



UNITED STATES
INSTITUTE OF PEACE

STIMSON

ENGAGEMENT, COERCION, AND IRAN'S NUCLEAR CHALLENGE

REPORT OF A JOINT STUDY GROUP
ON US-IRAN POLICY

BY BARRY BLECHMAN
DANIEL BRUMBERG

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Preface

We are pleased to present *Engagement, Coercion, and Iran's Nuclear Challenge*, the product of a year-long collaboration between the US Institute of Peace's Center for Conflict Analysis and Prevention and the Stimson Center.

The report offers insights into the enduring challenge that faces the United States and the international community: How to persuade the Islamic Republic of Iran that its long term interests would be best served by resolving issues related to its nuclear activities. This report offers a clear path forward, a manner of recalibrating US policy that can steer away from the rocky shoals of either a defiant, nuclear-capable Iran, or the inevitability of conflict to prevent that outcome. It is premised on some basic assumptions: Iran's complex internal politics, fundamental international relationships, and fervent belief in its legitimate right to peaceful nuclear activities are not likely to change soon; that Iran's leaders may not yet have determined how far to proceed towards a nuclear weapons capability and may be divided on the issue, and thus there is still time to shape Iran's calculations; and the policies the US has pursued over many years have so far failed to diminish Iran's commitment to its nuclear program.

On this basis, the study group analyzed the most important factors that could lead to better outcomes from the perspective of US interests, and offers its best advice about how to conduct a more effective policy. The report is not intended to be a tactical blueprint for talks between Iran and the international community, but to focus attention on the larger purposes of US policy and to offer our judgments about how to achieve better outcomes. The study group members are well aware that success in preventing a nuclear armed Iran is by no means assured. It is their hope that this report offers some insights and ideas that might move the odds in a more favorable direction.

The study group was led by Stimson co-founder and distinguished fellow Barry Blechman, and Daniel Brumberg, senior advisor to USIP's Center for Conflict Analysis and Prevention. They were joined as a contributing author by USIP vice president for grants and programs Steven Heydemann. The three leaders organized a distinguished group of nearly 50 experts into three working groups: Internal Politics and Iranian Foreign Policy (Brumberg), Iran's Regional and Global Relations (Heydemann), and US Policy Options (Blechman). Each working group attempted to shed light on the most important factors that shape or constrain US policy. They brought deep knowledge about how these issues are viewed in the complex and sometimes contradictory world of Iranian politics and interests. We hope their insight will provide some new and unique perspectives into this daunting problem set.

To ensure a coherent and compelling report, we did not strive for formal consensus on the text by all the participants. We present the findings of the principal authors with the understanding that their judgments are broadly supported by the other members of the study group, although individuals may disagree with specific recommendations. The study

group members are listed along with the report of the group in which they participated later in this volume. We are deeply grateful for the commitment of time, effort and goodwill provided by all the members, for their lively debates and deliberations, and for their important contributions to the drafting process and vetting of policy recommendations.

In addition, the study benefited from the technical advice of a small group of experts on the energy situation in the Middle East, organized by Amy Jaffe, the Wallace A. Wilson Fellow in Energy Studies at the James A. Baker III Institute for Public Policy at Rice University. Their report appears in the appendix to this volume. We are grateful for their help. We also wish to acknowledge with gratitude the able research staff at USIP, Abi Williams, Semira Nekou, Leslie Thompson, and Steven Riskin, and at Stimson, Andrew Houk and Carrielyn O'Connell.

The US Institute of Peace and the Stimson Center have worked together for many years on a wide range of peace and security issues. We share a commitment to nonpartisan research and analysis, and the search for pragmatic and actionable policy ideas that can make meaningful contributions to those entrusted with the responsibility for ensuring international peace and preventing conflict. Finding a constructive outcome to the longstanding dispute between Iran and the international community over its nuclear activities in a way that addresses the vital interests of our friends and partners in the Middle East is no simple matter. This report will not be the last on the subject, but we believe its policy recommendations provide an achievable set of course corrections that could enhance prospects for success in engaging Iran.



Richard Solomon
President
US Institute of Peace



Ellen Laipson
President and CEO
The Stimson Center

Executive Summary

US Iran policy has been long on the tactics and techniques of sanctions and short on a clear, coherent, strategic vision of the kind of US-Iranian relationship Washington ultimately wants. Without defining that vision—and the most effective balance of incentives and punitive measures needed to get there—US policy toward Iran will continue to drift toward a choice between two unpalatable outcomes: (i) the use of military force, or (ii) policies that seek to contain and deter Iran after it has succeeded in acquiring a nuclear weapons capability.

Successive Democratic and Republican administrations have deployed a “two-track” approach to Iran’s nuclear program: Seeking to negotiate an arrangement that would reassure the international community that Iran’s nuclear program is truly only peaceful in scope, while orchestrating international sanctions and other punitive measures to raise the cost to Iran for its continuing intransigence. President Obama deserves much credit, both for his initial efforts to revive the “benefits” side of this dual track approach and for his subsequent orchestration of a much tougher set of sanctions by the United Nations and by individual nations. However, for a host of reasons, not least of which is Tehran’s unwelcoming response to the administration’s early engagement efforts, US diplomacy has come to rest largely on punitive measures.

This emphasis on sanctions and related coercive steps is unlikely to elicit the cooperation from Tehran that Washington seeks. Indeed, the great challenge facing the administration is to muster its own policymakers behind a package of incentives sufficiently robust such that those voices in Iran’s leadership who might back sustained and serious negotiations can make their own case for saying “yes.”

A group of distinguished scholars and policy analysts convened under the direction of the Stimson Center and the United States Institute of Peace has concluded that the administration must rebalance its dual-track approach to be effective in future relations with Iran. Seeking to chart a more promising course, the study group argues for a policy of “strategic engagement.” This policy calls for the following related steps:

1. US and European leaders should communicate a comprehensive picture of what Tehran has to gain from a mutually acceptable agreement on the nuclear issue. Such an effort cannot be piecemeal. Instead, it must spell out a wide range of incentives that Washington and its allies would be prepared to support in return for clear and sustained evidence of Tehran’s cooperation.
2. Washington should signal its clear—if also clearly conditional—acceptance of Iran’s enrichment rights, providing that Tehran negotiates verifiable limits on the degree of enrichment and on the volume of enriched fuel stored in Iran. Given the secretive history of Iran’s nuclear program, the US and its allies also are entitled to demand

clarification of the questions raised by the IAEA, a complete declaration by Iran of its nuclear activities, including any weapons-related activities, an audit of that declaration by the IAEA, and Iran's implementation of the Additional Protocol to its Safeguards Agreement with the IAEA.

3. Washington also should indicate its readiness to discuss a range of issues of potential mutual concern to the US and Iran. These could include Afghanistan, the international drug trade, and the challenge of promoting the more effective use of conventional energy in Iran and the Middle East at large.
4. The P-5+1 talks provide the appropriate initial venue for discussing the nuclear issue and for advancing additional measures. But Washington should be prepared also to pursue direct talks with Tehran in appropriate bilateral forums. US diplomats in third nations and in multinational organizations should interact with their Iranian counterparts in the normal course of business.
5. While pursuing diplomatic engagement, Washington should continue to sustain the sanctions and other punitive measures that clearly and effectively signal to Tehran a real geo-strategic, diplomatic, and economic cost for failing to cooperate on the nuclear issue. These measures should be pursued through prudent actions rather than through a language of confrontation, threats, or insults. Threats and coercion will be far more effective if they are implicit rather than explicit: a key element of over-all US policy, but not the sole basis of that policy.
6. In the absence of diplomatic success, some have suggested that the US should consider military action against Iran. While US military leaders must plan for every contingency, air strikes intended to destroy Iran's infrastructure, whether by Israel or by the United States, would cement Iran's determination to acquire nuclear weapons, likely end the prospects for a democratic revival in Iran indefinitely, and result in significant military, political, and economic harm to the US and its allies. Official references to "military options" only undermine those in Tehran who might otherwise argue for negotiated solutions to the nuclear issue.
7. All of the above measures should be accompanied by words and actions that clearly signal continued US geo-strategic support for its regional allies, including intelligence sharing, joint military planning and training, and advanced weapon sales. Israel and the Arab states must be reassured that a policy of strategic engagement that secures a negotiated end to Iran's weapons program will enhance their security.

Strategic engagement will face many hurdles. If it does not succeed, the measures set out in this report will provide a foundation for a policy of deterrence and dissuasion. If, however, strategic engagement helps to advance a comprehensive solution to the escalating stand-off with Iran, it will be far preferable to a march towards war or to a policy directed at deterring Iran after it has succeeded in acquiring a nuclear-weapons capability.

Report of the Study Group



Members of the Joint Study Group on US-Iran Policy

Working Group on Internal Politics and Iranian Foreign Policy

Chair: Daniel Brumberg

Members

Ali Alfoneh	Afshin Molavi
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Readers should note that while this report is broadly supported by all the members of the working group, only the chairman is responsible for the specific wording of the analysis and recommendations. Individual members of the group may disagree with one or more of the recommendations.

The Challenge of Strategic Engagement

Daniel Brumberg

The United States and Iran have been at loggerheads since the birth of the Islamic Republic in 1979. Each state harbors concerns rooted in past actions and perceived slights, and in a basic clash of geo-strategic interests. Tehran's efforts to evade international scrutiny of its nuclear program have intensified US-Iranian tensions while alarming Iran's regional neighbors.

The US has pursued a two-track policy to respond to this challenge. On the one hand, it has secured growing international support for trade and financial sanctions, thus raising the cost to Tehran of its failure to cooperate. Also on the punitive track, the US has hinted at times that it might consider air attacks on Iran's nuclear facilities. On the other hand, the US has sought to engage Iran diplomatically, in the hope that inducements will persuade Tehran to endorse a mutually acceptable solution to the nuclear issue.

This dual track approach dates back to the presidency of Bill Clinton and was renewed during the last years of the administration of George W. Bush. But it gained expanded vigor and global diplomatic salience when President Barack Obama, in a March 2009 televised broadcast to the Iranian people, welcomed a "diplomacy that addresses the full range of issues before us," and committed the US "to pursuing constructive ties among the United States, Iran and the international community."¹

Insisting that Obama's offer was not serious, Iran's Supreme Leader Ayatollah Ali Khamanei dismissed the president's opening. Tehran's subsequent failure to respond to the P-5+1's confidence building proposals, the forced revelation of a secret enrichment site outside Qom, persistent threats against Israel made by Iran's leaders—as well as the regime's suppression of the "Green Movement" after the June 2009 elections—have eroded US support for engagement.² President Mahmoud Ahmadinejad's September 2010 speech before the UN General Assembly—in which he suggested that the US was behind the 9/11 attacks—have reinforced concerns within the administration that Iran's leaders lack the capacity and desire to pursue serious negotiations. Today, despite continued public references to engagement, US policy toward Iran largely flows down one track, the contours of which are defined by sanctions and other punitive measures.

However, sanctions by themselves will not elicit Iranian cooperation. They need to be matched by an equal readiness by the US and its allies to offer Tehran significant incentives. Thus, the great challenge facing the administration is to define a package of incentives

1 http://www.whitehouse.gov/the_press_office/Videotaped-remarks-by-the-President-in-Celebration-of-Nowruz/

2 P-5+1 refers to the permanent members of the UN Security Council (China, France, Russia, United Kingdom, and the United States) plus Germany. This group of nations has been the main interlocutor with Iran on behalf of states concerned by its nuclear program.

sufficiently robust, such that those voices in Iran's leadership who might back sustained and serious negotiations can make their own case for saying "yes."

This report outlines the rationale for this policy of "strategic engagement" and offers proposals as to how coercion and inducements can be rebalanced to produce a greater diplomatic pay-off. In making our case, we strongly sense that the administration itself shares our view that inducements are vital for leveraging a successful sanctions policy. But we also believe that US policy on Iran has been long on the tactics of coercion, and short on a coherent strategic vision of the ultimate purpose and goals of any US opening to Iran. This is understandable given Ahmadinejad's outrageous statements and publicity stunts. Nonetheless, the US has strategic interests in Iran that transcend individual leaders and even regimes. Absent a readiness on the part of the president and his chief officials to mobilize the US government to define such a vision, the US will lack the full range of tools needed to dissuade Iran from pursuing nuclear weapons. Under these conditions, the only alternatives will be military conflict or attempting to contain a nuclear Iran.

While we call for a bolder effort to leverage punitive sanctions through robust incentives, we recognize that strategic engagement faces many hurdles. If it does not succeed, the punitive measures set out in this and similar studies will be vital to any future policy of deterrence or containment. If it does prove effective, however, strategic engagement could set US Iran policy on a more beneficial trajectory that can broadly advance US interests in the Middle East.

Sanctions open up a window of opportunity

Sanctions have been a tactical and, in some ways, political success. Responding to the International Atomic Energy Agency's (IAEA) key findings—namely that Iran has not fulfilled its obligations under the Nonproliferation Treaty (NPT) and may be pursuing a weapons capability in the guise of its "peaceful" nuclear program—the UN Security Council has passed four resolutions, each of which has imposed increasingly tighter sanctions. The US, the European Union, and several other countries have added even tighter restrictions on trade and investment, insurance, and other financial ventures. These measures have not only imposed significant costs on the Iranian economy, but also are making it more difficult for Iran to acquire the specialized equipment and materials required for its nuclear and military programs.

Despite such impressive efforts, Iran's nuclear program continues. US officials are troubled by Iran's efforts to master a complete nuclear fuel cycle, including the production of enriched uranium through centrifuge techniques. Combined with a weapons design program, which was reported to have existed in the early 1990s and may again be underway, a fully functioning fuel cycle would give Iran the capability to break out of the NPT and quickly build nuclear weapons.

In September 2010, the IAEA estimated that Iran had produced approximately 2800 kg of low enriched uranium, the level required for power reactors, at its formerly secret enrichment site at Natanz. Moreover, Iran is enriching some uranium to the 20 percent level needed for the fuel rods in its research reactor in Tehran. Although Iran's atomic chief reported in

October that only 30 kg of 20 percent enriched uranium so far had been produced, the time required to move from that level to weapons-grade uranium is far shorter than the time needed to enrich low-enriched uranium to weapons grade.³

On the good news side, the enrichment site near Qom has apparently not yet been equipped with centrifuges and, in August 2010, only about 40 percent of the centrifuges installed at Natanz were being fed uranium, a smaller number than the year before. Tehran has also delayed replacing the existing IR-1 centrifuges with more advanced models. By relying on older models, it is not processing uranium as rapidly as had been feared. While normal technical obstacles and sanctions may be partly responsible for these delays, press reports also attribute them to covert sabotage operations.

Taken together, these facts present a mixed, yet worrisome, picture. Indeed, if the material already accumulated at Natanz were further enriched to weapons grade, Iran could have enough material for one or two devices in about a year. In fact, US Vice Chairman of the Joint Chiefs of Staff General James E. Cartwright estimated in June 2010 it would take two to five years for Iran to have operational weapons. Yet, for a host of reasons, including the punitive measures successfully pursued by the international community, Iran's nuclear program is running into difficulties. Thus, Washington may now have a window of opportunity to balance its Iran policies more effectively.

Domestic political struggles

Iran's domestic politics have repeatedly undercut US efforts to engage Tehran. In a country where the political system is based in part on an enduring hostility to US political, economic, and even cultural power, Iranian leaders are fearful of any wider solution to the nuclear program that points to rapprochement with Washington. Supreme Leader Khamanei is the most powerful representative of this intensely suspicious view of the US, and thus may resist a wider normalization of relations with the US.

The rise of a new generation of ultra-hardliners, whose most visible spokesman is President Ahmadinejad, poses a host of further challenges. Iran's president and his allies view the quest for an independent nuclear fuel cycle as central to Iran's efforts to forge a new alliance of middle-size powers that can challenge the "hegemony" of the capitalist Western countries. That is why their on-going efforts to quell the Green Movement and seize political control from more mainstream conservatives poses a real threat, not merely to many Iranians, but to the region as a whole.

This very power grab may well create an opening for US diplomacy. While avoiding any appearance of interfering in Iran's internal politics, US policymakers must consider how the balance of punitive measures and positive inducements in US policy will affect the leverage of those Iranian leaders who are now jockeying to shape Iran's internal and foreign policies.

3 IAEA Board of Governors, *Implementation of the NPT Safeguards Agreement and relevant provisions of Security Council resolutions in the Islamic Republic of Iran* (GOV/2010/46, 6 September 2010) http://www.globalsecurity.org/wmd/library/report/2010/iran_iaea_gov-2010-46_100906.htm; "Iran Claims 66 Pounds of Higher Enriched Uranium," *Global Security Newswire* (October 20, 2010) http://www.globalsecuritynewswire.org/gsn/nw_20101020_2252.php.

Those leaders will not come from the Green Movement. The target of a successful campaign of repression, the democracy movement is unlikely to influence Iran's domestic and foreign policies for some years to come. Rather, Iran's internal politics pivot around a struggle between mainstream conservatives and ultra-hardliners. The latter are attempting to strengthen their position by taking over the security and intelligence organs of the state (particularly the Revolutionary Guards), by elbowing aside enemies in the Foreign Ministry and replacing them with their own allies, by shifting a larger share of the economy into the hands of their allies in the guise of "privatization," and by undermining the autonomy of the parliament (Majlis), the business community, and even the governing councils of the clerics.

The ultra-hardliners' power grab has provoked a sharp backlash from mainstream conservatives. Some of the latter's leading lights, such as Ali Larijani and former President Hashemi Rafsanjani, have assailed Ahmadinejad for pursuing provocative policies that have undermined the legitimacy of the Islamic state at home and isolated Iran abroad. For these leaders, what is at stake is not merely political power, but the economic and institutional bases of that power. Thus, their struggle cannot be belittled as a simple "family squabble." The ruling family itself is dividing in a manner that has clearly alarmed Ali Khamanei. Although a keen supporter of the Iranian president, he has repeatedly reined in Ahmadinejad in a clear bid to secure regime unity and defend his ultimate authority as "Supreme Leader."

International sanctions are accelerating internal dissension. By magnifying the structural inefficiencies of Iran's oil-based economy, they are putting more pressure on the regime to undertake belt-tightening economic reform measures. These steps have provoked opposition on the left, from groups who helped put Ahmadinejad into power, to the mainstream urban commercial "Bazaar" on the right. This dynamic is unlikely to lead to regime collapse. But by raising the costs of sustaining the status quo, sanctions are sharpening the choices that Iran's leaders must make.

Regional and global dynamics

Iran's leaders have devised strategies to skirt such choices. Indeed, their goal is to create alternatives to the choices that the international community has set before Tehran. To do so, they are trying to promote an alternative global order. This ambitious project seeks to go far beyond the solidification of long-standing alliances with such regional players as Syria, Hizballah, and Hamas. Ahmadinejad and his allies seek to build economic, political, and strategic relations with an *ad hoc* grouping of authoritarian and democratic states, including Russia, China, Venezuela, Brazil, and Turkey. This informal alliance, they believe, will change the very nature of international politics and limit the military, political, and economic power of the US.

Tehran has had some success in promoting this "anti-hegemonic" project – as statistics on Iran's growing trade, financial, and geo-strategic relations amply show. Moreover, it is important to note that Iran's own leaders view this endeavor as a great success. Every overseas visit of Ahmadinejad to countries friendly or unfriendly to Iran reinforces the perception of his allies and followers that Iran is leading a victorious march to re-write the rules of global diplomacy.

The success story that Iran's leaders tell themselves may provide a measure of internal motivation and coherence to a regime facing internal dissension. Yet, every day the gap between hard realities and the fanciful world-view of Ahmadinejad and his allies grows wider. Many of the states Iran is courting have strategic, political, and economic links with the US. Russia and China are using relations with Iran to gain greater global leverage. However, as their sustained, if qualified support for sanctions illustrates, they will not back Iran in ways that estrange Washington. Similarly, while Brazil and Turkey have inserted themselves into the US-Iran conflict in ways that irritate Washington, their failure to prevent sanctions demonstrates that these states can have no real influence absent a readiness to cooperate with the US.

Tehran must also reckon with the expanding efforts of Israel and the Arab states to enhance their military and strategic cooperation with the US. These efforts are deepening Iran's local isolation, bringing a greater US military presence into Iran's neighborhood, and strengthening the capabilities of Iran's adversaries to resist Iranian subversion and, if it comes to that, military aggression.

Iran also must contend with the potential consequences of their nuclear program for the nuclear capabilities of their regional neighbors. Although the Iranian program has not, as of yet, yielded a *region-wide* quest to build nuclear power plants, much less to acquire nuclear weapons, the very fact that the UAE is building a nuclear power plant, and that other Arab states are considering such an option, raises the stakes for Iran and the entire region itself. These developments only sharpen the choices that Iran will have to make as it assesses the costs and benefits of pursuing nuclear power.

Changing the strategic calculus of Iran's leaders

As Iranian leaders confront internal, regional, and global realities that defy their most ambitious expectations and lofty dreams, the US must forge an Iran policy that will open up viable options for those voices within, or linked to, the regime that might favor a mutually reasonable accommodation on the nuclear issue.

For reasons of shared national pride, most Iranian leaders, regardless of ideological orientation, believe that as a signatory to the NPT, it is Iran's sovereign right to pursue peaceful nuclear energy, that the development and operation of a complete fuel cycle is a legitimate exercise of this right so long as it is placed under international safeguards, and that they should not be treated any differently than any other nation on this score. However, when it comes to *how such rights should be applied in practice and the vital question of the strategic purpose behind exercising those rights*, there is little evidence that Iran's power holders share one coherent view as to how far down the road of nuclear weapons development Iran should proceed.

For Iran's ultra-hardliners, the pursuit of a nuclear weapons capacity is a key part of their project for achieving domestic and global influence. As they look to China, Russia, Venezuela, and other "non-capitalist" countries as the basis of a new international order, ultra-hardliners see no compelling reason to bargain away the advantages of nuclear power in return for normalizing relations with the US. Such calculations do not preclude tactical

steps to engage Washington. However, Ahmadinejad is unlikely to push these efforts beyond his familiar attention-getting gambits unless the Supreme Leader fully supports him.

For Iran's mainstream conservatives, however, especially those who have ties to enterprises whose long-term viability depends on Western investment and technology, the potential benefits of a comprehensive agreement that would attenuate Iran's global isolation are compelling. Thus, in contrast to their ultra hard-line rivals, many mainstream conservatives are more willing to consider compromises on the nuclear issue, so long as conditions first secure enrichment rights for Iran and, second, Iran receives genuine and significant financial, strategic, and diplomatic inducements from the international community.

