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The Embassy Closings

In the first week of August, the Obama administration announced the closing of 22 embassies and consulates across the Middle East and North Africa.



According to reports, the administration had received credible threats that suggested a high probability of an attack on U.S. diplomatic posts.

The dramatic decision to close such a large number of embassies and consulates raises a number of concerns and questions. Issues include, “What is the role of the embassy?”, “Is al Qaeda recovering?” and “Is there an important back-story in these closings?”

In this report, we will discuss the role of the embassy for a superpower, the return of al Qaeda, including its strengths and weaknesses, the nature of the terrorist group’s intelligence and an examination of other actions that may be behind activities in

Yemen. As always, we will conclude with potential market ramifications.

What Does an Embassy Represent?

During the Cold War, embassies were designed to represent the strengths of their respective nations. The U.S. tried to build highly accessible buildings in city centers. The goal was to project a strong and confident nation to the world. In a world dominated by a superpower duopoly, the aim was to use every means available to show the relative attractiveness of your nation and system compared to the competition. The advent of nuclear weapons meant that a superpower duopoly could not be resolved by war and unconditional surrender. A power on the verge of losing would have a compelling incentive to unleash a nuclear strike to ensure that, even in a losing cause, one’s enemy would be destroyed. Early in the Cold War, George Kennan, the architect of Soviet containment, argued that, ultimately, capitalism and democracy would win over communism and socialism because of moral superiority. Embassies were built to project that sentiment.

Embassies were often the target of espionage but rarely outright attacks during the Cold War. There were obvious exceptions, like the attack on the U.S. embassy in Tehran during the Iranian Revolution and the 1983 Beirut embassy bombing. During the Cold War, most terrorist activities were usually state sponsored. The Soviets, for example, supported the Red Army factions that operated in Europe.

In most cases, a terrorist attack on an embassy would be considered a direct assault by one superpower against the other. The risk of attacking an embassy is that it could escalate into a superpower conflict. Thus, there was little incentive to attack an embassy and take that level of risk. This factor, along with the notion that embassy facilities should reflect confidence and openness, led embassy architects to focus less on security.

After the Cold War ended, the nature of terrorism changed. An increasing number of terrorist groups became independent of state control. Terrorist groups, such as al Qaeda, began targeting embassies because they were easy marks. Al Qaeda's 1998 attacks on U.S. embassies in Dar es Salaam, Tanzania and Nairobi, Kenya were prime examples of the new environment.

Embassy construction began to change even before the Cold War ended, reacting to the Beirut embassy bombing and the attack on the U.S. embassy in Tehran. Admiral Bobby Inman, a respected military intelligence figure, wrote the Inman report which established new security standards for embassies. These security concerns increased after the 1998 embassy bombings. Today, embassy construction is most concerned with security, a reflection of a world where the only superpower is essentially creating targets for terrorist groups.

The Return of Al Qaeda

Al Qaeda peaked with 9/11. The core al Qaeda was a tight-knit group of highly trained operatives that were able to carry out large-scale attacks. These included the aforementioned African embassy bombings, the attack on the USS *Cole* and, of course, the attacks on the World Trade Center and the Pentagon in 2001.

However, the overthrow of the Taliban in Afghanistan denied al Qaeda its base. The number of operatives lost in all the attacks became problematic. The success of al Qaeda was based on operational security. The founders, Ayman al-Zawahiri (the current leader) and Osama bin-Laden, had worked with the CIA, the ISI and Saudi intelligence during the Soviet-Afghan War. They were well aware of the ability of these agencies to penetrate terrorist groups and foil their plans. To prevent this from happening to al Qaeda, the core group did not accept new members easily. Unfortunately for the group, members killed either in operations or by counterterrorist activities were hard to replace. The loss of trained operatives, coupled with al Qaeda leadership's increasing isolation due to the ouster of the Taliban in Afghanistan, severely weakened core al Qaeda.

In the face of these actions by the U.S., al Qaeda has steadily evolved. The first evolution was the creation of a franchise type operation where various violent jihadist groups would accept the al Qaeda name (e.g., al Qaeda in the Maghreb, al Qaeda on the Arabian Peninsula) but would generally lack the training and operational security of the original core group. Although potentially dangerous, the focus of these groups is primarily local. They are probably not capable of attacking a Western nation directly. The second evolution was to inspire local jihadists to launch attacks within Western nations. Improved customs security and signals intelligence made it very hard for al Qaeda to insert a fully trained operative into the West; the risk of losing an expensively trained operative at the border is simply too high. Instead, al Qaeda is trying to inspire jihadists to launch attacks. These operations tend to be low cost. Although the odds of any single attack working are rather low, the hope is that the

number of events will be large enough to overwhelm local law enforcement and terrorize the population. These fellow travelers can be dangerous but usually inept. Several conspiracies have been penetrated by law enforcement and prevented from launching attacks. On the other hand, the Tsarnaevs' attack in Boston and Major Hasan's shooting rampage at Fort Hood show that these local jihadists can carry out successful terrorist attacks.

