

DERSHOWITZ: Good day everyone and thank you for joining us for another timely discussion from the Foundation for Defense of Democracies. I'm Toby Dershowitz, Senior Vice President for Government Relations and Strategy at FDD. As many of you know, FDD is a research institute focused exclusively on foreign policy and national security. We are non-partisan and take no foreign government funds. We are recording today's event as crises have compounded in Lebanon. First let me say that we are so saddened by the horrific loss of life and the massive destruction caused by the recent explosion of nearly 3,000 metrics tons of ammonium nitrate in the port of Beirut. Many have said that it could have and should have been avoided. But that's not the only crisis facing Lebanon. The country is also facing a massive financial crisis, stemming from corruption, mismanagement, and the nefarious role that Hezbollah plays in the Lebanese government. On top of this, the Lebanese government has just resigned, thrusting the country into a period of transition and uncertainty. And of course, the country is already fighting a pandemic.

Literally hours before the Beirut port explosion, FDD published a major report on Lebanon's financial crisis written by James Rickards, a renowned economist and an advisor to FDD's Center on Economic and Financial Power. He's also the editor of the financial newsletter, *Strategic Intelligence*. Now, the report simply put, is an anatomy of Lebanon's financial crisis. It was published as Lebanon was in the midst of negotiations with the IMF, but those negotiations, as Jim will tell you, are not easy, in fact the negotiations have been put on hold. Most, if not all of Lebanon's banks are insolvent.

Jim is joining us today to take us through his key findings. Also joining us today is Joyce Karam, Washington correspondent for The National. The National is an English language publication news service based in the UAE. I have to say, Joyce is one of the most astute reporters in Washington. Not only does she know the Lebanon file professionally, but Joyce was born in the country and she'll share her keen insights from all of these vantage points. Joyce, a warm welcome to you. Our final panelist is our own Tony Badran, a research fellow for FDD, where he focuses on Lebanon, Syria, Hezbollah and the geopolitics of the Levant. Tony too was born and raised in Lebanon. He really is an expert's expert. Policy professionals in and out of government rely on Tony for his thorough knowledge of every aspect of Lebanon. Today's program is one of many FDD hosts throughout the year. I invite you to learn more about FDD by looking at our website, FDD.org and by following us on Twitter @FDD.

Everyone following U.S. Middle East policy knows our moderator, my colleague Dr. Jonathan Schanzer, Senior Vice President for Research at FDD. Jon brings to his work at FDD years of experience as a terrorism analyst at the Department of Treasury. And he has written many seminal pieces on Lebanon and Hezbollah and will guide today's conversation. Jon, thank you so much for your superb work and for moderating today's discussion. The floor is yours.

SCHANZER: Thank you very much, Toby. It's great to be with all of you today. I'm going to dive right in with our panelists today and start to ask some questions. And I want to actually begin with Joyce. Joyce, if you could just share with us a little bit of what's happening right now in Lebanon, what is the political situation, what's happening on the ground? How are people responding to this explosion that rocked Beirut just a few days ago?

KARAM: Hi Jon. Thanks, Toby. I mean, I think what we're seeing in Beirut on the ground is an aftershock from the tragedy on August 4th. We're still seeing protests. We're seeing a sense of trauma for those on the ground in Beirut. The general public is angry. They're seeking accountability. They're seeking change. And we're seeing a lot of finger pointing between the government, the customs authority, the port authority, but we haven't seen any sense of a transparent investigation. We saw the government resign, the Hassan Diab government, resign just two days ago, which is a big development in the Lebanese sense, but it's not enough to calm the street or to meet the demands for accountability after, I mean, this is the biggest explosion in the country since the end of the civil war in 1990.

SCHANZER: Yeah. I can imagine that that's still something that the Lebanese people are trying to come to grips with. Joyce, I'm going to just follow up with one other question for you. And that is just in terms of how 2,750 tons of ammonium nitrate could just be sitting in the Beirut harbor in an unregulated warehouse for six years. How was that something that can be explained by any of the authorities? I mean, I understand that the government is resigned, but that just seems really hard to swallow.

KARAM: I don't think there is a logical explanation. There isn't a logical explanation to a lot of things going on in Lebanon. And I think the problem of the explosions being stored at the Beirut port, it captures the problem we have in Lebanon today. I mean, you're talking about years of neglect. You're talking about bad governance, lack of accountability, no transparency at the very top that allowed these explosives to be stored at the most visible and central facility in the Lebanese capital, poorly stored. So, we are seeing a lot of finger pointing, but it's just insane that such an amount would be left at the port. There has been some house arrests and some interrogations with security officials, but we don't have answers at who ordered these explosives. We don't have the full story. Were they confiscated? Were they received by the military?