Comprehensive inducements

These inducements cannot be correlated to any one economic, political, or strategic interest. Instead, US policymakers must envision a *comprehensive set of incentives* aimed at attracting as wide a constituency in Iran's ruling elite as possible. For this purpose, Washington should avoid any allusion to the possibility of air strikes. Iranians are well aware of US military capabilities. Even veiled allusions to the "military option" reinforce those Iranian hardliners who argue that Iran requires nuclear weapons to deter the US, and protect Tehran's security and freedom of action. Thus, while US military leaders must plan for every contingency, to effectively leverage the set of punitive policies the US already has in place, our diplomats should highlight the benefits of wider US-Iranian engagement and avoid threatening noises.

Towards this end, Washington must clearly signal its readiness to accept Iran's enrichment rights, providing that Tehran negotiates verifiable limits on the degree of enrichment and on the volume of enriched fuel stored in Iran. Given the secretive history of Iran's nuclear program, the US and its allies also are entitled to demand clarification of the questions raised by the IAEA, a complete declaration by Iran of its nuclear activities, including any weapons-related activities, an audit of that declaration by the IAEA, and Iran's implementation of the Additional Protocol to its Safeguards Agreement with the IAEA.

The US also should make it clear that a negotiated solution to Iran's enrichment issue is fully compatible with creative solutions to longer-term energy issues in the region at large, such as the provision of fuel services by outside consortia and/or the creation of a regional fuel bank. Any such initiatives should be linked to a region-wide diplomatic strategy that would encourage states to pursue conventional, rather than nuclear, energy. To set the stage for this initiative, Washington and its allies should define a comprehensive set of steps to help Iran rebuild its ailing state-owned oil industry. This initiative could be linked to a wider plan to build region-wide national gas and electricity grids that would benefit both Iran and its neighbors. Such a plan could play an important part in any overall effort by the US to thwart proliferation in the region.

In addition to the above regional energy initiatives, the US also should express its willingness to discuss other issues of mutual concern with Iran in bilateral or multilateral settings, such as Afghanistan and the drug trade. US diplomats also should be permitted to interact normally with their counterparts in third nations and in multinational organizations. However, the

US should be clear at all times that movement in other talks cannot substitute for progress on the nuclear question, which remains the most time-urgent issue on the agenda

All of these initiatives will require a clear promise that in return for Tehran's demonstrated compliance on the nuclear issue, Washington will support reducing and eventually eliminating international sanctions. Indeed, if strategic engagement is to have any domestic traction in Iran, US officials must also reiterate President Obama's pledge—made in his April 2010 Nowruz broadcast to Iran—that the US seeks to establish normal diplomatic relations with the Islamic Republic of Iran. At the same time, the US and its allies should press Iran to respect the commitments it has made to uphold human rights, commitments enshrined in its own constitution, and in the UN Human Rights Covenant, to which Iran is a signatory.

Sustaining effective alliances in the Middle East

Precisely because the vital strategic purpose of offering inducements is to leverage punitive diplomacy, the US also will have to sustain and, in some cases, enhance measures that most *effectively* increase the costs to Tehran for its failure to cooperate. Towards this end, Washington should step up its efforts to bolster the security capabilities of Israel and the Arab nations along the Gulf. That the US has a direct interest in the security and independence of these states, and is willing to act militarily in support of that interest, has been made clear many times in the case of Israel and, in 1990, in the case of Iraq's short-lived occupation of Kuwait. Washington should make every effort to assure Israel and the Arab states that by securing an internationally enforced agreement that limits Iran's nuclear ambitions, strategic engagement will enhance their security interests as well.

To reassure Middle East governments of our commitment to their security, the US should continue to share intelligence, develop joint contingency plans, conduct joint training and exercises, and make available advanced military equipment and security systems, especially means of defending against Iranian missiles, protecting highly valued targets like oil and gas transshipment points, and identifying and defeating subversive activities. Finally, the US should also encourage the Gulf states to resolve their territorial disputes and political-economic rivalries, and to work cooperatively to solve security and other issues on the Gulf. Missile defenses, particularly, would benefit greatly from multilateral cooperation among Gulf nations.

Steps along the path of strategic engagement

Strategic engagement will require close coordination between the US and a wide number of states. The challenge for Washington is to marshal support, not only from allies, but also from those states that might seek to water down or even undermine this policy. The good news is that a policy that emphasizes the leveraging power of incentives is bound to secure more robust support from major global powers, such as China and Russia. For these states, US-Iranian engagement can become a positive-sum outcome, as it would facilitate their efforts to sustain economic, political, and strategic ties with both Washington and Tehran.

This logic would also apply to major regional states, such as Brazil and Turkey. If invited to play a responsible role in a wider strategy of strategic engagement, they may well support Washington in ways that would enhance the influence of those Iranian leaders willing to back serious negotiations with the US. In turn, the more active endorsement of strategic engagement by Iran's key trading partners and international interlocutors can induce shifts in the strategic calculus among Iran's leaders about the benefits of negotiation.

To enhance the multilateral focus of strategic engagement, it is essential that nuclear talks continue in the P-5+1 format. Iran's proposal that the next round of Geneva talks might begin with a discussion of arrangements that would permit refueling of the Tehran research reactor might provide a useful starting point. At the same time, the US should consider a bilateral channel to engage Iran in direct talks through a process of quiet diplomacy far removed from the international spotlight.

Whatever the venue, if US-Iran talks are to become more than tactical maneuvering for points in world opinion, they must be part and parcel of a more expansive bid to rebalance the tracks of punishment and incentives. This can only happen if and when the president mobilizes a high measure of consensus within the US government for such an initiative. US diplomats must come to the next round of negotiations with a vision of the ultimate goal for US-Iranian relations, and a rich set of ideas for moving the two states toward that goal.

Findings and Recommendations

Barry Blechman, Daniel Brumberg, and Steven Heydemann

This section summarizes the key analytic judgments and policy recommendations of the study group as a whole. Readers should note that while this report is broadly supported by all the members of the study group, only the three chairmen are responsible for the specific wording of the analyses and recommendations. Individual members of the group may disagree with one or more of the recommendations.

Findings

US Iran policy

1. US diplomacy toward Iran has long suffered from the absence of a national consensus about the acceptable balance of costs and benefits of a sustained policy of rapprochement with Tehran. While born of frustration with Iranian policies, US leaders' reluctance to define the ultimate goals and content of engagement also stems from a desire to maintain domestic political consensus regarding Iran policy. However, the resulting tactical focus on sanctions and other coercive measures has come at the expense of greater strategic coherence.
2. In its first year, the Obama Administration pursued a two-track strategy designed to impose costs on Iran for its continuing efforts to acquire nuclear weapons, while setting out inducements to encourage Iran to negotiate an agreement that would alleviate the concerns of the international community. However, the campaign of repression unleashed following the June 2009 presidential elections, the threatening language used by Iranian leaders vis-à-vis Israel, and Iran's repeated failure to respond clearly and favorably to the proposals made by the US and its allies—as well as to the Obama Administration's early engagement efforts—have all undercut support in the US government and wider policy community for offering Tehran a robust set of incentives. Today, it appears that US Iran policy is largely defined by its coercive elements.
3. As a result of the above developments, US policy-makers have not been in a position to leverage sanctions in a way that could elicit a more cooperative policy from Tehran. The administration's admirable success on the tactical level through sanctions will not translate into strategic gains absent a renewed, more transparent, and more sustained focus on a policy of "strategic engagement."

Internal politics and Iranian foreign policy

4. Iran's fractious internal politics constitute a formidable barrier to US efforts to engage Iran. In a state founded in part on hostility to US political, economic, and even cultural power, Iranian leaders face high risks in advocating any kind of serious rapprochement with the US. Under these difficult conditions, Iranian power holders often favor

tactical maneuvering, stalling, and obfuscation over any sustained effort to resolve the US-Iranian conflict.

5. There is a profound gap between US and Iranian thinking about the larger purposes of engagement. US policy assumes that Iran would benefit, and would see benefit, from participating in international politics as a “normal” state, with the established protocols of rights and responsibilities. However, Iran’s hard-liners see the international system, and US policy in particular, as hostile to their interests. More recently, their self-image as a rising middle power and as a regional leader suggests they are even more set on challenging the established rules and being a disruptive force in efforts to resolve regional and global conflicts. The logic of engagement, therefore, may be particularly hard to establish.
6. If Iran’s fractious internal politics and revolutionary ideological heritage represent formidable challenges, they do not preclude a determined, if nuanced, effort by the US to encourage a more forthcoming Iranian diplomacy. While there is no magic formula for overcoming the centrifugal forces of Iranian domestic politics, important parts of Iran’s ruling political elite remain receptive to the rationale for pursuing a mutually satisfactory solution to the nuclear issue.
7. In the near and medium term, the chances for full-scale democratic regime change in Iran will remain slim. While we are confident that the quest for political reform will eventually be renewed, unless a rapid deterioration of the economy provokes sustained unrest from a wide array of social classes, the Green Movement will have little impact on Iran’s internal politics or its foreign relations. For the foreseeable future, the political struggle within Iran’s conservative religious and political elites will define the main contours of Iran’s domestic politics.
8. The ultimate goal of the ultra hard-liners is to isolate all competing centers of power within the state. Acting through the Revolutionary Guards, they are attempting to sideline the clerical establishment and silence the Parliament. However, predictions of a full-fledged “militarization” of the Islamic Republic are premature. Indeed, the ultra hard-liners’ power grab has provoked resistance from an array of power centers, institutions, and factions that are part of, or are associated with, the conservative political elite. Veteran conservative leaders, business groups associated with the urban Bazaar, and managers working in the National Oil Company of Iran have all assailed the president’s economic and foreign policies.
9. The intensification of factional politics provoked by the resistance of conservative leaders presents both an opportunity for, and a constraint on, US diplomacy. On the one hand, prominent mainstream conservatives have used the nuclear issue opportunistically to discredit the president. On the other hand, such tactical maneuvering obscures the efforts of some conservative leaders to protect their social, corporate and economic interests. While avoiding any appearance of interference in Iran’s power struggles, the US must consider how nuclear diplomacy might open a path to those voices within or linked to the regime which might have an interest in resolving the dispute over Iran’s nuclear program.

10. Targeted economic sanctions will not compel Tehran to address the concerns raised by the US and its allies regarding Iran's nuclear activities. However, they are having an indirect, but politically and socially significant tactical impact in the following three arenas:
- They are making it more difficult for Iran to acquire the materials and equipment required for its nuclear program. This is one reason for the program's slower than expected pace. Iran also is finding it increasingly difficult to acquire major items of military equipment.
 - By limiting trade, foreign investment, and access to technology, sanctions are magnifying the economy's deep-seated structural inefficiencies. The Iranian economy is hurting, with inflation approaching 20 to 25 percent this year, and a declining GDP due mainly to reductions in oil and gas production. Plans for the development of new oil fields and liquefied natural gas facilities have been put on hold while the productivity of existing fields is declining. Seeking to address these challenges, Iran's leaders have proposed belt-tightening policies that in turn have provoked protests from numerous social groups including labor, the urban Bazaar, and teachers. If continued and tightened, sanctions have the potential to lead to sustained and serious internal unrest.
 - Politically, because they are magnifying Iran's economic woes, sanctions have intensified internal disputes within the conservative camp. Despite President Ahmadinejad's bluster, Iran's leaders have been stung by the US and its allies' ability to gain wide-spread adherence to the sanctions, even by entities in countries that previously had been sympathetic to Iran's situation. These developments confront Iran's leaders with an increasingly sharp choice between maintaining a status quo that feeds domestic conflict and accepting a process of international negotiations on the nuclear issue that could facilitate Iran's eventual reintegration into the world economy.
11. Conservatives have assailed Iran's president for pursuing a provocative foreign policy that has opened the door to sanctions and to Iran's growing diplomatic isolation. This criticism began in 2006 and was renewed following the regime's violent repression of the Green Movement. As sanctions continue to exacerbate Iran's economic situation, internal pressures for a more flexible Iranian position on the nuclear issue will probably grow.
12. The challenge for the US is to envision a robust set of incentives that give those Iranian power holders who have an interest in resolving the nuclear question greater domestic political traction. Washington must take advantage of the leverage provided by sanctions by balancing coercion with the promise of significant gain from engagement, or US strategy will have little hope of gaining political traction in Iran.
13. There is widespread consensus within Iran's opposition and the ruling elite that there can be no solution to the nuclear question that precludes recognition of Iran's rights to peaceful uses of nuclear energy under safeguards. A US strategy that precludes such an outcome only invites internal resistance from Iran's conservative elites. US recognition of Iran's enrichments rights is essential in any package of incentives designed to encourage cooperation from those Iranian leaders who favor pragmatism over confrontation.

14. While insisting on Iran's enrichment rights, the country's leaders differ as to how those rights should be applied, negotiated, or realized in a comprehensive negotiation. Moreover, there is little consensus within the ruling elite as to how far Iran should go in pursuit of nuclear weapons. This absence of a coherent strategic consensus could open up opportunities for US diplomacy.
15. Iran's ultra hard-liners see the pursuit of a nuclear weapons capacity is a key part of their project for achieving domestic and global influence and see no compelling reason to bargain away the advantages of nuclear power in return for normalizing relations with the US. Such calculations do not preclude tactical steps to engage Washington, but President Ahmadinejad is unlikely to push these efforts beyond his familiar attention-getting gambits unless the Supreme Leader fully supports him.
16. For Iran's mainstream conservatives, especially those that have ties to enterprises whose long-term viability depends on Western investment and technology, the potential benefits of a comprehensive agreement that would attenuate Iran's global isolation are compelling. Thus, in contrast to their ultra hard-line rivals, many mainstream conservatives are more willing to consider compromises on the nuclear issue so long as two conditions are obtained: First, Iran maintains its enrichment rights; and, second, Iran receives genuine and significant financial, strategic, and diplomatic inducements from the international community.
17. No solution to the nuclear question is possible absent Supreme Leader Khamenei's support. A veteran of the radical clerical elite, he is likely to resist any wider agreement that might imply full normalization of US-Iran relations. However, if he perceives that Iran's economic crisis and escalating internal political struggle are undermining the legitimacy and coherence of the Islamic Republic itself, Khamenei would probably listen to those regime voices who favor pursuing negotiations with Washington.
18. A US or Israeli attack on Iran's nuclear installations would not only undercut those Iranian stake holders who favor negotiation with Washington, it would advance the efforts of Ahmadinejad and his allies to consolidate power. By contrast, and as many Iranian reformists have argued, a sustained US-Iranian effort to resolve the nuclear question offers the best hope of creating space for a process of political decompression that could eventually facilitate a return of reformists to the political arena.
19. A US commitment to a comprehensive, strategic engagement with Tehran is fully consonant with continued efforts by the Obama Administration and its allies to press Iran to respect the human rights of its own citizenry. The Islamic Republic remains a signatory to the UN's *International Covenant on Civil and Political Rights (ICCPR)*. If Tehran insists that the international community offer equal and fair treatment under the terms of the NPT, it must also accept the right of the international community to seek Iran's compliance with its other international treaty obligations, not least of which is its duties under the ICCPR.

Iran's regional and global relations

20. The Islamic Republic of Iran has adroitly exploited its expanding ties with a diverse group of states and non-state actors to enhance its diplomatic room to maneuver, impede US and European efforts to tighten international sanctions, and sustain its nuclear enrichment program. While authoritarian actors, including China, Russia, Sudan, Syria, Venezuela, Zimbabwe, and Hizballah have been key to this effort, Tehran also has reached out to rising non-Western democracies, notably Turkey and Brazil, as well as South Korea and South Africa. Iran's diplomatic relations with this hoc alliance seeks to create an organized alternative to US global power.
21. However ambitious, Iran's global diplomacy presents a real challenge for the US. Indeed, unless the US and its allies devise a more coherent and inclusive diplomatic strategy for constraining Tehran, the Islamic Republic's own diplomacy will increase the likelihood that it will eventually acquire a nuclear weapons capacity.
22. Many of Iran's key interlocutors are ambivalent about the benefits of US success. They are resigned to the emergence of Iran as a nuclear power, and question the utility of sanctions. Nonetheless, they also are ambivalent about the consequences of Iran acquiring a nuclear weapons capability. Tensions in the diplomacy of Iran's key interlocutors create possibilities for the US to construct a more effective counter-diplomacy. Brazil, China, Russia, and Turkey share Tehran's desire to foster a multipolar international system that limits US power. To advance this goal, each of these states has exploited US-Iranian tensions to advance their own interests. But leaders in all four states recognize the importance of maintaining strong ties with the US. They also recognize that Iranian success will have dangerous spill-over effects in the Middle East that could undermine their regional interests. Such conflicting concerns loom especially large in the cases of China and Turkey.

Energy issues in Iran and the wider region

23. The quest for nuclear power in Iran—and in the Middle East more broadly—is motivated primarily by political and strategic factors, namely to gain the technology and materials for creating at least a nuclear weapons potential. This capacity is viewed increasingly throughout the region as a vital component of security, as well as a key lever of geo-strategic influence.
24. While Iranian leaders hold that nuclear power is essential to meet their growing needs for electrical energy, the electricity generated by the two nuclear plants now under construction will only provide six percent of Iran's total needs. However, while hydrocarbon-based energy will remain critical to Iran's future, its state-owned oil industry is one of the most inefficient in the world. The modernization of Iran's state-owned oil industry, the intensive development of existing and new oil and gas fields through advanced technologies, and the creation of a regional gas energy grid, would all provide far better long-term energy solutions for Iran and the wider region.
25. The efforts of President Ahmadinejad's allies to expand the Revolutionary Guards' control of the economy are exacerbating the already worsening crisis facing the oil

industry. This trend threatens those private and public actors in the business sector whose interests lie in rationalizing the oil industry. While the capacity of these actors to lobby the regime is unclear, they could form an important domestic constituency that would benefit from a process of US-Iranian rapprochement – one that would attenuate, if not end, Iran's growing economic and political isolation.

26. The leaders of Egypt, Jordan, Saudi Arabia, Turkey, and the United Arab Emirates (UAE) are contemplating, or have taken, steps towards the pursuit of nuclear energy. Also justified by electrical power needs, these plans are part of a hedging strategy against the possibility of Iran's acquisition of nuclear weapons. While the UAE has agreed not to build enrichment facilities, Jordan and Saudi Arabia are resisting international pressures to foreswear national enrichment in favor of such alternatives as a regional fuel bank or purchasing fuel services on the international market. Given the dangers of weapons proliferation, the US should use its strategic leverage not only to discourage the spread of nuclear power, but also to encourage its allies to pursue conventional energy production through cooperative projects, such as the creation of regional natural gas and electricity grids.

Iranian nuclear policy and US options

27. It is clear that Iran has been seeking the means to be in a position to acquire nuclear weapons should it decide to do so. There does not yet appear to be a consensus among Iran's leaders about how far they should progress toward this end. There is a broad and deep consensus in Iran, however, that as a sovereign nation it has the right to develop civilian nuclear power, including the development of a complete fuel cycle, and that this right is reaffirmed by the NPT, so long as it is accomplished under international supervision. Iranian leaders believe strongly that they should not be treated differently than any other nation in this regard, a contention disputed by the US and other nations due to Iran's history of covert nuclear activities and non-cooperation with the International Atomic Energy Agency (IAEA).
28. Iran has accumulated enough low-enriched uranium (LEU) so that it might have the potential, by enriching the fuel further, to produce one or two nuclear devices in a period of a year or so. The Iranians also have accumulated a small amount of uranium enriched to the 20 percent level, the strength required for the fuel rods in its research reactor in Tehran. Beginning at the 20 percent level would permit the Iranians to enrich the fuel to weapons-grade far more rapidly than if they began with LEU. Both enrichment processes continue, but the program is not progressing at as rapid a pace as had been feared. Nonetheless, US officials estimated in June 2010 that if Iran decided to acquire nuclear weapons, it could have a few operational weapons within two to five years.
29. US airstrikes have the potential to significantly damage, and perhaps destroy, Iran's nuclear infrastructure and, over time, to impose considerable damage on Iran's armed forces, security organs, and economy. Unless the US attacks were carried out in support of a UN Security Council mandate (an extremely unlikely contingency), however, the negative repercussions for US interests would likely be severe, including a potentially protracted period of conflict in many parts of the Middle East, threats to Americans

- and US-owned facilities around the world, the possibility of a severe, global economic down-turn or even depression resulting from a sharp and persistent rise in oil prices, and the political isolation of the United States from much of the world.
30. Allusions by US officials to the potential use of military options plays into the hands of the ultra hard-liners among Iran's elites, strengthening their arguments that the country will only be safe from American threats when it has nuclear weapons.
 31. Israel has a far more limited airstrike capability than the US but could damage Iran's nuclear infrastructure and set back its acquisition of nuclear weapons for a time. An Israeli attack would almost certainly be assumed by Iranians and others in the region as having had the at least tacit support of the United States.
 32. An attack on Iran by either the US or Israel would cement Tehran's determination to acquire nuclear weapons and likely ensure the success of efforts by Iran's ultra hard-liners to consolidate power, thus postponing hopes for political reform even further and ensuring continuing tensions and conflicts in the Middle East.
 33. If Iran acquired nuclear weapons, it would introduce dangerous uncertainties into the Middle East and almost certainly lead to further nuclear proliferation over time. A nuclear-armed Iran might be emboldened to act even more aggressively to subvert neighboring states with substantial Shi'a populations and to encourage proxies to attack Israel and US facilities in the region.
 34. Given that Israel has a much larger and more dispersed nuclear arsenal than Iran could have for many years, rational Iranian leaders would be deterred from utilizing their nuclear weapons directly against Israel, as any such use would almost certainly result in a devastating retaliatory attack causing tens of millions of Iranian casualties and enormous destruction. Given that the US nuclear arsenal is orders of magnitude larger than any arsenal Iran could plausibly aspire to for decades, Iranian leaders also should be deterred from attacking US interests and allies in the region, although deterrence might be less effective in that situation as the Iranian decision-makers might not be as certain that the US would retaliate, as they would be in the Israeli case. In any event, in all cases, deterrence is an uncertain phenomenon, depending upon rational decision-making, accurate information about relative capabilities and intentions, and good communications. Deterrence becomes more uncertain at times of war or crisis, when decisions typically have to be made rapidly in times of great stress.
 35. The consequences of a nuclear-armed Iran, in principle, could be limited by US security assurances to neighboring states and support of their conventional military capabilities, including ballistic missile defenses. Joint military planning, training, intelligence sharing, and weapon sales could help both Israel and the Gulf states to be better prepared to thwart a more aggressive, nuclear-armed Iran and, in the case of the Gulf states, perhaps, make them less anxious to acquire nuclear weapons of their own.
 36. US efforts in this regard could be strengthened if the Gulf States were able to cooperate more effectively amongst themselves, not only in defense matters, but in resolving territorial disputes, working to solve such regional problems as electricity and water shortages, and so forth.

