019. (https://iranprimer.usip.org/resource/george-w-bush-administration)
49. International Atomic Energy Agency, "Communication dated 26 November 2004 received from the Permanent Representatives of France, Germany, the Islamic Republic of Iran and the United Kingdom concerning the agreement signed in Paris on 15 November 2004," November 26, 2004. (https://www.iaea.org/sites/default/files/publications/documents/infcircs/2004/infcirc637.pdf)
50. United Nations Security Council, Resolution 1696, July 31, 2006. (http://unscr.com/en/resolutions/doc/1696); United Nations Security Council, Resolution 1737, December 27, 2006. (http://unscr.com/en/resolutions/doc/1737); United Nations Security Council, Resolution 1747, March 24, 2007. (http://unscr.com/en/resolutions/doc/1747); United Nations Security Council, Resolution 1803, March 3, 2008. (http://unscr.com/en/resolutions/doc/1803); United Nations Security Council, Resolution 1835, September 27, 2008. (http://unscr.com/en/resolutions/doc/1835)

In 2007, the U.S. designated Iran's Islamic Revolutionary Guard Corps (IRGC) for proliferation concerns, and the IRGC's Quds Force for supporting terrorism.[51] Washington also designated Iranian state-owned banks and persuaded more than 80 financial institutions to restrict their business with Iran.[52] In 2012, the EU Council removed Iranian banks from the Society for Worldwide Interbank Financial Telecommunication (SWIFT) financial messaging service.[53]

Omani officials, meanwhile, continually advised against sanctions on Iran, insisting that dialogue was the way to resolve conflicts.[54] As a former Omani diplomat put it, "Iran is a big neighbor, and it is there to stay."[55] This position may have been driven as much by fear as a desire for peace. In the late 1990s, Oman uncovered a network of individuals in the country that was reportedly transmitting sensitive documents to Iran and potentially working to overthrow the Omani government in favor of an Islamist regime.[56]

For decades, U.S. officials viewed the Omani-Iranian relationship as "largely non-substantive," and therefore not a threat to U.S. interests. By 2008, however, American officials noted an increase in Omani-Iranian economic, political, and military relations.[57]

Oman began taking a larger role in diplomacy on behalf of Iran in the 2010s. Following the storming of its embassy in Tehran in 2011, the UK downgraded diplomatic relations with Iran. Under a protecting power arrangement, Oman represented Iran's interest in London until relations resumed in 2014.[58] Similarly, Canada closed its embassy in Tehran in 2012, with Canadian Foreign Minister John Baird calling Iran a threat to global security. The following year, the Canadian Foreign Ministry named Oman "the protector of Iran's interests in Canada."[59]

All the while, Oman has maintained close ties with the United States. In addition to signing a Free Trade Agreement with Washington in 2006,[60] Oman has cooperated with the U.S. on terrorism-related issues

51. U.S. Department of the Treasury, "Fact Sheet: Designation of Iranian Entities and Individuals for Proliferation Activities and Support for Terrorism," October 25, 2007. (https://www.treasury.gov/press-center/press-releases/pages/hp644.aspx)
52. Robin Wright, "Stuart Levey's War," *The New York Times*, October 31, 2008. (https://www.nytimes.com/2008/11/02/magazine/02IRAN-t.html)
53. Society for Worldwide Interbank Financial Telecommunication (SWIFT), "SWIFT instructed to disconnect sanctioned Iranian banks following EU Council decision," March 15, 2012. (https://www.swift.com/insights/press-releases/swift-instructed-to-disconnect-sanctioned-iranian-banks-following-eu-council-decision)
54. "Scenesetter for Secretary of Defense Robert Gates' Visit to Oman," *WikiLeaks Cable: 07MUSCAT1079_a*, November 27, 2007. (https://wikileaks.org/plusd/cables/07MUSCAT1079_a.html); "Scenesetter for Assistant Secretary of Defense Mary Beth Long's Visit to Oman," *WikiLeaks Cable: 08MUSCAT776_a*, November 12, 2008. (https://wikileaks.org/plusd/cables/08MUSCAT776_a.html); "Scenesetter for General Petraeus' Visit to Oman," *WikiLeaks Cable: 09MUSCAT797_a*, July 22, 2009. (https://wikileaks.org/plusd/cables/09MUSCAT797_a.html)
55. Michael Slackman, "Oman Navigates Between Iran and Arab Nations," *The New York Times*, May 15, 2009. (https://www.nytimes.com/2009/05/16/world/middleeast/16oman.html)
56. Marc Valeri, *Oman: Politics and Society in the Qaboos State* (New York: Oxford University Press, 2013), page 192.
57. "Signs of Possible Change in Oman-Iran Relationship," *WikiLeaks Cable: 08MUSCAT445_a*, June 15, 2008. (https://wikileaks.org/plusd/cables/08MUSCAT445_a.html); "Scenesetter for Assistant Secretary of Defense Mary Beth Long's Visit to Oman," *WikiLeaks Cable: 08MUSCAT776_a*, November 12, 2008. (https://wikileaks.org/plusd/cables/08MUSCAT776_a.html)
58. Saeed Kamali Dehghan, "UK and Iran agree to re-establish direct diplomatic relations," *The Guardian* (UK), February 20, 2014. (https://www.theguardian.com/world/2014/feb/20/uk-iran-direct-diplomatic-relations)
59. "Oman to represent Iran's Canada interests," *Reuters*, October 22, 2013. (https://www.reuters.com/article/uk-iran-canada/oman-to-represent-irans-canada-interests-idUKBRE99L0FG20131022)
60. Executive Office of the President, Office of the United States Trade Representative, "Oman FTA: Final Text," 2006. (https://ustr.gov/trade-agreements/free-trade-agreements/oman-fta/final-text)

and has participated in U.S. counterterrorism training programs.[61] Washington and Muscat have renewed the Oman Facilities Access Agreement every 10 years, with the last renewal in 2010. This agreement allows the U.S. to request access to use Oman's airfields in Muscat, Thumrait, Masirah Island, and Musnanah. Oman grants most requests and allows the U.S. Air Force to store equipment at these bases. In 2000, the U.S. funded the upgrading of the Musnanah base, which cost $120 million. Washington used these air bases during Operation Enduring Freedom in Afghanistan and in Operation Iraqi Freedom in Iraq.[62]

Testifying in March 2018, Commander of USCENTCOM General Joseph Votel noted, "Oman's strategic location provides CENTCOM with key logistical, operational, and contingency capabilities; it provides important access in the form of over 5,000 aircraft overflights, 600 aircraft landings, and 80 port calls annually."[63]

"In addition to signing a Free Trade Agreement with Washington in 2006, Oman has cooperated with the U.S. on terrorism-related issues and has participated in U.S. counterterrorism training programs. Washington and Muscat have renewed the Oman Facilities Access Agreement every 10 years, with the last renewal in 2010."

In March 2019, Oman signed an agreement to allow the U.S. military to access facilities and ports in Duqm and Salalah. Importantly, Duqm has the capacity to handle large ships and aircraft carriers. The ports also provide the U.S. military with access to overland routes that would enable American forces to reach the Gulf without transiting the Strait of Hormuz.[64]

Increased Economic Ties to Iran

Despite its growing defense ties with the United States, Omani economic ties with Iran expanded in the 2000s and early 2010s, even at a time when U.S. sanctions were highly restrictive.

Oman's gas output doubled from 2001 to 2010, but the country's gas consumption also soared by 180 percent in that timeframe, limiting the amount Oman could export. Moreover, starting in 2012, Oman's gas production, which constituted 10 percent of the government's revenue, began to decrease.[65] By 2012, Oman's liquefied natural gas (LNG) plants were running at 80 percent capacity, producing 8.4 million tons out of a possible 10.4 million tons.[66]

Iran, on the other hand, has the world's second largest natural gas reserves[67] but no LNG facilities for the gas it produces. Oman agreed to purchase Iranian gas as early as 2005. In 2007, the two countries drafted

61. "Scenesetter for Secretary of Defense Robert Gates' Visit to Oman," *WikiLeaks Cable: 07MUSCAT1079_a*, November 27, 2007. (https://wikileaks.org/plusd/cables/07MUSCAT1079_a.html)
62. Kenneth Katzman, "Oman: Reform, Security, and U.S. Policy," *Congressional Research Service*, March 28, 2019. (https://fas.org/sgp/crs/mideast/RS21534.pdf)
63. U.S. Central Command Commander General Joseph L. Votel, "The Posture of U.S. Central Command," *Testimony before the Senate Armed Services Committee*, March 13, 2018, page 32. (https://www.armed-services.senate.gov/imo/media/doc/Votel_03-13-18.pdf)
64. Phil Stewart, "With an eye on Iran, U.S. clinches strategic port deal with Oman," *Reuters*, March 24, 2019. (https://www.reuters.com/article/us-usa-oman-military/with-an-eye-on-iran-u-s-clinches-strategic-port-deal-with-oman-idUSKCN1R50JD)
65. "FEATURE-Oman eyes broader role for private sector to create jobs, diversify from oil," *Reuters*, December 12, 2012. (https://www.reuters.com/article/oman-economy/feature-oman-eyes-broader-role-for-private-sector-to-create-jobs-diversify-from-oil-idUSL5E8NA0BF20121212)
66. Daniel Fineren, "Oman signs MoU to import Iranian gas," *Reuters*, August 27, 2013. (https://www.reuters.com/article/uk-iran-oman-idUKBRE97Q0EE20130827)
67. U.S. Energy Information Administration, "Proved Reserves of Natural Gas – 2018," accessed April 25. (https://www.eia.gov/beta/international)

Map of Khasab, Oman, separated from the rest of Oman by 70 kilometers of UAE territory. Khasab juts into the Straight of Hormuz, with its narrowest point only 34 kilometers from Iran.

(but never finalized) a deal whereby Oman would import 1 billion cubic feet per day of gas from Iran for domestic use. The deal further stipulated that Oman would process 2 million metric tons per year of LNG for export. Importing Iran's natural gas for domestic use would allow Oman to use more of its own natural gas for export. The U.S. opposed the deal and pressured Oman to obtain gas from Qatar instead. Oman did begin importing gas from Qatar in 2007,[68] but these imports did not satiate Oman's growing demand.

