

“Choices and Strategies for Dealing with Iran”
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When President George W. Bush assumed office in 2001, Iran was not a nuclear power state. However, when he leaves office next January, Iran will either have acquired that status or be on the verge of having done so. Listen to its president, Mahmoud Ahmadinejad, and you hear that Iran has 3000 operating centrifuges and is now installing an additional 6000 IR-2 centrifuges that will be five times as efficient as those already operating. Even if President Ahmadinejad exaggerates the exact status of the Iranian efforts, the Iranians probably will solve the technological problems that have limited their ability to operate their centrifuges on a non-stop basis within a year's time. And, once they have done so, they will be able to enrich uranium and stockpile fissionable material.

If nothing else, this tells us that our current policies are not going to prevent Iran from acquiring the capacity either to assemble nuclear weapons or build a break-out capability. It tells us as well that the next administration will have fewer options available and less time to prevent Iran from crossing the nuclear weapons threshold. In my testimony today, I will address our stakes in preventing Iran from going nuclear, its vulnerabilities that provide us leverage, and the range of different options we might employ to alter Iran's behavior before it is too late.

Our Stakes in Changing Iran's Behavior

Iran has certainly posed challenges and threats to America's interests since the Iranian revolution in 1979. But in the 1980's, Iran was consumed and drained by eight and half years of war with Iraq. Even after the 1991 U.S. defeat of Saddam Hussein in the first Gulf War, Iraq remained a threat and a counterweight to Iran. But that counterweight disappeared with our removal of Saddam's regime. And, today Iran seems to be on a roll, effectively challenging America's interests throughout the Middle East. From Iraq to Lebanon to the Palestinian Authority and Israel, Iran's policies are not only at odds with ours, but seem designed to frustrate and undermine U.S. goals and partners. Arab governments in private lament Iran's growing strength in the region. They worry about the increasing shadow it casts over the region and its ability to exploit militancy and anger in the Middle East to put them on the defensive. The fact that the complaints about Iran are made more in private than in public already says something about Iran's coercive potential in the area.

An Iran with a nuclear weapons capability would surely add to that coercive potential. Arab and Israeli leaders with whom I have spoken explain that they fear that should Iran have nuclear arms, it will transform the landscape of the region. Iranian leaders will feel emboldened to use terror and terror groups to threaten or subvert others in the area, including particularly those who might be inclined to pursue peace with Israel, knowing that their nukes provide an umbrella of protection or a built-in deterrent against responses.

To be sure, Israelis are worried not only about an increasing Iranian coercive capability. They see an Iranian nuclear weapons capability posing an existential threat to

the state of Israel. Tell the Israelis that Iran will act rationally, knowing that Israel can retaliate with a devastating nuclear counterstrike if Iran or its proxies ever used nuclear or dirty bombs against Israel, and they are not reassured. For starters, they point to the language of Iranian President Ahmadinejad, who has denied the Holocaust and Israel's right to exist; declared that Israel (or the "Zionist entity" as he refers to it) will be "wiped off the face of the map;" and proclaimed recently that Israel's collapse is "imminent." Israelis take small comfort from those who are seen as more pragmatic than Ahmadinejad in the Iranian leadership, like former Iranian President Akbar Hashemi Rafsanjani; even he, they will point out, has said that Iran could absorb many nuclear bombs and survive and Israel, given its small size, could not survive even one.

It is not just Israel's small geographic size and concentrated population that worries Israelis. It is the ideological-messianic fervor of at least some in the Iranian leadership. The Israelis question whether that segment of the Iranian leadership (which believes in the apocalyptic return of the "Hidden Imam") can actually be deterred and believe that they cannot run the risk of trying to find out. As a result, the risk of an Israeli preemptive military action to blunt or delay the Iranian nuclear program is quite high.

That, alone, might argue for an intensive American effort to prevent Iran from developing or acquiring a nuclear weapons capability. As important as it is to avoid such an Israeli action, given all the possible consequences of it, we have additional reasons to prevent Iran from going nuclear. For one thing, the fear of increased Iranian coercive capabilities---particularly as it relates to being more aggressive in terms of pushing a Shia agenda or even subversion in states like Saudi Arabia---is likely to produce a perceived need for a counter nuclear capability. The Saudis have already expressed an interest in having nuclear power. While they may say they will not acquire a nuclear weapons capability, their words seem to parallel the Iranian-professed interest in having nuclear power—and the Saudis have no doubt that Iran is seeking a nuclear weapons status.

The Saudi relationship with Pakistan, previous secret arms deals between the two, and its financial means all suggest that the Saudis might buy or have Pakistan station nuclear weapons on Saudi soil to create their own deterrent of Iran. Egypt, given its status in the region, might also decide that it must develop its own nuclear capability. Several months ago, a senior Egyptian official told me that if Iran goes nuclear, "it will mean the end of the NPT."