Recommendations

Toward strategic engagement

1. The US should sustain efforts to increase the economic, strategic and political costs that Iran will pay for not responding seriously and consistently to the US and its allies' proposals to resolve the nuclear issue. Such efforts will not succeed without a reinvigoration of the engagement track, one that presents Tehran with a compelling test of its ultimate intentions. Thus, in addition to sanctions, US policy makers should devise a matching package of robust incentives that gives Iranian leaders compelling reasons to cooperate. US diplomats and national leaders must communicate to Iran a comprehensive picture of what Tehran has to gain from cooperation with the US and its allies.
2. In addition to a more flexible position on the enrichment issue (see #18 below), inducements that might have traction in Iran could include the following:
 - A readiness to reduce and eventually eliminate sanctions coincident with clear and demonstrated progress on the nuclear issue and other issues.
 - Efforts by the US and its allies to assist Iran in a comprehensive reform and modernization of its oil and gas industry.
 - Associated efforts to mobilize international and regional support for multinational enrichment/reprocessing facilities. These efforts should be accompanied by a comprehensive diplomatic strategy aimed at promoting conventional energy solutions via region-wide projects such as the creation of electricity and natural gas grids.
 - A readiness to integrate Iran into a wider dialogue about regional security, providing that such an effort be undertaken in ways that facilitate the resolution of regional conflicts, not least of which is the Arab-Israeli dispute.
3. At the outset of talks with Iran on the nuclear issue, US diplomats should clearly communicate that as these negotiations make demonstrated headway, Washington will be prepared to discuss a full range of issues of potentially mutual interest, such as Afghanistan and the international drug trade.
4. While multilateral arenas should provide the initial setting of any US effort to advance strategic engagement, quiet, but direct US-Iran talks also will be vital. Thus, in addition to participating in the P-5+1 talks, US and Iranian diplomats should look to the possibility of holding a parallel set of bilateral discussions. To demonstrate renewed US determination to engage Iran, US diplomats around the world also should be permitted to hold discussions with their Iranian counterparts within the contexts of their existing responsibilities and instructions.

Regional and global coordination

5. To advance strategic engagement, the US should clearly signal to Tehran that the international community will not compromise on its demands that Iran demonstrate

clear compliance with the conditions set out by the IAEA and the UN Security Council. The US should make every effort to ensure that the P-5+1 talks provide an arena for communicating to Tehran that the international community's support for a package of robust inducements is conditioned on Iran's nuclear cooperation.

6. While the strategic calculus of Iran's explicit or tacit global partners create significant barriers to their cooperation with the US, the prospects for overcoming these barriers could be improved by moving from zero-sum to positive sum diplomacy. The US should shift the strategic calculus of China, Russia, and Turkey by clarifying the long-term costs of Iranian success for their own interests, and by developing collaborative initiatives that highlight the benefits that they may reap by supporting a comprehensive, negotiated solution to the nuclear issue.
7. The US should take steps to mitigate the economic costs of sanctions for states Iran is courting. Working with its Arab Gulf partners, Washington should encourage and facilitate further shifts by China and other leading purchasers of Iranian oil towards alternative suppliers.
8. The US should strengthen frameworks to offset Iranian economic and diplomatic pressure by looking to multilateral diplomatic frameworks, such as the Gulf Cooperation Council, the Organization of the Islamic Conference, and the Arab League.
9. Instead of spurning, resisting, or ignoring Iran's would-be interlocutors in ways that encourage them to act as spoilers, the US should signal conditional support for those diplomatic initiatives that increase the prospects for a negotiated outcome to the nuclear issue. The US should work with Brazil, Turkey, and other important actors to define a range of outcomes that are acceptable to Iran, but also address US and European concerns. Drawing on existing models of states that have established successful nuclear energy programs, but reject nuclear weapons, may offer pathways to a negotiated solution that will draw broad international support, including from the states that Iran has actively courted to support its nuclear ambitions.
10. Even as it seeks more forcefully to engage Iran by offering more robust incentives, the US should continue to work diligently through all available channels to ensure total compliance with the UN sanctions and to encourage additional countries to abide by the additional financial and trade sanctions that have now been put in place by the US, EU, Australia, Canada, Japan, Norway, and South Korea. The US also should place a high priority on working with countries that in the past have harbored entities that have helped Iran to circumvent sanctions, to close down such front companies and other means of evasion. The US and its allies should continue to pursue all means, both overt and covert, of making it more difficult for Iran to acquire the nuclear materials and dual-use equipment it needs to develop a weapons capability.
11. The US and its allies should step up security cooperation with nations along the Gulf, including intelligence sharing, joint military planning and exercises, and the sale of advanced military equipment – especially missile defense systems and means of defending high value targets from sabotage or terrorist attacks. The US should make it clear publicly, and repeatedly, that it has a strong interest in the security of these

countries and make pointed reference to our firm military response to the attack on Kuwait in 1991.

12. The US should encourage the states on the Gulf to make greater use of the Gulf Cooperation Council and coordinate defense planning more closely, especially with regard to missile defenses. The US also should work with the Gulf States to help them resolve long-standing issues among themselves. Closer cooperation among the Gulf States would reinforce the negative consequences of Iran's continuing pursuit of its nuclear option. Combined with the activities recommended in #11, these actions have the added benefit of preparing to minimize the consequences of a nuclear-armed Iran, should that occur.
13. The US should make it clear in its public and private statements that its efforts to implement a more robust and comprehensive engagement strategy will not be pursued at Israel's expense, and that as Washington seeks to gain Tehran's cooperation on the nuclear issue, it will work closely with Israel to provide the requisite security, economic and diplomatic backing that Israel requires.

Military options

14. To increase the policy's chances of success, Washington should avoid any reference to the possibility of a preventive war or air strikes. US military capabilities are well known. Reminding Iran of them only strengthens the arguments of those in Tehran who press for acquiring nuclear weapons. A US decision to attack Iran, absent compelling evidence of an imminent Iranian attack on a US ally or facility, would destabilize the entire Middle East in ways that could do grave harm to US strategic, economic, and political interests, alienate the entire Muslim world, fracture the coalition that has imposed sanctions on Iran, cement Iran's determination to acquire nuclear weapons, and doom the democratic movement in Iran indefinitely.
15. Since an Israeli attack on Iran would have similar effects on US interests, the United States should seek to dissuade Israel from undertaking such an attack. Following the precedent set during the 1991 Gulf War, the US should invite Jerusalem to consult closely with Washington on the use of force, thus generating a dialogue that could enhance Israel's support for a policy of strategic engagement. In the context of this dialogue, the US should emphasize that Washington would neither countenance nor support an Israeli preemptive strike on Iran.

The nuclear issue

16. The US should support existing ideas for internationalizing global fuel services, replacing nationally-controlled enrichment and reprocessing facilities with multinational public/private consortia. Although such ideas face numerous obstacles, diplomatic initiatives along these lines should be considered, perhaps in the context of the Nuclear Security Summit.
17. The US should support planning for the 2012 conference on creating a zone in the Middle East free of nuclear weapons and other weapons of mass destruction, participate

in the conference, and urge Israel to do the same. Although Israel will not give up its nuclear arsenal until there are fundamental changes in relations between it and the Arab states and peace truly established in the Middle East, the establishment of a process that in the long term could lead to the elimination of weapons of mass destruction from the region would be a beneficial adjunct to the discussions with Iran.

18. If negotiations do begin with Iran on nuclear issues, the US should be prepared to accept Iranian uranium enrichment within tightly controlled and verifiable limits on level and volume, as part of a package of arrangements that include clarification of outstanding questions concerning Iran's nuclear program and weapons-related activities, and the implementation by Iran of the Additional Protocol to its IAEA Safeguards Agreement, which would permit inspections of undeclared facilities.
19. Ultimately, the US should seek the end of Iranian enrichment, no matter how tightly controlled, through the internationalization of all nuclear fuel services, as suggested in recommendation 16.

Working Group Reports



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Readers should note that while this report is broadly supported by all the members of the working group, only the chairman is responsible for the specific wording of the analysis and recommendations. Individual members of the group may disagree with one or more of the recommendations.

Internal Politics and Iranian Foreign Policy

We lead our people along the path to independence and liberation from US domination.

– Ayatollah Ruhollah Khomeini (January 1980)¹

In its efforts to engage the Islamic Republic, the US must contend with a state whose institutional, ideological, social, and economic foundations have repeatedly undercut the efforts of Iranian leaders to negotiate with Washington. In so far as Iran's opaque domestic politics set the boundaries of its diplomacy, they represent a formidable barrier to the most forthcoming of US openings to Tehran.

This barrier stems in part from the very ideological roots of the Islamic Republic. With the possible exception of North Korea and Cuba, Iran is the only country in the world whose relations with the US are partly determined by ideological hostility to the economic, geo-strategic, and even cultural power of the US. Many Iranian leaders fear that a strategic opening to Washington will undermine the Islamic Republic's very existence. This concern engenders a preference for maneuvering and posturing rather than "cutting the deal" with the US. The purpose of this tactical dance is to enhance Iran's diplomatic leverage without violating ideological red lines, the boundaries of which are enforced by Supreme Leader Ayatollah Khamenei. A hard-line stalwart of the original revolutionary family, he is reluctant to back any initiative that might open the domestic flood gates to US or Western influence.²

These constraints partially account for the profound gap between US and Iranian thinking about the larger purposes of engagement. US policy assumes that Iran would benefit, and would see benefit, from participating in international politics as a "normal" state, with the established protocols and rights and responsibilities this implies. However, Iran's hard-liners see the international system and US power, in particular, as hostile to their economic, geo-strategic, and ideological interests. President Mahmoud Ahmadinejad and his ultra hard-line allies zealously espouse this view. Their conviction that Iran is a rising global power that has successfully subverted the rules of international diplomacy makes establishing the logic of US-Iranian engagement especially difficult.

It is against this backdrop that we consider the Obama Administration's bid to advance a two-track approach to relations with Iran. That effort must not only contend with a well institutionalized legacy of ideological hostility to the US, but also with the fact that Iran's new leaders have mounted a campaign to silence any internal voices that might espouse a different vision of Iran's politics at home and abroad. If the odds of US-Iranian engagement

1 Time Magazine, January 7, 1980.

<http://www.time.com/time/magazine/article/0,9171,923858-7,00.html#ixzz14LusKvfh>

2 See Karim Sadjapour, *Reading Khamenei: The World View of Iran's Most Powerful Leader* (Carnegie Endowment for International Peace, March 2008)

<http://carnegieendowment.org/publications/index.cfm?fa=view&id=19975>.

were daunting when President Obama took office, they have increased since June 2009, when Iran's ultra hard-liners initiated their power grab.

However, far from precluding a US opening to Iran, that very power grab may be creating opportunities for a revitalized engagement strategy. That opportunity will not come from any imminent collapse of the Islamic Republic. Nor will it come from Iran's valiant, if battered, reformists, who are unlikely to affect Iran's domestic and foreign policies for some years to come. Rather, it will come from the fissures within the multi-faceted conservative camp. Amplified by international sanctions, these tensions are reflected in an internal debate within the regime regarding the costs and benefits of pursuing a defiant posture that, in the eyes of some Iranian power holders, has needlessly isolated Iran.

There is no simple way of leveraging these tensions that will produce a sudden readiness by Tehran to bring its nuclear program into compliance. On the contrary, any effort by the US that is perceived as interference in Iran's internal politics will backfire. Nevertheless, unless the US does not take the theory of two-track diplomacy seriously, it must consider how it can balance punitive measures and incentives so that those voices in Iran which might have some hope of making a case for compromise will have a measure of political influence.

To make such an effort, US policy-makers—from the president on down—must marshal political and bureaucratic support during a period of growing dismay with the fading promise of engagement. Yet, if the words and actions of Iran's own leaders have soured Washington on the idea of engagement, we must also recognize that US policy-makers have long been reluctant to clearly define a comprehensive vision of the purpose and ultimate ends of negotiations with Iran. However understandable, such ambivalence breeds a preference among not a few US policy-makers for clinging to sanctions and other punitive measures as a tactical substitute for a comprehensive strategic vision.

Such a vision does not require exposing our negotiating hand to the Iranians prematurely, but it does require deciding what that hand contains. Successive Democratic and Republican administrations have skirted this challenge in ways that have played to the benefit of Iran's hard-line leaders. As a result, US policy toward Iran lacks the measure of strategic coherence and domestic support required for meeting the Iranian challenge. Unless the Obama Administration is going to repeat history, it will have to reinvigorate a two-track approach in ways that make it easier for Iran's power holders to push for serious negotiations with the US.

Iran's ultra hard-liners

The election of Ahmadinejad in 2005 and, even more so, the internal political struggle between the "Green Movement" and the president that emerged following the disputed 2009 elections, signaled the rise of a new generation of apparatchiks, security officials, and veterans from the Iran-Iraq war. Hailing from the rural provinces, these activists resented their perceived exclusion, both from the liberal projects of the urban-based reformists and from the "reconstructionist" economic agenda favored by such veteran conservatives as former President Hashemi Rafsanjani. The ultra hard-liners seek to establish themselves as the only authentic defenders of Ayatollah Khomeini's radical vision of Islamic Shi'a

activism, social justice and global transformation in the name of the world's "down trodden" (*mustazafeen*) in place of both groups.³

In their efforts to consolidate power and inspire their followers, Iran's new hard-liners have articulated a world-view that attaches less importance to a nuclear deal compared to their mainstream conservative rivals. For the latter, the quest for a nuclear fuel cycle is part and parcel of a wider bid to increase Iran's strategic and diplomatic leverage. Since they view nuclear power as a means rather than an absolute end, mainstream conservatives are ready to consider certain concessions, providing that Tehran gets specific benefits in return. Moreover, mainstream conservatives with ties to businesses and firms requiring Western capital and technology have an interest in preventing Iran's isolation. Thus while insisting on Iran's enrichment rights under the NPT (see below), in a general sense it can be said that mainstream conservatives are ready to take a relatively more flexible position when it comes a comprehensive deal on the nuclear issue.

While Iran is not categorically rejecting the pragmatic strategic logic espoused by some veteran conservatives, ultra hard-liners are driven by other priorities and interests. Determined to take control of a larger swath of the state-run economy, and animated by a populist, quasi-Marxist belief that Iran's global influence is expanding in tandem with the emergence of a new alliance of "anti-hegemonic" powers, they see no pressing need to trade away or compromise the one asset that they believe will guarantee Iran's pride of place in the struggle for a new international order. Indeed, for Ahmadinejad and his allies, the efforts of the US and its allies to thwart Iran's nuclear ambitions only testify to what they see as a successful bid to transform the Islamic Republic into a major global player—one that is thwarting, or at least defying, a "declining" capitalist West.

This world view has messianic features drawn in part from Twelver Shi'ism, the predominant religion of Iran.⁴ The idea that a messianic figure will return has served as a useful prop for Iran's president, who suffers from some measure of grandiosity. But those ultra hard-liners who invoke these messianic ideas are not irrational actors bent on provoking a final global conflagration. This erroneous idea conflates Shi'a messianism with Christian apocalyptic doctrine. The latter envisions a violent, final clash between "good and evil," while the former calls for social justice to hasten a new world order of global justice. Ahmadinejad and his allies have used Shi'a messianism to legitimate their quest for power. However, they are not blind to the logic of *raison d'état*. While they will readily use offensive language to shock, demoralize, or discredit their enemies, they will not jeopardize Iran's very existence by implying, much less stating, that they intend to attack another Middle East country, particularly one that commands an ample nuclear arsenal.

If the offensive language that Iran's president has used against the US—not to mention his repeated remarks about the illegitimacy of the "Zionist entity"—have antagonized Americans, they have also served his domestic agenda. Facing rivals at home and international abrogation abroad, Ahmadinejad has happily tossed verbal grenades to

3 See Yossi Melman and Meir Javadanfar, *The Nuclear Sphinx of Tehran: Mahmoud Ahmadinejad and the State of Iran* (New York: Carroll and Graf: 2007).

4 See Daniel Brumberg, *Reinventing Khomeini: The Struggle for Reform in Iran* (Chicago: University of Chicago Press, 2001).

reinforce his image among his own followers as a tough guy standing up to US “bullying.” At the same time, he seems to see negotiations with the US as a way to establish his leadership credentials at home. Thus, contradictory impulses animate Iran’s president and his allies. While ready to talk with Washington, they are wary of any deal that would appear to their own followers, and to the Supreme Leader, in particular, as anything less than a full victory for Iran. The ultra hard-liners’ ascendancy reinforces Iran’s diplomacy of avoidance and tactical maneuvering.

Conservative backlash and internal struggle

Longitudinal studies of the political elites demonstrate that ultra conservatives have made significant inroads in the Parliament (Majles), Judiciary, and, especially, the Revolutionary Guards and its “Volunteer Forces” (Basij).⁵ Given that the Guards are estimated to control twenty percent of the national economy, its leaders are emerging as a new economic power in their own right. That said, the ultra hard-liners also face growing internal challenges that will probably stymie their ascendancy while complicating Iran’s domestic landscape in ways that may close some windows for US nuclear diplomacy, while opening others.

One window that will remain closed for some years to come is that of internal democratization and/or regime collapse. Battered by relentless repression, suffering from divisions within their own ranks, and unable to forge a wider social alliance with other key social sectors, such as the urban commercial Bazaar, the leaders of the Green Movement are unlikely to have much impact on Iran’s internal and foreign policies in the near-, or even mid-term. As for the regime itself, while it is suffering from significant divisions, there is sufficient unity of purpose within the bureaucratic and repressive apparatus to prevent internal divisions from cracking the regime in manner that might open the door to a democratic revolution or a military coup. In a system that gives ultimate authority to a “Supreme Leader,” the capacity of the latter to set limits on internal conflict is a key factor in preventing a slide into chaos or regime collapse.

Yet, if dramatic change is unlikely, the ultra hard-liners’ power grab has spawned a political dynamic that has ample significance for Iran’s domestic politics and its foreign relations. Indeed, far from leading to a full militarization of the political system, the ultra hard-liners’ actions have provoked a backlash from within the multi-faceted conservative camp. This backlash began in 2006, when veteran conservatives asserted that the president’s diplomacy had opened the door to Western sanctions, thus needlessly isolating Iran. Moreover, they accused Ahmadinejad of trying to hijack a controversial privatization plan in a manner intended to expand the ultra hard-liners’ clout. In the aftermath of the repression directed at the Green Movement, dissent from such veteran leaders as Ali Larijani and former-President Hashemi Rafsanjani highlighted the regime’s vulnerability.

International sanctions have intensified these internal struggles. To be clear, there is little evidence that by themselves sanctions and other punitive measures will compel Iran’s leaders to comply with the demands of the UN Security Council or the International Atomic Energy Agency (IAEA). Indeed, ultra hard-liners in the Revolutionary Guards

⁵ Presentation of preliminary research findings by a member of the internal politics working group, USIP-Stimson Center Iran Study Group, May 12, 2010.

have leveraged sanctions to enhance their control over illicit economic activities, such as oil smuggling. Moreover, because all factions, including the reformists, believe that the NPT gives Iran a right to enrichment, they are bound to defy a sanctions policy—or any international agreement for that matter—that they perceive as an effort by more powerful states to impose discriminatory conditions on Iran.

However, if sanctions will not force Iran's compliance, they have affected Iran's overall economic and social situations in ways that could create leverage for the US and its allies.⁶ By reducing Western direct and indirect investment, sanctions have magnified the structural inefficiencies of Iran's oil-driven economy. Responding to this deepening crisis, the regime has undertaken belt-tightening economic reforms that have antagonized a range of groups, from labor, teachers, and the urban poor on the left, to businessmen in the private sector urban Bazaar and the large, state-owned oil industry on the right.⁷ This dynamic has invited renewed criticism of Ahmadinejad. When some leading conservatives assert that the president's policies have intensified Iran's economic woes, their criticisms illustrate the presence of powerful groups for whom engagement with the US might be a better proposition than confrontation and international isolation.⁸

Implications for US nuclear diplomacy

The above internal fissures have contradictory implications for US Iran diplomacy. On the one hand, Ahmadinejad's rivals have used the nuclear issue as a stick with which to beat the president. As the criticisms directed at him after Iran's negotiators initially supported the October 2009 uranium exchange agreement demonstrate, the legendary opportunism of Iran's leaders makes it very difficult to identify a constituency that might favor a comprehensive nuclear deal. Moreover, in so far as Iran's conservative camp contains factions that have different economic, political, and even ideological interests,⁹ the effort of these factions to overcome or mitigate their differences by focusing on their controversial president further complicates any US effort to shape a nuclear diplomacy that might have domestic traction in Iran.

On the other hand, on a deeper, strategic level, there are important sectors of the conservative camp whose economic and political interests have suffered at the hands of

6 See "Sanctions begin to Bite," *The Economist* (October 7, 2010) http://www.economist.com/node/1720460?story_id=1720460

7 See "Iran's Businesses Worry in Face of Uncertainty," *Time Magazine* (October 26, 2010) <http://www.time.com/time/world/article/0,8599,2027395,00.html?iid=sphere-inline-sidebar>

8 See "Iranian Conservatives United in a Bid to Undermine Ahmadinejad," http://www.rferl.org/content/Iranian_Conservatives_Unite_In_Bid_To_Undermine_Ahmadinejad/2105228.html

9 Iran's conservatives are a heterogeneous group. They include pragmatic, moderate, and more hard-line leaders drawn from the official clergy, from the security apparatus, business community, and state supported lay intelligentsia. Some conservatives oppose Ahmadinejad because they view his stance on social issues as morally lax, and/or because they see the president's periodic references to Shi'a messianic doctrine as part of a wider threat to their corporate control over the interpretation of Islamic law. Businessmen fear that the ultra hard-liners' efforts to control the economy will undercut their own interests and further exacerbate the inefficiencies of Iran's notoriously inefficient state-owned oil industry. Mainstream conservative leaders who had played a role in defining Iran's geo-strategic policies see their influencing declining in tandem with their declining representation in key policy making institutions, first and foremost of which is the Supreme National Security Council.

the ultra hard-liners. For these groups, conflict with the US and its allies exacts a long-term high cost. The key question for the US is whether there exist sufficient incentives for these conservative groups such that they can take the domestic political risks entailed in encouraging their own leaders to back a comprehensive US-Iranian deal?

These risks *are* significant. They stem not only from the determination of Ahmadinejad and allies to stifle any rival bid to leverage an opening to the US. They also stem from the ambivalence of the Supreme Leader regarding a wider process of negotiations with the US. However, if Khamanei concludes that internal conflict might undermine the very stability of the regime, he might listen to those voices favoring a more forthcoming response to Washington. Indeed, his repeated efforts to heal the rift between the Iranian president and his conservative critics could increase the influence of those Iranian leaders whose interests lie in pushing for an accommodation with Washington.

However, no measure of US-Iranian accommodation will be possible unless Iran's leaders define the ultimate purpose of engagement in general, and negotiations on the nuclear issue in particular. If united in their conviction that anything more than a tepid, tactically based engagement is unacceptable, then there will be no room for the US to leverage sanctions. Moreover, if united in their determination to gain a nuclear weapons capacity, Iran's leaders will not respond to Washington in a serious way.