In the meantime, while Oman complied with UN sanctions on specific entities associated with Iran's nuclear and ballistic missile programs, it left the door open for other commerce with Iran. Between 2012 and 2013, Oman's bilateral trade with Iran increased by 56 percent to $884 million. Trade decreased by the end of 2014 to $350 million.[69]

Problematic Iranian companies took advantage of Oman's willingness to engage in commerce. For example, Kayson Al Omania was established in 2010 as a subsidiary of Iran's

68. Daniel Fineren, "Oman signs MoU to import Iranian gas," *Reuters*, August 27, 2013. (https://www.reuters.com/article/uk-iran-oman-idUKBRE97Q0EE20130827); "Scenesetter for Assistant Secretary of Defense Mary Beth Long's Visit to Oman," *WikiLeaks Cable: 08MUSCAT776_a*, November 12, 2008. (https://wikileaks.org/plusd/cables/08MUSCAT776_a.html); "Scenesetter for General Petraeus' Visit to Oman," *WikiLeaks Cable: 09MUSCAT797_a*, July 22, 2009. (https://wikileaks.org/plusd/cables/09MUSCAT797_a.html)
69. The World Bank, "Oman Product exports and imports from Iran, Islamic Rep. 2012," accessed April 25, 2019. (https://wits.worldbank.org/CountryProfile/en/Country/OMN/Year/2012/TradeFlow/EXPIMP/Partner/IRN/Product/all-groups); The World Bank, "Oman Product exports and imports from Iran, Islamic Rep. 2013," accessed April 25, 2019. (https://wits.worldbank.org/CountryProfile/en/Country/OMN/Year/2013/TradeFlow/EXPIMP/Partner/IRN/Product/all-groups); The World Bank, "Oman Product exports and imports from Iran, Islamic Rep. 2014," accessed April 25, 2019. (https://wits.worldbank.org/CountryProfile/en/Country/OMN/Year/2014/TradeFlow/EXPIMP/Partner/IRN/Product/all-groups)

Kayson, Inc. Though not sanctioned in the U.S., Kayson was added to the UK Export Control Organization's Iran list in October 2013 due to concern over the company's connections to Iran's WMD program.[70]

Additionally, the Omani government failed – or neglected – to prevent Omanis living in the coastal town of Khasab from taking advantage of smuggling opportunities to Iran. Khasab is the capital of Oman's Musandam governorate, which is separated from the rest of Oman by 70 kilometers of UAE territory. It is located on the tip of a peninsula that juts into the Strait of Hormuz, with its narrowest point only 34 kilometers from Iran.

Omanis and Iranians have smuggled goods between Khasab and Iran since the Iranian Revolution in 1979, mostly to avoid customs and taxes. The smuggling significantly expanded after the UN began imposing sanctions on Iran in 2006.[71] Goods such as clothing, electronics, household appliances, pharmaceuticals, automobiles and automobile parts, and other luxury items – often shipped from the UAE – were loaded onto speedboats that crossed the Strait of Hormuz to the Iranian island of Qeshm.[72] The speedboats often returned with goats and, sometimes more covertly, drugs and undocumented migrants.[73] The trip can be made in under an hour, and some speedboats make up to five trips a day.[74]

Interestingly, while Iran considered this illegal since the smugglers avoided Iranian taxes, Muscat regulated the activity. The local government collected taxes on all the goods and even coordinated the deliveries.[75] This smuggling continues today.[76]

Secret Negotiations

Barack Obama's election as president in 2008 heralded a significant shift in U.S. foreign policy, as Obama initiated diplomatic outreach to Iran.[77] This afforded Oman an opportunity to broaden its ties with both countries. The idea of Oman serving as a conduit for Iran-U.S. ties was not without precedent, as Oman's foreign minister had delivered messages to Iranian

70. UK Department for Business Innovation & Skills, "Iran List (last amended 23 October 2013), accessed via *Wayback Machine* on April 25, 2019. (https://web.archive.org/web/20141224062106/https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/252343/iran-list-oct-13.pdf)

71. Juliane von Mittelstaedt, "Smuggler's Paradise: Iran Sanctions Good for Business in Tiny Omani Port," *Spiegel Online* (Germany), January 20, 2012. (http://www.spiegel.de/international/world/smuggler-s-paradise-iran-sanctions-good-for-business-in-tiny-omani-port-a-810165.html)

72. Michael Slackman, "Oman Navigates Between Iran and Arab Nations," *The New York Times*, May 15, 2009. (https://www.nytimes.com/2009/05/16/world/middleeast/16oman.html); Juliane von Mittelstaedt, "Smuggler's Paradise: Iran Sanctions Good for Business in Tiny Omani Port," *Spiegel Online* (Germany), January 20, 2012. (http://www.spiegel.de/international/world/smuggler-s-paradise-iran-sanctions-good-for-business-in-tiny-omani-port-a-810165.html); "کوچ تجار ایرانی از دوبی به روستای « خصب » عمان (The Migration of Iranian Merchants from Dubai to the Village of 'Khasab')," *Afkar News* (Iran), July 13, 2013. (https://www.afkarnews.com/بخش-اقتصادی-4/245298-کوچ-تجار-ایرانی-از-دوبی-به-روستای-خصب-عمان); "قاچاق راحت، تحریم‌های سخت: عامل انتقال ثروت تجار ایرانی از دوبی به خصب (Easy Smuggling, Hard Sanctions: The Reason for the Transfer of the Wealth of Iranian Merchants From Dubai to Khasab)," *France 24*, July 9, 2013. (https://observers.rfi.fr/fa/20130709-khasab-qeshm-oman-iran-traffic-dubai-sanction)

73. Alexander Balas, "The smugglers of Musandam," *The Lowy Institute*, November 14, 2017. (https://www.lowyinstitute.org/the-interpreter/smugglers-musandam)

74. Michael Slackman, "Oman Navigates Between Iran and Arab Nations," *The New York Times*, May 15, 2009. (https://www.nytimes.com/2009/05/16/world/middleeast/16oman.html); Juliane von Mittelstaedt, "Smuggler's Paradise: Iran Sanctions Good for Business in Tiny Omani Port," *Spiegel Online* (Germany), January 20, 2012. (http://www.spiegel.de/international/world/smuggler-s-paradise-iran-sanctions-good-for-business-in-tiny-omani-port-a-810165.html)

75. Michael Slackman, "Oman Navigates Between Iran and Arab Nations," *The New York Times*, May 15, 2009. (https://www.nytimes.com/2009/05/16/world/middleeast/16oman.html)

76. Alexander Balas, "The smugglers of Musandam," *The Lowy Institute*, November 14, 2017. (https://www.lowyinstitute.org/the-interpreter/smugglers-musandam)

77. "Transcript of second McCain, Obama debate," *CNN*, October 7, 2008. (http://www.cnn.com/2008/POLITICS/10/07/presidential.debate.transcript)

leaders from President Clinton.[78] Oman revived its role as interlocutor in 2009, when Omani Foreign Minister Yusuf bin Alawi told U.S. Ambassador to Oman Richard Schmierer, "Oman can arrange any meeting you want and provide the venue - if it is totally discrete."[79] That year, Oman established a backchannel, passing messages between Washington and Tehran.[80]

The sultanate then went even further to bring about a nuclear deal. Seeking to foster goodwill on both sides, Sultan Qaboos' economic advisor, Salem ben Nasser al Ismaily, facilitated the return of detainees in both countries. Ismaily negotiated the release in 2010 of three American hikers who allegedly crossed illegally from Iraq into Iran; Oman paid $500,000 per hiker in ransom. Ismaily also facilitated the return of four Iranian criminals: convicted smuggler Amir Hossein Seirafi; Shahrzad Mir Gholikan, whom a U.S. court convicted and sentenced for illegally exporting night vision equipment from Europe to Iran; Nosratollah Tajik, a former ambassador to Jordan whom the U.S. tried to extradite from the UK for seeking to export night vision equipment to Iran; and scientist Mojtaba Atarodi, a professor at Tehran's sanctioned Sharif University, whom a U.S. court convicted for shipping banned items to Iran.[81]

Ismaily continued to engage with the State Department, ultimately convincing Obama officials to travel to Oman to learn more about the sultan's vision for a U.S.-Iran dialogue. Senator John Kerry undertook several visits, as well.[82]

Direct talks between U.S. and Iranian officials began in 2012 in Muscat, and soon included members of the P5+1.[83] They reached an interim nuclear agreement, known as the Joint Plan of Action (JPOA), in November 2013; it went into effect in January 2014.

The final nuclear agreement, known as the Joint Comprehensive Plan of Action (JCPOA), was agreed upon in July 2015 and went into effect in January 2016. The deal was highly controversial, as it unlocked more than $100 billion in frozen funds, which Tehran could use to fund regional terror networks and other malign behavior.[84] The deal was also controversial because it included "sunset provisions" on key restrictions, making it possible for Iran to develop nuclear weapons roughly a decade after the deal's implementation.[85]

As part of the deal, Iran was not allowed to have more than 130 metric tons of heavy water, a material used in reactors to produce plutonium. In November 2016, after exceeding that limit twice, Iran sent its excess heavy water to Oman.[86] In May 2019, the Trump administration revoked the waiver permitting this.[87]

78. Jeremy Jones and Nicholas Ridout, *A History of Modern Oman* (New York: Cambridge University Press, 2015), page 242.
79. "Oman – FM's Views on Iran Issues," *WikiLeaks Cable: 09MUSCAT1067_a*, December 7, 2009. (https://wikileaks.org/plusd/cables/09MUSCAT1067_a.html)
80. Jay Solomon, "Secret Dealings With Iran Led to Nuclear Talks," *The Wall Street Journal*, June 28, 2015. (https://www.wsj.com/articles/iran-wish-list-led-to-u-s-talks-1435537004)
81. Ibid.
82. Mark Lander, *Alter Egos: Hillary Clinton, Barack Obama, and the Twilight Struggle Over American Power* (New York: Random House, 2016), pages 239-249.
83. Jay Solomon, "Secret Dealings With Iran Led to Nuclear Talks," *The Wall Street Journal*, June 28, 2015. (https://www.wsj.com/articles/iran-wish-list-led-to-u-s-talks-1435537004); "ناگفته های صالحی از مذاکرات محرمانه در عمان/ پادشاه عمان چه نامه محرمانه رسمی را به رهبری داد؟" (Salehi's Untold Statements About The Secret Negotiations in Oman/What Official Secret Letter Did The King of Oman Send to The Leader?), *Khabar Online* (Iran), August 4, 2015. (https://www.khabaronline.ir/news/443155/ناگفته-های-صالحی-از-مذاکرات-محرمانه-در-عمان-پادشاه-عمان-چه-نامه)
84. David Makovsky and Matthew Levitt, "Keeping Iran's Feet to the Fire," *Foreign Policy,* July 14, 2015. (https://foreignpolicy.com/2015/07/14/the-nuclear-deal-doesnt-mean-the-end-of-sanctions-iran)
85. Mark Dubowitz, "How to Get a Better Deal With Iran," *Foreign Policy,* August 17, 2015. (https://foreignpolicy.com/2015/08/17/how-to-get-a-better-deal-with-iran-congress-reject-nuclear-treaty)
86. "Iran has shipped 'surplus' heavy water to Oman," *Reuters,* November 20, 2016. (https://www.reuters.com/article/iran-nuclear-oman-idINKBN13G09G)
87. Nick Wadhams, "U.S. to Extend Key Waivers Linked to Iran's Nuclear Program," *Bloomberg,* May 3, 2019. (https://www.bloomberg.com/news/articles/2019-05-03/us-iran-waivers)

After the JCPOA was negotiated, Sultan Qaboos worked to sell it to the rest of the skeptical Arab world.[88] Oman's neighbors were disdainful of the deal, and of Oman for helping to broker such an agreement.

