Dealing with Tehran:
Assessing U.S. Diplomatic Options toward Iran

Flynt Leverett

A Century Foundation Report

The Century Foundation
Headquarters: 41 East 70th Street, New York, New York 10021 ◆ 212-535-4441
D.C.: 1333 H Street, N.W., 10th Floor, Washington, D.C. 20005 ◆ 202-387-0400
www.tcf.org

Dealing with Tehran:
Assessing U.S. Diplomatic Options toward Iran

Flynt Leverett

A Century Foundation Report

The Century Foundation
Headquarters: 41 East 70th Street, New York, New York 10021 ◆ 212-535-4441
D.C.: 1333 H Street, N.W., 10th Floor, Washington, D.C. 20005 ◆ 202-387-0400
www.tcf.org

This report is part of a series commissioned by The Century Foundation to inform the policy debate about Iran-related issues.

The views expressed in this paper are those of the author. Nothing written here is to be construed as necessarily reflecting the views of The Century Foundation or as an attempt to aid or hinder the passage of any bill before Congress.

Diplomatic Imperatives

The United States needs a comprehensive and strategically coherent diplomatic approach to dealing with the Islamic Republic of Iran. The threats that Iran poses to U.S. interests—including the proliferation risks associated with its nuclear activities—have grown more acute in the post–September 11 period, and Tehran's ability to impede America's pursuit of important policy objectives in the Middle East and in the war on terror is steadily increasing. American options for leveraging changes in Iranian behavior through multilateral sanctions, slowing the development of Iran's nuclear capabilities by attacking its nuclear infrastructure, or resolving Iranian threats to U.S. interests by promoting regime change in Tehran are strategically weak and potentially dysfunctional for other important policy goals.

This paper lays out a comprehensive strategy for diplomatic engagement with Iran. The paper's core argument is that successful resolution of the Iranian nuclear issue requires a "grand bargain" between the United States and Iran—that is, an overarching framework in which outstanding bilateral differences are resolved as a package. Any incremental, issue-by-issue or step-by-step approach to engagement with Iran will fail. Moreover, while some would wish otherwise, at the heart of a U.S.-Iranian grand bargain there will need to be an American security guarantee to the Islamic Republic. However, under the rubric of a grand bargain, the United States would gain—among other benefits—strategically meaningful limits on Iran's nuclear activities, termination of its support for terrorism, and Iranian cooperation in stabilizing post-Saddam Iraq. U.S.-Iranian rapprochement also could provide the foundation for establishing a regional security framework in the Persian Gulf and the Middle East more broadly.

I am deeply grateful to my wife, Hillary Mann Leverett, for her comments on successive drafts of this paper and for the benefit of her extensive experience negotiating with Iranian officials during her service at the Permanent Mission of the United States to the United Nations and the National Security Council.

As a result of the Bush administration's reluctance to develop a comprehensive diplomatic approach to dealing with the Islamic Republic during the past five years, the chances that the United States and its allies will be able to reach this kind of strategic understanding with Tehran and forestall Iran's effective nuclearization are decreasing. Already, the quality of the package that might be negotiated has declined in some respects: three years ago, when Iran offered to negotiate a grand bargain with the United States, it probably would have been possible to conclude a deal prohibiting the enrichment of uranium within Iran; at this point, any agreement acceptable to Tehran would almost certainly have to permit operation of a closely monitored pilot facility for enrichment in Iran. More generally, the window of opportunity for achieving a diplomatic breakthrough is closing because of Iran's progress in developing its fuel cycle capabilities, a perceived increase in Iran's regional standing and capacity to withstand international pressure, and changes in the Islamic Republic's power structure—especially the election of President Mahmoud Ahmadinejad in 2005. If the administration does not move purposively and soon to pursue a broad-based strategic rapprochement with Tehran, the United States will, in relatively short order, need to begin crafting a strategic framework for coping with Iranian nuclearization and managing the negative consequences of this development.

The Nuclear Threat

The Iranian threat, as perceived in Western capitals, has grown in the post–September 11 period primarily because of the emergence of the Iranian nuclear issue as a high-profile strategic concern. Since August 2002, when an Iranian opposition group publicized the existence of the uranium enrichment facility at Natanz, the Iranian nuclear issue has risen to the top of the U.S. and transatlantic foreign policy agendas. Two years of European-initiated diplomacy—from the initial Sa'dabad agreement of October 2003 through the Paris agreement of November 2004 to the collapse of European-Iranian nuclear talks in the summer of 2005—failed to assuage Western concerns about the proliferation risks of Iran's fuel cycle activities, and the Islamic Republic has continued to cross significant thresholds in the development of its uranium enrichment capabilities.[1] Despite this disappointing outcome, the "EU-3"—Britain, France, and Germany—along

with the European Union's foreign policy chief, Javier Solana, have continued working to find ways to restart nuclear talks with Tehran. This spring, the Bush administration indicated a conditional willingness to join multilateral talks on Iran's nuclear activities; President Bush and senior administration officials regularly express their interest in finding a diplomatic solution to the nuclear issue.

The emphasis on diplomacy is sound, to the extent that it is both genuine and strategically grounded. On one hand, coercive approaches to containing the threat of Iranian nuclearization are not likely to work.

- There is little prospect that the United States will muster sufficient multilateral economic and political pressure—through the United Nations Security Council or on a "coalition of the willing" basis—to leverage changes in Iranian behavior, especially on the nuclear issue. Measures that would exert real pressure on Iran (that is, comprehensive economic sanctions, including a ban on the purchase of Iranian oil and gas) are extremely unlikely to win international support, and the kinds of sanctions that have a better chance of winning international endorsement (that is, a ban on travel by officials and scientists directly linked to Iran's nuclear program) will not influence Iranian decisionmaking.[2]
- Numerous analyses have raised serious doubts that U.S. military strikes against Iran's nuclear infrastructure would delay significantly its nuclear development, because of profound uncertainty about the reliability and comprehensiveness of target selection, the possibility that "unknown" facilities are at least as close to producing weapons-grade fissile material as "known" facilities, and the prospect that Tehran could reconstitute its nuclear program relatively rapidly. At the same time, U.S. military action against Iran almost certainly would have profoundly negative consequences for a range of other U.S. interests.[3]
- There also is no reasonable basis for believing that the United States could bring about regime change in Iran, either by "decapitating" the Islamic Republic's leadership in the course of military strikes against Iran's nuclear infrastructure or by supporting Iranian opposition groups under the cover of "democracy promotion."[4] More significantly, it is highly uncertain that regime change could be effected on a strategically meaningful timetable for dealing with the nuclear threat.[5]

On the other hand, the United States should not passively accept Iranian nuclearization. In private conversations, strategic and foreign policy elites in both the Gulf Cooperation Council's member states and Israel express concern that acquisition of a nuclear weapons capability would embolden Tehran to use its influence and strategic resources more aggressively against the interests of the United States and its allies in the Middle East.[6] Other assessments highlight the risks that Iranian nuclearization would prompt states such as Egypt, Saudi Arabia, and Turkey to seek their own nuclear weapons capabilities, effectively eviscerating nonproliferation efforts both regionally and globally.[7] While one reasonably can question whether such an outcome is inevitable,[8] it seems incontrovertible that Iranian nuclearization would, at a minimum, raise tensions and greatly complicate strategic calculations in the Persian Gulf and beyond.