Such a sentiment should be taken seriously. It reflects a perception in the region that a nuclear Iran requires a response—and it may not be one that can be satisfied only by new American security assurances. While some may believe that traditional deterrence will contain a nuclear Iran and our security assurances to Middle East states will offset Iran's capacity to intimidate or blackmail them, the problem, unfortunately, is that our security assurances may not be particularly relevant to the threats that most worry Middle Eastern regimes. True, our security assurances may counter overt threats, but how relevant are they to preventing Iran from feeling more able to subvert its neighbors? Whether giving the Israelis a reason not to strike Iran preemptively or giving the Saudis and others a

reason not to create their own nuclear counter to Iran, we have a strong stake in preventing Iran from going nuclear.

Certainly it has been the policy of the Bush administration to try to prevent it. But that policy, while producing three UN Security Council resolutions, has largely failed because it has not forced the Iranian government to face an unmistakable choice between its economic well-being and integration into the regional and global community—politically and economically—or having nuclear capabilities and being truly isolated and cut off economically from the international financial system. Iran has pronounced vulnerabilities and those vulnerabilities do provide leverage for affecting its behavior. Unfortunately, the ability to exercise that leverage was undercut by the National Intelligence Estimate (NIE). Before discussing Iran’s vulnerabilities, it is important to understand how the NIE affected efforts to pressure the Iranians.

The National Intelligence Estimate and its Impact

The December 3, 2007 public release of the NIE, titled “Iran: Nuclear Intentions and Capabilities,” transformed the landscape on dealing with Iran. By asserting that Iran halted its nuclear weapons program in 2003, it created the impression that Iran was not pursuing nuclear weapons and was not a near-term threat. If it was not a near-term threat, why pursue sanctions? Why build pressure on it? And, of course, why should all options, including the military, be on the table?

It is ironic that Iran was not sanctioned by the United Nations for its covert nuclear weapons program; it was sanctioned for its open pursuit of uranium enrichment, which if continued over time (something the NIE acknowledges is continuing) could be used to develop nuclear weapons. It is also ironic that the NIE concluded that Iran had stopped its weapons program in 2003 “primarily in response to international pressures,” which “indicates Tehran’s decisions are guided by a cost-benefit approach.”¹ Perhaps the greatest irony of all is that by framing its judgments the way it does—emphasizing the covert nuclear weapons program and efforts rather than the overt enrichment developments---the NIE has inadvertently succeeded in considerably reducing the “cost” factor in the current international approach to Iran.

I say that because apart from the British, French, and Germans, the international reaction after the NIE seems different from before it. One almost needs to divide the approach toward dealing with Iran into the pre-NIE and post-NIE periods. Pre-NIE, the Russians and Chinese were prepared to act immediately on a third UNSC sanctions resolution against Iran; post-NIE, they both raised questions about doing so and postponed consideration of such a resolution. It took until March 3, 2008 to adopt the third Security Council Resolution (1803), and it is weak and sends a signal as much for what it does not cover as for what it does.²

Pre-NIE, the Saudis were trying to raise the pressure on the Iranians on their nuclear program. In early November, Saud al Faisal, the Saudi foreign minister, called on Iran to

respond to a Gulf Cooperation Council proposal to “create a consortium for all users of enriched uranium in the Middle East. The consortium will distribute according to needs...and ensure no use of this enriched uranium for atomic weapons.”³ Faisal suggested that Switzerland could be the site of the enrichment plant for the consortium and made clear that this proposal, which he revealed had been conveyed privately to Iran one year earlier but not produced a response, would answer the Iranian desire for civil nuclear power and not prejudice Iranian rights in any way.⁴ Why go public at this point unless the purpose was to put pressure on Iran?

But that was pre-NIE; post-NIE, there has been no additional mention of the proposal; on the contrary, the GCC invited Ahmadinejad to attend their last meeting (an unprecedented invitation) and King Abdullah of Saudi Arabia also invited the Iranian president to go to Mecca—hardly signs of increasing pressure on Iran. Similarly, after keeping Iran at arms length, Egypt invited Iranian official Ali Larijani to Cairo for discussions after the NIE; and former Egyptian Ambassador to the United States Ahmad Maher wrote in a January 2008 commentary that Israel was the problem for the Arab world, not Iran, and that the “disputes between Arabs and Iran” can be resolved “through a dialogue.”⁵