GCC Trepidations

Muscat's growing relations with Tehran have coincided with rising tensions between Oman and the other GCC members. In particular, Saudi Arabia and the UAE's antipathy toward Iran contrasts sharply with Oman's partnership.

Saudi Arabia has viewed Iran as a threat since the Iranian Revolution and has often tried to pressure the other GCC states to align with its Iran policy.[89] In the UAE, Dubai has traditionally enjoyed strong trade relations with Tehran, but Abu Dhabi's tougher Iranian stance has guided the UAE's Iran policy in recent years.[90]

Oman has expressed some concern about Iran exporting its Islamic revolutionary ideology. However, Muscat views Saudi religious figures spreading their ultraconservative Islamist approach as a danger to Omani stability as well.[91] A majority of Omanis adhere to Ibadism, a minority branch of Islam that is neither Sunni nor Shiite. This may explain why Oman has avoided the sectarian conflict that has traditionally pitted Sunnis against Shiites in the Gulf.[92]

In a region that often identifies allies by their enemies, the Saudis and Emiratis are deeply skeptical of Oman's relations with Iran. In 2011, Oman claimed to have uncovered a UAE spy network seeking information on Oman's relationship with Iran and Omani succession.[93] Oman soon distanced itself from Saudi Arabia and the UAE by first facilitating the meetings – without notifying Riyadh or Abu Dhabi – that ultimately resulted in the JCPOA, and then by refusing to join Saudi Arabia's proposals to turn the GCC into a military or political union.[94] In 2018, both Riyadh and Abu Dhabi supported President Trump's withdrawal from the JCPOA.[95]

Another significant area of strain between Oman and the UAE concerns territorial borders. The two countries only finalized their shared border in 2008, nearly a decade after their 1999 tentative border arrangement.[96] But UAE territorial purchases in Oman along the border and in Oman's southern Dhofar

88. Jay Solomon, "Oman Stands in the U.S.'s Corner on Iran Deal," *The Wall Street Journal*, December 29, 2013. (https://www.wsj.com/articles/oman-stands-in-us8217s-corner-on-iran-deal-1388364205)
89. Jonathan Marcus, "Why Saudi Arabia and Iran are bitter rivals," *BBC* (UK), November 18, 2017. (https://www.bbc.com/news/world-middle-east-42008809); Tom Finn, "On Iran-Saudi rift, Gulf Arab states tread with caution," *Reuters*, January 11, 2016. (https://www.reuters.com/article/us-saudi-iran-gulf-states-idUSKCN0UP1TL20160111)
90. Ladane Nasseri, "Trump's Success in Isolating Iran Can Be Seen on a Dubai Menu," *Bloomberg*, October 30, 2018. (https://www.bloomberg.com/news/articles/2018-10-31/trump-s-success-in-isolating-iran-can-be-seen-on-a-dubai-menu)
91. Michael Slackman, "Oman Navigates Between Iran and Arab Nations," *The New York Times*, May 15, 2009. (https://www.nytimes.com/2009/05/16/world/middleeast/16oman.html)
92. Giorgio Cafiero, "What the Arab World Can Learn from Oman," *The Huffington Post*, September 3, 2015. (https://www.huffpost.com/entry/what-the-arab-world-can-learn-from-oman_b_8074584)
93. "Oman uncovers 'spy network but UAE denies any links," *BBC* (UK), January 31, 2011. (https://www.bbc.com/news/world-middle-east-12320859)
94. Jay Solomon, "Oman Stands in U.S.'s Corner on Iran Deal," *The Wall Street Journal*, December 29, 2013. (https://www.wsj.com/articles/oman-stands-in-us8217s-corner-on-iran-deal-1388364205); "Oman says no to GCC political union," *The Economist*, December 12, 2013. (http://country.eiu.com/article.aspx?articleid=1851330369&Country=Oman&topic=Politics&subtopic=For_4)
95. Joyce Karam, "UAE, Saudi Arabia and Bahrain welcome Trump's exit from Iran nuclear deal," *The National* (UAE), May 9, 2018. (https://www.thenational.ae/world/mena/uae-saudi-arabia-and-bahrain-welcome-trump-s-exit-from-iran-nuclear-deal-1.728557)
96. Kenneth Katzman, "Oman: Reform, Security, and U.S. Policy," *Congressional Research Service*, March 28, 2019. (https://fas.org/sgp/crs/mideast/RS21534.pdf)

province have kept tensions high.[97] Furthermore, the UAE's Louvre Abu Dhabi Museum displayed a map in 2017 that depicted Oman's Musandam governate as UAE territory (and a different map in the museum omitted the Qatar peninsula altogether).[98] Oman's concerns about the UAE's territorial ambitions in the region led it to prohibit GCC nationals from owning territory near border areas.[99]

Tensions within the GCC worsened even further in 2017 when Saudi Arabia and the UAE, along with Bahrain and Egypt, imposed a blockade on Qatar for allegedly supporting terrorism and maintaining close relations with Iran. This sparked fears that Riyadh and Abu Dhabi might subject Oman to similar treatment, though they have not made such threats.[100] President Trump's apparent support for the blockade[101] also likely shocked Muscat, given that Qatar has close relations with the U.S. diplomatically and militarily. The U.S. has since called for an end to the conflict.[102]

Oman has defiantly maintained diplomatic relations with Qatar. To the chagrin of the Saudis and Emiratis, Oman has also expanded economic ties, with trade between the two countries soaring by 2,000 percent – worth approximately $702 million – in the first three months of the blockade.[103] Barred from the quartet's air and sea space, Qatar has relocated its flights and transshipment hub from Dubai to Oman's Sohar and Salalah ports.[104] The sultanate has seen its re-exports to Qatar increase significantly since the start of the blockade,[105] and the two countries signed a memorandum of understanding in January 2018 to deepen economic and trade ties.[106]

"Oman has defiantly maintained diplomatic relations with Qatar. To the chagrin of the Saudis and Emiratis, Oman has also expanded economic ties, with trade between the two countries soaring by 2,000 percent – worth approximately $702 million – in the first three months of the blockade."

Kuwait has led mediation efforts to resolve the conflict, with support from Oman. However, Omani Foreign Minister Yusuf bin Alawi is not optimistic that there will be a resolution anytime soon.[107] As its concerns

97. Stacey Philbrick Yadav, "Oman is a mediator in Yemen. Can it play the same role in Qatar?" *The Washington Post*, July 22, 2017. (https://www.washingtonpost.com/news/monkey-cage/wp/2017/07/22/oman-is-a-mediator-in-yemen-can-it-play-the-same-role-in-qatar)
98. "UAE 'annexes Oman territory' on new Louvre museum map," *Al-Jazeera* (Qatar), January 22, 2018. (https://www.aljazeera.com/news/2018/01/uae-annexes-oman-territory-louvre-museum-map-180122060843418.html)
99. Ali Al Matani, "New decree to protect Oman's properties," *Oman Daily Observer*, November 28, 2018. (http://www.omanobserver.om/new-decree-to-protect-omans-properties/)
100. Sanam Vakil, "Iran and the GCC: Hedging, Pragmatism and Opportunism," *Chatham House*, September 2018. (https://www.chathamhouse.org/sites/default/files/publications/research/2018-09-13-iran-gcc-vakil.pdf)
101. Patrick Wintour, "Donald Trump tweets support for blockade imposed on Qatar," *The Guardian* (UK), June 6, 2017. (https://www.theguardian.com/world/2017/jun/06/qatar-panic-buying-as-shoppers-stockpile-food-due-to-saudi-blockade)
102. Gardiner Harris, "Pompeo's Message to Saudis? Enough Is Enough: Stop Qatar Blockade," *The New York Times*, April 28, 2018. (https://www.nytimes.com/2018/04/28/world/middleeast/mike-pompeo-saudi-arabia-qatar-blockade.html)
103. Paul McLoughlin, "Oman sees trade boost following Qatar blockade," *The New Arab* (UK), September 10, 2017. (https://www.alaraby.co.uk/english/news/2017/9/10/oman-sees-trade-boost-following-qatar-blockade)
104. Saleh Al Shaibany, "Qatar Airways transfers Dubai flights to Oman's Sohar airport," *The National* (UAE), July 18, 2017. (https://www.thenational.ae/world/gcc/qatar-airways-transfers-dubai-flights-to-oman-s-sohar-airport-1.610088); Paul McLoughlin, "Oman sees trade boost following Qatar blockade," *The New Arab* (UK), September 10, 2017. (https://www.alaraby.co.uk/english/news/2017/9/10/oman-sees-trade-boost-following-qatar-blockade)
105. "Qatar emerges as a key trading partner of Oman," *Times of Oman*, January 28, 2018. (http://timesofoman.com/article/127058)
106. "Oman, Qatar sign MoU on joint food sector projects and export," *Times of Oman*, January 28, 2018. (http://timesofoman.com/article/127081)
107. Habib Toumi, "Oman: No solution in sight for Qatar crisis," *Gulf News* (Saudi Arabia), March 19, 2019. (https://gulfnews.com/world/gulf/oman/oman-no-solution-in-sight-for-qatar-crisis-1.62767417)

over Saudi and Emirati policies mount, Oman appears to be moving closer to Tehran, both politically and economically, further straining the regional divide.

Granting Iran Financial Access

In the aftermath of the nuclear deal, a U.S. Senate Permanent Subcommittee on Investigations Majority Report, released in 2018, found that Oman's assistance to Iran continued long after negotiations concluded.

