

**SWP**

Stiftung Wissenschaft und Politik  
German Institute for International  
and Security Affairs

*Eugene Whitlock (Ed.)*

# “Iran and Its Neighbors: Diverging Views on a Strategic Region”

July 2003  
Berlin

© Stiftung Wissenschaft und  
Politik, 2003  
All rights reserved

**SWP**

Stiftung Wissenschaft und  
Politik  
German Institute for  
International and  
Security Affairs

Ludwigkirchplatz 3-4  
10719 Berlin  
Telephone +49 30 880 07-0  
Fax +49 30 880 07-100  
[www.swp-berlin.org](http://www.swp-berlin.org)  
[swp@swp-berlin.org](mailto:swp@swp-berlin.org)

# Table of Contents

- 5 **Foreword** – *Johannes Reissner*
- 7 **Iran and the Middle East**
- 9 The Infernal Triangle: Iran, Israel, and the United States – *Samuel W. Lewis*
- 15 **Iran’s Relationship to Its Neighbors in Central Asia and the Caucasus**
- 17 Iran’s Role in the South Caucasus and Caspian Region: Diverging Views of the U.S. and Europe – *Brenda Shaffer*
- 23 Iran in the Caucasus, Caspian and Central Asia: Lessons for Western Strategy – *Edmund Herzig*
- 29 U.S. and Iranian Policy in Afghanistan – *Barnett R. Rubin*
- 35 **Iran and the Problem of Proliferation**
- 37 Dealing with Iran’s Nuclear Program – *Michael Eisenstadt*
- 42 Iran, the Bomb, and the Future of the Nuclear Non-Proliferation Treaty – *Oliver Thränert*
- 53 The Potential for Iran to Provoke Further Nuclear Proliferation in the Middle East – *Patrick Clawson*
- 57 **The Role of Iran and the Region for Global Energy Supply**
- 59 Iran’s Oil and Gas Development and the Effect of U.S. Economic Sanctions – *James A. Placke*
- 65 Why Iran Is Key for Europe’s Security of Energy Supply – *Friedemann Müller*
- 70 Post-War Iraq and Iran’s Petroleum Sector – *Joe Barnes and Amy Myers Jaffe*
- 75 **Future Strategies for Influencing Domestic Development in Iran**
- 77 Future Strategies for Influencing Domestic Developments in Iran – *Geoffrey Kemp*
- 82 The Need for a Coherent, Comprehensive and Cooperative Approach to Iran – *Johannes Reissner*
- 89 Iran’s Responses to the War in Iraq – *Ali Ansari*
- 96 **Conference Agenda and Key Points of Discussion**
- 100 **Abbreviations**



## Foreword

The papers presented here were prepared by the working group entitled “Iran and Its Neighbors: Diverging Views on a Strategic Region.” The papers represent the efforts of two meetings, one held in Washington, D.C., January 16, 2003, at the Nixon Center, and the other held in Berlin, May 29–30, 2003, at the SWP, the German Institute for International and Security Affairs.

This working group was part of a larger project entitled: “Diverging Views on World Order? Transatlantic Foreign Policy Discourse (TFPD) in a Globalizing World.” This project, under the directorship of Jens van Scherpenberg (SWP), was made possible through a generous grant from the German Marshall Fund of the United States, an American Institution that stimulates the exchange of ideas and promotes cooperation between the United States and Europe in the spirit of the post-war Marshall Plan. The aim of the TFPD, at a time of increasing disjunction in U.S.–EU. perspectives on world order, is to engage decision-makers and opinion leaders from the United States and Europe in an open exchange of ideas.

The papers can only be understood as part of a process that began in January 2003. During this process the war against Iraq has been fought and completed—creating new issues with respect to relations with Iran, especially for the U.S. In addition, after the second meeting, the Conclusions of the European Council Summit in Thessaloniki, June 19–20, 2003, brought some clarification of the European position with respect to Iran. Whether this can help to reconcile European and U.S. policy towards Iran remains to be seen.

The various papers make it clear that Iran is in a complicated and delicate geo-political situation. In addition to crucial strategic and energy issues, Iran’s position within one of the world’s most significant regions is addressed as well. This collection of papers does not attempt to cover all aspects of relations with Iran; nevertheless, this collection does make it evident, once again, that when dealing with Iran looking for a single key for all locks will be in vain. All of the authors are to be thanked for their significant efforts and cooperation which made this working group a success.

As mentioned above, the project would not have been possible without the generous grant from the German Marshall Fund of the United States, for which the organizers would like to express their gratefulness. Our thanks also to Geoffrey Kemp who endorsed the project with creative spirit and made it possible for the first and stimulating workshop to be held at The Nixon Center in Washington, D.C. Special thanks go to Eugene Whitlock, who used his skills and mindfulness to bring people together, organize the meetings and prepare the papers for publication.

Berlin, July 2003

*Johannes Reissner*



## **Iran and the Middle East**





# The Infernal Triangle: Iran, Israel, and the United States

*Samuel W. Lewis\**

Achieving some diplomatic rapprochement between Tehran and Washington would seem possible and certainly highly desirable in the wake of the Iraq War. Yet the likelihood seems further and further away. The tangled web of Iranian–American history is largely to blame. But those many complexities are greatly augmented by the role Israel plays in Iranian clerical ideology and in American politics. This paper will highlight some key aspects of this “Infernal Triangle.”

## **Diplomacy at a standstill**

Recent revelations from IAEA inspectors about previously unknown progress in the Iranian nuclear program have further hardened attitudes in the Bush Administration toward Iran. Prospects for even some cautious, wary diplomatic initiative to break the communication freeze between Washington and Tehran have vanished., at least for the present. Ominous rhetoric from Washington raises fears in Tehran that Iran may indeed be the next target among the three charter members of Bush’s “Axis of Evil,” despite official denials of any plans to employ force to achieve “regime change.”

Meanwhile, neo-conservative pundits echo Administration voices intended to encourage Iranian students and reformers to bring more and more public pressure for genuine change, while satellite TV outlets sponsored by Iranian exiles in California attempt to summon crowds into the Tehran streets with unrealistic predictions that mass demonstrations are bringing the regime closer to its inevitable end.

Not surprisingly, Iran’s clerical leaders see the Bush Administration’s hand in all of this and breathe defiance.

During and immediately after overthrow of the Taliban regime in Afghanistan, there had seemed some possibility for a budding U.S.–Iranian dialogue and perhaps even some beginning moves toward normalization of diplomatic ties after nearly 25 years of almost total estrangement. Iranian and American diplomats had worked in close harmony during the multilateral negotiations to design a transition to a new political system for Kabul. Soon, however, suspicions that Iranian Revolutionary Guard units were interfering with American efforts to pacify the Herat area while encouraging separatist warlords were reinforced by intelligence reports that al-Qa’ida elements were finding sanctuary in Iran. Then revelations about Iranian involvement in the large shipment of weapons on the ship *Karine A* to Yasser Arafat’s close associates in Palestine added valuable am-

\* American Academy for Diplomacy.

munition for those in Washington who had long opposed any Iranian-American rapprochement. The diplomatic opening closed.

After a hiatus, quiet contacts recommenced in Europe between Iranian and American diplomats as the Iraq War loomed, spurred by an American desire to prevent Iranian meddling in the impending hostilities or in the post-war reordering of Iraqi society. Unfortunately, sudden revelations about progress in Iran's nuclear program and the implied timetable for Iran's acquiring nuclear weapons led to renewed pressures within the Bush Administration and the Congress for turning away from diplomacy toward other means for thwarting Iran's nuclear weapons program, as well as whatever intentions Iran's clerical leaders may have toward shaping the nature of a new Iraqi government. The U.S. suspended the semi-secret diplomatic dialogue and currently shows no interest in any of the proposed diplomatic initiatives currently circulating among Washington non-governmental experts, journalists, academic journals, "think tank" seminars, and off-the-record discussions with European diplomats. Only in a few places in Congress can one hear any disagreement with the Administration's hard-line approach. The Washington view of Iran in the early summer of 2003 is dominated by frustrated foreboding about the Iranian nuclear program and a lack of credible ideas about how to reverse its course toward weapons. Hopeful expectations about President Khatami and the potential for real democratic reform have withered. The future of the Iranian regime appears murky indeed, even to the few genuine Iran experts on the Washington scent. Twenty five years of broad estrangement between American and Iranian societies have taken a large toll on both; neither capital understands the other, and both draw back from trying, in fear of very real domestic political threats from powerful hard-line opponents of any outcome involving mutual concessions.

### **The Israeli dimension**

Overthrow of the Shah in 1979 abruptly ended a long, fruitful relationship between Israel and Iran, albeit one carried on in the shadows at the Shah's insistence. Very close ties between intelligence agencies; frequent secret visits to Tehran by Israeli leaders, especially Moshe Dayan; significant contributions by Israeli agricultural and development experts to Iran's agricultural reform programs; a steady flow of Iranian oil delivered to Israel's southern port of Eilat—amounting to nearly half of Israel's crude oil requirements; substantial cooperation in weapons development, including long-range missiles; all this and much more proceeded for decades largely under Arab radar screens, with tacit encouragement from Washington. Indeed, the Shah's advice had been an important factor in persuading Anwar Sadat to make his extraordinary "peace mission" to Jerusalem in 1977.

When the Iranian Revolution suddenly swept away not only the Shah but all those many senior Iranian intelligence and military officials with whom Israelis had forged close personal ties, it was devastating. They watched in horror the brutal execution of old friends like the head of

Savak, and the sight of Yasser Arafat in Tehran applauding the success of the Revolution, standing next to Ayatollah Khomeini, while the Israeli Embassy building was ostentatiously turned over to the PLO. Yet, for years thereafter, some Israelis clung to the illusion that a degree of Iranian-Israeli cooperation could survive. They deluded themselves that the geopolitical rationale for the relationship, namely that both states confronted powerful Arab enemies, would eventually reassert itself.

As late as the mid-1980's these lingering hopes produced continuing debate within the Israeli security establishment as to which represented the greater threat: Iran or Iraq. Gradually the drumbeat of anti-Israeli and anti-Jewish statements from Tehran's leaders dispelled any remaining illusion. Iranian public hostility was strongly reinforced after creation of the Hezbollah led to a rising threat to Israel's troops still in Southern Lebanon. Hezbollah grew throughout the 90's in military sophistication and capability for carrying out successful kidnappings and other forms of terror attacks. Iran's Revolutionary Guards provided extensive training, weapons of increasingly sophisticated types, political direction, and very large amount of money, with the acquiescence and encouragement of the Syrians, whose army has effectively controlled much of Lebanon since the 1982-84 Lebanon War. Prime Minister Barak's decision to withdraw remaining Israeli forces from southern Lebanon in the early summer of 2000, after a steady drumbeat of casualties from increasingly deadly suicide and guerilla-type attacks, was widely credited with demonstrating that the Israeli army was not invincible. Hezbollah's success greatly encouraged Palestinian opponents of the on-going peace negotiations to trigger outbreak of the "Second Intifada" in late September of 2000.

The past three years of Palestinian violence in Israel, Gaza, and the West Bank have been characterized by increasing use of Hezbollah suicide bombing tactics, weapons transfers into Palestine by sea and overland, large transfers of Iranian funds and political direction to Islamic Jihad, the small but deadly terrorist organization which is under direct Iranian control, and more recently by substantial financial support and tactical training also for other groups such as Hamas and the Fateh off-shoot known as the al-Aksa Brigades. Hezbollah's satellite television voice, Al Manar, puts out a steady stream of inflammatory video productions which mingle American, Israeli, satanic, and Nazi images in a highly sophisticated brew; it is now believed to have the second highest viewership in the Arab world, not far behind Al Jazeera. Meanwhile, Ayatollah Khamenei and other senior Iranian leaders continue to attack Israel as the implacable enemy of all Muslims even as they pursue long-range missiles with a range well beyond Tel Aviv, as well as the path to nuclear weapons. Even before the U.S. eliminated Saddam Hussein's regime, Iran and Hezbollah had long since overtaken Iraq as the greater threat to Israel in the judgment of the Israeli government and security establishment.

## Iran and the war against terror

During Clinton's second term, his administration sought several times to reestablish an official diplomatic dialogue with Tehran, encouraged in this effort by a seeming readiness of President Khatami to move in that direction. Deliberate signals in speeches by Secretary Albright and President Clinton himself unfortunately fell on thorny ground, apparently as a result of sharply divided views in Tehran where Supreme Leader Khamenei and his hard-line advisors were convinced that America remained unrepentently hostile to the Islamic regime. The U.S. overtures were unpopular with many in Congress who are deeply suspicious of the Iranian leadership and totally sympathetic to Israel's view of the Iranian and Hezbollah threat. When President Bush took office, that point of view was unanimously shared by the new principal policymakers and their advisors. Efforts by some in the State Department to revive effort for a diplomatic initiative met with no success. The brief dialogue which developed out of the Afghan crisis died as described above. And meanwhile, the aftermath of 9/11 has totally changed the political and diplomatic landscape in the United States, putting the War Against Terror before all else.

Some in Europe and many in the Middle East attribute U.S. hostility to the Iranian regime to the influence of Israel's many friends in Congress and in the U.S. media. Undoubtedly that factor plays a part. But more powerful still are deep scars in the American psyche left by the humiliating hostage crisis of 1979–81, the "blood account" still outstanding from Iranian and Hezbollah involvement in hostage taking of Americans in Lebanon and brutal execution of CIA officials; the blowing up of U.S. Marine barracks with hundreds left dead; the hijacking of a TWA flight and execution of a U.S. Navy diver aboard; and probable Iranian sponsorship of the terror attack on Khobar Towers in Saudi Arabia which left 19 American servicemen dead. Iran surely also has many grievances against the U.S. But this partial list demonstrates why it has been so difficult to persuade both previous and present American administrations to share a general European view that Iran should be dealt with by persuasion and carrots, rather than by sanctions and other sticks. Today, in a new era of global war against terrorism *and* those states which support and assist terrorist groups, the case against Iran in Washington is extraordinarily powerful. And that was true *before* the latest revelations about Iran's nuclear program. Hezbollah is viewed by many U.S. terrorism experts as an extension of Iran's anti-Israeli and anti-American policy, and moreover, as the most dangerous terrorist group in the world, more sophisticated, and with cells more widespread in the U.S. itself than even al-Qa'ida. Iranian influence and support of Hezbollah is not something invented by Israel. Intelligence agencies in many capitals agree with that assessment. For most of official Washington, the case is closed.

Rapprochement with Iran cannot occur so long as Hezbollah continues on its present path. Moreover, checkmating the Iranian search for nuclear weapons is extraordinarily difficult. On close analysis, military or covert

action options look anything but promising. A comprehensive, coordinated diplomatic effort with our European allies involving both carrots and sticks would surely seem the best approach. But if Tehran tries to undermine U.S. efforts to pacify Iraq and help create a secular, democratic government there, the Bush Administration could be tempted to respond in more dangerous ways. Iranian–U.S. relations are likely to remain vulnerable to unforeseen events, and Hezbollah and Iraq are both dangerous wild cards.



## **Iran's Relationship to Its Neighbors in Central Asia and the Caucasus**





## Iran's Role in the South Caucasus and Caspian Region: Diverging Views of the U.S. and Europe

Brenda Shaffer\*

Since the Soviet breakup and the subsequent independence of the states of the South Caucasus (Armenia, Azerbaijan, Georgia), Europe and the U.S. have conducted very different policies toward the new states in the greater Caspian region. Moreover, Europe and the U.S. view Iran's policies and the desired role Tehran should play in the region in diverging ways. While European activity in the Caspian region has been quite limited,<sup>1</sup> it has recently indicated intent to increase its doings in the region. Europe and the U.S. could potentially be at odds in the Caspian region over the desired role for Iran in the major emerging security arrangements and economic projects in the region.

This paper will briefly discuss respective American and European policies toward the South Caucasus and greater Caspian region and expected future trends. It will then examine the U.S.'s view of Iran's activities in the Caspian region and Washington's preferred status for Iran in the area. In addition, it will examine how the countries of the region view Iran's policies in the region and the implications for European-American cooperation in the region.

### U.S. policy toward the South Caucasus and Caspian Region

U.S. policy toward the South Caucasus and Caspian region has evolved through three major stages since the Soviet breakup and the independence of the states of the region: 1991–1994, 1994–1998, and present. Washington currently is in its most activist phase in the region, and its military deployment in the region indicates an intention to retain presence in the region for a significant period of time. Among the U.S. goals that have been constant toward the South Caucasus and Caspian region has been:

1. Preserving the independence and security of the new states of the region.
2. Development of energy and transport lines on a east–west corridor.
3. Denying Iran and other potential proliferators sources in the new states of technology, materials and scientists which can be used to advance their WMD programs.

Since September 2001, the U.S. has also seen the Caspian region as an important component in its anti-terrorism policy, and views courting Western-oriented Muslim-populated states like Azerbaijan and Uzbekistan as important to promoting its policies, and has been very active in security cooperation with the states of the region in fields relevant to counter-

\* Harvard University, Belfer Center.

<sup>1</sup> With the exception of European based companies, which play the leading role in many of the major gas and oil development projects in the region.

terror and counter-proliferation, such as border controls. Thus, most of its policy goals in the region place Washington in juxtaposition to Iran in the South Caucasus and greater Caspian region.

### **European policy toward the South Caucasus and Caspian Region**

Despite the fact that the Caucasus borders on NATO and will soon be on the borders of the expanding EU, Europe has taken very little interest in the South Caucasus and Caspian region. The main European presence is in the form of European companies that fulfill the leading role in the major oil and gas projects in the region (BP, ENI/AGIP, Statoil). Even though Europe will presumably be the major consumer of Caspian gas, it has not taken an active role in the region in the security or political spheres. European institutions and states have done little to promote conflict resolution in the area, and despite the fact that many of the states of the region are planning their security orientations toward Europe, the latter seems far from interested in assuming a security role in the region. Recently, however, the EU has signaled that it may launch some activity in the South Caucasus and Caspian region, beginning with the appointment of a Special Representative to the South Caucasus. Europe seems committed to coordinate its new initiatives in the region with the U.S. (and Russia) and that its policies in the region, especially in the field of conflict resolution, should compliment existing U.S. and Russian-led efforts, and not compete with them. However, the newfound European activation in the region can bring the U.S. and Europe into disagreement over the appropriate role for Iran in the region, and especially in the conflict resolution and potentially subsequent security arrangements that may be established in the area.

### **Iran's policies in the South Caucasus and Caspian Region**

Iran's policy in Central Asia and the Caucasus is based primarily on geopolitical concerns. On the policy level, when geo-political interests conflict with commitments of "Islamic solidarity," Tehran almost always gives preference to its security and economic considerations. Domestic inputs and constraints—primarily the presence of a significant Azerbaijani minority in Iran—and its interests and confrontations beyond the region, including with the U.S, also influence Iran's policies toward the region.<sup>2</sup> Different states in the Caspian region perceive Tehran's policies in the different ways, and some possess a strong threat perception of Iran, independent of the U.S. views on Tehran.

A potential split could emerge between the U.S. and Europe over the role that should be assigned to Iran in the peacemaking efforts in the region, especially the Nagorno-Karabagh conflict. Iran shares borders with all the sides to the conflict, and it is clear that as such its state interests are

<sup>2</sup> For more on Iran's policies and the domestic Azerbaijani minority, see Brenda Shaffer, *Borders and Brethren: Iran and the Challenge of Azerbaijani Identity* (Cambridge: MIT Press, 2002).

directly affected by the developments and outcomes. Officially, Iran declares itself neutral in the conflict between neighboring Armenia and Azerbaijan. The proposed stance of neutrality is inconsistent with the official ideology of a state that portrays itself as the protector and champion of the Shi'i in the world. Overall, Iran prefers that the Republic of Azerbaijan remain involved in a conflict, thus making it less attractive to Iran's Azerbaijanis and unable to allocate resources to stir-up 'South Azerbaijan.' However, Tehran does not want this conflict to escalate and create streams of refugees and other potentially destabilizing developments on its northwest border. Tehran adopted anti-Armenian rhetoric only at the times when the results of the conflict directly threatened Iranian state interests or when pressured by political activities of Iranian Azerbaijanis.

Iran established diplomatic relations with Armenia in February 1992, and signed a number of economic agreements at the height one of the battles between Azerbaijan and Armenia. Iran has, at times, served as Yerevan's main route for supplies and energy and provided an outlet for its trade. In April 1992, at one of the most crucial points in the confrontation between Azerbaijan and Armenia, Iran agreed to supply natural gas and fuel to Armenia and improved transportation links.<sup>3</sup> Without this vent from the Azerbaijani and Turkish impediments, surely Armenia's war effort could not have been sustained and escalated. Pointing out Tehran's role in helping Armenia circumvent its isolation, Armenian Prime Minister and Vice President Gagik Arutyunyan remarked at a ceremony commemorating the opening of a bridge over the Araz River linking Armenia and Iran, that the bridge will contribute to stabilizing the economic situation in the republic which the blockage has created.<sup>4</sup> Moreover, fuel from Russia was often delivered to Armenia by way of Iran.<sup>5</sup>

During a summit of Azerbaijani and Armenian representatives in Tehran, Armenian combatants captured the city of Shusha, and its fall was one of the turning points in the military control of the disputed region and a major embarrassment for Iran since it took place during the Iranian-sponsored negotiations. Nonetheless, in this period, official statements of the Iranian Foreign Ministry continued to reflect a balanced approach toward the two belligerents even following a series of significant Armenian conquests in Azerbaijan and the creation of thousands of new refugees.

Iran's specific positions on various proposals during the negotiation process between Azerbaijan and Armenia were often dictated by its internal Azerbaijani consideration. For instance, Tehran has vehemently opposed propositions for the sides to trade corridors linking Armenia to Karabagh and Azerbaijan to Nakhchevan, since this plan would have resulted in a significant extension of the common border between the Republic of Azerbaijan and Iran, which Tehran would like to avoid.

<sup>3</sup> Interfax (in English), April 15, 1992.

<sup>4</sup> Interfax (in English), May 7, 1992.

<sup>5</sup> SNARK (in English), January 29, 1993 (FBIS-SOV-93-020).

One of the best indications of Iran's conciliatory position toward Armenia was the fact that Yerevan and the Karabagh Armenians repeatedly praised Iran's role in the negotiation process, expressed its preference for Tehran over many other foreign representatives<sup>6</sup> and called for the deployment of Iranian observers at the border between Azerbaijan and Armenia and in the Nakhchevan area.<sup>7</sup> In October 2002, Armenian Foreign Minister Vartan Oskanian stated, "Iran is the guarantor of stability in the Karabagh region."<sup>8</sup> Armenian Prime Minister Andranik Markaryan remarked in April 2003 that "Iran has always been a vanguard of peace and stability in the region with its wise and progressive stances."<sup>9</sup> In contrast, prominent Azerbaijanis voiced critical statements regarding Iran's role in the negotiations, illustrating their perception that Tehran was not promoting their interests.<sup>10</sup>

Clearly, Armenia and Azerbaijan possess starkly differing positions on the preferred role Iran should play in promoting a settlement of the Nagorno-Karabagh conflict, and Tehran's involvement in security arrangements and mechanisms, such as participation in peacekeeping forces deployed in the area. Promotion by Europe of a greater role for Iran in the peace process and security arrangements would be viewed unfavorably by Azerbaijan while welcomed by Armenia.

Iranian representatives have frequently attempted to obtain in the region technology and materials and to recruit scientists in the goal of advancing their WMD programs. Kazakhstan has been a frequent target of attempts of this nature, prompting the swift implementation of "Operation Sapphire" to foil the Iranian efforts.<sup>11</sup> Armenia has also been an Iranian target in this sphere. Exchanges and cooperation between Armenian companies (some may be working as subcontractors for Russian firms) and Iran in fields that contribute to the development of Iran's WMD has led the United States to impose sanctions on two Armenian companies and an Armenian citizen in May 2002 as part of the Iran Nonproliferation Act enacted in 2000. These sanctions are still in place on the Armenian companies. In addition, Iran and Armenia frequently hold visits of high-level representatives of their security and military establishments and conduct significant cooperation in these fields. During his March 2002 visit to Yerevan, Admiral 'Ali Shamkhani, Iranian Minister of Defense, signed a letter of understanding with his Armenian counterpart, Serzh Sarkisyan, on "bilateral military cooperation."<sup>12</sup> According to Arminfo News Agency, the agreement includes arms trade.<sup>13</sup> In contrast during his

<sup>6</sup> See, for instance, TASS, February 28, 1992 (FBIS-SOV-92-040).

