



THE ATLANTIC COUNCIL
OF THE UNITED STATES

Thinking Beyond the Stalemate in U.S.-Iranian Relations

Volume I – Policy Review

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Policy Paper

May 2001



THE ATLANTIC COUNCIL

OF THE UNITED STATES

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Foreword

The Middle East presents more difficult choices for policy makers than any other region of the world. Different U.S. interests pull in different directions, misperceptions abound, and expectations are often unrealistic. In this environment, orchestrating policies to advance and protect U.S. interests is extraordinarily difficult. U.S. policy toward Iran exemplifies this situation well.

After more than twenty years of adversarial relations, the United States and Iran have both begun to demonstrate an interest in breaking out of this long stalemate. Broadly conceived, the benefits for both countries of an improved relationship would be significant. Time has soothed some past wounds and the rhetoric of hatred has subsided to a degree. However, serious differences remain.

Both countries believe that they have made clear the conditions that would have to be met before a policy change could even be considered. But attainment of these thresholds is unlikely in the near term. This report suggests a new approach for U.S. policy which would enable the United States to pursue more effectively its many interests vis-à-vis Iran, including its longstanding concerns about Iran's opposition to the Middle East peace process and its attempts to obtain weapons of mass destruction. The main aim of the report is to provide a reference guide for navigating successfully the obstacle-laden landscape of U.S.-Iranian relations when the time is ripe to embark on the journey.

This report represents three years of study and deliberation by a large and distinguished working group convened by the Atlantic Council. Acting as scouts, not advocates, the working group attempted to fit together the many complex issues in the U.S.-Iran relationship into a comprehensive approach. The report is published in two volumes. Volume I presents the conclusions and recommendations of the working group and summarizes the rationale for these judgments. Volume II is a comprehensive analysis of the current stalemate that provides the full reasoning underlying the conclusions in Volume I. Although Volume I is based on Volume II and they are consistent with one another, the members of the working group were asked to concur only with Volume I.

The contents of Volume I represent the consensus of the members of the working group, all of whom were acting in their individual capacities, and do not represent the official position of any institution. The weight of the recommendations derives from the expertise and experience of the participants and the diversity of its membership. While there may be some parts of the report with which some participants are not in complete agreement, the working group members concurred with the present paper as representing the consensus of the group. Dissenting views and additional comments by members of the group appear in the annex at the end of the paper.

This project is part of the Atlantic Council's multi-year program on reversing relations with former adversaries. The program began with a book of case studies and included an in-depth study of future U.S. relations with Cuba. In 1999 the Council published an analytic compendium of the policies, laws and regulations that govern U.S. relations with Iran.

The preparation of this report involved more than 100 persons. We are deeply indebted to the co-chairs who guided this effort: Lee Hamilton, James Schlesinger and Brent Scowcroft, all of whom gave generously of their time and wisdom in steering the project and its intellectual development. Cyrus Vance also served as a co-chair during the early stages of the study. I would especially like to acknowledge the major contributions of Elaine Morton, the rapporteur and principal author; Dick Nelson, the tireless and always creative project director; and David Saltiel, the assistant project director. The paper represents the views of the working group and not necessarily those of the Atlantic Council.

Although they bear no responsibility for the content, this work would not have been possible without the generous support of the W. Alton Jones Foundation Fund of the Rockefeller Family Fund.

Christopher J. Makins
President, Atlantic Council of the United States

Members of the Working Group

The members of the working group believe that the recommendations stated in this paper promote overall U.S. interests. While there may be some parts of the report with which some participants are not in full agreement, each participant believes that the report, as a whole, provides a sound basis for future actions by the Government of the United States. The views of participants do not represent the official position of any institution.

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Key Judgments

The current stalemate between the United States and Iran, while emotionally satisfying to many Americans, does not serve overall U.S. interests well. It hinders the achievement of several key U.S. geopolitical interests, especially over the longer term. These interests include, but are not limited to, regional stability, energy security, and the broader and evolving geopolitical relationships between the United States and China and Russia in the Persian Gulf and Caspian basin. Furthermore, the leading industrial countries are moving to improve relations with Iran.

During most of the 1990s, U.S. policy toward Iran focused primarily on achieving nonproliferation objectives and ending Iranian support of forces in the Arab-Israeli conflict that use violence in support of the Palestinian cause. These are important policy objectives, but they should be pursued in conjunction with careful attention to the broader array of U.S. interests that could be advanced through better U.S.-Iranian relations.