President Obama has been trying to argue that al Qaeda is a sharply diminished threat. In one sense, this is true. It is unlikely that al Qaeda will ever be able to outdo the attacks of 9/11. On the other hand, a diminished threat does not mean an eliminated threat. Al Qaeda franchise groups can still attack allies and Western targets in areas where these groups reside; embassies make particularly attractive targets.

However, there are some developments in the recent embassy warnings that suggest al Qaeda leadership may be able to engage the franchise groups. Media reports suggest al Qaeda leadership held a "conference call" among some 20 operatives to discuss strategy and tactics. This news was stunning, although later reports suggested it wasn't a telephone call specifically, but clearly a joint communication.

Later reports hinted that "Tor," which is free software that can offer online anonymity, had been penetrated by the FBI and perhaps the NSA. The FBI wants to penetrate Tor because it is often used by pedophiles to share child pornography. However, there is some speculation that al Qaeda may have used Tor for these communications. This may explain the "conference call" report.

If true, however, this news raises more questions than it answers. If Tor was penetrated it would be reasonable to assume that the locations of the participants are now known. If so, why are they still alive? It may be that Tor wasn't penetrated but the U.S. wants al Qaeda to believe it is so they will cease using it, or that the content but not the location was revealed. Or, Tor wasn't penetrated at all but the call was exposed by a mole inside al Qaeda. The Tor penetration speculation may be designed to offer cover to a spy.

Another development of interest is that there has been a rash of prison breaks over the past few months. Al Qaeda has reportedly launched prison breaks in Iraq, Libya and Pakistan over the past two months. Given that training operatives is expensive, releasing them from prison is an attractive option. To some extent, the embassy warnings closely followed these prison breaks. The current political turmoil in North Africa and the Middle East, caused by the Arab Spring, means that prison security has probably been compromised.

Thus, what we are seeing is a recovery in al Qaeda. The age-old debate within al Qaeda, of either attacking local governments or hitting the West to undermine support, seems to have been resolved toward the former. Although Western interests in North Africa and the Middle East, such as embassies, oil installations, hotels, et al., are likely targets, it does not appear that direct attacks in Western nations by the current franchise of al Qaeda is likely. This does not mean al Qaeda isn't dangerous; it just means that it isn't as powerful as it was prior to 9/11.

Yemen

There are clearly significant terrorist and counterterrorist actions occurring in Yemen.

Drone strike activity is high and the BBC has reported that U.S. counterterrorism operatives may have been deployed.¹ The U.S. seems to have a special interest in Ibrahim al-Asiri, the master bombmaker who was reportedly responsible for several innovative bombs, including the “underwear bomb,” bombs implanted in suicide bombers and a nearly undetectable bomb placed in computer printers. In addition, the U.S. appears to be looking for Nasir al-Wuhayshi, the leader of al Qaeda in the Arabian Peninsula (AQAP).

There is some speculation that the U.S. may be using the embassy threats as a cover to move counterterrorism assets into Yemen to cripple AQAP. A marked increase in drone strikes has occurred in Yemen, which seemed to closely follow the al Qaeda “conference call” reports. It does appear that AQAP has become the most dangerous of the local al Qaeda franchises and a direct U.S. response would make sense. If it is true that the embassy closures were made, in part, to obscure security operations in Yemen, we would expect a steady stream of warnings until conditions in Yemen change.

Ramifications

Although the Obama administration has tried to make the case that the war against “terrorism” is being won and will someday come to a close,² the reality is that the war against terrorism will never exactly be won because terrorism isn’t a target, it’s a tactic. In this speech, the president outlined his position against groups that use terrorist tactics. He noted that core al Qaeda has been significantly weakened, but the franchises have emerged as a replacement.

¹ <http://www.bbc.co.uk/news/world-middle-east-23597043>

² Given on May 23rd at the National Defense University, Washington, D.C.

From there, he discussed drones and how they will be used going forward.

The problem America faces is that it is the world’s only superpower, the only country in the world that can project power virtually anywhere. As recent conflicts have shown, it is nearly impossible to defeat the U.S. in a conventional war. Thus, enemies of the U.S. either accommodate America or attack it through unconventional means.

The actions taken by the Bush and Obama administrations have reduced al Qaeda and other affiliated groups’ ability to directly attack the U.S. At present, attacks against the U.S., in particular, and the West, in general, are facilitated by “home grown” jihadists; usually, these terrorists lack the skills to deliver large-scale attacks. As noted above, most jihadist groups have been penetrated by law enforcement. The most dangerous have tended to be “lone wolf” attacks or very small groups with familial affiliations.

However, neither administration can point to much success in protecting American interests in the emerging world. As noted above, embassies have become fortresses. Foreign investment by Western firms in emerging economies will remain at risk.

Essentially, what the recent embassy warnings show is that the jihadist threat will be with us for a long time and terrorism will remain the preferred tactic, simply because it is the method used by those without the power to confront their opponent conventionally. From a market perspective, terrorism events will tend to have a diminishing impact over time. Bombing of oil installations (refineries, pipelines) or attacks on the transportation infrastructure in foreign nations will occasionally cause price volatility. However, we would expect the

impact to lessen over time as markets adapt and discount the impact of terrorist events.

Bill O’Grady
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