Taken together, these considerations argue for a serious diplomatic effort by the United States to resolve the current controversy over Iran's nuclear activities. However, such an effort cannot be serious if it is not comprehensive. Diplomatic resolution of the nuclear issue inevitably will require a broad-based restructuring of U.S.-Iranian relations, amounting to an effective rapprochement between Washington and Tehran. As Iranian officials have repeatedly made clear in diplomatic exchanges and private conversations, Iran will not agree to strategically meaningful restraints on the development of its nuclear infrastructure without having its core security concerns addressed. This means that Tehran will require, among other things, a security guarantee from Washington—effectively a commitment that the United States will not use force to change the borders or form of government of the Islamic Republic of Iran—bolstered by the prospect of a lifting of U.S. unilateral sanctions and normalization of bilateral relations. But, no American administration would be able to provide a security guarantee unless U.S. concerns about Iran's support for terrorist organizations and its attitude toward Israel were also addressed. And, the Iranian leadership would not be willing or able to address those concerns absent a strategic understanding with Washington about Iran's place in the region.

At this juncture, resolving any of the significant bilateral differences between the Islamic Republic and the United States inevitably means resolving all of them. This is particularly the case with regard to the nuclear issue. That is why proposals to resolve the diplomatic impasse over Iran's nuclear activi-

ties solely by assuring Iranian access to nuclear fuel and various types of civil nuclear technologies in exchange for Tehran's commitment not to develop fuel cycle capabilities cannot provide the basis for a stable settlement.[9] That is also why Western offers of economic and trade incentives, without corollary measures addressing core Iranian security concerns, will not induce Tehran to freeze its nuclear development.[10]

Moreover, that is why the predictable recommendation of eminent persons' groups on how to improve U.S.-Iranian relations—an incremental, issue-by-issue or step-by-step approach—entirely misses the point.[11] Tactical cooperation with Iran on specific issues where American and Iranian interests converge has been tried by successive U.S. administrations: by the Reagan and George H. W. Bush administrations in Lebanon, the Clinton administration in Bosnia, and the current Bush administration in Afghanistan. In all cases, such cooperation could not be leveraged into a broader strategic opening; usually this was because U.S. policymakers allowed domestic political considerations or other foreign policy interests to undermine diplomatic initiatives toward Iran.[12] To assume that an incremental approach somehow can resolve the current standoff between Iran and the West over Tehran's nuclear activities ignores the lessons of this history.

Regional and Great Power Politics

It is necessary to take a comprehensive approach to U.S. diplomacy toward Iran in order to preserve and enhance America's strategic position in the Persian Gulf and in the Middle East more broadly. Frankly put, as a consequence of changes in the relative standing of the United States and Iran since September 11, the United States at this point probably cannot realize its most important strategic objectives in the Middle East or the war on terror without a significant rapprochement with the Islamic Republic. Iran is clearly a rising power; how the United States handles Iran's rise over the next few years will be the most critical test of America's ability to act effectively in the most strategically important region of the world, with enormous impact on U.S. standing, both regionally and internationally. In a pre–September 11 environment, a diplomatic opening to Iran was seen by successive U.S. administrations as falling in the "nice to

have" category. In a post–September 11 environment, a diplomatic opening to Iran falls ever more clearly in the "need to have" category for American foreign policy.

This argument is best understood in historical perspective. Iran's location, the size of its population, and a comparatively strong national identity make it, under virtually any circumstances, an important player in the regional balance of power. Since the advent of the Islamic Republic in 1979, Iran has used its strategic energies and resources in ways that have worked against American interests in a number of fronts. As a result, American administrations have sought to contain Iran in various ways.[13]

At the same time, Iran's undeniable importance in the regional balance of power has always made the U.S. strategy of containing and isolating the Islamic Republic seem a somewhat "unnatural" posture. For this reason, as was noted above, the Reagan, George H. W. Bush, and Clinton administrations—and, as will be discussed below, the current Bush Administration—all sought to explore possibilities for some kind of opening to Iran, either through limited (and frequently secret) tactical cooperation on specific issues of mutual interest or by testing the waters publicly. But, U.S. policymakers consistently allowed domestic political considerations and other foreign policy interests to undermine their diplomatic initiatives toward Iran.[14]

More so than in the past, diplomatic stasis between the United States and Iran under current conditions in the Gulf, and in the Middle East more broadly, is doing real damage to important American interests. Today, Iran is clearly "on a roll" in the region. Tehran's nuclear ambitions are only one factor in its ascendance. U.S. military action in the post–September 11 period eliminated the Taliban in Afghanistan and Saddam Hussein's regime in Iraq, two of the Islamic Republic's most ardent enemies, thereby improving Iran's strategic position; moreover, the failures of U.S efforts at post-conflict stabilization in both countries created vacuums that Iran has moved adroitly to fill. The tightening of global energy markets and the sharp rise in energy prices since 2003 have increased the economic resources available to the Iranian leadership and given Tehran diplomatic options (for example, vis-à-vis China) that were previously much less significant. And, particularly since the election of President Mahmoud Ahmadinejad in 2005, Iranian public diplomacy has increased the Islamic Republic's appeal to the Arab street—including in Sunni-dominated states such

as Egypt and Saudi Arabia. This makes it harder for Arab states to cooperate with the United States against Iranian interests, even at a time when these states feel increasingly threatened by Iran's ascendance.

In a regional context, how Washington responds to Iran's rise largely will determine whether the United States keeps its position as the leading power working to shape a more benign security environment for the Persian Gulf and for the Middle East more generally.

- If Washington cannot contain the threat posed by Iran's ongoing nuclear development through diplomacy, or uses military force against that threat counterproductively, the efficacy of American leadership again will be called into serious question by regional elites and publics.
- Without eliciting greater cooperation from Iran regarding the challenges of post-conflict stabilization in Iraq, the United States cannot avoid a more profound strategic failure for the Bush administration's project there, with further erosion of America's strategic position in the region.
- The most recent round of armed conflict in the Arab-Israeli arena demonstrates that the United States and Israel will not be able to contain the destabilizing employment of terrorist violence by radical Palestinian groups or Lebanese Hezbollah absent a strategic understanding with Iran.

How the United States deals with Iran's rise also will have a significant effect on America's influence in the Persian Gulf and Middle East relative to other external players, particularly China and Russia. Indeed, there is already a strategic competition for influence in Iran and the Persian Gulf under way; the outcome of this competition hinges in considerable measure on which countries will assume leading roles in helping Iran develop its enormous hydrocarbon resources.

Iran's resource base is truly impressive. If one converts Iran's reserves of natural gas—the second-largest in the world, after Russia's—into barrels of oil equivalent (boe) and adds them to Iran's proven reserves of conventional oil—the second-largest in the world, after Saudi Arabia[15]—Iran's hydrocarbon resources are effectively equal to those of Saudi Arabia and significantly greater than those of Russia.[16] Moreover, Iran's low rates of production of crude oil and natural gas, relative to its reserves base, suggest that the Islamic Republic is perhaps the only major energy-producing state with the resource potential to

increase production of both oil and gas by orders of magnitude over the next decade or so.[17]

Iran, however, cannot realize this potential without significant infusions of investment capital and transfers of technology from abroad. Since the mid-1990s, U.S. policy has sought to constrain the development of Iran's hydrocarbon resources by barring U.S. energy companies from doing business there and threatening European companies undertaking projects in Iran with secondary sanctions under the Iran-Libya Sanctions Act.[18] These policies, combined with a problematic investment climate in the Islamic Republic, have limited investment flows and transfers of technology into Iran's oil and gas sectors. Now, however, China is putting large amounts of capital into Iranian energy projects and Russia has agreed to help Iran develop its largely untapped potential as a producer and exporter of natural gas. One way or another, Iran will play an increasingly important role in the global energy balance over the next quarter century. In this regard, the key foreign policy question is: What external players will help Iran out of its U.S.-constructed "box" and reap significant strategic gains for doing so?[19]

In this regard, some argue that an important, if not the primary, reason for the United States to engage Iran diplomatically over the nuclear issue is to obtain greater international cooperation on multilateral measures to press Tehran—in effect, to exchange an American commitment to reward Iran if it agrees to curb its nuclear program for the commitment of others to penalize Iran if it continues to develop its fuel cycle capabilities.[20] As a tactical proposition, this may seem worthwhile. But one should not overestimate the increment of additional cooperation that more energetic U.S. diplomacy would elicit from Europe, Russia, China, and Japan. These players' positions regarding how far they are willing to go in pressing Iran are rooted in strategic calculations weighing a variety of national interests and policy goals. More active diplomacy by the United States might shift these calculations on the margins, but not in any fundamental way.

