

109TH CONGRESS }
2d Session

COMMITTEE PRINT

{ S. PRT.
109-63

IRAN'S POLITICAL/NUCLEAR AMBITIONS AND U.S. POLICY OPTIONS

A COMPILATION OF
STATEMENTS BY WITNESSES
BEFORE THE
COMMITTEE ON FOREIGN RELATIONS
UNITED STATES SENATE

ONE HUNDRED NINTH CONGRESS
SECOND SESSION

MAY 17 and 18, 2006



Printed for the use of the Committee on Foreign Relations

Available via World Wide Web: <http://www.access.gpo.gov/congress/senate>

U.S. GOVERNMENT PRINTING OFFICE

27-613 PDF

WASHINGTON : 2006

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LETTER OF INTRODUCTION

MAY 26, 2006.

Dear Colleague:

The challenges and threats posed by Iran to the United States and the rest of the world continue to demand our attention and analysis. In order to gain a better understanding of how we may address these issues as they confront us, the Committee on Foreign Relations held a series of hearings on May 17 and 18, 2006, entitled "Iran's Political/Nuclear Ambitions and U.S. Policy Options." We believe that the witnesses' testimonies can be helpful in preparing members for subsequent Senate debate on this matter of national security and have gathered them into this committee print.

The first panel on May 17 focused on the status of Iran's nuclear program. Testimony was heard from the Honorable Robert J. Einhorn, Senior Adviser at the Center for Strategic and International Studies, and Dr. David Albright, President of the Institute for Science and International Security. The second panel discussed Iran's motivations and strategies. We heard from Dr. Kenneth M. Pollack, the Director of Research of the Saban Center for Middle East Policy at The Brookings Institution; Mr. Karim Sadjadpour, Iran Analyst at the International Crisis Group; Dr. Patrick Clawson, Deputy Director of the Washington Institute for Near East Policy; and Dr. Geoffrey Kemp, Director of Regional Strategic Programs at The Nixon Center.

On May 18 we heard from a variety of experts regarding U.S. policy options towards Iran. The panel consisted of the Honorable Frank G. Wisner, former Ambassador to India and currently Vice Chairman for External Affairs at the American International Group; Dr. Vali R. Nasr, Professor of National Security Affairs at the U.S. Naval Postgraduate School in Monterey, California; Ms. Julia Nanay, Senior Director at PFC Energy; and Mr. James A. Phillips, a Research Fellow in Middle Eastern Affairs at the Heritage Foundation.

Sincerely,

RICHARD G. LUGAR,
Chairman.

JOSEPH R. BIDEN, JR.,
Ranking Member.

Day One—May 17, 2006

OPENING STATEMENT

SENATOR RICHARD G. LUGAR

CHAIRMAN, U.S. SENATE COMMITTEE ON FOREIGN RELATIONS

BEFORE THE

U.S. SENATE COMMITTEE ON FOREIGN RELATIONS

MAY 17, 2006

The Foreign Relations Committee meets today to examine the situation in Iran and options for U.S. policy. We will have a second hearing on this topic tomorrow. As the American people and policy makers debate our course in Iran, I am hopeful that this committee can contribute by being a bipartisan forum for clarifying the diplomatic situation and evaluating policy options. Our intent is to inform our own policymaking role, as well as help stimulate constructive public debate.

President Bush has announced that the United States remains committed to exhausting all diplomatic options with respect to Iran. The United States and its allies at the United Nations have been pressing for multilateral diplomatic and economic sanctions under Chapter 7. There is widespread agreement that Iran has sought to deceive the international community about its nuclear intentions. Tehran's decision to move ahead with uranium enrichment was condemned by the international community, but efforts to attain a Security Council consensus on a firm response to Iran's actions have not been successful.

American policy in the near term will be defined by efforts to convince the international community of our commitment to diplomacy and to build a broad multilateral and international coalition against Iran's nuclear ambitions. I believe that this is the strategy that Iran fears most. Last minute negotiations, letters to President Bush, and feigned interest in compromises are just a few of the transparent efforts Tehran has undertaken to split the international community. We must overcome Iran's efforts with patient diplomatic spadework.

We have stated that no option is off the table. Although direct talks with Iran come with difficulties and risks, we cannot rule out their utility, particularly as they relate to our primary effort to build an international coalition. Secretary Baker's talks with Iraqi leaders in 1991 were distasteful, but proved to be a gesture that displayed America's hope for a peaceful settlement and built international equity for all steps in our response. The United States has

the diplomatic prowess to attain a strong multilateral response and win the international debate. We must be prepared to commit the time, energy, and resources necessary to win this diplomatic battle.

Retaining all communication tools is also important because they may be necessary to avoid a tragic miscalculation by the Iranians. Analysts in our intelligence agencies and State Department do not regard the Tehran regime as irrational, but the framework for their decision-making is very different from our own. We must understand that they are interpreting our actions in ways that we do not always discern. If one overlays these perceptual differences with demagogic rhetoric, historic suspicion, and high political stakes, the possibility for miscalculation increases exponentially. Our policies and our communications must be clear, precise, and confident, without becoming inflexible. In some situations, this delicate diplomatic balance can best be achieved through direct communications.

Some have expressed frustration with the administration's coalition-building approach and have advocated quick, punitive, and unilateral sanctions focused on international companies doing business in Iran. Secretary Rice has stated that such a policy: "Would complicate our ability to work successfully with our allies to counter the threat posed by Iran. It would narrow in important ways the President's flexibility in the implementation of Iran sanctions, create tensions with countries whose help we need in dealing with Iran, and shift focus away from Iran's actions and spotlight differences between us and our allies. This could play into Iran's hands as it attempts to divide the U.S. from the international community as well as to sow division between the EU-3, China, and Russia."

Unilateral sanctions targeting European and Asian corporations do not appear to be an effective way to secure long-term commitments from their host governments on a multilateral approach to the threat posed by Iran. As such, they are likely to be counter-productive, as the Bush administration has asserted.

As part of our diplomatic efforts, the administration should consider how the NATO alliance might be utilized to strengthen our position. NATO is the principal defense and security organization of the trans-Atlantic community. NATO has become the pre-eminent strategic forum for broader security cooperation with Japan, Australia, and members of the Partnership for Peace in the Caucasus and Central Asia. It also is facilitating closer ties with North African countries through the Mediterranean Dialogue. NATO is the only entity that has successfully developed and implemented a strategy of deterrence and containment against a nuclear-armed enemy. The Alliance provides us with an effective and experienced infrastructure capable of supplementing our activities at the U.N. and implementing an international coalition's strategy towards Iran.

I would underscore a final point as the Congress and the administration move forward with decisions pertaining to Iran. Even as we work quickly, we must calibrate our response with the long term in mind. The issues related to Iran's pursuit of nuclear weapons, its role in the Persian Gulf region, and its impact on world energy markets will not be addressed with a single act or policy, be it military, economic, or diplomatic. The American people must

know that whatever policy options are chosen will likely require years, if not decades, of intense vigilance and diplomatic follow-up.

To assist us in our deliberations today, we welcome two distinguished panels of experts. The first panel will discuss the status of Iran's nuclear program. We are joined by the Honorable Robert Einhorn, a Senior Adviser at the Center for Strategic and International Studies and Dr. David Albright, President of the Institute for Science and International Security. Our second panel will discuss Iran's motivations and strategies. Joining us will be Dr. Ken Pollack, the Director of the Saban Center for Middle East Policy at the Brookings Institution; Mr. Karim Sadjadpour, an Iran expert with the International Crisis Group; Dr. Patrick Clawson, Deputy Director of the Washington Institute for Near East Policy; and Dr. Geoffrey Kemp, Director of Regional Strategic Programs at The Nixon Center.

We thank our witnesses for being with us today, and we look forward to their insights.

OPENING STATEMENT
SENATOR JOSEPH R. BIDEN, JR.
RANKING MEMBER, U.S. SENATE COMMITTEE ON FOREIGN
RELATIONS
BEFORE THE
U.S. SENATE COMMITTEE ON FOREIGN RELATIONS
MAY 17, 2006

Mr. Chairman, I commend you for calling this hearing. And I welcome an impressive group of experts. It will not be a surprise that I am very much in agreement with the Chairman's statement.

Unfortunately, the administration has chosen not to send a senior official to be a part of these hearings. That is a mistake.

If the administration wants to avoid a repeat of the Iraq fiasco, it must begin to do what it initially failed to do in that arena: level with the American people about what is at stake and what its strategy is. Platitudes like "all options are on the table" and "we're pursuing diplomacy" aren't good enough.

Dodging congressional hearings is not a good start to what promises to be one of the most challenging problems facing our country over the next several years.

Let me state what the potential problem is: a nuclear-armed Iran. That would put the bomb in the hands of a radical theocracy, swimming on a sea of high priced oil, whose president has denied the holocaust, threatened to wipe Israel off the map and to attack us.

In my view, Iran probably would not use a weapon against us or Israel or give the technology to terrorists. But it would feel emboldened to make even more mischief in the region. And if Iran gets the bomb, that could well fuel an arms race with Sunni Arab countries like Egypt and Saudi Arabia, making an already volatile region even more dangerous.

But I believe we have time: most published reports conclude Iran is unlikely to develop a weapon for at least another five years. The critical question is: how do we use that time to persuade Iran to forego nuclear weapons?

For now, the administration seems to have settled on a diplomatic course. That's the right course—but it seems to be pursuing it with one hand tied behind its back, and without providing the answers to critical questions that we need to shape a smart policy.

For example, our allies in Europe are working on a package of incentives that are meant to be a final offer to Iran. What is our role in developing these incentives? How seriously can Iran take

any offer from Europe—say on matters related to security guarantees—if the United States is not part of the deal?

Why are we in a posture of—in effect—negotiating with the negotiators? Wouldn't it save some trouble and confusion to be in the room along with our allies as well as Russia and China?

The press reports that if the Iranians spurn the European offer, the U.S. and its allies will move to sanction Iran either through the United Nations Security Council or, failing that, through a coalition of like-minded nations.

What costs will these sanctions entail for Iran, for us, and for key countries we need on our side? How vulnerable is Iran to a ban on imports of gasoline or exports of crude? What would be the impact on oil markets and at the local gas pump if Iranian crude were removed from the market? Why isn't the administration doing more to prepare the public for the sacrifice sanctions would entail as the Iranian leadership is preparing their public?

More broadly, what are the chances that Europe, Russia, and China will agree to sanctions if they believe the U.S. has not explored every diplomatic avenue, including direct talks with Tehran?

Is the administration committed to regime change in Iran? Would it be prepared to abandon it as part of a package of security guarantees in a negotiated settlement of the nuclear issue?

Is the administration's funding of democracy activities inside Iran the best way to promote internal reform, or is that literally the "kiss of death" for Iranian democrats? How do we tap into the deep desire for change, particularly among the majority of the Iranian population which was born after the Islamic Revolution?

I wish we had someone here today from the administration to answer these questions. It is time for a full public airing of the choices before us.

Let me state my recommended policy up front.

Last week, the Iranian President sent a letter to President Bush. The letter won't be nominated for the Nobel Prize for Literature—or for Peace. But the content or style of the letter is not the point, nor is the identity of the sender. I have not been alone in suggesting that we should respond—not to the letter we received, but with our own ideas on how to move forward.

I would go a step further. We shouldn't respond to President Ahmedinejad. President Bush should write to the man who has the final say in Iran—Ayatollah Khamenei.

I would make the letter public and I would include a call for direct talks with Iran—anywhere, anytime, with everything on the table.

We should be willing to talk about all the issues that divide us: the nuclear program, terrorism, Iraq, Afghanistan, Israeli-Palestinian peace, sanctions, and security.

We should lay out for Iran's leader—and especially for its people "what the future could look like if Iran renounces its nuclear ambitions and support for terrorism—and what the future could look like if it does not.

Would Iran respond favorably? I don't know, but in recent months, Iran has indicated a readiness to engage.

Indeed, an Iranian outline for a grand bargain was communicated to the Bush administration three years ago. While the gov-

ernment in Tehran has changed since then, Iran's fundamental positions likely have not. If anything the regime is now more comfortable with the reformists purged from the Majlis and the presidency.

Four years ago, when I was chairman of this committee, I called publicly for a dialogue between members of Congress and the Iranian Majlis. Senator Hagel joined me in that effort. That call—from two senators—sparked an intense debate in Iran that lasted several weeks. The reformist press embraced it. The hard-liners condemned it. The government couldn't figure out how to respond.

If two senators can spark that kind of debate, imagine what the President could do.

I believe that an offer of direct dialogue would place enormous pressure on the Iranian leadership—from their own people and from the international community. Iranian leaders would face a stark choice—reject the overture and risk complete isolation and an angry public, or accept it and start down a path that would require Iran to alter its nuclear ambitions.

Talking to Tehran would not reward bad behavior or legitimize the regime. Talking is something we have done with virtually every other country on earth, including the former Soviet Union—which posed an existential threat to us—and unsavory regimes like the ones in North Korea and Libya.

Demonstrating that we made a serious attempt at diplomacy is also the best way to keep others on board for tougher actions if Iran fails to respond.

It would be a wise course of action for any administration. But for this administration, with its blemished record in Iraq, it is not simply a wise choice—it is a requirement. The threshold of trust is much higher. If the administration wants to convince our allies and others to place serious pressure on Iran, it must walk the extra diplomatic mile.

I hope that we can proceed with the wisdom that this moment requires. How the Iran crisis is handled will help determine international security for a generation, if not longer.

I look forward to the testimony.

PREPARED STATEMENT
HONORABLE ROBERT J. EINHORN
SENIOR ADVISER, CENTER FOR STRATEGIC AND INTERNATIONAL
STUDIES, WASHINGTON, DC
BEFORE THE
U.S. SENATE COMMITTEE ON FOREIGN RELATIONS
MAY 17, 2006

THE IRAN NUCLEAR ISSUE

Mr. Chairman, thank you for giving me the opportunity to appear before the committee this morning.

Developments over the last 10 months—including Iran’s abrogation in July of its agreement with the EU3 (Britain, France, and Germany), its resumption in August of uranium conversion at Isfahan, the end of its voluntary implementation of the IAEA Additional Protocol, the weak U.N. Security Council Presidential statement issued at the end of March, Iran’s production of enriched uranium at Natanz, and the inability so far of the five Security Council Permanent Members to agree on a Chapter 7 resolution—have created a widespread impression that Iran’s quest for a fissile material production capability is progressing more rapidly than expected and is essentially unstoppable.

Fostering that impression—and the belief that the international community has little choice but to accommodate to the reality of an Iranian enrichment program—is very much part of Iran’s game plan. But despite the significant progress Iran has made, Iran’s claims that it has mastered centrifuge enrichment are premature; it still has far to go before it can produce either highly enriched uranium (HEU) or nuclear weapons; and its willingness to negotiate an end to its enrichment and reprocessing programs has yet to be put to a serious test.

Evaluating recent Iranian progress

As documented by the International Atomic Energy Agency (IAEA) in its report of April 28, 2006, Iran has indeed passed some important milestones in recent months. Since September 2005, it has produced over 110 tonnes of uranium hexafluoride (UF₆) at the Isfahan uranium conversion facility, enough gaseous uranium feedstock for over 20 nuclear weapons. After ending its suspension of enrichment activities in January, it fed UF₆ into a single P-1 centrifuge machine, then into 10-machine and 20-machine cascades, and then moved quickly to a 164-machine cascade (a key building

block in a centrifuge enrichment facility) where it successfully enriched uranium to around 3.6%. Meanwhile, Iran has been assembling two additional 164-machine cascades at its Pilot Fuel Enrichment Plant (PFEP), one which is about to begin enrichment operations and the other which should be ready by June. In addition, the Iranians announced that they would begin installing the first 3000-machine module of their industrial-scale enrichment facility in the fourth quarter of 2006.

On the basis of these developments, Iran's leaders are claiming that they have now mastered centrifuge enrichment technology and that it is too late to stop them. They go so far as to say that, even if existing nuclear facilities were destroyed, they have reached a stage where they could re-generate their program quickly and confidently, with little loss of time. But such claims are premature.

The Iranians have cut corners in their research and development effort in order to register the accomplishments listed in the IAEA's report. Standard practice would have required them to run the 164-machine cascade with UF_6 on an uninterrupted basis for up to six months or more before gaining confidence in its operation. Instead of proceeding in parallel to assemble and operate additional cascades, the efficient operation of the initial cascade would first have been demonstrated. To verify the ability to manufacture centrifuges indigenously, the experimental cascade would have relied on machines made in Iran rather than imported, and it would have been heavily instrumented to measure performance. And before introducing UF_6 into the cascades, any impurities in the uranium gas that could damage the centrifuges would have been addressed and eliminated. But the Iranians deviated from standard practice. Apparently intent mainly on demonstrating publicly the ability to reach a significant enrichment level, they ran the cascade with UF_6 for less than two weeks. A significant portion of the experimental cascade may have consisted of centrifuges imported from the A.Q. Khan network rather than produced indigenously. Moreover, little of the equipment normally used to measure performance seems to have been used during the short experimental run. And instead of taking the time to fix the problems in the Isfahan conversion process that have produced impurities in the UF_6 , the Iranians seem to have chosen to use the impure UF_6 and accept the risk of having to replace any centrifuges damaged as a result.

Iran's research and development efforts to date seem to have been driven by political rather than technical considerations. By giving highest priority to achieving and announcing the ability to produce uranium enriched to 3.6%, the Iranians wanted to present the world with a *fait accompli*—to demonstrate that they already have an enrichment capability and that continued efforts to stop them would be futile. Moreover, fearing (despite their determined show of self-confidence) that they may eventually be forced to accept another freeze on their program, they wanted to establish the highest possible baseline for such a freeze—thus, accelerating the operation of the second and third cascades at the PFEP and starting installation of the 3000-machine module this year at the industrial-scale facility. And not least, Iran's leaders saw the early announcement of the enrichment breakthrough as a way of boosting national pride and building domestic support for the regime, espe-

cially in anticipation of international pressures and possible hardships to follow.

Having taken a series of short-cuts largely for political reasons, Iran presumably will now have to do the thorough developmental and testing activities it would normally have done earlier. That will take considerable time, and is probably one reason why the Iranians are saying they would be prepared to negotiate a deferral of industrial-scale enrichment if the Europeans and others will agree to accept continued R&D activities on a pilot scale.

So recent reports regarding progress in Iran's nuclear program, especially boastful accounts coming from Tehran, have created the somewhat misleading picture that Iran's efforts have accelerated to an alarming degree. While Iran has indeed reached some key milestones of late, the basic timelines for Iran achieving a nuclear weapons capability—in particular, the capability to produce enough HEU for a single nuclear weapon—have not significantly changed.

Timeline for producing HEU

One of the best recent analyses in the open literature of Iran's timeline for producing HEU was done by David Albright.¹ Since he's a witness at today's hearing and available to explain his analysis, I'll just cite his conclusion—that whether Iran builds a clandestine enrichment plant with 1500 P-1 centrifuges or breaks out of the NPT and uses its first module of 3000 P-1 centrifuges at its industrial-scale facility, the earliest it could produce enough HEU for a single nuclear weapon would probably be three years from now, or 2009. Albright emphasizes that this is a worst-case assessment and that Iran is likely to take longer if, for example, it needs additional time to manufacture and install the necessary number of centrifuges and overcome the normal technical difficulties that arise in seeking to operate a number of cascades in a single production unit.

Director of National Intelligence John Negroponte seems to believe Iran will probably take longer than three years. In testimony before the Senate Intelligence Committee in February 2006, he said that, if Iran continues its present efforts, it “will likely have the capability to produce a nuclear weapon within the next decade.” A National Intelligence Estimate on Iran produced last year reportedly judged that Iran could have a nuclear weapon in from five to ten years.

Large margins of uncertainty inevitably surround judgments of when Iran will or could have nuclear weapons or the fissile materials to build them. Some of the biggest unknowns relate to Iran's intentions—whether it is determined to produce HEU and acquire nuclear weapons as soon as possible; whether—and for how long—it is willing to stop at an LEU production capability while deferring decisions on HEU production and weaponization; or whether it is prepared to forgo, temporarily or indefinitely, the capability to produce even LEU in order to avoid penalties or gain rewards.

Other uncertainties about the pace of Iran's nuclear program relate more to capabilities. If Iran cannot readily overcome the tech-

¹David Albright and Corey Hinderstein, “The Clock is Ticking, But How Fast?” The Institute for Science and International Security (ISIS), March 27, 2006.

nical problems that typically accompany start-up enrichment operations, the timeframe will lengthen. If, however, Iran can soon learn to master the much more efficient P-2 centrifuge design and build P-2 enrichment units, the timeframe will shorten. Iran's ability to procure materials, equipment, and technology from abroad will also affect the pace of its nuclear program, although imports will be much more important in the case of Iran's industrial-scale enrichment facility, which still requires large quantities of specialized materials and equipment, than in the case of a pilot-scale facility. Indeed, even if it were possible to cut off its access to foreign supplies, Iran probably already possesses within its territory all the materials and equipment it needs to set up a 1500- or 3000-machine centrifuge facility and produce enough HEU for a small nuclear weapons stockpile.

A key variable affecting the pace of Iran's nuclear program is whether—and the extent to which—Iran has a clandestine nuclear program parallel to its overt program. Obviously, a successfully hidden conversion plant and enrichment facility would invalidate current estimates and eventually confront the United States and its allies with a sudden, major security threat. But even undetected activities of less importance (e.g., manufacture of centrifuge components or assembly of centrifuges) could have a substantial impact on timeframes for producing HEU or nuclear weapons.

Monitoring Iran's program—the role of the IAEA

The IAEA plays a critical role in narrowing our uncertainties about Iran's nuclear program. But IAEA monitoring of Iran's program has serious limitations, especially given Tehran's decision in February to cease implementation of the Additional Protocol and its overall failure to meet the IAEA's requirements for transparency and cooperation.