Under the JPOA, Iran deposited $8.8 billion from oil revenue into an account at Bank Muscat. The bank repatriated about $2.4 billion in Emirati dirham banknotes and about $600 million in Omani rial banknotes to Iran, leaving $5.7 billion in the account. With the finalization of the JCPOA, Iran was allowed to access its previously frozen assets. Tehran wanted to convert its $5.7 billion in Omani rials into euros. However, because the Omani rial's value is pegged to the U.S. dollar, such a conversion required the rials to first be converted into U.S. dollars, which was still prohibited under U.S. sanctions.[108] Indeed, Secretary of the Treasury Jacob Lew testified in July 2015, "Iranian banks will not be able to clear U.S. dollars through New York."[109] In 2016, Adam Szubin, Treasury's acting under secretary for terrorism and financial intelligence, further testified, "let me also say clearly that we have not promised, nor do we have any plans, to give Iran access to the U.S. financial system, or to reinstate what's called the 'U-turn' authorization."[110]

Nonetheless, in an attempt to assist Iran in accessing these funds, Bank Muscat contacted the U.S. Treasury Department's Office of Foreign Asset Control (OFAC). In February 2016, Treasury issued Bank Muscat a specific license, valid for one year, authorizing it to convert both Iran's rials and unlimited future Iranian deposits to euros through "any United States depository institution … involved as a correspondent bank." The license's inclusion of future Iranian deposits was at Bank Muscat's request, as the bank was concerned that Iran would withdraw its $5.7 billion, negatively affecting the bank's balances. In an attempt to gain an economic advantage, the director of OFAC noted that Oman asked "to be the only jurisdiction to control the flow of Iranian funds into the international financial system," though OFAC refused this request.[111]

OFAC officials contacted two American banks that maintained correspondent relationships with Bank Muscat "to encourage their participation with Bank Muscat," but both declined due to the legal and compliance risks, as well as reputational concerns in doing business with Iran.[112]

In April 2017, a German commercial bank proposed lending the Central Bank of Iran euros and allowing repayment with Omani rials, thus avoiding any conversions into U.S. dollars and avoiding the U.S. financial system. OFAC sent the German bank a comfort letter, indicating approval of the proposed transaction. A senior State Department official believes that Bank Muscat and Iran converted the $5.7 billion using European banks and in small increments.[113]

108. U.S. Senate, Permanent Subcommittee on Investigations, "Majority Staff Report: Review of U.S. Treasury Department's License to Convert Iranian Assets Using the U.S. Financial System," June 6, 2018. (https://www.hsgac.senate.gov/imo/media/doc/2018-06-06%20PSI%20Majority%20Staff%20Report.pdf)
109. Secretary of the Treasury Jacob J. Lew, *Testimony before the Senate Committee on Foreign Relations*, July 23, 2015. (https://www.foreign.senate.gov/imo/media/doc/07-23-15%20Lew%20Testimony.pdf)
110. Treasury Acting Under Secretary for Terrorism and Financial Intelligence Adam J. Szubin, "Iran Nuclear Deal Oversight: Implementation and its Consequences (Part II)," *Testimony before the House Committee on Foreign Affairs*, May 25, 2016. (https://docs.house.gov/meetings/FA/FA00/20160525/104985/HHRG-114-FA00-Wstate-SzubinA-20160525.pdf)
111. U.S. Senate, Permanent Subcommittee on Investigations, "Majority Staff Report: Review of U.S. Treasury Department's License to Convert Iranian Assets Using the U.S. Financial System," June 6, 2018. (https://www.hsgac.senate.gov/imo/media/doc/2018-06-06%20PSI%20Majority%20Staff%20Report.pdf)
112. Ibid.
113. Ibid.

Deepening Economic Ties

Following the implementation of the JCPOA, the U.S. and its European partners actively encouraged investment in Iran. By the end of 2016, bilateral trade between Oman and Iran rose to $886 million and reached over $1 billion by the end of 2017.[114]

As expected, Oman and Iran renewed plans dating back to 2007 to build an LNG pipeline between their countries.[115] In 2013, with nuclear negotiations between Iran and the world powers underway, the two countries signed a memorandum of understanding for Iran to begin exporting gas to Oman in 2015 for 25 years, a deal valued at around $60 billion. The deal also included an agreement for a gas pipeline between the two countries "as soon as possible."[116] Iranian media reported in November 2016 that representatives from the National Iranian Gas Export Company and Oman Ministry of Petroleum met with representatives of French Total, British Royal Dutch Shell, and Korea Gas Corp to discuss the project.[117] In February 2017, Iranian officials further emphasized their plans to export gas to Oman by 2020.[118]

Muscat additionally sought to make it easier for Iran to conduct business in Oman. While Oman used to vigorously vet all Iranian visa applications,[119] the sultanate agreed in March 2016 to issue 1,000 visas for Iranian businesspersons per year. Furthermore, the chairman of the Oman Chamber of Commerce and Industry said he did not think the government should confine the number of visas, noting, "If there is a need for 10,000 visas, let us issue 10,000 visas."[120] As of May 2018, Iranian tourists no longer need a pre-entry tourist visa to visit Oman.[121]

After the implementation of the JCPOA, Oman and Iran were quick to strengthen banking relations. In February 2016, the head of Iran's Central Bank said, "We will not forget the support of the country of Oman during the difficult time of sanctions, and

114. The World Bank, "Oman Product exports and imports from Iran, Islamic Rep. 2016," accessed April 25, 2019. (https://wits.worldbank.org/CountryProfile/en/Country/OMN/Year/2016/TradeFlow/EXPIMP/Partner/IRN/Product/all-groups); The World Bank, "Oman Product exports and imports from Iran, Islamic Rep. 2017," accessed April 25, 2019. (https://wits.worldbank.org/CountryProfile/en/Country/OMN/Year/2017/TradeFlow/EXPIMP/Partner/IRN/Product/all-groups)

115. Rania El Gamal, "Oman to speed up gas import plans from Iran post-sanctions," *Reuters*, January 21, 2016. (https://www.reuters.com/article/us-oman-iran-gas-idUSKCN0UZ1ER); "Oman, Iran renew agreement to build gas export pipeline," *Islamic Republic News Agency* (Iran), February 7, 2017. (http://www.irna.ir/en/News/82420494)

116. Daniel Fineren, "Oman signs MoU to import Iranian gas," *Reuters*, August 27, 2013. (https://www.reuters.com/article/uk-iran-oman-idUKBRE97Q0EE20130827); "عمان: پروژه خط لوله گازی با ایران ادامه خواهد یافت (Oman: The Gas Pipeline Project with Iran Will Continue)," *Iranian Students News Agency* (Iran), June 22, 2018. (https://www.isna.ir/news/97040100185/عمان-پروژه-خط-لوله-گازی-با-ایران-ادامه-خواهد-یافت); "Iran Ready to Develop Onshore Section of Gas Pipeline to Oman," *Financial Tribune* (Iran), January 14, 2018. (https://financialtribune.com/articles/energy/80050/iran-ready-to-develop-onshore-section-of-gas-pipeline-to-oman)

117. "Iran, Oman hold joint meeting with Total, Shell, KOGAS on gas exports," *Islamic Republic News Agency* (Iran), November 13, 2016. (http://www.irna.ir/en/News/82306894)

118. "گاز ایران سال 2020 به عمان می‌رسد (Iran's Gas Will Reach Oman By 2020)," *Shana* (Iran), February 7, 2017. (https://www.shana.ir/news/275612/گاز-ایران-سال-2020-به-عمان-می-رسد)

119. "Signs of Possible Change in Oman-Iran Relationship," *WikiLeaks Cable: 08MUSCAT445_a*, June 15, 2008. (https://wikileaks.org/plusd/cables/08MUSCAT445_a.html); Ahmad K. Majidyar, "Is sectarian balance in the United Arab Emirates, Oman, and Qatar at risk?" *American Enterprise Institute*, October 21, 2013. (http://www.aei.org/publication/is-sectarian-balance-in-the-united-arab-emirates-oman-and-qatar-at-risk)

120. "Oman agrees to issue 1,000 visas per annum for Iranian businessmen," *Times of Oman*, March 25, 2016. (http://timesofoman.com/article/80126)

121. Robert Anderson, "Oman adds China, Iran, Russia to visa on arrival list," *Gulf Business* (UAE), May 8, 2018. (http://gulfbusiness.com/oman-adds-china-iran-russia-to-visa-arrival-list). This builds on Iranian reports from June 2016 that visa-free travel was being considered between Qeshm in Iran and Khasab in Oman: "سفر از قشم به بندرخصب عمان بدون ویزا (Traveling from Qeshm Oman's Port of Khasab Without A Visa)," *Entekhab News* (Iran), June 3, 2016. (https://www.entekhab.ir/fa/news/272928/سفر-از-قشم-به-بندرخصب-عمان-بدون-ویزا)

we hope that … this friendship and cooperation is strengthened and by removing some obstacles we [can] facilitate banking connections in the two countries."[122] Bank Muscat received regulatory approval to open a representative office in Iran in April 2016.[123] In March 2017, the Central Bank of Oman and the Central Bank of Iran signed a memorandum of understanding to promote trade exchange and encourage investment.[124]

In May 2017, Iran's Bank Melli and Bank Saderat announced the resumption of operations in Muscat.[125] The U.S. Treasury had designated Bank Melli for involvement in Iran's nuclear and ballistic missile programs, and Bank Saderat for channeling funds to terrorist organizations on behalf of the Iranian government.[126] Both banks maintained branches in Oman after the U.S. imposed sanctions on them in 2007,[127] and it is unclear if they ever fully ceased operations. Bank Melli was delisted as part of the JCPOA,[128] but the U.S. re-imposed sanctions on it on November 5, 2018, pursuant to its withdrawal from the accord.[129] Bank Saderat was never delisted.

Oman and Iran found other ways to cooperate as well. In February 2014 – less than a month after the implementation of the JPOA – Iran announced it would invest $2 billion in the Omani ports of Sohar and Salalah, as well as $4 billion in the industrial port of Duqm. The Duqm investment would include establishing 100 large oil and gas tanks and an iron-smelting plant.[130]

On January 27, 2016 – just days after implementation of the JCPOA – an Omani sovereign wealth fund and Iran Khodro Industrial Group, Iran's largest automaker, signed a memorandum of understanding for a $200-million joint venture auto plant in Duqm.[131] The *Islamic Republic News Agency* reiterated their plans to launch the auto manufacturing plant in January 2017.[132] Iran has previously used its carmakers for overseas procurement for its nuclear and missile

122. "روابط بانکی ایران و عمان با رفع موانع، گسترش می یابد (By Removing Barriers, The Banking Relations of Iran and Oman Expand)," *Central Bank of Iran Website* (Iran), February 21, 2016. (https://www.cbi.ir/showitem/14360.aspx)
123. "Oman's Bank Muscat gets regulatory approvals to open in Iran," *Reuters*, April 5, 2016. (https://www.reuters.com/article/bank-muscat-iran-idUSL3N178154)
124. "Oman, Iran central banks sign pact," *Times of Oman* (Oman), March 12, 2017. (http://timesofoman.com/article/104773)
125. "Iran's Bank Melli, Bank Saderat to Reopen Oman Branches," *Financial Tribune* (Iran), May 23, 2017. (https://financialtribune.com/articles/economy-business-and-markets/65047/irans-bank-melli-bank-saderat-to-reopen-oman-branches)
126. U.S. Department of the Treasury, Press Release, "Fact Sheet: Designation of Iranian Entities and Individuals for Proliferation Activities and Support for Terrorism," October 25, 2007. (https://www.treasury.gov/press-center/press-releases/Pages/hp644.aspx)
127. U.S. Department of the Treasury, Financial Crimes Enforcement Network, "Guidance to Financial Institutions on the Continuing Money Laundering Threat Involving Illicit Iranian Activity," March 20, 2008. (https://www.fincen.gov/resources/advisories/fincen-advisory-fin-2008-a002)
128. U.S. Department of the Treasury, "JCPOA-related Designation Removals, JCPOA Designation Updates, Foreign Sanctions Evaders Removals, NS-ISA List Removals; 13599 List Changes," January 16, 2016. (https://www.treasury.gov/resource-center/sanctions/OFAC-Enforcement/Pages/updated_names.aspx)
129. U.S. Department of the Treasury, "Publication of Updates to OFAC's Specially Designated Nationals and Blocked Persons List and 13599 List Removals," November 5, 2018. (https://www.treasury.gov/resource-center/sanctions/OFAC-Enforcement/Pages/20181105_names.aspx)
130. "Iran's Rouhani in Oman to boost ties with longtime Gulf ally," *Agence France Presse* (France), March 12, 2014. (http://www.jordantimes.com/news/region/iran%E2%80%99s-rouhani-oman-boost-ties-longtime-gulf-ally)
131. Fatma Alarimi, "UPDATE 1-Oman fund, Iran's Khodro sign MoU for $200 mln auto venture," *Reuters*, January 27, 2016. (https://www.reuters.com/article/iran-trade-autos-oman-idUSL8N15B2PP)
132. "Tehran, Muscat to launch auto manufacturing plant," *Islamic Republic News Agency* (Iran), January 20, 2017. (http://www.irna.ir/en/News/82394768)