Moving beyond the current stalemate will be difficult. Direct government-to-government dialogue is not now possible because the issue of future relations with the United States is inextricably tied to the power struggles in Iran. The political situation in Tehran also precludes developing a calibrated road map for improved relations characterized by parallel, reciprocal steps toward engagement. Iranian officials attempting to participate in such an exercise would likely be overruled by anti-U.S. elements.

If the U.S. government decides to move beyond the current stalemate, a new approach would be necessary. It must take into account the full range of U.S. interests and the overall geopolitical environment in order to devise options that are both desirable and feasible. Some steps can be taken in the short term, while others must wait for a more favorable political climate in Iran. However, no substantial improvement in the U.S.-Iranian relationship can take place unless Iran is both interested and willing to reciprocate.

Nevertheless, certain unilateral steps are appropriate. The most important of these are measures that would clearly serve U.S. interests – even in the absence of reciprocation by Iran. The removal of U.S. economic sanctions falls within this category. Whatever effect sanctions initially had, their value is declining largely because they were imposed unilaterally, and because Iran has now found alternative investors and suppliers. They will have little discernible effect on Iranian behavior regarding issues of concern to the United States. Consequently, the utility of holding sanctions removal in reserve as a bargaining chip is questionable.

Iran has an important role to play in meeting growing U.S. and worldwide energy demands. The 1995-96 U.S. sanctions on Iran were imposed during a period of a global oil surplus, but the world is now entering a period of global energy scarcity. Iran currently accounts for 5 percent of worldwide oil production and is the second largest oil exporter in OPEC. The country needs significantly increased capital investment to maintain its current level of

production and to develop new fields to meet projected increases in demand and create spare capacity that could compensate for sudden interruptions of worldwide supply.

Regardless of the direct U.S. role, Iran will play an increasingly important role among the world's leading suppliers of oil and natural gas. In the meantime, U.S. companies are losing opportunities to their European and Asian competitors. U.S. jobs and tax revenues are also being lost because of U.S. restrictions on participation in Iran's economy.

Some unilateral steps could also be taken to remove unnecessary irritants in the current U.S.-Iranian relationship with minimal cost to the United States and negligible impact on U.S. security. Rescinding the requirement of fingerprinting and photographing all Iranian visitors falls within this category and would help promote the free flow of people and ideas.

At the moment, however, the most promising area of potential U.S. engagement with Iran appears to be in the commercial sector. If the U.S. economic sanctions against Iran are relaxed it will be possible to approach engagement by leading with the private sector. Trade and investment promote access, change personal attitudes, and may encourage Iranians to adopt opinions that can provide a foundation for improved political relations.

Several other avenues of engagement could be pursued simultaneously. For example, Track II dialogue and contacts via nongovernmental organizations (NGOs) already underway can be expanded and used as bridges to parliamentary exchanges and diplomatic contacts. Progress is likely to be uneven, so taking steps along a particular avenue should not be made contingent upon the achievement of similar progress in other areas. Iranian reciprocity, however, should be expected when the various avenues are judged as a whole.

The rationale for the above judgments is summarized in Volume I of this report, with a more comprehensive analysis of the issues provided in Volume II. The subjects covered include the following:

- analysis of the background of the current stalemate
- discussion of the broad interests at stake
- portraits of how each country perceives the other
- analysis of the domestic politics of each country as they relate to the opportunities for overcoming the stalemate.

Volume II contains three appendices: an overview of how U.S. policy toward Iran has evolved since the Iranian Revolution; evaluation of the annual *Patterns of Global Terrorism* reports; and information on resolving U.S.-Iranian claims before the Hague Tribunal.

The Atlantic Council's *U.S.-Iranian Relations: An Analytic Compendium of U.S. Policies, Laws and Regulations*, by Kenneth Katzman (1999) provides a compilation of all key U.S. policy declarations, legislation and regulations that govern our relations with Iran.

Thinking Beyond the Stalemate in U.S.-Iranian Relations

I. The Current Stalemate

Relations between the United States and Iran are currently frozen. In 1998, the Clinton administration invited Iran to engage in an official government-to-government dialogue in which issues of concern to both parties would be open for discussion. The goal was to develop a road map that would lead to normal relations. At the same time, the United States has said that it will maintain its principal sanctions against Iran¹ until Tehran changes its policies on certain issues of significant concern to the United States:

- support for terrorist groups – especially Palestinian groups and movements like Hizbollah that have perpetrated violent acts against civilians in Israel and used violence during military engagements against Israel and its allies in southern Lebanon.
- opposition to the Middle East peace process, underpinned by Iran’s refusal to recognize the legitimacy of Israeli sovereignty within Israel’s pre-1967 boundaries.
- efforts to acquire the technology, materials, and assistance necessary to develop nuclear, chemical, and biological weapons and the missile capability to deliver them.