In Iran itself, one also sees a pre-NIE reality and a different post-NIE reality. Ahmadinejad was clearly on the defensive prior to the NIE, and he went on the offensive after it. He seized on the NIE, proclaiming a great victory and at a one point referred to the intelligence report as a “declaration of surrender.”⁶ But he was not content only to claim a great victory over the United States and others who opposed the Iranian nuclear activities; according to his office’s news service, he also “belittled” those in Iran who had criticized (presumably him) the high cost Iran was paying over the nuclear issue.⁷

If nothing else, those like Rafsanjani who were warning about Ahmadinejad’s nuclear approach seem to have been undercut. And, there is one other development involving Ali Khamenei that may prove very important; it, too, comes in the post-NIE period. Iran scholar and Shiite theologian by training Mehdi Khalaji notes that in a January 3 speech, Khamenei, for the first time, “admitted that Iran’s shift in nuclear policy—which began right after Ahmadinejad came to office—was by his order.”⁸ Whether coincidence or not, the Supreme Leader in the post-NIE environment is taking a more visible role on the nuclear issue, meeting with Dr. ElBaradei on January 12.⁹ While it is probably too much to claim that the NIE has changed his view, his readiness to be more clearly identified with the nuclear program is, nonetheless, clearly apparent.

It is hard to escape the conclusion that the leverage and choices that can be employed vis-à-vis Iran in the aftermath of the NIE have been reduced. Having fewer choices or options, however, does not mean we have none. Iran still has vulnerabilities and interests that might be susceptible to both positive and negative incentives and disincentives.

Iran’s Vulnerabilities and Our Diplomatic Choices

Our basic objective toward Iran should be to prevent Iran from developing nuclear weapons and to alter its de-stabilizing, anti-peace policies in the Middle East. Do we have the means and the leverage to do so? In the aftermath of the NIE and Iran's continuing enrichment developments, that remains unclear, but Iran certainly has some very basic vulnerabilities.

Iran's Vulnerabilities

Its oil output is declining at a time when its domestic consumption is increasing rapidly. Presently, Iran is falling more than 300,000 barrels per day below its OPEC export quota not because Iran's leaders do not want to meet their quota but because they cannot meet it. When one considers that Iran derives 85 percent of its export income from its sale of oil, and that those revenues constitute half of the government's total revenues, it is not hard to see the potential for leverage.¹⁰

Mehdi Varzi, a former Iranian diplomat and National Iranian oil official, has gone so far as to say that "Oil is as important as the nuclear issue; it will affect the very survival of the regime."¹¹ One senior British official, who very much agrees with this sentiment, told me that "if you want to affect the Mullahs, let them see that they are not going to have the money to subsidize the civilian economy—and the key to that is cutting off investment and technology transfer to the energy sector." In effect, this official was saying that should the Mullahs, who are primarily concerned with preserving their power and privilege, come to believe that Iran's economic lifeline is going to be cut and the oil revenues are going to dry up, they may well decide that the nuclear program is not worth the cost.

Mehdi Varzi and my British colleague may or may not be correct, but one thing is for sure: the Iranians need massive investment and technological help from the outside to prevent the continuing decline of their oil output. Kazem Vaziri-Hamaneh, Iran's oil minister in 2006, put the decline of output at 500,000 barrels per day (b/d) each year.¹² The total output of now roughly 3.9 million b/d, a half million barrels a day decline per year—married to growing internal consumption—creates an unmistakable squeeze. That has led some analysts to suggest that Iran's oil income could literally disappear by 2014 to 2015.¹³

To be sure, Iran could impose strict conservation measures and it could gain access to outside technical expertise to help reverse the natural decline in many of its oil fields. It could also get foreign oil companies to invest in developing new fields that require more sophisticated techniques and technologies to exploit. But real conservation may provoke a domestic political backlash, particularly with internal consumption having tripled since 1980 and Iranians expecting to be able to benefit from their energy resources. Ahmadinejad claimed that he would bring the oil revenues to every table; instead, he has brought rationing of gasoline, high inflation, high unemployment, and international isolation.

One measure of the isolation is that Iran was unable to sign any firm oil or gas contracts for the first two and a half years of Ahmadinejad's tenure.¹⁴ Only in the last few

months—following the publication of the NIE--have the Iranians signed contracts with Malaysia, China, Italy, Switzerland, and Austria to develop oil and natural gas fields. (But even the biggest of these deals—the one with Malaysia—will eventually require Western subcontractors to produce and market the liquefied natural gas.¹⁵)

The recent signings of these deals indicates the ongoing interest that foreign companies have in investing in onshore and offshore exploration blocks, but as Jeroen van der Veer, the chief executive of Royal Dutch Shell explained: “We have a dilemma.” Iran’s oil and natural gas reserves are too big to ignore, but “we have all the short-term political concerns, as you can see.”¹⁶ Those “short-term” concerns have been made more acute by new unilateral U.S. sanctions which, among other things, are designed as much for their psychological as for their practical impact (e.g., the U.S. posture is geared toward raising questions about the danger and the cost of investing in Iranian front companies). In the words of Secretary of the Treasury Henry Paulson:

In dealing with Iran, it is nearly impossible to know one’s customer and be assured that one is not unwittingly facilitating the regime’s reckless behavior and conduct. The recent warning by the Financial Action Task Force, the world’s premier standard setting body for countering terrorism finance and money laundering, *confirms the extraordinary risks that accompany those who do business with Iran* [Emphasis added].¹⁷

And there can be no doubt that even the unilateral U.S. sanctions on three Iranian banks and the Revolutionary Guard—with the implication that we will sanction any company doing business with the IRGC—is having an affect. Saeed Leylaz, an Iranian economist and journalist, has said that “Sanctions are like icebergs. Only 10% of the effect is directly attributable to the Security Council. Ninety percent is fear of the U.S.”¹⁸ European businesses are cutting back on trade and investment in Iran, and the result is that prices on most goods are going up dramatically in Iran. According to one recent report, the prices on most commodities have risen by 50 percent in the last several months, particularly as many foreign manufacturers and distributors have become more wary of doing business directly with Iran lest they come under greater scrutiny of the U.S. Treasury department.¹⁹

Will this produce a change in Iranian behavior? There is no sign of it to date. But it is interesting that Iran’s well-connected *bazaari* class of merchants are being hit hard and apparently one such group complained to the Supreme Leader that sanctions were “hurting their bottom line.”²⁰

The economic vulnerability is clear. The potential to squeeze the Iranians more on their oil revenues is also obvious, and need not involve trying to cut off Iranian exports which, given the very tight oil market, would drive prices far higher. It would, however, require cutting off all credit and outside investment in the oil sector. The Chinese and Russians have shown great reluctance to go along with anything so drastic, and, of course, simply squeezing Iran does not guarantee responsiveness. Indeed, there are those who believe the only way to produce a change in Iranian behavior is to offer the Iranians meaningful inducements while engaging the Iranian leadership. Here it is worth recalling that the Supreme Leader, Ali Khamenei, now appears to be taking a much more open and

direct role on the nuclear issue. Even if he generally has preferred to operate on the basis of involving all the relevant elites when it comes to the nuclear issue, there is no question that, unlike the president of Iran, the Supreme Leader is the leading decision-maker.²¹

Is it time to engage him and Iran or is the best option to squeeze tighter? Or are there other alternatives or mixes of options that could still change Iran's behavior?

Diplomatic Options

1) **Tighten the Noose.** This is the path we are currently following. The Bush administration pushed for and got adoption of a third sanctions resolution at the UN—once again being willing to settle for sanctions that do not really target the Iranian economy for the sake of getting a resolution. While accepting less at the UN, the administration is pushing European governments to lean on banks, investment houses, and energy companies to prevent any new deals. As already noted, this is, in fact, having an impact.

Prior to the NIE, President Nicolas Sarkozy of France was encouraging EU-wide sanctions that would go well beyond the UN sanctions in cutting the economic lifeline to Iran. His argument was that much more needed to be done to force the Iranian leadership to see that the price of pursuing their nuclear program was simply too high—and, indeed, if it was not done, the risk of military action to prevent Iran from going nuclear would inevitably increase. He was not arguing for the use of force; rather he was trying to mobilize opinion in Europe to show that if more was not done economically to squeeze the Iranians and make them see the cost of the nuclear effort, those who saw Iran's nuclear program as a profound threat might see force as the only option.

While he has backed off this posture since the NIE, the idea of pushing for additional EU-wide sanctions remains on the table. And they would certainly have an impact in Iran. European companies may be cutting back and fearing the risk of investment in Iran, but a number of European governments are still providing several billion dollars of credit guarantees to their companies doing business in Iran. The figure was approximately \$18 billion in 2005,²² and while significantly reduced, Italian, Spanish, Austrian (and even some German) firms are still benefiting from such guarantees.

So long as credit guarantees are still available, it will be hard to convince the Iranians that they will be subject to much stiffer economic pressures and that their economic lifeline will be cut off. Indeed, while obviously feeling increasing pressures from America's unilateral sanctions and efforts with the Europeans and others, it is interesting that when the Iranians held a conference in Tehran this past year to offer their own sweeteners on possible oil exploration contracts, dozens of European, Russian, and Chinese oil companies attended. According to Gholam Hossein Nozari, the managing director of Iran's national oil company, this was a "sure sign companies do not cower to U.S. pressure."²³

Clearly, if one is pursuing this option of tightening the economic noose, more needs to be done. One way to do so would be to enlist the Saudis. They have a very high stake in Iran not going nuclear. While the NIE has made them less willing to challenge the Iranians publicly, or even to be seen as part of an open effort to contain or isolate Iran, there clearly are private ways to employ Saudi financial clout. For example, the Saudis have tremendous holdings in Europe and they could go privately to the relevant European governments, the key banking and investment houses, and the major energy companies and make clear that those who cut all ties to the Iranians would be rewarded by the Saudis and those who don't would fall into disfavor and receive no investments or business.