<sup>7</sup> Moscow Programma Radio Odin, May 31, 1992 (FBIS-SOV-92-105); Yerevan Armenia's Radio First Program, May 20, 1992 (FBIS-SOV-92-099).

<sup>8</sup> IRNA, October 2, 2002.

<sup>9</sup> April 30, IRNA.

<sup>10</sup> *Komsomolskaya Pravda*, May 20, 1992, p. 1.

<sup>11</sup> Under "Operation Sapphire" in 1994, the United States transported and secured 600 kilograms of HEU from Kazakhstan.

<sup>12</sup> IRNA, March 6, 2002.

<sup>13</sup> Arminfo (Yerevan), March 5, 2002.

visit to Armenia, the Iranian Defense Minister stated that Iran does not maintain military cooperation with Azerbaijan and that “this was only a wish” of the Azerbaijani authorities.<sup>14</sup>

Iran has been in the center of conflict over the Caspian Sea demarcation. While the dispute has been framed as a legal issue and discussed in legal rhetoric, the solutions that have been achieved have been primarily political. When the stalemeters—primarily Iran—have been willing to discuss compromises on the delimitation issue, it has been in periods when the political relations were ripe for conciliation. Up until 1998, Kazakhstan and Azerbaijan purported dividing the sea according to each country's proportion of shoreline, Iran and Russia purported either a condominium solution of equal division for all abutters, while Turkmenistan's position vacillated. In 1994, despite its principle legal stance and prior to Baku's articulation of a clear strategy of courting Western energy companies and adopting a pro-U.S. political strategy, Tehran signaled willingness to compromise on its legal stance in the Caspian in order to be a participant in the extensive energy projects being developed there. After Baku's signing of the “Contract of the Century” with Western oil companies and its rejection of Iranian participation in the major projects, Tehran returned to its unreconciling position. In 1998, Russia abandoned its clear common position with Iran on Caspian demarcation and in 2001 began to sign bilateral demarcation agreements with Azerbaijan and Kazakhstan. In response, in July 2001, Iran instigated a crisis over Caspian demarcation, by sending gunboats to threaten a BP explorer vessel surveying in a disputed area of the Caspian Sea. Iran then repeatedly violated Azerbaijani airspace.

Today there is a deadlock over Caspian demarcation. Despite Tehran's recalcitrance, Caspian exploration is continuing and the large export projects are being developed. Tehran's policy on Caspian demarcation should be viewed as part of its wider policy aimed at creating obstacles to Azerbaijani development that can lead to its prosperity and greater power. Tehran's policy on Caspian demarcation is further complicated by the fact that compromise on the Caspian borders has become a highly politically salient issue in Iran. Majlis discussions frequently focus on this issue, and many Majlis members have attempted to tie Khatami's hands so that he would not be able to negotiate at Caspian summits. Many of the hard-line rejectionists are from Khatami's reformist camp and espouse more a nationalistic position. One major goal of Tehran's policies is to create obstacles to Azerbaijan's success in the energy projects, and thus until there is a change in Tehran's threat perception of Baku, the resolution of Caspian demarcation will be unlikely.

14 Ibid.

### **Future trends**

Tehran's policies toward Central Asia and the Caucasus are guided chiefly by material state considerations and not by regime ideology. Thus, a change in the regime will not necessarily cause a dramatic change in the nature of its policies toward the region. Tehran will continue to seek the widening of its influence in the area, to deny gains to competing states, to prevent spillover of the conflicts waging in the area, and to attempt to avert events in the Caucasus from affecting co-ethnics inside Iran, especially among the Azerbaijanis there. A regime change in Iran, especially if this brings a renewal of relations and cooperation with the United States, could actually enlarge the opportunities for Tehran to exert influence in the region. A change in regime in Iran will not affect its basic desire to have strong influence over the policies of the neighboring states in Central Asia and the Caucasus, and particularly to attempt to undermine Azerbaijan's prosperity. However, an Iranian regime change may lessen Washington's sensitivity to Iran's actions in the area and could lead to Tehran to having more of a freehand in its attempts to influence its neighbors, thus rendering the states of the South Caucasus more vulnerable to Iranian dictates.

Consequently, Europe and the U.S. may continue to be at odds over the role of Iran in the Caspian region even after the change of regime in Iran and its relations with the U.S., due to the U.S. policy of strongly promoting the independent policies of the new states of the region, despite the contingent location to very strong neighbors, like Russia, Turkey and Iran.

# Iran in the Caucasus, Caspian and Central Asia: Lessons for Western Strategy

Edmund Herzig\*

## Introduction

In summer 2003 the question of Tehran's policy and behaviour in the regions across its northern borders is hardly the most urgent issue in the Western policy debate about the Islamic Republic of Iran. Few developments in Central Asia, the Caspian and the Caucasus have been making headlines in recent months, and in any case Iran's role in the region is secondary if not marginal. In the context of the U.S. Government's "War on Terrorism," the wars in Afghanistan (2001–02) and Iraq (2003) and their continuing aftermaths, and the renewed attention to the Israel–Palestine conflict, the crucial issues in Western–Iranian relations are:

1. weapons of mass destruction (WMD), especially the nuclear programme;
2. terrorism, particularly Iran's role in the Israel–Palestine conflict but also, according to some in Washington, an al-Qa'ida connection;
3. Iran's role in post-war Afghanistan and Iraq; and
4. the closely related matters of human rights and the reform process in Iran itself.

Of these, only Afghanistan has a clear direct link with Central Asia. If Iranian policy and behaviour towards its northern neighbours is not a burning issue for Western policy-makers today, it may nevertheless offer insight into the relative effectiveness in influencing Tehran of various foreign policy strategies. Moreover, it undoubtedly was an important concern a decade ago, when the USA, and to a lesser extent Russia and Western Europe feared that a post-Soviet power vacuum in the region might give Tehran the opportunity to export its revolutionary ideology. Just as today, the broad concerns about Iran in Washington, Moscow and the capitals of Western Europe were similar, but the urgency with which they were viewed and the responses that were considered appropriate differed considerably. Washington tended to reach for the stick—advocating isolation and containment—while Europe and Russia proffered carrots—seeking understanding and engagement. No less marked were the differences in style: whereas U.S. statesmen gave vociferous warnings about the Iranian menace—for example when Secretary for Defense James Baker toured the Central Asian capitals in 1992—Russian and European officials preferred a cautious, soft-spoken approach. Does the decade of encounter with Iran in the Caucasus and Central Asia—territory that was virgin soil to Western and Iranian policy-makers alike—allow a judgment as to which of these policies was most effective, and give any lessons for Western strategy in the current circumstances?

\* Royal Institute for International Affairs.

Before exploring the record, it is worth iterating two points, the first about the general capacity of Western foreign policy to alter Iran's policies and behaviour, the second specific to Central Asia and the Caucasus. First, internal factors have generally outweighed external in determining Tehran's foreign policy and behaviour. Changing perceptions of interests and threats within the Iranian leadership, and the complex factional dynamics of Iran's political scene have been central in determining foreign policy and actions. For example, the mid 1990s decision to build diplomatic bridges with Saudi Arabia, and the 1998 decision not to go to war with the Taliban following the murder of diplomats in the Iranian consulate in Mazar-i Sharif can be understood only in the context of intra-elite debate and the alignment of political forces in Tehran. Both demonstrate the leadership's capacity to reach and implement important foreign policy decisions in spite of strong differences of view within the regime and, in the Saudi case, in spite of the fact that the shift in policy directly contradicted the position of the late Ayatollah Khomeini and the ideology of the Revolution.

The policies of foreign states undoubtedly feed into Iranian perceptions of interest and threat, but Iran is neither so dependent on any foreign state, nor so closely meshed in any alliance or bloc that they are decisive. One of the proudest boasts of the Revolution is that it made Iran genuinely independent. In a few instances, the Rushdie *fatwa* issue for example, concerted international pressure was probably decisive in effecting change in Tehran's policy—illustrating the importance of co-ordination among Western states—but on the whole we have to be very cautious in attributing to the impact of Western policy any major shifts in Iranian policy and behaviour. If internal factors are central, then our primary focus should be on public and elite debate in Iran, and on the domestic political balance. Both have developed significantly during the last decade. Foreign policy debate is now far more focused on national interest than it was ten years ago, and the political balance has shifted markedly. In the early and mid 1990s the principal factions were often identified on the one hand as the moderates or pragmatists, led by President Ali Akbar Hashemi Rafsanjani and including Foreign Minister Ali Akbar Velayati, and on the other by the conservatives or hardliners, often, but not always, said to be led by Supreme Leader Ali Khamenei. Since the election of President Muhammad Khatami in 1997 a new reformist faction has emerged as a key force, while Rafsanjani's camp (now generally referred to as mainstream or moderate conservatives) have remained powerful, as have the hard-line conservatives (though Khamenei's factional affiliation is even less clear than it was during the 1990s). The current domestic political scene is certainly more volatile and more confrontational than it was ten or even five years ago. The leadership appears increasingly beleaguered and aware of dwindling public support. Meanwhile the radicals at both ends of the political spectrum have become harder to rope in to abide by the decisions and policies of the main leaders. All this affects the degree and manner in which Western policy may "play" in Tehran.



Second, in the Caucasus and Central Asia, in so far as external states have influenced and shaped Iranian policy and behaviour, arguably it is Russia rather than the West that has been the key external influence for most of the last fifteen years. Starting in the late 1980s and continuing through the 1990s Moscow's policy towards Iran went much further than that of Western Europe in the direction of dialogue and engagement. Moscow and Tehran have exchanged frequent high-level visits, have held regular bilateral round table discussions among the foreign policy specialists of both countries, and at times have gone so far as talk about their relations as constituting a 'strategic partnership.' Moscow's policy of engagement has extended to controversial arms and nuclear deals with Tehran and, from time to time, to co-ordinating positions on important issues, for example the Caspian Sea boundary dispute in the years 1994–96, and the Tajik peace negotiations in the mid 1990s. It is striking that a country which takes the "Islamic threat" seriously, and which was, moreover, a *bête noire* of the Islamic Revolution, should have been able so readily to find common ground with the Islamic Republic. Russia's reasons for adopting this policy were part geo-political: the desire to counter U.S. and Turkish penetration into the former Soviet space; part economic: the lure of lucrative arms and nuclear deals at a time of deep crisis in Russian industry; and part based on a pragmatic assessment that the best way to neutralize any potential Iranian threat was to develop positive relations with Tehran. These outweighed concerns over Iran's Islamic ideology, proliferation, and any damage that engagement with Iran might cause to relations with the USA.

### **Islam and conflict in Central Asia and the Caucasus**

On the face of it, Russia's policy of has been successful. In his 1989 letter to President Gorbachev Ayatollah Khomeini had promised (or threatened) that, "The Islamic Republic of Iran [...] can easily fill the ideological vacuum of your system", and in circa 1990–92 there was considerable interest in Tehran in encouraging Islamic revival in the post-Soviet "Muslim" republics, but even before the end of the Soviet era Tehran generally avoided propaganda or behaviour that would threaten or irritate the Russians. A series of bilateral trade, energy, transport, arms and nuclear agreement signed in 1989 seems to have been a decisive turning point. Tajikistan provided an early test of where the Islamic Republic's priorities would lie. From the beginning of the post-Soviet period, Tehran developed close links with the Islamist opposition, but not at the expense of relations with the Russian-backed government. The outbreak of civil war in 1992 caused serious tensions between Moscow and Tehran, particularly reports of Iranian military support for the opposition. These tensions resurfaced periodically throughout the civil war, with a familiar pattern of allegations that certain Iranian agencies were providing clandestine support to the armed opposition in defiance of official policy. These irritations notwithstanding, Moscow continued to pursue a policy of engaging Iran,

and Tehran, mindful of the value of relations with Moscow, responded. From 1993 to 1997 Iranian and Russian foreign ministries cooperated with one another and with the UN Special Envoy to facilitate negotiations between the Tajik government and opposition (some of whose leaders had taken refuge in Iran). The Iranian government faced criticism from hard-liners at home for its failure to support the Islamic opposition, but the critics failed to divert the policy away from its concentration on conflict resolution. Factors other than Russian policy certainly influenced Tehran's Tajikistan policy, but equally certainly, Russian (and UN, and indeed U.S.) willingness to cooperate with Iran in conflict resolution encouraged Tehran's policy in that direction.

Iran's policy towards the Karabakh conflict between Armenia and Azerbaijan and towards the Chechen conflict exhibit the same reluctance to alienate Russia by active intervention in support of either party or, in the case of Chechenia, by harsh criticism of Russian policy and tactics. As in the case of Tajikistan, Tehran's failure to give support to fellow Muslims has given rise to criticism at home, but this has not swayed policy. In these cases too, there are a number of factors influencing Tehran's policy, but most analysts agree that the fear of damaging relations with Russia has been an important factor in discouraging Tehran from meddling in these conflicts. On balance, there seems little doubt that Russia's engagement strategy succeeded in exerting a moderating influence on Iranian policy both towards Islamic revival in the CIS and towards those conflicts where Iranian intervention on the side of the Islamists would have been most damaging to Russian interests.

### **The Caspian**

Washington's warnings may have slowed the development of the Central Asian and Caucasian countries relations with Iran, but on only one regional issue has the U.S. policy of containment had a decisive impact on Iran's engagement in the region. That is in relation to the Caspian Sea. On the issue of the Sea's legal status, both Washington and Europe, while recognizing that it is for the littoral states to decide the future regime, have supported Azerbaijan and Kazakhstan (and since 1996 Russia) in calling for the national delimitation of the sea, including the sea-bed and sub-sea resources. Iran and, before 1996, Russia proposed that the sea should be held in common by the littoral states, basing this position on an interpretation of existing Soviet-Iranian treaties. The U.S. government has differed from Europe, however, in its policy on Iranian involvement in Caspian Sea energy exploration and development, and on the much-debated export pipeline question. Whereas European governments have been willing to see Iran participate in Caspian energy consortia, U.S. sanctions against Iran have prevented Iranian participation in any consortia or projects including U.S. companies. On pipelines, while the Europeans have generally been ready to let market forces determine what should be the route of Caspian oil export pipelines, even if that means

transit across Iranian territory, the Americans have lent strong political support to the East–West pipeline from Baku in Azerbaijan to Ceyhan in Turkey and, intermittently, to Trans-Caspian and Trans-Afghanistan pipeline projects designed, at least in part, to bypass Iran. They have consistently opposed giving Iran any significant role in Caspian energy development or transport. Washington has turned down applications from U.S. companies for the waiver to sanctions to be applied to exports via Iran. What has been the impact of this policy?

In winter 1992, immediately after the collapse of the Soviet Union, Iran proposed the creation of a Caspian Sea Cooperation Organization comprising the five littoral states, at the same time that it proposed the resurrection and expansion of the Economic Cooperation Organization (ECO) to include Afghanistan and the five “Muslim” post-Soviet republics. While the ECO proposal was realized, the Caspian Organization was not—the dispute over the legal regime of the sea were already an impediment to cooperation. In spite of the deadlock over the legal issue, the initiative for Caspian cooperation bore some fruit, with a number of meetings and agreements on, for example, environmental protection and navigation in the period February 1992 to September 1994. (Multilateral cooperation on environmental matters continues within the framework of the Caspian Environment Programme.) Also in September 1994 Azerbaijan signed the first major contract for oil exploration and development in the Caspian—the so-called “contract of the century,” which led to the establishment of the Azerbaijan International Operating Company (AIOC). The contract, which would bring Western multinational oil companies into the Caspian for the first time, was strongly opposed by the Russian foreign ministry.

Although the contract clearly went against Iran’s declared policy that the Caspian was jointly owned and that individual countries had no right to negotiate for its exploitation, Tehran did not lodge any formal objection—indeed the Iranian ambassador to Azerbaijan denied that Iran would cooperate with Russia against the contract. On the contrary, in November of the same year a National Iranian Oil Company subsidiary took a twenty per cent stake in the contract, a clear indication that Tehran placed its desire to be involved in Caspian energy development above either its position on the legal question or solidarity with Moscow. In April 1995, however, following pressure from Washington, Iran was forced to relinquish its share in the consortium, which included U.S. companies. After this humiliating rebuff Tehran’s position on the Caspian hardened, and since Russia’s U-turn on the issue in 1996, Iran has been the only state advocating joint sovereignty of the Sea and its resources. Relations between Iran and Azerbaijan also deteriorated. Tehran eventually agreed to consider the possibility of delimitation of the Caspian into national sectors, but insisted on each of the five littoral states getting a twenty per cent share (in contrast to the adjusted median line principle already agreed by Azerbaijan, Russia and Kazakhstan). Iran’s spoiling stance on the legal question is today one of the main obstacles to the development of Caspian energy. The dispute between Iran and Azerbaijan has subse-

quently flared up on more than one occasion, with Iranian gunboats intercepting Azerbaijani fishing and oil exploration vessels, threatening a wider destabilization.

It would be a gross exaggeration to claim that U.S. policy is entirely responsible for Iran's uncooperative position on the Caspian Sea or for the tensions in its relations with Azerbaijan, but there can be no doubt that Washington's intervention made Iran less rather than more cooperative over the Caspian question, and that in turn has caused problems for the other littoral states and for the oil companies as well as for Iran. The cooperation of Tehran remains a necessity for resolving the legal issue, and multilateral efforts involving all the littoral states are needed to manage the sea's resources and develop and implement solutions to its problems. That cooperation is unlikely to be forthcoming until Iran is allowed to participate without discrimination in Caspian energy development.

### **Conclusion**

The experience of more than a decade of Iranian relations with the states of the Caucasus and Central Asia suggests that the Russian policy of engagement has been more effective in encouraging the Islamic Republic to act in a way that finds favour with the wider international community than has the U.S. policy of containment and isolation. That rather simplistic conclusion would have to be refined, by taking into account, for example, Russia's greater leverage in the region for much of the 1990s, and also the argument that Iran's readiness to respond to Russian engagement was itself conditioned by the effects of U.S. strategy; i.e. that Tehran was isolated and in need of friends and therefore behaved more amenable towards Russia than might have been the case given a different U.S. policy. Nevertheless, the central conclusion remains that engagement can be effective, even when Tehran's actions are poorly coordinated and sometimes contradictory (as was the case in Tajikistan), whereas exclusion and containment can easily misfire. That is a lesson that seems particularly relevant in the context of current concerns over Afghanistan and Iraq, where Iran evidently has the potential to play a significant stabilizing or destabilizing role in neighbouring countries.

## U.S. and Iranian Policy in Afghanistan

*Barnett R. Rubin\**

The policies of the U.S. and Iran toward each other are beset by inconsistencies and uncertainties. These arise not (or at least not only) from the deficient understanding, maliciousness, and extraordinary level of factionalization of foreign policy elites in both countries, but from objective realities that seem unique to this dyad. The U.S. and Iran are bitter opponents on a host of issues of great importance to them both, but they also have strong common interests on a number of issues of great importance to them both. With neither of the other two nations on the "Axis of Evil" has the U.S. maintained the level of dialogue and even pragmatic cooperation that the U.S. has with Iran. Whatever may be the outcome of the renewed dispute over the presence of al-Qa'ida forces in Iran, these contradictions seem virtually impossible to resolve.

Iran's approach to Afghanistan has been influenced by a large number of factors, including its opposition to U.S. dominance and U.S. sanctions against Iran; its bilateral concerns over drug trafficking, refugees, water, and arms flows; its assertion of Shi'a leadership and the duty to protect Shi'a minorities, including the Shi'a of Afghanistan and Pakistan; its opposition to virulently anti-Shi'a Sunni Islamism like that of the Taliban and their patrons in Pakistan and the Persian Gulf; its rivalry over pipeline routes with the U.S. and Pakistan, with the implications for sanctions on Iran and access to Central Asia; its competition with the U.S., Saudi Arabia, and Saudi Wahhabism for predominance in security and ideology in the Persian Gulf area; its attempt to find some common ground for cooperation with the U.S., Pakistan, and Russia; and, at times, its attempt to carve out an area of Persian cultural influence through northern Afghanistan to Tajikistan.

The U.S. view of Iran's activities in Afghanistan is strongly colored by U.S.-Iranian relations in general, especially when decisions are made by those having a broad overview of policy rather than a focus on Afghanistan. At least since U.S. policy turned against the Taliban in 1997, policy makers directly concerned with Afghanistan have privately emphasized the common interests of the U.S. and Iran there, including in the fight against terrorism. Those whose focus was elsewhere, or whose focus on terrorism was directed more at Hezbollah and Palestinian organizations or the al-Khobar attack (not actually terrorist by the official U.S. definition, since it was against a military target) rather than al-Qa'ida, had a very different perspective on Iran's relation to terrorism and other strategic issues.

The official, diplomatic side of the Islamic Republic had been collaborating closely with the U.S. in seeking a political alternative to the Taliban for

\* New York University, Center on International Cooperation.

several years before September 11, and this collaboration became even closer during the negotiations over the Bonn Accord leading to the current transitional government and political process. Iran is also a significant donor to reconstruction, at least in terms of pledges. Even the usually antagonistic military-intelligence side of the Iranian government cooperated with its U.S. counterparts in providing assistance to the anti-Taliban United Front ("Northern Alliance") during the brief war against the Taliban and al-Qa'ida in the fall of 2001.

On the whole, European countries, which have been much more engaged with the diplomatic rather than military-security aspects of the Afghan problem, have emphasized the positive Iranian contributions to the stabilization of Afghanistan and have shown some skepticism toward U.S. charges of Iranian subversion. Because of their opposition to economic sanctions on Iranian energy industries, their perspective on the pipeline politics surrounding the Turkmenistan-Afghanistan-Pakistan gas pipeline that would bypass Iran has been more focused on the economic feasibility of such a project—about which they like many others are skeptical—rather than its strategic advantages—that it would bypass Iran and provide some rentier income to the Afghan government. The importance of this issue, however, is often exaggerated.

### **Background of U.S.-Iranian conflict and cooperation in Afghanistan**

In the fall of 1997, Lakhdar Brahimi took up his appointment as the personal representative of the UN Secretary-General for Afghanistan. Brahimi favored the analysis that the ongoing conflict in Afghanistan was largely fed by regional rivalries, and that resolution of conflicts among Afghanistan's neighbors over the country was a precondition for a domestic settlement. With this in mind he set out to create what became known as the six plus two grouping, including Pakistan, Iran, China, Afghanistan's three Central Asian neighbors, Russia, and the United States.