¹ Executive Orders 12957 and 12959 of 1995 prohibit U.S. trade and investment in Iran. Executive Order 13059 (1997) further tightened the ban. The Iran and Libya Sanctions Act of 1996 prohibits foreign or domestic “entities” from investing in the development of Iran’s petroleum resources. The prohibition covers exploration, extraction, refining, and transportation by pipeline.

In contrast, Iranian officials have said that they will not engage in a government-to-government dialogue with the United States so long as the principal U.S. sanctions remain in place; they consider the sanctions a hostile act inconsistent with improving relations. The Iranians have stated that before a dialogue can take place, there must be parity and mutual respect between the two parties. They argue that these conditions will not be met so long as Iran is subject to pressure in the form of the following actions by the United States:

- continuation of economic sanctions against trade and investment in Iran;
- delay in returning frozen Iranian assets and properties;
- exertion of U.S. influence in international financial, monetary, and trade organizations to limit Iranian access to economic resources;
- efforts to impede the transfer to Iran of advanced technology for peaceful (nuclear) purposes;
- efforts to exclude Iran from oil and gas projects in other states surrounding the Caspian Sea, prevent construction of oil pipelines through Iran to transport Caspian oil to international markets, and block market-based swaps of crude oil from the Caspian Sea countries for Iranian oil that could exit the Persian Gulf for shipment to global markets.

U.S. Approaches

The United States has recently made a few tentative efforts to engage Iran. The first public attempt to initiate a dialogue was made in a speech by former Secretary of State Madeline Albright on June 17, 1998 at the annual Asia Society dinner in New York. This speech was, in effect, a response to a January 1998 interview by President Mohammad Khatami on CNN in which he praised the United States, indicated opposition to terrorist attacks against civilians, regretted the taking of U.S. hostages in the early days of the revolution, denied that Iran is seeking nuclear weapons, and called for a “dialogue between civilizations.”

A second attempt to improve relations was made by Albright in remarks before the American-Iranian Council on March 17, 2000, in Washington, D.C. This speech deliberately coincided with the Iranian New Year and registered a positive U.S. response to the impressive victory of reform candidates in Iranian parliamentary elections. The speech was noteworthy for its acknowledgment of Iranian grievances by listing several U.S. policies that had contributed to problems in the U.S.-Iranian relationship. The speech was also notable for the announcement that U.S. economic sanctions would no longer apply to imports of Iranian carpets and certain Iranian foodstuffs, notably pistachio nuts and caviar.

At the same time Albright made clear that the principal sanctions would remain in place because Washington had not seen significant change in Iranian policy with respect to proliferation or its support of terrorist groups. Instead of attributing these activities to the government of Iran, however, Albright cited specific entities – the Iranian military and the

Islamic Revolutionary Guard Corps (IRGC) for proliferation and the Ministry of Intelligence and Security (MOIS) for support of terrorist groups.

Albright concluded by calling for an official dialogue with Iran so that issues of common concern could be addressed through diplomatic channels: regional tensions in the Persian Gulf, instability and the illegal narcotics trade in Afghanistan, relations between Armenia and Azerbaijan, and more general subjects such as regional economic development and protection of the environment. In a press conference following the speech, Albright said that the kinds of things that the United States would talk about in a dialogue with Iran included proliferation, terrorism, and the lack of Iranian support for the Middle East peace process.

The Iranian Response

Although Iranian Ambassador to the United Nations Hadi Nejad-Hosseini followed Secretary Albright's speech with remarks that described Iran as being "prepared to adopt proportionate and positive measures in return," such measures are not yet discernible. The Iranians have more recently responded to the U.S. overture as they responded two years ago: they say that they want to see "deeds as well as words" from the United States. During a state visit to Germany in July 2000, President Khatami praised the United States for taking a "new turn" in its relations with Iran, but he also said that thus far the United States has not taken sufficient steps to bring this about. He went on to urge the United States to be more ambitious.