Map of ports in Oman and Iran

programs.[133] In 2010, Treasury sanctioned Iran Khodro's main shareholder, Industrial Development and Renovation Organization (IDRO) of Iran,[134] and the Obama administration imposed sanctions on the entire Iranian auto sector in 2013.[135] IDRO's designation was removed as part of the JCPOA[136] but was reinstated on November 5, 2018.[137]

Additionally, Iranian cement producer Hormozgan entered an agreement with an Omani company in May 2017 to establish a new cement company called Hormuz Al Anwar in Duqm.[138]

There have been no updates on the above-mentioned investments since they were announced. The return of sanctions on Iran makes it even less likely that these deals will come to fruition. Oman has instead turned to Chinese investment in its ports.[139]

However, beginning in 2016, Oman's Sohar and Salalah ports also began increasing their shipping links with Iran. The Iranian port city of Bandar Abbas opened a direct service with Sohar early that year.[140] In March, the Salalah port signed a memorandum of understanding with Bandar Abbas' Shahid Rajaee Port and the Shahid Beheshti Port in Chabahar.[141] According to Treasury, Shahid Rajaee "played a key role in facilitating the Government of Iran's weapons trade."[142] Under the 2016 agreement, the three ports will work together to increase trade and modernize the infrastructure of the two Iranian ports.[143] Following a May 2016 contract, India now operates the Chabahar port.[144]

133. Mark Dubowitz and Emanuele Ottolenghi, "Iran's Car Industry - A Big Sanctions Buster," *Forbes*, May 13, 2013. (https://www.forbes.com/sites/energysource/2013/05/13/irans-car-industry-a-big-sanctions-buster); Mark Dubowitz and Jonathan Schanzer, "The Real Value of Auto Sanctions Relief to Iran," *Foundation for Defense of Democracies*, December 9, 2013. (https://www.fdd.org/analysis/2013/12/09/the-real-value-of-auto-sanctions-relief-to-iran)
134. U.S. Department of the Treasury, Press Release, "Treasury Identifies 21 Entities Determined to be Owned or Controlled by the Government of Iran Treasury Exposes Iran's Foreign Trade Network, Identifies Entities Operating in Belarus, Germany, Iran, Italy, Japan and Luxembourg," August 3, 2010. (https://www.treasury.gov/press-center/press-releases/Pages/tg811.aspx)
135. U.S. Executive Order 13645, "Authorizing the Implementation of Certain Sanctions Set Forth in the Iran Freedom and Counter-Proliferation Act of 2012 and Additional Sanctions With Respect to Iran," June 3, 2013. (https://www.treasury.gov/resource-center/sanctions/Programs/Documents/13645.pdf)
136. U.S. Department of the Treasury, "JCPOA-related Designation Removals, JCPOA Designation Updates, Foreign Sanctions Evaders Removals, NS-ISA List Removals; 13599 List Changes," January 16, 2016. (https://www.treasury.gov/resource-center/sanctions/OFAC-Enforcement/Pages/updated_names.aspx)
137. U.S. Department of the Treasury, "Publication of Updates to OFAC's Specially Designated Nationals and Blocked Persons List and 13599 List Removals," November 5, 2018. (https://www.treasury.gov/resource-center/sanctions/OFAC-Enforcement/Pages/20181105_names.aspx)
138. "Al Anwar Inks Deal with Iranian Firm to Set Up Cement Plant," *Muscat Daily* (Oman), May 3, 2017. (https://www.muscatdaily.com/Archive/Business/Al-Anwar-inks-deal-with-Iranian-firm-to-set-up-cement-plant-50g7)
139. Nawied Jabarkhyl, "Oman counts on Chinese billions to build desert boomtown," *Reuters*, September 5, 2017. (https://www.reuters.com/article/us-oman-china-investment/oman-counts-on-chinese-billions-to-build-desert-boomtown-idUSKCN1BG1WJ)
140. Jonathan Saul, "Oman port targets bigger Iran shipping ties as market opens up," *Reuters*, February 29, 2016. (https://www.reuters.com/article/oman-iran-shipping-idUSL8N15R402)
141. "Salalah port signs deal with Iran for boosting bilateral trade," *Times of Oman*, March 6, 2016. (http://timesofoman.com/article/78861/Business/Economy/Salalah-port-signs-deal-with-Iran-for-boosting-bilateral-trade)
142. U.S. Department of the Treasury, Press Release, "Fact Sheet: Treasury Sanctions Major Iranian Commercial Entities," June 23, 2011. (https://www.treasury.gov/press-center/press-releases/Pages/tg1217.aspx)
143. "Salalah port signs deal with Iran for boosting bilateral trade," *Times of Oman*, March 6, 2016. (http://timesofoman.com/article/78861/Business/Economy/Salalah-port-signs-deal-with-Iran-for-boosting-bilateral-trade)
144. "Chabahar port begins commercial operations: Why Iran's port is important for India," *India Today*, January 8, 2019. (https://www.indiatoday.in/education-today/gk-current-affairs/story/india-takes-over-operations-chabahar-port-iran-importance-1426057-2019-01-08)

In early 2016, a ship of the Islamic Republic of Iran Shipping Lines (IRISL), Iran's national maritime carrier, made its first call to Sohar.[145] Treasury designated IRISL in 2008 for its illicit commerce activities on behalf of Iran's Ministry of Defense and Armed Forces Logistics (MODAFL), another designated entity.[146] Like IDRO, IRISL was delisted as part of the JCPOA[147] and relisted on November 5, 2018.[148]

In December 2017, Iran's *Mehr News* reported that Iran's Khorramshahr port also opened a shipping line with Sohar, with plans for more shipping lines between Sohar and both Chabahar and Bushehr, where Iran built a nuclear power plant. Additionally, the Omani ambassador to Iran noted, "a joint airline between the two sides is also on the agenda."[149]

Yemen Conflict

Amid increasing economic cooperation, reports surfaced that Iranian weapons shipments to the Houthis, a Shiite rebel movement in Yemen, were crossing through Oman. While there is no evidence of the Omani government engaging in weapons smuggling on behalf of Iran, U.S. and Gulf officials raised concerns that the Omani government was not taking enough measures to halt the flow of weapons.[150]

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Iran has long supported the Houthis with weapons, money, and training in their battle for control of war-torn Yemen. *The New York Times* reported in 2012 that Iranian aid to the Houthis resembled the weapons and training the Quds Force provided to insurgents in Iraq and to President Bashar al-Assad's regime in Syria.[151] Likewise, the *Financial Times* quoted a Hezbollah commander stating that the Houthis have trained with Hezbollah in Iran and Yemen. The *Financial Times* also noted that Houthi officials have reportedly visited Beirut, and the Houthi television channel al-Maseera is based in Beirut's Hezbollah-controlled suburbs.[152]

In 2013, the U.S. designated Khalil Harb, who was responsible for Hezbollah's activities in Yemen and for laundering currency to the country. The U.S. and

145. Jonathan Saul, "Oman port targets bigger Iran shipping ties as market opens up," *Reuters*, February 29, 2016. (https://www.reuters.com/article/oman-iran-shipping-idUSL8N15R402)
146. U.S. Department of the Treasury, Press Release, "Major Iranian Shipping Company Designated for Proliferation Activity," September 10, 2008. (https://www.treasury.gov/press-center/press-releases/Pages/hp1130.aspx)
147. U.S. Department of the Treasury, "JCPOA-related Designation Removals, JCPOA Designation Updates, Foreign Sanctions Evaders Removals, NS-ISA List Removals; 13599 List Changes," January 16, 2016. (https://www.treasury.gov/resource-center/sanctions/OFAC-Enforcement/Pages/updated_names.aspx)
148. U.S. Department of the Treasury, "Publication of Updates to OFAC's Specially Designated Nationals and Blocked Persons List and 13599 List Removals," November 5, 2018. (https://www.treasury.gov/resource-center/sanctions/OFAC-Enforcement/Pages/20181105_names.aspx)
149. "Iran, Oman inaugurate Khorramshahr-Sohar shipping line," *Mehr News* (Iran), December 30, 2017. (https://en.mehrnews.com/news/130773/Iran-Oman-inaugurate-Khorramshahr-Sohar-shipping-line)
150. Yara Bayoumy and Phil Stewart, "Exclusive: Iran steps up weapons supply to Yemen's Houthis via Oman – officials," *Reuters*, October 20, 2016. (https://www.reuters.com/article/us-yemen-security-iran/exclusive-iran-steps-up-weapons-supply-to-yemens-houthis-via-oman-officials-idUSKCN12K0CX); Eli Lake, "The CIA's Secret Talks With Obama's Arab Back Channel," *Bloomberg*, June 20, 2017. (https://www.bloomberg.com/view/articles/2017-06-20/the-cia-s-secret-talks-with-obama-s-arab-back-channel)
151. Eric Schmitt and Robert F. Worth, "With Arms for Yemen Rebels, Iran Seeks Wider Mideast Role," *The New York Times*, March 15, 2012. (https://www.nytimes.com/2012/03/15/world/middleeast/aiding-yemen-rebels-iran-seeks-wider-mideast-role.html)
152. Erika Solomon, "Lebanon's Hizbollah and Yemen's Houthis open up on links," *Financial Times* (UK), May 8, 2015. (https://www.ft.com/content/e1e6f750-f49b-11e4-9a58-00144feab7de)

UN have also designated several Houthi leaders for threatening Yemen's peace and stability.[153] In April 2015, the UN Security Council imposed an arms embargo on the Houthis.[154] Since then, U.S. warships have intercepted several Iranian weapons shipments intended for the rebels.[155]