The good news is that no such unanimity on nuclear issues appears to exist within the regime and its primary bureaucratic, clerical, and security organs. Beyond a shared commitment to Iran's defense of its uranium enrichment rights, there is little consensus regarding how such rights should be exercised, or, even more critically, what should be the ultimate purpose of nuclear power.¹⁰ As a result, Iran's ultimate intentions on the nuclear issue, and on the wider question of US-Iranian engagement, are shrouded in mystery. Such ambiguity is deeply frustrating for US leaders and diplomats. But it also suggests a situation of flux and debate within Iran's leadership that could open up space for a reinvigorated US engagement strategy.

Policy findings and recommendations

- *There is no magic formula for overcoming the pathologies of factional conflict in Iran. But if Iran's fractious politics are to yield something more than tactical stalling, ambiguous offers, and hasty retreats, at some point Washington must offer a robust package of inducements that might have political traction in Iran.*
- *Sanctions will not compel Iran's leaders to comply with the demands of the IAEA and other multilateral bodies, but they have intensified internal political struggles in ways that have opened up a window of opportunity for a rebalanced two-track diplomacy. US policy-makers must seize this opening to forge their own consensus regarding a package of*

¹⁰ See Kayhan Barzegar, "The Paradox of Iran's Nuclear Consensus." *World Policy Blog* (August 18, 2010) <http://www.worldpolicy.org/blog/paradox-iran%E2%80%99s-nuclear-consensus>. For a taste of the debate, also see "Iran will never make the mistake to build nuclear weapons: envoy," <http://www.mehrnews.com/en/NewsDetail.aspx?NewsID=1183694>.

incentives that might be attractive to Iran's leaders, and then communicate the elements of this package to Tehran.

- *The targets of state repression, which for the next two to five years will be Iran's reformists, will not play a major role in shaping Iran's domestic and foreign policies. Instead, the key groups affecting these policies will come from the ranks of the conservatives and, in particular, from those leaders whose interests might be served by resolving the US-Iran conflict. While avoiding any appearance of intervening in Iran's domestic politics, Washington must consider how to more effectively calibrate punitive measures and incentives so that Iranian leaders will have an incentive to negotiate a mutually acceptable solution to the nuclear issue.*
- *Any package of inducements must include the possibility of some measure of internationally supervised enrichment on Iranian soil. Absent a comprehensive agreement that includes recognition of Iran's NPT's rights to enrichment, those regime voices that might otherwise support a deal will have little incentive to overcome the centrifugal logic of Iranian domestic politics.*
- *Beyond the possibility of enrichment, and in the context of this strategic focus, there are a range of incentives that Washington could offer to encourage Iranian support for a deal. An eventual end to international sanctions and the reintegration of Iran into the international community will have great appeal to the private sector, and to the state-owned oil industry and its subsidiaries.*
- *Any US or Israeli attack on Iran will set back the prospects for a mutually acceptable comprehensive deal on the nuclear issue. Rather than advance democratic change, military action would accelerate the efforts of Iran's ultra hard-liners to consolidate power. By contrast, and as many Iranian reformists have argued, a sustained US-Iranian effort to resolve the nuclear question—as well as other issues affecting both countries—offers the best hope of creating political space in Iran for a measure of internal dialogue and reconciliation.*
- *A US commitment to a comprehensive, forward-looking engagement policy must include continued efforts by Washington to press Iran to respect the human rights of its own citizenry. The Islamic Republic remains a signatory to the UN International Covenant on Civil and Political Rights (ICCPR). If Tehran insists that the international community respect its right to equal treatment under the NPT, it must also accept the right of that community to require Iran's compliance with its other international treaty obligations, not least of which is its duties under the covenant and other related global human rights treaties.*

Working Group on Iran's Regional and Global Relations

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Iran's Regional and Global Relations

Managing the regional and international implications of Iran's nuclear program poses significant challenges for the Obama Administration. Over the past decade, Iran has benefited from diplomatic, economic, and strategic support from authoritarian regimes and non-state actors that, to varying degrees, share its critical view of the US. These include China, Hizballah, Russia, Sudan, Syria, Venezuela, and Zimbabwe. Iran has also strengthened its ties with rising non-Western democracies, notably Turkey and Brazil, as well as South Korea, South Africa, and other democracies with which it has strong economic ties.

In recent years, Iran's leaders have adroitly exploited these ties to expand their diplomatic room for maneuver, impede US and European efforts to tighten international sanctions, and sustain Iran's nuclear enrichment program. Working through bilateral relationships, as well as international and regional organizations, Iran's president has worked to consolidate an organized alternative to US power in the international system, and undermine Western attempts to deepen Iran's economic and diplomatic isolation.

In this regard,

Iran's leaders have adroitly exploited concerns among developing nations about US dominance. They have tried to enhance Iran's influence by advocating a more just distribution of power and resources in the international system. They accuse the United States and its allies of using globalization as an instrument of Western power and to impose their will on non-Western states. President Ahmadinejad calls it 'forced globalization.' This view has been echoed by many of Iran's allies, including Hugo Chavez, Robert Mugabe, and also Brazil's President Luiz Inacio Lula da Silva.¹

Iran also has made clear to its trading partners and international interlocutors that it is keeping score, and will respond in kind to states that participate in Western sanctions, however unwillingly. Through its networks of alliances, the Iranian regime has also linked the fate of its nuclear program to the regional balance of power in the greater Middle East and to the status of Arab-Israeli conflicts.

As noted by a prominent Iranian diplomat, "We are very proud of our diplomacy, although we are benefiting from mistakes made by the United States and its allies... We are using all our resources to exploit these weaknesses."²

The effects of Iran's diplomacy are evident in the difficulties the US and its European allies have confronted in securing UN Security Council support for an expanded sanctions regime. They are visible, as well, in Turkish-Brazilian efforts to provide Iran with alternative channels for negotiation, and in statements from Chinese, Russian, and South Korean

1 Steven Heydemann, "Iran's Alternative Allies," in *The Iran Primer*, Robin Wright, ed. (USIP, 2010).

2 Quoted in Thomas Erdbrink and Colum Lynch, "A resilient Iran shields itself from pressure by building alliances." *Washington Post*, A01, June 9, 2010.

officials that sanctions will not be permitted to disrupt their economic ties with Iran. Iran's diplomatic relations increase the likelihood that the US will eventually fail to prevent it from acquiring a nuclear weapons capability. They also create obstacles to the effective implementation of US policy toward Iran, impeding efforts to roll back Iran's enrichment efforts, while amplifying the challenges of containing or deterring Iran if it succeeds in crossing the nuclear threshold, either implicitly or explicitly.

In addition, Iran's willingness to link its enrichment program to its broader interest in a new regional and global balance of power further raises the stakes for the US in any attempt to engage Iran on its enrichment program, or to threaten Iran with military action should engagement and negotiation fail. The prospect of Iranian retaliation directed against neighboring Arab states in the event of a preemptive strike on Iran, of Hizballah participating militarily in a retaliatory campaign, of a groundswell of popular support for Iran, and of further polarization between the West and a "resistance bloc" in international organizations are factors that weigh heavily in the US strategic calculus.

Despite Iran's pride in its own diplomatic efforts, the US has options for more effectively managing the regional and international dimensions of Iran's enrichment programs. These will require sustained and focused attention from American diplomats, however, together with a keen understanding of the factors shaping the strategic choices of Iran's allies and its sometimes reluctant supporters.

Four states identified as central to Iranian diplomacy—Russia, China, Turkey, and Brazil—were discussed at length in the working group.³ The interests of these actors differ, yet their Iran policies are guided by broadly shared perspectives about the geo-political dynamics they confront. All understand the risks associated with Iran's enrichment program. All strongly prefer a negotiated solution that permits Iran's return to good standing in the international system. Russia and China have grudgingly supported UN Security Council sanctions. Both maintain active economic relationships with Iran. None of these four key interlocutors endorse unilateral sanctions. All are, at best, lukewarm supporters of US Iran policy. All four view with concern the consequences of US or Israeli military action against Iran.

For all four states, Iran's enrichment program has exacerbated fault lines in their relationships with the US and with moderate Arab regimes in the Gulf, creating tensions the US can exploit to its own advantage. All four of these governments recognize the importance of maintaining strong ties with America. For Russia and China in particular, and increasingly for Turkey, economic ties to Iran are conditioned by trade relationships in the Gulf that, in some instances, may outweigh ties to Iran. For example, Saudi Arabia's commitment to China to replace the Iranian oil it would forego as a result of sanctions was critical in securing Chinese support for the July 2010 vote in the Security Council, and came in the face of concerted Iranian efforts to dissuade China from voting in favor of sanctions. Brazil and Turkey are far less well integrated into the economies of the Arab world, yet, along with Russia and China, are aware of, and take seriously, Gulf and other Arab nations' concerns about Iran's nuclear program. They recognize that Iranian success will have spill-over effects in the region that may well work against their broader strategic interests. These include the

³ The working group also discussed regional and Arab responses to Iran's enrichment program. Israeli responses were discussed in the US Policy Options working group.

possibility of regional proliferation, but also the increasing dependence of Arab Gulf states on the US to deter Iran, further consolidating America's standing as the dominant military presence in the Gulf.

Obstacles to US diplomacy

At the same time, the willingness of these governments to support US diplomacy is tempered by their assessment of the strategic dynamics at work in the US-Iran confrontation. In their own ways, each of these actors has used the US-Iran deadlock to achieve diplomatic and strategic gains. They are deeply ambivalent about the prospect that the US might succeed in its efforts to constrain Iran's enrichment program, even while recognizing that US failure also carries very clear risks.

Russian leaders, for instance, view a nuclear Iran as preferable for its regional interests than an Iran that has moved closer to the United States. They regard Iran as a rising regional superpower, and are reluctant to join in diplomatic efforts that might undermine Russia's influence with a potentially important ally. Russia endorses Iran's right to a nuclear energy program, does not perceive sanctions to be credible, and considers demonstrations of solidarity with the US—including support for watered-down sanctions in the Security Council—as necessary to protect relations with the US, but at the cost of exposing Russia to Iranian retaliation.

Russian leaders tend to see Iran's nuclear success as inevitable, and Iran's likely emergence as a nuclear power is, thus, a reality to be managed, not a short-term problem to be solved. In addition, Russia recognizes the limits of its influence. It feels that Moscow has little control over any of the major protagonists: Iran, Israel, and the US. While Russia is prepared within limits to offer conditional support for US diplomacy, it is also a leading beneficiary of Iran-US tensions. Thus, the incentives for Russia to adopt a more openly confrontational posture toward Iran are weak.

More broadly, Russia views balance of power politics in the Arab East as working to its advantage, creating opportunities to extend Russian influence in Syria, Lebanon, and Palestine, while pushing the US into a more defensive posture. Yet, Russian leaders are keenly aware that Iranian success is a mixed blessing. They recognize the risks associated with the expansion of Iranian influence, and the long shadow that a nuclear-weapons capable Iran would cast over the region. These risks center less on high-impact, low-probability events, such as a nuclear exchange, than on the implications for Russia's regional interests of a US-backed or US-supplied deterrent capability across the Arab Gulf states, and what this would mean in terms of long-term strategic partnerships between the US and the Arab states of the Gulf.

Chinese, Turkish, and Brazilian perceptions largely mirror those of Russia, but with important differences. China's economic interests in the US create powerful incentives to protect the relationship even at some cost to its ties with Iran. Its ability to substitute Iranian oil with Saudi or other sources of oil reinforces arguments about the limits of the Iranian-Chinese relationship. Nonetheless, Iran's natural resources are sufficiently important to justify pushing the boundaries of US-Sino relations to avoid antagonizing Iran. Explicit

threats from Iranian leaders, that they will retaliate against states that participate in the sanctions regime, are taken seriously in Beijing.

No less important, China is not persuaded that there is much it can do to affect Iranian behavior. Like Russia, China views the possibility of US failure, or of keeping the US bogged down in a confrontation with Iran, as advancing a broader geo-political agenda. US failure, in China's view, could lead to a decline in America's propensity to interfere in the internal affairs of other nations. It would strengthen the concept of sovereignty that China favors as an international norm. It also would accelerate the transition to a multi-polar international system in which US influence is diminished.

Echoes of these perspectives can be heard from Turkey and Brazil, though neither operates with the legacies of confrontation that have shaped US-China or US-Russia relations. Nor does either state have economic ties with Iran on the scale of China — though both have expanded their economic relationships with Iran significantly in recent years. Both Turkey and Brazil view Iran's pursuit of nuclear energy to be legitimate, regard it as near inevitable that Iran will "go nuclear," perceive US diplomacy as ineffective, and have exploited the Iran-US confrontation to elevate their standing in the international system. For both, engagement with Iran affirms the value of a multi-polar international system in which the US and its Western allies acknowledge the legitimate role of emerging powers as equal partners in global governance. More recently, Turkish officials have expressed reservations about NATO proposals to expand missile defense systems, expressing concerns about who the targets of such a system might be, and about whether the presence of such a system would make Turkey a target of retaliation in the event of Western military action against Iran.⁴

At the same time, Turkish support for Iran should not be exaggerated. Turkish-Iranian ties reflect longstanding mutual suspicions, including elements of sectarian, Sunni-Shi'a tensions. Despite Turkish attempts to serve as an interlocutor on Tehran's behalf, the two compete for regional influence. Turkish leaders express deep ambivalence about the rise of Iranian power in a part of the Arab world with which Turkey is rapidly expanding its own economic and diplomatic presence. Turkey's balancing act with Iran places clear limits on its willingness to back US policy, yet nonetheless preserves ample space for the US to engage Turkey more effectively in seeking peaceful, negotiated solutions to Iran's efforts to develop a nuclear weapons capability.

Options for US diplomacy

The strategic calculus of Iran's partners represent significant barriers to their cooperation with the US in preventing Iran from acquiring a nuclear weapons capability. To the extent that states like Russia, China, and Turkey view US defeat as both likely and strategically productive, there are clear limits to their willingness to sign on to a US-defined prevention-oriented policy that relies heavily on punitive sanctions and the threat of military action. Prospects for overcoming these barriers can be improved, however, by four specific steps on the part of US diplomats.

⁴ Marc Champion, "Turkey in Dilemma Over NATO Shield," *Wall Street Journal* (October 27, 2010) http://online.wsj.com/article/SB10001424052702303891804575576233454738208.html?mod=googlenews_wsj.

- *Move from zero-sum to positive-sum diplomacy*
US diplomacy should focus more explicitly on multilateral initiatives to reduce barriers to cooperation with Iran's partners and supporters in the international arena. Key to achieving this end is to shift the strategic calculus of Russia, China, and Turkey by clarifying the long-term costs of Iranian success for their economic and strategic interests in the broader Middle East. All three maintain significant trade and diplomatic relationships with Arab states that strongly oppose Iran's enrichment program. Developing collaborative initiatives that make clear the destabilizing consequences of Iranian success for the region and highlight the opportunities associated with a negotiated outcome to the current crisis may well affect the strategic calculus of governments that have been reluctant to support efforts to prevent Iran from crossing the nuclear weapons threshold.
- *Mitigate the economic effects of sanctions*
Encourage further shifts among leading purchasers of Iranian oil toward alternative suppliers. Recent data indicate that Chinese oil imports from Iran have declined. The US should actively support shifts by China and by other leading purchasers of Iranian oil to other suppliers, and facilitate efforts that mitigate the economic consequences of compliance with sanctions.
- *Strengthen frameworks to offset Iranian economic and diplomatic pressure*
In addition, the US can encourage the use of regional and multilateral diplomatic frameworks, including the Gulf Cooperation Council, the Organization of the Islamic Conference, the Arab League, and other international organizations, to mitigate Iran's ability to pressure individual governments, to facilitate the ability of member states to communicate their collective concerns to Iran, and to broaden diplomatic efforts to prevent Iran from acquiring a nuclear weapons capability.
- *Make effective use of Iran's interlocutors*
Finally, the US would be well served by strengthening current multilateral efforts to secure a negotiated arrangement to prevent Iran from acquiring a nuclear weapons capability, including Turkish-Brazilian initiatives. US diplomacy also would benefit by more clearly defining a range of acceptable outcomes for Iran, drawing on existing models of states that have established successful nuclear energy programs, but at the same time have rejected nuclear weapons.

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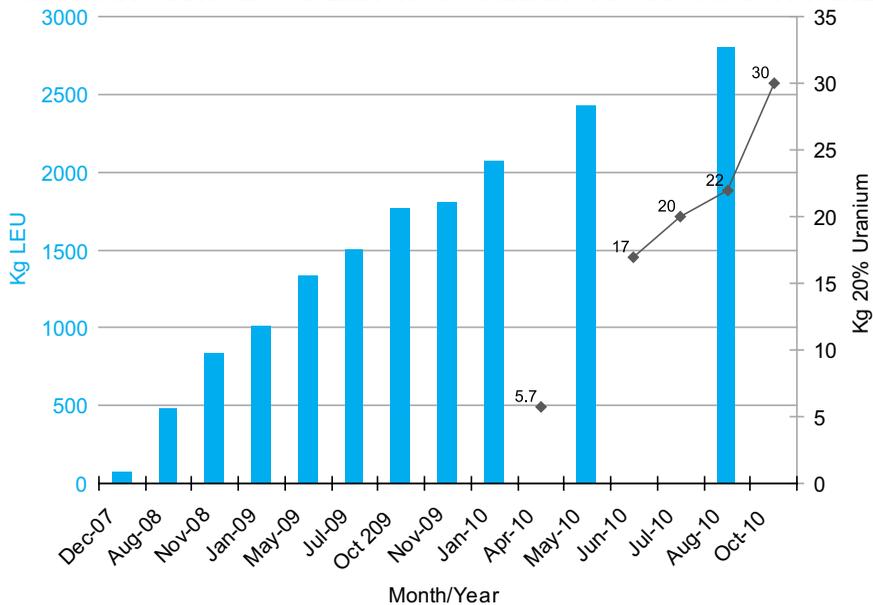
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US Policy Options

According to Undersecretary of State William J. Burns, the United States has a number of broad objectives with regard to Iran, but first among them is to “..prevent Iran from developing nuclear weapons.”¹ In support of this goal, the US has sought to persuade Iran—through both punitive instruments and positive diplomatic initiatives—to cease enriching uranium and to clarify a number of questions concerning possible weapons-related activities raised by the International Atomic Energy Agency (IAEA).

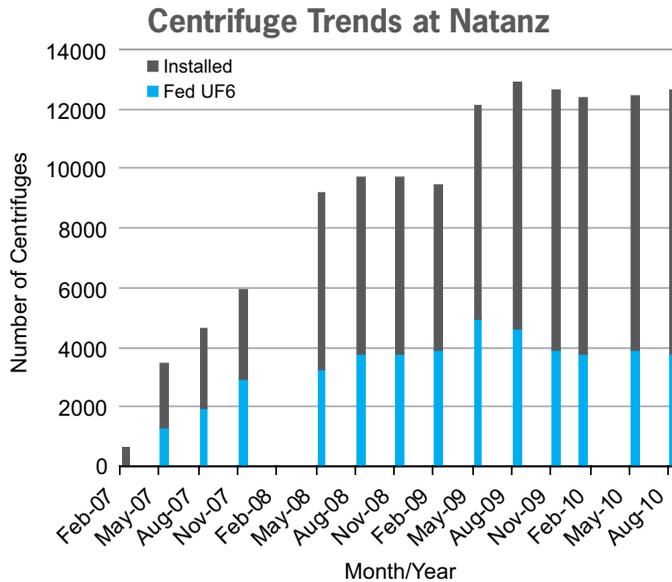
So far, these efforts have been unsuccessful. Iran insists that the IAEA is not “mandated to raise any question beyond the Safeguards Agreement.” Importantly, Iran continues to enrich uranium, albeit at a slower pace than had previously been feared due to technical difficulties at the main enrichment plant in Natanz. Nevertheless, according to several sources, its growing stock of low enriched uranium (LEU) provided a theoretical capability to produce enough weapons-grade material for one or two nuclear devices as early as August 2010.²

Cumulative Amount of Enriched Uranium Produced at Natanz



1 Testimony to the Senate Foreign Relations Committee (June 22, 2010) <http://foreign.senate.gov/imo/media/doc/Burns,%20William%20J.pdf>.

2 David Albright, et al., IAEA Iran Report (Institute for Science and International Security, February 18, 2010) http://isis-online.org/uploads/isis-reports/documents/IAEA_Iran_Report_Analysis_18Feb2010.pdf; Mark Mazzetti and David E. Sanger, “US Assures Israel That Iran Threat Is Not Imminent,” *The New York Times* (August 19, 2010) http://www.nytimes.com/2010/08/20/world/middleeast/20policy.html?_r=1; IAEA Board of Governors, Implementation of the NPT Safeguards Agreement and relevant provisions of Security Council resolutions in the Islamic Republic of Iran (GOV/2010/46, 6 September 2010) http://www.globalsecurity.org/wmd/library/report/2010/iran_iaea_gov-2010-46_100906.htm.



The information for these graphs was derived from IAEA Board Reports found at http://www.iaea.org/NewsCenter/Focus/IaeaIran/iaea_reports.shtml; “Iran’s Nuclear Timetable,” Iran Watch (September 9, 2010) <http://www.iranwatch.org/ourpubs/articles/iranucleartimetable.html>; Ali Akbar Dareini, “Iran reports higher amount of enriched uranium,” *The Washington Post* (October 20, 2010) <http://www.washingtonpost.com/wp-dyn/content/article/2010/10/20/AR2010102002371.html>; Robin Pomeroy, “Iran says has enriched 17 kg uranium to 20 percent purity,” *Reuters* (June 23, 2010).

Earlier in 2010, Vice Chairman of the Joint Chiefs of Staff General James Cartwright confirmed that Iran could have enough enriched nuclear material for a bomb within a year, but added that it could take two to five years before Iran would have deliverable weapons, assuming the country did not receive external assistance.³ In view of the secrecy with which it cloaks its nuclear program, its tough stance vis-a-vis the IAEA, and the degree to which its enrichment activities exceed its even mid-term reactor requirements, there is a growing consensus among specialists that Iran is moving toward having, at least, the potential to develop and build nuclear weapons within a very short period of time, or may actually acquire such weapons and even test them.

How far and how fast Iran will proceed toward the acquisition of nuclear weapons or toward the potential to do so will depend on any number of factors, the most important of which are the intentions of Iranian leaders. Given the fragmented nature of Iranian decision-making, no one can be certain what those intentions might be. Officially, Iran maintains that it does not seek a weapons capability; that it is enriching uranium strictly for peaceful purposes—its right as a signatory to the Nuclear Nonproliferation Treaty (NPT)—and that it is not conducting weapons-related research.⁴ Unofficially, Iranians point to Israel’s nuclear weapons (as well as those of eight other nations), and to the threats posed to Iran over the years by Britain, Iraq, Israel, Russia, and the United States to justify its need for a

3 Testimony to the Senate Armed Services Committee. (April 14, 2010) <http://armed-services.senate.gov/Transcripts/2010/04%20April/10-28%20-%204-14-10.pdf>.