In the end, it is U.S. national interests—bolstering America's regional and international standing, along with concerns about the consequences of Iranian nuclearization—rather than considerations of tactical instrumentality that generate the most powerful arguments for comprehensive and strategically grounded diplomatic engagement with Iran. This is, indeed, the only way in which the

United States can respond effectively to the imperatives for improved relations with Tehran, thereby winning vital strategic gains: holding the line on nuclear proliferation, avoiding catastrophe in Iraq, shoring up regional stability in the Middle East and Persian Gulf, fighting the war on terror more efficaciously, enhancing energy security, maintaining U.S. leadership both regionally and internationally, and ensuring Israel's long-term security and standing.

The Bush Record

Unfortunately, the Bush administration is moving at a glacial pace, if at all, toward such an approach. Throughout the administration's first term in office, the president and his senior national security and foreign policy advisers seemed collectively unable to deal with the imperatives of a comprehensive diplomatic strategy toward Iran. While there have been some tactical adjustments since the beginning of President Bush's second term, the fundamental strategic deficit in the administration's approach remains uncorrected.

To be sure, for a year and a half after September 11, the administration pursued a limited tactical engagement with Iran with regard to Afghanistan. Well before President Bush took office in January 2001, the United States had joined the United Nations' "6+2" framework for Afghanistan.[21] In the aftermath of the September 11 attacks, the Bush administration used the cover of the "6+2" process to stand up what was effectively a freestanding bilateral channel with Iran, with regular (for the most part, monthly) meetings between U.S. and Iranian diplomats.

U.S. engagement with Tehran over Afghanistan provided significant and tangible benefits for the American position during the early stages of the war on terror. At a minimum, U.S. engagement with Tehran helped to neutralize the threat of Iranian actions on the ground, either by Afghan proxies or by Iranian intelligence and paramilitary assets, which could have made prosecution of Operation Enduring Freedom and subsequent post-conflict stabilization more difficult. More positively, engagement elicited crucial diplomatic cooperation from Iran, both during the war and afterwards. Over years, Iran had cultivated extensive relationships with key players on the Afghan political scene, including important warlords in northern and western Afghanistan. Iranian influ-

ence was critical for arming and managing these players during the U.S.-led coalition's military operations. After the war, Iranian influence induced these players to support the political settlement enshrined at the Bonn Conference in December 2001, when the Afghan Interim Authority under Hamid Karzai was established.

Tehran appeared to have a variety of motives for cooperating with Bush administration on Afghanistan. At a minimum, Iranian policymakers—well aware of the State Department's longstanding description of the Islamic Republic as the world's leading state sponsor of terrorism—wanted to avoid getting caught on the downside of the administration's self-declared "global war on terror." But Iran also seemed to sense a potential strategic opportunity. Iranian diplomats involved in the bilateral channel on Afghanistan indicated to their U.S. counterparts that the discussions were being closely followed at the highest levels of the Iranian power structure and that there was considerable interest in Tehran in the possibility of a wider diplomatic opening. Certainly, from an Iranian perspective, the platform had been created for exploring such an opening.

However, in his January 2002 State of the Union address (just six weeks after the Bonn Conference), President Bush placed the Islamic Republic in the "axis of evil," along with North Korea and Saddam Hussein's Iraq.[22] Iranian representatives missed the next monthly meeting with U.S. diplomats in protest, but—in a telling indication of Tehran's seriousness about exploring a diplomatic opening to the United States—resumed participation in the discussions the following month. The bilateral channel on Afghanistan continued for another year, until the eve of the Iraq war, but it became clear the Bush administration was not interested in a broader, strategic dialogue with Iran. Indeed, the administration terminated the channel in May 2003, on the basis of unproven and never pursued allegations of the involvement of Iran-based al Qaeda figures in the May 12, 2003, bomb attacks in Riyadh, Saudi Arabia.[23]

On the nuclear issue, the administration refused to consider direct negotiations with Tehran for nearly four years after the revelations of Iran's efforts to develop a uranium enrichment capability. In the spring of 2003, the Iranian Foreign Ministry sent, via Swiss diplomatic channels, a proposal for negotiations aimed at resolving all outstanding bilateral differences between Tehran and Washington, including the nuclear issue. The proposal was described as

having been endorsed by all the major power centers in Iran, including the supreme leader, Ayatollah Ali Khamenei. The administration's response was to complain to the Swiss Foreign Ministry that the Swiss ambassador in Tehran had exceeded his brief by passing such a paper. It is worth noting that the Iranian message came to Washington shortly after the conclusion of major combat operations in Iraq and well before the emergence of the insurgency there—in other words, the Iranian offer was extended at a time when U.S. standing in the region appeared to be at its height. It is also worth recalling that, when the Iranian offer was made, the Islamic Republic was not spinning centrifuges or enriching uranium and the reformist Mohammad Khatami was still president.

Following this episode, in fall 2003, the EU-3 launched its diplomatic initiative on the Iranian nuclear issue, winning an initial Iranian commitment to suspend activities related to uranium enrichment. Senior officials of EU-3 governments have said privately that one of the main objectives of this initiative was to draw the Bush administration into a diplomatic process that it would not enter on its own. Unfortunately, the Europeans failed to move the administration to embrace diplomatic engagement with Tehran. Without the prospect of a strategic opening to the United States, Iran resumed converting raw uranium into gas in April 2005, rejected the package of incentives offered by the EU-3/EU in August 2005 to induce the Islamic Republic to abandon its development of uranium enrichment capabilities, and began enriching small amounts of uranium to low levels that same month.[24]

To the extent that the administration was willing to consider a "diplomatic" approach to the nuclear issue, it focused almost exclusively on winning support for multilateral measures to press Iran to stop developing fuel cycle capabilities. But this sort of approach has proved unsustainable.

- In the spring of 2005, the administration agreed to minor modifications in U.S. sanctions on Iran and to stop blocking Tehran's initial application for accession to the World Trade Organization to appear more supportive of the European initiative. In reality, though, the administration traded these minor concessions for European agreement in principle to support Iran's referral to the United Nations Security Council by the International Atomic Energy Agency for noncompliance with Tehran's nonproliferation commitments. Even with this transatlantic understanding, the Bush admin-

istration was unable to win a referral of the Iranian file to the Security Council until February 2006.

- Since then, the administration has been fighting an uphill battle to win support within the Security Council for imposing multilateral sanctions on Iran. To avoid a diplomatic implosion over the issue in New York, the United States offered in May 2006 to join multilateral talks over Iran's nuclear activities if Tehran suspended all its enrichment related activities. Moreover, Washington endorsed a new package of incentives presented to Tehran by the five permanent members of the Security Council (P-5) and Germany in early June 2006.[25]

But, even with this tactical concession, both diplomatic progress with Tehran and international support for imposing sanctions on Iran have proved elusive. During the summer of 2006, Solana worked to find a "bridging formula" that would allow the United States and Iran to come into multilateral talks over the Islamic Republic's nuclear activities, but to no avail. In July, the Security Council passed Resolution 1696, which mandates that Iran suspend all enrichment-related activities. The resolution, however, imposes no consequences on Iran for failing to meet this requirement. At least three permanent members of the Security Council—China, France, and Russia—remain publicly opposed to imposing sanctions on Iran for the foreseeable future.