The Agency's presence in Iran, even with the less intrusive verification rights contained in the IAEA-Iran Comprehensive Safeguards Agreement (as compared to the Additional Protocol), provides a strong basis for monitoring declared nuclear facilities and activities in Iran. Agency inspectors can measure accurately how much UF₆ is produced at Isfahan and verify that it is not being diverted to a covert enrichment plant. They know how much enriched uranium is being produced at Natanz and can be confident that no HEU is being produced there and that no Natanz-produced LEU is being sent to a covert enrichment facility to be further enriched to weapons grade. Frequent IAEA visits also enable us to keep track of progress in assembling and operating cascades at the PFEP, in constructing and operating the heavy water production plant and heavy-water research reactor at Arak, and in building the industrial-scale enrichment plant at Natanz. This information is crucial in understanding the nature and pace of Iran's acquisition of a fissile material production capability.

While the IAEA can effectively monitor declared nuclear facilities and activities as long as the Agency has access to them, monitoring confidence drops off rapidly at undeclared locations or if inspectors are no longer given access to declared sites. In the latter case, such as in the event of NPT withdrawal and termination of IAEA verification, Iran could proceed without international scrutiny to

use previously monitored facilities to produce fissile material, either by starting from natural uranium or boosting previously safeguarded LEU to HEU.

Even if Iran remains in the NPT, monitoring undeclared locations is a formidable challenge, especially given Iran's 20-year track record of what the IAEA calls its "many failures and breaches of its obligations to comply" with its NPT safeguards agreement and given its February decision no longer to act as if bound by the Additional Protocol. In its April 28th report, the IAEA cites numerous "gaps in the Agency's knowledge" that have sustained or even heightened "concern" that Iran may be pursuing nuclear weapons. Among the IAEA's concerns are that Iran is not being honest about the extent of its work on P-2 centrifuges, that Iran took fuller advantage of a 1987 offer by A.K. Khan's network than it is admitting, that procurement of dual-use equipment (e.g., mass spectrometers) was related to a weapons program, that Iran's military is heavily involved in the nuclear program, that experiments with plutonium, polonium, and uranium metal point to a weapons program, and that Iran may be engaged in nuclear-related high explosives testing and missile re-entry vehicle design.

These concerns, and the IAEA's judgment that Iran is not providing the Agency "full transparency and active cooperation," have brought the IAEA to the sobering admission that it "is unable to make progress in its efforts to provide assurances about the absence of undeclared nuclear material and activities in Iran." The April 28th report goes on to say that "additional transparency measures, including access to documentation, dual use equipment, and relevant individuals"—all of which have been specifically requested by the IAEA Board of Governors but denied by Iran—will be required if the Agency is to be able to do its job.

Iran's decision to stop implementing the Additional Protocol (AP) has hampered the IAEA's work. But implementation of the AP is not enough. The AP has its own limitations. Unlike what many observers believe, it does not provide for "anywhere, anytime" inspections. It does not, for example, authorize investigation of suspected weaponization activities or allow access to military facilities where no nuclear materials are believed to be present. That is why the IAEA Board has several times requested, unsuccessfully, that Iran accept verification procedures going beyond what is required by the AP. The IAEA must be given stronger tools to perform its verification mission in Iran, and that will require action by the United Nations Security Council. The IAEA Director General should be asked to determine what additional verification authorities the Agency would need to carry out its mandate in Iran. If required, those authorities should go well beyond what is contained in the existing Comprehensive Safeguards Agreement or even the Additional Protocol. The Security Council should then take a decision to grant the IAEA those additional authorities.

Enhanced verification tools would not be a panacea. Even if Iran complied with a Security Council directive to cooperate with them, more intrusive methods would not necessarily be capable of uncovering all undeclared nuclear activities. For example, a relatively small clandestine centrifuge enrichment plant (e.g., 1500 centrifuges) might still be difficult to detect. But stronger verification

tools would give the international community significantly more confidence than it currently has in the ability to detect and deter violations.

Persuading Iran to forgo its enrichment program

The absence so far of a clear-cut IAEA determination that Iran is seeking nuclear weapons has made it very difficult to build strong international support for a strategy capable of persuading Iran to give up its enrichment capability. Indeed, under present circumstances, the prospects for heading off an Iranian fissile material production capability by means short of the use of military force do not look very good.

Iran's leaders have done an effective job convincing the Iranian public that an indigenous enrichment capability is an Iranian right that is essential to national dignity, technological advancement, and energy independence and must never be given up. While influential Iranians occasionally express concern about the potential consequences of pursuing an enrichment program in defiance of the international community, the regime can be expected to remain on course barring a major shift in the currently perceived balance of benefits and risks.

The risks, at this stage at least, appear manageable. Tehran probably believes the likelihood of military strikes has increased in recent months but remains remote given Washington's preoccupation with Iraq and its appreciation of Iran's many options to retaliate. The Russians and Chinese have so far remained stalwart in their opposition to sanctions and a Chapter 7 resolution. Even if resistance in Moscow and Beijing eroded, the Iranians may calculate that any sanctions adopted would be weak and easily weathered and that tougher measures (such as those affecting oil and gas markets) would be avoided on the assumption—actively promoted by Tehran—that they would hurt the West more than Iran.

Not only do the risks of continuing enrichment seem limited, but the benefits of giving up the enrichment program also currently appear small (especially when compared to the perceived security, geo-political, and prestige benefits of acquiring a nuclear weapons option). The economic, technological, and political incentives offered by the Europeans last July apparently didn't impress the Iranians, who probably recognize that, without U.S. support, those benefits may not fully materialize. More fundamentally, Iran's leaders may see little sense in giving up their trump card in a deal with the Europeans if they believe they'd still face a U.S. government intent on pursuing a policy of regime change.

If the international community is to have any chance of persuading Iran to give up its enrichment capability (and its nuclear weapons option), it must radically alter Tehran's current calculus of benefit and risk. Part of the equation is stronger sticks. Iran must face the credible threat of increasingly severe penalties—ranging from travel bans, asset freezes, and political gestures to investment and trade restrictions to even the use of military force. Russia and China, in particular, must be persuaded that such threats are necessary and not counterproductive. But they will be prepared to join in threatening such penalties only if Iran is also

offered incentives that they believe could get Iran to accept the deal and therefore avoid the need to implement the penalties.

And so the other part of the equation is more attractive carrots. Possible incentives for Iran have been widely discussed, including the kinds of commercial and technological cooperation offered by the Europeans last July, membership in the World Trade Organization, lifting of existing U.S. economic sanctions, military confidence-building arrangements in the Gulf region, and so forth. But the carrot likely to be most influential in Tehran would be the prospect of a less threatening and more normal relationship with the United States—and specifically a recognition in Washington that regime change in Tehran should be the prerogative of the Iranian people and not the policy of the U.S.

Direct engagement between the U.S. and Iran

The most effective way to offer the incentive of a more normal, less threatening relationship with the United States—and indeed the only way it would be credible—is through direct, face-to-face discussions involving American and Iranian representatives. Bilateral U.S.-Iranian contacts could take place within the framework of a multilateral process that also included Britain, France, Germany, Russia, and China—analogous to the Six Party Talks that have provided an acceptable context for bilateral meetings between the U.S. and North Korea during the last year or so.

The agenda for U.S.-Iranian discussions should not be confined to the nuclear issue. It should instead cover the full range of issues that divide the two countries, including U.S. concerns about Iran's support for Middle East terrorist groups, its role in Iraq, its alleged harboring of al-Qaeda operatives, its policies toward Israel, and its treatment of its own people. Iran undoubtedly will have its own list of issues and demands. The purpose of the talks would be to explore whether U.S. concerns can be met and whether the interests of the two countries can be reconciled. Only by addressing the broad range of issues can prospects for normalization be assessed. And only the prospect of normalized bilateral relations can provide the context in which Iran is likely to consider suspending its enrichment program and giving up its aspiration for nuclear weapons.

At various times during the past decade, the U.S. and Iran have both been interested in bilateral engagement, but never at the same time. In recent weeks and months, the Iranians have been sending signals—however mixed and confusing—that they might be ready. But it is the U.S. administration that is now resisting.

Asked recently whether the Bush administration is willing to engage directly with Iran, Secretary Rice replied: "What is to be gained if Iran is not prepared to show that it is ready to accede to the demands of the international community?" But do we really expect Iran to meet our demands even before sitting down to talk with us—before knowing what it might receive in return? Do we realistically think our current bargaining position is so strong?

There seems to be a strong conviction within the administration that talking to the current regime in Tehran will give it legitimacy and sustain it in power, whereas pressuring and isolating it will divide the leaders from the people and perhaps even result in regime change and more acceptable policies on the nuclear issue and other

issues. But most experts on Iran tend to believe just the opposite—that external pressures will unite the Iranian public behind the regime and its nuclear policies, while engagement will magnify the fissures that have begun to appear within the Iranian leadership and perhaps produce significant changes in policy, including on the nuclear issue.

In London this Friday, the P-5 countries plus Germany are scheduled to meet to consider a European-drafted package proposal for Iran. It is an opportunity to make the major changes in Iran's calculation of benefits and risks that will be necessary to induce Tehran to give up its enrichment capability. To have that effect, the Russians and Chinese should agree that the package will require stiff penalties if Iran does not accept a reasonable offer. The Europeans should provide incentives more attractive than those contained in their July proposal. And the U.S. should be prepared to engage in direct talks with the Iranians within a multilateral framework.

Such a package would be the first real test of whether Iran is willing to give up its quest for a nuclear weapons capability. If the Iranians are determined to proceed with their nuclear plans come what may, they will fail the test. But that will at least put the U.S. and the Europeans in a stronger position to rally the international community behind a longer-term strategy to demonstrate to Iran that it has much to lose and little to gain by staying on its present course.

Despite recent progress in Iran's enrichment program, Iran is still years away from being able to produce a nuclear weapon. But it will not be long—perhaps several months to a year—before Iran is confident in its ability to enrich uranium efficiently in overt or clandestine production units large enough to produce bomb quantities of HEU in less than a year. It is therefore important that the U.S. and the other key states move quickly to construct and present a package that gives Iran a stark choice—it can be a pariah with nuclear weapons or a well-integrated, respected member of the international community, with normal relations with the U.S., without them.

PREPARED STATEMENT
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BEFORE THE
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MAY 17, 2006

Iran is now on the verge of mastering a critical step in building and operating a gas centrifuge plant that would be able to produce significant quantities of enriched uranium for either peaceful or military purposes. However, Iran can be expected to face serious technical hurdles before it can produce significant quantities of enriched uranium.

In testimony before the Senate Intelligence Committee on February 2, 2006, John Negroponte, Director of National Intelligence, stated that Iran is judged as probably having neither a nuclear weapon nor the necessary fissile material for a weapon. He added that if Iran continues on its current path, it “will likely have the capability to produce a nuclear weapon within the next decade.” The basis for this estimate remains classified, although press reports state that Iran’s lack of knowledge and experience in building and running large numbers of centrifuges is an important consideration. Many interpret Negroponte’s remark to mean that Iran will need 5–10 years before it possesses nuclear weapons.

Estimates of the amount of time Iran needs to get its first nuclear weapon are subject to a great deal of uncertainty. Many questions about Iran’s technical nuclear capabilities and its plans to build nuclear weapons remain unanswered. In addition, the International Atomic Energy Agency (IAEA) is unable to verify that Iran has fully declared its nuclear activities. It still cannot state conclusively that Iran does not conduct secret uranium enrichment activities. Nonetheless, because of over three years of inspections, the IAEA has developed considerable knowledge about Iran’s nuclear program and identified the main uncertainties in its knowledge about that program. The remaining uncertainties appear to exclude the existence of undeclared nuclear facilities large enough to significantly shift projections of the amount of time Iran would need to produce nuclear weapons. However, these uncertainties also suggest that Iran intends to develop a nuclear weapons capability, enabling it to build deliverable nuclear weapons once the regime’s leaders make to a decision to do so.

To understand the assumptions, key information, calculations, and uncertainties driving estimates of the timelines, I present two “worst-case” estimates of the time Iran would need to build its first nuclear weapon. In both of these estimates, which involve the production of highly enriched uranium (HEU) and cover the more likely scenarios, Iran appears to need at least three years, or until 2009, before it could have enough HEU to make a nuclear weapon. Given the technical difficulty of the task, it could take Iran longer.

Before discussing these estimates, I will provide background information on Iran’s nuclear program and discuss recent developments in Iran’s gas centrifuge program. In particular, I will discuss several of Iran’s recent progress and problems in its centrifuge program that affect these estimates.

Iran’s Nuclear Program

Iran has invested heavily in nuclear industries in the last twenty years. It has sought a wide range of items overseas, including nuclear reactors, uranium conversion facilities, heavy water production plants, fuel fabrication plants, and uranium enrichment facilities. Many of its overseas purchases were thwarted, such as multiple efforts to buy research reactors and an attempt to purchase a turn-key gas centrifuge plant from Russia in 1995. However, in general, Iran found suppliers to provide the wherewithal to build nuclear facilities. A. Q. Khan and business associates in Europe and the Middle East provided Iran the ability to build and operate gas centrifuges. Without their assistance, Iran would have likely been unable to develop a gas centrifuge program.

Iran’s current nuclear infrastructure is impressive. Although many key facilities are not finished, Iran is close to operating a large power reactor at Bushehr and has started or is close to operating several relatively large fuel cycle facilities. Following the end of the suspension embodied in its November 2004 agreement with the European Union, Iran resumed operating its uranium enrichment facilities at Natanz. Table 1 summarizes the main nuclear facilities in Iran.

Most of Iran’s foreign procurement for its fuel cycle facilities occurred in secret, and several of the associated nuclear materials and facilities were not declared to the IAEA, as Iran was required to do under the Nuclear Non-Proliferation Treaty. Appendix 1 lists Iran’s many violations of its safeguards agreement and important incidences of its lack of cooperation with the IAEA.

If Iran finishes its declared nuclear facilities, it would have a capability to produce HEU and plutonium for nuclear weapons. At that point, Iran could decide to change the purpose of its safeguarded nuclear facilities and rapidly dedicate them to nuclear weapons purposes.

Under current and expected developments, Iran’s gas centrifuge program provides the quickest route to the indigenous production of nuclear explosive materials. As a result, the gas centrifuge program is the main focus of my testimony.

However, Iran is also progressing on developing an indigenous method to produce plutonium. It continues to build a heavy water reactor at Arak, despite repeated international requests that Iran discontinue this project. Iranian officials have stated that the reac-

tor is scheduled to be completed in 2009, although this schedule may not be met due to problems in building and starting up such a reactor. When fully operational, the reactor is estimated to be able to produce about 9 kilograms of weapon-grade plutonium per year, enough for two nuclear weapons per year. Iran has told the IAEA that it does not intend to build reprocessing facilities to separate plutonium from this reactor. It did state that it was planning to build hot cells to separate “long-lived radioisotopes,” but said that it was having problems obtaining the necessary manipulators and lead glass windows. IAEA investigations into Iran’s past reprocessing activities continue.

Iran Breaks the Suspension on Enrichment Activities

Iran ended the suspension on enrichment and enrichment-related activities in January 2006. Its actions appear aimed at finishing the Pilot Fuel Enrichment Plant (PFEP) at Natanz this year and, soon afterward, starting to install centrifuges in the Fuel Enrichment Plant (FEP), the main underground enrichment facility at Natanz slated to hold eventually about 50,000 centrifuges.

In early January 2006, Iran removed 52 seals applied by the IAEA that verified the suspension of Iran’s P-1 centrifuge uranium enrichment program. The seals were located at the Natanz, Pars Trash, and Farayand Technique sites, Iran’s main centrifuge facilities. On February 11, Iran started to enrich uranium in a small number of centrifuges at Natanz, bringing to a halt Iran’s suspension of uranium enrichment that had lasted since October 2003. A few days earlier, Iran moved to end its implementation of the Additional Protocol, an advanced safeguards agreement created in the 1990s to fix traditional safeguards’ inability to provide adequate assurance that a country does not have undeclared nuclear facilities or materials.

After removing seals, Iran started to substantially renovate key portions of the PFEP. Iran began construction on the PFEP in secret in 2001, and it installed up to 200 centrifuges in 2002 and 2003. The PFEP is designed to hold up to six 164-machine cascades, groups of centrifuges connected together by pipes, in addition to smaller test cascades, for a total of about 1,000 centrifuges.

At Natanz and Farayand Technique, Iran quickly restarted testing centrifuge rotors and checking centrifuge components to determine if they are manufactured precisely enough to use in a centrifuge. By early March, Iran had restarted enriching uranium at the pilot plant in 10- and 20-centrifuge cascades.

On April 13, 2006, Iran announced that it had produced low enriched uranium in its 164 machine cascade, finished in the fall of 2003 but never operated with uranium hexafluoride prior to the suspension of enrichment that started in October 2003 as a result of an agreement between the European Union and Iran reached in Tehran. Soon afterward, it announced that it had enriched uranium up to a level of almost 5 percent.

Restarting the 164-machine cascade took several months. Iran had to repair damaged centrifuges. According to IAEA reports, many centrifuges crashed or broke when the cascade was shut down at the start of the suspension in 2003. Before introducing uranium hexafluoride, it had to reconnect all the pipes, establish

a vacuum inside the cascade, and prepare the cascade for operation with uranium hexafluoride.

The initial performance of the P-1 centrifuges in this cascade has been less than expected. Based on statements on state-run television on April 12, 2006 by the Gholam-Reza Aqazadeh, head of the Atomic Energy Organization of Iran, the average annualized output of the centrifuges in this cascade is relatively low.¹ In the same interview, he implied that he expects that the average output of each P1 centrifuge will almost double in the main plant.

In addition, the Iranians have not yet run this cascade continuously to produce enriched uranium. One report stated that the cascade operated with uranium hexafluoride only about half of its first month of operation, although it continued to operate under vacuum the rest of the time. The Iranian centrifuge operators do not yet have sufficient understanding of cascade operation and must conduct a series of longer tests to develop a deeper understanding of the cascade.

The IAEA reported in April that Iran was building the second and third cascades at the PFEP. A senior diplomat in Vienna said in a recent interview that the second cascade could start in May and the third one could start in June. This schedule would allow Iran to test multiple cascades running in parallel, a necessary step prior to building a centrifuge plant composed of such cascades. The diplomat speculated that Iran could continue with this pattern, installing the fourth and fifth in July and August, respectively. He stated that the slot for the sixth cascade is currently being occupied by the 10- and 20-machine cascades.

Iran would likely want to run its cascades individually and in parallel for several months to ensure that no significant problems develop and to gain confidence that it can reliably enrich uranium in the cascades. Problems could include excessive vibration of the centrifuges, motor or power failures, pressure and temperature instabilities, or breakdown of the vacuum. Iran may also want to test any emergency systems designed to shut down the cascade without losing many centrifuges in the event of a major failure. Absent major problems, Iran is expected to need roughly six months or more to demonstrate successful operation of its cascades and their associated emergency and control systems.

Once Iran overcomes the technical hurdle of operating its demonstration cascades, it can duplicate them and create larger cascades. Iran would then be ready to build a centrifuge plant able to produce significant amounts of enriched uranium either for peaceful purposes or for nuclear weapons. However, Iran may encounter additional problems when it tries to build and operate a centrifuge plant.

¹The annualized average output of each centrifuge was about 1.4 separative work units per machine per year, based on Aqazadeh's statement of a maximum feed rate of 70 grams per hour and the production of 7 grams per hour of 3.5 percent enriched uranium. The feed and product rate imply a tails assay of 0.4 percent. This relatively low output could mean that the aluminum centrifuge rotors are spinning at a lower speed than possible. For the main plant, he said that 48,000 centrifuges would produce 30 tonnes of low enriched uranium per year. Assuming a tails assay of 0.4 percent and a product of 3.5 percent enriched uranium, the estimated average output of each machine would be about 2.3 swu/yr. With an assumed tails assay of 0.3 percent, the estimated output rises to 2.7 swu/yr, high for a Pakistani P1 design, but theoretically possible if the centrifuge is further optimized.

As of late April, according to the IAEA, Iran was not moving aggressively to finish the FEP in preparation for installing the first module. Earlier, it moved process tanks and an autoclave, used to heat uranium hexafluoride into a gas prior to insertion into centrifuge cascades, into the FEP at Natanz. Iran told the IAEA that it intends to start the installation of the first 3,000 P1 centrifuges, called the first module, in the underground cascade halls at the FEP in the fourth quarter of 2006. Iran still needs to finish the basic infrastructure, including installing electrical cables. A key question is whether Iran has procured or manufactured all the equipment it needs to finish the first module. In addition, questions remain about the number of centrifuges Iran has in-hand and the quantity it would still need to manufacture indigenously to exacting specifications, a task that many countries have found challenging.

The Uranium Conversion Facility (UCF) at Isfahan has continued to operate since its restart in August 2005, following the breakdown in the suspension mandated by the November 2004 agreement between Iran and the European Union. By late February 2006, Iran had produced about 85 tonnes of uranium hexafluoride, where the quantity refers to uranium mass. This amount had increased to about 110 tonnes in April. With roughly 5 tonnes needed to make enough HEU for a nuclear weapon, this stock represents enough natural uranium hexafluoride for roughly 20 nuclear weapons. Although Iran's uranium hexafluoride reportedly contains impurities that can interfere with the operation of centrifuges and reduce their output, IAEA experts believe that Iran can overcome this problem. Iran is known to be working to improve the purity of the uranium hexafluoride produced at the UCF. Nonetheless, if necessary, Iran could use its existing stock of impure material, if it had no other material. It could take additional steps to purify this uranium hexafluoride, or it could use the material in its own centrifuges and experience reduced output and a higher centrifuge failure rate.

Worst-Case Estimates

Developing an answer to how soon Iran could produce enough HEU for a nuclear weapon is complicated and fraught with uncertainty. Beyond the technical uncertainties, several other important factors are unknown. Will Iran develop a nuclear weapons capability but produce only low enriched uranium for nuclear power reactors and not any highly enriched uranium? Will Iran withdraw from the NPT, expel inspectors, and concentrate on building secret nuclear facilities? How does Iran perceive the risks of particular actions, such as producing HEU in the pilot plant? What resources will Iran apply to finishing its uranium enrichment facilities? Will there be military strikes against Iranian nuclear sites?