Were they going to another party in Lebanon? So, what you're seeing is a complete distrust and a complete implosion of the official narrative in Lebanon. I think the problem cuts much deeper when we're talking about the port explosion. It's a problem of endemic corruption in the country, about failure of the state to protect its own ports, to protect its own people. The devastation is massive in Beirut. So, unless you address these questions of accountability, of corruption, tomorrow it might be a different facility storing something else and leading to a different crisis.

SCHANZER: Well, let me actually raise that with you, Tony. You've done some work looking at a number of Lebanon's ports, and you have seen some problems. You've identified that Hezbollah, a terrorist organization that answers to Iran, has had unfettered access to a lot of Lebanon's ports. And of course, that's raising questions about maybe that's who stockpiled this ammonium nitrate. Is that the correct answer? And more broadly, what is Hezbollah doing at all these ports?

BADRAN: Thanks, Jon. And thanks again, everyone, for joining us on this panel. I do think that putting Hezbollah in the forefront is certainly sort of the normal reaction to, because of their prominent position in Lebanon's not just ports of entry in politics, but security more generally. So, we don't know. We don't have answers as to whether the source of the fire that led to the explosion is, as the Lebanese say, fireworks, which is incidentally entirely plausible. As Joyce said, knowing what we know about Lebanon, it is entirely plausible that that stuff was stored next to ammonium nitrate. But it is equally plausible that there might have been other sources for the explosion, potentially ammunition, which may have been not necessarily stored at the port, but maybe in transition somewhere else. We're not quite sure. All of these things are legitimate questions. Hezbollah's position at the port, while prominent and while the most sophisticated and most elaborate in terms of its smuggling operations, which has been not just documented by local press reports, but also by the United States Treasury Department.

And so, we have intelligence to that effect that Hezbollah does use the port. And it's not just the seaport, it's also the airport. And we know this also from both intelligence reports about Iranian flights and so on, and Hezbollah's presence there, but also from civil court lawsuits, basically. And for instance, in France, one of the operations that was busted in France, Operation Cedar, for instance, names very specifically that Hezbollah brings in contraband into, or rather not contraband, but just goods, but in order to launder drug proceeds, and how there are officials of the Lebanese government that are complicit with them at the airport. So, this is the major point, both at the Beirut seaport and the

Beirut airport, is that, this is a system of complicity and corruption that encompasses any cahoots with Hezbollah, or separately from Hezbollah, the entire political class.

Now Lebanese reports, for instance, in the press over the years, starting from 2012, talking about the port, have spoken about how it was a pyramid structure that involved everything from ministries, all the way down to the customs authority, all the way down to the clearance officers, to the traders, to the merchants. It's all encompassing. And it is that sort of Wild West environment at the port. It's precisely the kind of system that allows Hezbollah to be what it is, but it's also the kind of system that allows for this kind of tragedy to happen.

SCHANZER: Thank you, Tony. I want to turn to you, Jim, in just a few minutes to talk to you about the economics of all of this. But first a question to you, Joyce, about the assistance that's coming in in response to the explosion. I know that French president, Emmanuel Macron, was on the ground and really made quite a show of his visit there, hugging people on the streets and talking to them about much needed reforms. What kind of assistance is coming in right now? And what are people saying, whether it's the US government, the French government or others, about the reform that is necessary? And are they conditioning the assistance that's coming in, given some of the corruption that Tony just described?

KARAM: So, yes, Jon. In a sense, the French are taking the lead in the Lebanese crisis right now. But you're seeing many countries, the U.S., France, Australia, Germany, Russia, Canada, sending aid to Lebanon, humanitarian, infrastructure, medical aid. I mean, you have to remember, we also have the pandemic, and cases tripled in July. So, the medical system is hugely overwhelmed. The caveat here is France, U.S., Canada and I believe Australia have made it clear that they are not sending the aid to the Lebanese government. They're sending it to NGOs on the ground. They're sending it to the Lebanese Red Cross, to the World Food Programme, the UN Program. So, in that sense, that was a relief for people on the ground to see that, to see that even the French, who are seen as a protective entity over Lebanon ever since they left in 1943, to see this reassurance that they will not keep funding the same political elite.

But the aid that's being sent, the three shipments from the U.S., is just a small fix to address the immediate needs on the ground and to avoid bigger problems like famine, like further instability. In the medium to long term, the Trump administration and the French are pushing for political and economic reforms as a way to receive aid. So, they're conditioning aid on these reforms that they've been pushing for in the last six months and haven't happened. So, we don't know if there will be a new government capable of enacting these reforms because many of them threaten the control of the political elite and some threaten Hezbollah's passages to get arms from Syria through the airport, through other ports.

So, this is where we are today. A senior U.S. delegation will be in Lebanon on Friday, and they are closely coordinating with the French to try to push for these reforms. What we know is the small fixes are not going to cut it this time. We are at a turning point in Lebanon. We either see bigger plans to just make changes in the way the government operates, or we're going to continue to see Lebanon just going on the path of a failed and corrupt state.