As this record reflects, the Bush administration remains mired in a strategically incoherent approach to diplomacy on the nuclear issue. Unless and until this incoherence is resolved and the United States adopts a genuinely comprehensive approach to diplomacy with Iran, there will not be serious, substantive progress toward a settlement of the nuclear issue.

To some degree, the incoherence in U.S. policy reflects longstanding internal divisions within the Bush administration. It is possible to identify three distinct schools of thought currently operative within the administration regarding Iran policy.

- One camp, led by Secretary of State Condoleezza Rice and some of her senior advisers at the State Department, sees negotiations with Iran as useful at least for "managing" the Iranian nuclear issue through the remaining two years of President Bush's tenure; some in this camp might also be interested in exploring possibilities for a U.S.-Iranian grand bargain.

- A second camp, led by Vice President Dick Cheney and his most important advisers, is strongly opposed to anything resembling a grand bargain and favors a more coercive approach to Iran policy.
- A third camp, organized around the Office of the Secretary of Defense and the Treasury Department, is not particularly supportive of the State Department's diplomatic approach but also is not as thoroughgoing in its support for coercive options as the Office of the Vice President. Instead, this camp focuses on the use of economic, financial, and other nonmilitary sanctions to press Iran.

For his part, the president clearly does not judge that the conditions for effective military action are present, at least in the near term, and is prepared to let Secretary Rice's diplomatic course move ahead for some period. At the same time, he has not ruled out military action down the road. And, in the meantime, he is eager to marshal greater economic and political pressure on Iran. This position reflects, in part, the president's interest in keeping all the major players in his administration "on board" regarding Iran policy and keeping his options open. But the administration's policy, at least since the Islamic Republic was included in the "axis of evil," has also reflected the president's own deep-seated reluctance to go down a road that would require him ultimately to extend some sort of security guarantee toward Iran, thereby legitimating a political order he considers fundamentally illegitimate.

In this regard, it is interesting to note an important difference between the incentives package presented to Iran by the Europeans in August 2005 and the package presented to Tehran by the P-5 and Germany in June 2006.

- In addition to sections outlining possibilities for European cooperation with Iran in the development of civil nuclear technology and in broader economic and technological arenas, the August 2005 package contained a number of prospective commitments amounting to an effective security guarantee for the Islamic Republic; because these prospective commitments came only from Europe, they were strategically meaningless from an Iranian perspective.
- By contrast, the June 2006 package, which was endorsed by the Bush administration, contained no prospective security guarantees. Senior Iranian diplomats have indicated privately that the absence of any language on

security guarantees raised suspicions in Tehran about the seriousness of the administration's expressed willingness to join in multilateral talks.

The resulting lack of clarity and coherence in U.S. policy has impeded the efforts to bring both the United States and the Islamic Republic into a multilateral negotiating process. Apart from trying to devise a formula to bridge U.S. insistence—ostensibly backed by Security Council Resolution 1696—that Iran suspend enrichment-related activities on an open-ended basis as a precondition for returning to multilateral talks and Iran's position that it would only consider a time-limited suspension once negotiations commenced,[26] Solana worked during the summer of 2006 to develop common expectations about the goals of a negotiating process. Senior European diplomats say that, as part of the discussions in the channel between Solana and Ali Larijani, the secretary general of Iran's Supreme National Security Council, the Iranians sought clarification that, at the end of whatever negotiations might take place, the United States would (assuming a successful outcome on other issues) be prepared to offer the Islamic Republic some sort of security guarantee. However, when pushed on this question by the Europeans, senior U.S. State Department officials—constrained by the lack of agreement within the administration—were not able to make such a commitment, even on a contingent basis. These officials suggested only that nuclear negotiations involving Iran and the United States could be "the beginning and not the end" of a broader diplomatic process.

Thus, even if a "bridging formula" were found to get the United States and Iran into multilateral talks, a continuation of the Bush administration's reluctance to extend a meaningful security guarantee would preclude a permanent settlement. The fundamental deficit in American policy toward Iran remains the administration's unwillingness to deal effectively with the strategic imperatives for a comprehensive diplomatic approach.

A Closing Window

Because of President Bush's reluctance to embrace a genuinely comprehensive approach to diplomacy with Iran during the past five years, the chances that the United States and its allies will be able to reach a strategic understanding with Tehran that would forestall Iran's effective nuclearization are declining, for at

least three reasons. First, the development of Iran's nuclear capabilities over time is making it harder to frame limits on Iranian nuclear activities that would be acceptable to both Washington and Tehran.

- The United States has long maintained that, as part of a diplomatic settlement, Iran would have to abandon its efforts to develop a closed nuclear fuel cycle. Washington and at least its British and French allies continue to assert that, under a negotiated settlement, Iran should not be allowed to operate centrifuges on its own territory until it has restored international confidence in its peaceful intentions, with clear implications that such a restoration of confidence could take a decade or more. When Iran's infrastructure for uranium enrichment was comparatively undeveloped, this position seemed eminently plausible as a Western "bottom line"; it is still the optimal outcome for reducing the proliferation risks posed by the Islamic Republic's ongoing nuclear activities.
- But, as Iran has developed its enrichment infrastructure over the past several years, a strong consensus seems to have taken hold in Tehran that the Islamic Republic must be allowed to operate at least a pilot enrichment facility as part of an overall settlement. The extent to which the proliferation risks inherent in the operation of such a facility could be kept to levels that the United States and others might find acceptable would depend on a wide range of factors; senior Iranian officials have suggested both publicly and privately that Tehran would be open to constant, "embedded" monitoring of a pilot enrichment plant by the International Atomic Energy Agency.

However one judges the acceptability of a pilot enrichment facility on Iranian soil, it seems increasingly that this is a genuine Iranian "red line" and that Tehran will not agree to negotiated limits on its nuclear activities without being allowed to operate such a facility. And, while Tehran might be willing to accept terms restricting the development of Iran's fuel cycle infrastructure beyond a pilot enrichment facility, it will almost certainly not accept such limits without an American security guarantee as part of the agreement. Thus, there is no "incremental" deal to be had on the nuclear issue, in which the United States might accept less-than-optimal restraints on Iran's nuclear activities but not have to provide a security guarantee to the Islamic Republic. The ongoing development

of Iran's nuclear infrastructure has already complicated prospects for a negotiated settlement; these complications will only increase over time.

Second, the chances of a diplomatic breakthrough are eroding because of a perceived increase in Iran's regional standing and capacity to withstand international pressure. Conversations with Iranian diplomats and officials of varying political persuasions make clear that the power structure in Tehran sees Iran as a rising power in the region. Iranian leaders judge that the international community is unlikely to authorize serious multilateral sanctions on the Islamic Republic and that Iran is well positioned to cope with whatever limited measures that might be imposed. As Supreme Leader Ayatollah Ali Khamenei remarked to a European visitor, the West "cannot tolerate an oil price of $140 per barrel." Similarly, Iranian leaders seem to doubt that the United States would undertake unilateral military action against Iran.

The rise in Iran's regional standing has, in turn, raised the "price" of a potential U.S.-Iranian settlement. Recently, a former senior Iranian diplomat observed privately that, while the prospect of an American security guarantee might have been enough three years ago to induce Tehran to accept tight restrictions on Iranian nuclear activities, such a prospect would today be a necessary but not sufficient condition for successful negotiations. Under current conditions, the Iranian leadership probably would also require more explicit U.S. recognition of Iran's leading role in the region; this would also complicate prospects for a negotiated settlement between Tehran and Washington.