Before developing a timeline, it is necessary to estimate how much HEU Iran would need to make a nuclear weapon. Many assessments cite 25 kilograms of weapon-grade uranium (HEU containing more than 90 percent uranium 235) as the minimum amount necessary for a crude, implosion-type fission weapon of the type Iran is expected to build. However, the experience of similar proliferant states such as Iraq leads to lower quantities. In 1990,

Iraq initially planned to use 15 kilograms of weapon-grade uranium in its implosion design. An unclassified design using almost 20 kilograms was calculated in a study co-authored by Theodore Taylor and Albright in about 1990. Thus, an Iranian nuclear weapon could be expected to need about 15–20 kilograms of weapon-grade uranium. A larger quantity of HEU is needed than the exact amount placed into the weapon because of inevitable losses during processing, but such losses can be kept to less than 20 percent with care and the recovered material recycled into successive weapons. Thus, for the estimates presented here, a crude fission weapon is estimated to require 15–20 kilograms of weapon-grade uranium.

Scenario I—Clandestine Centrifuge Plant

Iran's most direct path to obtaining HEU for nuclear weapons is building a relatively small gas centrifuge plant that can make weapon-grade uranium directly from natural uranium.² If Iran built such a plant openly, it would be an acknowledgement that it seeks nuclear weapons. As a result, Iran is likely to pursue such a path in utmost secrecy, without declaring to the IAEA the facility and any associated uranium hexafluoride production facilities.

Without the Additional Protocol in effect, however, the IAEA faces a difficult challenge discovering such a clandestine facility, even as Iran installs centrifuges at Natanz to produce low enriched uranium. The IAEA has already reported that it can no longer monitor effectively centrifuge components, unless they are at Natanz and within areas subject to IAEA containment and surveillance. When Iran halted its adherence to the Additional Protocol, the IAEA lost access to centrifuge production and storage facilities. Alternatively, Iran may feel less assured about successfully deceiving the inspectors and proceed with such a plant only after withdrawing from the NPT and asking inspectors to leave. In either case, U.S., Israeli, and European intelligence agencies would be unlikely to locate precisely this facility.

The key to predicting a timeline is understanding the pace and scope of Iran's gas centrifuge program, for example the schedule for establishing a centrifuge plant large enough to make enough HEU for one nuclear weapon per year. Such a clandestine facility would require about 1,500–1,800 P1 centrifuges with an average capacity of about 2.5–3 swus per year. These values for separative work are at the high end of the possible output of Iran's P1 centrifuge; actual values may be less.

A capacity of 4,500 swus per year is sufficient to produce about 28 kilograms of weapon-grade uranium per year, assuming continuous operation and a tails assay of 0.5 percent, where tails assay is the fraction of uranium 235 in the waste stream. This is a relatively high tails assay, but such a tails assay is common in initial nuclear weapons programs. As a program matures and grows, it typically reduces the tails assay to about 0.4 percent and perhaps later to 0.3 percent to conserve uranium supplies.

²Alternatively, Iran could secretly build a "topping plant" of about 500 centrifuges and use a stock of low enriched uranium produced in the pilot plant as feed to produce HEU. However, the estimated timeline for this alternative route is not significantly different from the one outlined in this scenario and is not considered further.

Iran has enough components for up to 5,000 centrifuges, according to senior diplomats in Vienna. However, other senior diplomats said that Iran may not have 5,000 of all components, and many components are not expected to pass quality control. In total, Iran is estimated to have in-hand enough good components for at least an additional 1,000 to 2,000 centrifuges, beyond the roughly 800 centrifuges already slated for the pilot plant at Natanz. Iran could also build new centrifuge components, and in fact may have already started to do so.

If Iran had decided to build a clandestine plant in early 2006, it could assemble enough additional usable centrifuges for this plant of 1,500–1,800 centrifuges in about 15–18 months, or by about mid-2007. It would need to assemble at the upper limit of its past rate of about 70–100 centrifuges per month to accomplish this goal. If necessary, Iran could also increase the centrifuge assembly rate, for example by increasing the number of shifts from one to two per day, according to diplomats in Vienna.

In the meantime, Iran would need to identify a new facility where it could install centrifuge cascades, since it is unlikely to choose Natanz as the location of a secret plant. It would also need to install electrical, cooling, control and emergency equipment, feed and withdrawal systems, and other peripheral equipment. It would then need to integrate all these systems, test them, and commission the plant. Iran could start immediately to accomplish these steps, even before the final testing of the 164 machine cascades at Natanz, but final completion of the clandestine plant is highly unlikely before the end of 2007.

Given another year to make enough HEU for a nuclear weapon, where some inefficiency in the plant is expected, and a few more months to convert the uranium into weapon components, Iran could have its first nuclear weapon in 2009. By this time, Iran is assessed to have had sufficient time to prepare the other components of a nuclear weapon, although the weapon may not be small enough to be deliverable by a ballistic missile.

This result reflects a worst-case assessment, and Iran can be expected to take longer. Iran is likely to encounter technical difficulties that would delay bringing a centrifuge plant into operation. The output of its centrifuges may not achieve the higher value used in this assessment. Other factors causing delay include Iran having trouble in the manufacturing and installation of so many centrifuges and cascades in such a short time period, or Iran taking longer than expected to overcome difficulties in operating the cascades as a single production unit or in commissioning the secret centrifuge plant.

Scenario II—Break Out Using FEP

Iran has stated its intention to start installing centrifuges in late 2006 in its first module of 3,000 centrifuges in the underground halls of FEP at Natanz. This module would give Iran another way to produce HEU for nuclear weapons, even though the module is being designed to produce low enriched uranium. Once Iran has an adequate stock of LEU, the time to produce enough HEU for a nuclear weapon in this facility could be dramatically shortened.

At above rates of centrifuge assembly, and assuming that Iran has or can produce enough new P1 centrifuge components and associated equipment, Iran could finish producing 3,000 centrifuges for this module sometime in 2008. Although cascades would be expected to be built before all the centrifuges are assembled, Iran will probably need at least another year to finish this module, placing the completion date in 2009 or 2010. Unexpected complications could delay the commissioning date. On the other hand, Iran could accelerate the pace by manufacturing, assembling, and installing centrifuges more quickly. Given all the difficult tasks that must be accomplished, however, Iran is unlikely to commission this module much before the start of 2009.

If Iran decided to make HEU in this module, it would have several alternatives. Because of the small throughput and great operational flexibility of centrifuges, HEU for nuclear weapons could be produced by reconfiguring the cascades in the module or batch recycling where the cascade product is used as feed for subsequent cycles of enrichment in the same cascade.

Reconfiguration could be as straightforward as connecting separate cascades in series and selecting carefully the places where new pipes interconnect the cascades. The Iranian module is slated to be composed of 164-centrifuge cascades operating together under one control system. In such a case, reconfiguration would not require the disassembly of the individual cascades, and it could be accomplished within days. In this case, the loss of enrichment output can be less than ten percent, although the final enrichment level of the HEU may reach only 80 percent, sufficient for use in an existing implosion design albeit with a lower explosive yield. With a reconfigured plant, and starting with natural uranium, 20 kilograms of HEU uranium could be produced within four to six months. If Iran waited until it had produced a stock of LEU and used this stock as the initial feedstock, it could produce 20 kilograms in about one to two months.

Batch recycling would entail putting the cascade product back through the cascade several times, without the need to change the basic setup of the cascade. Cascades of the type expected at Natanz could produce weapon-grade uranium after roughly four or five recycles, starting with natural uranium. Twenty kilograms of weapon-grade uranium could be produced in about six to twelve months. If the batch operation started with an existing stock of LEU, the time to produce 20 kilograms of weapon-grade uranium would drop to about one to two months.

Whether using batch recycling or reconfiguration, Iran could produce in 3,000 centrifuges at Natanz enough HEU for its first nuclear weapon in less than a year. Iran could do so in considerably less than a year, if it used an existing stock of LEU as the initial feed. It is likely that Iran would operate the module to make LEU so that any production of HEU would be expected to happen quickly.

Using either break-out approach, Iran is not likely to have enough HEU for a nuclear weapon until 2009. This timeline is similar to that outlined in the clandestine plant scenario. In addition, technical obstacles may further delay the operation of the module in the FEP.

Conclusion

The international community needs to be committed to a diplomatic solution that results in an agreement whereby Iran voluntarily forswears having any deployed enrichment capability. Looking at a timeline of at least three years before Iran could have a nuclear weapons capability means that there is still time to pursue aggressive diplomatic options, and time for measures such as sanctions to have an effect, if they become necessary.

In the short-term, it is imperative for the international community to intensify its efforts to disrupt or slow Iran's overseas acquisition of dual-use items for its centrifuge program and other nuclear programs. Iran continues to seek centrifuge-related items abroad, but it has encountered greater difficulty acquiring these items because of the increased scrutiny by key supplier states. As Iran seeks these items in a larger number of countries, greater efforts will be required to thwart Iran from succeeding.

It is vital to understand what Iran has accomplished, what it still has to learn, and when it will reach a point when a plan to pursue nuclear weapons covertly or openly could succeed more quickly than the international community could react. Although these estimates include significant uncertainties, they reinforce the view that Iran must forswear any deployed enrichment capability and accept adequate inspections. Otherwise, we risk a seismic shift in the balance of power in the region.

TABLE 1—IRAN'S MAIN DECLARED NUCLEAR SITES

Activity	Location
Uranium Mining and Milling	Saghand Mine and Mill Gchine Mine and Mill
Nuclear Research & Development	Jabr Ibn Havan Multipurpose Laboratories (JHL) Radiochemistry Laboratories of TNRC Tehran Research Reactor (TRR) Uranium Chemistry Laboratory (UCL) Research reactors at Esfahan Molybdenum, Iodine and Xenon Radioisotope Production Facility (MIX Facility)
Uranium Conversion	Uranium Conversion Facility (UCF)
Centrifuge Research & Development and Manufacturing	Kalaye Electric Company Farayand Technique Pars Trash Other centrifuge manufacturing sites
Centrifuge Uranium Enrichment	Pilot Fuel Enrichment Plant at Natanz Fuel Enrichment Plant at Natanz
Laser Uranium Enrichment	Lashkar Ab'ad Karaj Agricultural and Medical Center
Fuel Fabrication	Fuel Fabrication Laboratory (FFL) Zirconium Production Plant (ZPP) Fuel Manufacturing Plant
Heavy Water-Related Facilities	Heavy Water Production Plant IR-40 Heavy Water Reactor Hot Cells
Nuclear Power Generation	Bushehr Nuclear Power Plant (BNPP)

TABLE 1—IRAN’S MAIN DECLARED NUCLEAR SITES—CONTINUED

Activity	Location
Waste Disposal	Anarak
Suspect Sites	Parchin, Lavisan-Shian

APPENDIX 1—IRAN’S SAFEGUARDS VIOLATIONS

The International Atomic Energy Agency (IAEA) has found that Iran violated the Nuclear Non-Proliferation Treaty (NPT) and its related safeguards agreement for many years. Iran’s violations and eventual—though still incomplete—cooperation with the IAEA can be divided into four eras or stages.

First Stage: up to mid-2002

In the first stage, beginning in the mid-1980s to early 1990s and continuing until mid-2002, Iran violated its safeguards agreement by pursuing undeclared fuel cycle activities with little scrutiny by the IAEA or member states. Although the IAEA and member states were collecting information about Iranian violations, they were reluctant to act publicly.

Second Stage: 2002–2003

The second stage began in August 2002 when the National Council of Resistance of Iran (NCRI) made the first of many public revelations about secret Iranian nuclear facilities, revealing the Natanz and Arak nuclear sites and ended in late 2003. After pressure from the IAEA and further public revelations about the Natanz site by ISIS, Iran finally allowed the IAEA to visit Natanz in February 2003, and that month Iran began to reveal some of its violations. However, the Atomic Energy Organization of Iran denied many of the accusations, and blocked access by the IAEA to suspect sites. During this time, Iran’s leadership seemed to be torn between acting cooperative and protecting their nuclear secrets at all costs. Despite many efforts by Iran to hide its past and current activities, however, the IAEA, with assistance from member states, NCRI, and ISIS, revealed several more secret nuclear activities and facilities.

In his November 2004 safeguards report to the IAEA Board of Governors, the Director General detailed Iran’s failures to implement its safeguards agreement that had been uncovered through this period. The violations include Iran’s failure to report activities related to nuclear material, the failure to declare the existence of relevant nuclear facilities, the failure to provide design data for a number of facilities, and the “failure on many occasions to cooperate to facilitate the implementation of safeguards, as evidenced by extensive concealment activities.”¹

According to the IAEA, Iran failed to declare six major activities related to nuclear material:

¹ International Atomic Energy Agency, “Implementation of the NPT Safeguards Agreement in the Islamic Republic of Iran,” GOV/2004/83, 15 November 2004.

- Iran failed to report that it had imported natural uranium (1,000 kg of UF_6 , 400 kg of UF_4 , and 400 kg of UO_2) from China in 1991 and its transfer for processing. Iran acknowledged the import in February 2003.
- It failed to report that it had used the imported uranium to test parts of its uranium conversion process, such as uranium dissolution, purification using pulse columns, and the production of uranium metal, and the associated production and loss of nuclear material. Iran acknowledged this failure in February 2003.
- Iran failed to report that it had used 1.9 kg of the imported UF_6 to test P1 centrifuges at the Kalaye Electric Company centrifuge workshop in 1999 and 2002. In its October 2003 declaration, Iran said it first fed UF_6 into a centrifuge in 1999 and in 2002 fed UF_6 into as many as 19 centrifuges. Iran also failed to declare the associated production of enriched and depleted uranium.
- It failed to report that in 1993 it had imported 50 kg of natural uranium metal, and that it used 8 kg of this for atomic vapor laser isotope separation (AVLIS) experiments at Tehran Nuclear Research Center from 1999 to 2000 and 22 kg for AVLIS experiments at Lashkar Ab'ad from 2002 to 2003.² Iran acknowledged these activities in its October 2003 declaration.
- Iran failed to report that it had used imported depleted UO_2 , depleted U_{308} , and natural U_{308} to produce UO_2 , UO_3 , UF_4 , UF_6 , and ammonium uranyl carbonate (AUC) at the Esfahan Nuclear Technology Center and the Tehran Nuclear Research Center.
- It failed to report that it had produced UO_2 targets, irradiated them in the Tehran Research Reactor, and then separated the plutonium from the irradiated targets. Iran also failed to report the production and transfer of waste associated with these activities and that it had stored unprocessed irradiated targets at the Tehran Nuclear Research Center. In meetings with the IAEA following its October 2003 declaration, Iran said that it conducted the plutonium separation experiments between 1988 and 1993 using shielded glove boxes at the Tehran Nuclear Research Center.

According to the IAEA, Iran failed to declare the existence of key nuclear facilities and failed to provide design information, or updated design information, for a number of facilities. Iran failed to declare the existence of the pilot enrichment facility at the Kalaye Electric Company workshop, the laser enrichment facility at Tehran Nuclear Research Center, and the pilot laser enrichment plant at Lashkar Ab'ad.

Iran failed to provide design information for the facilities where the uranium imported in 1991 was received, stored, and processed, including at Jabr Ibn Hayan Multipurpose Laboratories, Tehran Research Reactor, Esfahan Nuclear Technology Center, and the waste storage facilities at Esfahan and Anarak. Iran also failed to

²International Atomic Energy Agency, "Implementation of the NPT Safeguards Agreement in the Islamic Republic of Iran," GOV/2003/75, 10 November 2003, Annex 1, p. 2.

provide design information for the facilities at the Esfahan Nuclear Technology Center and the Tehran Nuclear Research Center where Iran produced UO_2 , UO_3 , UF_4 , UF_6 and AUC using imported depleted UO_2 , depleted U_{308} , and natural U_{308} . Iran failed to provide design information for the waste storage facilities at Esfahan and Anarak in a timely manner. It failed to provide design information for locations where wastes resulting from undeclared activities were processed and stored, including the waste storage facility at Karaj. And it failed to provide design information for the Tehran Research Reactor, in relation to the irradiation of uranium targets, the facility at the Tehran Nuclear Research Center where Iran separated plutonium, and the center's waste handling facility.

Third Stage: End of 2003–2005

The third stage, from October 2003 to the end of 2005, could be called the "Rowhani era," because Hassan Rowhani, then head of Iran's National Security Council, took the lead from the Atomic Energy Organization of Iran in the fall of 2003 and attempted to convince the international community that Iran would now be transparent and cooperate fully with the IAEA. Facing a deadline set by the IAEA Board of Governors, on October 21, 2003 Iran made an extensive written declaration to the IAEA of its past nuclear activities, which revealed a number of additional safeguards violations, and Iran agreed to sign the Additional Protocol.

According to the IAEA Director General's November 15, 2004 report to the Board of Governors, "Since October 2003, Iran's cooperation has improved appreciably, although information has continued in some cases to be slow in coming and provided in reaction to Agency requests. Since December 2003, Iran has facilitated in a timely manner Agency access under its Safeguards Agreement and Additional Protocol to nuclear materials and facilities, as well as other locations in the country, and has permitted the Agency to take environmental samples as requested by the Agency."

However, despite better cooperation, a number of new questions have been raised. For example, Iran's work on developing P2 centrifuges, which Iran had failed to declare in its declaration in October 2003, is not fully understood by the Agency. In addition, Iran has not allowed the IAEA sufficient visits to suspect sites at Parchin that are involved in research and development of high explosives. In proceeding with construction of tunnels at the Esfahan Nuclear Technology Centre before it had told the IAEA, Iran failed to honor its commitment to tell the IAEA about plans to construct new facilities.

Iran has not permitted the IAEA adequate information about and access to dual-use equipment and materials procured by the Physics Research Center for its Lavisan-Shian site that could be used in a gas centrifuge program. Except in one case, Iran has also refused repeated IAEA requests to interview individuals involved in the acquisition of these items. In the one case where the IAEA recently interviewed a former head of the Physics Research Center and took environmental samples of some of the equipment he presented to the inspectors, it detected traces of HEU on some vacuum equipment. This result links this equipment to the gas centrifuge

program and contradicts Iranian denials about its relationship to the centrifuge program.

In addition, the IAEA has questions about a range of studies and documents that could have a military nuclear dimension. The documents include a 15-page document that describes the production of uranium metal from uranium hexafluoride and the casting of enriched and depleted uranium into hemispheres, activities typically associated with a nuclear weapons program. Iran declared that it received the document unsolicited from agents of the Khan network and that it has never used the document. Because this document was part of a package of detailed documents available from the Khan network related to the production of nuclear weapon components made from depleted uranium and HEU, the IAEA remains concerned that Iran may have received more documents in the package and conducted undeclared activities associated with these documents.

Another set of documents were located on a laptop computer that was brought out of Iran and provided to the United States, which in turn shared part of the information with the IAEA. The studies relate to a "Green Salt Project," high explosives testing, and the design of a missile re-entry vehicle that appears able to carry a nuclear warhead. Although this information is not a smoking gun, it suggests the existence of a military-run nuclear weapons program. Iran has refused to answer questions about the last two areas and offered inadequate answers about the Green Salt Project.

A number of questions from before October 2003 also remain unanswered, pending new information or further analysis, such as the source of low enriched uranium and some HEU contamination on Iran's P1 centrifuges and the timeline of Iran's plutonium separation activities.

Fourth Stage: 2006–Present

In the fourth stage, starting in early 2006 and continuing until today, Iran has broken the suspension and halted its adherence to the Additional Protocol. The IAEA is making minimal progress in answering its outstanding questions and concerns or in confirming the absence of undeclared nuclear material and activities. It has also lost access to key centrifuge production and storage facilities, which would enable inspectors to determine the rate and status of Iran's production of centrifuges. This knowledge is especially relevant to concerns of a possible covert enrichment program.

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MAY 17, 2006

Mr. Chairman, Senator Biden, other distinguished members of the committee, it is an honor to appear here today to discuss a matter of such importance to our Nation.

As with all writing about Iran's political process, it is important to be humble about what we can know. Our sources of information about Iranian decisionmaking are miserable and the Iranian governmental process is labyrinthine and unpredictable even for the most subtle and knowledgeable observers inside Iran and out. Even Iran's public opinion is difficult to discern because the regime works hard to control sources of information, punishes dissent, and hinders the efforts of disinterested pollsters. Consequently, we are all "reading tea leaves" when it comes to trying to predict Iran's behavior, especially on an issue as important and heavily debated as this one. All that any of us can offer is an educated guess as to what the Iranians are thinking and how they may react.

With that caveat in mind, I believe that Iran's interest in nuclear weapons is both wide and deep, but it is not adamant. The issue, as always in politics, is not whether Iran wants to see its nuclear program through to completion but what it would be willing to sacrifice to keep it. On this matter, I believe the Iranians would be willing to sacrifice a fair amount, but hardly everything. What this suggests then is that convincing Iran to give up its nuclear program is going to require very considerable inducements, both positive and negative, but that it is not impossible to do so.

IRAN'S STRATEGIC PERSPECTIVE

Setting aside the question of whether Iran is determinedly seeking actual nuclear weapons or simply the capability to produce fissile material (and thereby be in a position to acquire the weapons themselves rapidly), there is ample reason to believe that Iranians would want nuclear weapons.

Deterrence. It has become a cliché in the United States to note that Iran lives in a tough neighborhood. Iranian leaders in Tehran can objectively look out beyond Iran's borders and see a wide range

of potential threats, from chaos and civil war in Iraq or Afghanistan, to a nuclear-armed Pakistan, to Israel over the horizon, to American forces arrayed all along Iran's borders. What's more, Tehran's relations are strained or antagonistic with many of its neighbors, and even those with correct relations with the Islamic Republic tend to view it with considerable suspicion. Thus, the Iranians can honestly point to a wide range of threats and serious concerns for their security, although the fact that their own actions have been responsible for much of the animosity they face is probably lost on most of them.