Something similar could be done with both the Chinese and the Russians. It is particularly important to do so with the Chinese who are driven by a mercantile mentality and are drawing special complaints from the Europeans for rushing to replace their companies whenever they pull back from Iran. China may seem to be a difficult case because it does receive about 13 percent of its oil from Iran. But make no mistake, if the Chinese had to choose between Iran and Saudi Arabia, they would choose the Saudis. They have massive new investments in Saudi petrochemicals, are jointly financing new oil refineries, and the Saudis have agreed to fill a strategic petroleum reserve for China. Business is business and the Chinese have a higher stake in Saudi Arabia. Again, the Saudis need not broadcast what they are doing—but they do need to be enlisted to quietly pressure the Chinese to change their approach to Iran lest they lose out on a profitable future with Saudi Arabia.

The Saudis could also influence the United Arab Emirates. The UAE's commercial ties to Iran are growing, and Iranian companies are relocating to Dubai in an effort to circumvent the existing sanctions. While the UAE may fear coming under great Iranian pressure if they simply cut back on exports to Iran, which rose to \$12 billion in 2006, the international community could give the emirates some cover. The UN could decide, for example, that it will create a monitoring team to oversee compliance with the sanctions imposed in resolutions 1737, 1747, and 1803; the UN has done this with many other sanctions regimes and it could establish such a team in the UAE. In Dubai's "free-wheeling business environment," a UN monitoring team could identify Iran's efforts to use the UAE to get around the sanctions and give the UAE an explanation for why it must cut down on illicit Iranian activity.²⁴

There clearly is room for the Bush administration to do much more to tighten the economic noose around Iran and sharpen the choices the Iranian leadership must make. Everything need not be done through United Nations Security Council resolutions—indeed, that route has probably already been exhausted. Formal and informal sanctions, informal jaw-boning, and finding ways to get the Saudis to use their clout could all add to the pressures.

But is pressure alone likely to work? One could argue that if applied much more systematically and targeted effectively, it might yet work.

Perhaps, but pressure alone may only succeed in creating a siege mentality in the Iranian regime and, thus, strengthen the hand of the hardliners. Pressure that squeezes the regime far more effectively without tying it to an open door or to something from which Iranian leaders could also gain, may simply convince Iranian leaders that we seek only their humiliation. Pressure that offers only humiliation, meaning admission of defeat, is likely to make it easier for the hardliners to argue that giving in to this will whet the appetite of those in the United States who will be satisfied with nothing less than regime change. President Ahmadinejad appeared to make this very point in responding to his internal critics on why Iran should not concede on the nuclear question given the pressure: “If we would take one step back in our confrontation with the arrogant powers regarding our nuclear program, we would have to keep taking more and more steps back till the very end.”²⁵

The problem with the tightening the noose option is that the Iranian leadership may choose confrontation, believing it has nothing to lose. Furthermore, it is not likely to work fast enough to prevent the Iranians from going nuclear. Pressure has not worked so far, and the capacity of the Bush administration to ratchet it up dramatically in its last year is limited. So maybe it is time to try a different path.

2) Engagement without conditions. Secretary Rice might argue that the Bush administration has not sought a pressure-only approach; after all, the administration supported the EU incentives package in the summer of 2006, backed another proposal presented by EU representative Javier Solana in May 2007 that effectively offered a freeze on sanctions for a freeze on enrichment, opened up a dialogue with Iran on Iraq, and has proclaimed a readiness to discuss all issues if Iran will only suspend its enrichment activities.

However, critics of the administration paint a very different picture—one, they say, that is what the Iranians see.²⁶ From Tehran, the picture looks like one of unrelenting efforts to isolate or pressure Iran; even when Iran tried to be responsive after 9/11 on al Qaeda and Afghanistan it received no recognition or reciprocation, only the charge that it was part of the axis of evil. When it conveyed privately a readiness to put all issues on the table, including its nuclear program and support for Hezbollah and Hamas, in 2003, it was rebuffed with a simple rejection. While dialogue was being rejected, hostility was being projected through the attempt to promote a wall of Sunni Arab containment and economic pressures.

Critics of the administration policy do not try to excuse Iranian nuclear ambitions or Iranian support for terror. Instead, they argue that the pressure-only or isolation policies are doomed to fail and have built up a reservoir of deep suspicion throughout the Iranian elite. Given that, they argue for an engagement without conditions approach.