Oman, which shares a 288-kilometer border with Yemen, is the only Gulf Arab country that has not participated in the Saudi-led military campaign against the Houthis, preferring to remain neutral and try to negotiate an end to the conflict.[156] As early as April 2015, Oman called for the withdrawal of the Houthis and pro-Saleh forces, the reinstatement of President Abdrabbuh Mansur Hadi, the conversion of the Houthis into a political party, and the inclusion of Yemen to the GCC, among other steps.[157] A month later, a private American plane flew some Houthi representatives to Muscat for talks with U.S. officials.[158] Secretary of State John Kerry personally met with Houthi representatives in Oman in November 2016 in an attempt to implement a ceasefire and peace plan.[159]

Oman played host again in March 2018, this time for the Houthis and Saudi Arabia.[160] Most recently, Oman received a plane carrying 50 wounded Houthi rebels in December 2018. Their treatment in Oman was a key condition for the rebel group to participate in UN-sponsored peace talks.[161] Oman has also secured the release of Americans and other hostages held by the Houthi rebels.[162]

The Yemen conflict has undoubtedly strained Oman's relations further with Saudi Arabia and the UAE. The war has led to instability on Oman's border with Yemen. Oman is also wary of the UAE's military projection into the region, especially when combined with its territorial purchases in Oman. Saudi Arabia and the UAE, meanwhile, have raised frustrations regarding Oman's engagement with the Houthis and

153. U.S. Department of the Treasury, "Treasury Sanctions Political Spoilers Threatening the Peace, Security and Stability of Yemen," November 11, 2014. (https://www.treasury.gov/press-center/press-releases/Pages/jl2693.aspx); U.S. Department of the Treasury, "Treasury Sanctions Instigators of the Violent Takeover of Yemen," April 14, 2015. (https://www.treasury.gov/press-center/press-releases/Pages/jl10021.aspx); United Nations Security Council, "Security Council 2140 Sanctions Committee Designates Three Individuals as Subject to Assets Freeze, Travel Ban," November 7, 2014. (https://www.un.org/press/en/2014/sc11636.doc.htm)
154. United Nations Security Council, Resolution 2216, April 14, 2015. (http://unscr.com/en/resolutions/doc/2216)
155. Peter Bergen, "US intercepts multiple shipments of Iranian weapons going to Houthis in Yemen," *CNN*, October 28, 2016. (https://www.cnn.com/2016/10/28/politics/us-intercepts-iranian-weapons/index.html)
156. Noah Browning, "Yemen combatants not ready for talks, says neighbor Oman," *Reuters*, April 2, 2015. (https://www.reuters.com/article/us-yemen-security-oman/yemen-combatants-not-ready-for-talks-says-neighbor-oman-idUSKBN0MT22Q20150402)
157. "Oman offers seven-point plan for Yemen," *The New Arab* (UK), April 24, 2015. (https://www.alaraby.co.uk/english/news/2015/4/24/oman-offers-seven-point-peace-plan-for-yemen)
158. Sami Aboudi, "Yemen's Houthis in talks with U.S. officials in Oman: Yemen government," *Reuters*, May 31, 2015. (https://www.reuters.com/article/us-yemen-security-usa/yemens-houthis-in-talks-with-u-s-officials-in-oman-yemen-government-idUSKBN0OG0M520150531)
159. Yeganeh Torbati, "Kerry announces Yemen ceasefire over objections of government," *Reuters*, November 15, 2016. (https://www.reuters.com/article/us-yemen-security-usa-idUSKBN13A1GU)
160. Mohammed Ghobari and Noah Browning, "Yemen's Houthis and Saudi Arabia in secret talks to end war - sources," *Reuters*, March 15, 2018. (https://www.reuters.com/article/yemen-security-saudi-talks/yemens-houthis-and-saudi-arabia-in-secret-talks-to-end-war-sources-idUSL8N1QX1FK)
161. Ali Mahmood and Arthur MacMillan, "UN plane evacuates wounded Houthis to Oman ahead of peace talks," *The National* (UAE), December 3, 2018. (https://www.thenational.ae/world/mena/un-plane-evacuates-wounded-houthis-to-oman-ahead-of-peace-talks-1.798473)
162. Matthew Rosenberg and Kareem Fahhim, "2 Americans Among 6 Hostages Freed in Yemen After Months of Captivity," *The New York Times*, September 20, 2015. (https://www.nytimes.com/2015/09/21/international-home/2-american-hostages-freed-in-yemen-after-months-of-captivity.html); "Two Americans held in Yemen released and flown to Oman," *Reuters*, October 15, 2015. (https://www.reuters.com/article/us-yemen-security-hostages-idUSKBN12F0QW); Carol Morello, "American held in Yemen for over a year released," *The Washington Post*, November 6, 2016. (https://www.washingtonpost.com/world/middle_east/american-held-in-yemen-for-over-a-year-released/2016/11/06/4edb5961-6078-4c4d-9348-f420e9edda26_story.html)

about reports of weapons being transported through Omani territory to them.[163]

A Saudi-owned daily first reported in September 2016 that allies of Yemen's government found weapons intended for the Houthis on trucks with Omani license plates.[164] In response to the accusation, Omani Foreign Minister Yusuf bin Alawi said, "There is no truth to this. No weapons have crossed our border."[165] However, other credible news outlets, independent nonprofits, and the UN have since reported that Iran has been using overland routes through Oman to send weapons to the Houthis.

According to a detailed Reuters report, the shipments via Oman have included anti-ship missiles, surface-to-surface short-range missiles, small arms, and explosives.[166] In addition, Bloomberg reported that Iran could be sending its missile experts to Yemen.[167]

In March 2017, the group Conflict Armament Research (CAR) released a report analyzing seven Houthi unmanned aerial vehicles (UAVs), known as Qasef-1, used against the Saudi-led coalition. Six of them reportedly entered Yemen by land through Oman. According to CAR, the Qasef-1 shares a "near-identical design and construction characteristics" with Iranian UAVs.[168]

One of the missiles the Houthis have used against Saudi Arabia is the Burkan-2H, which is a copy of the Iranian Qiam-1.[169] The Yemeni Armed Forces did not possess the Burkan-2H,[170] meaning the Houthis could not have acquired the technology from Yemeni military officials or by looting military arsenals. Thus, the Houthis likely received the military equipment from Tehran. According to its January 2018 report, the UN Security Council's Panel of Experts on Yemen considers a land route through Oman to be the "most likely" way the Burkan-2H arrived in Yemen. The second most likely explanation, according to the report, was a sea route through Oman. Prior to January 2017, only 25 percent of containers at Oman's Salalah port were subject to thorough inspection, making it possible that parts of the missile passed through this route. The 2018 report also notes that an arms supply route through Oman was still possible, as interdiction is "dependent on [the] effectiveness of control checks" at busy border control posts.[171]

163. Sanam Vakil, "Iran and the GCC: Hedging, Pragmatism and Opportunism," *Chatham House*, September 2018. (https://www.chathamhouse.org/sites/default/files/publications/research/2018-09-13-iran-gcc-vakil.pdf); Stacey Philbrick Yadav, "Oman is a mediator in Yemen. Can it play the same role in Qatar?" *The Washington Post*, July 22, 2017. (https://www.washingtonpost.com/news/monkey-cage/wp/2017/07/22/oman-is-a-mediator-in-yemen-can-it-play-the-same-role-in-qatar)
164. Sami Aboudi, "Arms for Houthis found in Yemen trucks with Oman plates: newspaper," *Reuters*, September 18, 2016. (https://www.reuters.com/article/us-yemen-security/arms-for-houthis-found-in-yemen-trucks-with-oman-plates-newspaper-idUSKCN11O084)
165. Yara Bayoumy and Phil Stewart, "Exclusive: Iran steps up weapons supply to Yemen's Houthis via Oman – officials," *Reuters*, October 20, 2016. (https://www.reuters.com/article/us-yemen-security-iran/exclusive-iran-steps-up-weapons-supply-to-yemens-houthis-via-oman-officials-idUSKCN12K0CX)
166. Yara Bayoumy and Phil Stewart, "Exclusive: Iran steps up weapons supply to Yemen's Houthis via Oman – officials," *Reuters*, October 20, 2016. (https://www.reuters.com/article/us-yemen-security-iran/exclusive-iran-steps-up-weapons-supply-to-yemens-houthis-via-oman-officials-idUSKCN12K0CX)
167. Eli Lake, "The CIA's Secret Talks With Obama's Arab Back Channel," *Bloomberg*, June 20, 2017. (https://www.bloomberg.com/view/articles/2017-06-20/the-cia-s-secret-talks-with-obama-s-arab-back-channel)
168. "Iranian Technology Transfers to Yemen," *Conflict Armament Research*, March 2017.
169. Behnam Ben Taleblu, "A peek inside Houthi Rebel's recent missile strikes in Saudi Arabia," *FDD's Long War Journal*, March 28, 2018. (https://www.longwarjournal.org/archives/2018/03/a-peek-inside-houthi-rebels-recent-missile-strikes-in-saudi-arabia.php)
170. U.S. Mission to the United Nation, Press Release, "Ambassador Haley on Weapons of Iranian Origin Used in Attack on Saudi Arabia," November 7, 2017. (https://usun.state.gov/remarks/8090)
171. United Nations Security Council, "Final report of the Panel of Experts on Yemen," January 26, 2018, pages 101, 128-129. (https://www.securitycouncilreport.org/atf/cf/%7B65BFCF9B-6D27-4E9C-8CD3-CF6E4FF96FF9%7D/s_2018_68.pdf)

U.S. officials have conveyed their concerns to Omani authorities several times since 2016. In March 2017, then-Secretary of Defense James Mattis met with Sultan Qaboos and reportedly discussed arms trafficking into Yemen.[172] Saudi, Yemeni, Emirati, and Israeli officials have expressed similar concerns.[173] Omani officials, meanwhile, continued to deny these reports.[174]

Muscat has nevertheless made some efforts to strengthen its border security. Oman officially closed its border with Yemen in early 2016 "over fears of militant attacks," according to the Associated Press,[175] and reportedly began building a fence along the border,[176] with some assistance from the United States.[177]

Border security was an issue for the U.S. and Oman as far back as 2001, with the presence of al-Qaeda operatives in Yemen.[178] Even then, the border was only partially defined.[179] Military analyst Anthony Cordesman told *Al-Monitor* in June 2018 how easy it can be to smuggle through Oman. First, the "difficult terrain" results in "all kinds of paths and small areas" that are difficult to secure, making it "fairly easy to cut across." Additionally, tribes in both Oman and Yemen "don't necessarily recognize the border." Moreover, weapons smugglers might be using established drug smuggling routes.[180]

Even if the overland smuggling routes were closed off, the Iran-Oman port deals in Sohar, Salalah, and Duqm provide opportunities for illicit trade. Some Iranian entities operating in this sphere were previously sanctioned by the U.S. for terrorism or proliferation,[181] and there is no indication that any of them have halted their illicit activities. Additionally, it is unlikely that the aforementioned smuggling between Khasab and Iran has ceased, making it possible for weapons parts to be transported across the Strait of Hormuz.