SCHANZER: I certainly get that sense as well, speaking to some U.S. government officials about the concern about food security, the concern about the potential for a humanitarian crisis that could happen really any day given the way that the port has been shut down, or at least partly shut down, and the economic crisis that I want to raise with Jim momentarily. But before I get to Jim, I've got one last question for Tony, and that is look, Tony, you're a skeptic of all of this. You've made it clear that you don't think that there are any actors right now on the political scene in Lebanon that

are capable of the kind of reform that Joyce was just talking about that have been advocated by the U.S. government and the French government, or any government for that matter.

What's the right way to help Lebanon at this point? I think a lot of people are trying to do the right thing. I think a lot of people are looking at quick fixes, as Joyce mentioned, but the long-term fixes are hard to come by. If you're going to make a recommendation right now, what should it be? And maybe also, if you can just address how there appear to be differences of opinion, even within the U.S. government, about the right approach.

BADRAN: Right. I mean, it's not my position that I'm a skeptic on this. Just listen to people on the street in Lebanon who are saying quite starkly, this was captured on video, when a woman came up to the French president and told him, "Don't fund my government. Don't give them money." So, they understand, and they're demanding all of them means all of them. They should all be pushed aside. Now, this is however not on the United States. This is on the Lebanese people to figure that out.

The United States ironically has a perfectly incoherent position. On the one hand rhetorically, it says, yes, we want that. We want for a system of government, that's responsive to the demands of the Lebanese people. That's non-sectarian, that's non-corrupt, that's democratic meritocratic, all of that. And then at the same time, it says, well, we want to strengthen state institutions, of the existing order, which is beating people up in the streets, which is the one that's circling the wagons and defending its privileges and prerogatives in Beirut. And ironically, that's also what Emmanuel Macron wants. He wants a national unity government of all the sectarian barons, and Hezbollah to lead the reforms of their own corruption. It's almost a joke. So, I think on that, you're asking me what the solution is, the solution is not to do that.

I mean, let's not go down that path at all. And right now, Emmanuel Macron is leading us down that path. And you know, one of the things Joyce mentioned, U.S. delegation, there's reporting now from Lebanon coming up and saying that David Hale, who's going to be leading the delegation from the State Department is carrying with him an offer to rebuild the Beirut port. Now, all of a sudden we're moving stealthily from humanitarian assistance, which incidentally is becoming increasingly redundant as all of the nations start pouring in medical aid, fuel, wheat, et cetera, to now moving stealthily towards development and reconstruction, which is something entirely different, which then leads to the possibility of subsidizing the current order especially if the French are seeing that the vehicle for this plan of theirs is actually the sectarian oligarchs themselves international unity government. So, whatever it is that we do, it should not be that.

SCHANZER: Okay. That is a perfect segue for my questions for Jim Rickards. Jim, you've just produced a terrific report for FDD. That essentially is a – I guess we can call it a post-mortem of Lebanon's financial system. You've looked at the financial unraveling of this country and you've found some – I would say your findings were astounding, quite frankly. The numbers were staggering. Share with our audience a bit about what you found in looking under the hood at the Lebanese economy.

RICKARDS: Sure, Jon and thank you, it's good to be with you and Joyce and Tony on the panel. You're right, through sheer coincidence, because one has nothing directly to do with the other, the report was released within hours ahead of the explosion. So certainly, couldn't be more timely in that sense, even though these were separate events. The important thing is, this financial crisis that is described in this report and there'll be a sort of a guide book on going forward basis in terms of how you remedy it if it's even possible, has been years in the making. But it did reach a critical stage last October and playing into early 2020, long before the explosion, long before the pandemic, this was coming to

a head. This would be a front-page news, a major headline even without the other two. The combination of all three, the pandemic explosion and the financial crisis is as little astounding, but the financial crisis is big enough by itself.

The point I make is that for veterans of financial crises and for better or worse, I include myself in that category. If you've done workouts, worked at major banks et cetera, this is unlike any of them. We're familiar with Argentina, serial defaulter; three major defaults in recent years. We saw Ukraine. We saw the European sovereign debt crisis between 2010, 2015, these were all resolved in different ways, but they kind of go through a certain pattern. There's a playbook. The IMF has a playbook. The European Union has a playbook, U.S. financial regulators have a playbook; you kind of know what to do. The problem is this playbook, which considering, you wipe out equity, you haircut the debt, you put some new money in, you restart the engine with more controls, austerity, commitments, contingencies, there's a lot more details, but that's the basic playbook.

It doesn't work in Lebanon. And the reason it doesn't work is because there is nothing left. This country has been picked, cleaned looted. The mechanism was in effect a Ponzi. When I say Ponzi, I'm not trying to trivialize it. It was just a multi-decade multibillion, almost a hundred billion-dollar Ponzi but the dynamics of that were pretty much the same. Keep taking in new money to pay off the old obligations as long as the new money keeps coming in, you can keep it going indefinitely if no one sort of blows the whistle on that. But it got to the point where not only did the new money dry up, by the way that money is largely coming from the Lebanese diaspora. The Lebanese, actually very talented, fairly well educated for a developing economy, they were in West Africa, they were in the Persian Gulf. They were in places where they could get pretty high paying jobs, mostly in the energy industry, but also as merchants and other occupations.