The six plus two group for years provided the only forum where U.S. and Iranian diplomats met regularly on an official basis. Such meetings were made easier by the fact that the meetings were convened as part of the "good offices" function of the UN Secretary-General. Such meetings occurred at various levels, up to the ministerial level, at which Secretary of State Madeleine Albright met Iranian Foreign Minister Kamal Kharrazi.<sup>1</sup>

This political collaboration intensified in 2000 with the formation of the "Geneva" or "Loya Jirga" group of countries supporting a political settle-

<sup>1</sup> It is likely that during 1999-2000 U.S.-Iranian operational contacts may have increased. The U.S. began intelligence sharing with Ahmad Shah Massoud, military commander of the UF, while Iran, with logistical assistance from Russia and Central Asia, continued to be the principal military supplier of the UF. Indeed, during this time, Massoud engaged Iran, Uzbekistan, Russia, Tajikistan, and others in a series of negotiations designed to centralize anti-Taliban aid in his hands, so that he could create a system of command and control over the UF's factionalized troops.

ment of the conflict in Afghanistan on the basis of the institution of “Loya Jirga” or grand assembly. This model, proposed by the former king of Afghanistan (then exiled in Rome) had been rejected by Taliban leader Mullah Muhammad Umar in a letter to Hamid Karzai, then an exile supporting the former king’s initiative. The Geneva group consisted of the UN Special Mission on Afghanistan, the U.S., Italy (host of Zahir Shah), Germany (host of the “Bonn process” supported by some former members of Zahir Shah’s support group who had developed differences with the king’s entourage but who later rejoined Rome), and Iran (which hosted Homayun Jarir, son-in-law of Gulbuddin Hikmatyar and leader of the “Cyprus process,” which also convened some exiles in favor of a Loya Jirga). This group signified a higher level of collaboration, because it was convened by the members themselves rather than solely by the UN Secretary-General or some other neutral body. Oddly enough, not only did it engage the U.S. and Iran in co-sponsoring an informal series of consultations on common interests, it also de facto allied revolutionary Iran with Afghan monarchists. This collaboration reached the point that, at a confidential consultation on Afghanistan organized by the UK Foreign and Commonwealth Office in July 2001, the high-ranking official present from the U.S. and Iran joined their colleagues from Italy, Germany, and the UN in a sitting room for private consultations separate from the other delegates.

### **After September 11, 2001**

After the attacks of 9/11, the Bush Administration prepared to carry out the privately enunciated policy of its predecessor, namely that after another attack on U.S. targets traceable to al-Qa’ida, the U.S. would attack not only Qa’ida targets in Afghanistan but the Taliban regime itself. It decided to carry out the maximal option of destroying the Taliban’s Islamic Emirate, as well as all Qa’ida resources in Afghanistan, but to do so with a minimum investment of U.S. troops on the ground. Hence it chose to ally closely with the UF/NA as its main set of partners on the ground, as well as to fund independent commanders in parts of the country where the UF/NA was not active.

For our purposes, what is most important is that coordinating the U.S. supplies with the existing logistics of the UF/NA inevitably involved the CIA and Special Forces in coordination with their Iranian and Russian counterparts on the ground. This author does not know the details of this relationship, other than accounts from several Iranian sources, who claim that, when U.S. Special Forces arrived at the first time at Bagram air base north of Kabul, they were greeted by Iranian Pasdaran who were assuring the base’s security.

During the negotiations in Bonn over the formation of a new Afghan government and the definition of the contours of a period of transitional rule, Iranian and American diplomats worked closely together away from the public eye. Some collaboration on the ground may also have helped assure that the deal went through. Perhaps the high point of the collabo-

ration came during the last night of the conference, when the representatives of the U.S., Britain, Germany, France, Russia, India, and Iran gathered in Mr. Brahimi's suite to convey jointly to Yunus Qanooni, head of the UF delegation, that his group could not control as many ministries in the new government as he insisted upon. The united front of all these countries (excluding the U.S.'s traditional partners in Afghanistan, Pakistan and Saudi Arabia) failed to budge Qanooni by more than two ministries, but there was no break in the unity of the diplomatic front, though Iran thereby asked its long-term partners to reduce the number of Persian-speaking Islamists in favor largely of supporters of the exiled Afghan monarch.

During the lengthy hours of sitting around apparently doing nothing, while various high-level deals were being clinched behind closed doors, the Iranian diplomatic observers also tried to engage their U.S. counterparts in discussion of a few other issues of mutual interest. They did so in a way that suggested the existence of instructions.

### **Iran-U.S. relations in Afghanistan during the interim and transitional administrations**

The reformist group in the Iranian government, and particularly the Ministry of Foreign Affairs, expected that the U.S. would recognize this collaboration and treat it as an opening for further contacts and collaboration on other issues of mutual interest, notably Iraq and Caspian energy. Instead, within a few months of the installation of the Interim Administration of Afghanistan, headed by President Hamid Karzai, Iran found itself the target of attacks by the U.S. on a number of fronts. These culminated in President Bush's 2002 State of the Union address, where he seemingly ignored U.S.-Iranian cooperation in the first battle of the "war on terror" to label Iran a member of the "Axis of Evil," together with Iran's worst enemy, Saddam Hussein's Iraq, and the hermit rogue state of North Korea.

The U.S.'s major charges against Iran in Afghanistan have consisted of the following:

- ▶ Iran has directly supplied Ismail Khan, chief warlord of western Afghanistan, based in Herat, with weapons, evading the authority of the central government.
- ▶ Iran has provided refuge for members and leaders of al-Qa'ida fleeing the U.S. offensive in Afghanistan and, later, fleeing the U.S. offensive in Iraq.
- ▶ Iran provided refuge to Islamist leader Gulbuddin Hikmatyar. Hikmatyar, head of the major faction of the Sunni Islamist Hizb-i Islami-yi Afghanistan, received the largest share of the U.S. and Saudi-purchased weapons during the jihad against the USSR, as he was the leader most favored by the Pakistani Directorate of Interservices Intelligence (ISI). When Pakistan abandoned him for the Taliban in 1994, he sought refuge in Iran. While the Taliban consistently rejected him, going so far as to call him a war criminal for his attacks on Kabul, Hikmatyar opposed



the U.S. attack on the Taliban and presence in Afghanistan from Tehran, where he appeared to be held under some kind of house arrest.

Of these, only the charge regarding al-Qa'ida seems both serious and puzzling. It is quite possible that Iran helped arm Ismail Khan during the war against the Taliban and thereafter, though when he returned to Afghanistan under Massoud's nominal command in 2000, Iran insisted that he do so via the UF's bases in Tajikistan, rather than crossing covertly from Eastern Iran into Herat. Ismail Khan cites this history when wishing to refute the idea that he is a client of Iran. There were persistent reports that the U.S. had launched a cruise missile to destroy an Iranian arms shipment to Herat, but Ismail Khan has denied this. Of course, even if this charge were true, Iran would not be doing anything that the U.S. was not also doing at the time, namely arming warlords directly to fight the Taliban and maintain a shaky form of security in their areas. This charge seems to have dissipated. Currently, U.S. Special Forces, Iranian diplomats in the Herat consulate, and a group of Iranian Revolutionary Guards maintain a form of coexistence in Herat with no reports of open friction.

The case of Hikmatyar is stranger. While Iran gave him refuge and allowed him to issue statements, it appeared that he was under house arrest and prevented from engaging in political and military activity. The U.S. is reported to have sent messages thanking Iran for keeping Hikmatyar under wraps, while also trying to press Tehran to cut off his communications. This provided Iran with some ironic enjoyment, as the U.S. asked Tehran to help defend it against its former client, whom Iran had opposed. As in Iran's relations to the Taliban and the UF, Tehran claims that it was defending U.S. interests better and earlier than the U.S. itself, though not for that reason.

It appears that after President Bush labeled Iran a member of the Axis of Evil, some Iranians, at least, decided to retaliate. The U.S. had publicly been criticizing Iran for harboring Hikmatyar, and Iran decided to show its "cooperation" by expelling him from the country. It appears that the battle over what to do with Hikmatyar was won by hard-line Pasdaran, who took him to the border and "expelled" him to Afghanistan. According to the usual SCN-Afghan intelligence source, they did not turn him over to Ismail Khan or the government, but to an anti-Ismail Khan Pashtun commander named Amanullah Khan. Amanullah Khan was receiving aid from the U.S. supported governor of Qandahar, Gul Agha Shirzai, and raising the issue of the oppression of Pashtuns by Ismail Khan.<sup>2</sup> Hikmatyar made his way across the country somehow and is now battling the U.S. forces in Eastern Afghanistan with the help of some of his old allies in Pakistan. He is trying to forge an alliance with the Taliban and al-Qa'ida, though other members of his party have rejected his violent opposition to the current government.

<sup>2</sup> There are many other local issues involved in this conflict, such as struggle over the control of opium trafficking, Iran's demand that Ismail Khan push smuggling tribes away from the border, and a U.S.-Iran proxy battle between Qandahar and Herat.

While many details of this episode remain unverified and unclear (at least to me), on the face of it, this series of events seems to indicate the cost that U.S.–Iranian hostility at time imposes on both countries. A confrontation arising from issues elsewhere led the U.S. and Iran to interact over Afghanistan in a way that damaged the interests of both there.

The case of al-Qa'ida is even more difficult. Iran's hardliners had cultivated relations with Usama bin Laden's hosts in Sudan, if not al-Qa'ida itself, in the early 1990s. Indeed, the Iran–Sudan axis was the core of the rejection front formed against the Oslo Accords. I do not know of any direct Iran–Qa'ida contact, however. Once returned to Afghanistan, Bin Ladin and his group were firmly allied with anti-Iranian Sunni forces, and their version of jihadi Salafiyya held no brief for the Iranian revolution. Al-Qa'ida allies, as we have noted, murdered Iranian diplomats in Mazar-i Sharif. Nevertheless, impulses of *realpolitik* pressed some Iranian hardliners to imagine an accommodation at least with the Taliban.

According to one account, a hard-line Pasdaran commander in Sistan-Baluchistan did welcome some al-Qa'ida fugitives in late 2001, without the knowledge at least of the Iranian Ministry of Foreign Affairs. When the U.S. accused Iran of harboring these people, FM Kharrazi indignantly denied it. Later, when he apparently became aware of the facts, he asked the U.S. to please share any information about al-Qa'ida fugitives in Iran, so that Iran could carry out its firm commitment to fight against that organization.

This controversy flared up again after the Iraq war and the bombings in Riyadh. Washington again charged that al-Qa'ida leaders were active in Iran. Some appear to have escaped across the border from Iraqi Kurdistan to remote areas of northwest Iran and were not likely to be operating with official approval, if they were operating at all at this point. Others seemed to be located, according to the charges, in southeast Iran, Sistan-Baluchistan, a smugglers' haven adjoining Afghanistan's main opium producing regions. This is the area into which al-Qa'ida leaders had previously fled. A priori, it appears unlikely that Iran would harbor or use a group so antagonistic to it, and by the end of June 2003, Iran claimed that it had deported all al-Qa'ida members from Iran to their home countries. Al-Qa'ida cells are also operating in Pakistan, Saudi Arabia, Morocco, several European countries, and probably the United States, without the support and approval of the governments of those countries, though in some of them portions or members of the security forces may sympathize with the group, as they apparently do in Iran as well. Thus far the publicly available information does not make Iran look more complicitous with al-Qa'ida than Pakistan, where the main leadership of the organization appears now to be located. It would be unfortunate if, again, antagonism generated outside the region destroyed the potential for fruitful U.S.–Iranian cooperation on a matter of strong mutual interest, the struggle against al-Qa'ida.

## **Iran and the Problem of Proliferation**



## Dealing with Iran's Nuclear Program

Michael Eisenstadt\*

As the United States grapples with the aftermath of war in Iraq, and seeks to defuse its protracted nuclear crisis with North Korea, another nuclear crisis—with Iran—looms just around the corner. U.S. policymakers could face critical decisions this year regarding Iran's nuclear program, as Tehran's efforts to produce fissile material appear set for a breakthrough, and North Korea appears poised to become a significant producer—and perhaps supplier—of fissile material.

**Bushehr: Approaching Completion.** Russian officials recently announced that the first reactor at Bushehr (Unit I) may be completed this year, with the first consignment of reactor fuel to be delivered later this year or early next year (presumably, provided Tehran agrees to return it to Russia for reprocessing). Delays have dogged Iran's nuclear program from its inception: Russia originally undertook to complete Unit I by 1999. Technical problems, a Russian decision to delay completion, or teething problems during reactor startup, could further delay the program. Conversely, successful completion of Unit I might lead to contracts for additional reactors at Bushehr and Ahvaz.

Though not ideally suited for the purpose, Bushehr could produce enough plutonium for dozens of nuclear weapons per year. If it were willing to violate its nuclear nonproliferation treaty (NPT) commitments or withdraw from the NPT, Tehran could separate truly prodigious quantities of weapons-grade plutonium from the first batch of fuel, or large quantities of reactor-grade plutonium from subsequent batches of spent fuel awaiting reshipment to Russia. Although reactor-grade plutonium is not ideal for bomb-making (heat and radioactivity makes it difficult and dangerous to work with, while its isotopic composition makes for an inefficient and unreliable weapon), the United States demonstrated the military utility of reactor-grade plutonium in a 1962 underground nuclear explosive test. Alternatively, Iran could run the reactor at economically inefficient low fuel burn-up levels to produce weapons-grade plutonium, or divert its low-enriched uranium fuel for further enrichment to weapons grade. Assuming that the Bushehr reactor begins operation early next year, Iran could start producing plutonium by 2005. Weaponization of the plutonium could take several months more, provided that Iran has the requisite know-how.

**Clandestine Fissile Material Production?** Iran is apparently constructing a heavy-water production plant at Arak and a gas-centrifuge plant at

\* Washington Institute for Near East Policy.

Natanz. The existence of these facilities, confirmed by U.S. officials in December 2002, and Iran's prior failure to declare their existence, raises troubling questions. If Iran is building a heavy-water production plant, is it also building a clandestine heavy-water reactor to use its product? And how extensive is the centrifuge program?

The Iranian centrifuge program, which reportedly benefited from Pakistani help in the early 1990s and North Korean help in the late 1990s, appears to have made steady progress. Iran is completing a uranium conversion facility at Esfahan to produce uranium hexafluoride feed-stock for its centrifuge program; Iranian officials claim that the plant is almost ready to commence production. Moreover, a February IAEA visit revealed that Iran is producing gas centrifuges. (If it tested these using uranium hexafluoride gas before commencing mass production—its seems implausible that it wouldn't have done so—it may have already broken its NPT commitments.) A visit to a facility at Natanz found a small pilot cascade of 160 centrifuges, parts for 1,000 more, and an Iranian plan to have 5,000 up and running within two years—in a facility large enough to accommodate tens of thousands of centrifuges. The discovery of Natanz has raised questions about the possible existence of clandestine centrifuge cascades elsewhere in Iran.

**North Korea as Nuclear Merchant?** Over the past two decades, Iran has emerged as the premier customer for North Korean arms, missiles, and, more recently, nuclear technology. Were North Korea to reprocess its declared stock of spent fuel (it appears to have already taken steps in this direction), it could separate enough plutonium within a matter of months for five to six nuclear weapons. Pyongyang might then opt to export some of that plutonium. Were North Korea to continue its uranium enrichment program, resume operation of its existing reactor, and complete work on two unfinished reactors, it could be producing enough fissile material within five years for up to fifty nuclear weapons per year. Based on its record, there is reason to believe that Pyongyang might be willing to sell fissile material and weapon design data to proliferators in the Middle East and elsewhere.

**Iran's Virtual Nuclear Arsenal.** It now seems that Iran is well on the way to having all the elements needed to indigenously produce very large quantities of fissile material by either the plutonium or uranium enrichment routes. It could conceivably have its first bomb within 1–3 years, and from the outset, produce enough fissile material to build dozens of bombs a year. Were these indigenous efforts to experience delays or setbacks, Iran could acquire limited quantities of fissile material from North Korea within this same timeframe, should the latter enter the market as a supplier. For this reason, the window of opportunity for effective action to prevent the emergence of an Iranian bomb (if such a window indeed exists), is more likely to be measured in months, than years, and will require a solution to the nuclear challenge posed by North Korea as well.

**What Can Washington Do?** Iran is in the midst of a profound, protracted domestic crisis that holds the potential for dramatic political change in Tehran, and rapprochement with Washington. Although far-reaching political change seems certain, when it will occur is unclear. The question is whether Iran will obtain 'the bomb' before such change occurs. While it would be best if the U.S. could stop Iran's nuclear weapons program (by convincing Iran's leadership to abandon the project or at least certain aspects of it, by strategies of technology and finance denial, or by preventive action), this goal may prove unattainable. In that case, the next best option would be to slow down Iran's nuclear program in the hope that it undergoes dramatic political change before becoming a nuclear power. In this way, the implications of a nuclear Iran might be mitigated by the evolution of Iranian politics, and the transformation of U.S.-Iran relations.

*Delay, Delay, Delay.* Past U.S. efforts to staunch Iran's nuclear program have relied on diplomacy and on denying Tehran requisite technology and financing. These measures have succeeded in delaying, but not halting, Iran's efforts. Washington should continue its efforts to curtail Russian assistance to Iran while tightening restrictions on ongoing activities at Bushehr and elsewhere. In particular, Washington should press Moscow to halt work on the reactor at Bushehr and suspend the shipment of reactor fuel—at least until Iran signs an agreement to return the fuel to Russia for reprocessing—and it should press for the *early* return of spent fuel in order to prevent Tehran from accumulating large quantities. And China should be watched to ensure that it honors its commitment to strictly limit aid to Iran's civilian nuclear program.

*Enhanced Safeguards.* The United States should continue to press its allies, Russia, and the International Atomic Energy Agency (IAEA) for help in prodding Iran to sign onto the Additional Protocol of Program 93+2, the agency's enhanced safeguards system. Yet, while Program 93+2 would increase the likelihood of detecting Iranian violations of the NPT, it is not a panacea. As Baghdad has repeatedly demonstrated, banned activities can be hidden from more intrusive inspection and monitoring regimes than the IAEA's, and even compelling technical evidence of proscribed activities (e.g., the 1998 detection of VX decomposition products on Iraqi Scud warheads) can be trumped by the politics of the UN Security Council. It should, however, be noted that under 93+2 Iran might still be able to create the infrastructure needed to enable it to produce dozens of weapons a year, should it break out of or withdraw from the NPT.

*A Diplomatic "Full Court Press" on Iran.* The U.S. should continue with its efforts to capitalize on growing international awareness and concern about Iran's nuclear program to mobilize a broad-based international coalition including the EU, Russia, and China, to press Iran, through a combination of sticks and carrots—the threat of political isolation, enhanced military containment, and additional economic pressures, on

the one hand, and increased political engagement, confidence and security building measures, and the relaxing of trade restrictions/easing of economic sanctions, on the other—to agree to a verifiable freeze on all of its nuclear activities, or at least expeditious implementation of the IAEA’s additional protocol. The message: restraint will lead to a net improvement in Iran’s political, military, and economic situation, while continuing down the current path, will lead to a deterioration in Iran’s situation in all three areas. For this to work, the international community must agree to a “zero tolerance” stance toward noncompliance by Iran, whereby even minor violations of its NPT or other arms control commitments, would result in the withdrawal of the aforementioned carrots and the employment of the aforementioned sticks.

*Encourage Political Change in Tehran.* Popular discontent with clerical rule in Iran is unlikely to produce change in the nuclear arena. To the degree that is possible to assess popular and elite opinion on such matters, support for Iran’s weapons of mass destruction programs appears to come from across the political spectrum. Thus, political change in Tehran, or even regime change, is unlikely to affect Iran’s nuclear ambitions. It could, however, bring to power leaders who are more sensitive to the potential costs of nuclear proliferation, and who might—if the price is right—postpone crossing the nuclear threshold, or act more responsibly if Iran were to acquire nuclear weapons. Therefore, Washington should seek to leverage successful regime change in Afghanistan and Iraq by ensuring that its efforts to create stable, representative governments in both countries succeed, and by quietly encouraging those seeking political change in Tehran.

*Preventive Action?* If other measures do not suffice, the United States might have to consider preventive action against Iran’s nuclear infrastructure. To justify the likely political costs and military risks of such an action for the U.S.—in terms of its international standing, the prospects for bringing about a new Iran, and the possibility of Iranian retaliation—prevention would have to produce significant setbacks to Iran’s nuclear program. This would require superb intelligence, to enable the U.S. to interdict every major path that Iran may be pursuing. The intelligence necessary to strike with this kind of effectiveness, however, may well prove unobtainable. Furthermore, in considering prevention, Washington must ensure that its actions do not poison the reservoir of pro-American sentiment among young Iranians, which offers the best hope for better relations with Iran. To resolve this conundrum, the United States might encourage Israel to act, or undertake covert action of its own. Should overt action be deemed necessary due to operational considerations, Washington should justify prevention in terms that perhaps some Iranians would understand: its desire to deny conservative hardliners in Iran’s clerical leadership—who engage in repression at home and terror abroad—access to nuclear weapons.



**The North Korean Angle.** Finally, any attempt to thwart Iran's nuclear ambitions must be coupled with efforts to prevent North Korea's emergence as a supplier of nuclear technology, materials, or weapons, lest success in halting Iran's indigenous nuclear efforts be undercut by the sale of fissile material by North Korea. Thus, preventing an Iranian nuclear breakout might ultimately depend on Washington's ability to forestall cooperation between Pyongyang and Tehran.

**Conclusion:** The U.S. should continue with much of what it is already doing: seeking to delay Iran's nuclear program; organizing a broad-based international effort to gain Iran's adherence to the IAEA's enhanced safeguards program; encouraging political change in Tehran; and organizing a broad-based international effort to roll back North Korea's nuclear program, while keeping the option of preventive action on the table, as a spur to diplomacy, and an option of last resort if all else fails. While the U.S. may not succeed in realizing its desired end-state of an Iran lacking a nuclear break-out capability, it might yet achieve—in conjunction with the international community—an acceptable *modus vivendi* in which those Iranians who argue for a nuclear breakout or Iran's withdrawal from the NPT are overridden by their political rivals, and the worst fears of the U.S. and its allies are not realized.

## Iran, the Bomb, and the Future of the Nuclear Non-Proliferation Treaty

*Oliver Thränert\**

The future of the Nuclear Non-Proliferation Treaty (NPT) will largely be decided upon in Tehran. For if Iran successfully pursues a project which is perceived by many as a “safeguarded nuclear weapons program,” the legitimization of the NPT will be almost completely undermined. At this juncture it seems as if Tehran only tries to come closer to the nuclear option but has not yet decided to openly go nuclear and to leave the nuclear non-proliferation regime. Therefore, there is still some space to influence Tehran in order to stop its nuclear project. But recent developments such as the detection of the uranium enrichment facility at Natanz and the heavy water production site at Arak, which both will become operational in two years or even less, seem to indicate that the window of opportunity is closing soon with Iran becoming more and more determined to build the bomb.

Such a development would have ramifications not only for the nuclear non-proliferation regime, but also for transatlantic relations. The effects would be two-fold. For one, in the U.S. most experts and government officials already lost faith in arms control as a significant instrument to fight proliferation. Therefore it can be expected that those who favor other means than arms control to prevent “rogue states” from acquiring nuclear, chemical or biological weapons (such as counter-proliferation measures or even preemptive strikes) will only become more powerful, with almost nobody left who sticks to arms control. As most European governments still believe in cooperative rather than unilateral means to fight proliferation, such a development would contribute to a further estrangement across the Atlantic. Secondly, if Iran continues a program that gets closer to a nuclear weapon every year, different threat perceptions concerning Iran in the U.S. on the one hand and in Europe on the other will become even more apparent than they already are. While in the U.S. Iran not only since George W. Bush became president is perceived as a major threat to U.S. interests, in Europe those concerns are not shared. For instance, when President Khatami visited Germany in July 2000, commentators did not look at all at Iran as a proliferation threat but rather concentrated on the possibilities of improved economic relations between the two countries.

In other words: if Iran develops its nuclear program further, there is the danger that the U.S. and Europe will fall apart once again in terms of how to deal with a significant security issue. As this would be the second case after Iraq within a relatively short period of time where the U.S. and Europe would not find common ground, such a development would again tremendously weaken the transatlantic relationship. This in turn would

\* Stiftung Wissenschaft und Politik.

make it more difficult than it already is to deal with Iran as a country of proliferation concern, as it is essential to have a common Western strategy in order to convince Tehran to abandon its nuclear program.

This paper briefly looks at the status of the Iranian nuclear program; analyzes some motivations in Tehran that may be decisive; and discusses options for the West of how to handle this problem.