Analysts Mark Brzezinski and Ray Takeyh believe that the NIE’s findings create an opening, not a problem. In their words, “That Iran ceased work on its nuclear program several years ago is positive, as it provides an opportunity to start negotiations with Tehran without any preconditions. Moreover, it allows both parties to come to the

negotiating table with a constructive tone.”²⁷ They and other critics of the administration see value in creating an environment for the talks in which neither side is seeking to pressure the other, “making veiled threats,” or dismissing each other’s security concerns.²⁸

Preconditions would be inconsistent with trying to foster such an atmosphere for the talks. Moreover, to make such talks work, the critics argue for negotiations that will be comprehensive in scope and not incremental. They believe the agenda should cover the full array of concerns of both sides:

--Iran wants recognition of its legitimate security and regional interests, a U.S. commitment to accept the regime and give up efforts to change it, a recovery of its frozen assets, an end to economic embargoes, and the right to have civil nuclear power.

--The United States wants Iran to give up its pursuit of nuclear weapons, its support for terrorist groups and militias that threaten or hold existing governments hostage, and an end to trying to prevent Arab-Israeli peace.

For the critics who favor engagement without conditions, the tradeoffs are not difficult to imagine. In return for American acceptance of the legitimacy of the Iranian regime and resuming economic ties with it, Iran would have to stop providing all military equipment and training to Hezbollah, Hamas, and other regional militias, and publicly commit to a two-state solution to the Arab-Israeli conflict. In return for U.S. support for Iran’s civil nuclear program, Iran would have to accept an intrusive inspection regime based on having permanent inspectors operating on a 24-hour-a-day, no-notice system of inspections. In return for U.S. acceptance of Iran’s role in Iraq, Iran should be prepared to help to work out understandings not only between the Shia and Sunnis within Iraq but also with the Saudis to make such understandings more likely to hold. Finally, in return for our accepting Iran’s regional position, Iran would join an effort with its neighbors to create a new regional security system resolving territorial disputes, accepting existing borders, limiting arms acquisitions, and opening trade.²⁹

Most of those who favor this engagement option believe that Iran’s behavior can be modified. They see Iran as “an unexceptional opportunistic power seeking to exert preponderance in its immediate neighborhood.”³⁰ While that might ordinarily argue for the use of carrots and sticks to affect Iran’s choices, the engagers without conditions feel that Iranian suspicions are simply too high, their leverage toward their neighbors too great, their cash reserves too substantial, and their nuclear program too far along to have them respond to our “sticks.”

But is all that true? Usually when regimes say pressure won’t work on them that is precisely what they are trying to head off. President Ahmadinejad would not be facing some of his domestic criticism if not for concerns that his provocative posture, including specifically on the nuclear issue, was costly to Iran. Moreover, while high oil prices may be a boon for Iran, they have not eased the basic vulnerabilities of the economy or reduced unhappiness about it. Fuel heating shortages have triggered a torrent of new

criticisms of Ahmadinejad's policies in the last few months, and late last summer one of Iran's leading clerics, Ayatollah Mahmoud Hashemi Shahroudi, the judiciary chief, blasted the president for what he termed "heavy blows to the Iranian [economic] system."³¹

This is not to argue against engaging the Iranians. But it is to argue that engagement should not dispense necessarily with preserving pressures on the Iranian regime. To engage with no pressure might well convince the regime that the United States is conceding up front and there is no need to respond to what it seeks. It almost certainly would convince them of our weakness. In my experience in negotiating with Middle Eastern parties—admittedly Arabs and Israelis, not Iranians--the tendency when one side thought it was on a roll and in a strong position was to believe that there was no need for it to compromise; ironically, when it found itself in a weakened position or on the defensive, it would tend to think that it could not afford to compromise.

What that would argue for with the Iranians is preserving pressure but also providing face-savers and inducements at the same time.

3) The Hybrid Approach—Engagement without Conditions but with Pressures.

When I say engagement without conditions, I mean that there would be no preconditions for the United States talking to Iran. Iran would not, for example, have to suspend its uranium enrichment first. But to avoid Iran misreading this as a sign of weakness, pressures must be maintained. Iran must see that though the United States is no longer imposing a precondition for talks, it has succeeded in adding to pressures on Iran even while it is offering a way to reach an accommodation.

The logic of this option is that Iran must see that the costs of pursuing the nuclear option are real and will not go away, but that Iran has a door to walk through and can see what is to be gained by giving up the pursuit of nuclear weapons—and those gains are meaningful to the Iranian leadership. The hybrid option is designed to concentrate the minds of Iranian leaders on what they stand to lose without humiliating them.