In other words, possession of nuclear weapons makes sense from an Iranian perspective for purely defensive reasons. While nuclear weapons cannot solve all of Iran's security problems, they can solve some, and in so doing might make dealing with the rest much easier. At the most extreme, Iran is unlikely to be able to deter a determined American military operation without a nuclear arsenal. This lesson has no doubt been driven home to the Iranians by the divergent experiences of Iraq and North Korea, the two other members of President Bush's "Axis of Evil." North Korea is believed to possess nuclear weapons and so the United States has not attacked it and is being forced to engage with Pyongyang. On the other hand, Saddam Hussein's Iraq did not possess nuclear weapons—but was believed to be trying to acquire them—and so the United States was willing to invade and overturn the Ba'hist regime. It is hard to imagine that the leadership in Tehran did not see this as a very simple set of reinforcing conclusions: If you have nuclear weapons, the United States will not dare use force against you, but if you don't, you are vulnerable.

Prestige. We should never forget that the Iranians see themselves as the lineal descendants of a 2,500-year-old civilization that bequeathed to the world its first superpower (the Persian Empire of Cyrus the Great, Darius, and Xerxes), and a long string of great powers from the Parthians to the Sassanids to the Safavids. Only very recently, as measured by the full tale of human history, has Persian power been supplanted in the region by European and eventually American power. A great many Iranians believe that their country's history, experience, and natural resources mandate for it a role as one of the world's great powers and the dominant force in southwest Asia and the Persian Gulf.

To the legacy of Persia's imperial greatness can be added the pride of the Islamic Revolution, which since 1978 has reinforced to many Iranians the sense that their nation has been marked by destiny to play a leading (perhaps "the" leading) role in the region and the Islamic world. Although many Iranians have soured on the revolution, others continue to see it as vital to Iran's mission in the world and many more still see it as another sign that Iran should be the intellectual, diplomatic, and military hegemon of the region.

Persian pride appears to be another motivation in Iran's pursuit of nuclear enrichment capability, if not actual nuclear weapons. Acquiring nuclear weapons would give Iran a status that only a very few other nations possess. It would immediately catapult Iran into the "big leagues" of world politics. It would likely force other states to pay more attention to Iran's aspirations and wishes. Here the recent model that seems to stand out in the minds of many Iranians

is India, whose development of nuclear weapons—and their acceptance by the international community—has been a critical element of New Delhi's acceptance as one of the great powers of the world, whose views should be considered on any matter of importance. Since this is the position to which many Iranians seem to aspire, matching India in the nuclear realm also appears to be a self-evident necessity for Iran.

Export of the Revolution. For at least some Iranians, typically referred to as the “radical hardliners,” Ayatollah Khomeini's dream of exporting Iran's Islamic Revolution to the rest of the Muslim world (and possibly even beyond) is yet another motive. Throughout the 1980s and, to a lesser extent during the early 1990s, Iran attempted to realize this dream by attempting to subvert reactionary Middle Eastern governments and assist would-be revolutionaries in those same countries. Iranian efforts in Iraq, Saudi Arabia, Kuwait, Bahrain, and even Lebanon were all motivated in part or in whole by this goal. But Iran's efforts in these countries triggered the animosity of the United States and in at least one case (Iraq during the Iran-Iraq war) prompted limited but direct American military intervention against Iran. In Lebanon, Iranian actions were part of what inspired American intervention there, and in Saudi Arabia, Iranian activities sparked other aggressive American responses as well as prompting debate in Washington over whether to mount retaliatory military actions against the Islamic Republic.

For still other Iranians, another motivation to acquire nuclear weapons appears to be the related goal of waging war against the United States. This is an offensive version of the deterrence argument above that is also closely related to export of the revolution. Proponents of this motivation continue to see the world as Khomeini described it—as a battle between the forces of good, represented by Iran, and the forces of evil, represented by the United States. In this worldview, Iran will not just face endless attack by the United States but it will also face constant opposition to its efforts to export the revolution from the United States. Therefore, Iran must have the power to drive out American influence from the region and prevent the United States from keeping Iran from achieving its destiny.

For Iranians holding either or both of these more offensive rationales, acquisition of nuclear weapons would also appear to be vital because it would be the only sure way to limit or preclude an American military response for Iranian asymmetric warfare, terrorism, and subversion against the United States and its conservative allies in the region.

MOTIVATIONS VS. PRIORITIES

The Iranians clearly have a range of powerful motivations, strategic, ideological, and psychological, for desiring an arsenal of nuclear weapons—or at least the capability to manufacture such weapons in short order. Nevertheless, it would be a mistake to confuse motivations with a universal and indomitable determination to do so. The history of the past 60 years demonstrates that other states with equal or greater strategic need, ideological justification, and/or psychological desire for nuclear weapons ultimately chose ei-

ther not to pursue them at all or to give up their pursuit mid-stream:

- In the 1960s it was considered a foregone conclusion that Egypt would develop a nuclear weapon as its strategic and psychological incentives were even more compelling than Iran's are today. Egypt was locked in a conflict with a nuclear-armed Israel which resulted in four mostly disastrous wars (for Egypt) in 25 years, and Cairo aspired to be the "leader of the Arab world." Yet Egypt shut down its nuclear weapons program entirely of its own volition because the Egyptian leadership concluded that it had higher priorities which the pursuit of nuclear weapons were undermining.
- Leaders in Italy, Australia, Sweden, Japan, and South Korea considered developing nuclear weapons at various points, and the Italians and Australians actually made some considerable progress toward that goal. However, all of them decided that nuclear weapons would be counterproductive to other, higher priorities, and that they could find ways to deal with their security problems (including even South Korea) through other means.
- Belarus, Ukraine, and Kazakhstan went even further in the early 1990s, voluntarily surrendering the nuclear arsenals that they had inherited from the Soviet Union. Although many Western academic strategists believed that they were insane to do so, all three recognized that the security benefits from possessing nuclear weapons were outweighed by the diplomatic and economic benefits of giving them up and strong economies and good relations with the rest of the world were of far greater importance to them.
- Finally, there is the example of Libya, long one of the Middle East's worst rogue states, which agreed to give up its nuclear program in December 2003 after 10 years of U.N. sanctions convinced Muammar Qadhafi that his pursuit of the bomb was not worth the devastation of Libya's economy and international relationships.

What these examples demonstrate is that it is entirely possible for the international community to dissuade states from trying to acquire nuclear weapons and even persuade them to give them up, even when those states have compelling strategic rationales for possessing the weapons. In every case, the key has been to create a powerful set of positive incentives and negative disincentives geared to the priorities of the state in question.

Iran's political leadership is divided over its nuclear program in important ways. While the available evidence suggests that most Iranian leaders would like at least a nuclear weapons capability (if not the weapons themselves), it also indicates that they differ widely in the priority they ascribe to this goal. For instance, in an interview in 2002, then Minister of Defense, Ali Shamkhani, warned that the "existence of nuclear weapons will turn us into a threat to others that could be exploited in a dangerous way to harm our relations with the countries of the region." More important still, former President Ali Akbar Hashemi Rafsanjani has warned that "If there [are] domestic and foreign conflicts, foreign capital will not flow into the country. In fact, such conflicts will lead to the

flight of capital from this country.” Statements like these demonstrate that important Iranian leaders do not regard possession of nuclear weapons either as an unvarnished blessing or Iran’s highest priority.

The same appears to hold true for the Iranian populace, as best we can discern it. When Iranians took to the polls in the spring of 2005 to elect a new president, they did not vote for Mr. Ahmedinejad because he was determined to acquire nuclear weapons. Instead, they voted for him because he promised to reform Iran’s economy and curb the rampant corruption that is the principal blight on the economy. Anecdotal evidence has repeatedly confirmed that for the Iranian people, “it’s the economy, stupid.” Of course, many average Iranians continue to voice their support for Iran’s nuclear program and even for acquisition for nuclear weapons, but stated in a vacuum (i.e., without regard for potential tradeoffs) such sentiments are meaningless. As a friend of mine, a Swedish diplomat, put it to me, “If you were to ask Swedes whether Sweden should have a nuclear weapon, most of them would probably say ‘yes’ too, until you told them that it would come at the cost of isolation or even sanctions.”

What’s more, the regime appears to be well aware of this. Supreme Leader Ali Khamenei and his allies have tried hard to steer clear of policy paths that would cause Iran’s European and Japanese trading partners to impose economic sanctions on Tehran, even being willing to agree to suspend Iran’s nuclear program in 2003 to avoid such a fate. It is noteworthy that while President Ahmedinejad and his hardline colleagues in Iran’s Foreign Ministry regularly reject foreign overtures to deal with Iran’s nuclear program, Khamenei’s people have just as frequently contradicted the hardliners by announcing a willingness to negotiate. Thus it was Ahmedinejad’s Foreign Ministry that rejected the 2005 Russian proposal to allow Iran to enrich uranium at Russian facilities, but days later National Security Adviser (and Khamenei protege) Ali Larijani accepted the Russian offer to start a dialogue on this proposal, almost certainly in an effort to drag out negotiations, postpone U.N. Security Council action, and possibly harden Russia’s support for Tehran’s position.

It is also important to note that the regime itself has scrupulously maintained that the nuclear program is about securing Iran’s energy needs (so that it can export more oil and gas) and developing a high-tech industry. While there are a number of logical and evidentiary problems with these claims, what is critical is that they are designed to portray Iran’s nuclear program as necessary to Iran’s economy, not its security. Indeed, Tehran is so paranoid about this that it temporarily evicted CNN’s bureau from Iran when a CNN interpreter mistranslated “nuclear power” as “nuclear weapons” in a speech of Ahmedinejad’s. This too makes clear that the regime shares the belief that if the Iranian people were ever forced to choose between the nuclear program and economic health, they would choose the latter.

SQUARING THE CIRCLE

This discussion suggests that convincing Iran to give up its nuclear program is going to be tough. The Iranians are not going to

do so willingly. But it also tells me that doing so should not be impossible, because there are Iranians—both the bulk of the people and important members of the regime—for whom nuclear weapons are desirable, perhaps even important, but neither essential nor even their first priority.

Another comparison is useful to illustrate this point. North Korea's calculus regarding nuclear weapons was clearly different from Iran's. For Pyongyang, its nuclear weapons program was its highest priority and it was willing to tolerate hardships that few other countries (including even Iran) would be willing to. Ultimately, North Korea accepted the devastation of its economy, the impoverishment of its citizenry, and having 3 million of its people starve to death to hold onto its nuclear weapons program. If the same could be said about Iran then it probably would be impossible to convince Iran to give up its nuclear program; however, there is no Iranian or Iran expert who believes that this is the case. There is absolutely no evidence that Tehran would be willing to tolerate the extremes of sacrifice that North Korea did. Instead, the evidence suggests exactly the opposite, that Iran would be more like Libya: Difficult, but hardly impossible to convince.

The key then is for the United States and its allies to compel the Iranians to choose between their nuclear program and their highest priority—their economic well-being. The way of doing so is now well-explicated, including in my own work. Briefly, it would involve a multilateral sanctions regime that would gradually shut down Western (ideally the OECD, but initially perhaps just the G-7) investment in Iran, particularly its gas and oil sectors, in response to continued Iranian recalcitrance. Even with oil prices above \$60 per barrel, Iran is desperate for Western investment capital because corruption is sucking the oil revenues right out of the system and thus having little impact on the overall economy. Despite the claims of some that Russia and China could make up for any loss capital from Europe and Japan, the fact is that their economies are still roughly a decade away from being in a position to do so. Simultaneously, as we did with the Libyans, in return for Iran agreeing to abandon its nuclear program and do so in verifiable fashion, the West (or the U.N. Security Council) would offer Tehran a package of incentives to include admission to the WTO and integration into the global economy, a lifting of U.S. economic sanctions (assuming that, like Libya, Iran renounced terrorism as well) and a universal settlement of all outstanding claims, investment guarantees to make investing in Iran more attractive for Western companies, provision of properly safeguarded light water reactors, terms for giving Tehran access to enrichment technology (without the feedstock materials, the equipment, or the spent fuel), security guarantees, and ideally a new security architecture in the Persian Gulf similar to the Organization of Security and Cooperation in Europe that would allow Iran to address its legitimate security concerns through a peaceful process of dialogue and, eventually, arms control.

Presenting such a package would make clear to the Iranian people and their leadership that their country really did have just two choices. They could retain their nuclear program (and their support for terrorism) and they would become an international outcast and

have their economy slowly crippled by sanctions. Or they could give up these two things and enjoy all of the benefits of the international community that they ever dreamed of.

Two additional caveats suggested by the discussion of Iranian motives and priorities are also in order here. First, the package would have to make very clear that all Iran has to give up is its pursuit of nuclear weapons—not nuclear energy or nuclear technology—to get all of the benefits promised. Any ambiguity here would allow Iran’s hardliners to continue to proffer the canard that Iran’s nuclear program is about its economy, thus engaging Iran’s highest priority and making it less likely that the Iranian people would favor it.

Second, both the carrots and the sticks employed by the international community are going to have to be very big. Iran has major strategic, ideological, and psychological equities attached to its nuclear program and it will not budge easily. Small carrots, like those offered by President Bush on March 10, 2005 (admission to the WTO and sale of spare parts for Boeing passenger aircraft), or simply deals for nuclear reactors and technology, are probably not going to be adequate. The Iranian people will have to believe that there is a huge pot of gold at the end of the rainbow, especially if they are going to be able to help Iran’s more pragmatic leaders defeat Tehran’s hardliners in what is likely to be a knock-down, drag-out internal political battle. Similarly, no one should be under the misimpression that Iran will accept such a deal without the threat of very serious economic sanctions. Indeed, it seems likely that the international community, or merely the West acting outside the United Nations in multilateral fashion, will have to impose strong sanctions on Iran and keep them in place for some time before Tehran accedes. As noted above, it took 10 years for Libya to come to terms, although the Libya sanctions were relatively light as far as sanctions go.

Moreover, throughout the 1990s the European countries threatened Iran with sanctions for its bad behavior but never, ever followed through on their threats no matter how outrageous Iran’s behavior. Consequently, it appears that Iran does not believe that the Europeans will be willing to impose such sanctions, let alone maintain them for very long. This is the root of Tehran’s current strategy of brinksmanship: The Iranians seem certain that, in the end, the Europeans will balk and when that happens, the crisis will be over and they can go back to both pursuing nuclear weapons and enjoying trade and investment from Europe. Thus their strategy is to give on nothing and force the Europeans either to make good on their threats or, as Tehran seems to believe, admit that they are bluffing. For this reason, the Iranians are probably going to have see the Europeans actually impose meaningful sanctions and be willing to hold them in place for some time before Tehran actually believes the Europeans mean business.

None of this should be terribly heartening, but neither should it cause us to lose heart. We always knew that convincing states like Iran that have a range of important rationales for pursuing a nuclear capability to give it up is difficult. But few things in the worlds of politics and diplomacy are impossible, and there is good reason to believe that Iran can be dissuaded from its current

course if the United States and its allies in Europe and Asia can forge a common position and make clear to Iran that pursuit of a nuclear weapon will cost it what most Iranians value the most.

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MAY 17, 2006

Mr. Chairman and Senator Biden, thank you for allowing me, on behalf of the International Crisis Group, the privilege to discuss before you the fate and relationship of the two countries which I care most deeply about, the United States and Iran.

Mr. Chairman and Senator Biden, I fear we are on a collision course with decidedly devastating consequences for the future of the U.S.'s international standing, nuclear nonproliferation, Middle East peace and security, and Iran's evolution toward a society which respects the human rights and civil liberties of its citizens. What was once described as a game of chess has evolved into a game of chicken: The United States and Iran are like two cars moving head on with increasing velocity. Most concerning is that neither side believes that it serves its interests to slow down or get out of the way.

The policy stances of both sides have the merit of being clear: Washington sincerely doubts that Tehran's intentions are peaceful, and refuses to "reward bad behavior" or "confer legitimacy" on the Iranian regime by talking to it. Tehran, meanwhile, believes that the nuclear issue is simply a pretext used by the United States to cover its regime change ambitions, and that agreeing to compromise on its "legal NPT rights" would not allay U.S. pressure, but on the contrary be perceived by Washington as a sign of weakness that would only invite further pressure. Operating under this premise, Iran's leadership believes it must not relent from its position, especially when oil prices soar, its hand in Iraq is strong, and there is still no indication that a more conciliatory Iranian approach would beget a more conciliatory U.S. response.

I do not believe that a nuclear-armed Iran is inevitable. Nor do I believe that a firm decision has been made in Tehran to pursue the acquisition of a nuclear weapon. Despite current ominous trends I remain hopeful that the Iranian people's aspirations to live in a more open society at peace with the outside world is a worthy goal which will one day be realized. But I believe the probability of achieving either of these two salient goals—preventing a nuclear-armed Iran and forwarding the cause of Iranian democracy—is highly unlikely in the context of current U.S. policy toward Iran.

Over three decades of U.S. attempts to change Iranian behavior by isolating it politically and economically have borne little fruit: 27 years after the 1979 revolution, Iran continues to sit atop the State Department's list of the world's state sponsors of terror, continues to play an unconstructive role in the Israeli-Palestinian conflict, continues to expand its military arsenal, and continues to repress its own population. If U.S. policy toward Iran were a business model, it would have been scrapped long ago for failing to achieve its bottom line.

I. TEHRAN'S CALCULATIONS: THE INTERNAL NUCLEAR DEBATE

Iran's senior leadership has always attempted to project a unified mindset regarding the nuclear issue, but in reality the country's ruling elites are divided into three broad categories: Those who favor pursuit of the nuclear project at all costs; those who wish to pursue it without sacrificing diplomatic interests; and those who argue for a suspension of activities to build trust and allow for a full fuel cycle down the road. Understanding and exploiting these differences should be a key component of any diplomatic approach.

The first group, sympathizers of President Mahmoud Ahmadinejad, comprises ideologues and confrontationists who romanticize the defiance of the revolution's early days. They believe that former President Mohammed Khatami's "détente" foreign policy projected an image of weakness while achieving little for Tehran other than membership in the "Axis of Evil." In contrast, they favor an uncompromising approach, in some cases going as far as to advocate that Iran withdraw from the NPT, unequivocally pursue its nuclear ambitions, and dare the international community to react. This group advocates measures such as withholding oil exports and cutting diplomatic ties with countries that side against Iran, confident that "the West needs Iran more than we need them." While 2 to 3 years ago such views were on the fringe, with the recent elections they have gained increased relevance and credibility.

Like the confrontationists, the second group is highly cynical of Western (particularly U.S.) intentions, and argues that Iran is "bound by national duty" to pursue its "inalienable" right to enrich uranium. Unlike them, however, they favor working within an international framework. Iran's lead nuclear negotiator Ali Larijani is perhaps the best representative of this group, arguing simultaneously, perhaps inconsistently, that Iran must neither succumb to "Western double standards" nor abandon diplomacy. "The West wants two classes of nations," Larijani frequently says. "Those that have nuclear technology and can be advanced, and nations that must be restricted to produce only tomato juice and air conditioners . . . [But] a country's survival depends on its political and diplomatic ties. You can't live in isolation."

The third, more conciliatory group, arguably most representative of popular sentiment, is currently the least influential. After months of silence, however, they are increasingly beginning to make their voices heard. Former president Khatami and former lead nuclear negotiator Hassan Rowhani have criticized their successor's disregard for diplomacy, and the country's largest reform party recently urged the government to voluntarily suspend all nu-

clear fuel cycle work. Believing the costs of nuclear intransigence to be greater than its benefits, they argue that Iran should freeze its enrichment activities in order to build confidence and assuage international concerns. This group welcomes diplomacy and has consistently backed direct talks with the United States, convinced that the Europeans are incapable of providing the political, economic, and security dividends Iran seeks.

Signing off on all major decision in Iran is Supreme Leader Ayatollah Ali Khamenei, whose 17-year track record suggests a leader who wants neither confrontation nor accommodation with the West. Yet decisions in Iran are made by consensus rather than decree, and at the moment Ayatollah Khamenei appears more influenced by advisors who argue—with some plausibility—that nothing short of regime change will satisfy the United States, and that retreating on the nuclear question will only display weakness. If there is to be clash with the United States, Tehran's hardliners want it to occur on their terms, when oil prices are high and the United States is bogged down in Iraq.

II. AHMADINEJAD AND THE STRUGGLE FOR POWER

If Mahmoud Ahmadinejad's election proved anything, it is that the Iranian regime is far from monolithic and Iranian politics are far from predictable. While his triumph last June was widely viewed as a consolidation of power by the nation's conservatives, differences among conservatives have never been greater than today. And though it was widely assumed that he would focus on domestic economic affairs and have minimal influence over Iran's foreign policy, in the 9 months since his inauguration Ahmadinejad's impact on Iran's foreign relations has been nothing short of monumental.

Ahmadinejad's assertiveness and outspokenness has surprised many. During his election campaign he criticized Iran's previous nuclear negotiating team for being "frightened," and as president he disbanded it in favor of his own. He is said to have personally authored the provocative speech he delivered at the U.N. Security Council last September, and to have penned his recent 18-page letter to President Bush. Ahmadinejad also has repeatedly issued provocative, bellicose statements on Israel that go beyond what the Supreme Leader or others in the leadership have pronounced.

By most accounts, the president's style has irked the country's entrenched political elite. Senior officials have complained that he "doesn't play by the rules," and displays a surprising lack of respect for the Islamic Republic's protocols and hierarchy. Rather than defer to the elders of the revolution on matters as significant as the nuclear issue or U.S.-Iran relations, he has tried to present himself as a force that cannot be bypassed. Indeed, political rivalries once kept under wraps are now playing out in the open. Last month, for example, Ahmadinejad's eagerly anticipated announcement that Iran had successfully operated a centrifuge cascade was preemptively leaked by Rafsanjani to the Kuwaiti press. More recently, when news came out that he had written an unprecedented letter to President Bush, former lead nuclear negotiator Hassan Rowhani quickly countered by releasing a concise, two-page compromise pro-

posals to Time Magazine—seemingly sending a message to the West that he is an alternative messenger with an alternative message.

