

**Remarks by Ambassador Dennis Ross
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United States Institute of Peace
The Challenge of Iran - Event
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As Prepared for Delivery –

Thank you very much for inviting me here for the release of the Iran Primer. One of the most interesting sections of the Primer details how each administration since President Carter has dealt with the challenge of Iran. Throughout the last 30 years, one of the fundamental problems we have faced in dealing with Iran has been the absence of regular contacts with Iranian officials. This lack of contact has fed mutual suspicion and made it particularly difficult for both sides to interpret signals we were sending each other, particularly at times of high tension in the region.

When the Obama administration came into office, the President sought to change that dynamic by offering to engage Iran unconditionally on the basis of mutual interests and mutual respect. We made an unmistakable offer of engagement to the Iranians to show their government – and the rest of the international community – that we were committed to resolving our long-standing differences with Iran through peaceful diplomacy. We recognized that during the years of not talking, Iran significantly expanded its nuclear program and continued to sow its breed of terror and coercion across the region. We also recognized that our reluctance to talk – and not Iran's behavior – had become the focus of attention.

Engagement therefore made sense for several reasons:

- It would allow us to explain ourselves to Iran and the Iranians to us without a third-party having to do so.
- It would allow us to make clear that we were prepared to respect Iran's rights, but Iran also had to live up to its responsibilities.
- It would create an opportunity to lay out to Iran that it could choose a very different pathway and future. But it could not escape a choice.

Our willingness to engage has very much been designed to change the realities with Iran. Our aim has not been to humiliate or put Iran in the corner. But we also sought to be very clear: If Iran stays with the path of defying its international obligations, it will pay a price. Clearly, our willingness to engage also made it easier to mobilize international support for our policy and our approach. Unfortunately, Iran to date has not been willing to choose a path of greater possibility and responsiveness to the international community. It has yet to embrace a position favoring transparency and peace. On the contrary, we see behaviors that signal the opposite.

Iran continues to provide incomplete information about its nuclear program to IAEA inspectors and has not addressed the IAEA's concerns about possible military dimensions to its nuclear program, which were reiterated in the IAEA's most recent report issued just last week. The Iranian government's continued repression and intimidation of its own people following the presidential election last year demonstrated the lack of respect it shows even to its own citizens. And in the Middle East, Iran continues to rely on tactics of intimidation and coercion to gain influence, a pattern on display during President Ahmadinejad's provocative recent visit to Lebanon and its ongoing support for Hizballah.

The combination of our diplomatic initiative and Iran's behavior has helped build a broad-based international coalition that is now imposing significant pressure on Iran to change its behavior.

But that coalition did not emerge by itself. It required President Obama's commitment and leadership on this issue, which he views with the utmost concern. The President has stressed many times that "We are determined to prevent Iran from developing nuclear weapons," because he recognizes the profoundly destabilizing impact of a nuclear Iran in the Middle East and the serious consequences it would have to our global non-proliferation aims. Since taking office, the President has consistently devoted more time to Iran than almost any other national security challenge. It has been a focal point in his many meetings and conversations with President Medvedev of Russia and President Hu of China, with our European partners, and other key international leaders around the world. The President's focus on this issue has been matched with the same level of intensity by the rest of the administration, especially Secretary Clinton, who tirelessly orchestrated our diplomatic campaign.

As a result of these efforts, we produced United Nations Security Council Resolution 1929, which established the most comprehensive set of sanctions on Iran to date.

UNSCR 1929 bans a wide range of Iranian activities including ballistic missile activity, Iranian investment in nuclear industries abroad, and the export of certain heavy weapons to Iran, which the Russians in particular have used as the basis for canceling the sale of the S-300 advanced air defense system to Iran.

The resolution provides mechanisms for inspecting Iranian cargo and seizing contraband. For the first time, the resolution highlights the potential linkage between Iran's energy sector revenues and procurement, proliferation, and its nuclear activities. And perhaps most significantly, the Resolution sharply limits the ability of Iran to use the international financial system to fund and facilitate nuclear proliferation activities.

Following the passage of 1929, we have seen the EU, and others in the international community from Australia, Canada, and Norway, to Japan and South Korea adopt additional measures of their own. The EU prohibited the opening of new outlets of Iranian banks, the establishment of any new correspondent accounts by Iranian banks, and the provision of insurance or re-insurance to any Iranian entity. The result of these measures has been that Iran is no longer able to conduct business as usual abroad.