It ends the image that there is a price just for talking to the United States but does not leave the impression that America has caved in and effectively given up as talks begin—or that negotiations can provide a legitimate umbrella under which nukes can still be pursued.

So how to talk and preserve the pressures without making either side appear weak? One way to do so would be for the United States to go to the Europeans and offer to join the talks with Iran without Iran having to suspend uranium enrichment. To avoid misleading the Iranians into thinking they had won, the price for our doing this would not be with Iran but with Europe. The European Union would adopt more stringent sanctions on investments, credits, and technology transfer vis-à-vis Iran in general or at least on the Iranian energy sector. The Iranians would be informed that the United States is joining the talks but that these sanctions are now being adopted by all European countries.

Would the Europeans go for it? It is possible. The EU negotiators have been convinced for some time that there is a deal to be struck with Iran but only if the United States is directly at the table. They believe that while Iran does seek economic and political benefits from the Europeans, the big prize is with the Americans. It is not just the frozen assets but the conviction that the United States is determined to subvert the regime and no deal is possible until the United States provides security assurances and guarantees to Iran directly.³²

For applying the hybrid option in this fashion, what matters is not whether the EU view is correct. What matters is that the EU representatives are convinced that this is what will move the Iranians. Of course, they could be wrong. Moreover, their readiness to go along with the U.S. condition that they adopt tough sanctions as the price for getting the United States to the table will, no doubt, also depend on a U.S. commitment to negotiate seriously on a comprehensive proposal that would include many of the tradeoffs noted above in option two. There would be one key difference in the comprehensive proposal that would be proffered as part of the hybrid option: here acceptance of Iran's being a civil nuclear power would require not simply acceptance of intrusive inspections, but also a ban on stockpiling low-enriched uranium and a requirement to have it shipped out of the country to an IAEA facility. In other words, in option three the nuclear part of the comprehensive proposal would be geared more to guarding against an Iranian breakout capability as well as providing for verification procedures designed to prevent the existence of covert or clandestine nuclear programs in Iran.³³

There could be one other problem in getting the EU to go along. If the NIE has convinced most Europeans that the United States is less likely to use force against Iran, they may feel less urgency and less need to put additional pressure on Iran. Indeed, many in Europe may feel that they can live with an Iran with nuclear weapons and that containment is an acceptable posture. If so, they may balk at applying more sanctions, particularly because it means absorbing real economic costs.

In such an eventuality, there may be value in enlisting Israel to send a high-level delegation privately to key European capitals to make the point that while others may feel they can live with a nuclear Iran, Israel feels it does not have that luxury. Not, by the way, because its leaders might not prefer it, but because Iran does not seem willing to let Israel exist. The Israeli message would be that if you want to avoid the use of force, "we need to see that you are going to raise the costs to Iran in a way that is likely to be meaningful to the Iranian leaders."

To be sure, another way to increase the likelihood of getting European responsiveness on increased pressure would be to enlist the Saudis and their financial clout. The point here is that the sources of pressure identified in the "tighten the noose" option must also be incorporated into the hybrid option. It really is an amalgam of options one and two. The Saudis need to be enlisted to act not as a favor to the United States—since they are not inclined to do us any favors—but because their own interests in preventing Iran from going nuclear are so potent. As noted earlier, the Saudis do have real leverage toward both the Europeans and Chinese and it needs to be employed even as we engage the

Iranians. Since, as also noted earlier, the Saudis will be careful about not provoking the Iranians, they will only be likely to employ their financial clout against the Europeans and the Chinese if they see that we are serious and that their own actions are a piece of a larger strategy likely to be effective in exerting real leverage on the Iranian regime.

The Russians, too, could be enlisted in this option. The Russians could provide both significant pressures and inducements. If the Russians made it clear to the Iranians that they would not protect them from greater external pressure but could offer them a way out—especially if it looked like pressures would increase from the outside—the Iranian leaders might very well change their calculus.

Getting the Russians to play this role will not be easy or necessarily cheap. The Russians have no desire for Iran to go nuclear but have also been careful not to push the Iranians too hard. Is it because they are concerned that if they push the Iranians too hard, the Iranians will make trouble for them in their Muslim periphery? Or is it because the Russians have a different agenda in the Middle East now and becoming an alternative or counterweight to the United States is taking on more importance? Or is it because the Russians want something if they are going to play such a role? Maybe all three factors are involved in some form.

If so, there could be several creative ways to engage the Russians. The first would involve trading off the anti-missile defense deployments in Poland and the Czech Republic for real Russian pressure on Iran. In theory, these deployments were supposed to provide protection from Iranian missiles. If the Russians would act to reduce the Iranian threat, these sites might not be so necessary. Unfortunately, such a tradeoff with the Russians is probably not acceptable to the Bush administration given its commitment to anti-missile defenses. But it might be acceptable to the next administration and ought at least to be considered.