Ahmadinejad's behavior can be explained on two counts. To some extent, it is a function of his ambiguous relationship with Ayatollah Khamenei. The two men have decidedly different post-revolution experiences and responsibilities: Ahmadinejad and his peers' most salient experience was fighting in the battlefields during the Iran-Iraq war whereas Ayatollah Khamenei was serving as president, and faced with the day-to-day dilemmas of governing a country embroiled in a full-blown war and facing near total political, economic, and diplomatic isolation. Wary of repeating this experience, the Supreme Leader has more than once publicly downplayed Ahmadinejad's fiery pronouncements. Yet, at the same time, there is evidence that Khamenei appreciates Ahmadinejad's anticorruption campaign and his commitment to revolutionary ideals, and finds comfort in working with a junior president who is seemingly loyal to him and at the same time makes him look like a moderate. Moreover, Khamenei judges various government officials by their results: In this case, he may well consider that during his relatively short tenure Ahmadinejad has accomplished more progress on the nuclear file than in the previous 2½ years of negotiations with Europe.

While Ahmadinejad's behavior has caused disquiet among the political elite, his standing on the Iranian street is more difficult to assess. On one hand he has failed to deliver on his core electoral promise, namely that he would "put the oil money on people's dinner tables"; since his inauguration last August the country has experienced massive capital flight, foreign investment has dropped precipitously, and Tehran's stock exchange has lost nearly a third of its value. Most noticeably for the Iranian people, inflation has increased dramatically, and unemployment has also risen.

Still, Ahmadinejad continues to enjoy some backing, a result of his populist rhetoric, pious ways, humble lifestyle, and fiery nationalism. Aware that he lacks support among the urban middle and upper classes, he instead has courted economically disenfranchised Iranians in smaller towns and far-off provinces, promising loans and debt-relief. Realizing that he lacks favor among the country's top elite—technocrats, business managers, journalists, academics, and even senior clerics—he curries favor with the country's paramilitary groups, such as the *bassij*; has attempted to co-opt the country's military forces by providing numerous projects in the construction and development sector to Revolutionary Guard commanders; and has formed close alliances with powerful hardline clerics in Qom, such as Ayatollah Mesbah Yazdi. All in all, he has managed through his nationalist rhetoric and postures to set the tone for Iranian foreign policy in a way that few had anticipated beforehand.

III. IRAN'S DOMESTIC EVOLUTION

Despite concerns about Ahmadinejad and his team's desires to return to the early days of the revolution, societal reform in Iran is a train that has left the tracks. While it may be slowed down at times, and will certainly face delays and obstacles, it is a process that will be near impossible to reverse, for sheer demographic rea-

sons: Two-thirds of Iranians are under 33 years old; they increasingly are connected to the outside world via satellite television and the Internet; and they have no special affinity for a revolution they did not experience and a revolutionary government which has not been able to meet their economic expectations.

Indeed, for the vast majority of Iranians the priority is economic rather than political deliverance. This is not to say that democracy and human rights are not important concerns, but that for a majority of Iranians they come second. As a Tehran laborer once explained to me, “When your stomach is empty you don’t cry for democracy, you cry for bread!”

While throughout the country Iranians’ sense of alienation vis-à-vis their leaders is palpable, despite these socio-economic discontents people have become increasingly disillusioned with politics. In 1997, 2000, and 2001 they went to the polls in overwhelming numbers, twice to elect President Khatami and once to elect a reform-minded Parliament, yet saw insufficient returns on their civic investments. As a Tehran-based intellectual once told me, “People’s political frustration is to be expected. It’s like exercising every day for 6 years and not seeing any results. Soon you are going to stop going to the gym.”

What’s more, without a clear alternative model or alternative leadership, the deep-seated desire for economic, political, and social reform among many Iranians is tempered by a strong aversion to unrest, uncertainty, and insecurity. Having already experienced one tumultuous revolution (or in the case of Iran’s youth, the aftermath of one tumultuous revolution) and a brutal 8-year war with Iraq, Iranians have few concrete ideas as to how change should take place other than it ought to occur *bedun-e khoonrizi*—“without bloodshed.”

The post-war turbulence and insecurity in next-door neighbor Iraq has made Iranians even wearier about the prospects of a sudden political upheaval or a quick-fix solution. As opposed to the aftermath of the U.S. removal of the Taliban in Afghanistan, when some Iranians could be heard naively romanticizing about the prospects of a swift U.S. intervention in Tehran, today it is rare to find any Iranians who see Iraq as a model for change, or look to their Western neighbor with envy. In the widely echoed words of one middle-class, middle-aged Tehran resident, “When we look at what’s going on in Iraq, it seems that the real choice is not one between democracy or authoritarianism, but between stability or unrest. People may not be happy in Iran, but no one wants unrest.”

IMPLICATIONS FOR U.S. POLICY

1. *To effectively counter Tehran’s confrontationists, the United States must simultaneously strengthen its pragmatists*

While the United States should make clear that a bellicose Iranian policy will not reap rewards, it should also clarify that a conciliatory and compromising Iranian stance would trigger reciprocal steps. A broader diplomatic accommodation—Iran forsaking domestic uranium enrichment and modifying its objectionable domestic and regional behavior in exchange for improved bilateral relations, security assurances, and a lifting of sanctions—is the preferred op-

tion. But given the depth of mutual mistrust and ill will, it may not be possible to achieve this at the moment.

A smaller bargain proposed by the International Crisis Group would be to offer Iran a “delayed, limited enrichment scheme,” acknowledging its eventual right, after several years of a total freeze, to operate a small-scale uranium enrichment facility under an intrusive inspections regime, making clear that a military program would not be tolerated.

In both instances the logic is similar: To strengthen the hand of Iranians who are pressing for a more accommodating foreign and nuclear policy, they need to have a realistic and appealing alternative to point to.

2. Dialogue does not equal appeasement and certainly not indifference to human rights abuses

It is important that we disabuse ourselves of the notion that dialogue is tantamount to appeasement, or would be “selling out” the Iranian people’s aspirations for a more representative government. Quite the contrary: Opinion polls suggest that upward of 75 percent of Iranians want their government to have relations with the United States. Iranian democratic activists like female former MP Fatemeh Haghighatjou—currently a fellow at MIT—have long argued that a U.S.-Iran diplomatic accommodation is crucial for domestic change to take place in Iran. Embarking on a comprehensive dialogue with Iran would provide the United States with the opportunity to match its rhetorical commitment to Iranian democracy and human rights with action, instead of ineffectively, and at times counterproductively, trying to promote it from afar.

Greater economic and cultural contacts with the outside world, combined with continued international insistence on political reform and respect for human rights, would strengthen Iran’s burgeoning civil society; not weaken it, and dilute the conservatives’ hold on power rather than fortify it.

3. A sudden upheaval or abrupt political change in Iran is unlikely to be for the better

John Limbert, the erudite Iran scholar and talented former U.S. diplomat (taken hostage in Iran for 444 days) once reflected on the 1979 Iranian revolution that his liberal-minded Iranian friends “who could write penetrating analyses and biting editorials” lacked the stomach to “throw acid, break up meetings, beat up opponents, trash opposition newspapers, and organize street gangs . . . and engage in the brutality that wins revolutions.”

Today we should be similarly sober about the realities of a short-term upheaval in Iran. There currently exists no credible, organized alternative to the status quo whether within Iran or in the diaspora. And despite the fact that a majority of Iranians favor a more tolerant, democratic system, there is little evidence to believe that in the event of a sudden uprising it would be Iranian democrats who come to power, especially in a country with nearly 150,000 revolutionary guardsmen and 2 million members of the *bassij*, whose livelihood, in many cases, depends on the continuation of the status quo.

4. The United States should make it clear that it has no intention of undermining Iran's territorial integrity

While a diversity of opinion exists among Iranians regarding the country's nuclear ambitions, the maintenance of the country's territorial integrity is an issue which unites the vast majority of countrymen of all ethnic, religious, and political persuasions. Amid widespread concern and rumors in Iran that the United States is flirting with a strategy of supporting ethnic Iranian separatists groups, Washington should do its utmost to reassure the Iranian people that such concerns are unfounded.

Mr. Chairman and Senator Biden, I believe there are two equally plausible visions for Iran's future. One is a hostile, backward-looking nation increasingly isolated from the international community, but with enough oil wealth to fund military and paramilitary groups which repress popular demand for change. Despite popular discontent, such a situation could be sustainable in Iran for years if not decades; an Islamic Cuba, with potentially a nuclear weapon.

The second scenario is of a country which has made amends with the United States, is reintegrated into the international community, experiences large flows of foreign investment, a strengthened middle class, a burgeoning private sector, and a free flow of tourists and members of the Iranian diaspora visiting freely. It is this scenario which will provide fertile ground for Iran's transition to a more tolerant and democratic system at peace with the international community.

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MAY 17, 2006

If Iran saw its nuclear program as essential to defending the country's very existence—the way Israel and Pakistan view their nuclear programs—then economic considerations would make little difference to Iran's calculations. But defense is not the principal factor behind the Iranian nuclear program. Rather, Iran's principal motives for its nuclear program are the pursuit of prestige and influence. Iranian leaders consistently present the nuclear program as an accomplishment of Iranian science and as evidence that Iran is an advanced modern industrial power. They also argue that Western opposition to Iran's nuclear ambitions are an effort to keep Iran down, to prevent the country from assuming its rightful place as a leader in the region and the broader Muslim world. They play to Iranians' national pride, to their sense that Iran is naturally a great power—not to any sense that Iran is so threatened that it must take desperate steps to defend itself.

The challenge for the West is to persuade Iran's powerholders that the nuclear program will not advance Iran's prestige and influence. Economic instruments can play a role in this regard, though they are most unlikely to be sufficient by themselves.

IRANIAN SELF-ASSURANCE

Unfortunately, the West's ability to press Iran has eroded in recent years. Iran's leaders are now remarkably self-assured, given the conjunction of favorable circumstances, including the end to threats to Iran from Iraq and Afghanistan; the United States being tied down in Iraq; and victories by pro-Iranian forces in Iraqi and Palestinian elections. Economic factors play no small part in this self-assurance, as documented by the recent International Monetary Fund report (the source of all the economic figures I cite, unless otherwise noted). Oil and gas exports have shot up from \$23 billion in 2002/03 to \$55 billion this year, driven entirely by higher prices (Iran got \$23 per barrel in 2002/03 and will get \$55 this year). The oil exports have swelled government coffers allowing an explosion of off-budget spending that has sent economic growth shooting up to an average of 6.2 percent a year (discounting for in-

flation) from 2002/03 to this year. Foreign exchange reserves have shot up to \$47 billion, more than twice the size of all foreign debt, and are expected to rise further to \$62 billion by the end of this year.

In light of the favorable strategic situation, many in the Iranian leadership are no longer convinced that it must maintain strong ties with Russia and Europe, nor do they think that these relationships have brought Iran any benefits to date. To the extent that this self-reliant attitude prevails, it will be harder to persuade Iran to cooperate with the international community. However, if the great powers can remind Iran about the true danger of isolation, the terms of the nuclear debate in Iran will change. Conceding will be difficult for Iran, but the Islamic Republic has in the past made difficult compromises with its revolutionary principles, such as ending the Iran-Iraq war.

Complicating the situation is that Iranian President Mahmoud Ahmadinejad seems to welcome the prospect of an attack on Iran as a means to rekindle the lost fervor of the early revolutionary days. While he represents a dangerous and growing element in the Iranian elite, the real power holder has been the Supreme Leader (who is exactly what the title suggests), Ayatollah Ali Khamenei. For the last 18 years, Khamenei has preferred low-level confrontation with the West—just enough to keep the revolutionary spirit alive, but not enough to risk open hostilities. For now, Khamenei seems to think that the West, despite its tough rhetoric, will do nothing to stop Ahmadinejad, so why not let him push ahead.

ECONOMIC VULNERABILITY

Having pegged his reputation on his ability to help the ordinary man, Ahmadinejad faces serious problems: The economy is a mess, his policies are disastrous, and Iranians' expectations are sky-high. The World Bank's 2003 report about Iran noted, "Despite the growth in the 1990s, GDP per capita in 2000 is still 30 percent below what it was in the mid-1970s, compared with a near doubling for the rest of the world." Iranians are galled to find that their country has slipped badly behind the Arabs on the south side of the Persian Gulf, whom they traditionally have regarded as their social inferiors. Thanks to the tens of thousands of Iranians living in Dubai, Iranians know full well that Dubai is booming because it has embraced globalization, while their country falls ever farther behind, trapped by its suspicion of the West.

Ahmadinejad's policy is based on producing everything at home and creating barriers to trade—he has no use for globalization. His government has been discouraging foreign investors, for instance, refusing to allow Renault to use the billion-dollar facility it built in Iran to build an inexpensive car for the Asian market. The recent Iranian boom has been based almost entirely on profligate government spending which cannot last forever. Despite the flood of oil money, government policies are such that the IMF warns the budget will fall back into deficit again within 2 years even if oil prices remain sky-high.

The recent massive government spending has led to several years of solid growth, yet it has barely dented the country's long-term economic problems. While reported unemployment fell to an 8-year

low of 10.3 percent last year, job creation remains insufficient to absorb the 700,000 young people entering the job market each year. The IMF forecasts that even if oil prices remain at their present high level, unemployment will steadily increase in years to come. In its 2003 report, the usually sober and understated World Bank summed up the “daunting unemployment challenge” with strong words: “Unless the country moves quickly to a faster path of growth with employment, discontent and disenchantment could threaten its economic, social, and political system.”

Economic and political frustration is feeding social problems. One is chronic drug problem, with the Iranian Government acknowledging that 2 million people use narcotics, mainly opium; other estimates are higher. Divorce is on the rise; one study found that 30 percent of newlyweds got divorced within 3 years. Another is increasing prostitution; the official estimate is 300,000 prostitutes. There have been a number of corruption scandals involving judges and government social workers involved in prostituting young girls. Instead of making reforms that would allow entrepreneurs to create jobs, the political elite is more comfortable with the “solution” of rising emigration rates, especially among the well educated. In sum, many of Iran’s best and brightest are leaving the country, and a growing number of those remaining are at risk of becoming an underclass.

BUSINESS CONFIDENCE: THE ACHILLES’ HEEL

Given that inappropriate government policies are already making the Iranian business community nervous, international pressure on the economy could have a major impact on business confidence. “The [Tehran stock market has shown to be hypersensitive to political issues (such as the course of the nuclear enrichment negotiations), as well as domestic economic policy uncertainties,” writes the state-owned Karafarin Bank in its Survey of the Iranian Economy for October–December 20. In 2005, the stock market index fell 26 percent. At the same time, the banking system was hit by a crisis from dishonored promissory notes, primarily by big firms unable to pay their debts.

With even Iranian fans nervous about business conditions, there are excellent opportunities to press foreign firms to reduce their presence in Iran. There have already been some notable successes in this regard. Strict U.S. Treasury application of existing rules about fund transfers—such as those to prevent transfer of funds to terrorists and weapons of mass destruction proliferators—led the two largest Swiss banks (UBS and Credit Swiss) and a large British bank (HSBC) to decide recently that Iran was not an attractive place to do business, so they stopped taking new business. The impact that this is having was well described by the state-owned Karafarin Bank in its Survey of the Iranian Economy for October–December 2005:

Most probably, the fear of imposition of sanctions by the U.N. against Iran, in connection with the nuclear enrichment issue, has reduced the reliability of Iranian banks as international trading partners. In other words, despite [an] important balance of payments surplus, Iranian banks

have been facing difficulties dealing with their otherwise cooperative correspondents. This may prove to be for the banks and the country as a whole, [sic] one of the most important obstacles to hurdle in the months to come.

There is much scope for working with U.S. allies to more vigorously apply restrictions on financial transactions and trade with Iran. U.N. Security Council Resolutions 1373 and 1540 call on countries to adopt and enforce effective controls on funds and services that would contribute to terrorism and WMD proliferation respectively. The United States and its allies can approach countries to ask what are they doing to implement these resolutions regarding Iran, especially in light of the International Atomic Energy Agency (IAEA) decisions finding Iran has violated its safeguards agreements with the IAEA. Industrial firms can be warned about the many items which could be diverted from their declared peaceful intentions to be used instead in the nuclear program. Banks can be cautioned about the negative publicity as well as regulatory complications if they were found to be facilitating shady businesses. European governments excel at using such quiet warnings, which can be very effective at persuading firms that the Iran market is not worth the risks; indeed, a number of European governments seem already to be passing such warnings. The U.S. Treasury has a well-oiled machinery for implementing restrictions, and its warnings to banks can be particularly effective since few banks in the world are willing to risk being cut off from dealings with the U.S. financial system. That same machinery could be extended to press firms considering investments in the Iranian oil and gas industry.

Tighter restrictions are “de facto sanctions” which have many advantages over formal sanctions imposed by the U.N. Security Council. Russia and China have no veto over tightening restrictions. In the best of cases, obtaining Security Council consensus for action takes a long time, whereas tightening restrictions can be done much more quickly. Action by the Security Council provides Ahmadinejad with a banner around which he can rally nationalist reaction, claiming that the country is under attack. By contrast, tighter restrictions operate under the public’s radar screen, while their impact is fully felt by the business community—which in Iran means first and foremost the revolutionary elite which behind the scenes controls the economy as fully as it does the political system.

OIL’S MIXED ROLE

Given that Iran’s goal is to use its nuclear program to achieve influence and prestige, fewer instruments would seem better suited to that task than its oil exports. It has been suggested that were Iran to make good on threats to cut off its oil exports of 2.5 million barrels/day, this action would hurt the West so much it might have to back off on its pressure against Iran’s nuclear program.

Perhaps—but perhaps not. The present tight world oil market will not last forever. Production outside of OPEC is increasing, not least under the stimulus of high prices, and the return of Katrina-damaged facilities will only add to the higher output. Despite the red-hot Chinese and Indian economies, world demand is growing

more slowly as price influences consumption. It is not beyond the realm of possibility that within the next few years, oil markets could become much more slack. After all, that was the experience after both the 1973–74 and 1980–81 price increases: Within 4 years, the oil market got soft. In short, the more time that passes, the less may be Iran's strategic leverage regarding oil.

Indeed, the world oil situation is already changing, though that fact is obscured by the fears of consumers and speculation of traders. In April 2006, world oil production was 1 million barrels/day higher than demand, according to the prestigious *Petroleum Intelligence Weekly*. Plus OPEC countries—principally Saudi Arabia—had excess production capacity of about 1.5 million barrels/day, and the world refinery situation is changing such that the heavier Saudi crude oils could be more readily absorbed (last year when Saudi Arabia wanted to sell additional oil to offset post-Katrina price spikes, refineries were unable to take advantage of the exceptionally low prices offered). Those two factors alone could have made up for a cutoff in Iranian oil exports, even without the use of the West's approximately 1.4 billion barrels in strategic reserves, which are the equivalent of 560 days of Iranian exports (figures from the International Energy Agency).

Were Iran to cut off its oil exports, the impact on the Iranian economy would be considerable. To be sure, Iran's ample foreign exchange reserves would cushion the impact, but those reserves would only be sufficient to pay for a year's imports (or, if Iran cut back imports to the bone, for 2 year's imports at that low level). And the Iranian Government relies on oil revenue to fund 75 percent of its expenditures, according to Karafarin Bank (the IMF reports are not much help on this issue, because the government has taken to conducting so many of its operations outside the budget through various shady accounts).

Perhaps the most immediate Iranian vulnerability regarding oil is its dependence on imported gasoline, which provide about 40 percent of the 350,000 barrels of gasoline sold daily. However, this vulnerability is less than meets the eye. The price of gasoline at the pump is 800 rials per liter, or about 35 cents a gallon. Such a ridiculously cheap price encourages rampant smuggling of gasoline to neighboring countries, such as Turkey and Pakistan, where gasoline prices are more than ten times higher than in Iran. Plus the low pump price leads to excessive gasoline consumption that gives Tehran some of the world's most polluted air; schools frequently have to close because it would be unhealthy for children to go outside. And the low gasoline price results in a massive loss of government revenue; just the cost of distributing the fuel after it leaves the refinery gate is more than what the customer pays. The IMF and World Bank have spent years documenting in great detail the pernicious economic and health impact of the excessive gasoline consumption. In short, there are few steps which would help the Iranian economy more than forcing a reduction in gasoline consumption. And the Iranian Government is well along with plans to ration gasoline from September 2006—plans which would allow a quick response in the event of a gasoline import cutoff.

A final word about the role of oil in thinking about Iran's nuclear program. It is tempting to assume that Iran can use its oil riches

to influence the decisions of other governments. However, there is remarkably little evidence that Iran has successfully used oil to induce other countries to turn a blind eye to its nuclear violations. Consider for instance that the great power most reluctant to press Iran has been Russia, which is a fellow oil exporter and could therefore benefit if Iranian oil were kept off the market. Indeed, there is little reason to think that Moscow's approach has been affected by any economic consideration, which is not surprising given the remarkably favorable economic circumstances Russia finds itself in, with the main dilemma facing the government being how much of the vast budget surplus to spend and how much to save. As for Iranian efforts to use oil projects to influence China, Japan, or India, they seem to have had little impact, in part perhaps because Iran has been unwilling to offer particularly attractive terms to foreign investors. The eye-poppingly large deals announced with great fanfare have all run into serious difficulties over the terms and conditions.

THE LIMITATIONS OF ECONOMIC INSTRUMENTS

Economic instruments alone are unlikely to be sufficient to persuade Iran to freeze its nuclear program. The principal levers of power in Iran are in the hands of revolutionaries who are not motivated primarily by economic concerns, while those who care about the state of the economy do not have sufficient influence on their own to persuade the real powerholders to change policies. Success at influencing Iranian policy is much more likely if action on the economic front is combined with action on other fronts. In particular, the security apparatus—especially the Revolutionary Guards—are a vital power center in Iran. They need to be convinced that the current nuclear policies are threatening Iran's security, because Iran's neighbors and the great powers will react in ways that will hurt Iran. If Iran makes the gulf a more dangerous place, then the United States and other powers will need to deploy more powerful military assets to the region, if for no other reason to protect shipping from Iranian threats to close the Strait of Hormuz. And Iran's nuclear program could start an arms race, which the Gulf Arab monarchies and Turkey would win, since compared to Iran they are both richer and have better ties with the world's principal arms suppliers.