### **The Iranian Nuclear Program: Where do we stand?**

The Iranian nuclear weapons program traces back to the time of the Shah, who in the beginning of the 1970s signed contracts with the U.S., Germany and France to build nuclear power plants in Iran. Interestingly enough, none of these Western countries claimed at the time that Iran would not need such plants given its rich oil resources, an argument often used today when it comes to the current Iranian nuclear program. But there is no doubt that the Shah not only had the civilian application of nuclear energy in mind but also was after the bomb. Therefore, he smuggled components for uranium enrichment as well as nuclear weapons development from both Europe and the U.S. and even created a small nuclear weapons design team.<sup>1</sup>

After the Islamic Revolution in 1979, the nuclear program was stopped, as the new government did not want to base its power on what was perceived an “un-islamic” technology, which only would have enhanced Iranian dependence upon Western countries. Consequently, many nuclear scientists left Iran. Moreover, the construction site at Bushehr, where the first power plants were to be built, was heavily damaged during the Iran–Iraq war. It was a result of this war and in particular of the damage that was caused by Iraqi missiles during the “war of the cities,” that the Khomeini regime revived the mothballed nuclear project. Efforts were intensified as IAEA inspections after Operation Desert Storm showed how advanced the Iraqi nuclear program already had been prior to the war.<sup>2</sup> Russia and China became the most important nuclear partners of Iran. In January 1995, Russia signed a cooperation agreement with Iran that contained a secret protocol, according to which Moscow among other things was to sell Tehran an uranium enrichment facility. In May 1995, during a Clinton–Yeltsin summit in Moscow, however, Russia promised not to implement the secret protocol but at the same time insisted to finish a light-water nuclear power plant at Bushehr.<sup>3</sup>

The Bushehr site would only contribute to the Iranian nuclear weapons program indirectly, as Russia is to sell the nuclear fuel and to take fuel rods back after use. In other words: Iran would not or at least only in a very

<sup>1</sup> See Anthony H. Cordesman, *Proliferation in the “Axis of Evil”: North Korea, Iran, and Iraq*, Washington, D.C.: Center for Strategic and International Studies, January 2002, p. 27.

<sup>2</sup> See Anthony H. Cordesman, *Iran and Nuclear Weapons*, Washington, D.C.: Center for Strategic and International Studies, February 2000, p. 2.

<sup>3</sup> See Robert J. Einhorn/Gary Samore, “Ending Russian Assistance to Iran’s Nuclear Bomb,” in: *Survival*, Vol. 44, No. 2, Summer 2002, pp. 51–70, p. 53.

limited sense get access to fissile material, which would be essential to build nuclear weapons. Furthermore, Bushehr would operate under full IAEA safeguards. But the Bushehr project provided Iran with nuclear know-how, an opportunity to train nuclear experts and a cover for Russian-Iranian nuclear cooperation.

Given the constant Western and particularly U.S. criticism of the Iranian-Russian nuclear cooperation, Tehran decided to create its own capacity to enrich uranium for the use in power plants. But the respective facility at Natanz, which could be operational by the end of 2003 or the beginning of 2004, could also be used for the production of highly enriched uranium for nuclear weapons. That means that Iran by that time could use the technology the West in general and the U.S. in particular always wanted Iran not to possess: centrifuge technology to enrich uranium. Remember the Clinton administration's efforts to convince Russia not to implement the secret protocol of the 1995 Iran-Russia nuclear agreement. Moreover, the fact that Iran did not declare the Natanz site to the IAEA created mistrust, although according to the safeguard agreement Iran had signed it would only need to do so 180 days before uranium is processed in the facility. After some delays IAEA director El Baradei visited the Natanz site in February 2003, but this visit could not answer some crucial questions: Where does the centrifuge technology come from? Did Russia, as many in the U.S intelligence community believe, contribute to the facility, or did Iran develop the centrifuges on its own, using Pakistani design? Why would the enrichment production plant (other than the pilot plant) be built underground, protected by a heavy roof of two-meter thick concrete? Why is the envisioned facility so large? Has uranium already been processed? To what extent will the facility be capable to produce not only low-enriched uranium for power plants but also highly enriched uranium for weapons?

Even more alarming is the fact that Iran also plans to finish a heavy water production facility at Arak. At this point, there is no heavy water moderated power plant in Iran and also no research reactor where heavy water could be consumed in quantities that could be produced at Arak. At the same time, the production of heavy water is decisive for the separation of plutonium. Moreover, even if Iran would wish to build a heavy water moderated power plant, this would make no sense economically as experiences in other countries such as Canada have already shown. Therefore, many believe that the Arak site's only application is to contribute to an Iranian nuclear weapons project.<sup>4</sup>

U.S. and Western estimates about when Iran could build the bomb have often changed and generally became more conservative over time. In the

<sup>4</sup> For information on the Natanz and Arak site respectively see David Albright/Corey Hinderstein, *The Iranian Gas Centrifuge Uranium Enrichment Plant at Natanz: Drawing from Commercial Satellite Images*, Washington, D.C.: The Institute for Science and International Security, March 2003; David Albright/Corey Hinderstein, *Iran Building Nuclear Fuel Cycle Facilities: International Transparency Needed*, Washington, D.C.: The Institute for Science and International Security, December 2002.

early 1990s, the U.S. intelligence community believed that Iran could have the bomb by the year 2000 or 2002. These estimates obviously have been inaccurate. In fact, it has always been very difficult to say when Iran could have the first nuclear weapon because its program has always been very slow. Never has Iran followed a crash program, but at the same time the goal never got out of sight.<sup>5</sup> The decisive point now is that with the facilities at Natanz and Arak Iran is capable of running a complete fuel cycle on its own so that to a large extent it is becoming independent from foreign assistance.

Many believe that Iran's goal is to get as closely as possible to a nuclear weapon within the NPT regime, that is without openly violating it. Because leaving the NPT openly would result in tremendous international consequences, given a U.S. administration for which regime change as a strategy in order to prevent proliferation is not something odd. Basically, Iran could follow two tracks: to enrich uranium at Natanz and to produce heavy water at Arak under full IAEA safeguards, thereby getting the option to leave the NPT whenever it may seem necessary and then to build the bomb in a relatively short period of time; or to run additional secret facilities. The second option could bring Iran even closer to the bomb but at the same time Iran would run the risk of being caught on cheating. In any case, one fact should never be overlooked: the possession of the bomb does not mean having a functional nuclear warhead that can be delivered by a missile. For such a project, Iran at some point would need a nuclear test, which would most probably not be undetected.

### Tehran's motivations

Iranians are proud people that do not wish to be dominated by other countries or discriminated against. Therefore, there is a strong feeling both within the political elite and the general public that Iran should have free access to any kind of modern technology, including nuclear technology. Recently this has been made clear again by President Khatami, who in a public speech in February 2003 argued, that it was necessary for Iran to make use of the best and most advanced technology, as this contributed most to the development of states. The use of nuclear technology in particular would be necessary to secure the country's longer-term energy supply. At the same time nuclear technology is a high technology whose exploitation would also have important side effects for the use of other high technologies.<sup>6</sup>

Such a view is well received by the Iranian public, both reformers and conservatives. But the question is whether this translates into broader support for a nuclear weapons project. The problem here is that Iran has

<sup>5</sup> See Joseph Cirincione with John B. Wolfsthal and Miriam Rajkumar, *Deadly Arsenals. Tracking Weapons of Mass Destruction*, Washington, D.C.: Carnegie Endowment for International Peace, 2002, p. 257f.

<sup>6</sup> Speech by President Khatami, says Iran will continue nuclear programme, supports NPT, Vision of the Islamic Republic of Iran Network 1, Tehran, February 9, 2003.

no heritage of a sophisticated public debate on security policy affairs. Moreover, many of the most important security issues such as a nuclear weapons project are not debated in the public, not at least because Iran is a member of the NPT and has renounced nuclear weapons. Nonetheless, the issue of a possible nuclear weapons project does not divide conservatives from reformers, and is not a question of ideology. It has more to do with a view that Iran should become a regional power, an aim that already had been on the agenda of the Shah and was an important motivation for his nuclear program; secondly it has something to do with a feeling that Iran should meet the eye of other countries that enhanced their international standing through a nuclear weapons program such as India; third the hard facts of Iran's security interests are important; and finally and may be most importantly, the future of Iran's nuclear project will be connected to the question of how useful Iran's membership in and compliance to the NPT for Iran still is.

As far as security interests are concerned, the most imminent question currently concerns the future of Iraq, and particularly how long the U.S. will stay in Baghdad and what its influence on a future Iraqi government will be. On the one hand, the end of Saddam's regime is highly appreciated in Tehran, as it constituted the most visible threat to Iran's security. At the same time there is a fear in Tehran that the quick U.S. victory over Iraq could lead to an encirclement of Iran. Some may fear that Iran could be the next member of the "axis of evil" against which the U.S. would use its military might. In order to avoid that, basically two solutions are possible: either to try to improve political relations with the U.S. and to avoid everything that could bring Iran on the radar screen of the hardliners in Washington; or to develop its own nuclear deterrence as quickly as possible. Following the North Korean example, the idea would be that nuclear deterrence is a life insurance for the Iranian regime.

For outsiders it is more than difficult to judge which line of thinking is more influential in Iran's political elite at this point. It is not even possible to say whether or to what extent these alternatives determine the thinking of decision-makers. Furthermore, many believe that Iran has no foreign policy strategy that is accepted by all parts of its fragmented governmental system. Therefore the best guess is that at this juncture no clear-cut decision has been made in Tehran to build the bomb yet. Rather, Tehran wants to come as closely as possible to a nuclear weapons option within the NPT regime and develop its capacities for enriching uranium and producing heavy water further. This will take some time anyway. At the same time IAEA safeguards would be implemented, as they do not prohibit the production of heavy water (it was even not necessary for Iran to declare the Arak site) or the enrichment of uranium. Enjoying the capacity to produce highly-enriched uranium (and plutonium) in a relatively short period of time, Iranian leaders could decide to go nuclear whenever they feel this to be appropriate according to regional developments.

Maybe at this point there is no need yet for Iran to decide whether the country should leave the NPT and go nuclear openly. But it has to be taken

into consideration that projects such as Iran's nuclear program create their own dynamics. This is not to say that in Iran a powerful nuclear establishment would be a driving factor, as has been the case in India. Once Iran would be capable to enrich uranium or producing heavy water it will be difficult to stop at this point and not examine the military applications of such capabilities any further.

However, keeping the option of going nuclear would not be without problems. Mainly, it is questionable whether the international community in general and the U.S. (and Israel) in particular would allow Iran to pursue projects that are permitted under the NPT but that would bring Iran close to a nuclear weapons capability. Definitely, in such a situation it would be difficult for proponents of a normalization of relations with the West, that is to say the reformers, to stay on course. Even worse, the U.S. may put more pressure on Iran up to a point where Washington would threaten Iran with the use of force.

At the same time, the Iranian nuclear program may reach a point where the production of a crude nuclear device would be possible, not a nuclear warhead for missiles such as the Shahab-3. For the development of such a warhead, nuclear testing would be necessary. That implies that Iran could probably clandestinely develop a nuclear device, but without thereby installing a nuclear deterrence capability, since such a device could not be delivered through missiles and its effects in case of its use would be uncertain. Moreover, the deterrent effect of a clandestine nuclear device would be questionable, because for deterrence purposes capabilities need to be openly declared. Against this background, some Iranian conservatives argue that following the nuclear option is a very questionable strategy.

Probably the final decision about the future of Iran's nuclear program will be more influenced by the question of how useful Tehran perceives Iran's membership in the NPT than by the hard issues of Iran's national security. Again both, reformers and conservatives would be found in both camps: those who support the NPT and those who believe Iran has more to gain from leaving it rather than continue to comply with it. But it is more than likely that important parts of the Iranian political elite will arrive at exactly the same conclusion as many of the political elites in the U.S.: that arms control is not in the national interest of Iran anymore because it limits military options, while at the same time it does not offer any gains. In other words: arms control in general and the NPT in particular prevent Iran from acquiring a nuclear deterrence capability, and at the same time Iran continues to be discriminated against. Not only due to export controls that hinder Iran to get access to vitally important dual-use technologies; moreover, because the U.S. labels Iran a "rogue state" and a member of an "axis of evil," despite the fact that Iran is a member in good standing of all non-proliferation regimes.

In addition, many Iranian experts ask themselves the more profound question of whether the NPT as such still is functional. They argue that the three countries that are not state parties to the NPT, namely Israel, Pakistan and India, are nuclear weapons states and never suffered any

hardship from it. To the contrary: India since its nuclear tests in 1998 seems to be even more respected in Washington, and Pakistan was not labeled a “rogue state” despite the fact that it is not a democracy and possesses weapons of mass destruction. Not to mention Israel, which has also not suffered but benefited from not being a member to the NPT up to the point where many (in Iran and elsewhere) believe that the U.S. even assisted Israel directly with its nuclear program. From an Iranian perspective, the fact that these three countries are nuclear weapon states outside the NPT regime weights heavily, as these countries are Iran’s more or less direct neighbors.

Furthermore, Iran claims that the official nuclear weapon states never really fulfilled their promise to reduce and ultimately abandon their nuclear arsenals and now even are not willing anymore to comply to those negative security guarantees that imply that non-nuclear weapons states would never be attacked with nuclear weapons. From an Iranian perspective this is a fundamental point, as particularly the current U.S. policy of the Bush Administration is perceived in a way that U.S. nuclear attacks on Iran cannot be entirely be ruled out.<sup>7</sup>

Finally, the case of North Korea will be important for the internal Iranian debate about its membership of and compliance with the NPT. If Pyongyang could force the U.S. to accept North Korea’s possession of a few nuclear devices, those in Tehran who believe that nuclear weapons are an important precondition for dealing with the United States will make the argument that Iran should follow North Korea’s path and proceed with its nuclear project to a point where the U.S. could be confronted with one or two Iranian nuclear devices if necessary.

### Policy options

Some argue that a nuclear Iran could simply be accepted, as long as Iran would see its nuclear capabilities as a life insurance for the regime, implement a defensively oriented deterrence strategy and would not threaten Western allies in the region or forward deployed U.S. forces in the Persian Gulf. Particularly if Iran at the same time would transform into a moderate country that reduces its hostilities towards the U.S., a nuclear Iran would not necessarily pose a threat to Western interests.<sup>8</sup>

However, a nuclear Iran would shaken the security situation in the entire Middle East. For Israel, a nuclear Iran would be hardly acceptable, particularly if Iran at the same time continues to support extremist terrorist groups such as Hezbollah. Moreover, one should not forget that Iran is still not prepared to accept the very existence of Israel. Against this background, Israel could try to prevent Iran from acquiring nuclear

<sup>7</sup> See the Statement of Ali Khoshroo, Deputy Foreign Minister for Legal and International Affairs, April 29, 2003, at the NPT PrepCom 2003, <[www.acronym.org.uk/npt/03stat.htm](http://www.acronym.org.uk/npt/03stat.htm)>.

<sup>8</sup> See Kori N. Schake/Judith S. Yaphne, *The Strategic Implications of a Nuclear-Armed Iran*, Washington, D.C.: Institute for National Strategic Studies, National Defense University, 2001, McNair Paper 64.



weapons in the first place through preemptive strikes, lean closer to the United States with a view of expecting an enhanced extended deterrence, or engage in a nuclear arms race with Iran, which would result in instability. Not because the Iranian leadership is irrational, but because it would be very difficult for Iran to quickly develop safe and secure nuclear weapons that would not be under a “use-them-or-loose-them” dilemma in a crisis. Furthermore, other countries in the region might also think about a nuclear option. One candidate could be Saudi Arabia, which already possesses medium-range missiles of Chinese origin and which contributed to the financing of the Pakistani nuclear weapons project. Given its internal political instability, a nuclear Saudi Arabia would certainly be a nightmare not only for U.S. policy makers.

But a nuclear Iran would not only have ramifications for the region, but also for the nuclear non-proliferation regime as a whole. In particular, if Iran proceeds with its nuclear program within the NPT framework, demonstrating that it is possible to come close to a nuclear option without cheating, the very idea that the NPT constitutes a norm against nuclear proliferation would be heavily damaged. The same would be true if Iran would decide to opt out and leave the NPT. It is hard to believe that the NPT would survive such a blow. This would mean that the international community would lose its most important diplomatic tool against proliferation. In addition, other non-proliferation regimes such as the Chemical Weapons Convention and the Biological Weapons Convention will also suffer from such developments.

For these reasons, the West needs a strategy to prevent Iran from going nuclear. Some in the U.S. might argue that the best way to accomplish this is to use military action that would destroy Iran’s evolving nuclear capacity, as it is currently discussed in Washington as an option in the North Korean case. In the aftermath of the G-8 summit at Evian in June 2003, U.S. officials made it clear that the summit declaration would cover military strikes against Iran if Teheran pursues with what is perceived in Washington as a nuclear weapons program.

But to begin with, Iran’s nuclear project is not as advanced as North Korea’s, which means that the U.S. military would have a hard time to identify proper targets for preemptive strikes. Bushehr is a light-water reactor with clear civilian applications, and which is only indirectly related to an Iranian nuclear weapons program. Moreover, it is being constructed in cooperation with Russia, so that destroying Bushehr in a preemptive strike would cause tremendous diplomatic difficulties with Moscow. The Natanz uranium enrichment facility is still empty in the sense that the centrifuges have not yet been installed under the heavy concrete roof. Moreover, Iran could run clandestine uranium enrichment facilities, so that destroying Natanz would not result in destroying Iran’s capacity to enrich uranium. That leaves only the Arak heavy-water facility as a target. The civilian application of this facility is indeed highly questionable, but destroying it would not entirely cut-off Iran from its nuclear option.

Furthermore, there are political arguments, why preemptive strikes directed at Iranian nuclear facilities would be counter-productive. While such strikes could not destroy Iran's nuclear capacities entirely, they would certainly cause Iran to speed up its nuclear program. Moreover, it would be more than likely that Iran would leave the NPT, legitimately arguing that staying within the regime would run counter to its national security interests. If it is already a question for many within the Iranian political elite whether it is worth to stick to arms control, after a U.S. (or Israeli) preemptive strike it would be clear to everybody in Tehran what the answer to this question is. As a consequence, the NPT would be heavily damaged and could be entirely lost as the most important norm against nuclear proliferation as some other countries will also find it difficult to continue to be bound through an arms control agreement that prohibits nukes for them, but where those that are allowed to possess them could use preemptive strikes against the nuclear have-nots and destroy their civilian nuclear facilities. Such an outcome would neither be in the interest of the U.S. nor of any other country at least in the Western world.

Moreover, a preemptive strike against Iran would run counter to the overall U.S. goal of promoting democracy in the Greater Middle East. For such strikes would convince the overwhelming majority of the already critical Arab and Persian public, that the real aim of the U.S. is not to bring democracy to the region but to simply dominate it with the goal of controlling its resources. As a result the entire region could suffer from anti-American demonstrations as well as terrorist action, and the prospects of bringing peace to the region would be dramatically diminished, to say the least.

Another more traditional instrument to prevent Iran from acquiring a nuclear capability are export controls. The U.S. particularly under President Clinton did heavily concentrate on such efforts and in addition put a lot of diplomatic emphasis on convincing China and Russia to stop their nuclear cooperation with Iran. This has been quite successful in the case of China, but less so in the case of Russia. The important fact today though is that we now know that Iran managed to get access to critical technologies such as centrifuges, despite all efforts to prevent exactly that from happening. Bluntly speaking, there are two reasons for this: one, that Iran developed a very sophisticated system to procure items that are essential for its nuclear program; and second that some countries such as Pakistan did not hesitate to continue to assist Iran. Furthermore, one might argue that the more the U.S. and other Western countries did to enforce their export controls, the more Iran tried to become independent and the more Iran intensified its efforts to circumvent export controls. For instance, President Khatami argued that exactly because Iran cannot be sure that Russia will continue to supply Iran with nuclear fuel rods to be used at the Bushehr plant, Iran needs to build its own capacity to enrich uranium and to produce fuel rods on its own.

The only political strategy that implies some likelihood of being successful is to try to convince the Iranian leadership that it is in the national

interest of Iran not to go nuclear and to fully comply with the NPT. In order to achieve this, it would be necessary to abandon the current attitude of the Bush Administration to label Iran a rogue state or even a member of an “axis of evil.” Fortunately there are signs that the Bush Administration may change its mind, as the term “axis of evil” has not been used anymore for some time. But the U.S. should also end its attitude of what is called “naming names.” This means that U.S. delegations in public diplomatic fora identify some states parties of non-proliferation regimes—and Iran usually is among them—as cheaters, without at the same time presenting any verifiable proof for such allegations. Such action only plays into the hands of those in Tehran who already believe that Iran should not continue to engage in arms control regimes.

The Western goal should exactly be the opposite: to strengthen the position of those who still believe that it is more in the Iranian interest to be perceived as a state party to non-proliferation regimes in good standing rather than going nuclear and becoming a proliferator. In order to achieve this, the most promising approach would be one of sticks and carrots. It could only be successful if the U.S. and its allies would not contradict each other. It would need a U.S. government that does not give up on arms control as an instrument to fight proliferation, and at the same time it would imply European governments that take the proliferation issue seriously.

In particular, it would be important to convince Tehran to sign up to the additional protocol to the IAEA safeguards (93+2) as this would provide the IAEA the right to inspect undeclared facilities. The protocol could not prevent Iran from pursuing declared uranium enrichment or heavy water production activities, but it might deter Iran from running additional clandestine projects. So far, Iran has rejected the protocol on the grounds that many other states parties did not yet enforce it as well, Western countries included, and because Iran is continued to be alleged of not complying with the NPT anyway. More importantly, Iran complains that it is its legitimate right under the NPT to have access to nuclear technology for civilian purposes but that it is denied access to such technologies through export controls. The simple question for many in the Iranian leadership is this: if we sign up to the additional protocol and show to be prepared for more transparency, what do we gain from that? Or: why should we be more transparent than many other state parties while at the same time the U.S. and others continue to discriminate against us?

This is exactly the point where a common U.S.–European (as well as other Western countries) strategy of sticks and carrots should come into play. Iran should be offered economic cooperation and political normalization if it shows more transparency. Tehran should be convinced that approaches of discrimination would be finished. At the same time it should be made clear to Tehran that once it decides to go nuclear, it has to face severe consequences. In other words: the goal should be to support the view in Tehran that complying to the NPT would result in an improved

international standing and in economic cooperation, while the price for going nuclear would be international isolation.

Ending all Iranian nuclear activities certainly is not in the cards, as Teheran has invested too much in that technology and—as has been made clear by President Khatami—perceives at least the civilian use of nuclear facilities as a means to develop the country in general. But maybe it would be worth it to try to convince the Iranian leadership that it would be in its own interest to at least give up on its heavy water projects, as they are economically unsound.

There is of course no guarantee at all that it will be possible to implement such a policy and that it would be sufficient for Iran not to go nuclear. Moreover, Iran might try—as North Korea obviously did—to have the cake and eat it, that is to make use of economic cooperation with Western countries and to keep the nuclear option open at the same time. But there might at least be the hope that such a policy might buy some time. In the meantime Iran may steadily transform into an open society which would probably make it more difficult to continue with clandestine nuclear projects. But even a more democratic and open Iran would be no guarantee that Tehran would give up the nuclear option, as this idea seems to be supported in the public and in particular by some reformers as well.

In other words, engaging Iran to comply to the NPT is not an easy task, and it might well fail. But at this point it seems to be the only feasible solution, given that a nuclear Iran is not easily acceptable, because as has been shown this would probably result in the collapse of the entire nuclear non-proliferation regime. Other strategies such as export controls or preemptive strikes are even less promising, so that the Western world should concentrate on a cooperative effort: to engage Iran to stay within the nuclear non-proliferation regime.

## The Potential for Iran to Provoke Further Nuclear Proliferation in the Middle East

Patrick Clawson\*

Faced with the limited prospects that international or domestic factors will lead Iran to back off from the pursuit of nuclear weapons, it would be quite appropriate for Middle Eastern countries to consider the security implications as Iran's nuclear program advances. If Iran were to acquire the capability to produce substantial amounts of weapons-grade fissile material, that fact by itself could be enough to change the strategic balance in the region. Some neighbors might worry Iran were readying itself to rapidly "break out," that is, to at some point abandon—either formally or de facto—the Non-Proliferation Treaty (NPT) and build in short order several nuclear weapons. In other words, Iran's neighbors might not wait until it got a nuclear weapon before reconsidering their stance about proliferation. Indeed, it would not be surprising if some countries were already developing their contingency plans. This article asks, what are the prospect those plans could include acquisition of nuclear weapons?