They were sending that money back home, not all of it, but a lot of it. Hard currency, dollars and euros, depositing it in the banks, in reliance upon the banks themselves. Meanwhile, the banks are being looted by the elites, by their own management, by the central bank, by the government. But they keep telling the depositors, "Hey, it's all good. Your money's good." Turns out, it wasn't; that collapsed. So, beginning, about two years ago, but accelerating it through last fall, the diaspora money dried up, basically the word was out, "Hey, they'll never pay you back. And so, stop sending your money." And they did. And then once the money stopped coming in, the whole system collapsed.

Now, the problem is, you normally look at the wreckage like this and you say, okay, all these banks are insolvent, but they're a couple of good ones over here, a couple that are a little stronger than the rest. We'll do a roll up. We'll strip out the bad assets, put them in a so-called bad bank or recovery trust fund or whatever. And we'll build a system around these kickbacks. There are no good banks in Lebanon. There are no banks with clean hands. There are no banks that are solvent. The entire commercial banking system is highly insolvent. We estimate \$67 billion in the hole, just for commercial banks. They say, "What about the central bank? Haven't they got resources?" The answer is no. They're insolvent to the tune of about \$22 billion. On top of that, you've got about \$4 billion of Euro bonds, not counting the ones owned by the banks because you don't want to double count that, the Euro bonds that are issued are never going to be repaid.

Many of them are owned by the bank. So, a lot of that's included in the bank number, but in addition to that, there's another \$4 billion or so held by some hedge funds and third party investors. Add it all up, we come to \$93 billion. That's how many hard currency, basically dollar denominated promises that have been made that cannot be repaid because the resources are not there.

Interestingly, there was a leaked number from the IMF. So, the IMF has not confirmed this, but there was a leak through, usually reliable channel that their internal number was about a hundred billion dollars. So, our estimate, which

we did by the way, completely from primary sources, from the ground up did not rely on – We looked at other blogs and tweets and resources and others, but we didn't use them. We built it from primary sources from ground up, \$93 billion. So, we're within a few percentage points of the IMF's own number.

Now, there is no bailout on the horizon, nor will there be that comes close to meeting those numbers. The biggest number the IMF has talked about, maybe \$10 billion. There's a group called CEDRE, it's a French acronym for a multi-party bailout group. They've spoken about maybe 10 or 11 billion. And that's it. So, at most I don't expect that much, but at most you've got \$20 billion or so against close to a hundred billion dollars in bad debt. So, it's no longer a question of are the bad debts there, they're there. The losses are there, depositors are not getting repaid. Bank stock holders are going to be wiped out. The central bank is insolvent.

The only issue left is as a political issue, which is how do you allocate the losses? Not are the losses there? They're there. How do you allocate them? Who suffers the most? And that, kind of to Tony's point, that flips it back to a political question. It's no longer an economic question. The minute you get to a political question, you say, well, how's the political system? Completely dysfunctional and the government has just fallen. So, it's not even clear there's an interlocutory. If you're the IMF and you want to help, there's no one to talk to right now. And there may not be for a couple of years. Lebanese election don't – It's not a five week process. Sometimes they have elections and then there's a year or so of coalition formation and then maybe another six months to a year of picking cabinet officers. So, they may not – Michel Aoun, he's the president, head of state and he's got a little more power than normal right now, but you don't even have a government to talk to.

And just one more point quickly, this sounds like a litany of doom and gloom. And it sort of is, but it's very factual, but we don't like to do things like this without having some positive input. And there is a possibility of building a rescue around what we call the new bank. Forget the old banks, they're too corrupt, too embedded with Hezbollah, too insolvent, et cetera, but a new bank possibly been formed under the laws of the UK or Switzerland doing business in Lebanon with a reputable board of directors, people who are untainted from civil society, with an international oversight board funded with the one and only unencumbered asset in Lebanon, which is gold. They have 200 tons of gold, 20th largest in the world, or top 20 in the world. It's worth about \$17 billion. You could take \$2 billion of that, let's say, use it to capitalize a bank, leverage it 10 to one by issuing bonds and maybe have a \$20 billion pool. That's one way out. But again, even there, it's problematic because there's no one to talk to. There's no government.

SCHANZER: That was an unbelievable description of your entire report, which is what, 55 or 60 pages. So, thank you. You just covered a ton of ground for us and answered just about every question that I had there. I mean, the one thing that I would just maybe note, and maybe you want to provide some color to this is this idea that we can potentially bail out Lebanon. I mean, when you look at these numbers, this \$93 billion, and that may be conservative. I think when you issued the report, you indicated that that actually is probably a conservative number.