There are two other possible inducements for the Russians: offer to help the Russians assume a leading position as a supplier of nuclear fuels internationally—something that could mean a great deal financially to them. Or allow the Russians to take the lead in doing the deal with Iranians on stopping their nuclear program. This would respond to the Russian political and psychological need to show they are playing a major new role internationally, effectively recapturing their lost status on the world stage. Each of these inducements have certain downsides: among other things, could we be so confident about Russian safeguards and could we really count on the Russians not surprising us with what they might offer the Iranians or how they might try to play us off against the Europeans?

While these risks might be manageable, they remind us that the more we involve others who have leverage, we need to think through with whom we can effectively work, who has reasons of their own to act, and how we can most productively integrate others into a common strategy to alter Iran's behavior. Any such strategy needs to focus not just on the levers but also on how we should go about engaging the Iranians if we are employing either options two or three.

How to Set Up Engagement with the Iranians

In discussing the hybrid option, I mentioned that the Iranians could be informed that the United States was joining the talks directly even as they were being told about increased EU sanctions. That is, of course, one way to prepare the ground for U.S. engagement with Iran. But there are other ways to do so that would be relevant for either the “engage without conditions” or “engage with pressure” options. For example, engagement, whether without conditions or with pressure, should still be prepared. There should be an agenda that is created before the Americans first come to the table. One way to do so would be to have the Europeans quietly have discussions with the Iranians on a more comprehensive agenda, which goes beyond the nuclear issue, to prepare for U.S. inclusion in the talks. Another way could involve some of the existing “track two” channels which could be used to set the stage for official contacts. This is how the Oslo process evolved, with pre-negotiations in an ongoing academic channel taking on issues and creating milestones for gradually bringing officials to the talks.

While each of these ways could be effective, I actually prefer another approach. I recommend trying to set up a direct, secret backchannel. Keeping it completely private would protect each side from premature exposure and would not require either side to publicly explain such a move before it was ready. It would strike the Iranians as more significant and dramatic than either working through the Europeans or non-officials—something that is quite familiar. It has the additional value that a discreet channel, which is protected, makes it possible to have a thorough discussion and to see whether there is a common agenda that can be constructed. Having done this with the Syrians in a secret backchannel in 1989, I know it permits a very different kind of discussion as well.

Assuming it is possible to produce such an official, discreet backchannel with the Iranians, one good way to begin such a discussion would be to ask the Iranian representative to explain how his government sees U.S. goals toward Iran and how he thinks the Americans perceive Iranian goals toward the United States. Any such interaction must find a way to show the Iranians that we are prepared to listen and to try to understand Iranian concerns and respond to them, but ultimately no progress can be made if our concerns cannot also be understood and addressed.

Maybe, given the history, it will be difficult to set up such a direct channel that is also authoritative. We certainly have an interest in finding ways to be sure that any such channel is one that engages Ali Khamenei, the Supreme Leader. Maybe we will need the Europeans (or others) to help set up the channel. And, maybe, even if we engage the Iranians, we will find that however we do so, and whatever we try, the engagement simply does not work.

We will need to hedge bets and set the stage for alternative policies either designed to prevent Iran from going nuclear or to blunt the impact if they do. Those represent two different policy choices with very different implications. Whichever path we take will be more sustainable if we have directly engaged Iran first. Tougher policies—either military or meaningful containment—will be easier to sell internationally and domestically if we

have diplomatically tried to resolve our differences with Iran in a serious and credible fashion. Sometimes even the best efforts at statecraft do not work and that could prove to be the case with Iran. But before we come to that conclusion, it is time to try a serious approach to diplomacy.

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¹⁸ Borzou Daragahi and Ramin Mostaghim, "Iran Sanctions Ripple Past Those in Power," *Los Angeles Times*, January 20, 2008.

¹⁹ Ibid. It is worth noting that on October 25, 2006, the U.S. adopted additional unilateral sanctions on Banks Melli and Mellat, for their involvement in proliferation activities and Bank Saderat for its involvement in terrorist financing; the Islamic Revolutionary Guard Corps and its al-Quds force were similarly designated.

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- ³⁰ Mark Brzezinski and Ray Takeyh, op. cit.
- ³¹ Farhad Pouladi, "Top Iran cleric makes rare criticism of government," *Agence France Presse*, August, 16, 2007.
- ³² I have had several conversations with the lead E.U. negotiators who, even when the "double freeze" proposal was being presented, felt it could not succeed without the U.S. coming directly to the table.
- ³³ I am indebted to Robert Einhorn for drawing my attention to this point.