### Saudi Arabia: Proliferation consistent with the NPT

Saudi Arabia is the state most likely to proliferate in response to an Iranian nuclear threat. To be sure, such an action could threaten the U.S.–Saudi relationship which has been the foundation of Saudi security. But as Richard Russell put it, "It would be imprudent, to say the least, for Riyadh to make the cornerstone of their national-security posture out of an assumption that the United States would come to the kingdom's defence—under any and all circumstances."<sup>1</sup>

Saudi Arabia would have excellent reason to worry about Iran projecting itself as the protector of the Saudi Shia community and as a state which should be consulted about how to manage the Mecca pilgrimage and holy sites—all of which would be utterly unacceptable to Riyadh. Saudi Arabia might be unsure how much assistance it could count on from the United States in face of such Iranian indirect intimidation, which might not rise to the level at which Washington would be prepared to risk a crisis with Iran. Riyadh may therefore deem it necessary to possess a self-defense capability against Iranian intimidation. And Saudi Arabia is in no position to defend itself with conventional means, as is well illustrated by how ineffective the Saudi military remains despite spending billions of dollars each year on the most advanced weaponry and on training by U.S. advisors. So a nuclear option could fit with the Saudi needs.

\* Deputy Director of The Washington Institute for Near East Policy.

1 Richard Russell, "A Saudi Nuclear Option?," *Survival*, Vol. 43, No. 2, Summer 2001.

There is a widespread impression that Saudi Arabia provided much of the finance for the Pakistani nuclear program in return for a rumored Pakistani commitment to provide Saudi Arabia nuclear warheads if needed. Intriguingly, in 1986, Saudi Arabia acquired 50–60 CSS-2 missiles and 10–15 mobile launchers from China—missiles used by China for its nuclear forces which can carry a warhead of up to 2,500 kg to a range of 700 km. While the Saudis and the Chinese both insist that the warheads are conventional, the missiles are a peculiar way to deliver conventional explosives, since they are highly inaccurate (with a circular error of probability of about 1–2 km). Pakistan might have developed nuclear warheads for missiles. Pakistan and Saudi Arabia could follow the example set by the United States and Germany during the Cold War with dual-key missiles, that is, Pakistan could store in Saudi Arabia nuclear warheads designed to fit on to Saudi-controlled missiles. That would be consistent with Saudi Arabia's obligations under the NPT.

### **Egypt: Proliferation to maintain its status**

Were Iran to acquire nuclear weapons—especially were Saudi Arabia to also do so, even if by the indirect Pakistani route described above—it is difficult to see Egypt remaining non-nuclear, because it would be unacceptable to Egypt to be perceived as a less potent power than another Arab country. There is broad consensus among the Egyptian elite that in order to be the leading Arab power, Egypt must have the most powerful Arab army: the Egyptian view is that great states have great armies. It is worth recalling that the original Egyptian proposal for a weapons-of-mass-destruction-free (WMD-free) zone in the Middle East came after Iraqi president Saddam Hussein threatened in 1990 to “burn half of Israel.” Perhaps Egypt's motivation was to protect Israel, but certainly one could argue for the alternative interpretation that Egypt could not accept another Arab state having a more potent WMD capability than Egypt possessed.

Egypt is bitter that it has had no success in securing an Israeli commitment to give up nuclear weapons within a fixed time frame (Israel has offered that two years after it has peace treaties with all regional states, it would begin negotiations on a robust regional inspection process which once functional would monitor Israeli denuclearization). Faced with the perceived imbalance, Egypt has long had a strong pro-nuclear lobby. Egyptian president Hosny Mubarak stated in 1998, “when the time comes and we need nuclear weapons, we will not hesitate.”<sup>2</sup> In May 2002, former Egyptian representative to the International Atomic Energy Agency (IAEA) Dr. Mustafa al-Fiqi wrote an article for the semi-official *Al Ahram* newspaper questioning whether President Anwar Sadat made the right decision when

<sup>2</sup> Cited in Emily Landau, “Egypt's Nuclear Dilemma,” *Strategic Assessment* (from the Tel Aviv University Jaffee Center for Strategic Studies), Vol. 5, No. 3, November 2002, p. 26, which is also the source for the next quote.

he suddenly and surprisingly signed the NPT in 1981; al-Fiqi argued that nuclear weapons might have been a useful deterrent against Israel.

### **Other Arab states: Those with ambitions lack capability**

Other Arab states would not pose as much a proliferation worry. Syria would be very unlikely to change its approach to nuclear weapons in the event of an Iranian nuclear acquisition. Syrian weapons decisions are not driven by prestige factors, in part because Syria does not see itself as the natural leader of the Arab world. And Syria is quite aware of how severely Israel would react to a Syrian nuclear acquisition. Syria has therefore concentrated instead on acquiring a large enough inventory of CW-tipped missiles that it can threaten Israeli with unacceptable losses.

In the category of countries that would want to proliferate but would have problems doing so, the most obvious case is Libya. Qadafi is enamored of advanced technologies in all fields, but his regime has been singularly incompetent at focusing its energies, and Libya is woefully lacking in the industrial and scientific base for a nuclear weapons program.

### **Turkey: Will NATO be enough?**

Historically Turkey has been at peace with Iran, and the two countries have generally paid relatively little attention to each other, compared to what one might expect from two neighbors with considerable economic interaction. That said, Turkey has many reasons to worry about meddling by an Islamic Republic which is ideologically opposed to Ankara's secular policies. If Turkey faces serious internal problems—be it from Islamists or from Kurds—Iran might seek to take advantage of that situation, and Iranian nuclear weapons would make Turkey think long and hard about how much it could complain about such Iranian meddling.

Faced with a nuclear-armed Iran, Turkey's first instinct will be to turn to NATO. Turkey places extraordinary value on its NATO membership, which symbolizes the West's acceptance of Turkey. The cold reality is that NATO was not designed to defend Turkey. It will be only natural for Turkey to wonder how much it can rely on NATO. Were Turkey to decide that it had to proliferate in order to defend itself, it has good industrial and scientific infrastructures which it could draw upon to build nuclear weapons on its own. It would be difficult to prevent a determined Turkey from building nuclear weapons in well under a decade.

### **How can America influence Middle East decisions after Iranian proliferation?**

Whether or not Iranian acquisition of nuclear weapons leads to further proliferation among America's friends in the region will depend in considerable part on what policies the United States adopts as Iran's nuclear

capabilities become more evident. Were Washington to do little besides deploring Iran's actions, further proliferation is likely.

In the event of Iranian acquisition of nuclear weapons, the most promising U.S. anti-proliferation tool would be closer security ties with allies threatened by the Iranian proliferation breakthrough. America's friends in the region are going to feel more vulnerable in the face of Iranian nuclear weapons, and they will need to be reassured that their security concerns are being met if they are to be dissuaded from imitating Iran's proliferation. The United States could reassure them through some combination of policies that:

- ▶ Change declaratory posture, e.g., extending a nuclear umbrella over its regional friends.
- ▶ Enhance access to advanced conventional weapons, such as missile/air defenses.
- ▶ Expanded U.S. presence in the region.

If the United States can point to strong actions it has taken to counter Iranian nuclear weapons, that will lend more credibility to U.S. warnings to its friends in the region that were they to proliferate, Washington might take the strong step of reducing or ending the U.S. security relationship with their country. This could become a significant factor in their calculations about whether to head down the proliferation path.



# **The Role of Iran and the Region for Global Energy Supply**



# Iran's Oil and Gas Development and the Effect of U.S. Economic Sanctions

James A. Placke\*

## The U.S. policy viewpoint

*Synopsis of U.S. Sanctions on Iran.* The United States unilaterally imposed a comprehensive ban on American trade with, and investment in, Iran following the seizure of the American Embassy in Tehran and the taking of American diplomats as hostages in November 1979. Under the Algiers Accords of January 1981, the hostages were released and the trade and investment ban lifted, although diplomatic relations were not restored and bilateral tensions continued. In October 1987, President Ronald Reagan imposed by Executive Order, a new ban on U.S. imports of all Iranian goods and services because of findings of Iranian support for international terrorism and because of Iranian attacks on oil tankers transiting the Gulf from Arab, primarily Kuwaiti, oil export terminals in the context of the 1980–88 war between Iran and Iraq.

Nearly a decade later, in response to growing domestic and international reaction against continuing trade in Iranian oil by American companies, President Bill Clinton, in a series of Executive Orders in the spring of 1995, expanded U.S. sanctions to prohibit, again, virtually all U.S. trade and investment involving Iran, including offshore trade in Iranian oil by foreign branches of American companies that had become leading buyers of Iranian crude.

These sanctions also forced the American oil company, Conoco, to abrogate a \$550 million contract to develop Iran's offshore Sirri A and E oil and gas fields signed in early 1995. The oil was to be piped ashore to Iran and the gas used for injection at Conoco's declining Fateh field located nearby off Dubai. This was the first oil or gas development contract signed by Iran with any foreign company following the 1979 revolution and was intended to signal Iranian interest in beginning a process of normalizing relations with the United States. The tightening of U.S. sanctions halted any movement toward normalization and enabled the French oil company, Total, which had a minority stake in the Fateh field, to take over the Sirri development project.

While American companies were prohibited by U.S. regulation from participating in Iran's oil and gas development, other companies moved to do so, including promotion of an oil export pipeline from the Caspian region to swap oil through Iran's refining system. This approach conflicted with a strategic U.S. interest in developing a Baku (Azerbaijan), Tablisi (Georgia), Ceyhan (Turkey) pipeline that would circumvent both Russia and Iran.

\* Cambridge Energy Research Associates.

As U.S.–European differences over commercial and strategic oil interests in Iran grew, legislation to impose secondary U.S. sanctions on foreign investors in Iran’s oil and gas development, that had languished in the U.S. Congress for several years, moved forward. The Iran and Libya Sanctions Act (ILSA) became U.S. law in July 1996. It sought to prevent foreign investment in Iran’s oil and gas development of more than \$40 million in any year (later lowered to \$20 million) by threatening imposition of selective restrictions on access to American capital and products markets by companies found in violation of ILSA. The Act was justified as an effort to deny Iran resources that could support its alleged weapons of mass destruction (WMD) programs and support for international terrorism. ILSA, however, was sharply denounced by virtually all of America’s principle trading partners as a violation of multilateral trade rules and an attempt to impose U.S. policy objectives through the threat of extra-territorial sanctions.

Subsequently, and despite U.S. threats of retaliation, a consortium led by Total that included Russia’s Gazprom and Malaysia’s Petronas, signed a contract for the initial stage of development of Iran’s giant offshore South Pars gas field. As rhetorical exchanges between the United States and consortium members, supported by their governments and by the European Union, mounted, negotiations were undertaken that produced in May 1998 both a waiver of ILSA sanctions for the three companies and a broader U.S.–EU understanding that, *de facto*, ILSA would not be applied to EU-member companies developing Iran’s oil and gas resources, but this understanding did not apply to a prospective Caspian oil export pipeline to Iran. ILSA was renewed for another five years in July 2001.

Numerous investigations of possible violation of ILSA’s terms by a variety of foreign—including non-European-companies have been launched but none has resulted in imposition of sanctions. Meanwhile, Senator Alfonse D’Amato of New York, ILSA’s principle sponsor and advocate, failed to be elected to another term, and the legislation has, effectively, become moribund.

The U.S. Administration’s Perspective. U.S. economic sanctions generally have been imposed to punish and isolate the sanctioned country, often in response to influential domestic interest groups. This is particularly the case with Cuba, Iran and Libya. Apart from these cases, both unilateral and multilateral sanctions on Iraq are being removed, and U.S. sanctions on North Korea have a strong security justification. In the case of Iran, U.S. sanctions are justified as a means for containing Iran’s WMD, especially nuclear and ballistic missile development programs, and to retaliate for its support for international terrorism—mainly concerning support for Hezbollah in its ongoing confrontation with Israel, now that Iran appears to have ceased much of its direct use of terrorist tactics abroad—as well as Iran’s opposition to the Middle East peace process and its rejection of Israel’s right to exist.

Despite powerful pro-sanctions constituencies, in April 1999, U.S. sanctions on exports to Iran, Libya and Sudan were eased to permit sales of

American agricultural commodities and pharmaceuticals—both industries having strong lobbying organizations in Washington. Subsequently, in 2002, sales of agricultural commodities—on a cash basis—were also authorized for Cuba.

In accord with this trend, as the expiration of ILSA neared in the first half of 2001, there appeared to be a possibility that it would be allowed to lapse. However, shortly before the July expiration date, AIPAC—the American-Israel Public Affairs Committee—dropped its neutral stance to advocate extension of the Act. Administration opposition to maintaining ILSA withered, and the Congress promptly enacted a full-term renewal.

The history of U.S. sanctions on Iran again illustrates that, once adopted, sanctions are more readily continued than removed. Thus, removal of sanctions is more likely to follow than to lead improved bilateral relations.

*Congressional Attitudes.* The U.S. Congress has mandated a report by the Administration, to be submitted between August 2003 and February 2004, assessing the effectiveness of sanctions on Iran and others and indicating Administration policy toward their continuation. The politics of sanctions in the Congress remain weighted in favor of continuation, especially in cases such as Iran where Iranian actions cited as justifying sanctions, especially support for terrorism and development of WMD, are likely to continue for the same national motives that originated them regardless of U.S. opposition.

Congressional hearings on the Administration's report that are likely to be held in the first quarter of 2004 and may indicate shifts in congressional sentiment that is frequently influenced by then-current developments. One such possible event, is the prospect of a U.S.-Libyan accommodation on demands related to the destruction of Pan Am flight 103 over Lockerbie, Scotland in 1988. Libya appears ready to meet the requirements for removal of suspended UN sanctions, and a U.S.-Libyan dialogue about U.S. unilateral sanctions, including ILSA, is continuing, but Libya's WMD development programs are of serious concern.

ILSA has been structured so that removal of only one party is feasible, but doing so could encourage consideration of elimination of this ineffective mechanism altogether.

*Prospects for U.S. Sanctions on Iran.* The post-September 11 U.S.-led war against terrorism, the still-ambiguous role of Iranian influence in the political renewal of Iraq and the course Iran will follow in development of unconventional, especially nuclear, weapons, as well as its reaction to the possible revival of Palestinian-Israeli peace talks, are likely to be key determinants of U.S. policy toward Iran. Absent a significant shift by Iran in favor of U.S. views in these areas, there is little prospect for relaxation of U.S. unilateral sanctions under the Bush Administration, despite a degree of Iranian cooperation with the United States against the Taliban in Afghanistan and during the war in Iraq. Thus, even the ineffective, but symbolic, ILSA is likely to continue for the remainder of its term to July

2006. Off-year congressional elections are also due in 2006, which will heighten the influence of interest groups on the Iran sanctions issue—thereby complicating any Administration effort to eliminate ILSA.

### Dealing with sanctions

*Iranian Attitudes.* Some reform-oriented Iranians assert that the United States is held in higher regard today in Iran than in the Arab Middle East. On the other hand, senior Iranian clerical leaders continue to declare the United States a threat to Iran and hostile to Islam. Frequently, in informal discussions of U.S.–Iran relations among academics or study group participants, two items invariably are high on the Iranian list of objectives:

1. compensation for undelivered military purchases and other assets sequestered by the United States following the revolution, and
2. removal of all U.S. sanctions. For the Iranian public, sanctions seem to be of greater concern than strategic or security issues—possibly reflecting the generally poor performance of the Iranian economy since the 1979 revolution.

U.S. sanctions, in their initial phase, did appear to inhibit some foreign investment in Iran's oil and gas sector. In the three years between the reimposition of U.S. bilateral sanctions in 1995 and the U.S.–EU understanding in 1998 about *de facto* exemption of EU companies from U.S. sanctions under ILSA, statements by senior spokesmen for several European, Japanese and Australian energy companies suggest that they were deterred from undertaking development projects in Iran. This was a period of little Iranian success in attracting foreign oil and gas investment, but it is impossible to determine the extent to which foreign companies, who continued to negotiate with Iran, were deterred by ILSA or were seeking more favorable terms. In any event, the Total–Lukoil–Petronas contract for South Pars development marked a turning point in several respects:

- ▶ it forced an EU–U.S. confrontation over ILSA in which the U.S. backed down, thereby setting a durable precedent,
- ▶ it was a breakthrough in terms accorded to foreign companies—yielding a reported internal rate of return of 16–18 percent that Iranian negotiators have vowed never to repeat, and
- ▶ it established the buy-back contract framework as Iran's oil and gas development model and opened the way for a series of other development contracts.

Following the initial South Pars contract, Iran progressively tightened the terms offered other developers, and, by the end of the decade, new foreign investment commitments slowed markedly. This trend reflected the growing disagreement over the desirability of foreign oil and gas investment that has become one of the distinguishing characteristics of the political debate between Iranian “reformers” and “conservatives.” Thus, after some apparent initial impact, the effectiveness of U.S. efforts to restrain foreign investment in Iran's hydrocarbon sector declined sharply,

while Iran's internal debate over the role of, and terms for, foreign investment became the main impediment.

*The Politics of Sanctions for the European Union.* Confronted with virtually unanimous condemnation of the attempted extra-territorial reach of ILSA, including by Canada, the United States' largest trading partner, the EU not only won an exemption for member country companies but effectively neutralized ILSA. In retrospect, ILSA has been the peak of U.S. resort to trade sanctions to achieve political objectives—a practice that developed during the Cold War and now appears to be in decline. The EU succeeded in thwarting ILSA because its members were unified in opposing it and were virtually assured of vindication under World Trade Organization rules if the issue had reached the level of a formal trade complaint.

The outcome of a secondary issue, of greater strategic interest to the United States, was affected by a lack of comparable EU member unity. Active U.S. promotion of an alternative to a Caspian basin oil export pipeline to Iran—which had arguable economic advantages—combined with the passive threat of ILSA sanctions, succeeded in establishing the Baku–Ceyhan oil pipeline route as the main alternative, for now, to a line through Iran. Diversity of member country and company interests in this issue were a factor in this outcome.

Going forward, current EU–Iran discussion of a preferential trade agreement has significant political overtones. Because the potential economic benefits to Iran are greater, the opportunity for the EU to affect Iranian policy is also more significant than in the EU's earlier pursuit of a policy of “critical dialogue.” There already is some evidence of progress on human rights concerns, and there is a degree of overlap between U.S. and EU concerns about Iran's nuclear development program that promises to be a consideration in these negotiations.

The course of EU–Iran relations also involves collateral interests other than those of the United States. In positioning itself as the leading candidate for development of the super-giant Azadegan oil field, the Japanese consortium chose Royal Dutch Shell as a partner, not only because of Shell's financial and technical capabilities but also because of the shelter that association with an EU company would confer with respect to ILSA. Without this degree of political protection, it is uncertain—even doubtful—that Japanese companies would have pursued this opportunity despite U.S. warnings.

*Some Structural Considerations in Iran's Oil and Gas Development.* Iran's crude oil and condensate production peaked in 1976, prior to the turmoil that preceded the 1979 Islamic revolution, at an annual average of about 5.5 million barrels per day (mbd). The highest post-revolution annual average of combined crude oil and natural gas liquids (NGLs) production has been 3.9 mbd in 2001. Iranian output is not expected to rise above the 2001 level until after 2005, and then due mainly to a sharp increase in NGL

production as the potential of the South Pars gas field begins to be realized.

To continue its status as the second largest producer in OPEC, Iran must accelerate oil development, especially with the prospect that a reformed Iraq will break its past constraints. There are indications Iran has recognized that it is not competitive in attracting the international oil development investment that is needed. Recent restructuring of the management of Iran's hydrocarbon sector could accelerate development, provided that experienced Iranian officials are given political clearance to conclude on-going negotiations on more realistic terms. However, the lack of political consensus in Iran continues to cast doubt upon the pace of Iran's hydrocarbon development, as it does across the overall outlook for Iran.



## Why Iran Is Key for Europe's Security of Energy Supply

*Friedemann Müller\**

Iran is not a major supplier of either oil or natural gas to the European Union. Although the country is the fourth largest oil exporter worldwide, and oil is about 80 percent of Iran's € 6.6 billion worth of exports to the EU, imports from Iran represent no more than 4 percent of European oil consumption. In addition, although Iran has the second largest natural gas reserves, it provides less than 1 percent of Europe's consumption.

Iran's relatively minor role as Europe's energy partner, however, will not remain minor forever. Like the U.S., Europe has to be prepared for major changes in its energy supply structure and Iran, which owns the third largest combined oil/natural gas reserves worldwide (behind Russia and Saudi Arabia) will play an important role in this structure as a supply option, if political developments allow it. The EU Commission initiated a strategic plan in 1999, testing whether Iran will move in a direction that allows a more intense relationship with regard to energy production and trade. The test is still far from producing definite results. The progress of the test phase, however, is encouraging.

In order to understand what is at stake for the European energy sector a more general approach is required. Europe's interest in Iran is quite different with regard to oil, on the one hand, and natural gas on the other. The gas sector is politically more complex and important. Oil is more interesting from a global supply perspective.

### Iran's oil

For over ten years Iran produced approximately 3.5 million barrels of oil per day (b/d) (currently 5 percent of world production) with a rather narrow variance of less than 0.3 million b/d. Slightly more than 2 million b/d of production are available for export. Iran is the fourth largest oil producer (behind Saudi Arabia, the U.S. and Russia) and the fourth largest exporter (behind Saudi Arabia, Russia and Norway). Its reserves are larger than those of the U.S. and Russia but smaller not only than those of Saudi Arabia, but also of Iraq. Within the OPEC structure it is number two, and although is not able to challenge Saudi Arabia as the dominant player, it does question the Saudi Arabian role as a price balancing force and the Saudi preference for treating the OPEC cartel more as an economic than political instrument.

OPEC's role in world oil supply has been changing over the last three decades and will further change more than publicly perceived. In 1973, the year of the first oil crisis, OPEC's share of world oil production was 54

\* Stiftung Wissenschaft und Politik.

percent. This share declined to 29 percent in 1985 followed by an increase to 41 percent in 2001 and is expected to rise to 50 percent in 2020. This regaining of market share and the inability of non-OPEC countries to take over market share from OPEC, as occurred in the first half of the 1980s, gave OPEC the means in 1999 to stabilize the oil price at a level 50 percent higher than the marginal production costs. The consequence is a cartel rent above the price of a competitive market. The establishment of a price corridor in the year 2000 between \$22 and \$28 per barrel, and the commitment to stop using OPEC as an instrument to enforce political goals, showed that OPEC is back and certainly will stabilize its power to manage such a price policy if the estimates of a further increase in OPEC's share of the world oil supply prove to be true. In fact, almost all stake holders are happy with the price corridor: the U.S. government is satisfied because a lower price would endanger the existing amount of self-supply and a higher price would be a burden on consumers; the Europeans are also satisfied because it makes subsidies for renewable energies calculable; and finally, the investors are satisfied due to the improved calculability of their risk. In the future, Saudi Arabia will continue to be the main balancing power to keep this corridor working. Its weight will be necessary to maintain the OPEC commitments of the year 2000, including the assurance that oil supply will no longer be used as an instrument to enforce political goals. Iran could be the force that might question this policy.

Europe started a long-term program to adjust the Iranian energy sector not only to higher efficiency standards but also to Western type rule of law norms. Earlier this year, Iran received observer status at the Energy Charter Treaty (ECT), an agreement of common rules for investment and transportation in the energy sector. Presently, membership is restricted to OECD and OSCE member countries. If Iran becomes a more reliable partner this will necessarily lead to more cooperation with Europe.