Third, the chances of a diplomatic resolution to the nuclear issue have been reduced by changes in the Islamic Republic's power structure. Since the Iranian parliamentary elections of 2000—when reformists reached their highest degree of political success—and the reelection of reformist President Khatami in 2001, Khamenei systematically has orchestrated the political demise of the Islamic Republic's reform movement. In municipal council elections in 2003, parliamentary elections in 2004, and the presidential election of 2005, conservatives wrested control of Iran's elected institutions and offices from reformists. Mahmoud Ahmadinejad and his *Abadgaran* movement were critical tools in Khamenei's effort to roll back the reformists.

Although Ahmadinejad has been instrumental in the consolidation of conservative political control, his rise has complicated decisionmaking in Tehran on foreign policy issues. For all that Khamenei takes a conservative stand on

many domestic political and social issues, he is, fundamentally, a traditional Persian nationalist on international issues, prepared to look at Iran's foreign policy through a prism of national interest. It is noteworthy that, while the supreme leader worked assiduously, particularly during Khatami's second term, to reverse most of the reformist president's domestic reform initiatives, Khamenei endorsed the many important changes in Iranian foreign policy initiated or consolidated by Khatami. In Khatami's first term, these changes included rapprochement with Saudi Arabia and other Gulf Arab states as well as diplomatic openings to Europe and Japan; in the post–September 11 period—coinciding roughly with Khatami's second term—they included tactical cooperation with the United States over Afghanistan and the 2003 proposal to negotiate a comprehensive resolution of U.S.-Iranian differences.

In comparison with Khamenei, Ahmadinejad represents a quite different conservative perspective on Iranian foreign policy, one that is decidedly more ideological and ascribes less value to cooperation with the West. Although Ahmadinejad as president is not the sole or even the most important actor shaping foreign policy decisionmaking in Tehran, he represents important conservative constituencies and his views cannot be discounted by others in the power structure, including the supreme leader. Under these conditions, the United States effectively would have to pursue a comprehensive diplomatic approach toward Iran by focusing on foreign policy officials allied to the supreme leader—such as Ali Larijani—and working around Ahmadinejad. Unquestionably, this would increase the prospective difficulties of pursuing such an approach.

Defining a "Grand Bargain"

Notwithstanding these obstacles, the strategic imperatives for a comprehensive diplomatic approach to Iran by the United States remain operative. In essence, the United States needs to pursue a "grand bargain" with the Islamic Republic—that is, a broad-based strategic understanding in which all of the outstanding bilateral differences between the two countries would be resolved as a package. Implementation of the reciprocal commitments entailed in a grand bargain would almost certainly play out over time and probably in phases, but all of the commitments would be agreed as a package.

Prior to the launch of the initial European diplomatic initiative over Iran's nuclear activities in October 2003, Washington could have, at least in theory, negotiated a grand bargain with Tehran on a purely bilateral basis. With the establishment of a multilateral diplomatic process for dealing with the nuclear issue, the United States would pursue a bilateral strategic understanding with Iran alongside multilateral talks on Iran's nuclear activities. Ideally, the two channels should reinforce one another: representations and contingent commitments made in bilateral discussions should facilitate progress in multilateral nuclear negotiations, and *vice versa*.

Striking a grand bargain must start with the definition of a strategic framework for improving relations between the United States and the Islamic Republic—in effect, an analogue, in the U.S.-Iranian context, to the Shanghai Communique as the foundational document conditioning strategic rapprochement between the United States and China in the 1970s. To meet both sides' strategic needs in a genuinely comprehensive manner, a framework structuring a U.S.-Iranian grand bargain must address at least three sets of issues:

- Iran's security interests, perceived threats, and place in the regional and international order;
- U.S. security interests, including stopping what Washington sees as Iran's pursuit of weapons of mass destruction and its support for terrorism; and
- developing a cooperative approach to regional security.

As noted earlier, from an Iranian perspective, one of the essential foundations for a U.S.-Iranian grand bargain is the U.S. attitude toward the Islamic Republic. For a grand bargain to be possible, the United States should clarify that it is not seeking a change in the nature of the Iranian regime, but rather changes in Iranian behavior and policies that Washington considers problematic. To that end, the United States should be prepared to put forward the following assurances about its posture toward Iran:

1. *As part of a strategic understanding addressing all issues of concern to the two parties, the United States would commit not to use force to change the borders or form of government of the Islamic Republic of Iran*. (This is the essential substance of a U.S. security guarantee.[27])

2. *Assuming that U.S. concerns about Iranian pursuit of weapons of mass destruction and opposition to a negotiated settlement to the Arab-Israeli conflict were addressed satisfactorily and that Tehran terminated its provision of military equipment and training to terrorist organizations, the United States would commit to ending unilateral sanctions against the Islamic Republic imposed by executive orders, reestablishing diplomatic relations, and reaching a settlement of other bilateral claims.* (These commitments add credibility to the basic security guarantee and turn U.S.-Iranian relations in a fundamentally positive direction. The formulation on weapons of mass destruction leaves open questions of what would constitute satisfactory limits on Iran's nuclear activities, as well as limits on the Islamic Republic's missile programs and activities raising concerns about proliferation of biological and chemical weapons.)

3. *Under the same conditions, the United States also would commit to working with Iran to enhance its future prosperity and pursue common economic interests. Under this rubric, the United States would encourage Iran's peaceful technological development and the involvement of U.S. corporations in Iran's economy, including the investment of capital and provision of expertise. In addition, the United States would commit to supporting Iran's application for accession to the World Trade Organization and to other measures intended to facilitate the Islamic Republic's deeper integration into the international economy.* (These commitments reinforce the basic security guarantee and the positive turn in U.S.-Iranian relations. They also bolster the credibility of America's commitment to the implementation of the incentives package presented to Iran by the P-5 and Germany, assuming a satisfactory resolution of the nuclear issue.)

4. *Assuming Iran ended its financial support for terrorist organizations, in addition to fulfilling the conditions described in item 2 above, the United States would commit to terminating the Islamic Republic's designation as a state sponsor of terror. To facilitate this step by Iran, the United States would commit to the establishment of international steering groups to manage and distribute flows of financial assistance for humanitarian relief and economic reconstruction to Lebanon and to the Palestinian territories, with full Iranian representation and participation in these bodies.* (There

is a precedent for a phased approach to implementing a U.S. commitment to lifting unilateral sanctions in exchange for the reduction and eventual elimination of a state sponsor's ties to terrorist organizations in the way that the United States pursued rapprochement with Libya.[28])

5. *The United States would agree to the commencement of an ongoing strategic dialogue with the Islamic Republic as a forum for assessing each side's implementation of its commitments to the other and for addressing the two sides' mutual security interests and concerns.* (This initiative would operationalize the American commitment to an ongoing improvement in U.S.-Iranian relations.

From an American perspective, an essential foundation for a U.S.-Iranian grand bargain is the definitive resolution of U.S. concerns about Iran's pursuit of weapons of mass destruction and its support for terrorist organizations. To that end, the Islamic Republic of Iran should be prepared to undertake the following commitments:

1. *Iran would carry out measures—negotiated with the United States, other states, and the International Atomic Energy Agency—definitively addressing concerns about Iran's fuel cycle activities. Iran would also carry out measures—negotiated with the United States, other states, and relevant international organizations—providing full transparency that the Islamic Republic is not developing or in possession of other types of weapons of mass destruction (biological or chemical). Additionally, and pursuant to the initial agreement reached in October 2003 between the foreign ministers of Britain, France, Germany, and the Islamic Republic, and following on Iran's signature of the Additional Protocol to the Nuclear Nonproliferation Treaty, Iran will ratify and implement the Additional Protocol.* (This commitment would address U.S. concerns about Iran's pursuit of weapons of mass destruction capabilities.)