4 The Associated Press, Iran Starts Nuclear Reactor, Says Intent Peaceful (August 21, 2010) <http://abcnews.go.com/International/wireStory?id=11452050>.

strong deterrent capability. Iranian leaders argue that as a great civilization with a proud history, Iran has every right to develop the same weapons as any other nation.⁵ Moreover, there is evidence that discredits Iran's peaceful intentions, including the discovery of a covert enrichment facility at Qom, which is too small to be commercially feasible, as well as weapon-related enrichment techniques, such as the reprocessing of depleted uranium tails, reports of Iranian research on neutron initiators for triggering a nuclear weapon, and Iranian acquisition of suspicious dual-use items, such as special lenses and high speed cameras.⁶

In fact, although they clearly are exploring the possibility of moving towards at least a capability to produce weapons, Iran's leaders may not have made up their minds as to how far to proceed in that direction, or may be divided on the question. Given this uncertainty, US policy-makers are in a difficult bind. If, indeed, the Iranian leadership is uncertain or divided, threatening policies may reinforce those arguing for nuclear weapons and weaken those who argue for restraint. If, on the other hand, the leadership is united on the need for Iran to acquire nuclear weapons as soon as possible, policies that seek negotiated outcomes cannot succeed and provide time for Iran to solve the technical obstacles standing between it and a weapons capability.

As a result, the US has pursued a two-track approach. On one hand, it has sought to influence Iranian decision-making in a positive fashion by seeking to engage Iran in discussions of the nuclear issue (and other issues), and indicating the benefits of concluding arrangements that would reassure the US and other nations that Iran does not have, and could not quickly acquire, nuclear weapons. At the same time, the US has led an international effort to impose economic sanctions on Iran, indicated that it might consider military options to stop Iran's nuclear program, and taken other actions that are making it more difficult and costly for Iran to acquire the bomb.

Taken together, these policies seek to persuade Iranian leaders that the wise course is to negotiate arrangements that are acceptable to both sides. Such arrangements must satisfy Iranian perceptions of its legitimate rights to peaceful uses of nuclear energy, as well as its demand that it not be treated differently than other nations. At the same time, the United States and other countries that feel threatened by the Iranian nuclear program must be confident that if Iran chose to break out of the arrangement and develop nuclear weapons, there would be considerable warning time, perhaps one year or more, before such weapons were operational. A range of negotiated outcomes is imaginable, including the placement of Iranian enrichment facilities under multinational controls; the negotiation of a region-wide arrangement that substituted multinational, guaranteed nuclear fuel services for all nationally-controlled enrichment and reprocessing facilities in the Middle East; and arrangements in which Iran might continue to enrich uranium, but only to levels and volumes appropriate for Iran's requirements for peaceful applications, and under a

⁵ Jon Lee Anderson, "Letter from Tehran: After the Crackdown," *The New Yorker* (August 16, 2010) http://www.newyorker.com/reporting/2010/08/16/100816fa_fact_anderson.

⁶ As of September 2010, the facility at Qom had not yet been equipped with centrifuges. See: IAEA Board of Governors, *op. cit.*; Annual Threat Assessment of the US Intelligence Community for the Senate Select Committee on Intelligence; statement for the record by Dennis C. Blair, Director of National Intelligence. (February 2, 2010) http://www.dni.gov/testimonies/20100202_testimony.pdf; Joby Warrick, "Evidence of Iran's Nuclear Arms Expertise Mounts," *Washington Post* (December 15, 2009) <http://www.washingtonpost.com/wp-dyn/content/article/2009/12/14/AR2009121403729.html>.

safeguards regime robust enough to reassure the international community. Given the secretive history of Iran's nuclear program and the international community's distrust of the current Iranian leadership, any of these outcomes would require prior clarification of the various questions concerning Iranian activities that have been raised by the IAEA, a complete Iranian declaration and international audit of its nuclear and nuclear-related activities, and implementation of the Additional Protocol to its IAEA Safeguards Agreement, which permits inspections of undeclared facilities, to continue to ensure that no undeclared activities take place.

In the following section, we review the policy options available to the United States and its allies to obtain a negotiated outcome and, if such an outcome proves impossible to arrange, to minimize the consequences of the Iranian nuclear program.

We conclude that:

- *The US should embolden, broaden, and reinforce its efforts to engage Iran in negotiations on nuclear issues and on other issues of mutual concern, while continuing to encourage all nations to fully implement the trade and financial sanctions that have already been put in place by the UN Security Council and by individual nations.*
- *The US should not consider the use of military force against Iran at this time, should discourage Israel from considering such an option, and that official mentions of this option are counter-productive.*
- *The US should broaden and enhance its diplomatic efforts to build international support for US policy. The US should work cooperatively with states that feel threatened by Iran's potential nuclear weapons capability to reinforce their military capabilities, particularly their missile defense capabilities, so as to reassure them that the US will stand with them against Iranian threats, and to make clear to Iran that its continuing intransigence is only antagonizing its neighbors and drawing the US armed forces more deeply into the Middle East.*
- *The US also should work diplomatically with the Gulf states to encourage them to resolve the outstanding political and territorial disputes among them, and to implement cooperative solutions to such regional problems as missile defenses, endemic water and electricity shortages, and the development and distribution of natural gas.*
- *Finally, the US should engage Iran's key trading partners and international interlocutors to define frameworks in which US success is seen by them to reflect a positive-sum outcome, rather than a potential challenge to their interests in Iran and the broader Middle East. Overcoming the ambivalence of these states about the benefits of US success would significantly bolster prospects for robust and coordinated international diplomacy toward Iran.*

We divide the discussion that follows into “persuasive” and “punitive” options. A mixture of both represents—in our view—the desirable course.

- I. Persuasive options include diplomatic initiatives to engage Iran in a dialogue on nuclear and other issues, attempts to negotiate nuclear-control arrangements for the entire region that would limit Iranian, as well as other nations' nuclear options, and security commitments and cooperative arrangements to reassure third nations that feel threatened by Iran's nuclear ambitions.**

Strategic engagement

President George W. Bush and his administration refused to negotiate with Iran for much of his two terms. When the US did come to the table in Geneva, its position—essentially that Iran needed to halt its nuclear activities verifiably after which the US and allies would delay further sanctions—was clearly unacceptable to the other side.⁷

The Obama Administration set out on a different course when it first took office, making clear through a letter from President Obama to Iranian Supreme Leader Khamenei, major speeches by the president and the secretary of state, and by several other diplomatic initiatives, that the US wished to engage Iran in a wide range of negotiations, beginning with the nuclear issue, and that it would bring a more flexible position to the table. For example, in June 2009, President Obama said in Cairo:

Rather than remain trapped in the past, I have made it clear to Iran's leaders and people that my country is prepared to move forward...It will be hard to overcome decades of mistrust, but we will proceed with courage, rectitude, and resolve. There will be many issues to discuss between our two countries, and we are willing to move forward without preconditions on the basis of mutual respect.⁸

Unfortunately, the Obama initiative occurred during the run-up to the Iranian elections and the regime was unable, or chose not, to respond. The questions about the election's legitimacy, and the harsh repression of Iranian protesters that followed, dampened the US administration's enthusiasm for engagement. It turned to a policy that stressed building international support for a tightening of sanctions on Iran, with considerable success, as is discussed later in this paper.

Now that time has passed and Iran is feeling the consequences of both the UN sanctions and the additional financial restrictions imposed by the US, EU, and other nations, the US may wish to attempt to engage Iran once again, this time with a bolder and more comprehensive approach. Conceivably, the effectiveness of the sanctions regimes may have persuaded the Iranian leadership that the cost of continuing to pursue the nuclear program is simply too great, and the wiser course is to reach agreement with the international community. Persuading Iran's leaders to restart the talks and negotiate seriously, thus permitting a breakthrough on the nuclear issue, requires a significant change in US-Iran relations, one in which the potential benefits of agreement are as clear as the pains of continuing sanctions and isolation.

⁷ Maseh Zarif, "US Policy Toward Iran's Nuclear Program," American Enterprise Institute Iran Tracker (July 21, 2009) <http://www.irantracker.org/us-policy/us-policy-toward-irans-nuclear-program>.

⁸ Speech by President Barack Obama, at Cairo University, Egypt (June 4, 2009)

http://www.whitehouse.gov/the_press_office/Remarks-by-the-President-at-Cairo-University-6-04-09/.

The renewed US interest in engagement would need to be articulated publicly by the president and other senior administration officials in appropriate, but prominent, forums. Public messages should be reinforced through private channels. US spokesmen should make clear that the United States is prepared to enter such discussions without preconditions, and on the basis of mutual respect for each nation's sovereignty, security concerns, and historical perspectives. The US also should make clear that it is prepared to offer benefits commensurate with the significance of the demands it is making of Iran. US spokesmen should explain that the US is ready, in a step-by-step, verifiable process, to initiate exchanges and actions that would benefit both states and their respective security and economic interests significantly.

Although the focus of the engagement initiative should remain on Iran's nuclear program, talks need not be constrained to that subject nor restricted to the P-5+1 forum that has been used for the nuclear negotiations.⁹ One way to reaffirm the United States' willingness to engage Iran diplomatically would be to drop existing restrictions on US diplomats' communications with their Iranian counterparts within the context of their existing responsibilities and instructions. For example, if the US and Iran both participate in a multilateral forum and the US delegate has been given instructions to communicate a certain message to his or her colleagues, he or she should include the Iranian delegate.

Subjects of mutual concern, such as the situation in Afghanistan, regional energy coordination, and drug trafficking also may offer complementary starting points for collaborative activities be held in bilateral or multilateral forums. Indeed, there are a variety of existing multilateral forums, such as the new "Contact Group" on Afghanistan, in which Iran has sometimes participated, and could play a constructive role. Other subjects might be discussed in new bilateral or multilateral channels. It is essential, however, that US negotiators not permit these additional talks to sabotage or substitute for progress toward resolving the nuclear issue.

Reaching agreement on a process whereby Iran could refuel its Tehran research reactor offers one potential point of entry into nuclear discussions. Given Iran's need for new fuel rods for the reactor, a new deal that satisfies the US and its allies might be possible. Iran has gone back and forth on the issue, accepting a P-5+1 proposal in Geneva in October 2009, only to reject it when its negotiators returned home, and, in February 2010, announcing it was going to begin stepping up its own uranium enrichment from the 3-4 percent level needed for power reactors to the 20 percent level required for the reactor in Tehran. This announcement raised new anxieties in the US and other nations because, all else being equal, the time required to enrich 20 percent uranium to the 90 percent level, which is generally considered optimal for nuclear weapons, is a small fraction of that required to enrich 3-4 percent uranium to the 90 percent level. The Iranian announcement also was disturbing in that Iran does not have the capability to machine the 20 percent uranium into the fuel rods necessary to operate the Tehran reactor, and hence the higher enrichment level could not really serve the purpose for which it was claimed.¹⁰

9 P-5+1 is short-hand for the five permanent members of the UN Security Council (China, France, Russia, United Kingdom, and United States) plus Germany.

10 William Broad, "For Iran, Enriching Uranium Only Gets Easier," *The New York Times* (March 8, 2010) http://www.nytimes.com/2010/03/09/science/09enrich.html?pagewanted=1&_r=1.

In May 2010, Brazil and Turkey negotiated an arrangement in which Iran would have shipped some LEU to Turkey for safekeeping, and received 20 percent enriched uranium from Russia in exchange, but the deal was completed only days before a decisive UN Security Council vote on the latest round of sanctions, and the US government had put too much effort into orchestrating a positive outcome on that vote to change gears at the last moment. Moreover, by May, Iran had accumulated so much LEU that the amount proposed to be shipped to Turkey would not be sufficient to end the risk that Iran quickly could create enough highly enriched uranium for a bomb.¹¹

Iran has indicated a willingness to reopen discussions of the May 2010 Brazil/Turkey deal. In a letter to the IAEA on July 26, 2010, Tehran offered to suspend parts of its uranium enrichment program and restart talks, without preconditions.¹² Negotiations at one time were expected to begin as early as September but, at the time of this writing, were scheduled tentatively to begin in mid-November.

Although settlement of the Tehran reactor issue would not resolve the many other questions concerning Iran's nuclear program, and would not in itself be sufficient to justify easing the economic pressures on Iran, it could begin a wider ranging series of talks on nuclear issues that, eventually, could lead to an overall solution

No matter how energized, comprehensive, and sincere a new US effort to engage Iran on the nuclear issue and other issues may be, the Iranian ruling elites may remain divided on the wisdom of engagement and thus unable to act, or Iran's rulers may simply have no interest in negotiating their differences with the United States. Still, we believe that a new effort at strategic engagement, at recalibrating the balance between the diplomatic and punitive tracks of US policy, would be worthwhile. If nothing else, just as the initial attempt at engagement had the benefit of putting the US in a position in which it could persuade the international community to support a broad range of sanctions against Iran, a second, sincere, and even bolder attempt at engagement—should it fail—might have the benefit of facilitating future, stronger punitive responses, should they become necessary.

Recommendation

The US should renew its attempt to engage Iran in diplomatic negotiations, beginning with nuclear issues, but be prepared to pursue the full range of security issues between the two nations. The renewed campaign should be initiated by the president and other senior administration officials, and reinforced through private channels and by normalizing interactions between the two states' diplomats in third nations and multinational forums. Iran's need for new fuel rods for its Tehran reactor may provide an opening to begin discussions, but the US goal should be to engage on the full range of nuclear issues, seeking a broad arrangement that serves both

11 Ali Akbar Dareini and George Jahn, "Iran & Turkey Agree to Uranium Swap in Nuclear Deal," The Huffington Post (May 17, 2010) http://www.huffingtonpost.com/2010/05/17/iran-turkey-agree-to-uran_n_578220.html. In September, the IAEA estimated that Iran had accumulated approximately 2800 kg of uranium enriched to between 3 and 4 percent. See: IAEA Board of Governors, op.cit. On October 20th, the chief of Iran's atomic agency announced that Iran had produced nearly 30 kg of 20 percent enriched uranium.

12 Marc Champion and Jay Solomon, "Iran Offers to Resume Nuclear Talks, Rein In Enrichment," The Wall Street Journal (July 29, 2010) http://online.wsj.com/article/SB10001424052748704895004575395270184872374.html?mod=rss_europe_whats_news.

sides' purposes. The US also should be prepared to open bilateral or additional multilateral discussions on issues of common concern, like Afghanistan and drug-trafficking, although such talks should not be permitted to substitute for real progress in the nuclear negotiations.

Region-wide solutions

Iran justifies its nuclear program by pointing out that as a signatory to the Non-proliferation Treaty, Article IV ensures its “inalienable right...to develop research, production, and use of nuclear energy for peaceful purposes without discrimination.” They (and other non-nuclear weapons states) interpret this right to include the right to operate a complete fuel cycle, including enrichment and reprocessing facilities, so long as their peaceful purpose is ensured by IAEA safeguards. Iranian leaders appear particularly sensitive to any suggestion that they need to be treated differently than other states in this regard, although the repeated revelations of their covert nuclear activities and unwillingness to clarify issues pertaining to warhead experiments suggest that special arrangements to reassure the international community are justified.

As a complement to direct negotiations with Iran, therefore, and as a potential long-term solution to the proliferation problem in the Middle East, it would be beneficial to explore possibilities for region-wide, multilateral arrangements that would substitute for nationally-controlled uranium enrichment and plutonium reprocessing facilities. The 2009 “123 Agreement,” in which the UAE pledged to the US that it would not enrich uranium, was a positive step in this direction.¹³ Regrettably, it is proving difficult to obtain similar pledges of self-restraint during ongoing negotiations with Jordan and preliminary discussions with Saudi Arabia for similar agreements. Although Saudi Arabia, in particular, may be reluctant to make such a pledge, specifically because of the Iranian program, the Saudi nuclear program is not so advanced that the issue needs to be resolved in the near future. While reaching an agreement in which the states of the Middle East would forego nationally-controlled enrichment and reprocessing in favor of either outside suppliers or multilateral facilities within the region is a long-shot, the possibility should be explored. It would, after all, mean taking up what has been a long-standing Iranian suggestion. On May 13, 2008, Iranian Foreign Minister Mottaki wrote to UN Secretary General Ban ki Moon expressing readiness to undertake negotiations on, among other things, “Establishing enrichment and nuclear fuel production consortiums in different parts of the world including Iran.”¹⁴

Any number of models for such arrangements could be envisioned. The enrichment facilities at Natanz, for example, might be acquired by a multinational entity, which would operate them under strict IAEA safeguards and would guarantee enriched uranium for reactors in all Middle Eastern nations. An alternative might foresee such a multinational facility operated in another Middle Eastern nation, such as Jordan, which appears to have substantial uranium deposits – or in both Iran and another nation. A third model would have complete fuel services guaranteed by one or more multinational, private/public consortia located outside of the region. The possibility of acquiring fuel from more than

13 So-called “123 Agreements” are legislated prerequisites for US firms to participate in the construction or operation of nuclear power projects in foreign nations.

14 Manuchehr Mottaki. Letter to General Ban ki Moon. May 13, 2008.

<http://graphics8.nytimes.com/packages/pdf/world/2008/06/15iran-doc2.pdf>

one consortia would have the advantage of maintaining competition in prices, and reduce concerns about the arrangement being manipulated for political purposes. More than a dozen ideas for replacing national fuel cycles with multinational arrangements already have been tabled at the IAEA.¹⁵

To satisfy US and other nations' security concerns, implementation of any of these models still would require that Iran clarify the IAEA's questions concerning nuclear-related activities and implement the Additional Protocol to its Safeguards Agreement with the IAEA, so that the international community could be assured that there were no more secret nuclear facilities in Iran. Iran would not be singled out in this regard; 102 nations have already ratified the Additional Protocol. (The IAEA requires additional resources to implement the inspection rights granted by the Protocol.) The proposal and negotiation of a region-wide solution offers the possibility of Iran relinquishing its nationally-controlled enrichment facilities without the perception that it had been singled out for unique and unfair treatment.

In addition, it would be beneficial to begin a process that might hold out the promise of the eventual elimination of Israel's nuclear weapons. The Declaration of the 2010 NPT Review Conference, approved unanimously by all the signatories to the Treaty, called for a conference in 2012 on establishing a zone free of nuclear and all other weapons of mass destruction across the Middle East. The signatories also called on the UN Secretary General to appoint a special representative to begin to prepare for the meeting. This could be a positive first step, indicating to Iran that the region might eventually become free of weapons of mass destruction.

Recommendation

As a longer-term solution to the Iran enrichment question, the US should support region-wide discussions of the possibility of foregoing nationally controlled enrichment and reprocessing facilities in favor of multi-national facilities to serve all regional states' needs for nuclear fuel services. The US also should actively support preparations for the 2012 conference on establishing a zone free of weapons of mass destruction in the Middle East and seek to persuade Israel to participate.

Security cooperation

The US has long worked to strengthen the military and security apparatus of neighboring states that feel threatened by Iran's territorial claims, support for subversive and terrorist organizations, and military programs, to say nothing of its nuclear program.

Among other things, the US has been working with Israel and Arab states on the Gulf, including Kuwait, Oman, Saudi Arabia, and the UAE, to strengthen their air and missile defense capabilities. Both the UAE and Kuwait have signed contracts for upgrades to their Patriot missile defense systems, for example.¹⁶

15 Alexander Glaser, "The Civilian Nuclear Fuel Cycle in a Nuclear-Weapon-Free-World," in Barry M. Blechman and Alexander K. Bollfrass (eds.), *Elements of a Nuclear Disarmament Treaty* (Stimson, 2010), pages 77-116.

16 Rhoula Khalaf and James Drummond, "Gulf States in \$123 bn US Arms Spree," *Financial Times* (September 20, 2010) <http://www.ft.com/cms/s/0/ffd73210-c4ef-11df-9134-00144feab49a.html>.

The US also conducts extensive training, joint exercises, and periodic joint planning meetings with Gulf nations. The US has worked with Saudi Arabia and other Gulf states to help them to develop counters to Iran's naval capabilities and to improve their counter-terrorism capabilities.¹⁷ The US and Israel regularly conduct joint military exercises. Last October and November, for example, the US and Israel held their largest ever joint military exercise, Operation Juniper Cobra 10, which included the simultaneous testing of five missile defense systems.¹⁸ The US also regularly conducts joint training exercises with the UAE at the Joint Air Warfare Center at Al Dhafra.¹⁹

In addition to strengthening the defensive capabilities of states that feel threatened by Iran, these activities provide assurances to them of the United States' continuing support. Joint exercises also reinforce perceptions in Iran that the stalemate on its nuclear program is widening the divide between Iran and its neighbors, and drawing a larger US presence into the Gulf. In addition, strengthened military capabilities on the part of the Gulf Arab nations might undermine any expectation on the part of Iranian leaders that the acquisition of nuclear weapons might permit them to intimidate their rivals with conventional military forces.

Although the Gulf Cooperation Council in principle provides the basis for defense cooperation among nations on the Gulf, US security cooperation programs virtually are all implemented on a bilateral basis due to rivalries and conflicts among the Gulf nations. This is unfortunate in many respects. If the Gulf states were able to cooperate effectively, it might cause Iran to change its calculation about the cost of pursuing its nuclear program, as it might worry that the political balance, as well as the military balance, were shifting against it. In the military sphere, the lack of cooperation is particularly costly as concerns defense of the region from Iranian missiles. Missile defense could be accomplished far more effectively if the various nations' detection systems and interceptors could be inter-netted, especially if connected with US capabilities. If they are truly concerned about Iran's capabilities and intentions, the members of the Gulf Cooperation Council would be well advised to work hard to overcome their traditional rivalries, resolve outstanding territorial disputes, and cooperate to resolve a wide range of regional problems.

Recommendation

The US should accelerate security cooperation programs as feasible, with an emphasis on defenses against missiles and unconventional warfare, as well as protection from internal subversive activities. Sales of THAAD land-based missile defenses might be particularly useful, if arrangements could be made for the recipient countries to operate these systems in cooperation with the United States, which can provide early warning and tracking information automatically to locally operated interceptors, and vice-versa. Such arrangements are being set in place to help Japan defend against North Korean missiles, for example. The US should

17 Anthony H. Cordesman, US-Saudi Security Cooperation and the Impact of US Arms Sales (Center for Strategic and International Studies, September 14, 2010).

<http://csis.org/publication/us-saudi-security-cooperation-and-impact-us-arms-sales>.

18 Jeremy Sharp, "US Foreign Aid to Israel," Congressional Research Service (September 16, 2010)

<http://www.fas.org/sgp/crs/mideast/RL33222.pdf>.