Much as pressure should be applied on several fronts rather than just on the economy, so inducements offered Iran should take multiple forms rather than only being trade and investment incentives. Indeed, economic inducements look suspiciously like bribes paid for bad behavior. Besides being odious, such bribes give the impression that bad behavior is more profitable than good behavior. Pro-Western reformers were unable to secure a trade agreement with Europe or substantial U.S. relaxation of its economic sanctions despite their obvious interest in improving relations, but now it appears that anti-Western hardliners may achieve those objectives—which suggests that Iran would be well advised to be obnoxious rather than cooperative. No matter how creatively one designs or packages economic inducements, they will inevitably look like reward for bad behavior.

A much more appropriate form of inducement would be security inducements. Such security inducements should be designed to counter the argument that Iran needs nuclear weapons for its defense. There are many confidence- and security-building measures and arms control measures that would provide gains for both Iran and the West, similar to the way such steps reduced tensions between the old Warsaw Pact and NATO during the cold war. One example would be an agreement to reduce the risk of incidents at sea between the United States and Iranian navies.

A further security inducement which the United States could offer would be to address the reported concern that the Bush administration's real goal is regime change in Iran and that the Bush administration will use force to that end. Such complaints sound peculiar coming from an Iranian Government whose president lectures President Bush on why the United States should abandon its liberal democracy and who sponsored a conference last fall on the theme "The World Without Zionism and America"—a government which regularly organizes mass demonstrations filled with the chant "Death to America." Perhaps we should take as a compliment that Iran's hardliners expect the United States to be more restrained than they are; we certainly do not organize terror attacks to blow up their barracks the way they did at Khobar Towers in 1996 or in Beirut in 1983.

It would of course be inappropriate for the U.S. Government to offer any security guarantees to the Iranian or any other government; what government is in power in another country is up to the people of that country to decide. But what Washington could offer Tehran would be a "conditional security assurance"—jargon for the simple proposition, "We will not attack you if you do not attack us." To clarify what that means, the U.S. Government should spell out:

- "Just as you criticize us for our liberal democracy, we will remain free to criticize you for your undemocratic violations of human rights.
- "Just as you spend tens of millions on radio and television broadcasting to our country to propagate your views, so we will remain free to support broadcasts to Iran.
- "Just as you tightly restrict trade with America, we will remain free to restrict trade with Iran."

Such a conditional security assurance might not be all that Iranian hardliners want, but at the very least, it would help in the battle to influence European and Middle Eastern opinion that the United States is being reasonable and Iran is not. Since Iran's main objective in pursuing its nuclear program is to gain influence and prestige, Washington's strategy should be to show that Tehran's obstinate nuclear stance is undermining Iran's influence.

PREPARED STATEMENT
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MAY 17, 2006

Mr. Chairman, I am grateful for the opportunity to speak to you and your colleagues about a matter of grave importance to the United States, namely Iran's behavior and its nuclear program. The committee has asked me to comment on three subjects:

- Can Russia and China be helpful in pressuring Iran to change its present course?
- What are the attitudes of Iran's neighbors to the current regime and the course it has chosen to pursue?
- Do opportunities exist in the region for those seeking to contain Iran?

I will add a fourth issue:

- The need for continued U.S.-EU cooperation

Can Russia and China be helpful in pressuring Iran to change its present course?

There is no doubt, in my opinion, that Russia is the key player on this matter and that with adroit diplomacy it would have been possible to obtain the cooperation of the Putin government to put far more pressure on the Iranian regime to put limits on its nuclear program. In the event of Russian cooperation it is unlikely that China would be the lone dissenter to joint pressure against the Islamic Republic.

However we have not handled the Russia portfolio with skill. Russia sees Iran as a cooperative partner in an unstable part of the world straddling the Caucasus and Central Asia. In contrast the U.S. policy toward Russia's "near abroad" is seen in Moscow to be provocative. The laudatory objective of the Bush administration is to nurture more freedom in Eurasia and to develop multiple pipeline routes in the context of energy security. However in the specific context of persuading Russia that it is in its interests to turn on one of its partners, Iran, it must be asked what it is we are offering the Russians to make this difficult choice worthwhile? Russians privately tell you that if the Americans want to deal on Iran then it would require some quid pro quo, such as not encouraging

Ukraine to join NATO or not deliberately making provocative speeches in the region a few weeks before the G-8 Summit in St. Petersburg. I would have to conclude that while there are good arguments for being critical of Russia and being supportive of neighbors such as Ukraine and Georgia, the Baltic states, and Kazakhstan, such pronouncements are counterproductive in the context of Iran policy.

Seen from the Russian point of view, not only are we interfering in their backyard, but if we eventually improve relations with Iran as part of some ultimate “grand bargain” and remove economic sanctions then Russia stands to lose a great deal of economic leverage in that country while witnessing the return of the United States and all that entails for the region.

A similar set of tradeoffs could be made in the context of China. China is not unhappy to see us struggling in the Middle East, even though it does not want to see a failure in Iraq. Neither does it want to see an Iranian nuclear program. Yet China, too, would need some quid pro quo to put serious pressure on Iran.

What are the attitudes of Iran’s neighbors to the current regime?

Iran’s neighbors have different specific problems with the current leadership in Tehran but all are concerned about its nuclear program. Most of Iraq’s Shi’a leaders owe a big debt to Iran and have nurtured close ties with the Mullahs while making it clear that they do not wish to establish a Shia theocracy in Iraq. Turkey and Iran share common concerns about the evolving Kurdish region in northern Iraq. The Sunni Arab states are all fearful of Iran’s hegemonic tendencies and talk about a “Shia Crescent” running from Iran, through Iraq into Syria and Lebanon. The Gulf states with significant Shia populations, notably Saudi Arabia and Bahrain, worry about domestic pressure. The UAE has a long-standing territorial dispute with Iran. Qatar has become a firm military ally of the U.S. Oman is probably the least worried about Iran, though this could change.

How to assess the impact of Iran’s nuclear program on Gulf security? There is a major difference between Saudi Arabia and the smaller GCC countries, because of Saudi Arabia’s size, budget, infrastructure, and regional aspirations. For instance, unilateral options open to the smaller Gulf states in the event of an Iranian bomb are very limited. Saudi Arabia, however, has the capacity and the wealth to consider some form of nuclear deterrent, most likely in cooperation with another country, such as Pakistan. Saudi Arabia already has Chinese SS-2 medium range missiles in its current inventory. It is not unreasonable to assume that Saudi Arabia could engage in nuclear purchases, either the basic fissile materials to make a bomb or a finished product. Furthermore, it is not only an Iranian bomb that could motivate Saudi Arabia to consider such an option. The propensity of Saudi Arabia to think about a nuclear option is related to the state of its relationship with the United States, which, until recently, was always considered the protector of the Kingdom in the last resort.

Aside from Saudi Arabia’s reaction, the most likely initial response of the gulf countries to the news of an Iranian nuclear weapons program will be concern about possible U.S. and Israeli

preemptive military actions. The Bush administration and Israeli leaders have both made it clear that the Islamic Republic's possession of the bomb will be an intolerable threat.

However, since the Iraqi war and the unreliability of western intelligence concerning Iraq's WMD programs, the case for preemptive war against supposedly proliferant states has been weakened and, therefore, the political costs of undertaking such action in the future have become much higher. If there is uncertainty with intelligence about an Iranian bomb, the United States and Israel will have problems garnering support for military action. Even if the evidence is overwhelming and highly convincing (i.e., Iran either tests a nuclear device or announces it is building the bomb), there will be reluctance to endorse U.S.-Israeli military action for fear of the chaos this could bring to the gulf and the region.

Do opportunities exist in the region for those seeking to contain Iran?

An Iranian nuclear program means the United States will have strong reasons to maintain its military presence in the Gulf States. The nature and purpose of enhanced military cooperation between the United States and the Arabian Peninsula could take many forms. The most important component would be a counterdeterrent to indicate to Iran that any efforts to use nuclear weapons to intimidate or blackmail would be challenged by the United States. The credibility of this counterdeterrent would be linked to the vulnerability of U.S. forces and U.S. targets themselves to Iranian intimidation. And here we are referring to regional targets. Iran is not expected to deploy an intercontinental ballistic missile capable of striking the continental United States for many, many years. It is difficult to see under what circumstances Iran could use its nuclear weapons in anger, except for in some suicidal spasm similar to the scenarios that were heard so frequently with respect to Saddam Hussein and his capacity for a glorious Gotterdammerung ending to his fiefdom.

Need for Continued U.S.-EU Cooperation

The Iranian Government feels sufficiently confident of its diplomatic position on the nuclear program, at both the United Nations and the IAEA, to run the risk of a major confrontation with the United States and Europe. The key test will be whether the United States and Europe can continue to address this issue from the same set of principles and talking points. Much will depend on whether the Europeans are now finally prepared to join the United States on imposing economic sanctions on Iran if pressures from the IAEA at the Security Council fail. The Iranian nuclear issue will be a test not only of U.S.-European relations, but of European resolve as well. It is important to note how far out on a limb the European governments, particularly Britain, France, and Germany, have gone in proposing this agreement and what a challenge they face if the Iranians continue their nuclear enrichment program.

Iran's leaders appear to have calculated that they can withstand the diplomatic pressure they are likely to face and that even if sanctions are imposed Iran has the will and financial resources to ride them out. It remains to be seen what the long-term implica-

tions of this are for both Iran's domestic politics and its actions in Iraq. If the United States and Europe increase their rhetoric against the Iranians, and if sanctions begin to hurt Tehran, Iran may use its bargaining chips in Iraq at a critical moment in its post-Saddam political evolution. The linkage between the Iran's nuclear issue and its role in Iraq is becoming clearer.

Despite Iran's gleeful defiance of the international community on the nuclear issue, it would be unwise for Iran's leaders to take their current good luck for granted. The Islamic Republic faces significant social and economic challenges that can only be made more difficult by alienating the West. The embarrassing and unacceptable statements by its new President calling for Israel's destruction, while a popular theme in many Islamic countries, have harmed Iran's international image and caused further anxiety with his behavior at home. Regionally, Iran has poor relations with its Arab neighbors, and it cannot be assumed that Iraq's Shiite community will remain friendly and grateful indefinitely. Iran's vital national interests could be helped by ending the standoff with the United States. Likewise, the United States has more to gain than lose if it adopts a more coherent and pragmatic policy toward the Islamic Republic.

Day Two—May 18, 2006

OPENING STATEMENT

SENATOR RICHARD G. LUGAR

CHAIRMAN, U.S. SENATE COMMITTEE ON FOREIGN RELATIONS

BEFORE THE

U.S. SENATE COMMITTEE ON FOREIGN RELATIONS

MAY 18, 2006

The Foreign Relations Committee meets today to continue our examination of U.S. policy toward Iran. This is the second hearing of our two-part series. Yesterday, we focused our attention on the status of Iran's nuclear program and on analysis of Iran's motivations and strategies. Today, we will evaluate the options available to deal with this challenge.

The Bush administration has been attempting to build a cohesive international coalition capable of applying economic and diplomatic pressure on Iran that would have the potential to dissuade it from continuing its drive toward a nuclear weapons capability. Though efforts to attain a Security Council consensus on a firm response to Iran's actions have not been successful—primarily because of resistance from Russia and China—diplomacy backed by multi-lateral sanctions remains the focus of U.S. policy.

Our witnesses yesterday judged that Iranian acquisition of nuclear weapons is not inevitable, though they underscored that a nuclear weapons capability is an extremely important Iranian goal that would be given up only grudgingly. They noted that the Iranian leadership is pursuing nuclear weapons for a number of reasons, including self-defense, Iranian national pride, and regional influence. But as several of our witnesses asserted, the Iranian leadership is faced with economic problems that could be exacerbated by multi-lateral sanctions and international isolation. In contrast, a verifiable resolution of the nuclear problem could result in long-term economic benefits flowing to Iran, including much-needed Western investment in the energy sector. Our witnesses also emphasized that Iran's government is far from a monolith. Factions and personalities in Tehran have varying priorities that could lead to diplomatic opportunities.

The witnesses generally shared the view that no diplomatic options, including direct talks, should be taken off the table. Direct talks may in some circumstances be useful in demonstrating to our allies our commitment to diplomacy, dispelling anti-American rumors among the Iranian people, preventing Iranian misinterpreta-

tion of our goals, or reducing the risk of accidental escalation. Our policies and our communications must be clear, precise, and confident, without becoming inflexible.

I noted a comment by Dr. Henry Kissinger in an op-ed on Iran that appeared in Tuesday's Washington Post. Dr. Kissinger wrote: "The diplomacy appropriate to denuclearization is comparable to the containment policy that helped win the Cold War: i.e., no preemptive challenge to the external security of the adversary, but firm resistance to attempts to project its power abroad and reliance on domestic forces to bring about internal change. It was precisely such a nuanced policy that caused President Ronald Reagan to invite Soviet leader Leonid Brezhnev to a dialogue within weeks of labeling the Soviet Union the 'evil empire.'"

Dr. Kissinger's analogy, as well as the testimony that we heard yesterday, reinforce the point that Iran poses a sophisticated policy challenge that will require the nuanced use of a range of diplomatic and economic tools.

To discuss how such tools might be applied, we are joined by four distinguished experts. We welcome the Honorable Frank Wisner, former Ambassador to India and currently Vice Chairman for External Affairs at the American International Group; Dr. Vali Nasr, a Professor of National Security Affairs at the U.S. Naval Postgraduate School in Monterey, California; Ms. Julia Nanay, a Senior Director at PFC Energy in Washington; and Mr. James Phillips, a Research Fellow in Middle Eastern Affairs at the Heritage Foundation.

We thank our witnesses for joining us today, and we look forward to their insights on the policy options open to the United States.

OPENING STATEMENT
SENATOR JOSEPH R. BIDEN, JR.
RANKING MEMBER, U.S. SENATE COMMITTEE ON FOREIGN
RELATIONS
BEFORE THE
U.S. SENATE COMMITTEE ON FOREIGN RELATIONS
MAY 18, 2006

Thank you, Mr. Chairman. I welcome our witnesses.

Yesterday, we heard from several well-informed witnesses on Iran's nuclear program. We also heard about Iran's motivations, the attitude of its population, and its vulnerability to economic sanctions. Today, I look forward to hearing about the options before us.

This hearing is timely. Our European allies are crafting a package of incentives and, if they fail, sanctions that will be presented to Iran.

Their first objective is to secure Chinese and Russian support for the entire package, so that Iran will understand that it faces UN Security Council mandated sanctions if it rejects the offer.

If Russia and China balk at supporting the package, there is talk of the U.S. and Europe forming our own sanctions coalition. We heard yesterday that Iran is already feeling some pressure as investors and banks pull back from Iran in anticipation of sanctions.

But achieving broad-based agreement on sanctions cannot be the sum total of a diplomatic strategy for Iran. Sanctions are at best one tool to achieve our broader objectives, including ending Iran's uranium enrichment activities.

We need greater clarity on our precise goals—clarity the Bush administration has thus far failed to provide.

If our goal is regime change, then that argues for an aggressive set of policies that will likely alienate most of friends, particularly in the wake of Iraq.

If our goal is to see Iran's threatening behavior end in the short-term—while working for long-term change—then that argues for a policy that many could likely support.

Yesterday, I recommended that President Bush respond to the recent letter sent by the Iranian President, but he should write to the man who has the final say in Iran—Ayatollah Khamenei.

I would make the letter public and I would include a call for direct talks with Iran—anywhere, anytime, with everything on the table.

We should be willing to talk about all the issues that divide us: the nuclear program, terrorism, Iraq, Afghanistan, Israeli-Palestinian peace, sanctions, and security.

We should lay out for Iran's leader—and especially for its people—what the future could look like if Iran renounces its nuclear ambitions and support for terrorism—and what the future could look like if it does not.

As I said yesterday, I don't know for certain how Iran would respond, but I believe that an offer of direct dialogue would place enormous pressure on the Iranian leadership—from their own people and from the international community.

Iranian leaders would face a stark choice—reject the overture and risk complete isolation and an angry public, or accept it and start down a path that would require Iran to alter its nuclear ambitions.

Talking to Tehran would not reward bad behavior or legitimize the regime. Talking is something we have done with virtually every other country on earth, including unsavory regimes like the ones in North Korea and Libya.

Demonstrating that we made a serious attempt at diplomacy is also the best way to keep others on board for tougher actions if Iran fails to respond.

If the administration wants to convince our allies and others to place serious pressure on Iran, it must walk the extra diplomatic mile.

I look forward to the testimony.

PREPARED STATEMENT
HONORABLE FRANK G. WISNER
VICE CHAIRMAN FOR EXTERNAL AFFAIRS, AMERICAN INTERNATIONAL
GROUP, INC., NEW YORK, NEW YORK
BEFORE THE
U.S. SENATE COMMITTEE ON FOREIGN RELATIONS
MAY 18, 2006

The United States, the international community and Iran are in crisis. The crisis broke out last year in the wake of Iran's decision to proceed with its nuclear enrichment program and limit its cooperation with the International Atomic Energy Agency. But the crisis runs deeper. It is rooted in broad international concern over Iran's clandestine efforts to develop an enrichment program, which have put into question the spirit of Iran's compliance with the Non-Proliferation Treaty.

In fact, the origins of the crisis are long standing. For over a quarter of a century and as a result of the overthrow of the Shah's regime, Iran's clerically dominated government has been at odds with the United States and frequently with its neighbors. The regime's aggressive assertion of its religious identity has frightened Sunni Muslim nations in the Gulf, the Middle East and elsewhere in the region. Iran's espousal of Hezbollah and Hamas has put the country on the front lines of the war against terror. The Iranian leadership's unwillingness to accept the existence of the State of Israel has further undermined the ability of the United States to find common ground with it.

In response to the Iranian Government's policies and the principles it espouses, the United States, during the Bush administration, has identified Iran as an opponent of the United States and a candidate for "regime change." The Congress' involvement in legislation to fund activities which would undermine clerical rule in Iran has sent the strong signal of aggressive American intent. To a nation historically under siege and more recently at odds with the United States, these threats have hit hard and have stirred broad Iranian insecurities.

I come to this meeting over the future of American policy toward Iran, having read Iran's history closely and having followed attentively its recent actions and our relationship. I bring to this session my thirty-seven years of experience in our Nation's diplomatic service as well as a four year association with "track two" discussions with knowledgeable Iranians. These discussions have been organized under the auspices of the United Nations' Association of the

United States (UNA-USA). The results have been regularly shared with officials of the United States government.

In addition, I represented the United States Government in 1997 in discussions with Russia's authorities over the transfer of missile technology from the Russian Federation to Iran. This said, I have no access to official intelligence on Iran, its nuclear program nor the workings of Iranian domestic politics.

In presenting my conclusions today, I do not speak for the American International Group, where I serve as Vice Chairman, External Affairs. My views are entirely my own.

I intend, in the course of my testimony, to answer four questions: (1) Will Iran develop a nuclear weapon; (2) Is that outcome imminent; (3) Is Iran's leadership united behind the development of a nuclear weapon and (4) What is the way ahead for the United States.

Will Iran develop a nuclear weapon?

The answer to that question is not obvious. It is clear Iran believes it has the right to enrich uranium and fuel a nuclear power system. Iran further argues that this right is part of its commitment to the NPT. It is also true that Iran has pursued a nuclear ambition since the days of the Shah. Finally, it is obvious that Iran has developed its fuel enrichment system clandestinely and in violation of its international obligations.

It is my view that Iran has not made a nuclear weapons decision and that its house is divided on the subject. There are Iranians who believe Iran would be better off with a nuclear weapon; there are others who argue that a weapon will increase the dangers which Iran faces. Virtually all Iranians, including those who live outside the country, share the opinion that their country needs nuclear power and that an enrichment program is a legitimate assertion of the nation's right. Moreover, the nuclear program has become in Iranian eyes a question of national honor and prestige.

It is possible that Iran will proceed down the path of enrichment, stopping just short of a nuclear weapon, leaving open the option to acquire such a capacity. Given Iran's dangerous record on other fronts and the lack of confidence in its government's behavior, that outcome is unacceptable to the United States and our friends in Europe. In a word, we must deal with the nuclear issue and seek to contain it.

Is a weapon imminent?

Again, I advise caution in concluding that the United States faces an immediate threat. Estimates of the time it would take Iran to assemble adequate amounts of fissionable material vary sharply. Like you, I have seen figures that range from three to ten years, depending on the urgency with which Iran pursues the goal, the technology and resources available to it and the international environment. The design and weaponization of a nuclear device is another matter but not one for "tomorrow morning." I argue, therefore, that we have time to consider carefully our strategy for dealing with the very real threat which Iran's enrichment program poses. There need be no rush to judgment; and we have time to explore and exercise the option of diplomacy.

Let me make this point in a different way.

Is Iran's leadership united behind the development of a nuclear weapon?

Once again my experience leads me to be careful about concluding Iran's leadership and political class are united. Those, who state with confidence that they know Iran's intentions, have been consistently wrong. Our insights into the politics of the clerical regime are limited; our estrangement from Iran has impeded serious analysis of political trends and developments. This state of affairs is regrettable and I suggest it is in the interests of the United States to increase the attention we pay to Iran, its politics, economics and social trends—within government and in academic and research communities.

It is my view that Iran's leadership, broadly defined, is not united on a wide range of issues of national importance, including nuclear weaponization. Power is divided. The Supreme Leader retains control over Iran's Revolutionary Guards, its intelligence services and the nuclear program. Mahmoud Ahmadinejad, the President and author of deeply offensive and inflammatory statements about Israel, the region, Iran's nuclear intentions and the United States, does not directly control these institutions and programs. But he won the election to the Presidency with a solid majority and with clerical sympathy. Today he is playing Iranian politics with consummate skill. Ahmadinejad will be a significant factor in Iranian politics for years to come. He has developed a strong base among young Iranians and he appeals effectively to the street's instincts. Moreover he enjoys substantial standing with the Supreme Leader and the Guardians. In the election campaign and his brief time in office Ahmadinejad has eclipsed the reformers; his leverage in Iranian politics is rising. This said, so are his opponents who are questioning the President's assertions about national security policy and his profligate interventions in the economy.

Finally, it has been my experience that the exercise of power has the potential of educating its holders in the realities of international and domestic life. This has been Iran's recent experience. The country's original revolutionary fervor has run thin. We are in Ahmadinejad's early days. There is more to come, but the present situation of crisis strengthens the Iranian President's hand. There is reason therefore to lessen, if we can, the intensity of the present crisis.