RICKARDS: Right.

SCHANZER: That is astounding when you think about that the largest bailout by the IMF was Argentina and that was \$58 billion. So, you're looking at a country that is 5 million people, tiny country with very little exports to speak of, very little in the way of being able to generate hard currency. And we're talking about trying to bail this country out through traditional channels, through that traditional playbook. It seems like we're going to have to just create, I mean, you mentioned the new bank idea. That's one idea, but it seems to me that we're going to have to come up with a new structure altogether. Does that sound right?

RICKARDS: Well, that does sound right. You make a point. This bailout, again, it won't come close to being hundred cents of the dollar, but if it were, it's more than twice as large, about twice as large as Argentina, but Argentina is a real country. They actually export energy and they've got agriculture and meat and grain and wine and tourism. Argentina has a lot going for it that Lebanon does not have, unfortunately. So, you can't even imagine how you would start that. You could have something – Now this is really touching political ground and I just want to make that clear. You could have something like an international bailout fund under the auspices of maybe the United Nations and the IMF, although it would be a good opportunity for the U.S. to take a lead if we chose to. You would actually run the bailout from the outside, kind of what's going on with – as Joyce referred to with the aid for the explosion. "Yeah. We'll provide aid, but we will not give it to your government."

You could say that on a larger scale, we will provide aid, we will not give it to your government or your corrupt central bank. We will have a trust fund if you will administered by highly reputable, independent third parties. And they will selectively provide aid when needed. But two things on that really quickly.

Number one, it kind of smacks of the mandate. I know the mandate has a bad name. It's just another name for colonialism, but this is kind of financial colonialism, even though it might be the only thing that works. Number two, if we can't do something, new bank, an external fund, if we can't do something, you were looking at the greatest humanitarian crisis probably since the Great Leap Forward in the 1950s in China. This will be worse than Rwanda. You have 6 million people, 1.5 million refugees who are already in deep financial distress. You've wiped out the middle class with inflation. There's nothing left, nothing on which to build, less money comes in from outside. You're talking about starvation, no food, no medicine, no water. This is not just a financial crisis. This is bordering on a humanitarian crisis.

SCHANZER: That's bleak. Joyce, let me turn to you. We haven't mentioned Hezbollah a whole lot so far in this conversation, but when we look at the economic distress that Hezbollah or rather that Lebanon is now under. Hezbollah had a role to play here. They were basically the leaders of the last government. They've presided over a lot of this. They've infected the system. And in many ways precipitated the corruption that brought about this collapse that Jim has just mentioned. How is that being addressed right now as Lebanon grapples with all of these multiple crises. I saw the other day that there was an effigy of Hassan Nasrallah, the head of Hezbollah, being hanged in central Beirut. Do you think that reflects the general opinion right now of Hezbollah? Is the anger that palpable?

KARAM: For sure there is anger at the full spectrum of the political elite, and Hezbollah is now very much part of the status quo part of this political elite. And as you mentioned, the last government that resigned is there, as close as you get to a Hezbollah government. But I think as well as a party, as a political actor, still has many cards to play in Lebanon. They're still seeking to boost their ally, their Christian ally, President Aoun, and the former foreign minister, Gebran Bassil. And here is something interesting that happened after the explosion. We see President Aoun suggest to Trump, to President Trump, that Lebanon could be willing to demarcate the maritime border with Israel. That's new. They welcomed U.S. mediation. So, is that Hezbollah through President Aoun seeking a political exit to just let off some of the pressure and bring in financial aid? We don't know. We'll see what David Hale will do in Beirut.

But as far as the streets, as far as the protests that are happening, that we have seen way before the explosion, they started last October. They also happened in areas where Hezbollah is very strong. And there is every reason for Hezbollah to be worried right now. But on the ground, they are still the most organized party, the most organized politically and militarily. So, I'm not sure how much they've been weakened. They've many reasons to be worried, as I said, but still, if things go south in Lebanon, where you see instability and chaos, we've seen previously in the Middle East, the most organized parties step up and take control. And that could be a situation that we see in Lebanon.

But at the time being their – I think their immediate priority is to keep their ally, President Aoun, afloat, to help in some ways, to get a government that, as Tony mentioned, maybe a unity government, rather than go to early elections, which would shuffle the power structure, and weaken their hand in the parliament.

RICKARDS: If I could just drop a quick footnote to Joyce's comment, she's far more expert than I, in terms of Hezbollah on the ground, but I don't doubt that they're as strong as ever on the ground. But the fastest way to destroy or marginalize Hezbollah is to cut off their access to the dollar payment system. That access runs through the Lebanese banks. And this financial crisis that we talked about, may be an opportunity to cut off that access as part of the bailout.