19 "Desert Flacons Take Off at UAE Embassy Event in Washington, DC" (Press release from the Embassy of the UAE in Washington, DC, July 7, 2010) <http://www.uae-embassy.org/media/pressreleases/7-July-2010>.

follow host governments' leads as concerns the visibility of all security cooperation programs. The US also should work actively to promote greater cooperation among the Gulf states, not only on defense issues, but also on resolving territorial disputes and on developing cooperative solutions to regional energy, water, agricultural, and educational problems.

Security commitments

In considering security commitments to the Middle East, the US faces a dilemma. It must put together a security strategy and set of strategic relationships in the region that can persuade Iran that its continuing pursuit of nuclear capabilities are counter-productive, yet do not create the impression that the US has accepted that Iran will eventually acquire nuclear weapons, and is now shifting to a strategy to contain the consequences.

Although the US has no formal, treaty-based security commitments in the Middle East other than to NATO-member Turkey, US officials have made verbal commitments at various times. The firm US commitment to the defense of Israel is evident to all and has manifested itself many times. While some might question whether the US would come to the defense of Arab states, the US intervention following Iraq's invasion of Kuwait in 1990 makes clear that US policy-makers perceive a vital interest in preserving friendly regimes in Gulf nations and are likely to react in the event of overt aggression.

As Iran's nuclear program unfolded, some American experts and political leaders have called for more formal and explicit defense commitments to Gulf nations. In particular, they have called for the US to make clear that it would utilize its nuclear arsenal, if necessary, to deter or to defeat any Iranian nuclear threat to the region. This so-called "extended nuclear deterrence" is believed to be a means to avoid the proliferation of nuclear capabilities. Japan, for example, is believed to be willing to forego acquiring nuclear weapons, despite the fact that three other nations in its region (all of which fought wars with Japan during the last century) possess them, solely because of such a US commitment. Proponents of extending US nuclear deterrence to Gulf states also maintain that doing so would help Iranian leaders understand that acquiring nuclear weapons would not convey any advantages to it, such as greater leverage over decisions by its neighbors because of their concern about the Iranian nuclear threat, because they would know that they could count on the US to defend them. As a result, it is argued, such commitments would help persuade Iran to reach an agreement with the international community that contains its nuclear program short of a weapons capability.²⁰

On the other hand, these arguments have been interpreted by some to mean that the US has accepted the inevitability that Iran will become a nuclear weapon state and is preparing to shift to a deterrent or containment strategy. As a result, it is argued, such commitments, particularly if there were a nuclear aspect to them, would undercut US actions intended to prevent Iran from proceeding to a weapons capability.²¹ Moreover, it is not evident that the debate that might follow statements "extending" the US nuclear deterrent, in fact,

20 Richard C. Bush III, Vanda Felbab-Brown, Michael E. O'Hanlon, Steven Pifer, and Kenneth M. Pollack, Nuclear and Extended Deterrence: Challenges and Considerations: An Arms Control Initiative Event (June 18, 2010) http://www.brookings.edu/events/2010/0618_nuclear_deterrence.aspx.

21 Thérèse Delpeche, *Iran and the Bomb: The Abdication of International Responsibility* (Columbia University Press, 2009).

would either reassure the target states or dissuade Iran from seeking to gain leverage from its nuclear program. Particularly in view of the “Islamophobia” that seems currently to constitute a powerful political force in the US, some US political figures might question why the US should be willing to risk nuclear attack in order to defend countries with societal and cultural values so different from ours. Nor is it evident that the governments of the states in question would wish to be embraced so closely by the United States – at least not in public, nor that they would find such US commitments credible enough to forego seeking a nuclear capability of their own.

Recommendation

US officials should continue to make clear our interest and commitment to the Gulf region, repeating such verbal statements on appropriate occasions. However, the US should not seek to negotiate security treaties, as such efforts might prove counter-productive. Moreover, in its verbal statements, US officials should avoid any implication that nuclear responses might be necessary or are being contemplated, as such allusions only reinforce perceptions that nuclear weapons are essential for security. Instead, the US might gradually strengthen its security commitments in the region, with the promise that its guarantees will be commensurate to emerging threats.

II. Punitive options include the threat or actual use of military force, covert operations, and economic sanctions of various sorts.

Use of military force

The US has a potential range of military options to prevent Iran from acquiring nuclear weapons, from imposing a blockade or selective quarantine to a full-scale invasion and occupation of the country. The use of air power to cripple Iran's nuclear infrastructure is the option discussed most often and is probably the only serious possibility.

Air strikes likely could delay Iran's achievement of a nuclear weapons capability, perhaps for a prolonged period of time. Either Israel or the United States could mount a limited air campaign aimed solely at taking out two or three key nuclear installations, such as the uranium enrichment facilities at Natanz and Qom, and the heavy water plant at Arak. According to Anthony Cordesman, such an attack could probably be carried out by 16-20 cruise missile and aircraft strike sorties, as part of a total package of perhaps 100 sorties. A larger, but still limited, attack intended to seriously damage or even destroy the entire nuclear infrastructure might require 200-600 strike sorties, and could take three to ten days to complete. This would be beyond Israel's capabilities.²² One source has identified 24 potential nuclear-related facilities containing 400 individual targets, 75 of which would require weapons that could penetrate reinforced concrete.²³ According to Admiral Mike Mullen, Chairman of the US Joint Chiefs of Staff, if conducted effectively, a limited strike could disrupt the Iranian program and delay Iran's acquisition of nuclear weapons for at least one to three years.²⁴

If the US were to conduct an air strike, however, it would probably undertake a much larger effort. The larger air campaign probably would seek to destroy Iran's Air Force and air-defense capabilities so as to minimize US losses. It also would seek to destroy Iran's chemical weapon plants and stocks, and to reduce Iran's potential to conduct retaliatory activities. These latter targets might include Iran's missile production facilities and operational missiles and Iran's Navy and naval facilities, as well as short-range missiles deployed near the Strait of Hormuz, so as to foreclose any Iranian attempt to close the

22 The US probably would not strike the nuclear reactors in Tehran and Bushehr, given that IAEA inspectors and Russians would be located on the sites, to say nothing of the potential health consequences throughout the region of striking operational reactors. In any event, Bushehr is not relevant to Iran's weapons potential, as Iran has no reprocessing capability and the agreement with Moscow requires the spent fuel to be returned to Russia. See: Anthony H. Cordesman, *Israeli and US Strikes on Iran: A Speculative Analysis* (Center for Strategic and International Studies, 2007) http://csis.org/files/media/isis/pubs/070305_iran_israelius.pdf; Judson Berger, "Worst-Case Scenarios: Possible Strike Plans for Iran Involve Risky Options," Fox News (August 20, 2010) <http://www.foxnews.com/politics/2010/08/19/worst-case-scenarios-possible-strike-plans-iran-involve-risky-options/>; Dan Williams, "Israel to Focus on Key Iran Nuclear Targets in any Strike," Reuters (March 29, 2010) <http://www.reuters.com/article/idUSTRE62S1DP20100329>.

23 Peter Baker, Dafna Linzer, and Thomas E. Ricks, "US Is Studying Military Strike Options on Iran," Washington Post (April 9, 2006)

<http://www.washingtonpost.com/wp-dyn/content/article/2006/04/08/AR2006040801082.html>.

24 Speech by Admiral Mike Mullen, Chairman of the Joint Chiefs of Staff, at Columbia University, New York City (April 18, 2010) <http://www.jcs.mil/speech.aspx?id=1364>;

David E. Sanger, "Officials Say Iran Could Make Bomb Fuel in a Year," The New York Times (April 14, 2010) <http://www.nytimes.com/2010/04/15/world/middleeast/15nuke.html>.

Straits and constrict the world's oil supplies. The US also might decide to target Iranian ground formations that could be used to attack US forces in Iraq or Afghanistan. Some pundits have also advocated attacks on key government offices, such as Iran's energy and interior ministries and the Revolutionary Guards' headquarters, or even such economic targets as hydrocarbon refineries. Air attacks, of course, could be coordinated with sabotage missions by Special Forces and/or cyber warfare.²⁵

All told, leaving aside the more fanciful scenarios envisioning strikes against economic targets, if conducted in compliance with standard military planning criteria, a successful campaign against the Iranian nuclear infrastructure, leadership, and military targets would require a substantial number of bombing sorties conducted over a period of weeks. According to Cordesman, such an attack would require 1,000 to 2,500 cruise missile and aircraft strike sorties, plus a larger number of supporting missions, requiring use of a large portion of US global air assets, and would probably take "several weeks to two months to fully execute and validate."²⁶

Either a small-scale or large-scale air attack no doubt would unite Iranians even more fervently against the United States, and cement Iran's determination to acquire nuclear weapons. Tehran, no doubt, would withdraw from the NPT, throw out any remaining inspectors, and work openly to acquire weapons. Whether the Iranians might eventually be successful, and, if successful, how long it would take, cannot be predicted with any confidence. Conceivably, the strikes and limitations on Iran's future access to relevant materials and equipment would make it impossible for Iran to acquire nuclear weapons indefinitely. However, unless undertaken in fulfillment of a UN Security Council mandate, which is difficult to imagine, a US air attack undoubtedly would fracture the coalition now implementing sanctions against Iran and likely ease Tehran's ability to reacquire necessary equipment.

In any event, whether brief or prolonged, the delay in Iran's nuclear program resulting from military action must be weighed against the risk that air strikes against Iran would unleash a period of turmoil in the Middle East that could have severe military, political, and economic consequences for US interests.

- *Militarily*, Iranian leaders maintain that the US is not capable of conducting such an operation, pointing to the debilitating wars in Iraq and Afghanistan. This suggests they would attempt to draw the US into a ground war, perhaps by moving forces into Iraq, and/or by supporting insurgents in Afghanistan. One certainly would expect the terrorist organizations that Tehran has supported on Israel's borders, including Hamas and Hezbollah, to initiate wide-ranging military actions against Israel. Iranian-supported terrorist organizations might also strike at Americans and US-owned facilities around the world. Iran could conceivably seek to subvert governments along the Gulf that they perceive as being allied with the US – either by stirring up Shi'a populations in some of those states or by direct attacks on oil facilities, among other possibilities. The extent of fighting and its outcomes are impossible to predict. At worst, the US might see itself compelled to attempt to overthrow the Iranian government in order to stop

25 Berger, op. cit.

26 Cordesman, op. cit; George Friedman, "War Plans: United States and Iran," STRATFOR: Global Intelligence (October 30, 2007) http://www.stratfor.com/weekly/war_plans_united_states_and_iran.

the fighting, and thus be drawn into a ground war and counter-insurgency campaign in Iran itself.

- *Politically*, while many Arab governments would be pleased to see the Iranian nuclear threat neutralized, at least for a time, they all would denounce the US publicly for the action. Unless the action had been authorized by the UN Security Council, many nations that had previously supported the US position on Iran could be expected to condemn the action and seek to distance themselves from American policy. Russia and China likely would be in the forefront of such a movement. They no doubt would be joined by many European governments and developing nations. The US initiation of a war against yet a third Islamic nation would be seen around the world as final proof that the US “War on Terror” is really a crusade against Islam. It would inflame public opinion throughout the Muslim world, provide fodder for Islamic terror group recruiters for generations, and shift opinion in moderate Islamic nations, such as Indonesia, against the US. All told, the action would probably lead to US political isolation on the global stage and do grave harm to a wide range of US interests. It also would seal the fate of the populist, democratic movement in Iran indefinitely.
- *Economically*, oil prices would spike as the war started, and would remain high as long as hostilities continued. If Iran were successful in closing the Straits of Hormuz or sabotaging key loading facilities in the Gulf, prices could be expected to remain high for a protracted period of time. Given the fragile economic recovery in the US and Western Europe, and the dependence of emerging Asian economies on oil from the Middle East, the increase in oil prices could be expected to plunge the US and the world into a significant economic decline whose magnitude cannot be forecast.²⁷
- Of course, there are also *legal and moral questions*. Depending on the extent of the air campaign, the precision with which it is conducted, and the extent of subsequent hostilities, there could be large numbers of casualties. Unless there were some precipitating action that had persuaded the US and its allies that preemptive military action was necessary, the legal and ethical basis upon which the US would have taken it upon itself to inflict or to cause these casualties in a preventive war is not obvious.²⁸

As noted, Israel is capable of a limited strike against Iran that could delay Tehran’s nuclear program. Any Israeli attack—whether or not it was supported by the United States—would be assumed by most governments as having been authorized, at least tacitly, by the US government and thus have similar negative consequences for American interests, if not as intense, as those described above. Consequently, it behooves the United States to do whatever it can to persuade Israel not to undertake a strike against Iran’s nuclear facilities.

27 Anthony Cordesman, *Iran, Oil, and the Strait of Hormuz* (Center for Strategic and International Studies, March 26, 2007) http://csis.org/files/media/csis/pubs/070326_iranoil_hormuz.pdf; Phil Flynn, “Iran and \$200 a barrel oil!,” PFGBEST (August 27, 2010) [http://insidefutures.com/article/170110/Iran%20and%20\\$200%20a%20barrel%20oil!.html](http://insidefutures.com/article/170110/Iran%20and%20$200%20a%20barrel%20oil!.html).

28 If, for example, there were compelling evidence that Iran was preparing to invade one of its neighbors or to support offensives by its terrorist proxies against Israel, an airstrike might be seen as a necessary preemptive, rather than preventive, military action, and have lesser – and even positive – political consequences.

Recommendation

We conclude that the potential negative consequences of air attacks on Iran to disrupt its nuclear program far outweigh the potential gain from the attacks, and that such actions do not constitute a viable option for the United States at this time. We further conclude that the US should seek to dissuade Israel from undertaking such an attack. Following the precedent set during the 1991 Gulf War, the US should invite Jerusalem to consult closely with Washington on the use of force, thus generating a dialogue that would enhanced Israel's support for a policy of strategic engagement. In the context of this dialogue, the US should emphasize that Washington would neither countenance nor support an Israeli preemptive strike on Iran.

Military threats

Both the Bush and Obama Administrations have made a point of reminding Iran and other nations, usually in a fairly subtle manner, that the US has the potential to seriously damage or destroy Iran's nuclear infrastructure and that, in the time-honored phrase, "all options are on the table." Often, this rhetoric serves domestic political purposes – presidential candidates, after all, to say nothing of presidents, like to look "tough" for political reasons. In addition, many believe that holding out the possibility of military actions reminds Iranian leaders of their vulnerability, and helps to persuade them that reaching accommodation on the nuclear program is the better course. Keeping the possibility of a US air strike as a live option also has the benefit, some believe, of dissuading Israel from carrying out such a strike itself.

On the other hand, the perception that Iran is under threat of attack is precisely what motivates some Iranian leaders to pursue nuclear weapons. These individuals believe they are needed to deter a US or Israeli attack, and to maintain Iran's independence and freedom of action. As a result, the more threatening the US appears to be, the stronger the position of those in Iran who oppose reaching an accommodation with the US on the nuclear program. Indeed, undoing the view of many in Iran that the US is seeking an excuse to attack it is one of the major obstacles to successful strategic engagement.

Recommendation

The capacity of the US to mount massive air strikes against Iran is known to all. US officials should eschew any reminders of it, in any forum, as such explicit or implicit threats only reinforce the perception of some Iranian leaders that nuclear weapons are essential to their nation's continued independence, strengthen their political standing, and reduce the possibility of a negotiated solution.

Covert activities

The Iranian nuclear program is not progressing nearly as rapidly as it had been forecast. In 1996, for example, then-director of the CIA John Deutch said that Iran could "produce a

nuclear weapon by the end of the decade with foreign assistance.”²⁹ In 2002, Israeli Foreign Minister Silvan Shalom said that Iran would possess a nuclear bomb “by the end of 2005 or early in 2006.”³⁰ In 2006, a leading outside expert, David Albright, said that Iran could have its first nuclear weapon in 2009.³¹ While these were clearly worst-case estimates, as noted, in 2010, US officials still considered Iran to be at least two to five years away from having operational weapons. In part, the delay likely is the result of restrictions on Iran’s ability to purchase key materials and equipment on the open market (see below). Iran also appears to be finding the operation of its enrichment facility more difficult technically than had been expected. The delay also partly may be the result of certain covert actions by the US and/or other states.³²

Recommendation

Covert activities, focused narrowly on nuclear and any other WMD programs, should be encouraged and closely coordinated among participating states. The history of US/Iranian relations should be kept in mind, however, and actions that might suggest a broader agenda (i.e. regime change) should be avoided, lest they strengthen the positions of those who believe that US objectives extend beyond ending the nuclear weapon program.

Economic and financial sanctions

The UN Security Council has imposed four rounds of economic sanctions on Iran. Resolution 1737 (December 2006) encouraged members to block imports and exports of “sensitive nuclear material and equipment” to Iran and to freeze the financial assets of those involved in its nuclear activities. Resolution 1747 (March 2007) banned all of Iran’s arms exports, as well as freezing assets and restricting travel for individuals identified as involved in the nuclear program. Resolution 1803 (March 2008) called upon members to inspect cargo planes and ships entering or leaving Iran suspected on “reasonable grounds” of violating sanctions, and to refrain from providing grants, financial assistance, or concessional loans to Iranian financial institutions. Resolution 1929 (June 2010) imposed trade embargos on heavy weapons, tightened restrictions on Iranian banks, expanded the scope of cargo inspections, and lengthened the list of persons and companies subject to asset freezes and travel bans.³³

29 John Deutch, “Conference on Nuclear, Biological, and Chemical Weapons Proliferation,” (Central Intelligence Agency, May 23, 1996)

https://www.cia.gov/news-information/speeches-testimony/1996/dci_speech_052396.html.

30 Cited by Michael Dobbs, “US Using U.N. to Thwart Iran’s Nuclear Program,” Washington Post (June 23, 2003) <http://www.iraqwararchive.org/data/jun23/US/wp06.pdf>.

31 David Albright and Corey Hinderstein, “Iran’s Next Steps: Final Tests and the Construction of a Uranium Enrichment Plant,” Institute for Science and International Security (January 12, 2006) <http://isis-online.org/uploads/isis-reports/documents/irancascade.pdf>.

32 David Sanger, “US Rejected Aid for Israeli Raid on Iranian Nuclear Site,” The New York Times (January 10, 2009) <http://www.nytimes.com/2009/01/11/washington/11iran.html>.

33 “New UN Sanctions Further Target Iran’s Military and Nuclear Activities,” Bryan Cave International Regulatory Bulletin (June 16, 2010) <http://www.bryancave.com/files/Publication/69dce0b4-f7c-4a2c-96d8-832eb18b1134/Presentation/PublicationAttachment/8c966025-0292-40ed-a9e5-89a1eba58bd3/IRB469.pdf>.

More recently, many nations have imposed unilateral restrictions on financial dealings with Iranian entities and individuals involved in the nuclear (and missile) programs, as well as on investment in Iran's oil and gas industry and on the export of refined fuel products to Iran. Following passage of the latest UN resolution, the US, the European Union, Australia, Canada, Japan, Norway, and South Korea have all prohibited their citizens and financial institutions from dealing with a list of banks, and other entities and individuals in Iran.³⁴ These financial sanctions, particularly, seem to be having significant effect on the Iranian economy. Foreign direct investment in Iran is down, Iran has had to abandon plans to develop new oil and gas fields and to improve output from existing fields, prices are rising, Iranian shippers are having difficulty getting insurance for their goods, and so forth. Concern has been expressed by Iranian leaders that the declining economy, and such actions as the reductions in subsidies necessary to deal with it, could cause popular unrest and even threaten the stability of the regime.

Although Iran has sought to break out of the sanctions regime by cultivating ties with countries estranged from the US like Venezuela, most of these nations realize that restrictions on their financial institutions' operations in the US and other advanced economies could result from violation of UN and national sanctions legislation and avoided moving in this direction in any serious way.

While Iran had been creative in finding ways, at times, around some restrictions, the sanctions have slowed its efforts to advance its nuclear program, as admitted in July by Ali Akbar Salehi, head of Iran's atomic energy agency.³⁵ Other than the specific restrictions on trade with Iran in nuclear-related or dual-use materials and equipment, the sanctions do not aim to end the nuclear program directly. Rather, they seek to make clear that by refusing to reassure the international community that its program, indeed, is intended strictly for, and justified by, peaceful uses of nuclear energy, Iran is, and will continue to incur, severe economic and political penalties. By making clear the international community's consensus on this point, the US and all other states seek to influence the debate among Iranian leaders and induce them to reach a verifiable compromise.

Recommendation

Overall, restrictions on exports of items essential for Iran's nuclear program and financial and trade sanctions appear to be the most effective instrument of US policy. The US should make implementation of existing UN sanctions a high priority in its relations with key states, especially China and Russia, and with states that in the past have tolerated arrangements permitting Iran to circumvent sanctions, such as Dubai. The highest priority is to enforce the UN restrictions on transfers of nuclear-related materials and supporting equipment. The additional financial and oil and gas sanctions imposed unilaterally by the US, the EU, and others are also important, but the US will have to weigh other priorities in determining how much effort to put into persuading third nations, like China, to adhere to these additional constraints.

34 Statement by Undersecretary of the Treasury Stuart Levey (Center for Strategic and International Studies, September 20, 2010) http://csis.org/files/attachments/100920_levey_transcript.pdf.

35 National Journal Group, "Iranian Official Sees Penalties Slowing Nuclear Work," Global Security Newswire (July 7, 2010) http://www.globalsecuritynewswire.org/gsn/nw_20100707_5799.php.

Conclusion

During the past two years, the US has successfully built an international coalition working to stop Iran's nuclear program well short of a weapons capability. Following a foreshortened effort at engaging Iran diplomatically, the US has ratcheted up the punitive track of its policy, implementing an increasingly effective set of trade and financial sanctions that are isolating Iran internationally and setting back its economy. These and other actions are slowing the Iranian nuclear program, buying time for negotiated solutions. It is now time to leverage this gain, recalibrating US policy to give renewed emphasis to the diplomatic track through a policy of strategic engagement. We recommend that the US renew its effort to engage Iran diplomatically, taking a bolder, more comprehensive, and more diverse approach. While continuing to insist on discussions of the nuclear issue as the most time-urgent and therefore leading element, the US should be willing to engage Iran on other issues of mutual concern, both through bilateral and separate multilateral channels, and by normalizing its diplomatic contacts in third nations and multinational organizations. The US should be clear, moreover, that it approaches these contacts on the basis of mutual respect for each nation's sovereignty, historical perspectives, and interests, and that it is prepared to yield benefits to Iran commensurate with the demands it is making of that nation.

If the Iranian leadership is uncertain of the price it is willing to pay to gain a nuclear weapons capability, or if the leadership is divided on the issue, these policies could lead to a negotiated outcome or simply to an Iranian decision to restrict its nuclear development well short of a weapons capability, and quietly begin to comply with the IAEA's demands and to permit greater transparency into its nuclear operations. Either outcome would achieve American goals and serve US interests. A reinvigorated approach to strategic engagement may help to bring about such an outcome.