### **Natural gas**

Under the aspect of security of supply, natural gas is a very different energy source in comparison to oil. In Europe, 87 percent of natural gas sold on the European market is transported by pipeline from outside Europe. The advantage of pipeline transportation is that it is cheaper than transporting Liquefied Natural Gas (LNG) by tanker if the distance is below 4,000 km and is technically less complicated. The disadvantage is its inflexibility: a pipeline requires at least 20 years of stable gas transportation for the cost to be amortized. Therefore, the producer-consumer commitment must be much stronger than in a free oil market. The high percentage of long term "take or pay" contracts in overall consumption and the link of the natural gas price to the oil price due to a lack of a significant free market exemplifies this difference to the oil market rules.

The requirement of long term planning is one important determinant for future European natural gas supply. Two others are:

1. the changes unleashed by the liberalization of the European natural gas market and
2. the future high increase of demand for natural gas imports due to declining European production coupled with consumption that is expected to grow much faster than that of any other energy source.

Europe is in a unique geographic position with regard to the liberalizing market. Eighty percent of world natural gas reserves are located within a radius of 4,500 km from Central Europe. Western Siberia, the South Caspian/Gulf region, North Africa (plus Nigeria) and European domestic reserves represent four-fifths of the world reserves. It is a matter of fact that 67 percent of European imports come from Russia, 32 percent from Africa, but just 1 percent from the Middle East (the latter by LNG), although the Middle East can produce more cheaply and is closer to Europe than Western Siberia. In fact, it is an accident of history that during the 1970s and 1980s, due to the oil crises in 1973 and 1979 and its environmental advantages, natural gas became a growing competitor to oil and the Soviet Union offered to deliver large amounts of natural gas at the (West) German border. The infrastructure was a problem that the Soviet Union dealt with under limitations that did not have to follow market type cost effectiveness controls. This infrastructure is now there, even if it requires urgent and massive repair, while no pipeline infrastructure provides reasonable access to the worlds largest reserves in the South Caspian and the Gulf. Russia, the country with the single largest reserves ( 31 percent of world reserves), has a dominant share of the world's largest import region, Europe. The South Caspian and Gulf region, however, counts for 40 percent of world reserves and is practically invisible in this market. Iran owns the second largest reserves, with 15 percent of world reserves, and is the only country that links the Caspian Sea and the Persian Gulf.

With regard to the liberalization of the European natural gas market by enforcing a free flow of natural gas through even private pipelines for all competitors, this is an unfinished business not only domestically but also with regard to the competition of supply from outside Europe. This supply is governed by long term "take or pay" agreements with two suppliers, Russia (Gazprom) with a 67 percent share and Algeria with a 29 percent share. A major supply line from the South Caspian/Gulf region would provide the opportunity for a competitive market in Europe including price competition that allows a total decoupling of the natural gas price from the oil price.

The import demand growth specifically means the following: Europe imported 186 billion cubic meters of natural gas in the year 2000. In 2030, according to EU figures, this import amount will be 2 ½ times larger and according to International Energy Agency figures more than 3 times larger. In contrast, during the past twelve years, Europe's major supplier Russia faced a ten percent decline in its natural gas production. The expected production increase during the coming two decades will, even in the case of optimistic Russian estimates, fall well short of the amount

needed to cover the European demand growth. In order to address this looming supply shortfall, Russia changed its policy towards the former Soviet republics Kazakhstan and Turkmenistan.

During the 1990s Russia did not permit these new states to use the post-Soviet pipeline network in order to pump natural gas to Europe. This caused a decline of Turkmenistan's natural gas production from 89 billion cubic meters (bcm) in 1990 to 12 bcm in 1998. Then, in December 2001, Russia offered Kazakhstan and Turkmenistan long term contracts with increasing amounts of natural gas deliveries. Russia, however, does not permit contracts to be signed by these states and Europe (or European contractors), with Russia merely acting as a transit country. Instead, Russia wants to control the amount of natural gas flow to Europe itself and regulate the price and thus wants to be the exclusive contract partner of the producer states. The Russian notion of a natural gas OPEC (or OGEC) is now substituted by a Eurasian Gas Alliance. This, of course, can neither be in the interest of the world's largest natural gas import market, nor in the interest of the suppliers in the Caspian region if there is a transport alternative.

What is Europe's interest? Europe, like any consumer dependent on the import of a product sensitive to its economy needs both a long term security of supply and reasonable prices. Both are served best if the major suppliers are competing on the European market. Therefore, infrastructure is required which would make possible an unlimited supply from the South Caspian/Gulf region via Turkey to Europe. Today this is not available. Why isn't there a major pipeline from the South Caspian region to Europe which could be fed from all South Caspian and Gulf states? The main reason is political. Private investors will not take the risk building a pipeline which might be disputed due to U.S. sanctions against Iran (ILSA) and if there is no clear political commitment due to a potential security risk in Eastern Turkey. If, however, a pipeline will not be built, the alternative of LNG transport to Europe will not challenge Russia as competitor considering the length of the sea transport and related costs.

### **Future development and recommendations**

Today, Iran, the fourth largest oil producer and exporter worldwide and the second largest holder of natural gas reserves, is not a major player in the European energy market. However, given its geographic location, particularly as the link between the Gulf/Middle East and the Caspian Sea, it will be a major player in the medium term. Considering the less competitive alternative of Russian controlled gas, the development of Iran into a major player is in Europe's best interest. The EU therefore, started a patient process of testing whether Iran can become a reliable partner in future. There is no need for quick decisions. It certainly will not be the wrong strategy if Europe indicates to Iran that it should play a moderate role in preventing OPEC from going back to the incalculable oil policy of the 1970s. If the carrot for Iran is European consideration of long term

cooperation in the energy field, such a development would be in the interest of both sides.

More interesting, however, is the natural gas sector. What is at stake for Iran is the export of huge quantities of gas. In contrast to oil, natural gas cannot just be sold on any spot market at the prevailing world market price. Especially in the Middle East region, a huge amount of supply is not meeting any demand due to a lack of infrastructure and/or the deficiency of a potent market. Iran, for instance, has struggled for ten years to get access to the Indian market, having signed a memorandum of understanding in 1993. However, real progress is not seen either on the supply side, by building the necessary transport infrastructure, or on the demand side, by India's being in a position to create a significant and solvent consumer market. Ninety six percent of all internationally traded natural gas is going to North America, Europe or East Asia. This will not change significantly in the near term. Iran needs access to the European market and, from the European perspective, Iranian natural gas would be welcome.

Therefore, a careful process of confidence building measures started in 1999 with an ad hoc working group, followed by an expert committee, and a working group on INOGATE, an EU institution that promotes infrastructure mainly in the post-Soviet space, including a natural gas pipeline from Iran to Armenia. This process led to the opening of an Energy Cooperation Center in Tehran in October 2002, the beginning of negotiating a trade and cooperation agreement in December 2002, and also the granting of observer status to Iran in the Energy Charter treaty process in 2003. All this together shows that the EU follows a long-term strategy that is linked with a political and economic reform process in Iran. This negotiation process is accompanied by concrete economic actions, among them the signing of a US\$300 million agreement between Iran and Greece on extending an Iranian-Turkish natural gas pipeline into Greece. This, quite obviously, will be a test enterprise for a more extensive and longer-term cooperation possibly starting in the next decade.

The infrastructure network investment required for the European natural gas supply in 2020 will cost between US\$150 billion and US\$200 billion. This includes new pipelines from Russia and North Africa and new LNG terminals to increase market flexibility. The order of magnitude of this investment indicates, however, that a link between the largest reserve region and the largest import market cannot be further excluded if it is economically sound. Iran is the center of this reserve region. Europe would be well advised to intensify the cooperation with Iran by putting pressure on it with regard to not only human rights issues, the support to terrorism and anti-Israel organizations, but also to political and economic reform. At the same time, however, Europe needs to open its energy market, particularly for natural gas, to Iran. In the long run this will depend on progress with regard to political issues. Recent experience with Iran is encouraging.

## Post-War Iraq and Iran's Petroleum Sector

*Joe Barnes and Amy Myers Jaffe\**

The U.S. and coalition victory in Iraq has obvious and potentially profound consequences for Iran. The nature of the new regime in Baghdad will decisively shape Tehran's policy towards a traditional regional rival. In addition, the possible emergence of democratic government in Iraq could alter the terms of the political debate within Iran. And, not least, the swift and overwhelming defeat of Iraq will likely prompt a reassessment, in Tehran, of what remains a troubled Iranian relationship with the United States. While the odds of a U.S. military strike against Iran may be remote in the short term, Washington's determination to go to war with Iraq—in the face of major global opposition—can only have a powerful, if as yet unclear, effect on Iran's foreign policy.

Among the areas where the U.S. defeat of Iraq may have major consequences for Iran is oil. Iran is one of the world's major petroleum exporters at roughly 2.7 million barrels a day. This placed it, in 2001, behind Saudi Arabia, Russia, and Norway as the world's fourth largest exporter. Iran remains heavily dependent on oil exports, which represent roughly 40–50 percent of government revenues and 10–20 percent of GDP. Recent high oil prices contributed significantly to economic growth of about four percent in 2002; should prices remain firm, GDP should grow by a similar amount this year. While Iran may be less dependent on oil exports than, for instance, Saudi Arabia, they nonetheless play a critical role in bolstering growth and fostering stability.

The U.S. occupation of Iraq will clearly impact Iran's petroleum sector. This will transcend the short-term loss of revenue associated with the end of oil smuggling into Iran in violation of UN sanctions against Iraq. Far more important will be the medium- to longer-term consequences of a new regime in Baghdad.

Anti-war claims that U.S. policy towards Iraq has been driven by a desire for cheap oil are wide of the mark; if Washington had merely wanted lower petroleum prices it could simply have worked to lift sanctions on Iraq or, for that matter, Iran and Libya. But oil clearly looms large in U.S. post-war efforts to reconstruct and rehabilitate Iraq: any hope for a stable, pro-American regime in Baghdad will hinge critically upon the economic prosperity only an expansion of Iraq's oil production can bring. Some have argued that Iraq—which possesses the world's second largest proven petroleum reserves—could produce as much as six million barrels per day by the end of the decade. This compares with a capacity of 2.8 million barrels per day in 2002 and roughly 3.5 million barrels per day prior to the Gulf War of 1990–1.

\* James A. Baker III Institute for Public Policy.

While geologically feasible, the target of six million barrels per day by 2010 will be difficult to reach. The costs of expanding Iraqi output will run to the tens of billions of dollars; most of this investment will have to be foreign.<sup>1</sup> While war-related damage to fields appears modest, the Iraqi oil sector has suffered from gross underinvestment for 20 years. A number of fields appear to have suffered severe degradation. Moreover, it may take longer than many believe for Iraq to achieve the stability necessary to attract significant foreign investment. Looking to the medium-term, Iraq faces huge and contentious questions about how to reorganize its oil sector. It remains to be seen whether a representative Iraqi government will opt for full privatization of the Iraqi petroleum sector, as some in the United States have advocated. At a minimum, a host of crucial decisions about handling foreign participation and ensuring equitable revenue sharing still awaits decision by a duly constituted Iraqi government.

Nonetheless, the expansion of Iraqi oil production will confront Iran with major challenges. Some are very similar to the challenges faced by any other major oil producer, current or potential.<sup>2</sup> Saudi Arabia, Russia, and the countries of the Caspian Basin all stand to lose should Iraqi production increase dramatically. The expansion of Iraqi output will, other things being equal, tend to suppress world prices. This, it should be noted, will not only reduce revenues for all producers but diminish interest by potential foreign investors in such areas as the former Soviet Union, Venezuela, and China, where new fields tend to be more expensive to develop. Moreover, any dramatic increase in Iraqi production could place strains on OPEC. Should Iraq stay within the cartel, its demand for a larger production quota could lead to a breakdown in discipline<sup>3</sup>; it is useful to remember that the Gulf War of 1990–1 was caused, in part, by a dispute between Kuwait and Iraq over OPEC quota allocation.

Iran is ill-prepared to confront the challenge presented by a larger Iraqi role in international oil markets. With a large and youthful population, a domestic economy crippled by expensive subsidies and inefficient monopolies, and an unsettled political situation, Iran cannot be sanguine about the prospect of a sustained decline in oil prices. Moreover, it is seriously constrained in its ability to respond to such an eventuality by increasing its own production in any significant way. It currently carries scant excess capacity to compensate for even a modest drop in oil prices.

Indeed, Iran remains in many ways a major oil producer in decline. While it possesses perhaps nine percent of the world's proven petroleum reserves and boasts a long history as one of the Persian Gulf's premier oil producers, Iran's performance over the course of the last two decades has been disappointing by any standard. Production—now roughly 3.7 million

<sup>1</sup> *Guiding Principles for U.S. Post-Conflict Policy in Iraq*, pp. 10–11, The Council on Foreign Relations and Baker Institute for Public Policy, 2002.

<sup>2</sup> "The Iraq War and the Geopolitics of Oil," by Joe Barnes, *Royal United Services Institute Newsbrief*, April, 2003, pp. 42–3.

<sup>3</sup> "Concerned at U.S. Role, Tehran Keeps an Eye on Events in Postwar Iraq," *Energy Intelligence Group*, April 22, 2003.

barrels a day—has never reached the roughly six million a day produced under the Shah during the mid-1970s. Moreover, domestic consumption of oil—today roughly a million barrels per day—is increasing seven percent annually. Barring a major increase in output, this means that Iran may cease to be a significant exporter within 15–20 years.

There are many reasons for the decline in Iran's oil sector. The disruptions associated with the Iranian Revolution, the debilitating Iraq–Iran War of 1981–8, years of international isolation, and U.S. sanctions have all taken their toll on the Iranian oil sector. But so have destructive internal Iranian policies since the Revolution. In particular, Tehran has—until relatively recently—been extremely resistant to significant foreign investment in its oil sector on terms that would be acceptable to international energy companies. Barriers to foreign participation range from the constitutional (a bar on concessions or equity stakes) to the informal (a pervasive suspicion of foreign investment). But the result has been the same: a dramatic underinvestment in Iran's hydrocarbon sector.

Iran, facing acute economic pressure, has attempted to respond. With a declared goal of expanding production to about 5.5 million barrels per day by 2010 and 7.3 million barrels per day by 2020, Iran is now actively seeking foreign participation in the development of its oil sector. Its focus has been both on bringing new fields into production and increasing output in older fields through gas injection. A major, if much-delayed, piece of legislation encouraging foreign investment went to the government for implementation in early 2003.

For a number of years, Iran has entered into “buyback” arrangements with foreign companies for the development of new or existing fields.<sup>4</sup> Buyback contracts are essentially fee for service deals that give contractors remuneration for developing a field after which the field reverts to state control. The contractor receives no title to the oil, thereby circumventing Iran's constitutional ban on foreign ownership of oil. This type of contract is not considered attractive to oil companies because it fails to provide significant total cash flow to the investor due to its short-lived nature. In addition, some Iranian buyback deals have been modified to penalize foreign companies that fail to reach production targets.

Total/Fina/Elf is the only company to date to have completed a program under a buyback agreement for the Sirri A and E fields; the group remains in a dispute with Iran's National Iranian Oil Company (NIOC) over its level of remuneration given that the 95,000 barrels per day of extra production was less than the 120,000 barrels per day that the NIOC had expected. Over 300,000 barrels per day of new production is expected in the next few years from Shell's Nowruz and Soroosh projects, the French-led Balal project in the Northern Gulf, and Italian ENI's Dorood field. ENI also has a field under development at Darkovin that could produce as much as an additional 100,000 barrels per day.

<sup>4</sup> See appendix (p. 74) for a list of major Iranian oil and gas projects.



NIOC hopes to tap natural gas from the giant South Pars field for injection into aging onshore oil fields in order to stem their decline. But it is fighting a steep natural field decline curve, years of neglect, and budgetary constraints that make it hard to see how Iran will meet its ambitious targets for investment and capacity expansion—particularly if oil prices sink.

For many observers in the international energy business, Iran's efforts to become more open to foreign participation, though welcome, still appear begrudging and tentative. Several major projects remain to be negotiated and Tehran may have an incentive to offer more flexible investment terms in light of the dramatic changes in Iraq. Japan's state-owned Japex and Inpex are negotiating to develop part of the giant Azadegan field which has the capacity to produce up to 700,000 barrels per day. The field's development is problematic because the area has thousands of land mines left over from the eight year Iraq-Iran war. Royal Dutch Shell has been considering joining the deal. The large Bangestan field is another project that could add significant capacity but would require investment of over \$3 billion. Several European oil companies are competing for a contract.

For Iran to compete effectively for international investment dollars, it will have to offer not only more internationally competitive investment terms but also evidence of an improved business climate. Political stability—given the ongoing struggle between domestic factions—seems problematic. And the continuing strains between the United States and Iran continue to cloud the future. U.S. sanctions against Iraq—part of the Iran-Libya Sanctions Act renewed by President Bush in 2001—have certainly taken a toll, barring major participation by U.S. firms and no doubt dissuading some other international companies from investing in Iran. Not least, there is clearly significant risk associated with investing in a country that comprises—with Iraq now occupied by U.S. forces—half of the remaining “Axis of Evil.” But, most importantly of all, the “buy-back” arrangements offered by the Government of Iraq are simply less attractive financially than more long-term arrangements offered by other major oil exporters.<sup>5</sup>

Should Iraq develop an investment climate and legal regime hospitable to foreign participation in its petroleum sector, Iran may see international interest dwindle even further. Despite the many hurdles the Iraqi oil sector faces, it remains one of the lowest cost producers in the world. Should a stable pro-American Iraqi government emerge in Baghdad, moreover, Washington will no doubt do all it can to encourage U.S. investment in Iraq's oil sector. Under these circumstances, Tehran may feel increased pressure to open up its energy sector further to foreign investment. But this will require both a radical shift in its traditional approach to foreign energy companies and substantive steps towards improving its relations with Washington. Both, of course, are politically fraught issues in Iran.

In short, increased Iraqi oil production will not so much create new problems for Iran as exacerbate long-standing ones. Years of underinvest-

<sup>5</sup> “Iran: Getting a Move On,” *Energy Intelligence Group*, March 14, 2003.

ment in its petroleum sector, troubled relations with the United States, and an inhospitable business climate have crippled Tehran's ability to expand its own production capacity, making it extremely vulnerable to adverse price movements. As noted, Iraqi production might well increase at a far slower rate than many anticipate. This creates a limited window of opportunity for Iran to undertake long-overdue efforts to reform its petroleum sector and reshape its foreign policy.

### Appendix

| <i>Field</i>   | <i>Company</i>         | <i>Output</i>    | <i>Start Up</i> |
|----------------|------------------------|------------------|-----------------|
| Sirri A and E  | TotalFinaElf           | 95,000 b/d oil   | 2002            |
| Balal          | Total/ENI/Bow Valley   | 40,000 b/d oil   | 2002            |
| Doroud         | Total/ENI              | 75,000 b/d oil   | 2003            |
| Soroush/Nowruz | Shell                  | 190,000 b/d oil  | 2003            |
| Darkovin       | ENI                    | 100,000 b/d oil  |                 |
| Bangestan      | Under negotiation      | 600,000 b/d oil  |                 |
| Agazadeh       | Under negotiation      | 700,000 b/d oil  |                 |
| South Pars Gas |                        |                  |                 |
| Phase 1        | Petropars              | 900 MM cf/d gas  | 2002            |
| Phase 2, 3     | Total/Petronas/Gasprom | 1800 MM cf/d gas |                 |
| Phase 4, 5     | ENI                    | 1800 MM cf/d gas | 2004            |
| Phase 6, 7, 8  | Statoil, Petropars     | 2700 MM cf/d gas | 2005            |
| Phases 9,10    | Korea LG               |                  |                 |

## **Future Strategies for Influencing Domestic Development in Iran**



## Future Strategies for Influencing Domestic Developments in Iran

Geoffrey Kemp\*

It is important that the U.S. and EU work closely together to coordinate strategies for changing the policies of the Islamic Republic on four key issues: human rights, the Arab–Israeli peace process, terrorism and weapons of mass destruction. The approach should be a combination of carrots and sticks and must include close cooperation with other external powers, including Russia, China, Japan, Pakistan and Turkey. The immediate priority must be to end Iran’s support for terrorist groups who are opposed to an Arab–Israeli settlement and to delay, for as long as possible, an Iranian decision to build nuclear weapons. If Iran ends support for terror, its opposition to Israel will become a political, rather than an existential, problem and it will be easier for opponents of Iran, particularly in the U.S. Congress, to reconsider American policy, including sanctions.

The good news is that the EU’s Trade and Cooperation Agreement (TCA) with Iran has elements that the U.S. should welcome and support. Likewise, the EU should welcome the American and British victory over Iraq. This event has forced Iranian leaders to reconsider their policies towards the U.S. Whether they choose to be confrontational or seek some *modus vivendi*, or even rapprochement, will in turn depend upon how the U.S. and EU working together, treat them. The strategy must be to convince pragmatists within the conservative groupings in Tehran that their own future will be best served by reassessing their most damaging foreign policy activities.

The matter has become a major topic of debate in Tehran following a very interesting interview given to an Iranian periodical, *Rahbord*, published by the Centre for Strategic Studies, by former president Hashemi Rafsanjani. The interview was published on April 11 but was reportedly given to the magazine as early as February, before the war in Iraq started, but when it seemed inevitable that it would happen. In the interview, Rafsanjani muses about lost opportunities for better relations with the United States particularly after certain gestures made by President Clinton in his latter years in office. Rafsanjani suggested that the time may have come for a reconsideration of long-term Iranian objections to a formal dialogue with the United States. He inferred that this is something the Parliament might want to take up and there even could be a referendum on the subject. However, given the controversy over his own behavior, both during and after his presidency, and the fact that he has made bitter enemies, both reformers and conservatives have been very critical of Rafsanjani’s overture, some believing, particularly on the reformer side,

\* The Nixon Center.

that it is self serving and that Rafsanjani is looking to gain the credit for better relations with the United States. Others argue that in the wake of the American victory in Iraq this is a bad time to make concessions to the United States since it will appear to be an act of weakness.

This debate shows how difficult it is for the Iranians to agree amongst themselves and deal with the growing problems they face including their estrangement from the United States and the vulnerable position they find themselves in the region now that the United States has military forces in Iraq, Turkey and Afghanistan and throughout the Gulf to their south. They are literally encircled and face increasingly hostile voices in Washington, particularly amongst neo-conservatives who claim that now is the time to be tough with the regime. Some neo-conservatives outside the government have called for covert operations against Iran. Unfortunately the administration's tactical decision to agree to a cease-fire with the Mujahideen e-Khalq was seen by most Iranians as a highly cynical, hostile act by the United States given the fact that the MKO is on the U.S. State Department list of terrorist organizations and has been in cahoots with Saddam Hussein for the past decade or so. The State Department fought to rescind this decision but there are some in the administration who still believe the MKO can be used to intimidate the regime in Tehran.

The ability of the Iranian regime to change its policy on terrorism, nuclear weapons and its involvement in Iraq is a function of its own intense internal conflicts and the evolving regional environment. Iran's leaders understand the price they are paying for their anti-Israel, anti-American actions. Sophisticated Iranians, especially those involved with the economy and energy development, are painfully aware that Israel is a "third rail" issue in terms of U.S. politics and that Iran's anti-Israeli behavior will continue to poison the relationship, probably more than the lingering anger that persists in the United States over the hostage crisis. Iranians know that ultimately they have to come to grips with this problem, but they are presently incapable of taking steps to improve their posture because of their domestic turmoil including student demonstrations, and the belief of the hardliners that abandoning the fight against Israel and establishing relations with the "Great Satan" will mean the beginning of the end for the Islamic Republic.