What are the United States choices?

I suggest that the nuclear stand-off with Iran will play out over a period of time—months if not years. There are no quick fixes and we need the time to examine, select and pursue our options. The United Nations' Security Council is divided. Our European friends, deeply opposed to Iran's nuclear program, seek a diplomatic resolution.

Is there a military solution to enrichment? There is no obvious way to deal with Iran's intention to proceed with nuclear enrichment. It is my view that military action can only disrupt Iranian facilities. Worse yet, the consequences of an American attack on

Iranian intentions will be severe. If Iran's leaders have not crossed the nuclear threshold, they would in the wake of American military action. We would have to anticipate direct Iranian retaliation against our forces in Iraq and other American targets in the Gulf and the Middle East—if not beyond. I have not seen any evidence that our intelligence is adequate to pinpoint Iran's nuclear enrichment system and make it vulnerable to a decisive military strike.

The political consequences of an American attack would be even more devastating. I can assure you that there will be an eruption of protest across the Muslim world; public opinion in allied nations would be hostile and our standing in international fora would be undermined. We must also calculate the economic consequences. I have no way to predict where the price of oil will go in the wake of military action against Iran or counter moves which impeded the Straits of Hormuz.

Military action should always be the last choice—and never excluded. But I do not believe that we have reached the end of the road and can therefore justify or appropriately use military force to stop Iran's enrichment program.

Will economic sanctions deter Iran?

The United States has committed the majority of its sanctions arsenal against Iran in the past and has few decisive instruments left. While the possibility of greater allied cooperation in the face of a nuclear threat is somewhat better, our allies have been hard to bring along in the past. Ordinary trade sanctions will be very difficult to enforce, given Iran's long borders and proximity to trading entrepôts, like Dubai. Financial sanctions come at the cost of disruption of our complicated, international financial system. Sanctions against the movement of Iranian officials are hardly significant. Sanctions generally work when they are targeted, short term and multilateral. It is hard to imagine the Iranian nuclear crisis being either of short duration or subject to resolution only through the imposition of sanctions.

The case for engagement.

The first choice in conflict resolution should be diplomacy. There are diplomatic options available to the United States.

Does this mean that military means or sanctions have no place in addressing the crisis we face with Iran? Of course not. They are and must remain arrows in our quiver. Diplomacy, without strength and the ability to deliver pressure, is rarely successful. For the moment, military force and additional sanctions are more effective as threats which its leaders must contemplate.

Our leverage lies elsewhere. Iran is an isolated nation. Apart from a few states, like Syria, whose association with Iran is based on tactical considerations, Iran has few friends and no allies. If the international community, notably Russia and China, are divided from us about how to deal with Iran, there are no divisions over the issue of Iran's nuclear pretensions nor her historic sponsorship of violence in her region. Cut off from acceptance within the international community, Iran is also isolated in the mainstream of world economics. She sells oil but she receives virtually no investment. Existing sanctions, especially those put in place by the

United States, limit foreign capital flows. And these sanctions can be deepened. Iran receives little to no technology and will not as long as she to stand outside the norms of acceptable international behavior.

Iran's isolation, born of her policies of confrontation, aggravates her perception of threat and preoccupies her leaders and intelligentsia. At heart, they know that Iran cannot force her way into respectability, partnership and security. Sooner or later, Iran must meet all of us "half way" or she will remain threatened and denied the capital flows, investment partnerships and technology her lagging economy and highly dissatisfied and deprived population requires. In a word, Iran's understanding of her isolation and our capacity to sustain and intensify it are powerful weapons in addressing the nuclear crisis we face and the other threats Iran poses to our interests. Equally, our willingness to offer a path away from isolation is a powerful tool.

Then how do we deal with Iran?

Our ability to respond militarily is "on the table" and it should remain there. Sanctions are in place and selectively, for example a multilateral agreement aimed at the denial of official credits, can be added over time. We have drawn our "lines in the sand" and the time is right to move on and engage Iran politically.

The time is right, moreover, to signal that the United States not only seeks agreement which will contain the nuclear crisis but that we are prepared to consider normalizing relations, provided, of course, that Iran is similarly disposed and acts accordingly. Engagement, through diplomatic dialogue, means addressing the broad array of issues that divide Iran from us and the international community—the issues that leave her marginalized and insecure—in other words, the issues that undergird distrust of Iran.

The questions, which we and Iran must address, are obvious and they deal with subjects of vital importance to the United States—Iran's nuclear pretensions; the future of Iraq and Afghanistan; the security of the Gulf; the prevalence of terror in the Middle East; political instability in the Arab East; and peace between Israel and Palestine. The U.S. plays a very special role in Iran's thinking. The questions she wishes to address with us are her isolation; the sanctions' regimes she faces; her search for acceptance in the international community and her insecurity in a deeply troubled region. In particular, Iran needs access to the international economy if she is to provide employment for her young.

Our record of engagement with Islamic Iran is a poor one. Past attempts, born of initiatives to address a single issue, have failed. They will fail again if we and Iran do not address the totality of our relationship and if we and Iran are not prepared to set, as an ultimate objective, the normalization of our relationship. And that means, simply stated, a reciprocal readiness to live in peace and mutual respect, no matter how sharply divided we are over our view of each others' political systems.

History is replete with examples of the United States finding a working basis for our relationships with those from whom we were sharply divided over ideology, national ambition, and questions of

vital national security concern. I have in mind our ability to find common ground, through detente, with the erstwhile Soviet Union and through the Shanghai Communiqué, with the People's Republic of China.

Engagement begins with a commitment at the top of our political system. On our side, it starts with an undertaking by the President to a normalized relationship. It means a willingness to set aside the rhetoric of "axis of evil" and measures legislatively mandated to undermine Iran's regime. Our concerns are legitimately with Iran's external ambitions and absent any confidence in those ambitions, its nuclear intentions. Its domestic orientation is another question. Iranians have changed their regimes in the past and they will do so again. In a situation of greater peace and security, that day may even come sooner. Our objective must be the stability of the region and our interests there—not Iran's domestic order. We have our principles; the clerics have theirs. Let's see on whose side history sits.

I believe there is an opportunity today to pursue engagement with Iran. Based on my assessment of Iran's policies, I conclude that Iran's clerical leaders are more comfortable with the country's elected government and are willing to give it the freedom to maneuver internationally, including with us. This was not the case in Khatami's time. In addition Iran's leaders are less intimidated by our ability to deliver on the threats they feel we have articulated. They know we are bogged down in Iraq. Therefore they feel they can approach us on a more equal footing. Our European allies want us to enter the dialogue; Russia and China clearly share that view. I suspect they would welcome a signal the United States is ready to seek normalized relations with Iran and to live in peace.

Ahmadinejad's recent letter, as bizarre and objectionable as its content are, is based on a sense of self confidence. It deserves an answer—not rejection. We are under no obligation to reply to the terms which the letter offers. We are free to state our case and spell out our objectives for a dialogue.

I do not have a neat formula to resolve the nuclear crisis. I doubt Iran will renounce enrichment but will it enter into cooperative, internationally based arrangements for the production and supervision of enriched fuel? Is it possible to find common ground over Iraq and Afghanistan where Iranian interests have been served by the elimination of Saddam and the Taliban? I believe so, especially if we make it clear the United States does not intend to be a permanent fixture in Iraq or Afghanistan and that we will not use our position in either country to threaten Iran. Can the concerns of Sunni Arabs be addressed? I contend there is room for a regional conference to elaborate security guarantees. Can Iran address the dangers posed by Hezbollah and Hamas and can Iran be brought to be a more responsible player in the Israeli-Palestinian equation? Perhaps, but it will be difficult. But it is reasonable to conclude Iran sees in Hamas' victory in the Palestinian elections a vindication and because Hamas is now in power, a two state solution can be pursued.

This said, I return to my core contention: the starting point in negotiations with Iran is our willingness to seek normalization.

The United States must deal with the nuclear crisis. We have time, leverage and the authority to do so. But to repeat, our approach should be a broad one; aimed at a full exploration of the several issues of concern to us and with the objective of a normalized relationship. The history of America's dealings with Iran should make it clear that anything less will lead to frustration.

OPENING STATEMENT

DR. VALI R. NASR

PROFESSOR OF MIDDLE EAST AND SOUTH ASIA POLITICS, DEPARTMENT OF NATIONAL SECURITY AFFAIRS, NAVAL POSTGRADUATE SCHOOL, MONTEREY, CALIFORNIA

BEFORE THE

U.S. SENATE COMMITTEE ON FOREIGN RELATIONS

MAY 18, 2006

Iran today presents a serious foreign policy challenge to the United States. The growing prominence of security concerns: escalation of tensions over Iran's continued development of a nuclear capability, the country's role in Iraq and Afghanistan and support for Hamas and Hezbollah have preoccupied U.S. foreign policy. The election of a hard-line president in Iran in 2005, who has adopted a belligerent rhetoric, has added urgency to contending with these challenges.

The U.S. policy between 2001 and 2005 was focused on promotion of democracy in Iran with the hope that such a transition would result in a break through in U.S.-Iran relations, and that in turn would solve the above mentioned challenges. It was hoped that the example of democracy in Iraq would undermine theocracy. Many observers looked to the presidential elections of 2005 in Iran as an opening: expecting that it would exacerbate internal tensions in Iran and produce a "Ukrainian moment."

The election results defied expectations. The reformist lost, and the most radical conservative forces won. The turn-out was higher than expected, and despite electoral irregularities there were no wide-spread protests and a new militant and hard-line president assumed power, and quickly escalated tensions with the West. The United States now confronted a more aggressive Iran at a time when the Iraq war was taxing America's military capability, constricting its ability to deter Iran.

Iran in particular intensified its campaign to acquire nuclear capability, and after the break-down of negotiations with the EU-3 became less cooperative with IAEA and less willing to compromise. It in fact, adopted a policy of deliberately escalating tensions, believing that it had ample room to push for maximum gains.

It became clear that the priority for U.S. policy in its relations with Iran would have to be first and foremost, containment of its nuclear program; and in addition, contending with Iran's regional role—in particular in Iraq and Palestinian territories.

U.S. policy has since 2005 continued to look to democracy as a solution to the Iranian challenge. There are inherent problems in this approach:

1. The scope of intensification of Iran's nuclear program requires a more direct and focused policy to address specific threats and concerns. Democratization does not amount to such a policy.
2. It is increasingly doubtful that there is in fact a credible democracy movement in Iran, and if it is likely to have an impact on regime behavior or decision-making in the small policy-making window that is available to the U.S. to deal with the nuclear issue.
3. It is also likely that democracy promotion and contending with security concerns regarding Iran may not be compatible with each other, and in fact may interfere with one another.

Prospects for Democracy in Iran

Iran today has many ingredients of democracy. It has an educated youth (some 70% of the population), who are receptive to western ideas, thousands of activist NGOs, more women in universities than men, and the level of cultural dynamism that is unique in the Middle East. Persian is today, after English and Mandarin Chinese, the third most popular language on the internet, and there are over eighty thousand Iranian blogs. There are hundreds of widely read newspapers, magazines, and periodicals, and there is relatively easy access to outside sources of information. One third of Iranians listen to BBC Radio, and BBC's Persian website at one point received 450,000 hits a day. Iranians watch everything from CNN to Al-Jazeera on satellite TV. Although unelected authorities screen election candidates, and there are deep flaws in electoral politics, still Iranians are more familiar with the rudiments of elections than their neighbors. Iranians take the campaigning and voting seriously. The voting age is fifteen. An entire generation has now grown up with ballots and electioneering, promises from politicians, and the ideals of democracy as well as its mechanics.

These social factors, however, have not produced democracy. Conversely, over the past five years Iran has witnessed growing power of conservative forces that since the 2005 elections are consolidating their hold on power. The conservative leadership comprise of clerics and Revolutionary Guards commanders, and their allies in the bureaucracy, media, and private sector. They now control all institutions of power—the executive, legislature and judiciary—and are in command of key decision-making bodies. Their political ethos combines loyalty to the ideals of the revolution with an ascendant nationalism that sees Iran as a regional power. Although Iranian society may look like Eastern Europe of 1980s the Iranian government does not.

The conservative leadership in Iran unlike Eastern European governments of 1980s is not completely alienated from society, and hence isolated and vulnerable. The ruling regime in Iran is confident and in control, and has a base of support of around 20% (a

steady number in election after election), and far from feeling under pressure is confident of its own legitimacy and ability to govern. It sees itself as capable to confronting social opposition. The conservative leadership has proven itself capable to defending its own prerogative to power. It combines nationalism with revolutionary ideology with populism to mobilize the poor in its own support and marginalize the more affluent middle classes that demand democracy. The rising price of oil has made such an approach possible. In this regard the Iranian regime resembles Hugo Chavez's regime in Venezuela or Evo Morales' in Bolivia.

Since 2005 elections Iran's pro-democracy forces are demoralized and marginalized. They have lost their access to power and are excluded from all state institutions. They are disorganized. They lack political parties, and in-fighting has prevented them from forming a united front before the regime. They do not have a program of action or a platform that could challenge the current government's foreign policy or populist economic policies. In addition there is no wedge issue around which they could mobilize their followers, organize demonstrations, and build a movement. There is no major election on the calendar for the next five years—nothing to rally around. Escalation of tensions between U.S. and Iran—and especially the prospects of sanctions and a military strike on Iran—has moreover, created a rally to the flag phenomenon in Iran—war and nationalist fervor do not favor democracy. As strong as the demand for democracy is in Iran the democracy movement is weak. It poses no palpable threats to regime stability.

Contending with the Challenge

In the past five years the challenges posed by Iran to U.S. policy have not gone away, they have in fact grown. The prospect for democracy has in the meantime faded. It is fair to conclude that democracy is not in the short run a solution to the pressing problems in U.S.-Iranian relations. There is no democratic partner organization, no clear opening, or an election to rally around.

At the same time it is possible that contending with pressing issues in U.S.-Iranian relations will require engaging Iran more directly. Any conversation between U.S. and Iran that yields results will have to contend with security guarantees that will be sought by Iran. A key element of such a guarantee is likely to be a removal of U.S. threat to regime survival in Iran. Such a guarantee will run counter to the goal of democracy promotion. Hence, not only will democracy not solve the security challenges facing the U.S., but rather, the solution to those challenges will adversely impact democracy-promotion. Three considerations are important at this juncture:

1. U.S. policy-making must realize that democratization is a long-run process in Iran. It will not address short run problems.
2. At a time of escalating tensions between U.S. and Iran overt U.S. support for democracy in Iran will be counterproductive. It will cast democracy advocates as unpatriotic. It is also likely to be futile as pro-democracy forces are unlikely to engage the U.S. at a time when U.S. and

Iran are in conflict. Faced with a choice between democracy or nationalism the Iranian population will likely choose nationalism, and pro-democracy forces will likely follow the same trend.

3. The imperative of solving short run crises requires that policies directed at solving them be decoupled from the long run goal of democracy promotion.

Democracy promotion should remain a U.S. objective, and U.S. should continue to lend its moral authority to advocating its cause. However, the U.S. should not see this as a short run policy or a solution to the nuclear crisis. Democracy promotion should not be a substitute for diplomacy.

PREPARED STATEMENT
MS. JULIA NANAY
SENIOR DIRECTOR, PFC ENERGY, WASHINGTON, DC
BEFORE THE
U.S. SENATE COMMITTEE ON FOREIGN RELATIONS
MAY 18, 2006

Good morning. Senator Lugar and distinguished members of this committee, it is a pleasure to come before you today to address such an important topic. My name is Julia Nanay and I am a Senior Director at PFC Energy. PFC Energy is a strategic advisory firm, based in Washington, DC. We are advisors to the petroleum industry on oil markets and various aspects of investment risks related to the global petroleum environment.

Iran is a Major Risk Factor Driving Energy Prices Higher

The timing of today's hearing is important as it occurs in an extremely volatile period for oil markets. Here are some of the headlines from the news over the course of just a few days May 3–May 12: Oil hovered near \$75 a barrel, within striking distance of record highs, because of mounting tension over Iran's nuclear plans; oil held steady near \$70 a barrel after major powers failed to come up with a strategy for containing Iran's nuclear ambitions; oil fell below \$70 a barrel on hopes tension over Iran's nuclear ambition will ease after Iran's President made an unprecedented move to contact Washington.

Uncertainty over the ability of the markets to supply the world's oil requirements if Iran's oil supplies were reduced has kept oil markets on edge. The day to day volatility in today's oil markets is driven by the news about Iran. The more that Iran is in the news and the more that the U.S. presses for sanctions and holds out the possibility of military action, the higher that oil prices stay. Any news about the easing of tensions and possible talks between the U.S. and Iran causes the price to drop. Estimates of the Iran premium in today's oil price run as high as \$15 a barrel.

Iran's Production and Exports

Iran's oil production capacity today is about 4 million barrels per day. Its oil production is estimated to average 3.8–3.9 million barrels per day. The country's OPEC quota is 4.11 million barrels per day. Iran's oil exports have held steady at 2.4–2.5 million barrels per day, without any significant drops related to tensions over the nuclear problem. Iran's oil export policies have not changed.

Since President Ahmadinejad was elected in June 2005, however, no new contracts for oil or gas development have been signed. Production from Iran's existing old oil fields is being depleted and without significant new investment, oil production declines of at least 200,000 b/d per year are foreseen. Iran has been unable to meet its OPEC quota because of the lag in capacity expansion plans. The Iran Libya Sanctions Act (ILSA) prohibits U.S. investment in Iran's oil and gas sector and has discouraged many western companies from investing.

One solution being promoted by the government of Iran is to dip into the Oil Stabilization Fund to finance oil and gas developments. One idea floated in Iran is to take loans from the Oil Stabilization Fund to spend on oil and gas fields, using future revenues to repay the loans. Information on the actual level of this Fund is difficult to come by since the government has been drawing against it for various purposes. The Oil Stabilization Fund does not show up in Iran's national budget. It is run as an account at the Central Bank by a handful of senior government officials. A better way to look at the Oil Stabilization Fund would be to refer to it as a hard currency reserve account.

The threat of additional sanctions on Iran's oil and gas sector and the rumors about possible military action are keeping foreign investors away from Iran. This could lead to less oil being available from this country over time, depending on how long the current stand off continues. In a period of increasingly tight oil markets, this will keep a floor under oil prices.

Countries That Buy Oil From Iran

The U.S. buys no oil from Iran. According to a report from the Joint Economic Committee of Congress in March 2006, 56% of Iran's oil exports are to Asia and 29% to Europe. The remainder goes to Africa, the Middle East and Latin America. Japan and China together buy over 800,000 b/d of Iran's oil exports or over one-third. Japan is particularly dependent on Iran and the Middle East in general since it imports every barrel it uses and over 90% of its imports come from the Middle East. China purchases less oil from Iran than Japan and its oil import sources are more diversified. Angola and Russia are both large suppliers of oil to China. Japan, therefore, is most vulnerable to any supply interruptions from Iran.

Worries about oil disruptions from Iran are forcing Japanese and Chinese buyers to try to diversify their import sources. Japanese refiners have changed their purchasing patterns to reduce Iranian volumes. Both Japan and China are making overtures to Russia to open up East Siberia to their companies and to allow them to help finance and build new East Siberian export pipelines. This could pose a challenge to western buyers of Russian crude and gas as these resources could be diverted from the west to feed Asian buyers clamoring for non-Middle East supplies. Chinese companies are also becoming increasingly active in Africa. In a recent bidding round in Angola, China's Sinopec offered a signature bonus of \$1.1 billion for two deepwater blocks offshore significantly outbidding U.S. companies in a region that in the past was the preserve of the U.S. and European oil industry. U.S. efforts to further isolate Iran

are being felt in ways big and small in global petroleum markets as international investors scramble to diversify away from the Middle East.

Still, unless there are major disruptions caused by some sort of military intervention or sanctions on Iran's oil exports, Iran itself is unlikely to stop or cut back the flow of oil to its customers. For one thing, it would be reluctant to jeopardize its contractual relationships; for another, it would not want to lose the revenues. For every barrel of the 2.4 million barrels a day that Iran exports, it earns over \$50 a barrel. Iran's net oil export revenues in 2005 were close to \$47 billion and it will earn over \$50 billion in 2006.

Iran Imports Gasoline

Despite being OPEC's second largest oil producer, Iran has a deficit in refining capacity to manufacture gasoline. Iran uses about 422,000 b/d of gasoline and imports 170,000 b/d of it, paying upwards of \$4 billion in 2006 for these imports. Gasoline is heavily subsidized in Iran, with the price set at under 40 cents per gallon. \$2.6 billion was withdrawn from the Oil Stabilization Fund last year to pay for gasoline imports.

Again according to a report from the Joint Economic Committee of Congress in March 2006, an estimated 25 percent of Iran's gasoline imports come from Persian Gulf countries, 15 percent from India, and the remainder from a variety of sources, including France, Turkey, Singapore, the Netherlands and China.

At the same time, volumes equivalent to as much as half of the amount of Iran's gasoline imports are being smuggled abroad. Subsidized prices at home make it lucrative for smugglers to move this product out of the country, with Iraq being a favored market along with Pakistan. Many people in border areas earn a living from smuggling gasoline.

Iran is looking into rationing gasoline, so that low prices would apply to a certain level of purchases by each car owner after which the full cost of the gasoline would be paid. This two-tier pricing system is still being discussed but it could be implemented later in 2006.

If gasoline import sanctions were imposed, one affect would be to cut down on smuggling and another, to alleviate the traffic pollution problems in Tehran. Gasoline import sanctions might cast the U.S. in a negative light since unlike other oil and gas sanctions, their impact would fall directly on Iran's people.

U.S. Policy Options in the Oil and Gas Sector

About 60 percent of Iran's export earnings come from the oil and gas sector and 40 to 50 percent of the government's revenues. Investments in Iran's oil and gas sector are already dramatically reduced and timetables delayed due to the sanctions currently in place, as well as weak terms on offer under the buyback contract model. Short of disrupting Iran's oil trade with sanctions on oil exports, which would drive up oil prices and negatively impact the U.S. economy, there is limited impact to be gained for the world community from any other additional sanctions on Iran's oil and gas industry. In a market where companies and countries seek to secure their economic lifelines through access to oil and gas, the

idea that you can create a fool-proof sanctions system targeted at any oil and gas producer is a non-starter. There will always be those who violate the sanctions.