There is time to play out the recalibrated two-track approach. Even if the Iranian leadership is committed to acquiring a nuclear weapons capability and remains so, the two-track approach can continue to delay the inevitable – perhaps for a sustained period of time. If, and when, in fact, Iran eventually begins to approach a near-term weapons capability, the US and its allies can then consider additional measures.

Appendices



Report of the Technical Advisory Group on Nuclear Energy in the Middle East

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Readers should note that while this report is broadly supported by all the members of the working group, only the chairman is responsible for the specific wording of the analysis and recommendations. Individual members of the group may disagree with one or more of the recommendations.

Report of the Technical Advisory Group on Nuclear Energy in the Middle East

Since 2006, almost all of the states in the Middle East have declared their intentions to pursue nuclear energy programs. Iran is the first to operate a nuclear power reactor: the reactor in Bushehr is expected to go on-line in early 2011.¹ Within six or seven months of beginning operations, it could reach a peak electricity production capacity of 1,000 megawatts (MW).² In addition, Iran has announced plans to build an additional four reactors, with a 20-megawatt research/medical reactor estimated to take about five years to build.³ More troubling, Iran is developing a complete fuel cycle to support its reactors, including uranium enrichment facilities, which also could be used to produce the highly enriched uranium (HEU) required for nuclear weapons. The enrichment facility at Natanz includes operational cascades that are producing both reactor-grade fuel and uranium enriched to the 20 percent level, the level needed for an existing research/medical reactor in Tehran. Beginning with uranium that has already been enriched to the 20 percent level greatly foreshortens the time necessary to produce the highly enriched uranium (90+ percent) required for weapons.⁴ Iran also has a second, previously secret, enrichment facility near Qom, which has not yet been equipped with centrifuges, and has announced

1 "Start-up of Iran's Bushehr Nuclear Plant Delayed," BBC News, September 30, 2010, <http://www.bbc.co.uk/news/world-middle-east-11445126>.

2 The Bushehr facility was started in 1974 under the Shah, who had an extensive nuclear program under consideration. Indeed, at that time, the Shah had unveiled plans to purchase several nuclear reactors from Germany, France, and the United States to generate electricity. With Washington's blessing, the Shah's government awarded a contract to a subsidiary of the German company Siemens to construct two 1,200 MW reactors at Bushehr. The United States was encouraging the Shah to expand Iran's non-oil energy base, given projections at that time for Iran's mushrooming electricity demand. The first generation of Iran's nuclear engineers was trained at the Massachusetts Institute of Technology. In recognition of Iran's energy needs, the final draft of the US-Iran Nuclear Energy Agreement was signed in July 1978. The agreement stipulated, among other things, American export of nuclear technology and material and help in searching for uranium deposits. At the time, the Shah's goal was to build 20 nuclear power stations over a ten-year period to produce a total of 30,000 MW of atomic energy to ensure that it would be able to meet domestic energy demand and still maintain oil export levels. With the fall of the Shah in 1979 and the onset of the Islamic Revolution, one of Ayatollah Khomeini's first acts was to scrap the entirety of the Shah's grandiose modernization program – including the nuclear project. See: Mohammad Sahimi, "Iran's Nuclear Program. Part I: Its History," *Payvand* (October 2, 2003) <http://www.payvand.com/news/03/oct/1015.html>

3 "Iran to Build 'Powerful' New Nuclear Research Reactor," *Gulfnews.com* (June 16, 2010) http://gulfnews.com/news/region/iran/iran-to-build-powerful-new-nuclear-research-reactor-1.641983?localLinksEnabled=false&utm_source=Feeds&utm_medium=RSS&utm_term=News_RSS_feed&utm_content=1.641983&utm_campaign=Iran_to_build_'powerful'_new_nuclear_research_reactor.

4 Jon Leyne, "Iran Reveals 'Faster' Uranium Centrifuges," *BBC News* (April 9, 2010) <http://news.bbc.co.uk/2/hi/8611864.stm>.

plans to construct an additional 10 facilities, although that announcement was almost certainly made for political purposes.⁵

Besides Iran, there are a number of countries in the Middle East pursuing nuclear energy capabilities.⁶ The United Arab Emirates (UAE) is in the forefront, having already let a contract with a consortium led by South Korean companies to construct four nuclear power reactors. The UAE has agreed with the US, however, that it will acquire uranium fuel services from abroad and not develop its own enrichment or reprocessing capabilities.⁷ Jordan has discovered potentially large uranium deposits and has signed nuclear cooperation agreements with nine countries, including Canada, France, Japan, and Russia. Negotiations are currently underway with companies to construct Jordan's first nuclear power reactor, planned for completion by 2019. Jordan is resisting American entreaties to similarly forego enrichment, viewing it as a potentially important source of revenue.⁸

Among other countries that have some basic nuclear know-how—labs, and research reactors, and the potential to develop their civilian nuclear capabilities over a longer period of time—are Algeria, Egypt, Kuwait, Saudi Arabia, and Turkey. Each of these countries has announced plans to do so at various times, but they have made less tangible progress than the UAE or Jordan.⁹

Turkey operates two small research reactors and one fuel pilot plant. In May 2010, Turkey and Russia inked a \$20 billion deal to build Turkey's first nuclear power plant, a 4000 MW nuclear power plant at Akkuyu in the southern province of Mersin. This move followed an earlier court decision that invalidated the sole bid for the project from Russian firm Atomstroyexport and its Turkish partner Park Group, which had been deemed insufficiently transparent by some.¹⁰ Turkey is also currently in final negotiations, reportedly with South Korean firm Korea Electric Power Corporation (KEPCO), for it to lead a consortium to build a nuclear power facility in northern Turkey.¹¹

Egypt currently has two research reactors, two fuel fabrication units, one hydrometallurgy unit (reprocessing), and one molybdenum production unit. Although Egypt announced in

5 "Implementation of the NPT Safeguards Agreement and Relevant Provisions of Security Council Resolutions in the Islamic Republic of Iran," Report by the Director General, IAEA (September 6, 2010) <http://www.iaea.org/Publications/Documents/Board/2010/gov2010-46.pdf>.

6 At present, Israel is believed to be the only state in the Middle East that has the technical capabilities, infrastructure, human resources and organizations to produce nuclear weapons.

7 "UAE Leads Gulf Nuclear Power Plans," *Strategic Survey* (International Institute for Strategic Studies, Volume 16, February 2010) <http://www.iiss.org/publications/strategic-comments/past-issues/volume-16-2010/february/uae-leads-gulf-nuclear-power-plans/>.

8 Nayla Razzouk, "Jordan, Japan to Sign Nuclear Cooperation Agreement This Week," *Bloomberg* (September 6, 2010) <http://www.businessweek.com/news/2010-09-06/jordan-japan-to-sign-nuclear-cooperation-agreement-this-week.html>.

9 Dr. Mohamed Abdel Salam, "Arabs, Iran and Nuclear Weapons: Balancing the Equation," *Arab Insight* (Fall 2008) <http://www.arabinsight.org/pdf/Arabinsight27.pdf>.

10 "Turkey Wants Nuclear Project Forms Set Up This Month," *Reuters Africa* (September 21, 2010) <http://af.reuters.com/article/energyOilNews/idAFLDE68K1H920100921?pageNumber=1&virtualBrandChannel=0>.

11 Shinhye Kang, "KEPCO, Turkey Are in Final Stages of Talks on Construction of Nuclear Plant," *Bloomberg* (October 7, 2010) <http://www.bloomberg.com/news/2010-10-07/kepc0-turkey-are-in-final-stage-of-talks-on-construction-of-nuclear-plant.html>.

2007 that it planned to build several nuclear power stations and has invested in consultancy services and studies, it has yet to raise the capital necessary to build its first reactor.¹²

In 2008, Saudi Arabia signed a Memorandum of Understanding with the United States on the development of civilian nuclear power generation. In April 2010, King Abdullah announced that he would establish the King Abdullah City for Nuclear and Renewable Energy in Riyadh, and a handful of top-level officials have been appointed to head the organization. Meanwhile, in May 2010, Saudi Arabia and Japan entered into an agreement to cooperate on atomic energy and water, and, the following month, the Kingdom hired the Finnish engineering firm Poyry to conduct an analysis of the economic feasibility of each phase of the nuclear energy generation process.¹³

Kuwait is conducting a feasibility study on nuclear energy but is not actively engaged in any nuclear activities at present.¹⁴

Syria has been silent about its nuclear plans, but is believed to have constructed a secret reactor capable of plutonium production with North Korean assistance at al-Kibar; the building was destroyed by an Israeli air strike on September 6, 2007.¹⁵

All of these countries state that they need nuclear energy because of current and worsening electricity shortages. Many of the countries pursuing nuclear power have experienced brown-outs and shortages in recent years, including Iran. Some countries, notably Saudi Arabia and Kuwait, are burning crude oil for electricity, cutting into their high-earning petroleum exports and creating pollution problems. Given the high rate of population growth in the region and its prospective economic growth, regional electricity shortages are expected to worsen in the coming decade unless new policies are adopted. This has put governments under pressure and created internal constituencies for nuclear programs.¹⁶

However, looking even 30 years into the future, nuclear power is neither the most cost-effective nor environmentally-friendly solution for these Middle Eastern nations' electricity shortages. The cost of developing nuclear power per kilowatt hour is among the most expensive options available to countries in the Middle East. These governments' mismanagement of their oil and gas industries and electricity sectors; their continuing subsidies of fuel and electricity costs, leading to excessive demand; the inability of neighboring states to cooperate due to regional tensions and geo-political competitions;

12 Mohamed M. Megahed, "Challenges And Opportunities For Human Resources Development In Egypt, Paper Presented at the International Conference on Human Resources Development for Introducing and Expanding Nuclear Power Program," (Abu Dhabi, March 14-18, 2010) <http://www.iaea.org/inisnkm/nkm/pages/2010/UAE%20Conference-interactivePresentations/Session%20/LAP07%20Megahed.pdf>

13 Mark Hibbs, "Saudi Arabia's Nuclear Ambitions," (Carnegie Endowment for International Peace, July 20, 2010) <http://carnegieendowment.org/npp/publications/index.cfm?fa=view&id=41243>.

14 Tsuyoshi Inajima and Yuji Okada, "Kuwait Plans to Build Four Nuclear Reactors as It Seeks Alternative to Oil," *Bloomberg* (Sep 9, 2010) <http://www.bloomberg.com/news/2010-09-10/kuwait-joins-gulf-push-for-nuclear-power-with-plans-to-build-four-reactors.html>.

15 Daveed Gartenstein-Ross and Joshua D. Goodman, "The Attack on Syria's al-Kibar Nuclear Facility," *inFocus Quarterly*, Volume III: Number 1 (Spring 2009) <http://www.jewishpolicycenter.org/826/the-attack-on-syrias-al-kibar-nuclear-facility>.

16 Tom Arnold, "Dark Days Ahead?" *Arabian Business* (August 17, 2008) <http://www.arabianbusiness.com/dark-days-ahead--45065.html>.

and poor long-term investment decisions have blocked cheaper and simpler solutions to diversify and stabilize the supply of electricity. In addition to improving the efficiency with which electricity is produced through structural economic and industrial reforms and actions to reduce demand, the development of regional grids for the distribution of electricity and natural gas would constitute more cost-effective and safer options for expanding electrification in the region. In addition, some countries, like Iran, have ample geo-thermal resources that could be developed. Other resources that need to be explored further in many countries are solar and wind power, as well as oil shale in the case of Jordan.

The United States has not pursued the diplomacy necessary to persuade these nations to explore these safer and more cost-effective power generation options as part of its strategy to incentivize Iran (and others) to curtail their nuclear aspirations. In particular, the United States has not attempted to promote a regional natural gas grid that could provide the needed fuel to enhance electricity supplies throughout the Middle East more safely and more efficiently. This stands in contrast to US diplomacy in other regions, such as Latin America's southern cone, where the World Bank and the US pro-actively promoted the creation of a natural gas pipeline network. Southeast Asia is also successfully pursuing a regional natural gas grid to ease electricity shortages, so there are precedents for cooperative regional solutions to electricity shortages.

Instead, the US government has responded to the proliferation of planned nuclear programs across the region by supporting American companies in competition with such other technical suppliers as South Korea, Japan, Canada, France, and Russia for commercial contracts to supply the equipment for nuclear programs, and by seeking to elicit pledges to forego nationally-controlled enrichment facilities. The United States has not focused adequately on the diplomacy of additional terms these competing suppliers could be placing on their proposals to minimize proliferation and has failed to show sufficient leadership in attempting to limit contracting terms in ways that would make the conversion of civilian facilities into weapon programs more difficult.¹⁷

Does Iran “need” nuclear energy?¹⁸

Iran is the largest generator of electricity in the Middle East at roughly 40,000 MW, but its electricity output is inadequate to meet its growing consumer demand. Roughly 25 percent of Iran's power output comes from aging plants suffering from maintenance problems; some plants are operating at only 10 percent of nameplate capacity. The World Bank has also named Iran the number one country wasting electricity in the Middle East and North Africa.¹⁹

During much of the last decade, Iranian energy demand rose at more than five percent annually. In addition, the country's electricity demand often grew faster than its GDP.

17 The one exception is the US attempt to persuade nations to forego acquiring enrichment capabilities; successful in the case of the UAE, so far unsuccessful in other countries.

18 The material for this section comes from a longer paper, which contains more detailed analysis demonstrating that nuclear power is a more expensive capital project than development of natural gas or geothermal energy for the Iranian electricity sector. The working paper, “Iran, Energy and Geopolitics,” is available on line at <http://bakerinstitute.org/publications/IEEJIran.pdf>.

19 Ali Kheradpir, “Blackouts Threaten Iran,” *Institute for Way and Peace Reporting*, IRN Issue 32, April 16, 2010, <http://www.iwpr.net/ru/node/35548>.

According to the International Energy Agency's *2005 World Outlook*, Iranian electricity demand was projected to grow at 3.2 percent annually to 2030, increasing from 153 terrawatt hours (TWH) to 359 TWH in 2030, and requiring \$92 billion in new investment.²⁰

There is no question that Iran has been suffering from debilitating energy shortages over the last decade or so. Various regions in Iran have experienced brown-outs and repeated power outages. In the summer of 2008, for example, the Iranian government had to ration electricity in major cities throughout the country, with the leadership blaming a drought for diminishing output from the country's hydroelectric plants. Ironically, despite its difficulties in meeting domestic electricity demand, Iran exports power to several neighboring states, including Armenia, Azerbaijan, Iraq, Pakistan, and Turkey.

The major problem in Iran's electricity sector is that the government—under pressure to satisfy consumer demands so as to avoid popular unrest—has continued a costly and inefficient policy of heavily subsidizing the purchase of electricity and fuels by its rapidly growing population. Iran's large energy subsidies, which represent more than 10 percent of Iran's GDP, have actually stimulated even greater demand for electricity growth. Reductions in energy subsidies, while the most effective means to solve Iran's electricity problems, would make the ruling government even more unpopular and risk extending popular unrest from the urban middle classes to working class and poor Iranians, something the ruling elite fears.²¹ For this reason, among others, Iran's rulers advocate developing other sources of energy and, in particular, nuclear energy as a means of curtailing the electricity problem.

Construction of the two nuclear power plants in Iran planned for the near-term could free up 200 million metric cubic feet per day (mmcf/d) of natural gas that could be used for other purposes or exported to reap higher revenues. However, this improvement is only a drop in the bucket when compared to the real problems of the Iranian energy sector and would serve more as a band-aid than a salve. Regardless of the ultimate construction cost of the two proposed nuclear power plants, the electricity created by them will only represent **6 percent** of current total Iranian electricity generation.

By contrast, from a rational economist's perspective, phasing out natural gas subsidies would be a more sensible policy approach to Iran's electricity shortages than building nuclear capacity. By ending natural gas subsidies and pricing fuel for power generation at appropriate levels, the Iranian government would be able to properly weigh the opportunity cost for the full range of uses of all its natural gas production, and not just the very small volume that might be freed up by the construction of the two nuclear power facilities.

20 Daniel Brumberg, Jareer Elass, Amy Myers Jaffe and Kenneth B. Medlock III, "Iran, Energy and Geopolitics," *Working Paper Series: The Global Energy Market: Comprehensive Strategies to Meet Geopolitical and Financial Risks, Energy Forum* (James A Baker III Institute for Public Policy, Rice University, May 2008) <http://www.rice.edu/nationalmedia/multimedia/iran.pdf>.

21 Legislation to reduce subsidies was introduced in Iran's parliament (Majlis) in March 2009 and approved by the Guardian Council in March 2010. The reductions were scheduled to be implemented at the end of September, but have been delayed.

If electricity price subsidies were removed, Iran would experience sharply slower growth in electricity demand.²² The amount of electricity saved by eliminating the price subsidies for domestic consumption would more than offset the planned immediate additions in nuclear capacity (1360 MW). In fact, given accepted estimates for elasticity and reasonable growth, a doubling of price would save more than 13,800 MW by 2030 (assuming these are base-load power plants operating at 85 percent capacity utilization), which represents the equivalent of the electricity provided by almost fourteen 1,000 MW nuclear power plants. Moreover, lower electricity demand, if stimulated by a reduction in price subsidies, would result in considerable capital savings, and those funds could be used for other endeavors that could provide significant benefits to the Iranian people. In short, price reform would be a far more effective means of overcoming the projected energy shortage, and Iran's leaders must therefore have other reasons for pursuing the nuclear option so assiduously.

Iran's electricity problem is compounded by its inefficient development, extraction, and distribution of natural gas. Iran ranks second globally in both proven natural gas reserves and undiscovered potential natural gas resources, but only ranks 25th among world natural gas exporters. Around 62 percent of Iranian natural gas reserves are located in fields not associated with oil production, and have not yet been developed. Geologically, there is an abundance of natural gas in Iran that could be used to meet domestic electricity generation needs.

In practice, natural gas flaring represents as much as **14 percent** of Iran's total natural gas usage. Flaring results in about 23 billion cubic meters a year (bcm/yr) or 1.8 billion cubic feet a day (bcf/d) of gas being wasted that could otherwise be marketed, again more than double the amount of equivalent fuel being provided by planned nuclear power stations. If natural gas supplies currently being flared could instead be marketed domestically and used for power generation, it could fuel more than eight times the amount of power generation expected to be provided by the two proposed nuclear power stations. In terms of providing natural gas for export, the 2 bcm/yr expected to be freed up by nuclear power is an order of magnitude lower than the 23 bcm/yr currently being flared, some of which might be exported if the sector was simply better managed.

The unavailability of Iranian natural gas for greater electricity generation, therefore, mainly reflects poor management. As Iran was developing its natural gas sector over the past few decades, the government encouraged domestic natural gas consumption. The opportunity cost of this was relatively low as the international market for natural gas was relatively immature. The domestic emphasis for gas use was aimed at reducing gas flaring at oil fields, as well as making more oil available for export by encouraging the substitution of natural gas for oil by various end-users and through using natural gas in enhanced oil recovery efforts. The policy has been successful, as the annual growth of gas consumption has been

22 For example, using a long-run price elasticity of demand for electricity of -0.4, a doubling of price, which would likely still not entirely remove the price subsidy, would result in a reduction of 40 percent in the annual growth rate of electricity demand, thus reducing growth to about two percent per year. (Note that if one accounts for any slowdown in economic growth as a result of the lifting of price subsidies, the savings is even larger.) Mark Glenn Lijesen ("The Real-Time Price Elasticity of Electricity," *Energy Economics* (29, no. 2, 2007): 249:58) reports a range of studies in which the price elasticity of electricity has been estimated for different regions of the world. Al Faris ("The Demand For Electricity in the GCC Countries," *Energy Policy* 30 (2002): 117-24.) reports price elasticities for a handful of Middle East countries, exclusive of Iran. The elasticities reported by Faris fall in the middle of the range reported by Lijesen.

as high as 17 percent in recent years, thanks in large part to the low prices. In fact, Iran has significantly expanded its gas network, making gas available to consumers in all economic sectors, even to households in small communities in remote locations.²³

These artificially low prices have contributed to Iranian natural gas demand rapidly outstripping available domestic supply, creating avoidable shortages that are again being used to justify the need for nuclear power. Low natural gas prices create a self-fulfilling, self-perpetuating supply crisis by making expanding infrastructure and developing fields for domestic use an unattractive proposition for both foreign and private Iranian investors, meaning, yet again, that the government must underwrite the expense. This has proven to be an unsustainable path, resulting in burgeoning government debt, rapidly growing energy demands, and an inability for Iran's government to keep domestic supply in line with rising demand.

Regardless of the demand outlook, the sheer size of Iran's natural gas resource base means that it could become a significant natural gas exporter in coming years, if it can make the massive investments needed to develop its resources. Thus, the outlook for domestic supply development is also important in determining the need for alternative energy sources in Iran. In fact, given the size of the Iranian resource base, if investment in domestic supplies were to be made at an efficient pace, it is doubtful that demand (under most reasonable growth rates) would outpace supply. An easing of domestic price subsidies could all but guarantee a more positive outcome. The only questions are whether Iran's leaders can acquire the financial and technical resources needed to exploit undeveloped natural gas resources, as well as the political will to phase out subsidies.

In short, Iran's pursuit of nuclear power is not justified by rational economic factors. Indeed, because it has led to tightening international sanctions which have reduced foreign investment and resulted in other adverse economic effects, the pursuit of nuclear power is worsening Iran's electricity and natural gas problems. If Iranian leaders persist in defying demands that they limit their nuclear industry in ways that would alleviate concerns that they are, in fact, seeking to develop a nuclear weapons capability, then they clearly are pursuing nuclear power for reasons of national prestige, domestic and international politics, and national security.

Natural gas resources for electricity generation in the region

The Middle East region's natural gas reserves are quite substantial at 2,658 trillion cubic feet (tcf), or about one-third of world proven natural gas reserves. Several countries in the region are exporters of natural gas, including Qatar, UAE, Egypt, Oman, and Algeria. In addition to Iran, several other countries pursuing nuclear power facilities as a strategy to cope with growing electricity shortages have sizable untapped natural gas resources, most notably Saudi Arabia and the UAE.

The US Geological Survey (USGS) indicates a median assessment of 530 tcf of undiscovered non-associated gas resources in Saudi Arabia, plus an additional 110 tcf of associated gas. In addition, the USGS has a median assessment of 40 billion barrels of Natural Gas Liquids (NGLs). While a large majority of the assessed gas resource is in non-associated fields,

23 Dr. Manouchehr Takin, *Iran's Energy Crisis* (Centre for Global Energy Studies, May 2007), page 50.

approximately 60 percent of Saudi Arabia's proven natural gas reserves consist of associated gas. The Ghawar field alone accounts for one-third of the country's proven natural gas reserves. The majority of Saudi Arabia's non-associated gas reserves are located in the deep Khuff reservoir. Natural gas also is located in the country's extreme northwest, at Midyan, near the Jordanian border, and in the Empty Quarter. The Rub Al-Khali province, in southern Saudi Arabia, is believed to contain natural gas resources of over 300 tcf.