Most objective observers would agree that since Mohammed Khatami was elected President in May 1996, day to day conditions for most Iranians have improved, especially in the realm of personal freedoms. The society is more open and pluralistic than at any time since the revolution. However, in parallel, frustration levels may well be at an all time high precisely because rising expectations after Khatami's reelection in 2000 have been supremely frustrated. The reality is that the vast majority of Iran's educated youth are disillusioned with the government and their future opportunities in Iran. If they could raise the money to immigrate to the west, they probably would. The government, including both conservatives and moderates, knows this; there are few illusions on their part. Yet they do not know how to resolve the structural problems facing the country

without facing a severe and possibly lethal backlash. What they do know is that the current political and economic impasse cannot continue indefinitely. The only question is what will be the catalyst for change. Another violent crackdown on reformers? A collapse of oil prices? Bread riots? A constitutional crisis triggered over the selection process for the next presidential candidates? An American setback in Iraq followed by a U.S. military ultimatum to Iran on its support for terrorism? All of these events could cause shockwaves to the system.

Everybody involved with Iran agrees that the regime has become more repressive in the past year. But absent some new catalytic event, conservatives can continue their reign of repression because they control the guns and the courts. In the long run the smarter ones know their tactics will lead to their demise. So what they will probably do is to compromise on a sufficient range of issues to assure their personal survival and to keep their considerable wealth.

This leads some Iran watchers to believe that a number of pragmatic conservatives will adapt to new realities. This could include accommodating the United States on terrorism and Israel. When that time comes it will be the end of the Islamic Republic as configured since 1979 but it will not necessarily herald a new era of reform. Indeed, many of the most ardent reformers in Iran worry that the conservatives will make a deal with the Americans; they will change their foreign policy and the U.S. will be less strident on issues pertaining to democracy and human rights. The Iranian reformers have reason to worry about this scenario. They would note that the U.S. was able, after 9/11, to change its policies with extreme alacrity towards two repressive states, Pakistan and Uzbekistan, once it became clear these countries would support the U.S. war on terrorism.

It is logical for this sort of deal to be considered by the conservatives. They know it is a vital U.S. interest that the terror against Israel stop. If Iran, in effect, “walked away” from the Arab–Israel conflict it would be easier for the U.S. to consider a new policy of engagement, perhaps even to have a dialogue with Iran about its weapons programs. This would be a major breakthrough for the U.S. since the Iranian involvement in the Arab–Israel conflict has been the most debilitating element of the relationship in recent years.

Of course it is easier for the U.S. to change its position on Iran than vice versa. If George Bush decided to make a new overture to the Islamic Republic would face some opposition within his administration and on Capitol Hill but he would be able to proceed without fear of impeachment or worse. The situation in Tehran is very different, especially concerning the first moves towards an official dialogue. Indeed, it is very much a question of “who goes first?” All the competing factions in Tehran are aware that the group that first establishes better relations with Washington will have an inherent political advantage in the weeks and months that follow. They will be the ones praised for common sense and for doing what is best for the Republic. Consequently, their opponents are likely to do whatever they can to prevent such an event from happening. This can

include leaks designed to undermined any diplomacy that may be underway. This can only be prevented if the Supreme Leader and the President, together, make a decision to change policy and do so in such a way that neither can easily renege on the effort. It will be difficult for them to do this except in an emergency. The post war situation in Iraq could provide the setting for such a change and the opportunity should be pursued by the U.S. as a matter of urgency.

To date, the various public statements by the Bush Administration about U.S.-Iran policy have been a mixture of threats and platitudes but have said very little about practical steps both sides might take to defuse a dangerous relationship. On the one hand Iran has been designated "evil" with all the attendant threats implicit in the doctrine "either you are with us or against us." The President has said the U.S. "will not tolerate" an Iranian nuclear weapons program. Yet the President and his advisors have stated that "U.S. policy is not to impose change on Iran but to support the Iranian people in their quest to decide their own destiny." The only practical suggestion the President has made is that "as Iran's people move forward towards a future defined by greater freedom, greater tolerance, they will have no better friend than the United States of America."

The Iranian people and its government officials can be excused if they appear confused as to what this all adds up to. Obviously Washington would welcome a new regime in Tehran but despite much speculation in some quarters about the imminent demise of the hardline mullahs, their strength shows no sign of weakening.

In view of this confused situation in Iran, and the problems that the United States faces, it is very important that the European Union follow through on its determination to link the TCA to benchmarks on progress on terrorism, the peace process and weapons of mass destruction. (It is understood that the TCA will include a human rights component.) To make sure that the benchmarks are firm and explicit, the WMD component must include a requirement that Iran sign the Additional Protocol to the Nuclear Nonproliferation Treaty, that it ratify the Chemical Weapons Convention and that it consider signing Comprehensive Test Ban Treaty. (Though this may be unlikely since the United States itself has refused to do so.)

On matters concerning terrorism, the Europeans themselves have to do far more to crackdown on the activities of Hamas, Hezbollah and Palestinian Islamic Jihad, all of whom are in cahoots with Iran in creating trouble and violence in Israel and the occupied territories. EU policy on cracking down on these institutions is based on a lowest common denominator. As long as countries such as France and Belgium insist that one cannot crackdown on funding to institutions like Hamas and Hezbollah who are assumed to have political legitimacy and do good social work, the problem can never be resolved. The EU needs to follow the same tough rules as the United States. There are many other ways to make sure that the people of south Lebanon and Palestine get access to funds through other organizations. Until the financing of the terrorist groups is fully under control they



will continue to use fungible money to promote violent activities. On this issue there will be no flexibility on the part of the United States. It will be a test of Europe's sincerity in the war on terrorism and particularly on their ability to convince Israel that they are serious about the peace process to crackdown on these organizations. Were this to happen it is unlikely that the Iranians will, in the long run, resist. Certainly the first target has to be Syria. If Syria agrees to stop support of these organizations, the Iranians will find it much more difficult to continue their own activities. At the U.S.-EU Summit meeting in Washington on June 25 the EU showed greater toughness on the matter of proliferation but the issue of how to deal with terrorism remains a bone of contention between Washington and Brussels.

As far as carrots are concerned, not only does the Trade and Cooperation Agreement loom large for the Iranians but the big prize would be the United States' removal of economic sanctions and its willingness to support Iran in international arenas, including its application to join the WTO. The United States can give Iran more legitimacy in financial markets if it reduces, and then eventually abolishes sanctions. Most important, it can help Iran with developing its huge energy resources particularly natural gas which, at the moment, are stymied and relatively stagnant. The advantage to the Iranians is that this would give them an opportunity to develop the economy which is in a pitiful state, and to meet the growing unemployment lines which expand with every new graduation of young Iranians who are well educated but have no jobs.

The stronger the cooperation between the EU and the United States, the easier it will be for the Bush Administration to challenge its own hardline supporters who, in the wake of the defeat of Saddam Hussein, have called for aggressive actions against Iran, including covert operations. This unproductive approach can best be challenged if a practical and constructive policy towards Iran is forthcoming that has the support of key European allies.

## The Need for a Coherent, Comprehensive and Cooperative Approach to Iran

Johannes Reissner\*

The war against Iraq has caused U.S. relations with Iran to enter a different phase: for not only have U.S. troops literally encircled Iran, but the Iranian regime has publicly admitted to directly negotiating with American officials. This constitutes a break in the long-standing taboo of not having official contacts (with Washington). However, the question of resuming official ties with the U.S. is not on the agenda, at least not for now. The new developments also put EU-Iran relations in a new perspective at a time when both sides have just recently (December 2002) begun to engage in negotiations for the Trade and Cooperation Agreement coupled with political dialogue on Human Rights and Arms Control.

Despite these developments the relevant question concerning U.S. and European relations with Iran is still the old one; namely, to what extent the Iranian regime and the political system are, and in the future will be, responsive to U.S. and European policies aimed at changing Iran's political behavior. The principle areas of concern for the U.S. and Europe are still Weapons of Mass Destruction (WMD), terrorism, the Arab-Israeli conflict and Human Rights. This paper will discuss the character of today's differences between European and American approaches towards Iran followed by reflections on Iran's responsiveness towards U.S. and European policy. Finally, it will consider future strategies for influencing domestic development and Iranian foreign policy.

### Changes and differences in European and American views of Iran

The triangle of U.S.-EU-Iran relations can be analyzed by looking at the period before the election of President Khatami in May 1997, a key turning point in relations, and the period after his election. Before Khatami, the general public's perception of the Iranian state as something principally bad was an important stumbling block for the EU policy of 'critical dialogue'—not to mention the U.S. and Israeli pressure against it. Khatami signaled a new course in foreign policy under the catchwords of 'détente' and 'dialogue between the civilizations.' The foreign policy trend behind these slogans was not altogether new-pragmatism in foreign relations generally and emphasis on regional relations were broadly implemented under Khatami's predecessor, Rafsanjani. However, it was Khatami who communicated the new foreign policy approach to the outside world and this contributed significantly to break Iran's isolation.

This new approach helped to pave the way for new European efforts to engage Iran. Ironically, it was just a month before Khatami's election that

\* Stiftung Wissenschaft und Politik.

the 'critical dialogue' had come to an abrupt halt. The reason was the verdict of the Berlin court on the 'Mykonos case' after which the European ambassadors left Teheran for seven months.<sup>1</sup> However, the dialogue (today called the 'comprehensive dialogue') between the EU and Iran was resumed in June 1998 and ultimately led to the current negotiations for an EU-Iran Trade and Cooperation Agreement. The negotiations began in December 2002 and are linked to a political dialogue concerning Human Rights as well as security and arms control.

These negotiations were made possible by two key developments: first, the growing power/influence of the reform movement changed the European public's perception of Iran from a bad and mad Mullah-state, to a country with 'good' reformers and 'bad' conservatives. Irrespective of how deceptive this view may be in regard to the real political dynamics in Iran, it allows the interested public to develop some hope and emotional engagement for a 'better' Iran. The second development occurred after the stabilization of the newly independent states of the former Soviet Union. European interest in Iran, typically limited to questions of energy and Iran's behavior in the Middle East, expanded to include Iran's role as a possible partner for stability in the region stretching from Central Asia to the Near East.

The advent of the Khatami-led reform movement and Iran's possible role in the new geo-strategic setting of the region after the demise of the Soviet Union also had an impact on U.S. perceptions and policies towards Iran. In spite of the Iran-Libyan Sanctions Act of August 1996, the Clinton administration made some steps in the direction of engagement with Iran in an attempt to "change its behavior." After the victory of the reform movement in the parliamentary elections of February 2000, Clinton took the comparatively bold step of declaring that Iran would be a desired partner in the region. The Bush Administration, in contrast, replaced the "change of behavior" policy with a policy advocating a complete change of the regime. Within the Bush Administration, the struggle within Iran was no longer seen as a political one between 'reformers' and 'conservatives' but as a struggle between the 'bad' regime of the 'unelected few' and the 'good' and 'freedom loving Iranian people.' The Manichean dichotic view of 'bad' regime versus the 'good' people has strong religious underpinnings and 'democracy' is no longer presented as an instrument to regulate different interests but as a way to salvation.

On a theoretical level, regime change and change of behavior contradict each other. On a political level, however, both may work as complementary contradictions for achieving the overarching goal: a WMD-free Iran and an Iran that is more conciliatory towards Israel. It can be assumed that the moment Iran does move convincingly in this direction the U.S. administration will relent on its regime change policy.

<sup>1</sup> On April 10, German courts found the highest Iranian authorities responsible for killing members of the Kurdish opposition in Berlin in September 1992.

The present intensification of the differences between the American and the European approaches is reflected in the actual policies of both sides. The U.S. conceptualize their policies in terms of global strategy, are more results oriented, and focus on the question of whether or not Iran gives up pursuing WMD. The European approach is more process oriented, looks at Iran as a state and society in transition, and tries to contribute to a possible change of behavior through negotiations and dialogue.

### **Iran's responsiveness to foreign influence**

Iran is a very normal country in that its main policy aim is to secure its territorial integrity and to safeguard its political system. Iran is subject to foreign influence for many reasons, but domestic challenges—people's will—are the most important push factor and govern the regime's response to outside influence and pressure. Even though it is true that decisive power is in the hands of the 'unelected few,' they cannot rule totally against the will of the elected institutions and the people. The 'unelected few' are increasingly aware of the fact that they ultimately owe their existence to the Iranian people and, in order to continue in power, need to be granted at least a certain amount of legitimacy by the people.

Of course, there are no elections to provide the necessary legitimization for the 'unelected.' They depend very much on public support and therefore they have to listen to public opinion. This dependency on the people's opinion is greater than one may tend to believe because of the repressive methods of the regime and its power and skill to manipulate people's wishes and aspirations. For a better understanding of the very complex interplay between public debate and political decision-making in the high echelons of power more research is needed. Here, only a basic rule can be presented: The more the subjects under debate are of real concern to the population and the more they are related to power and its legitimacy, the greater the chance for public discourse to influence political behavior. Iran is a discursive society, and the struggle for room to discuss critical subjects is ongoing. Although it may be said that today everything can be discussed, some things such as reopening official relations with the U.S. can not be called for publicly.

Efforts to influence Iranian politics from outside have to take the role of public discourse seriously. Outside influence, whether real or imagined, plays an important role for Iranian self-understanding. But broad discussions of what foreigners say have, naturally, an impact on politics only if they can reach people's real concerns. The following examples may be of interest:

Today, the most important discussion centers on the poor performance of the regime in respect to the most urgent socio-economic problems. A significant amount of pressure on the establishment comes from the growing cleavages between the population and the regime, especially given that the reform movement, as part of the elite and the regime, has lost much of its credibility and legitimacy because of its failure to deliver

on its promises. The need to do something for the people and, of course, the political rivalry of who would be best entitled and able to do something, has led to a new trend towards pragmatism. Its basic criterion is national interest. Islam and even 'revolution,' however, still function as important legitimizing points of reference. Generally speaking, the trend towards pragmatism is found within large segments of the population and the mainstream reformers as well as conservatives of the center.

The second example shows how an important foreign policy issue, namely the thorny question of U.S.–Iran relations, became more related to the average person's concerns and by this forced the rulers have to response to. In 1998, after Khatami's opening gesture towards the U.S. in his famous interview with CNN, the intense debate over resuming official ties with the U.S. could be stopped by the Leader of the Revolution relatively easily. But after Afghanistan, Bush's 'axis of evil' speech of January 2002 and the growing prospects of becoming 'next' after an American war against Iraq and the de facto encirclement by U.S. troops, public debate (besides the internal discussions of the power apparatus) about the relationship with the U.S. could not be stopped any longer. The presence of Americans literally at the border, rather than the ongoing sanctions, made the question of the Iran–U.S. relationship a matter of urgent public concern. Whether the time is ripe now for a policy change with regard to the U.S. remains to be seen. Rafsanjani's utterances about the possibility of resuming official ties in the journal 'rahbord' (strategy) and the open letter of 154 reformist parliamentarians, which was interpreted as a call for the normalization of ties with the U.S., are only the most important of many signs that something is in the air.

The third example is related to Iran's efforts to procure Weapons of Mass Destruction. This problem, despite being on top of the U.S. agenda, has not been discussed publicly in Iran until most recently. Therefore, previously the ruling circles could dismiss any criticism in this respect as typical "western arrogance." This criticism could also be largely ignored by virtue of the fact that many Iranians, irrespective of their political inclinations, see the nuclear question in the light of national pride and strength. It was only after Khatami's disclosure in February 2003 of Iran's intent to develop the entire nuclear fuel cycle, and after the visit of Mohammad El Baradeis of the IAEA to Iran, that the nuclear question also became a subject of public debate. Iranian officials stated that Iran is considering signing the additional protocol of the NPT, and Iran also said that it could be done in exchange for ending sanctions (here the typical attitude of bargaining in most vital appears). The open letter of the 154 reformist deputies also gave the nuclear question a prominent place. It mentions the case of Iraq as a warning for the dangers involved in being accused of pursuing weapons of mass destruction. Because of this kind of argument, the nuclear question may become a subject of public concern. Although debates on whether nuclear power would be reasonable for Iran in economic terms may be of interest for Iranian intellectuals living in the U.S., it is doubtful that such debates would concern the people in Iran.

### Aspects of future strategies

Starting from the assumption that public discourse can have an impact on the regime, the U.S. and Europe should redirect their policies aimed at changing Iran's behavior in the following ways:

The U.S. should give up the rhetoric of 'regime change' given that it no longer seems to reflect the political goal of the administration. To negotiate with a regime and at the same time to propagate its end does not promise lasting results. The Iranian regime faces a lot of outside pressure, is deeply involved in a factional power struggle and is confronted with strong resentment by significant parts of the population. In such a situation of insecurity, important concessions cannot be expected from the regime. The complaint that the U.S. does not recognize the Revolution should still be taken seriously. Notwithstanding the large amount of rhetoric which accompanies this complaint, it should nevertheless be understood as a serious expression of the need to feel accepted and recognized. Without giving the Iranians this feeling, which is reflected in Khatami's call for a 'dialogue between the civilizations' on an equal level, it will be difficult to achieve anything constructive. In addition to fears of 'encirclement,' which became a fact with Iraq war, fears of being too strongly 'embraced' by the U.S. also make the Iranian regime reluctant to open the doors to resuming official relations. These fears are often expressed in cultural terms as 'cultural onslaught of the west,' which reflects not only cultural but also strong political concerns.

The population at large shares the need for acceptance, no matter how strong its opposition to the regime is. It may be true, as some say, that the Iranian people are the most pro-American in the Middle East; and it is true that many Iranians do not participate in officially arranged demonstrations against Israel in order to demonstrate in this way against the regime. However, mistrust of and resentment to American policies, in particular America's pro-Israel policies, exist and can still be used and manipulated by the regime for its own interests. Though many people in Iran may wish a 'regime change' or even to be 'liberated' by U.S. troops, the confused discussion in the U.S. about the means for a regime change in Iran plays into the hands of this regime. Moreover, history has shown that, while efforts to influence Iranian politics might stir up movement, the direction and the outcome is almost impossible to predict. In addition, regime change should not be pursued without giving serious consideration to the consequences. Given the multiplicity of power centers, the diversity of ideologies and the unpredictable role of ethnic minorities, in particular Kurds and Azeris, the risks associated with a regime change are great not only for Iran, but also for the whole region.

Democracy should not be presented in a "missionary manner" as a kind of civil religion or even substitute for religion. Electoral democracy is accepted in Iran whereas liberal democracy is much disputed, largely because it is confused with the 'American way of life.' The Iranians in, and because of, their struggle for more democracy are highly sensitive about

any kind of democracy ordered from the outside. Perhaps Iran is a country where the borderline between domestic developments and aspirations on the one hand and external prescriptions on the other is a little bit more delicate than in others. Because Iranian feelings towards the U.S. are indeed mixed feelings, the role of the climate in U.S.-Iran relations is highly important. Therefore, the U.S. should do its own part to bring the climate of 'dual demonization' to an end.

The EU and its member states should follow their policies towards Iran more conscientiously. Their aim is neither 'regime-change' nor isolation, but they see Iran in a difficult stage of transformation and wish to see a change of political behavior and the regional integration of that country. The clarifications of the EU's stance towards Iran as expressed in the Presidency Conclusions of the Thessaloniki European Council, June 19-20, 2003, are helpful. They emphasize that progress in EU-Iran relations is interdependent with progress in the political and human rights dialogue. In addition, the declaration on Proliferation of Weapons of Mass Destruction in Appendix II to the same document, envisages the use of force as last resort to prevent proliferation and thus constitutes a rapprochement to the U.S. position. However, the Europeans want to see this means applied only within the framework of the Charter of the United Nations.

European policy towards Iran needs as much coordination with the U.S. as possible, in particular regarding the areas of concern (the nuclear question, Israel-Palestine, Human Rights and terrorism). However, the EU should ask whether regime change or change of behavior is the ultimate goal for U.S. policies towards Iran. The conceptualization of cooperation in terms of division of labor such as "good cop – bad cop" does not seem to be very useful any longer. Europeans should not be tempted to act as America's 'little brother' in their perception and approach towards Iran. Such a behavior would, particularly against the background of 'regime change' rhetoric, endanger the credibility of the Europeans not only in the eyes of the Iranians, but also in the eyes of their own public.

Given the new geo-strategic situation around Iran, the EU has to rethink the value of its relations with this country. EU-Iran relations are much more established and institutionalized than at the time of the 'critical dialogue.' A withdrawal of this engagement has become much less conceivable regardless of the pressure the U.S. and Israel may use against European engagement. In addition to looking for the overlapping or the complementary policies despite the contradictions with the U.S., the EU should make its policy of engagement more explicit.

European engagement plays an important role because, irrespective of what the EU has to offer to Iran economically and politically, its engagement gives Iranians the feeling of being accepted. Building on this, the Europeans should keep the benchmarks in respect to the four main areas of concern which they share with the U.S., despite differences about the means of resolving the related problems, in particular the Arab-Israeli conflict. However, the Europeans should not be tempted to concentrate almost exclusively on the problem of nuclear armament and Israel in the

same way as the U.S. Parallel with keeping those benchmarks it should use the manifold contacts with Iran on different levels to reach a better understanding of Iranian concerns and to develop interaction between the societies in order to promote, *inter alia*, a better understanding why these areas are of concern.

The European countries also should clarify their own interests in Iran and the region to the Iranian as well as to the American side and even to themselves and their own public. More information about European policy towards Iran and the region is needed. Information and proper assessment in this respect is a precondition for a necessary fruitful dialogue with the U.S. and may help to avoid irritations.



## Iran's Responses to the War in Iraq

Ali Ansari\*

"We won't be shedding many tears for the Iraqi Government. We are in favour of the disarmament of Iraq and we are convinced that disarmament must take place. However, we say that the Security Council of the United Nations should come. The concern we have is that the Americans should take the place of Saddam in Iraq. If this take place, you see, we have highlighted two outcomes in Iraq which we have designated best case and worst case scenarios. The best outcome is where a united territorially intact Iraq with a popular government. If the result of the arguments and battles is this, it is a good thing. The worst case is that the government of Iraq comes under the control of America, I mean that someone is in charge who takes his orders from the White House. This is worse than Saddam..."

*Hashemi Rafsanjani-Interview in Rahbord 16th Farvardin 1382 / April 5, 2003*

"Saddam is gone. Good riddance to bad rubbish [...] two of the main declared objectives of the U.S.-led invasion, namely regime change and destruction of the WMDs, has been achieved. If the Americans and the British do not leave Iraq as soon as possible, the view that they were never seeking to destroy WMDs nor bring down Saddam's regime, but that their main aim was to find a foothold in the regime, will make a lot of sense."

*Iran Daily, Editorial, April 21, 2003*

### Introduction

As former President Rafsanjani, current head of the powerful Expediency Council, noted in an interview hastened to print in the Iranian strategic studies journal, *Rahbord*, few Iranians, even of the official variety, will be shedding any tears for the demise of Saddam Hussein. Indeed, as many Iranians wryly point out, the notion of regime change in Baghdad, is one they had adopted (to less effect) some twenty four years ago. At the same time, as Rafsanjani notes, there are many senior officials within the revolutionary establishment, who will look with trepidation at the speed at which the Ba'hist regime in Iraq crumbled, and the high likelihood (in the short term at least) that a pro-American government will be established in Baghdad. At the same, although not mentioned in public, many pillars of the establishment must be looking nervously over their own shoulders and wondering about the fragility of their own social foundations. Indeed, when discussing the possible Iranian responses to the war in Iraq and its consequences, it is important to remember the divisions between state and society which have grown to alarming proportions in

\* University of Durham.

the last twelve months and the consequent distance between the attitudes of ordinary people and the revolutionary establishment.<sup>1</sup>

### Defining characteristics

In any assessment of domestic reactions, the following factors need to be borne in mind:

- 1. The distinction between state & society:** state-society relations in Iran are complex and integrated and normally understood to represent a multiplicity of power centres, but they are now also increasingly polarised between two distinct camps, each of which harbours different aspirations for the country. On the one hand stands the revolutionary establishment; a minority with access to the levers of power (especially money), and with a firm conviction in a particularly confrontational and authoritarian interpretation of Islam. They could broadly be defined as ‘conservatives,’ although increasingly only those occupying the hard right fringe (hawks)<sup>2</sup>. The Leadership office, some members of the IRGC leadership, and parts of the Judiciary belong to this group. The vast majority of the population including members of the government do not share this radical Islamic conviction, nor a belief in the ‘clash of civilisations,’ and while they may differ on aspects of the domestic agenda (particularly on social issues and the activities of the Judiciary), tend to agree on a foreign policy defined by national interests. While a simplification, it does reflect the process of polarisation itself.
- 2. A sophisticated political public:** Iran’s population is probably one of the most politically aware and intellectually vital societies in the Middle East. It has a keen awareness of both domestic and international developments, is well connected abroad (through the diaspora, as well as through media), and acutely critical of its own government and political establishment. While democratisation has yet to be institutionalised, the political culture of the country has been transformed over the past two decades, and is certainly moving in the right direction. This process of democratisation, however flawed, ensures that popular views and sentiments cannot fail to have an impact on the leadership.
- 3. The pervasiveness of nationalism:** while the popular assumption is to characterise Iran as an ‘Islamic state,’ aspiring to a particularly hardline interpretation of Islam, and as one U.S. official argued ‘the mother of modern terrorism,’ the reality over the past few years shows this assessment to be increasingly wide of the mark. There is little doubt that there are some (a vocal if decreasing minority) who hanker after a hardline imposition of Islamic doctrine, occasionally tinged with a curious though recognisable nostalgia for the certainties of the war; still less, that there many in government as well as the revolutionary establish-

<sup>1</sup> See for instance the open letter sent by 127 Majlis deputies to the Supreme Leader Ali Khamenei on 31st Ordibehesht 1382 / May 21, 2003.