Sanctions on gasoline imports would be disruptive and would result in creating dislocations in Iran's economy. However, their impact would be offset to some extent by the likely elimination of the smuggling of gasoline to neighboring countries. Such targeted sanctions will have their own unintended consequences of probably encouraging the smuggling of gasoline from such offshore sources as Dubai from where many products already enter Iran.

The U.S. has to weigh carefully what it wants to gain from such sanctions. The cut off of gasoline imports could just be another item on a list of sanctions already imposed on Iran, which certainly creates problems for the government but then results in adjustments without seriously undermining the government's power or changing its behavior with regard to nuclear enrichment.

Iran-Pakistan-India gas pipeline

Finally, just a few words about the status of this pipeline. This is a project that has been talked about for many years and it is still being discussed. Let's put it in the context of the Baku-Tblisi-Ceyhan oil pipeline which at 1,780 km is 1,000 kms shorter than the 2,775 km Iran-Pakistan-India pipeline. It took almost a decade for BTC to be realized from first project appraisal and this is a pipeline that had private oil company investment and where BP took a strong lead. Constructing and financing such multibillion dollar projects is difficult and expensive and it takes serious commitment from all parties. With an estimated \$7 billion price tag, the Iran-Pakistan-India pipeline still has a long way to go before it can be considered a serious project. While the energy is clearly needed by Pakistan and India, there is no agreement in place yet among the three countries to build the pipeline, with the question of who would pay for it not even addressed.

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MAY 18, 2006

Thank you Mr Chairman and distinguished members of the committee for this opportunity to discuss U.S. policy regarding Iran's nuclear program.

The efforts of the United States and its allies to dissuade Iran from pursuing its long-sought goal of attaining a nuclear weapons capability have so far failed to yield satisfactory results. Iran made temporary tactical concessions in October 2003 under strong international pressure to temporarily freeze its uranium enrichment operations and submit to increased inspections of its nuclear facilities by the International Atomic Energy Agency (IAEA). Tehran feared that referral to the Security Council could result in diplomatic isolation, economic sanctions, or possible military attack. It undoubtedly also was motivated by the examples set by the rapid overthrow of the Taliban regime in Afghanistan in 2001 and Saddam Hussein's regime in Iraq in early 2003 by U.S.-led coalitions.

Tehran made enough tactical concessions to stave off international sanctions and engage the European Union in diplomatic negotiations led by Britain, France, and Germany (the EU-3) to temporarily defuse the crisis. But Tehran later dropped the charade of negotiations after it apparently concluded that the international situation had shifted in its favor. It now apparently believes that it is in a much stronger position due to the continued need for U.S. military forces in Iraq and Afghanistan; the rise in oil prices which has given it greater bargaining leverage with oil importers; and its diplomatic cultivation of China and Russia, which can dilute or veto resolutions brought before the U.N. Security Council.

The installation of a new hard-line government led by President Mahmoud Ahmadinejad in August 2005 also was a major factor that led Tehran to renege on its agreement with the EU-3. Iran's new president is firmly committed to Iran's nuclear program and vehemently criticized Iran's previous government for making too many concessions in past negotiations with the EU-3. Shortly thereafter Iran resumed operations at the Isfahan uranium conver-

sion facility, converting yellowcake into uranium hexafluoride, a preliminary step before enrichment. In January 2006 Iran announced its intention to resume uranium enrichment activities and removed IAEA seals at its Natanz facility. Iran remains determined to develop a complete nuclear fuel cycle, which would eventually give it the fissile material for a nuclear weapons capability. Thus far, Iran has escaped paying any significant price for its apparent violations of its commitments under the NPT and failure to fully cooperate with the IAEA.

The U.S. should mobilize an international coalition to raise the diplomatic, economic, domestic political, and potential military costs to Tehran of continuing to flout its obligations under its nuclear safeguards agreements. This “coalition of the willing” should seek to isolate the Ahmadinejad regime, weaken it through targeted economic sanctions, explain to the Iranian people why their government’s nuclear policies will impose economic costs and military risks on them, contain Iran’s military power, and encourage democratic change. If Tehran persists in its drive for nuclear weapons despite these escalating pressures, then the United States should consider military options to set back the Iranian nuclear weapons program.

The Growing Threat of Ahmadinejad’s Iran

Mahmoud Ahmadinejad rose up through the ranks of the Islamic Revolutionary Guard Corps (IRGC), the praetorian guard dedicated to advancing and exporting the revolution that Ayatollah Ruhollah Khomeini inspired in Iran in 1978–1979. Ahmadinejad is a true believer in Khomeini’s radical vision of Iran’s role as the vanguard of a global Islamic revolution. He has lambasted the U.S. as “a failing power” and a threat to the Muslim world.

In sharp contrast to his predecessor, former President Mohammad Khatami, who advocated a conciliatory “dialogue of civilizations” but was blocked by the strong opposition of the ideological hardliners, Ahmadinejad has returned to the fiery rhetoric of the Khomeini era. In September he delivered a truculent speech at the United Nations, warning foreign governments against meddling in Iranian affairs. On October 26, he made a venomous speech attacking Israel in which he quoted Khomeini: “As the Imam said, Israel must be wiped off the map.”

Ahmadinejad’s vehement return to Khomeini’s radical line has been accompanied by a purge of pragmatists and reformers within the regime. Forty of Iran’s senior ambassadors have been recalled from overseas posts, including diplomats who were involved in the EU-3 negotiations in Britain, France, Germany, and at the United Nations in Geneva. Ahmadinejad has appointed many of his IRGC cronies to key positions throughout the government.

Iran also has been increasingly aggressive in stirring up trouble inside Iraq. In October, the British government charged that the Iranians had supplied sophisticated bombs with shaped charges capable of penetrating armor to clients in Iraq who used them in a series of attacks on British forces in southern Iraq. Iran also has given discreet support to insurgents such as Moqtada al-Sadr, who twice has led Shi’ite uprisings against coalition forces and the Iraqi government.

Iranian hardliners undoubtedly fear that a stable democratic Iraq would present a dangerous alternative model of government that could undermine their own authority. They know that Iraq's pre-eminent Shiite religious leader, Grand Ayatollah Ali al-Sistani, whose religious authority is greater than that of any member of Iran's ruling clerical regime, rejects Khomeini's radical ideology and advocates traditional Shiite religious doctrines. Although Iran continues to enjoy considerable influence with many Iraqi Shiites, particularly with Iraq's Supreme Council for the Islamic Revolution in Iraq and the Dawa Party, the moderate influence of Sistani dilutes their own revolutionary influence. Therefore, Tehran plays a double game in Iraq, using the young firebrand al-Sadr to undermine Sistani and keep pressure on the U.S. military to withdraw, while still maintaining good relations with Shiite political parties who revere Sistani and need continued American support.

In addition to its destabilizing role in Iraq, Iran continues to be the world's leading sponsor of terrorism. Secretary of State Condoleezza Rice recently called Iran "the central banker" of international terrorism. It has close ties to the Lebanon-based Hezbollah terrorist group, which it organized and continues to finance, arm, and train. Tehran also has supported a wide variety of Palestinian terrorist groups, including Fatah, Hamas, and Palestinian Islamic Jihad, as well as Afghan extremists such as Gulbuddin Hekmatyar. Iran was involved in the 1996 Khobar Towers bombing, which killed 19 American military personnel deployed in Saudi Arabia. Moreover, Iran reportedly continues to give sanctuary to elements of al-Qaeda, including at least one of Osama bin Laden's sons, Saad bin Laden, and Saif al-Adil, a top operations coordinator.

This long and deep involvement in terrorism, continued hostility to the United States, and repeated threats to destroy Israel, provide a strong warning against the dangers of allowing such a radical regime to develop nuclear weapons.

Leading an International Response to Iran's Nuclear Challenge

Diplomatic efforts centered on the United Nations to pressure Iran to abandon its clandestine nuclear efforts are unlikely to solve the problem, in part due to the institutional weaknesses of the U.N. Security Council, where a lack of consensus often leads to paralysis or lowest common denominator policies that are not effective. Nevertheless, the Bush administration must resolutely press the diplomatic case at the Security Council to set the stage and improve the U.S. position in the push for possible diplomatic and economic sanctions targeted at Iran's recalcitrant regime, or, as a last resort, possible future military action.

Another goal should be to make sure that the end result of the Security Council's interactions with Iran clearly lays the responsibility of any failure on Tehran, not Washington. Washington should seek to focus the Security Council debate on the critical issue—the threat posed by Iran's nuclear program—not the broader question of whether to seek a multilateral "grand bargain" with an untrustworthy revolutionary power that exploited and sabotaged past American efforts to stage a rapprochement under the Carter and Reagan administrations and failed to respond to the tentative

détente offered by the Clinton administration. Getting drawn into a multilateral dialogue with Iran through the auspices of the United Nations would allow Iran to divert attention from its safeguard violations and history of terrorism, while subjecting the United States to growing international pressure to bribe Iran with diplomatic carrots to comply with international legal commitments that it already has violated and could renege on again in the future.

Iran already has provided ample evidence that it has no intention to fully cooperate with the IAEA or end the uranium enrichment activities that eventually will give it a nuclear weapons capability. If it merely seeks a nuclear power capability for economic reasons, as it insists, then it would not have rejected the Russian offer to enrich uranium at facilities in Russia, which would have saved it considerable costs in building and operating uranium enrichment facilities. Moreover, Iran also would have received additional economic benefits from the EU-3 if it had not broken off those negotiations.

Under these circumstances, the EU-3's recent undertaking to put together a new package of incentives for Iran is the triumph of wishful thinking over experience. Beginning a new round of negotiations while Iran continues to work to perfect its uranium enrichment technology will enable Tehran to buy time for its nuclear weapons program, forestall sanctions, and weaken the perceived costs of violating the nuclear non-proliferation regime in the eyes of other countries who may consider following Iran's path. To change Iran's course, the EU-3 should be considering larger disincentives, not just larger incentives.

Forge a Coalition to Impose the Strongest Possible Sanctions on the Iranian Regime

Although it has greatly benefited from the recent spike in world oil and natural gas prices, Iran's economic future is not a promising one. The mullahs have sabotaged economic growth through the expansion of state control of the economy, economic mismanagement and corruption. Annual per capita income is only about two thirds of what it was at the time of the 1979 revolution. The situation is likely to get worse as President Ahmadinejad follows through on his populist promises to increase subsidies and give Iran's poor a greater share of Iran's oil wealth.

Iranians are sending large amounts of their capital out of the country due to fears over the potentially disastrous policies of the new government. Shortly after Ahmadinejad gave his October 26 speech threatening Israel, Iran's stock market plunged to its lowest level in two years. Many Iranian businessmen understand, even if Ahmadinejad does not, that Iran's economic future depends on access to world markets, foreign investment, and trade.

The U.S. should push for the strongest possible sanctions at the UN Security Council. But experience has demonstrated that Washington cannot rely on the UN to halt the Iranian nuclear program. Russia and China, who have extensive economic, military, and energy ties to Iran, may veto or dilute any effective resolution. The U.S. therefore should make contingency plans to work with Britain,

France, Germany, the EU, and Japan to impose sanctions outside the UN framework if necessary.

An international ban on the import of Iranian oil is a non-starter. It is unrealistic to expect oil importers to stop importing Iranian oil in a tight, high-priced oil market. Instead, the focus should be on denying Iran loans, foreign investment, and favorable trade deals. Washington should cooperate with other countries to deny Iran loans from international financial institutions such as the World Bank and to deny Iran loans for a proposed natural gas pipeline to India via Pakistan.

Although Iran is one of the world's leading oil exporters, it is also an importer of gasoline due to mismanagement and inadequate investment in its refinery infrastructure. An international ban on gasoline exports to Iran would deprive Tehran of approximately 40 percent of its daily gasoline consumption. This would significantly drive up the price of Iranian gasoline and underscore to the Iranian people the shortsighted policies of Iran's ruling regime.

In addition to economic sanctions, the U.S. should press its allies and other countries to ban nuclear assistance, arms sales, and the export of dual use technology to Iran. Symbolic sanctions, such as a travel ban on Iranian officials or ban on Iranian participation in international sports events, would drive home to the Iranian people that international opposition to Iran's nuclear program is widespread and not an artificial issue created by the United States, as their government claims.

Support Iran's Democratic Opposition.

The Bush administration has correctly aligned the U.S. with the Iranian people in their efforts to build a true democracy, but it has held back from a policy of regime change, partly in deference to the EU-3 negotiations with Iran about its nuclear program. However, now that it is clear that Iran has reneged on its promises to the EU-3, Washington should discreetly aid all Iranian groups that support democracy and reject terrorism, either through direct grants or indirectly through nongovernmental organizations. The Iran Freedom and Support Act of 2005 (H.R. 282 and S. 333), currently under consideration by Congress would authorize such aid and tighten U.S. economic sanctions on Iran.

Iran has a well-educated group of young reformers who seek to replace Iran's current mullahcracy with a genuine democracy that is accountable to the Iranian people. They have been demoralized by the failure of former President Khatami to live up to his promises of reform and his lack of support for the student uprisings of 1999, but are likely to be re-energized by a brewing popular disenchantment with the policies of Ahmadinejad's hard-liners.

The U.S. and its allies should discreetly support all Iranian opposition groups that reject terrorism and advocate democracy by publicizing their activities internationally and within Iran, giving them organizational training indirectly through western NGOs, and inviting them to attend international conferences and workshops outside Iran, preferably in European or other countries where Iranians could travel relatively freely with minimal fear of being penalized upon their return to Iran.

Educational exchanges with western students would be an important avenue for bolstering and opening up communication with Iran's restive students, who historically have played a leading role in Iran's reform movements. Women's groups also could play a key role in strengthening support for political reforms among young Iranian women, a key element opposing the restoration of harsh social restrictions by Iran's resurgent Islamic ideologues.

The United States also should covertly subsidize opposition publications and organizing efforts, as it did to aid the anti-communist opposition during the Cold War in Europe and Asia. But such programs should be strictly segregated from the public outreach efforts of the U.S. and its allies, to avoid putting Iranian participants in international forums at risk of arrest or persecution when they return home.

The United States should not try to play favorites among the various Iranian opposition groups, but should encourage them to cooperate under the umbrella of the broadest possible coalition. But Washington should rule out support for the People's Mujahideen Organization (PMO), which is also known as the Mujahideen Khalq, or its front group, the National Council of Resistance. The PMO is a non-democratic Marxist terrorist group that was part of the broad revolutionary coalition that overthrew the Shah, but was purged in 1981 and aligned itself with Saddam Hussein's dictatorship.

While this cult-like group is one of the best-organized exile organizations, it has little support inside Iran because of its alliance with arch-enemy Iraq during the Iran-Iraq war. Moreover, the PMO resorted to terrorism against the Shah's regime and was responsible for the assassinations of at least four American military officers in Iran during the 1970s. It demonstrated in support of the Soviet invasion of Afghanistan in 1979 and against the release of the American hostages in 1981. The U.S. cannot afford to support an organization with such a long history of terrorism, if it expects Tehran to halt its own terrorism.

Launch a Public Diplomacy Campaign to Explain to the Iranian People How the Regime's Nuclear Weapons Program and Hard-Line Policies Hurt Their Economic and National Interests

Iran's clerical regime has tightened its grip on the media in recent years, shutting down more than 100 independent newspapers, jailing journalists, closing down websites, and arresting bloggers. The U.S. and its allies should work to defeat the regime's suppression of independent media by increasing Farsi broadcasts by government sponsored media such as the Voice of America, Radio Free Europe (Radio Farda), and other information sources. The free flow of information is an important prerequisite for the free flow of political ideas. The Iranian people need access to information about the activities of Iranian opposition groups, both within and outside Iran, and the plight of dissidents.

The internet is a growing source of unfiltered information for many Iranians, particularly Iranian students. Farsi is reportedly the fourth most popular language used online and there has been a proliferation of political blogs devoted to Iranian issues. The U.S. should consider ways of assisting Iranians outside the country to

establish politically-oriented websites that could be accessed by activists and other interested people inside Iran.

Mobilize Allies to Contain and Deter Iran.

The bellicose resurgence of Iran's hardliners, Iran's continued support for terrorism, and the prospective emergence of a nuclear Iran pose threats to many countries. President Ahmadinejad's belligerence gives Washington greater opportunity to mobilize other states, particularly those living in growing shadow of Iranian power. The United States should maintain a strong naval and air presence in the Persian Gulf to deter Iran and strengthen military cooperation with the Gulf States.

The U.S. and its European allies should strengthen military, intelligence, and security cooperation with threatened states, such as Iraq, Turkey, Israel and the members of the Gulf Cooperation Council (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates), which was founded in 1981 to provide collective security for Arab states threatened by Iran. Such a coalition could help contain the expansion of Iranian power and possibly would cooperate in facilitating military action, if necessary against Iran.

Washington could also offer to deploy or transfer anti-ballistic missile defense systems to threatened states, enhance joint military planning, and step up joint military and naval exercises. In particular, the U.S. and its allies should stage multilateral naval exercises to demonstrate the will and capability to defeat Tehran's threats to block the Strait of Hormuz, through which flow about one fifth of the world's oil exports.

Prepare for the Use of Military Force As a Last Resort

A strong U.S. military posture is essential to dissuading and deterring Iran from fielding nuclear weapons and supporting terrorism, and when necessary responding decisively and effectively to Iranian threats. To deal with a nuclear or terrorist threat from Iran several military capabilities are particularly important. They include (1) expanding and strengthening the proliferation security initiative; (2) theater missile defense; (3) robust special operations forces and human intelligence (HUMINT) assets; (4) assured access to bases and staging areas in the theater for both special operations and conventional ground, air, and sea forces, and; (5) Energy security preparations.

Proliferation security initiative (PSI). PSI is a multi-national effort to track down and breakup networks that proliferate chemical, biological, and nuclear weapons technologies and materials. The administration should field more modern capabilities that can provide the right intelligence, reconnaissance, surveillance, and interdiction assets for the U.S. military. In particular, modernization of Coast Guard and Naval forces that can help prevent seaborne trafficking of weapons material is vital.

Theater Missile Defense (TMD). TMD is also essential. Missile defenses provide the means to intercept a ballistic missile in flight and destroy it before the missile can deliver a nuclear warhead to its target. The United States should work with its friends and al-

lies to provide theater missile defense to countries in the region. The United States should continue to pursue a mix of air, land, and sea-based missile defense systems.

Special Operations Forces and HUMINT. These military and intelligence assets provide the capacity for focused operations against specific targets. Today, these forces are overstretched, performing many missions in the global war on terrorism. The Pentagon must end the use of special operations for training foreign militaries and other tasks that can be done by conventional military units. In addition, the administration must bolster the ranks of the special forces and HUMINT assets that might be required to operate in Iran, ensuring they have the right language skills, area knowledge, and detailed, actionable intelligence.

Theater Access. The United States must ensure it retains the means to deploy and sustain forces in the theater. The Pentagon should work to secure a variety of basing options for staging military operations. In addition, the military must have robust means to ensure its ability to operate in the Gulf and defeat “anti-access” weapons that Iran might employ such as cruise missiles, sea-based mines, terrorist attacks, and biological or chemical weapons.

Energy Security Preparations. In the event of a military clash with the United States, Iran undoubtedly will try to follow through on its threats to close the Strait of Hormuz to oil tankers and disrupt oil exports from other Persian Gulf oil exporters. Washington should take immediate steps to limit the future impact of such oil supply disruptions by working with the Arab gulf states to help them reduce the vulnerability of their oil infrastructure to Iranian military and terrorist attacks; pressing U.S. allies and other oil importers to expand their strategic oil stockpiles; encouraging Saudi Arabia to expand its excess oil production capacity; and asking Saudi Arabia to upgrade the Trans Saudi Arabian pipeline to increase its capacity and make preparations to bring the Iraq-Saudi pipeline back online to reroute oil exports away from the Persian Gulf to the Red Sea oil export terminals.

The Nightmare Scenario of a Nuclear Iran

There is no guaranteed policy that can halt the Iranian nuclear program short of war, and even a military campaign may only delay Iran’s acquisition of a nuclear weapons capability. But U.S. policymaking regarding the Iranian nuclear issue inevitably boils down to a search for the least-bad option. And as potentially costly and risky as a preventive war against Iran would be, allowing Iran to acquire nuclear weapons would result in far heavier potential costs and risks.

The U.S. probably would be able to deter Iran from a direct nuclear attack on American or Israeli targets by threatening massive retaliation and the assured destruction of the Iranian regime. But there is a lingering doubt that a leader such as President Ahmadinejad, who reportedly harbors apocalyptic religious beliefs regarding the return of the Mahdi, would have the same cost-benefit calculus about a nuclear war as other leaders. The bellicose leader, who boldly called for Israel to be “wiped off the map” before he acquired a nuclear weapon, might be sorely tempted to follow

through on his threat after he acquired one. Moreover, his regime might risk passing nuclear weapons off to terrorist surrogates in hopes of escaping retaliation for a nuclear surprise attack launched by an unknown attacker.

Even if Iran could be deterred from considering such attacks, an Iranian nuclear breakout would undermine the NPT and trigger a nuclear arms race in the Middle East that could lead Saudi Arabia, Egypt, Turkey, Iraq, and Algeria to build or acquire their own nuclear weapons. Each new nuclear power would multiply the risks and uncertainties in an already volatile region.

Iran also may be emboldened to step up its support of terrorism and subversion, calculating that its nuclear capability would deter a military response. An Iranian miscalculation could easily lead to a future military clash with the United States or an American ally that would impose exponentially higher costs than a war with a non-nuclear Iran. Even if it could not threaten a nuclear missile attack on U.S. territory for many years, Tehran could credibly threaten to target the Saudi oil fields with a nuclear weapon, thereby gaining a potent blackmail threat over the world economy.

I believe that Senator John McCain was correct when he concisely stated: "There is only one thing worse than the U.S. exercising a military option, and that is a nuclear-armed Iran."