SCHANZER: Yeah. And actually, I was going to ask you, Tony, if you could – Jim, in his report talked about the system. We'll put that in quotes, "the system," which is a description of the way that Hezbollah has insinuated itself into the banking system, into Lebanon's state finances. It seems to me that when we talk about the potential liabilities of Hezbollah, that's certainly one of them right now. It also happens to be one of its strengths. What's the balance sheet right now, when we look at is this the time where we can strike a blow at Hezbollah? Is it politically weak? Or is it just as strong as it was as the country burns?

BADRAN: There's no question that Hezbollah has been hit financially, has been hit in more ways than has been hit by the sanctions on Iran, has been hit by U.S. clamped down on its business and its ability to launder money through the Lebanese banks, and through its wars across the region. There's no question about that. But there is a distinction that U.S. policy makes, that is highly questionable, which is that you can surgically hit Hezbollah without touching anything else around it in the Lebanese system. And that is just a fantasy. As Jim explained, as other documents that we have from court cases, also lay out, and as we see the political configuration sort of circling the wagons, also around this unity government and their own prerogatives, you're not seeing any particular sectarian warlord break off from the bunch and attack another faction.

They're all in it together on this because they understand that this is a system that works as a whole. From the banks, to the government, to the ports, to all these various institutions. But if you are saying that – For instance, U.S. government up until this point, had a fetish about not to destabilize the banking system, it ended up falling apart on its own. The idea of protecting it, so as not to – "We're not going to hit Hezbollah there, so that we don't destabilize Lebanon," that fell apart under its own weight. It's just fictional. It's not real. But the Lebanese, to go back to something that Joyce said about the demarcation, and whether now we have an opportunity or various opportunities to score points, that weaken Hezbollah or whatnot.

These guys have, and I mean all of them, Hezbollah included, but sort of the cartel as a whole, have an interest in increased investment in Lebanon. The more you invest, the more they feel they have protection. If they can dangle things for you. Now they know, for instance, Aoun knows that Gebran Bassil is a target of U.S. sanctions potentially, right? And they know that certain people in the U.S. government aren't necessarily comfortable with that. So how do you play on this? How do you try to dangle something to avoid such an escalation? You dangle talks about whatever you want. You want to talk about maritime border? Excellent. You want to talk about investment in the Lebanese port? Fantastic. We'll give it to you. How about that?

So, all of these things, this is an old play by the way that Zarif and John Kerry played with Iran, right? I mean, you include so many international stakeholders to invest so deeply in it that you create effectively an umbrella, so that you become immune to destabilization if you like. And this is kind of what these guys are hoping for. It's what they hope for with the LAF assistance, that it gives them a cover, so that then the Israelis don't hit them. They are doing it with UNIFIL.

It's a big thing now. I mean, that's one of the other things that this whole demarcation of the border is about. Don't touch UNIFIL, don't change its mandate, don't get any more aggressive, don't do anything with it, just renew it as is. That's what the French want too.

So, you're just increasing different avenues that put this international umbrella over Lebanon. And to go back to one thing that Jim said about the mandate, I mean, many Lebanese might want this, the idea that their affairs be run by an international system of sorts, but Lebanon is not an American district, or a French district, or a UN district, or anything like that, right? Ultimately, it claims to be a sovereign state, whatever that means. And it is not up to the United States, or France, or whoever, to simply take over the functions of that state, while simultaneously saying that, "Our policy is to prop up that state."

SCHANZER: We have just not a whole lot of time left, and I still want to cover a bit more ground. I mean, one thing that I think we need to probably acknowledge here also, as we talk about all the challenges that Lebanon faces, we talked about Hezbollah so far, we've talked about the finances. But there is also the concern that we have for conflict, specifically conflict with Israel. Joyce, do you have a sense of what the appetite is on the part of Hezbollah for a conflict like that right now? We continue to hear that Hezbollah continues to stockpile new weapons, and that the Israelis are concerned specifically about precision guided munitions, and that they may need to take preemptive action.

This would, of course, I think weigh heavily on the minds of some of the international donors, Jim, that you mentioned, as they think about investing in a country that could be dragged into a war tomorrow because of an Iran backed terrorist organization. The idea that you might have to rebuild more than just the port of Beirut, but actually a lot more than that, because Israel decided to go in and take out weapons that Iran has been providing. What do you get a sense? Joyce, I mean, Hassan Nasrallah has talked about these precision guided munitions. He's taunted Israel. He continues to keep his organization on a war footing. Is that sustainable right now? And do you get a sense that that's still going to be part of Hezbollah's narrative amidst this current crisis?

KARAM: I mean, the precision guided missiles, I think it's part of what the U.S. has been pressing the Lebanese government to just go and shut down or confiscate. But it's not something that either the Lebanese government or the Lebanese army is capable of doing because of the immense influence that Hezbollah has in the country. So, I don't know if you can bring this forcefully to the negotiating table, and any kind of economic discussions or a bailout. What you could do, and this is something that the IMF is requesting, is digitizing and monitoring ports of entry. The airport, the new port. Who's going to get the contract to build the new Beirut port? I mean, this does present, I think, an opportunity to at least build something that does not include tunnels. I mean, I don't know if you saw that video by Sky News, but the Beirut port had tunnels, and it wasn't for an aquarium or anything like that.