2. *The Islamic Republic would issue a statement expressing support for a just and lasting settlement to the Arab-Israeli conflict, based on United Nations Security Council Resolutions 242 and 338. This statement also would incorporate the affirmation of a two-state solution to the Israeli-Palestinian conflict expressed in United Nations Security Council Resolution 1397 and acknowledge positively the Arab League's contingent commitment to*

full normalization of relations with Israel following the negotiation of final peace agreements between Israel and the Palestinians and between Israel and Syria. (This commitment would address U.S. concerns about Iranian opposition to a negotiated settlement of the Arab-Israeli conflict.)

3. *Pursuant to this statement, the Islamic Republic would commit to work for Hezbollah's transformation into an exclusively political and social organization and to press Palestinian opposition groups to stop violent action. In particular, the Islamic Republic would commit to stopping the provision of training, supplies, and funds to organizations designated as terrorist organizations by the United States, including Hezbollah, HAMAS, and Islamic Jihad.* (This commitment would address U.S. concerns about Iranian support for terrorism.)

4. *To facilitate the implementation of internationally recognized human rights conventions and in parallel with Iran's human rights dialogue with the European Union, the Islamic Republic would commit to the commencement of an ongoing human rights dialogue with the United States, including representatives from nongovernmental organizations in both countries*. (This commitment would help build popular support for U.S.-Iranian rapprochement among important constituencies in both the United States and Iran.)

5. *The Islamic Republic would commit to working with the United States to ensure the emergence of a stable, unitary, and democratic political order in Iraq*. (This initiative would begin to operationalize an Iranian commitment to contribute to regional stability. In this context, the United States and Iran might usefully explore the creation of an analogue, for Iraq, to the "6+2" multilateral framework for dealing with Afghanistan-related issues and problems established under UN auspices.)

To reinforce their commitments to one another, the United States and the Islamic Republic also might agree to cooperate in dealing with problems of regional security, broadly defined. As mentioned above, the two countries could start work on a more cooperative approach to regional security by collaborating in the creation of a multilateral diplomatic framework dealing with post-conflict stabilization in Iraq. But such a framework, to be maximally fruitful, should extend its focus beyond Iraq—effectively becoming a rough analogue to the

Organization for Security and Cooperation (OSCE) in Europe for the Persian Gulf and Middle East more broadly.[29]

A more cooperative approach to regional security might usefully be conceived as a series of three concentric circles.

- In the innermost circle, the states of the Gulf Cooperation Council and Iraq would work with Iran and the United States to develop an official, interstate forum for dealing with pressing issues of Persian Gulf security.[30]
- In the next circle, Turkey and Afghanistan would be added to the states in the innermost circle. In this broader setting, participants would deal not only with immediately pressing security and political issues, but also with longer-term challenges of energy security, economic cooperation and development, social questions (for example, education), and resource and water issues.
- Finally, in the outermost circle, the United States, Iran, and other regional and international players would cooperate to establish a regional security mechanism for the Middle East that, like the OSCE, was truly comprehensive in its substance and membership. At a minimum, such a mechanism should encompass—in addition to the states included in the two inner circles—the states of the Arab League not included in the previous two circles and Israel. The United States would be a sponsoring party for the mechanism, along with the European Union, Russia, and China; the United Nations and affiliated international agencies also might play roles.

In keeping with the OSCE model, participating states and sponsoring parties in a regional security framework for the Middle East would commit themselves, in their relations with one another, to abide by recognized international norms regarding respect for other states' sovereignty and the inviolability of borders by force. Participating states and sponsoring parties also would commit to observing international conventions and instruments concerning economic relations, human rights, and nonproliferation as well as relevant Security Council Resolutions concerning terrorism and conflict resolution. The ultimate goals of this mechanism would be an environment in which all participants had normalized relations amongst themselves and could deal constructively with both the remaining differences dividing them and the long-term challenges of economic and political development.

Creating such a regional security framework would reinforce U.S.-Iranian rapprochement in a number of important ways. By symbolically acknowledging Iran's important role in the region, establishment of the framework could facilitate Iranian commitments to nuclear restraint and rolling back ties to terrorist organizations. A regional security framework also could provide useful multilateral cover for formal promulgation of a security guarantee by the United States.

Conclusion

Whether supported by a regional security framework or not, the foregoing analysis lays out the essential features of a U.S.-Iranian grand bargain. If Washington does not begin to pursue such an arrangement vigorously and soon, the window for this kind of strategic understanding between the United States and the Islamic Republic is likely to close. Under these circumstances, Iran's development of at least a nuclear weapons option in the next few years is highly likely.

Thus, if it does not pursue a grand bargain with Tehran, the United States almost certainly will have to take up the more daunting and less potentially satisfying challenges of coping with a nuclear-capable Iran. And the standing of the United States in the world's most strategically critical region will continue its already disturbing decline.

Notes

1. According to reports of the International Atomic Energy Agency, these thresholds to date have included the conversion of raw uranium into gas, the operation of centrifuges, and actual enrichment of small amounts of uranium at low levels.

2. The imposition of broad-based economic sanctions against Iran of the sort imposed on Iraq and, less comprehensively, on Libya during the 1990s, when oil prices were relatively low, is simply not feasible in an environment characterized by relatively high oil prices and tight energy markets. Moreover, both Russia and China have important strategic, political, and economic interests at stake in their relations with the Islamic Republic, which will temper the degree of multilateral pressure they would be prepared to put on Tehran over the nuclear issue.

3. On these points, see, inter alia, Sam Gardiner, "The End of the 'Summer of Diplomacy': Assessing U.S. Military Options on Iran," The Century Foundation, New York, 2006; Ashton Carter and William Perry, "Plan B for Iran: What If Nuclear Diplomacy Fails?" Preventive Security Project, Belfer Center for Science and International Affairs, Harvard University, Cambridge, Massachusetts, 2006; and Joseph Cirincione, "Controlling Iran's Nuclear Program," *Issues in Science and Technology* 22 (Spring 2006): 75–82.

4. For arguments that the Iranian population would rally behind the current regime in response to a U.S. military strike, see Gardiner, "The End of the 'Summer of Diplomacy,'" and Carter and Perry, "A Plan B for Iran." More generally, while Iranians have shown considerable interest in increased political openness and improved economic opportunities, there is little evidence that Iranian society is presently in a "pre-revolutionary" state. Even though pro-democracy activists and organizations opposed to the regime called for Iranians to boycott the most recent presidential elections in June 2005—a call endorsed by President Bush—60 percent of the eligible electorate went to the polls, reversing a trend of declining participation displayed in presidential, parliamentary, and local council elections since the late 1990s. (And, a 60 percent participation rate is roughly comparable to the participation rate in the 2004 presidential election in the United States.) Moreover, Iranian society is highly stratified and there is no single charismatic and politically effective opposition figure who could rally diverse economic and social groups around a simple anti-authoritarian message. Additionally, the chaos and violence in neighboring Iraq since Saddam Hussein's overthrow have dampened whatever enthusiasm there might otherwise be in Iran for radical political change. In this context, U.S. and other Western efforts to support pro-democracy and human rights groups opposed to the current regime are, by definition, tainted by historically conditioned Iranian suspicions of foreign intervention.