The Comprehensive Iran Sanctions, Accountability, and Divestment Act, which the President signed on July 1, has significantly amplified this effect by making it increasingly difficult for companies doing certain business in Iran to do business with the United States. This was a completely bipartisan bill indicating that the entire American political spectrum views the challenge of Iran as a foremost national security priority of the United State.

There is no doubt that the scope and intensity of the sanctions surprised Iran. Iran thought it could divide the permanent members of the Security Council and avoid sanctions. It was wrong. Iran thought it could stop Security Council action by belatedly issuing the Tehran Declaration with Turkey and Brazil to exchange some of its Low Enriched Uranium for fuel for its aging research reactor. But Iran took months to accept what could have been an important confidence-building step, making the arrangement far less valuable as it continued to stockpile additional LEU in the interim. And Iran never fully addressed our concerns about the terms of the fuel swap. And finally, Iran did not believe that the UN sanctions would be amplified to such a degree by the EU and other important actors or implemented internationally to the extent we have seen to date. Here again, Iran was wrong.

As a result of UNSCR 1929 and the additional sanctions measures, Iran has lost significant business, financing, and much needed technical expertise critical to developing its economy. The government's own economic mismanagement is getting worse and inflation and unemployment continue to rise. Let me list some of the consequences of the multilateral sanctions structure:

- Across a range of sectors, more and more international companies and foreign subsidiaries of American companies have recognized the risks of doing business with Iran and have cut ties with Iran. These include: Toyota, Kia, Daimler, Siemens, Lukoil, Allianz, GE, Honeywell, Caterpillar, and many others.
- Today, Iran is effectively unable to access financial services from reputable banks, and is finding it increasingly difficult to conduct major transactions in dollars or Euros. Several international financial institutions, including BNP Paribas, Korea Exchange Bank, Lloyds, and Societe Generale have announced the curtailment of their business with Iran.
- Major fuel suppliers, such as Total and TUPRAS are cutting back fuel shipments to Iran, forcing Iran to divert its own fuel production capabilities to cover domestic needs. And several European jet fuel suppliers have canceled fuel delivery contracts with Iran Air.
- Iran's inability to pay loans and maintain insurance coverage led to the recent seizure of three IRISL ships in Singapore.
- Investors in Iran's energy sector from around the world are pulling out of projects, making it far more difficult for Iran to modernize its aging energy infrastructure or develop new oil and gas fields despite significant reserves. These include Royal Dutch Shell, the Spanish firm Repsol, the Japanese energy firm INPEX, and the Italian multinational ENI. Tens of billions of dollars in oil and gas development deals have been put on hold or discontinued in the last few years.

- In late September, the Iranian rial experienced a sudden drop in value by 10-20 percent in street trading, and the Central Bank was forced to intervene to stabilize the currency. Iran is struggling to sell its currency abroad and access hard currency from its traditional suppliers. The dip in the rial was also influenced by public anxiety over access to hard currency. The Iranian people are concerned that their government cannot manage the economy.
- The Iranian government is struggling to implement its long awaited subsidy reform plan, which will force it to significantly raise prices on heavily subsidized gasoline and other items. However, the government keeps delaying price hikes over fears of public unrest. With high unemployment and inflation, Iran has little margin for error.

In short, the pressure on Iran only continues to grow. As my colleague Stuart Levey from the Treasury Department circles the globe explaining sanctions measures to governments and companies, and highlighting the risks of doing business with Iran, we expect that more foreign financial institutions and companies will continue to cut ties with Iran.

We are not pursuing pressure as an end or as an objective of its own. Iran has an opportunity to alleviate these pressures and chart a different path. We hope it will use the P5+1 meeting in the coming week to give diplomacy a real chance. The President has made it clear that we will engage seriously but will not talk merely for the sake of talking.

Iran has the opportunity to have its rights acknowledged. It has the opportunity to be integrated into the international community or face further isolation; it has the chance to benefit technologically, financially, and politically, and not continue to be ever more squeezed economically. Iran can gain much by fulfilling its international obligations or it can continue to pay an increasing price by continuing its pursuit of nuclear weapons.

Now is the time for Iran to be ready to talk seriously. Now is the time for Iran to respect its own people and restore the respect of the international community. Now is the time for Iran to signal its goodwill, and if it does do that, such goodwill will surely be matched by ours.

Thank you very much.