172. Joyce Karam, "Mattis to discuss arms smuggling into Yemen on Oman trip," *The National* (UAE), March 12, 2018. (https://www.thenational.ae/world/mena/mattis-to-discuss-arms-smuggling-into-yemen-on-oman-trip-1.712229)
173. Yara Bayoumy and Phil Stewart, "Exclusive: Iran steps up weapons supply to Yemen's Houthis via Oman – officials," *Reuters*, October 20, 2016. (https://www.reuters.com/article/us-yemen-security-iran/exclusive-iran-steps-up-weapons-supply-to-yemens-houthis-via-oman-officials-idUSKCN12K0CX); Eli Lake, "The CIA's Secret Talks With Obama's Arab Back Channel," *Bloomberg*, June 20, 2017. (https://www.bloomberg.com/view/articles/2017-06-20/the-cia-s-secret-talks-with-obama-s-arab-back-channel); Jay Solomon, "Will the Trump Administration Force Oman to Choose Sides?" *The Washington Institute for Near East Policy*, January 9, 2018. (http://www.washingtoninstitute.org/policy-analysis/view/will-the-trump-administration-force-oman-to-choose-sides); Joyce Karam, "Mattis to discuss arms smuggling into Yemen on Oman trip," *The National* (UAE), March 12, 2018. (https://www.thenational.ae/world/mena/mattis-to-discuss-arms-smuggling-into-yemen-on-oman-trip-1.712229)
174. Conversation with Omani official on March 29, 2018; Roundtable with senior Omani official on May 1, 2018; Conversation with second senior Omani official on November 26, 2018.
175. "Oman's crossings with Yemen closed over attack fears," *Associated Press*, January 21, 2016. (http://www.arabnews.com/middle-east/news/868156)
176. Bryant Harris, "Congress seeks to insulate Oman from Yemen instability," *Al-Monitor*, June 7, 2018. (https://www.al-monitor.com/pulse/originals/2018/06/congress-seeks-insulate-oman-yemen-instability.html)
177. "Oman, US discuss border security, export controls," *Times of Oman*, August 8, 2017. (https://timesofoman.com/article/114598); U.S. Department of State, "Oman Foreign Assistance," accessed April 25, 2019. (https://www.foreignassistance.gov/explore/country/Oman)
178. Jeremy Jones and Nicholas Ridout, *A History of Modern Oman* (New York: Cambridge University Press, 2015), page 236.
179. Bonna Walter, *History of Oman: Government, Politics, Economy, Society, Religion, Tourism* (Digital Light Publishing, 2016), page 121.
180. Bryant Harris, "Congress seeks to insulate Oman from Yemen instability," *Al-Monitor*, June 7, 2018. (https://www.al-monitor.com/pulse/originals/2018/06/congress-seeks-insulate-oman-yemen-instability.html)
181. Fatma Alarimi, "UPDATE 1-Oman fund, Iran's Khodro sign MoU for $200 mln auto venture," *Reuters*, January 27, 2016. (https://www.reuters.com/article/iran-trade-autos-oman-idUSL8N15B2PP); "Salalah port signs deal with Iran for boosting bilateral trade," *Times of Oman*, March 6, 2016. (http://timesofoman.com/article/78861/Business/Economy/Salalah-port-signs-deal-with-Iran-for-boosting-bilateral-trade); Jonathan Saul, "Oman port targets bigger Iran shipping ties as market opens up," *Reuters*, February 29, 2016. (https://www.reuters.com/article/oman-iran-shipping-idUSL8N15R402)

Meanwhile, Syrian airline Cham Wings began direct flights from Damascus to Muscat in 2015.[182] Treasury sanctioned Cham Wings in December 2016 for "transport[ing] militants to Syria to fight on behalf of the Syrian regime."[183] The airline may have also transported weapons and militias at the behest of Iran's Islamic Revolutionary Guard Corps to Syria.[184] It is possible that the airline has been bringing weapons, parts, personnel, or cash on behalf of Iran into Oman to transship to Yemen. Indeed, it is unclear why else this air bridge was established. As Under Secretary of the Treasury for Terrorism and Financial Intelligence Sigal Mandelker observed last year, "People do not go on vacation in Syria."[185]

Beginning in February 2019, Iranian airline Qeshm Air began flights between the Iranian island of Qeshm and Muscat.[186] The airline was previously owned by Babak Zanjani, who helped the Iranian government bypass international sanctions on its oil. After he was convicted of withholding nearly $3 billion from the Iranian government, the Iranian Oil Ministry assumed control of the airline.[187]

Omani officials say that smuggling is no longer a problem.[188] To Muscat's credit, there have been no major reports of weapons smuggling through Oman in the last year. The announcement of a significant U.S.-Oman port agreement in March 2019 also likely signifies that tension over the weapons smuggling issue has diminished.[189]

Concerns for the Future

There is nothing inherently wrong with Oman's neutral foreign policy in the Middle East. However, Oman's neutrality is debatable. Indeed, Omani officials continue to insist that sanctions are the wrong policy and that engagement with Iran is the best way forward. This is not a neutral position. If anything, this is a policy that advocates for Iran's interests.

Since the U.S. began reinstating sanctions on Iran in 2018, neither Oman nor Iran announced the cancellation of any economic deals. Omani officials privately assert that there is no Iranian business in Duqm and that the Khodro deal fell through.[190] However, Iran claims that trade with Oman is strong despite the return of U.S. sanctions,[191] and Iranian

182. "Cham Wings Begins Direct Flight to Damascus, Syrians in Oman Thrilled," *Muscat Daily* (Oman), September 17, 2015. (http://www.muscatdaily.com/Archive/Oman/Cham-Wings-begins-direct-flight-to-Damascus-Syrians-in-Oman-thrilled-4azp)
183. U.S. Department of the Treasury, Press Release, "Treasury Sanctions Additional Individuals and Entities in Response to Continuing Violence in Syria," December 23, 2016. (https://www.treasury.gov/press-center/press-releases/Pages/jl0690.aspx)
184. Emanuele Ottolenghi, "Treasury Sanctions Airline Ferrying Fighters for Assad," *Foundation for Defense of Democracies*, December 23, 2016. (https://www.fdd.org/analysis/2016/12/23/treasury-sanctions-airline-ferrying-fighters-for-assad)
185. Under Secretary of the Treasury for Terrorism and Financial Intelligence Sigal Mandelker, *Speech at the Foundation for Defense of Democracies*, June 5, 2018. (https://home.treasury.gov/news/press-releases/sm0406)
186. "افتتاح خط پروازی قشم ایر به مسقط با حضور سفیر ایران در عمان(The Inauguration of Qeshm Air Flight to Muscat with The Presence of Iran's Ambassador to Oman)," *Iranian Students News Agency* (Iran), February 6, 2019. (https://www.isna.ir/news/97111709733/افتتاح-خط-پروازی-قشم-ایر-به-مسقط-با-حضور-سفیر-ایران-در-عمان); "New flight route from Oman to this Middle East country announced," *Times of Oman*, February 6, 2019. (https://timesofoman.com/article/794770)
187. Emanuele Ottolenghi, "Iran Ramps Up Purchases of Commercial Aircraft from U.S. and Europe," *Foundation for Defense of Democracies*, August 2, 2017. (https://www.fdd.org/analysis/2017/08/02/iran-ramps-up-purchases-of-commercial-aircraft-from-u-s-and-europe/)
188. Conversation with senior Omani official on November 26, 2018.
189. Nicole Salter and Behnam Ben Taleblu, "U.S. and Oman Sign Strategic Port Agreement," *Foundation for Defense of Democracies*, March 29, 2019. (https://www.fdd.org/analysis/2019/03/29/u-s-and-oman-sign-strategic-port-agreement/)
190. Conversation with Omani official, November 26, 2018.
191. Saeed Ghasseminejad, "Tehran Expands its Presence in Oman," *Foundation for Defense of Democracies*, April 8, 2019. (https://www.fdd.org/analysis/2019/04/08/tehran-expands-its-presence-in-oman)

media continue to trumpet economic deals between the two countries.[192] One outlet reported that Omani officials are interested in investing in the Chabahar Free Trade Zone.[193] The *Tehran Times* claimed that Oman's oil minister would continue with plans for the gas pipeline.[194] Several articles in Iranian media reported that Iranian companies would invest in an industrial park near Muscat by April 2022 to produce goods using nanotechnology.[195]

There was also an Iranian media report of a new direct shipping route between Iran's port city of Jask and Oman's port of al-Suwaiq,[196] as well as an announcement from Iran's Chamber of Commerce, Industries, Mines and Agriculture that "all Oman ports are open to Iranian ships."[197] The two countries reportedly signed a memorandum of understanding in April 2019 for greater military cooperation and engaged in joint marine rescue drills.[198] The *Times of Oman* also reported that Oman is considering "enhancing air transport ties with Iran."[199]

Admittedly, Oman needs the commerce. Oman's economy is small compared to most of its Gulf neighbors. The sultanate's GDP in 2017 was $70.7 billion, compared to Saudi Arabia's $686.7 billion, the UAE's $382.6 billion, Qatar's $166.9 billion, and Kuwait's $120.1 billion.[200] Oman's oil reserves are more limited and will run out sooner than its neighbors' reserves.[201] In addition, low oil prices have resulted in budget deficits for the last four years. Oman's deficit in 2015 was 17 percent of GDP, rose to 20 percent in 2016, and decreased to 13 percent in 2017 and to 7 percent in 2018.[202] As a result, the government was

192. "عمان، برگ برنده تجارت در منطقه محسوب می‌شود (Oman is Considered the Winning Leaf of Trade in The Region)," *Otagh Iran Online* (Iran), October 14, 2018. (http://otaghiranonline.ir/news/15763)

193. "عمان خواستار سرمایه‌گذاری در منطقه آزاد چابهار (Oman Seeks Investment in The Chabahar Free Trade Zone)," *Iranian Students News Agency* (Iran), June 27, 2018. (https://www.isna.ir/news/97040603045/عمان-خواستار-سرمایه-گذاری-در-منطقه-آزاد-چابهار)

194. "Oman to go ahead with Iran gas pipeline project despite U.S. sanctions," *Tehran Times* (Iran), October 7, 2018. (https://www.tehrantimes.com/news/428285/Oman-to-go-ahead-with-Iran-gas-pipeline-project-despite-U-S)

195. "Iran to take part in developing Oman NanoCity," *Tehran Times* (Iran), October 1, 2018. (https://www.tehrantimes.com/news/428044/Iran-to-take-part-in-developing-Oman-NanoCity); "Iran to assist Oman in developing NanoCity project," *Mehr News Agency* (Iran), October 8, 2018. (http://en.mehrnews.com/news/138478/Iran-to-assist-Oman-in-developing-NanoCity-project); "Iranian firms to construct Oman Nano City," *Mehr News Agency* (Iran), October 16, 2018. (https://en.mehrnews.com/news/138745/Iranian-firms-to-construct-Oman-Nano-City)