<sup>2</sup> See for instance, Ayatollah Misbah-Yazdi’s comments in *Hayat-e No*, 4 Khordad 1381 / May 25, 2002, p. 1.

ment who defined themselves as 'Islamic' and driven by Islamic ethics, although their understanding of what constitutes Islam differs markedly from that which is often understood by their critics abroad. They would be quick to point out for instance, that they must not be lumped together with Sunni radicals, and that they are in fact *Iranian* Muslims. This 'nationalisation' of Islam is a process which is perhaps as old as the Islamic Revolution itself but its impact in political and social circles is now being felt emphatically. For instance there is a growing distinction between the foreign policy aims of the revolution, and of the nation, with the latter taking increasing priority reflecting the intense nationalism which is transforming social views. Contemporary Iranian nationalism differs from previous incarnations in that it is a profoundly popular ideology founded on traditional Iranian myths (i.e. the *Shah-nameh*).<sup>3</sup> It is increasingly anti-Arab in its orientation, and as such tends towards an Aryan chauvinism.<sup>4</sup> Ideas of Islamic brotherhood, and the *umma* are rapidly being superseded by a renaissance in Pan-Iranism, as witnessed in summer 2002 by the publication of books dealing with the subject.<sup>5</sup> This social development is helping define policy, insofar as all but the most radical Islamists within the regime, are having to tailor their policies to suit the public mood. This is not to say that Shi'ism will be unimportant, but where it plays a role it will be a peculiarly *Iranian* Shi'ism. The counterpoint to the anti-Arabism permeating Iranian society, is an affection for all things European/Western and helps explain the sympathetic hearing given by Iranians to the Western position over Iraq, and crucially, the anomalous reality that prior to the government organised anti-war march which took place during the New Year vacations (April 2003), the largest anti-war rally in Iran drew a paltry 700 supporters.

The consequences of these three defining characteristics of contemporary Iran are a dynamic, vibrant, and deeply nationalist society (extending into the organs of government), sitting uneasily alongside a revolutionary establishment whom it distrusts, parts of which are seeking to renegotiate their social contract at a time of heightened international tension. While some argue that greater democratisation will reignite state-society relations and hence strengthen the regime in the face of foreign pressures, a radical minority are contemptuous of both domestic and international challenges, and in fact see the international threat as a means by which domestic dissent may be suppressed. One reality that all sides agree upon however is the strength of Iranian nationalism, and the salient fact

<sup>3</sup> The erection of a statue of 'Kaveh-ye Ahangar' (Kaveh the Blacksmith) in Isfahan is indicative of this trend, see, *Aftab-e Yazd*, 7 Shahrivar 1381 / August 29, 2002, p. 5; BBC Mon ME1 MEPol sb 'Voice of the Islamic Republic of Iran, 11:00 gmt, August 23, 2002.

<sup>4</sup> See for example the inquiries into the Head of the Judiciary, Ayatollah Shahrudi's 'nationality,' BBC Mon ME1 MEPol sb 'Norooz web site, January 20, 2002.

<sup>5</sup> For example, Tale H *Tarikhche-ye maktabe pan-Iranism* (The history of the ideology of Pan-Iranism), Sarmarqand, Tehran, 1381/2002.

that Iranians (including members of the basij) will fight to defend Iran, but will be reluctant to defend the regime (i.e. revolutionary establishment).

### What Iran wants

- 1. The territorial Integrity of Iraq:** There are some in Iran who will relish the thought of a division of Iraq into three distinct states, and the consequent increase in Iran's power as a result of this geo-political reshuffling of the Middle East pack. Indeed, there is little doubt that the one country that would in all probability benefit from such a break up would be Iran. Nevertheless, on balance, the Iranian government would prefer the borders to be retained so as to insure against instability on its Western border, and to prevent any possibility of an independent Kurdistan developing—though the consequences of this would be far more serious for Turkey and Iran can rest assured that Turkey will handle (and take any criticism) on the Kurdish issue. While there are some concerns that a break up of Iraq might herald a general desire to alter other Middle Eastern borders, including Iran's, such a move would have extensive regional implications and Iran is not necessarily the most vulnerable state in this regard.
- 2. A neutral (neutered) Iraq:** Iran would be content with a stable, relatively prosperous, but militarily weak Iraq. It would be neutral, devoid of U.S. troops, and ideally not pose an economic challenge to Iran, but instead be a market for Iranian goods.
- 3. A pro-Iranian Iraq:** The development of an 'Islamic Republic' of Iraq dominated by Iraqi Shi'as, with close social and political relations with Iran—the ideal scenario. (It remains unclear however just how enthusiastic Iran would be with a rival 'clerical' regime in Iraq—there can after all be only one *velayat-e faqih!*).

### What Iran fears

- 1. A descent into civil and sectarian conflict:** Iran does not want instability on its Western border, fearing the consequences for its own stability, and the influx of refugees. On a macro level there will be many who will consider further instability as to the detriment of the economic growth of the region as a whole and Iran in particular. But there are also advantages to this situation in that Iraq will not pose an economic threat to Iran, and more importantly, Iran will be able to pose once again, as an island of stability in an otherwise turbulent region. There are some who argue that a U.S. mired in the Iraqi quagmire, will be forced to rely on Iran, and thus a rapprochement may be an unforeseen but fruitful outcome.
- 2. A Pro-American prosperous Iraq:** This would be the worst case scenario for the establishment, though many Iranians would welcome it, since they would view it as a potential catalyst to kick start their own stalled reform programme. The chief threats posed by this scenario to Iran lie

less with an American presence (Iran has grown used to sharing the region with the U.S. military), unless one presupposes that the U.S. intends to invade Iran, than with the challenges posed by a renaissance in religious learning in Najaf and Kerbala, and the economic re-emergence of Iraq. Put simply, Iran's hydrocarbon sector becomes marginal when oil companies can gorge themselves on Iraqi oil. More interestingly would be the role of Najaf and Kerbala in defining Shi'a theology, and the challenge it would pose to Qom. It would in effect release Shi'a learning from the political control of Tehran. An alternative scenario however might be that clerics in Najaf and Kerbala may prove more hardline than their counterparts in Qom, which may only serve to accentuate ethnic differences as noted above. Whatever the ultimate outcome however, open division is bound to weaken the already fragile theological foundations of the Islamic Republic.

## What Iran will do

1. **Domestic consequences:** There are essentially two possible outcomes:
  - a. Renewed attempts at repression and a formal end to the 'Reform' movement. This may be attempted if the situation in Iraq deteriorates to such an extent that a state of emergency can credibly be declared in Iran (i.e. 'look at the consequences of freedom'). Another unforeseen, though similarly unlikely development might be as a consequence of the rise of Shi'a radicalism in Iraq and the perceived need to take a 'leadership' role in Iran. In the other words the temptations offered by an extension of regional power through the medium of Shi'ism will encourage a Shi'a retrenchment in Iran. There are undoubtedly many reformers and nationalists in Iran who are as dismayed by the scenes in Kerbala as are Western observers (*deja vu!*). Both these developments, because of the social developments noted above, are however unlikely to be sustainable.
  - b. The revitalisation of reform in an effort to rebuild and cement legitimacy. In order to deflect criticism from the U.S. but also to cement its position as a leader in the Shi'a world, political reform will be encouraged so as to strengthen the Iranian state. Such reforms will of course be selective and gradual. A more dramatic overthrow of the existing order may ultimately result from a stabilised Iraq and a renewed American attempt to encourage regime change (see below).
2. **Intervention:** There is little doubt that Iran will take action to insure itself in Iraq and ensure its interests are protected. It is naive to believe that Iran will not intervene in Iraqi politics, they have been intervening for the better part of a decade and are unlikely to stop now. But the method of intervention may be less obvious and tangible than some commentators suggest. While elements of the IRGC and Ministry of Intelligence are likely to be active in both the Shi'a and Kurdish areas, the most interesting avenue of influence will be through clerical links which will be much harder to contain. (London of course has been an

important conduit given the plethora of Islamic Institutes). The relationship between the *ulema* in Iraq and Iran is tight and often bound through kinship ties (Khatami is himself related by marriage to the Sadr family), and while instability and uncertainty continue in Iraq, the influence is likely to be felt from Iran to Iraq rather than the other way round. At the same time, 'influence' is not quantifiable in any scientific way, and it is very possible that Iranian attempts will prove counter-productive. Indeed, experience shows that the more settled a situation, the more independent the actions of the 'client.' Furthermore, it is important not to read into every Shi'a activity on Iraq, the mysterious hand of Iranian agents, or indeed to regard it as disruptive. We should remember, Iran seeks control, not another radical Shi'a revolution which may have uncomfortable repercussions at home. (The relationship between Iranian and Iraqi Shi'ism and its consequences, is difficult to assess, especially when we consider that Iranian politics is experiencing a process of *desacralisation*, in marked contrast to much of the Islamic world).

**3. Relations with the United States:** There is little doubt that there is a vast and growing swathe of Iranian society, along with government, that wants to renegotiate its relationship with the United States. A major obstacle here is the role of the Leader, yet it is not unforeseeable that a degree of flexibility may be induced through carefully applied pressure. The rapid demise of the Saddam Hussein regime will prove a salutary lesson to those in power in Iran, although attitudes will now be shaped on how the U.S. manages the ensuing peace, and present indications are that instability will continue for some time. There are some who will seek to take advantage of U.S. difficulties, but the countervailing pressure to find some means to develop a rapprochement will be strong, given the experience in Afghanistan and the considerable reflection which occurred in political circles following what was generally perceived to be the failure of Iranian foreign policy after January 2002<sup>6</sup>. Ayatollah Khamenei's objection to dialogue with the U.S. is reportedly justified on the grounds that it would be a dialogue of unequals. As such, and paradoxically, the greater U.S. difficulties in Iraq, the less unequal (in regional terms) the relationship may be. In other words, the U.S. may find that dialogue is a necessity in order to prevent a bad situation becoming worse. In sum, while the ideal situation for the U.S. would have been the imposition of a quick and easy peace, thereby allowing attention to shift emphatically to Iran, it is increasingly clear that we will be dealing with shades of grey, and as a consequence pressure (which must still be brought to bear) will have to be tempered by compromise. The obvious channel through which this can be achieved of course will be the British. At the other extreme, should Iraq descend into chaos and the U.S. 'disengage,' Iran's position will become magni-

<sup>6</sup> See for example BBC Mon ME1 MEPol sb *Hambastegi*, Tehran, March 16, 2002, also BBC Mon ME1 MEPol sb, *Bonyan*, Tehran, March 18, 2002, pp. 1-2.

fied in the region as a whole (the geo-political gains of a vacuum in the centre of the ME), and the ability to impose effective pressure will decrease dramatically. This though, is an unlikely scenario.

### Concluding remarks

There are many variables which may affect the outcome of developments in Iraq and Iran's response to them. This policy paper has sought to concentrate on probabilities rather than possibilities, based on the social and political reality of contemporary Iran and her stated objectives in the region. These objectives are increasingly defined in terms of 'national' priorities since nationalism is the central criteria for legitimacy with the Iranian public. This is a reality that should be borne in mind by U.S. policy makers, and while the majority of Iranians are sympathetic to the United States, this does not equate to unqualified affection. The public opinion poll conducted in the summer of 2002 indicated that while some 70 percent of Iranians wanted a dialogue, a majority remained distrustful of U.S. intentions.<sup>7</sup> Any approach which is interpreted as 'anti-Iranian' (as opposed to anti-regime) will be resisted, and there should be no doubt as to the regime's ability to cultivate nationalist sentiment if the opportunity is afforded to them by the apparent incoherence of U.S. policy. While some Iranians want to pursue a policy of confrontation, the vast majority, including members of the leadership would prefer a negotiated peace, with honour, and influence in Iraq will be used as leverage in any dialogue. The longer Iraq remains unsettled, the greater the likelihood of this development, especially if Iran can be persuaded to have a moderating influence on Iraqi Shi'as, a development which is in the interests of both Iran and the United States. It would ironically result in the tacit encouragement of *Iranian* as opposed to *Arab* Shi'ism and lend credence to the oft-quoted (though clearly misunderstood) Biblical phrase, that 'the writing is on the wall.'

<sup>7</sup> Interview with the author.

## Conference Agenda and Key Points of Discussion

### Session I Iran and the Middle East

1. The Iranian regime sees the Shiites in Iraq as the biggest short-term to their authority
  - ▶ The real threat to the Iranian regime is the emergence of a theological force in Najaf that legitimizes a secular regime and does not support Iranian theocratic interpretations of Islam.
  - ▶ While it is clear that Iran will have an influence on the future Iraqi government, the Shiites are not under Iran's control.
2. The U.S. is focused on ensuring a secular government in Iraq by supporting moderate Shias
  - ▶ Unless the U.S. administration in Iraq becomes much more effective it will not be able to easily influence the Shia population and overall success in Iraq could be threatened.
  - ▶ It would be a mistake if too much focus were placed on secularization because many of secular governments are very unpopular in the Middle East. Moreover, politics is often communicated through religious language.
3. Iranian support of terrorism, via Hezbollah, is a continuing problem for the U.S., but not so serious for the EU.
  - ▶ It is problematic when Iran supports terrorist activities because this has the strongest impact on U.S. policy given that much of U.S. policy towards Iran relates to Israel.
  - ▶ Iranians will eventually realize that there is no longer a point for them to be involved with such terrorism and back off. This could set stage of better relations with U.S. If Iran does not back off, the U.S. will eventually respond.
  - ▶ The EU tends not to take the terrorism capability of Iran as seriously as the U.S.

### Session II Iran's Relationship to Its Neighbors in Central Asia and the Caucasus

1. Overall Iranian foreign policy is strictly geo-politics—no religious undertones or Shia/non-Shia element
  - ▶ Iran is willing to go very far in ignoring "Muslim brothers" although this creates a bad image that plays badly with the public.
  - ▶ Iran supplied food, natural gas, etc. to Christian Armenia in its war against Muslim Azerbaijan.



- ▶ Russia gave a strong commitment to Iran, in terms of military support and building nuclear plants, in exchange for Iran's keeping Chechnya off the agenda as an Islamic issue.
2. A policy of engagement towards Iran, such as that employed by Russia, can be effective
    - ▶ Russia is very sensitive to Islamic threat and based its policy with Iran on how Russia could best prevent Iran from becoming a destabilizing factor.
    - ▶ Regular high level meetings between Russia and Iran and regular bilateral roundtables since the break-up of the Soviet Union allowed Russia a voice/criticism of Iran's behavior.
    - ▶ Russia's willingness to engage with Iran effectively secured Russia's interests in the region.
  3. The U.S. has followed a policy of isolating Iran, in particular with respect to the development of the Caspian, with questionable success
    - ▶ Until 1994-5, when the U.S. succeeded in pressuring Azerbaijan to exclude Iran Oil Co. subsidiary from consortium, Iran's position was more or less neutral. Today, Iran has become much more difficult and it is the only country opposing division of the Caspian Sea and its resources.
    - ▶ U.S. policy not solely responsible for Iranian position, but no doubt that it has helped to make Iran less cooperative which has caused problems for other countries and western oil companies.
  4. Since the rise of the Taliban, Afghanistan is an area where the U.S. and Iran have compatible interests
    - ▶ Various agencies of the U.S. and Iran began to have regular low-level contact under the auspices of UN (6 plus 2 group) in 1997.
    - ▶ The U.S. worked with elements of the Iranian revolutionary guard when it was developing the relationship with the Northern Alliance.
    - ▶ The U.S. needs the continued cooperation of Iran to strengthen Karzai in Kabul at the expense of Han in Herat; putting Iran on the Axis of Evil has threatened this cooperative effort.

### Session III

#### Iran and the Problem of Proliferation

1. General assessment is that Iran is 1-3 years away from having a nuclear weapon
  - ▶ Through minimal, hard-to-detect diversions of fissile material from the civilian program, Iran could have 50-100 bombs by 2010.
  - ▶ Russia itself is having concern about Iran's program, realizing that they can't really control it.
2. Some believe that Iran's possession of a nuclear weapon is justified
  - ▶ Many reformers, conservatives, the political elite and the opposition that lives abroad believe that arms control is not in Iran's national interest and its binds Iran in way that is no longer acceptable.

- ▶ Many Iranians feel discriminated against because Iran is called a rogue state and put on the Axis of Evil even though they have thus far fully complied with arms control regimes ... some question the point of further compliance.
  - ▶ Many believe Iran's international standing would be enhanced through a nuclear program, i.e. India and Pakistan.
  - ▶ In recognition of Iran's "dangerous" neighborhood (3 nuclear-armed, non members of NPT, Israel, Pakistan and India, are neighbors of Iran) some think nuclear weapons are acceptable if they are seen as deterrent factors and not coupled with an aggressive foreign policy.
3. Many states in the region will conclude that they have to act as if Iran has nuclear weapons and this could lead to a regional arms race
- ▶ Proliferation pressures would increase in the region if Iran has a nuclear weapon. Other countries such as Egypt and Turkey would be under great pressure to develop their own nuclear weapons.
  - ▶ To reduce such proliferation pressures, the U.S. and NATO will need to increase security guarantees to the Gulf States, Israel and Turkey, including an enhanced presence and perhaps a nuclear umbrella and missile defense.
4. The existence of the NPT itself is under threat will be further threatened if Iran develops nuclear weapons
- ▶ Many NPT members are already asking themselves if it makes sense to be members. The U.S. development of mini-nukes violates the spirit of the NPT and creates more skepticism among member states.
  - ▶ The NPT and the additional protocol is not enough to stop Iran, they could develop weapons covertly or decide to leave the NPT as North Korea did.
  - ▶ Many of those who would opt out of the NPT are technically capable of developing nukes very rapidly.
  - ▶ The question is whether the NPT is truly achieving its goals and if not, why is there so much concern with preserving the NPT. The idea of a country leaving NPT is often viewed as so disastrous that some members are permitted to cheat.
  - ▶ Failure of NPT could have follow-on effects on CWC and other arms control treaties.
5. One way to prevent Iran from developing nuclear weapons is for Iran to agree to a verifiable freeze of its alleged development efforts in exchange for concessions from the West
- ▶ The West must convince the Iranian leadership that more transparency is in its interests and that it could count on improved political and economic cooperation with West.
  - ▶ Doing a deal with hardliners could be viewed as a pull back of efforts to engage reformers and run counter to democratic principles because the hardliners are unlikely to accept any deal which allow the U.S. to continue to offer ideological support the reformers.
  - ▶ The alternative is to wait and hope for a change of the regime and deal short- to medium-term instability.

6. Military intervention in Iran is a high risk alternative give the current state of the region
  - ▶ Military action would adversely affect U.S. strategy of promoting democracy in the region.
  - ▶ Although a powerful faction in Washington that wants to be tough with Iranians, there is no real desire for another major confrontation with another Middle Eastern country. Iraq and Afghanistan are both still unresolved.
  - ▶ However, the U.S. is unlikely to accept an Iran that is nuclear capable and would be likely to consider allowing Israel to attack the nuclear capability of Iran.

#### **Session IV**

#### **The Role of Iran and the Region for Global Energy Supply**

1. Rational for continuation of sanctions is due to a lack of incentive to do much else and inertia that goes with sanctions
  - ▶ History of sanctions indicates that sanctions removal will follow policy change in Iran.
  - ▶ Sanctions have primarily benefited non-U.S. competitors, although they did inhibit development of the oil sector from 1985–1988.
2. New investment is required to halt the decline of Iran's oil production in its ageing oilfields
  - ▶ The most significant barriers to foreign investment are Iran's lack of a consistent and attractive investment regime and political instability.
  - ▶ Declining world oil prices also act as a deterrent to investment in Iran because the oil there is increasingly expensive to extract.
  - ▶ Projects that do get approved go very slowly and the rates of return are insufficient to attract foreign companies.
3. Iran can play an important stabilizing role in OPEC that is helpful to Europe and the U.S.
  - ▶ Iran is the #2 exporter in OPEC and this permits it to act as a counterweight to Saudi dominance.
  - ▶ The West needs to deal with Iran in a way to encourage it to act as a stabilizing factor.
4. A pipeline is needed to transport natural gas from Iran and the Gulf in order to meet rising European demand and disrupt the Russian monopoly on supply.
  - ▶ EU is by far largest importer of natural gas and Russia's declining production will not be enough to meet the growing demand.
  - ▶ Iran has second largest natural gas reserves (after Russia) and is a link between the Gulf and the Caspian Sea.

## Session V

### Future Strategies for Influencing Domestic Development in Iran

1. The EU and U.S. need to work more closely and coordinate strategies in order to make it more difficult for Iran to avoid the demands of the international community
  - ▶ The EU is the largest donor to the region, but it is not active on a higher, political level that would be recognized by the U.S.
  - ▶ The U.S. should support EU Trade and Cooperation Agreement being negotiated with Iran as this could be a key lever to influence the behavior of the regime.
2. If the EU and the U.S. could develop a coordinated action plan for dealing with Iran, it would then be easier to get the Russians involved, and then the rest of the international community.

### Abbreviations

|         |   |
|---------|---|
| AIOC    | Azerbaijan International Operating Company          |
| AIPAC   | American-Israeli Public Affairs Committee           |
| bcm     | billion cubic meter                                 |
| CIA     | Central Intelligence Agency                         |
| CIS     | Commonwealth of Independent States                  |
| CWC     | Chemical Weapons Convention                         |
| ECO     | Economic Cooperation Organization                   |
| ECT     | Energy Charter Treaty                               |
| EU      | European Union                                      |
| GDP     | Gross Domestic Product                              |
| IAEA    | International Atomic Energy Agency                  |
| IAEO    | International Atomic Energy Organization            |
| ILSA    | Iran and Libya Sanctions Act                        |
| INOGATE | Interstate Oil and Gas Transport to Europe          |
| IRNA    | Islamic Republic News Agency                        |
| ISI     | Interservices Intelligence                          |
| LNG     | Liquefied Natural Gas                               |
| mbd     | million barrels per day                             |
| NA      | Northern Alliance                                   |
| NATO    | North Atlantic Treaty Organization                  |
| NGL     | Natural Gas Liquid                                  |
| NIOC    | National Iranian Oil Company                        |
| NPT     | Non-Proliferation Treaty                            |
| OPEC    | Organization of the Petroleum Exporting Countries   |
| OSCE    | Organization for Security and Cooperation in Europe |
| PLO     | Palestine Liberation Organization                   |
| TCA     | Trade and Cooperation Agreement                     |
| TFPD    | Transatlantic Foreign Policy Discourse              |
| UF      | United Front  |
| UN      | United Nations                                      |
| WMD     | Weapons of Mass Destruction                         |
| WTO     | World Trade Organization                            |