5. In an insightful analysis of political discontent in Iran as reflected in nonparticipation in elections and the deliberate casting of "spoiled" ballots, Abbas William Samii concludes that effecting fundamental changes in the political order of the Islamic Republic "could take a generation and is by no means guaranteed." Writing a year before Ahmadinejad's election in 2005, Samii notes that "the generation of revolutionaries who opposed the monarchy is getting older and dying out, and some two-thirds of the population is under thirty. Presumably, these youngsters with no experience of the revolution will bring about permanent reforms to the system once—and if—they become politically active and involved. Yet there is a generation between these two, and it includes young conservatives in their forties with common experiences forged during the 1980–1988 Iran-Iraq War. Just as the revolutionary clerics had networks based on their affiliations to different theological institutions, this generation has networks based on affiliation with the Islamic Revolution Guards Corps, the Basij, and the regular armed forces." See Samii, "Dissent in Iranian Elections: Reasons and Implications," *Middle East Journal* 58, no. 3 (Summer 2004): 403–23.

6. Of course, for some analysts in Israel and elsewhere, the prospective combination of an Iranian nuclear weapons capability with the Islamic Republic's ideological hostility to the Jewish state raises even graver concerns.

7. See, for example, the essays by Henry Sokolski, Richard L. Russell, and Ian Lesser in *Getting Ready for a Nuclear-Ready Iran*, Henry Sokolski and Patrick Clawson, eds., (Carlisle, Penn.: The Strategic Studies Institute Publications Office, 2005).

8. Barry Posen, "We Can Live with a Nuclear Iran," *New York Times*, February 27, 2006.

9. See, for example, Robert Einhorn, "A Transatlantic Strategy on Iran's Nuclear Program," *Washington Quarterly* 27, no. 4 (Autumn 2004): 21–32; Ashton Carter, Arnold Kanter, William Perry, and Brent Scowcroft, "Good Nukes, Bad Nukes," *New York Times*, December 22, 2003; and Brent Scowcroft, "A Modest Proposal," *National Interest* (Spring 2006). This is the logic behind the so-called Russian proposal broached in 2005, under which Iran would participate in joint ventures with Russia to enrich fuel on Russian territory for use in nuclear reactors in the Islamic Republic, with Russia also responsible for the disposal of spent fuel from Iranian reactors. It is also the logic behind the portion of the incentives "package" dealing with civil nuclear technology that was presented to the Iranian leadership in June 2006 by the five permanent members of the United Nations Security Council (Britain, China, France, Russia, and the United States) and Germany—the so-called "P-5+1." .

10. This approach is epitomized by the portion of the P-5+1 incentives package dealing with economic and technological cooperation.

11. See, for example, *Iran: Time for a New Approach,* Task Force Report No. 52 (New York: Council on Foreign Relations Press, 2004).

12. These cases will be discussed in note 14, below.

13. The Islamic Republic has been on the State Department's list of state sponsors of terrorism since 1979—a status that carries with it the imposition of a specific set of unilateral U.S. sanctions. During the 1980s, despite its opportunistic arms for hostages channel, the Reagan administration indirectly supported Iraq in a brutal war against Iran, and, in the later stages of this conflict, committed U.S. naval assets to battle Iranian maritime forces in the Persian Gulf in the so-called Tanker War. In the mid 1990s, the Clinton administration significantly toughened U.S. unilateral sanctions against Tehran through the issuance of two executive orders that effectively prohibited any meaningful economic interaction between the United States and Iran.

14. Tactical cooperation between the United States and Iran over Afghanistan during the current Bush administration will be discussed later. The Reagan administration's efforts to open a dialogue with Iran through covert cooperation to secure the release of American hostages in Lebanon came to grief because U.S. officials sought to link this dialogue to efforts to circumvent restrictions on funding anti-communist rebels in Nicaragua, which produced the "Iran-Contra" scandal. The George H. W. Bush administration resumed indirect discussions with Tehran to secure the release of the last American hostages in Lebanon, but, concerned over the domestic political sensitivity of engaging Iran, decided to postpone pursuit of a broader rapprochement until after the 1992 presidential elections. The Clinton administration reacted to then-Iranian President Ali Akbar Hashemi Rafsanjani's overtures on Caspian pipelines, Caucasian oil swaps, and the participation of U.S. companies in the development of Iran's offshore oil and gas resources in 1993–95 by expanding the scope of U.S. unilateral sanctions against the Islamic Republic (as described in note 11)—at least partly to get "out in front of" Congress on the issue in the wake of Republicans winning control of both the House and the Senate in

the 1994 elections. In 1994, the Clinton administration covertly acquiesced in the shipment of Iranian arms to Bosnian Muslims; however, the leak of this activity in 1996 and criticism from the presumptive Republican presidential nominee that year, Senator Robert Dole, kept tactical cooperation in Bosnia from becoming the basis for a wider opening between the United States and Iran. Prodded in part by then-Iranian President Mohammad Khatami's expressed interest in dialogue with the international community, the Clinton administration offered in 1999 to begin an "authoritative and unconditional" dialogue with Iran. But the recent expansion of unilateral U.S. sanctions against Iran still stung in Tehran, and the Iranian leadership insisted that the United States had to lift sanctions and release frozen assets as preconditions for dialogue. This is arguably the only instance during the past two decades in which Iranian leaders turned away from an opportunity for serious tactical or strategic interaction with the United States. (Subsequently, a number of Iranian officials have said privately that Iran made a mistake in not responding more positively to the Clinton administration's offer.)

15. The *Oil and Gas Journal* estimates Iran's proved reserves as roughly 133 billion barrels. The *Oil and Gas Journal* lists Canada as holding the world's second largest oil reserves, roughly 179 billion barrels, putting Iran in third place, but the reserves estimate for Canada includes 175 billion barrels of oil sands reserves. This justifies the statement that Iran holds the world's second largest reserves of conventional oil. See *Oil and Gas Journal*, December 19, 2005.

16. Calculated on this basis, Saudi Arabia has 302.5 boe in combined reserves of oil and natural gas and Iran has 301.7. By way of comparison, Russia's aggregate hydrocarbon reserves—the world's third-largest—are 198.3 boe. These figures are derived from publicly available data on oil and gas reserves; I am grateful to Bijan Khajehpour of Atieh Bahar Consulting for sharing the results of his calculations.

17. The Iranian government has publicly stated targets for increasing crude oil production from the current level of roughly 4 million barrels per day (bpd) to 8 million bpd in 2020 and increasing natural gas production from the current level of roughly 180 billion cubic meters per day (bcm/d) to 400 bcm/d in 2020.

18. One of the two executive orders issued by President Clinton in 1995 to broaden the scope of U.S. unilateral sanctions on Iran effectively bars any investment or other business dealings in the Islamic Republic by U.S. energy companies. U.S. energy companies complained that this only made it easier for European competitors to land deals in Iran and put American firms at a strategic disadvantage. Partly in response to these complaints, Congress and the Clinton administration enacted the Iran-Libya Sanctions Act (ILSA) in 1996 to deter foreign companies from bidding on upstream oil and gas projects in Iran. ILSA authorizes the executive branch to impose a range of secondary sanctions on foreign entities or individuals determined to have invested $20 million or more in the development of Iran's energy resources. The initial iteration of ILSA was in effect for five years. The law was renewed for another five years in 2001. Secondary sanctions against foreign entities and individuals investing in the development of Iran's energy resources were reauthorized as part of the Iran Freedom Support Act, enacted in 2006.

19. For further elaboration of this argument, see Flynt Leverett, "The Race for Iran," *New York Times*, June 20, 2006, and Flynt Leverett and Pierre Noel, "The New Axis of Oil," *National Interest* (Summer 2006).

20. See, for example, Dennis Ross, "A New Strategy on Iran," *Washington Post,* May 1, 2006; and Samuel Berger, "Talk to Iran," *Wall Street Journal,* May 8, 2006.

21. The "6+2" arrangement included Afghanistan's six neighbors—Iran, Pakistan, Turkmenistan, Uzbekistan, Tajikistan, and China—plus the United States and Russia.