So, in that sense, you could use the explosion to improve mechanisms that prevent arms smuggling. As far as conflict with Israel, I don't know why Hezbollah would want that at the time being. Despite the economic crisis, they're comfortable in the power structure they have in Lebanon at the moment. They want actually to renew the UNIFIL mandate and they're busy in Iraq, and Syria, and Yemen and other places. I think their immediate goal is still to maintain the levers they have at the moment, and protect their allies, whether that's the speaker of the house, Nabih Berri, or the president, Michel Aoun.

So, this is still the umbrella that Hezbollah is operating under. The biggest threat to them is coming from the street, from the protestors, who want change, and who want to see structural change, and not just recycling of the government by bringing a different four photos of leaders that have been with them through all their lives. So, this is the equation of

where Lebanon is headed right now. And it's important for U.S., France, others, to steer the country in the right path, or this will just be another crisis in Lebanon.

BADRAN: And one of the things to remember also, is that this aid that's being brought now, it's so multifaceted that you have fuel, wheat, medicine and other commodities, a lot of which incidentally are government subsidized. So now you are taking off the central bank and the government, the pressure of having to go through non-existent foreign hard currency in order to finance imports, because now you're bringing in some of these things, potentially enough for the next three, maybe more, months. So maybe towards the end of the year even. So now, ironically, the pressure on them to have to alter much as they're negotiating is being taken off, as we, like I said, move stealthily away from humanitarian assistance to open-ended subsidies.

SCHANZER: Let me just turn back to the precision guided munitions issue for a second. I mean, Joyce, I suppose I take your point that Hezbollah's in a position where they are probably more powerful than they've ever been and why provoke a conflict that could weaken them? But these PGMs, the Israelis have made it very clear that they can hit within 10 yards of their intended target, that they can potentially evade iron dome or some of these other defenses. And they've made it also very clear that this is the second most important threat to Israel other than the Iranian nuclear program. They've called it a game changer. The language that they've used has been – let's just put it – we can say it's been alarming.

So, the question is, how do you get rid of these? And, Tony, this brings me back to a question that I want to ask you, which is, we have the LAF, the Lebanese Armed Forces, they're funded by the United States. The U.S. taxpayer funds the LAF. It should in theory be on the LAF to remove these weapons. By the way, it should probably be on the LAF to remove the 150,000 rockets that Hezbollah has stock piled the unguided rockets that it stockpiled over the last 10, 15 years or so. If we are of the opinion now that the LAF can't do this and that this is a crisis waiting to happen, what's the answer?

BADRAN: Well, that's the \$64,000 question. So, the idea that we are building up the LAF to do something that actually it can never do raises this question about, so what is it that we're doing? And that's why you hear then people change the subject. Well, it's actually to defend against jihadis from Syria, and that's great. They're doing a great job there. Or it's to defeat the narrative of Hezbollah, very nice, whatever that means. Or it's to protect the protesters even as the LAF beats them up in the street. So that's where things kind of go haywire. But one of the interesting things also about this policy is that for some of its proponents in the U.S. government, it is actually predicated on an Israeli attack, meaning that you are building up the LAF for the day after an Israeli attack.

So, it's not in order to prevent an Israeli attack by doing its job. It's rather to be – they assume it's completely a misguided assumption that the LAF is going to be able to do any such thing even after an Israeli attack, but they assume then that if you have a partner after Israel decimates Hezbollah, that's when the LAF springs into action. And what it is, the reason why all of these ideas are fundamentally flawed is because they don't understand the nature of the government system in Lebanon. The sociopolitical thing that we call the Lebanese state, it's not. It's just a consortium of sectarian families and their loyalists that they represent in what they call the government. And that's it. And the LAF is responsive to that consortium. It doesn't act beyond it. It doesn't act against it.

That's why it only acts against jihadis because the jihadis have no place in the political consortium of Lebanon. They're easy to go after. Whereas if you say any, the smallest actor within the political consortium, if you tell the LAF, "Go after that" they can't do it. The LAF is predicated on paralysis, which is why the whole policy is completely flawed and a waste of U.S. taxpayer money.

SCHANZER: Joyce, I'm going to give you a chance to respond. You look like you had a few thoughts there.

KARAM: If you look at the history of Lebanon, I wouldn't just negate the role that the Lebanese armed forces, the Lebanese military as an institution plays in the stability of Lebanon as a credible institution and a country that's run by mafia lords. I don't disagree with that part, but partly we went into civil war. We went and were disbanded into militias because we didn't have a strong military establishment for the state. So yes, there are so many shortcomings for the LAF, but you can't just cut the lifeline to an organization that is now holding Lebanon together. Even after the explosion happened, who went to the blast? Who protected the area? It was the LAF. They do everything. Even when clashes in Tripoli happened, it's the LAF. Even after the 2006 war, we've seen them more present in the South and in some areas in Beirut, is that enough? Of course, not.