When he was Crown Prince, King Abdullah of Saudi Arabia initiated a major initiative for natural gas development and related businesses in 1998. The Strategic Gas Initiative was focused on attracting foreign investment to more fully explore and harness the country's vast natural gas resources. However, internal opposition and drawn out negotiations stifled the initially ambitious plans to increase the Kingdom's production of natural gas. In the end, the Initiative wound up with only a handful of smaller projects, led mainly by Russian, Chinese, and European firms, and not the largest US oil companies, which had originally negotiated for participation in major billion dollar projects in highly prospective areas. The tracts eventually offered for investment in Saudi Arabia were generally non-prospective and so far the Initiative has made little progress.²⁴

Opposition to broad natural gas development in the Kingdom comes from those who believe that the Kingdom's revenues are better spent in other areas, including oil field development. Since the rate of return on investment was so much higher for oil projects than for natural gas projects because natural gas has a low domestic price in Saudi Arabia and abroad compared to oil, industry leaders have argued that Saudi Aramco, Saudi Arabia's state-owned national oil company, should not use its own capital to develop more natural gas.

Domestic natural gas prices for local industry are also set at levels well below international prices for oil and natural gas, leaving Saudi Aramco with little commercial incentive to exploit natural gas reserves for domestic consumption. In addition, the Saudi oil industry is similarly opposed to allowing foreign investors to enter the Kingdom, leaving Saudi gas industry development stymied despite a relatively large resource endowment. Proposals to develop the Western Midyan gas field and export natural gas to Jordan and around the Middle East Levant as part of a peace agreement has never gotten off the ground.

The United Arab Emirates also has substantial natural gas resources whose development has been thwarted by low domestic natural gas prices. The UAE has the sixth largest proven natural gas reserves globally at 214.4 tcf, or four percent of the world's total. Burgeoning UAE domestic demand from industrial projects, power generation and desalination plants, and for use in enhanced oil recovery (EOR) projects have resulted in periodic natural gas shortages in Abu Dhabi and Dubai. The UAE became a net natural gas importer in 2007, as consumption has grown much faster than production. In 2008, the UAE produced 1.77 tcf and consumed 2.1 tcf of dry gas. Electric power production represents almost 60 percent of the federation's total gas consumption. Nearly 92 percent of the UAE's gas reserves are located in Abu Dhabi, with the giant Khuff reservoir beneath the oil fields of Umm Shaif and Abu Al-Bukhoosh ranking among the largest single gas reservoirs in the world.

24 State monopoly Saudi Aramco, bolstered by royal support, slowed the process of negotiating investment contracts for the Initiative and the program became difficult to implement at both the political and operational level. Saudi Aramco was keen to defend its special status and bargained hard with the frustrated Western oil companies.

Despite looming domestic shortages, the UAE remains a liquefied natural gas (LNG) exporter from Das Island. The three-train facility processes associated gas from the Um Shaif, Lower Zakum, and Bunduq oil fields, with a capacity of eight million tons per year. ADNOC subsidiary Abu Dhabi Gas Liquefaction Co. (ADGAS) is studying long-term options for the plant, including whether to upgrade the capacities of Trains 1 and 2—each of which currently has a two million ton capacity—or build a fourth train. The existing third train has a four million ton capacity. The company wants to have the extra capacity in place by 2019. Around 85 percent of the LNG produced at Das Island is contracted to Japan's Tokyo Electric Power Company.

The highly competitive landscape for export markets, the high expense of exploiting Abu Dhabi's technically complex, high cost "sour" natural gas, and highly subsidized domestic pricing for natural gas and electricity has made it difficult for Abu Dhabi to attract sufficient foreign investment to increase its domestic natural gas supply. ConocoPhillips recently cancelled plans to develop the Shah gas field project, which would have included exploitation of sour natural gas and condensate reservoirs within the Shah gas field, which is situated southwest of the city of Abu Dhabi. The project was estimated to cost as much as \$10 billion (including export facilities) and would have required constructing one of the largest sulfur removal plants in the world, thereby thwarting the commercial viability of the deal.

While the economics of exploiting natural gas for domestic use may not pass investment hurdles under current investment and domestic pricing regimes, it is unclear whether under different internal pricing circumstances, exploitation of the UAE's large natural gas resource base might make more sense than development of costly nuclear facilities. South Korea announced in October 2010 that it intends to lend \$10 billion to the UAE to help finance the construction of the UAE's first nuclear plants. Given the scale of the required investment, even after accounting for the cost of desulphurization of domestic sour gas production and building relatively low cost combined cycle generation, it is questionable if the cost of building nuclear plants for power generation is indeed the lower cost option.

The Gulf region began first steps for a pipeline that could carry natural gas around the region in the 2000s, but the project failed to gain full regional backing. Talks have also begun to link electricity grids, but complex bilateral pricing negotiations, difficulty attaining international financing, and territorial and geo-political disputes have blocked any hopes of the kind of comprehensive regional natural gas trade that could make the push to nuclear power unnecessary.

The Dolphin Pipeline, which began shipping natural gas from Qatar to the UAE in late 2007, is the first major cross-border natural gas pipeline among Gulf countries. However, it has been plagued by the same financial and geo-political issues that block natural gas development generally in the region.

Dolphin Energy, which is controlled by the Abu Dhabi government's investment conglomerate, Mubadala Development, and also includes partners Occidental and Total, is currently supplying about 2 bcf/d of Qatari gas from the giant North Field via an 364-km undersea pipeline from Ras Laffan, on the upper tip of the Qatar Peninsula, to Taweelah, on the coast of Abu Dhabi, for sales within the federation and Oman. From Taweelah, a 152-mile pipeline will run to the Qidfa Water and Electricity Station in Fujairah. Construction

of this line is scheduled to be completed by the third quarter of 2010. Dolphin Energy has been seeking to increase gas volumes as the main pipeline has a 3.2 bcf/d capacity. Qatar was able to supply Dolphin with extra volumes in late 2009 as the gas glut in the United States freed up supplies that would otherwise be shipped as LNG.

Kuwait is currently an importer of liquefied natural gas but could someday be part of a larger Middle East gas pipeline network. Its largest natural gas field, the Dorra field, borders Saudi Arabia and Iran. Border delineation problems have prevented Kuwait from developing these resources. While parliamentary opposition remains fierce, a five-year deal was signed between Royal Dutch Shell and Kuwait Oil Company (KOC) in February 2010 to develop deep gas reserves in six northern fields. The Shell gas project targets 1 bcf/d of output from the Raudhatain, Sabriya, Bahra, Umm Niqa, Northwest Raudhatain, and Dhabi fields, or approximately seven times their current output.

Kuwait was unable to join the Dolphin gas pipeline project when Saudi Arabia refused to approve a section of the pipeline (which also could have been connected to Bahrain) that would have had to pass through Saudi territorial waters. Instead of waiting for geopolitical solutions for a regional gas grid, Kuwait opted to develop LNG receiving capability and is currently buying LNG from the spot market. Dubai is considering a similar strategy. The shift to either LNG or nuclear energy comes in the aftermath of failed pipeline talks that were thwarted by geopolitical tensions and pricing disputes.

Typically, the Gulf countries have tried to get regional natural gas suppliers to offer pipeline gas at prices discounted from international levels to bridge the gap to low domestic natural gas and electricity prices. Lack of pricing benchmarks for Gulf pipeline sales have made international financing of pipeline projects more difficult than even more expensive LNG projects, since LNG is a more transparent, globally traded commodity. Natural gas sales through the Dolphin pipeline are sold to the UAE, for example, at \$1.35 million btu, while international LNG prices have ranged from \$4 mmbtu to \$12 mmbtu in recent years. Kuwait, Bahrain, and the UAE have each held natural gas pipeline supply talks with Iran over the years, but these were complicated by the geopolitical problems created by each country's territorial disputes with Iran, Iran's nuclear aspirations, and Iran's support of international terrorism and subversion.

Despite lack of progress on natural gas grids, the six members of the Gulf Cooperation Council have agreed to develop a regional power grid that member states can tap to try to avoid power blackouts. The interconnection project is estimated to cost \$14 billion. Under the grid agreement, countries would have the right to an established number of hours of emergency power annually, which if not paid back by a certain time would subject member states to fines. Phase one of the grid project was completed in July 2009 when Bahrain, Saudi Arabia, Kuwait, and Qatar were connected to form the North Grid. Phase two involves the integration of networks within the UAE and Oman to form the South Grid, followed by phase three, which will tie the South Grid to the countries in the North Grid. The UAE is scheduled to connect to the GCC grid by early 2011, with Oman following after. The ownership of the GCC power grid is divided according to the expected portion of grid use, with Saudi Arabia taking a 31.6 percent interest, Kuwait 26.7 percent, the UAE 15.4 percent, Qatar 11.7 percent, Bahrain 9 percent and Oman 5.6 percent.

To achieve similar success with development of regional natural gas resources would take active diplomacy to settle existing border disputes and complex commercial negotiations about pricing and financing schemes. However, such a grid could potentially alleviate the need for costly investments in nuclear energy and the strategic and proliferation risks associated with them. A broader grid, one that could be expanded to include supplies from Iraq and Iran, could be part of a more comprehensive regional peace initiative, were diplomatic progress to become realistically achievable on the Iranian nuclear issue and other outstanding regional problems.

How is Iran's nuclear strategy affecting the region?

Given the high cost of nuclear power investments, the shortage of knowledge, infrastructure, and construction capacity in most Middle Eastern countries, and the ample reserves of regional natural gas, the push to nuclear power across the region seems to have broader motivations than anticipated electricity shortages.

One plausible explanation for the pursuit of nuclear power by certain countries in the Middle East could be that those nations are interested in a hedging strategy against the development of nuclear weapons by Iran. Attaining nuclear weapons and the stature believed to go with it would strengthen Iran's claim to be the regional leader, and perhaps encourage Iran to act more aggressively in pursuit of its geo-political aims and territorial claims. Many other nations in the Middle East, such as Egypt, Saudi Arabia, and Turkey, consider themselves to have a natural role as a regional leader and thus are unwilling to cede that role to Iran. Still others are concerned that they may need nuclear weapons to deter Iranian aggression or nuclear blackmail. It is also possible that nuclear capability is now seen in the region as a minimum standard to maintain regional leadership status, thus possibly escalating the risks of a proliferation of secret weapons programs in the region.

Although always couched in terms of meeting future energy needs and/or preserving oil and gas to earn export revenues, as we have noted, most Middle Eastern nations are at least talking about pursuing nuclear development programs and a few are making tangible progress toward that end. They cite the need to preserve oil and gas and to produce more electricity for these plans and activities, but their motivations also include the aforementioned competition for regional leadership, to gain economic/technical prestige on the world stage, and to prepare to defend themselves, if necessary, against a nuclear-armed Iran.

It is unclear at this point how hard it would be to divert the countries of the Middle East from the nuclear pathway or, if that is not possible, to shape their nuclear power programs in ways that do not pose significant risks of weapons proliferation. Much depends, of course, on whether or not the US and its allies are successful in containing the Iranian program well short of a weapons' capacity. It also depends on the evolution of the financial situations in individual countries, as well as their internal politics. The UAE is certainly the

farthest along toward the construction of nuclear power reactors, and will have both the resources and political support to complete at least two of the four reactors that have been announced, but these reactors and their fuel will be safeguarded by the IAEA and the UAE has agreed not to build uranium enrichment facilities, and thus does not pose a weapons proliferation risk.

Saudi Arabia no doubt has the resources to build nuclear power plants, but it is starting from such a rudimentary nuclear infrastructure compared to Iran that it will take it many years to be able to emulate the status of the Iranian program, and may take its cue from the evolution of that program.²⁵ Jordan seems more resistant to foregoing enrichment, but both its internal politics and finances are on shaky grounds and negotiations with the US are continuing. In the end, given its dependence on the US for security guarantees, it may not be willing to defy the US on the enrichment issue, assuming guarantees of assured uranium services are also proffered. Turkey has announced ambitious nuclear plans repeatedly over the past 10 years, but has made only limited progress and there is considerable internal debate over the right course. Turkey also has competing needs for resources. Egypt aspires to a leadership role in the Middle East, but has difficult resource limitations and has not advanced very far toward building a nuclear infrastructure or technology base.

Thus, although the course of proliferation in the Middle East will have much to do with the United States' success or failure with respect to Iran's nuclear program, it is also important for the United States to broaden its proliferation diplomacy beyond Iran and to address larger regional issues and alternative regional energy solutions.

What is, and what should, the United States be doing about the prospective proliferation of nuclear technology in the Middle East?

The United States' efforts to negotiate non-proliferation and other safeguards/ commitments with key Middle East pre-nuclear states have been mixed. On the bright side, all those states are signatories to the Non-proliferation Treaty and full scope safeguards agreements with the IAEA. In addition, 10 of the 18 non-nuclear Middle East and North African states have signed the Additional Protocol (AP) to their Safeguards Agreement with the IAEA, permitting the IAEA to inspect undeclared facilities to determine if there are any nuclear activities at those sites.²⁶ As noted, the US was successful in persuading the UAE to forego uranium enrichment.

On the other hand, six states in the Middle East—Iraq, Iran, Libya, Egypt and Syria—were, or are still, involved in undeclared nuclear activities, some with a full fledged plans to develop nuclear weapons program. The US experience with Jordan, a key US partner in the region, has been rather different than with the UAE. As noted, so far Jordan has rebuffed

²⁵ Saudi Arabia also has a long and close relationship with Pakistan, which is currently a nuclear power. Pakistan's continuing expansion of its fissile material production capacity has led to speculation that it would assist Saudi Arabia but an official Saudi website has published articles by third parties implying it would reject this option for geopolitical reasons.

See <http://www.saudi-us-relations.org/articles/2008/ioi/080209-lippman-nuclear.html>

²⁶ Bahrain, Iran, Iraq, Jordan, Kuwait, Libya, Morocco, Tunisia, Turkey, and the UAE have signed the Additional Protocol. Of those states, however, only Jordan, Kuwait, Libya, and Turkey have so far taken the additional steps necessary to put it into effect.

US objections to its current plans to exploit its own uranium deposits to make nuclear fuel. Rather than allow Jordan to become a regional center for uranium enrichment or a nuclear fuel bank, as Jordan aspires to for economic reasons, the United States has been pressing Jordan to sign guarantees that would oblige it to buy reactor fuel from the international market as a further safeguard against diversion of fissile materials for military purposes. Another reason for the US pressing Jordan on this issue is that Jordanian enrichment would provide Iran with another justification for its own enrichment program, just as it uses Israeli nuclear capabilities to justify its allegedly peaceful nuclear program. The jury is still out on these negotiations.

Saudi Arabia has called for an agreement to create a nuclear weapons free zone in the Middle East and some observers question whether the kingdom would agree to forego an enrichment capability if other states in the region, like Iran, Jordan and Israel, do not back down from an enrichment-oriented stance. It will be hard for the United States to implement a regional nuclear free agreement due to Israel's non-declaratory stance. Israel will not publicly confirm its nuclear status and has refused to join the NPT. It does not permit IAEA inspections or safeguards on its weapons stockpile or facilities at Dimona.

In any event, the United States' lack of success so far in getting close allies like Israel and Jordan to agree to forego enrichment and reprocessing activities calls into question the chances that the United States could persuade the nations of the Middle East to create a zone of free of nationally-controlled enrichment/reprocessing facilities, replacing them with either fuel services purchased from outside the region or by the development of a regional, multi-nationally controlled, enrichment solution. Both of these alternatives have been suggested as means of helping to persuade the Iranians to end their nationally controlled enrichment.

If plans for civilian nuclear power programs in the Middle East do continue to progress and eventually turn into concrete programs, it will certainly buttress Iranian intransigence on the nuclear issue. If the US fails to establish regional standards for such programs that create barriers to their transformation into military weapon programs, such as the prohibition of nationally-controlled enrichment facilities, it will further buttress the Iranian position. By the same token, as long as the US and its allies in the West fail to gain verifiable assurances from Iran that its nuclear program are strictly peaceful in purpose, it will be increasingly difficult for the United States to enforce non-proliferation standards, re-export agreements, materials safeguards, and anti-weaponization barriers with other countries—beyond those already in place—rendering the problem into a self-propelling, accelerating spiral.

We believe there are multiple risks to the wide-spread use of nuclear power in the Middle East, including expansion in the number of trained personnel in the region who could be diverted to secret weapon programs or enticed by other countries to help them develop weapons covertly. In addition, there would a risk of sudden changes in apparently benevolent proliferation policies following a regime change. Other risks include: (i) the leakage of fissile materials for illegal exports, (ii) accidents due to wars or terrorism, and (iii) other safety related issues, such as earthquakes. The spread of nuclear power programs around the region also could deepen the level of distrust among nations in the region and lead to accelerated conventional arms buildups. Finally, the more locations that store fissile

materials, the greater the risk that terrorist groups might get their hands on radioactive materials which, even if they could not fashion them into a nuclear bomb, could be used, combined with conventional explosives, to spread lethal radiation in urban centers.

US diplomacy should place a higher priority on means of avoiding these worst-case scenarios. To begin, the US government is not engaged enough in seeking to limit the competitive marketing of nuclear assistance to the Middle East but, rather, is itself helping American companies to bid effectively against companies located in Japan, South Korea, Russia, Canada, and France. More effort needs to be put into creating a coalition with the main nuclear technology supplier countries to establish guidelines for nuclear commerce with the Middle East and then to work with all parties to ensure compliance with those supplier rules and commitments. The December 2009 G-8 pledge in which the participants committed themselves not to export items for enrichment or reprocessing to newcomer countries is a good example of the type of supplier limitation that is necessary. Focus should be placed on strengthening safeguards, export controls, and requiring implementation of the Additional Protocol (AP) as a condition of supply. Implementation of the AP would be particularly helpful in preventing secret weapon programs, such as those seen in Iraq (until 1991), Libya (until 2003), Iran (ongoing), and Syria (until 2007). Wide-scale implementation of the AP, however, also will require that additional resources be made available to the IAEA; it currently lacks the manpower, equipment, and money that would be required for a major step-up in inspections.

According to sources in the Gulf, the United States has been successful in working with key member countries of the GCC—Saudi Arabia, Kuwait, and the United Arab Emirates—to increase economic pressure on Iran by making it more difficult for Iran to sell its oil in Asia. The Gulf Arab suppliers are offering special discounts to increase their own exports of oil to Asia, thereby leaving Iranian cargoes afloat on the ocean with no buyers. It is hoped among GCC members that over the longer term, increased economic problems in Iran's oil sector will help weaken the regime or at least change its nuclear course. However, GCC cooperation with the United States against Iran generally does not appear to extend to cooperation with the United States about civilian nuclear programs and the rules of the road for those programs. The United States, similarly, has not focused on resolving the problems that are blocking trade in electricity and natural gas around the region, as well as cooperative water desalination projects, that might obviate the ostensible need for civilian nuclear power. Artificial political obstacles are preventing the sensible development of regional natural gas resources as cheaper alternative to nuclear power and the United States has not focused diplomatically on helping to resolve such obstacles. Movement toward regional electrical or natural gas grids, and cooperative desalination projects, might help to persuade governments to concede that their nuclear ambitions are not really necessary to resolve their energy woes. The United States should undertake an active diplomatic initiative to see if a regional electricity and natural gas grid could be used to undermine the existing, ambitious plans for expanding nuclear capabilities. If done in combination with concerted efforts to restrict the terms under which nuclear suppliers provide assistance, personnel, and technology, a comprehensive agreement that could involve Iran seems more plausible.

Author Biographies

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Dr. Barry M. Blechman is the co-founder of the Stimson Center, and a distinguished fellow focused on nuclear disarmament. He was chair of Stimson's board from 1989 to 2007.

Blechman has nearly fifty years of distinguished service in national security, in both the public and private sectors. He is an expert on political and military policies, military strategy, and defense budgets and industries. Blechman has worked in the Departments of State and Defense, and at the Office of Management and Budget. Among other boards and commissions, Blechman served on the Commission to Assess the Ballistic Missile Threat to the United States (1998-99), the Defense Policy Board (2002-06), the mayor's Bioterrorism Preparedness and Response Program Advisory Committee in the District of Columbia (2004-06), and the Department of State Advisory Committee on Transformational Diplomacy (2005-08). Blechman founded DFI International Inc., a research consultancy, in 1984 and served as its CEO until 2007.

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From 2003 to 2007, Heydemann directed the Center for Democracy and Civil Society at Georgetown University. From 2001 to 2003, he was director of the Social Science Research Council's Program on Philanthropy and the Nonprofit Sector, with additional responsibility for development of new programs. Prior to that, he was a program director at the SSRC, where he ran the Council's Program on International Peace and Security and its Program on the Near and Middle East (1990-1997). He has served on the board of directors of the Middle East Studies Association (MESA) of North America and is currently a member of MESA's Committee on Public Affairs. Heydemann holds a Ph.D. in political science from University of Chicago.

The Stimson Center is a Washington DC-based non-profit, non-partisan institution devoted to enhancing international peace and security. Founded in 1989, its work focuses on reducing weapons of mass destruction and transnational threats, building regional security, and strengthening institutions. Stimson's pragmatic approach seeks to understand and illuminate complex issues, develop new knowledge, and engage policymakers, policy implementers, and non-governmental institutions with recommendations that are actionable and effective.

The United States Institute of Peace (USIP) is an independent, nonpartisan organization, created and funded by Congress to prevent and resolve violent international conflicts. USIP's mission is to increase the United States' capacity to manage international conflict—to think, act, teach, and train. It brings together diverse communities to devise practical approaches to peacebuilding. Founded in 1984, USIP has led the nascent field of conflict management and peacebuilding, translating research into practice, and educating students and professionals about causes of and approaches to managing international violence. USIP's Center for Conflict Analysis and Prevention conducts timely, policy-relevant analysis of countries and regions where threats to peace and stability are particularly acute.

This report represents a more comprehensive approach to the Iranian challenge than just focusing on the nuclear piece of the equation. It offers up the strategic and wise use of all of America's instruments of power in dealing with Iran. It clearly reflects the experience, expertise and judgment of its authors and contributors. This report should be taken seriously by our policymakers in the Obama Administration and in the Congress.

— **CHUCK HAGEL**

US SENATOR, 1997-2009

CHAIRMAN, THE ATLANTIC COUNCIL

At a time when pressure and force are seemingly the preoccupation of the outside commentators, and perhaps the inside policy makers, this study and its careful advice come as a breath of fresh air – and more – wisdom. Diplomacy has long known that like a pressure cooker, you cannot increase the pressure on a party without also providing the party with the exit doors to walk through, and that diplomacy requires win-win, not zero-sum if it is to be successful. This study understands and creatively adopts these storied maxims of the trade with its cogent advice on dealing with the Iran conundrum.

— **THOMAS PICKERING**

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