196. "Iran, Oman launch 4th direct shipping route," *Tehran Times* (Iran), December 7, 2018. (https://www.tehrantimes.com/news/430358/Iran-Oman-launch-4th-direct-shipping-route)

197. Iran Chamber of Commerce, Industries, Mines and Agriculture, "'All Oman ports open to Iran ships,'" December 29, 2018. (http://en.otaghiranonline.ir/news/1724); "ناوگروه شصتم نیروی دریایی ارتش در بندر «مسقط» پهلو گرفت (The Artesh Navy's 60th Flotilla Docked in The Port of Muscat)," *Mehr News Agency* (Iran), March 12, 2019. (https://www.mehrnews.com/news/4566001/ناوگروه-شصتم-نیروی-دریایی-ارتش-در-بندر-مسقط-پهلو-گرفت)

198. "Iran, Oman sign MoU on military cooperation," *Mehr News Agency* (Iran), April 19, 2019. (https://en.mehrnews.com/news/144287/Iran-Oman-sign-MoU-on-military-cooperation); "ویدئو: شروع رزمایش دریایی مشترک ایران و عمان در اقیانوس هند (Video: The Beginning of The Joint Naval Drill of Iran and Oman in The Indian Ocean)," *Press TV* (Iran), April 10, 2017. (https://www.presstv.com/Detail/2017/04/10/517499/Iran-navy-Oman-drill-indian-ocean)

199. "Oman plans to enhance air transport ties with Iran, Uzbekistan," *Times of Oman*, December 24, 2018. (https://timesofoman.com/article/651217)

200. The World Bank, "Oman," accessed April 25, 2019. (https://data.worldbank.org/country/Oman); The World Bank, "Saudi Arabia," accessed April 25, 2019. (https://data.worldbank.org/country/saudi-arabia?view=chart); The World Bank, "United Arab Emirates," accessed April 25, 2019. (https://data.worldbank.org/country/united-arab-emirates?view=chart); The World Bank, "Qatar," accessed April 25, 2019. (https://data.worldbank.org/country/Qatar); The World Bank, "Kuwait," accessed April 25, 2019. (https://data.worldbank.org/country/Kuwait)

201. The Omani government declared in 2017 that it has enough oil for 15 years. See: "We have oil to last for 15 years, says Ministry Undersecretary in Oman," *Times of Oman*, March 2, 2017. (https://timesofoman.com/article/104060)

202. "Oman Government Budget," *Trading Economics*, accessed April 25, 2019. (https://tradingeconomics.com/oman/government-budget)

forced to cut subsidies on housing, fuel, and other public goods.[203] It was also forced to borrow money from local and international markets and issue over $11 billion in bonds.[204]

On top of that, three major credit agencies have downgraded Omani debt to junk over the last three years.[205] And like many other Middle Eastern states, Oman has high unemployment, which reached 17.5 percent in 2016. Following unemployment demonstrations in January 2018, the Omani government promised to create 25,000 jobs and imposed a ban on hiring expatriates.[206]

But increasing trade with Iran – licit or illicit – will come with a price. At a minimum, Oman first needs to return to genuine neutrality vis-à-vis Iran. This should include a greater effort to halt illegal shipments through its territory. But Washington should demand more, particularly if Oman is to remain a valued ally.

Complicating all of this are concerns about succession. Sultan Qaboos has ruled Oman since 1970, but he is 78 years old and suffering from terminal cancer since at least 2014.[207] Yet Qaboos has no heirs, no living brothers, and no named successor. According to Omani Basic Law, upon the death of the sultan, the royal family council is to choose a new sultan within three days. If the royal family council fails to agree on a selection, four advisory bodies are to open a sealed letter from Qaboos listing his ranked choices for his successor.[208] Unfortunately, this leaves a lot to chance.

Recommendations

The U.S. must make sure that Muscat does not draw closer with Tehran. Therefore, Washington should consider the following policy recommendations:

1. **Monitor Iranian businesses operating and investing in Oman.** Due to the strong economic relations between Oman and Iran, and specifically the presence of sanctioned Iranian companies potentially operating in Oman, U.S. intelligence agencies should investigate and determine whether illegal activity is occurring. Maintaining an open channel with Muscat should lead to more cooperation and interdiction.
2. **Continue pressuring Oman to halt illegal weapons shipments, but also continue providing military assistance for security-related issues.** U.S. officials should continue to convey any concerns about illegal weapons shipments to Omani officials. At the same time, the U.S. should continue to provide Oman with assistance, both financial and logistical, on securing its border, patrolling its territory and waters, and halting any illicit shipments.

203. "Oman to slash subsidies as low oil prices squeeze budget," *Reuters*, January 2, 2016. (https://www.reuters.com/article/oman-budget-idUSL8N14M0GD20160102); Saleh al Shaibany, "Omanis call for government cap on fuel prices in first protest since 2011," *The National* (UAE), February 2, 2017. (https://www.thenational.ae/world/omanis-call-for-government-cap-on-fuel-prices-in-first-protest-since-2011-1.611766)
204. "MIDEAST DEBT-Oman issues largest bond as rising oil prices cheer Gulf investors," *Reuters*, January 11, 2018. (https://www.reuters.com/article/oman-bond/mideast-debt-oman-issues-largest-bond-as-rising-oil-prices-cheer-gulf-investors-idUSL8N1P62Q9); "Oman sells $1.5 billion Islamic bonds," *Reuters*, October 24, 2018. (https://www.reuters.com/article/oman-sukuk/oman-sells-1-5-billion-islamic-bonds-idUSD5N1QN023)
205. "Moody's downgrades Oman to junk, outlook negative," *Reuters*, March 6, 2019. (https://www.reuters.com/article/oman-ratings-moodys/moodys-downgrades-oman-to-junk-outlook-negative-idUSL5N20T0G4)
206. "Omani government working to create 25,000 jobs in six months," *Reuters*, January 25, 2018. (https://www.reuters.com/article/us-oman-jobs/omani-government-working-to-create-25000-jobs-in-six-months-idUSKBN1FE2TQ); Saleh Al Shaibany, "Oman imposes temporary ban on hiring expatriates," *The National* (UAE), January 28, 2018. (https://www.thenational.ae/world/mena/oman-imposes-temporary-ban-on-hiring-expatriates-1.699645)
207. "Oman Sultan returns in 'complete health' after treatment in Germany," *Reuters*, March 23, 2015. (https://www.reuters.com/article/us-oman-sultan-return/oman-sultan-qaboos-returns-home-after-medical-treatment-in-germany-tv-idUSKBN0MJ1PA20150323)
208. Martin Dokoupil, "Succession question fuels uncertainty in Oman," *Reuters*, May 24, 2012. (https://www.reuters.com/article/us-oman-succession-idUSBRE84N0K420120524)

3. **Sell LNG to Oman.** Oman needs a way to import natural gas, and the United States would prefer that Iran not be the source. As it happens, U.S. LNG exports quadrupled in 2017.[209] Oman would not be the first Middle Eastern country to receive U.S. exports of LNG. Louisiana's Cheniere Energy's Sabine Pass plant has delivered LNG to Kuwait and Dubai.[210]
4. **Offer conditional economic assistance.** While the U.S. should continue providing security assistance, Washington could further incentivize Muscat by offering an economic aid package, such as subsidized LNG or investment in Omani ports or infrastructure. However, any economic assistance should hinge on Muscat halting all illicit shipments through its waters and territory, and shunning deals with Iran.
5. **Continue to use Oman as a facilitator.** The U.S. can benefit from having an ally to pass messages and facilitate meetings with governments with whom it does not have relations. Washington should continue to encourage Omani involvement in regional conflicts to advance U.S. interests, so long as Oman maintains a truly neutral position.
6. **Encourage a more consistent Iran policy across the GCC.** Oman is not the only GCC country that has problematic ties with Iran. Qatar has maintained both political and economic relations with Iran, and those relations have grown stronger since Saudi Arabia and others enacted a blockade on Qatar in 2017.[211] In addition, while the UAE has raised concerns about Iran's regional activity, it historically has had strong economic relations with Iran. In particular, the emirate of Dubai is a major hub for re-exports to Iran. If the U.S. asks Oman to curb its relationship with Iran, it should ask the same of its other GCC allies.
7. **Ease tensions between Oman and both Saudi Arabia and the UAE.** Saudi Arabia and the UAE are understandably frustrated with Oman's relationship with Iran, and their concerns about illegal weapons shipments to the Houthis are legitimate. However, Oman's concerns about Saudi and Emirati policies are also valid. If Saudi Arabia and the UAE isolate or challenge Oman, then Oman will only draw closer to Iran. Washington should encourage Saudi Arabia and the UAE to engage with Muscat and provide assurances that they do not plan to isolate Oman or interfere in Omani politics.
8. **Ensure continued strong relations with the next Omani sultan.** When the time comes for the Omani royal family court to choose the new sultan, the U.S. should prevent foreign interference in the process. The U.S. should also work to ensure that U.S.-Omani relations remain strong, and that the new leader does not seek to bring the sultanate further into Iran's embrace.

The U.S.-Omani alliance has proven beneficial to both parties for two centuries, and Washington is not keen to see that end. But an alliance with the United States comes with certain responsibilities. America must clearly and respectfully convey them.

209. U.S. Energy Information Administration, "U.S. liquefied natural gas exports quadrupled in 2017," March 27, 2018. (https://www.eia.gov/todayinenergy/detail.php?id=35512)
210. Ed Crooks, "US exports gas to the Middle East," *Financial Times* (UK), July 18, 2016. (https://www.ft.com/content/3a65757a-4c6e-11e6-88c5-db83e98a590a)
211. Will Fulton, "Qatar-Iran Foreign Relations," *American Enterprise Institute*, February 23, 2010. (https://www.criticalthreats.org/analysis/qatar-iran-foreign-relations); Nick Butler, "Qatar is in an uneasy position as Iran sanctions bite," *Financial Times* (UK), November 12, 2018. (https://www.ft.com/content/a5dd678e-e138-11e8-a6e5-792428919cee)

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About The Authors

Jonathan Schanzer is senior vice president for research at FDD, where he oversees the work of the organization's experts and scholars. He is also on the leadership team of FDD's Center on Economic and Financial Power. Jonathan previously worked as a terrorism finance analyst at the U.S. Department of the Treasury, where he played an integral role in the designation of numerous terrorist financiers. He has held previous think tank research positions at the Washington Institute for Near East Policy and the Middle East Forum. Jonathan has written hundreds of articles on the Middle East, along with more than a dozen monographs and chapters for edited volumes. He testifies often before Congress and publishes widely in the American and international media.

Nicole Salter is an Oman analyst and project manager at FDD. Nicole was previously a research assistant at FDD focused on economic warfare, and an intern with the U.S. Department of Commerce. She has an MA in Arab Studies from the Georgetown University School of Foreign Service and a BA in International Studies from Johns Hopkins University.

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DEFENSE OF DEMOCRACIES

P.O. Box 33249
Washington, DC 20033-3249
(202) 207-0190
www.fdd.org