But they also don't operate in a political vacuum. For the LAF to be strengthened, for the LAF to carry its role, whether it's on the borders, whether it's countering Hezbollah, it needs political umbrella, it needs political decision-making. And we haven't seen that yet in Lebanon, but if you got the funding to the LAF now, I think you're only contributing to instability and you're going to inadvertently play into the hands of Hezbollah. So, I don't discount the weight of this debate or this dilemma where there need to be reforms even within the LAF. But I don't think we have easy answers in branding the LAF one way or another.

SCHANZER: Yeah. I don't think that there will be any easy answers on this, nor – well, we didn't even get to it today. The question of the United Nations forces in Lebanon, this 10,000 strong force that costs 5 billion, sorry, a half billion dollars a year to maintain in Lebanon, which hasn't stopped his Hezbollah from arming up and posing a threat to the Lebanese people, not to mention to Lebanon's neighbors in Israel. I want to take the last five minutes here to just – I want to ask you all the same question, a quick round robin lightning rounds. And that is the question of what has the U.S. done right? What has it done wrong? And what it should do next. Jim, I want to start with you on the economic front. I think we're just at the beginning of the process here, but how would you critique U.S. policy this far?

RICKARDS: The U.S. hasn't done a lot right. We haven't been that proactive in the area. We've done a few things wrong. And the first thing I would point to is allowing the Lebanese banking system continued access to the dollar payment system through the U.S. correspondence. And it's not a secret as JP Morgan city back in New York, Mellon, HSBC, which technically is not a U.S. bank but has a huge presence here. I'm not saying that the United States should cut off access to all banks all at once, even though they are corrupt, but we could continue down the path of selective sanctions, pick a bank at a time, sanction that the evidence is there, there's enough intelligence gathering, other information to do this, cut them off from the dollar payment system and let them fall one by one as a way of at least reducing, if not eliminating Hezbollah's access. That would send the right message and will actually boost the role of civil society in trying to clean this up.

SCHANZER: Joyce, your thoughts.

KARAM: Just by talking to activists on the ground, protesters, I think what they see as the U.S. has done right is support for those on the ground, support for their cause, support for change. That support has not gone unnoticed, and sidestepping the government and sending the aid has also been welcomed by the protesters. What's done wrong in the view of the protesters as well, for example, last December when David Hale went to Lebanon and held two hours and I think it was seven minutes meeting with former foreign minister, Gebran Bassil, that was seen as a kiss of death for the people in the streets, that this is the guy that they're chanting and rallying against day at night. And here is the U.S. holds a lengthy meeting with him.

And then weeks after we see a government that's pro Bassil and pro Hezbollah take place. So, the balance for, I think that the compass for U.S. policymaking should still be the street in Lebanon, should be these people that are not tainted by the political corruption of the last three decades. Is that going to happen? I don't know. We all have cynical views about how Washington operates, but if you want long-term and you want change in Lebanon, this is the only fast forward.

SCHANZER: Arab Spring 2.0 it sounds like. Maybe, right? Tony, let me end with you, your critique of U.S. policy and what next steps should be.

BADRAN: I think the good thing that the United States has done in addition to all the various sanctions that it has placed on Hezbollah to try to kind of choke its revenue, and today the story that we saw in *The Wall Street Journal*, where it's talking about designating, not just Hezbollah allies like Gebran Bassil, but people who are also around former prime minister, Hariri, which means that there's a recognition that the system that allies and so called opponents of Hezbollah are all one of the same essentially, part of the same system. That is good. But the danger in what the United States is doing is to use a word that Joyce just used earlier, the idea that there's an opportunity right now, and that this opportunity can be pursued through further investment and tweaking of sort of moving around of the deck chairs within the Lebanese system.

That is one of the main temptations of Lebanon that will lead you to crash hard invariably. Resist the temptation to deepen your investment in Lebanon. Support people's demands and keep out of the way in that sense while keeping the pressure on all of the guys and the elite that the people are chanting against and resist the temptation to increase, if anything cut off, like UNIFIL, just cut it off. Don't renew it. And with the Israelis, the same thing, don't increase your investment in Lebanon, just stay out of the way. If the Israelis want to hit that's their business, they don't to hit that's also their business. That I think is my main advice to resist the temptation that now we have an opportunity. It's simply we invest smartly here, or there or so on. That always leads to failure.

SCHANZER: Okay. Well, we're going to have to leave it there. I want to thank, on behalf of FDD, I want to thank you, Jim Rickards, and Tony Badran and Joyce Karem for what has been a fascinating conversation. And for those of you that have tuned in here, please keep an eye out for future events by FDD. You can find them on our website, fdd.org. And until the next time, thanks for joining and stay safe.

KARAM: Thanks, Jon.