22. Some in the Bush administration justified Iran's inclusion in the axis of evil by citing Israel's interception of the *Karine-A,* a ship that had been secretly purchased by the Palestinain Authority and was carrying weapons that Israeli intelligence claimed had been loaded onto the ship from Iran's Kish Island and were intended for Palestinian terrorists in Gaza and the West Bank, in the Red Sea on January 3, 2002. Iranian diplomats admitted to Iranian officials that the shipment might have come from Iranian territory, ostensibly by elements of the Islamic Revolutionary Guards Corps, but that any such shipment had not been authorized by the Iranian government. But, rather than try to use the *Karine-A* episode as an opportunity to encourage and empower the elected government in Tehran to enforce its own laws and policies, the administration dismissed the Iranian diplomats' observation as a distinction without a difference, and included the Islamic Republic in the axis of evil. It is noteworthy that, in the aftermath of the *Karine-A* episode, the Iranian parliament, then under the control of reformist factions, publicly investigated how the weapons shipment might have originated from Iran, concluding that, while the Iranian government had not authorized such a transfer, there were so many unlicensed ships operating out of Iranian ports that the shipment might have originated from Iranian territory.

23. The possibility of al Qaeda figures finding refuge in Iran was an issue that administration hardliners regularly used to undermine expanded tactical cooperation between Tehran and Washington. In the course of the U.S.-Iranian dialogue over Afghanistan, U.S. officials exhorted their Iranian counterparts to take steps to prevent al Qaeda and Taliban operatives from seeking sanctuary in Iran. In response, Iran deployed additional security forces to its border with Afghanistan and took several hundred fugitives into custody; the identities of these individuals were documented to the United Nations. In 2002, a number of these individuals, of Afghan origin, were repatriated to the new, post-Taliban Afghan government; others, of Saudi origin, were repatriated to Saudi Arabia. In the same year, a group of senior al Qaeda figures managed to find their way from Afghanistan into Iran, most likely via longstanding smuggling and human trafficking routes into Iran's Baluchistan province. In response to U.S. concerns, Tehran eventually took these individuals into custody and, in the spring of 2003, offered to exchange them for a small group of senior commanders among the Mojahedin-e Khalq (MEK) cadres in Iraq. Even though the MEK has been designated a foreign terrorist organization by the U.S. Department of State, the administration refused to consider any such exchange.

24. This package—formally the "Framework for a Long-Term Agreement between the Islamic Republic of Iran and France, Germany, and the United Kingdom, with the Support of the High Representative of the European Union"—outlined possibilities for European cooperation with Iran in three areas: civil nuclear technology, broader economic and technological cooperation, and political and security cooperation. European officials acknowledge privately that the credibility of the incentives contained in their August 2005 proposal was undermined by the lack of endorsement and participation by the United States.

25. This is the incentives package described in notes 9 and 10.

26. Iranian officials linked to Supreme Leader Ali Khamenei—who, as will be discussed in greater detail later, is locked in an uneasy contest for influence over Iranian foreign policy with President Ahmadinejad—have said privately that, with elections to the Assembly of Experts coming up this fall, Khamenei cannot afford to look like he is "caving in" to a U.S.-inspired dictate from the Security Council.

27. Providing such a security guarantee would not contravene the Iran Freedom Support Act, passed by Congress and signed by President Bush in September 2006. With regard to promoting democracy in Iran, the act notes that it is the policy of the United States to "support efforts by the people of Iran to exercise self-determination over the form of government in their country" and to "support independent human rights and peaceful pro-democracy forces in Iran," but also says explicitly that nothing in the act should be construed as authorizing the use of force. Further, the act authorizes the president to provide assistance to human rights groups and peaceful pro-democracy forces but does not mandate specific initiatives.

28. By 2003, Libya had largely terminated its ties to terrorist organizations, satisfying the conditions spelled out by the United States and the United Kingdom for a lifting of multilateral sanctions imposed by the United Nations over Libyan complicity in the Pan Am 103/Lockerbie case. At that point, U.S. and British officials commenced a dialogue with Libya aimed at addressing Western concerns about Libyan pursuit of weapons of mass destruction. At the end of 2003, an agreement was announced by President Bush and Prime Minister Tony Blair, under which Libya agreed to abandon verifiably its weapons of mass destruction programs. As this agreement was implemented during 2004, the United States suspended and eventually terminated unilateral sanctions against Libya imposed through executive orders and restored diplomatic relations. When residual concerns about Libya's past terrorist involvements were resolved to U.S. satisfaction in 2005, the Bush administration began the process of terminating Libya's designation as a state sponsor of terror.

29. In this context, a "cooperative security" framework, like the OSCE, is distinguished from "collective security" structures, such as NATO in the European theater or, in the Middle East, bilateral alliances between the United States and various Persian Gulf states. For further elaboration of the argument for creation of a cooperative regional security framework for the Middle East, see Flynt Leverett, "The Gulf Between Us," *New York Times*, January 24, 2006, and Leverett, "The Middle East: Thinking Big," *American Prospect* (March 2005).

30. To date, the only such fora have been "Track II" meetings involving nongovernmental actors and government officials participating in their personal capacities. Currently, the leading "Track II" channel on Gulf security issues is the annual "Gulf Dialogue" sponsored by the International Institute of Strategic Studies—in which, among others, President Bush's national security adviser, Stephen Hadley, was once a participant. In negotiating the terms of the P-5+1 incentives package during the spring of 2006, the Bush administration rejected European draft language on political and security cooperation that referenced the possibility of establishing a regional security framework for the Gulf; according to European diplomats, the administration argued that discussions of cooperative approaches to regional security issues should take place through "Track II" channels.

About the Author

Flynt Leverett is a senior fellow and director of the Geopolitics of Energy Initiative in the American Strategy Program at the New America Foundation. He is also a visiting professor of political science at the Massachusetts Institute of Technology. Between 1992 and 2003, he had a distinguished career in government, serving as senior director for Middle East affairs at the National Security Council, Middle East expert on the secretary of state's Policy Planning Staff, and senior analyst at the Central Intelligence Agency. He is the author of *Inheriting Syria: Bashar's Trial by Fire* (Brookings Institution Press, 2005), a study of politics and policymaking in Syria that also offers recommendations for U.S. policy toward this critical country. He has published articles on the strategic implications of energy market trends, China's energy-driven engagement in the Middle East, Middle Eastern regional security, intelligence reform, and other issues in the *New York Times,* the *Washington Post,* the *Financial Times,* the *National Interest,* and numerous other publications. He has appeared on a wide range of news and public affairs programs, including BBC's *The Doha Debates* and *Hard Talk,* CNN's *Capitol Gang* and *Lou Dobbs Tonight,* C-SPAN's *Washington Journal,* NPR's *Fresh Air,* PBS's *The NewsHour with Jim Lehrer,* and the *Daily Show With Jon Stewart.*

About The Century Foundation

The Century Foundation sponsors and supervises timely analyses of economic policy, foreign affairs, and domestic political issues. Not-for-profit and nonpartisan, it was founded in 1919 and endowed by Edward A. Filene.

Board of Trustees of The Century Foundation

The Century Foundation sponsors and supervises timely analyses of economic policy, foreign affairs, and domestic political issues. Not-for-profit and nonpartisan, it was founded in 1919 and endowed by Edward A. Filene.

A Century Foundation Report

The Century Foundation Press
41 East 70th Street
New York, New York 10021

The Century Foundation
Headquarters: 41 East 70th Street, New York, New York 10021 ◆ 212-535-4441
D.C.: 1333 H Street, N.W., 10th Floor, Washington, D.C. 20005 ◆ 202-387-0400
www.tcf.org