Although many of President Khatami's supporters recognized the positive intent of Albright's listing of U.S. policies that had harmed Iran, the initial official reaction was presented by Foreign Minister Kamal Kharrazi on April 5, 2000, when he referred to Albright's "confessions" and said that Washington must pay reparations for its past actions. He also accused the United States of sending contradictory signals of friendship and hostility.

Supreme Leader Ali Khamenei, in a July 27, 2000 statement, said that any talk of a rapprochement or negotiations with the United States at this stage would be "an insult and treason to the Iranian people." He argued that it would be necessary for Iran first to solidify its economic, cultural, scientific, and military strengths. Otherwise Iran would be at a disadvantage in negotiations, and the United States would be in a position to force it to make too many concessions.

II. U.S. Interests at Stake

The United States has a wide range of interests at stake in its relationship with Iran. These include geopolitical interests, security interests, energy interests, and economic interests. To date, U.S. policy has focused almost exclusively on specific security interests, especially discouraging the proliferation of weapons of mass destruction (WMD) and long-range

missiles that can deliver such weapons. The core security issue, however, remains the opposing positions of the United States and Iran regarding the Israeli-Palestinian conflict. Thus Iranian behavior has been judged mainly on the basis of its opposition to the peace process and its support for terrorist groups involved in the conflict against Israel.²

U.S. policy toward Iran could be reconfigured so that a broader array of U.S. interests can be pursued. Better relations with Iran would make it more likely that longer-term U.S. interests can be achieved. This can be accomplished without compromising efforts to achieve U.S. concerns regarding WMD, terrorism, and Middle East peace.

Geopolitical Interests

The size of Iran's population and its regional weight and geographic location make it too significant a country for the United States to ignore. A better U.S.-Iranian relationship would serve several U.S. geopolitical interests. It could reduce and possibly neutralize potential strategic alliances between Iran and Russia and China, the latter two of which would find themselves benefiting through links to Iran as a regional power in the Persian Gulf. U.S. policies toward Iraq would be easier to implement if the United States were able to take advantage of concerns shared by Iran about the possible regional ambitions of the Iraqi government and its pursuit of WMD capabilities.

Divergent approaches to Iran by the United States and its European allies have been a source of tension, and the extraterritorial application of U.S. sanctions has strained alliance relationships. Improved relations with Iran, would therefore likely remove this source of strain. Iran also figures in the attainment of U.S. objectives with respect to the countries of the former Soviet Union and could be useful as a counterweight to Russian attempts to dominate these states.

Conflicting U.S. policy goals have resulted in slowing the attainment of political and economic viability in the Caspian Sea states. The United States would like to see these countries' energy resources on the international market. To the extent that this objective can be met, the countries in question will have a source of income that will contribute to their economic development. If, on the other hand, they are forced to depend on Russia for their primary energy transportation routes, Moscow would be in a position to exert financial and political pressure on them and work toward reestablishing a sphere of influence.

U.S. policy makers recognized this potential problem when the Clinton administration enacted the 1995 Executive Orders that imposed a complete trade and investment embargo on Iran. A special allowance was made so that U.S. companies could participate in market-

² An additional source of U.S. concern relates to the possibility that Iran may have been complicit in the June 1996 bombing of the Khobar Towers complex in Saudi Arabia that at first was attributed to Saudi dissidents and also has been attributed to Iraq. See, for example, Laurie Mylroie, *Study of Revenge: Saddam Hussein's Unfinished War Against America*. (Washington, DC: The AEI Press, 2000).

based swaps of crude oil from the Caspian Sea countries of Azerbaijan, Kazakhstan, and Turkmenistan for similar quantities of Iranian crude oil that would be exported on their behalf from terminals located on the Persian Gulf. This would permit the oil to move onward by sea to international markets, particularly to the increasingly important energy markets in East Asia, where the rate of growth in demand is higher than in any other part of the world.

This policy has not been implemented. The United States has given strong political support to a proposed Baku-Ceyhan export pipeline that would transport energy resources westward from Azerbaijan to Turkey via Georgia. The United States has also supported a trans-Caspian pipeline that would bring energy resources from Kazakhstan and Turkmenistan to a point at which they could connect with the Baku-Ceyhan pipeline. At the same time, the U.S. government has denied applications by U.S. companies for licenses to swap oil with Iran, in part because such swaps could encourage the diversion of oil from the proposed Baku-Ceyhan pipeline.

Furthermore, the United States has sought to prevent the construction of pipelines through Iran that could bring landlocked Caspian energy resources to international markets. The vehicle for doing so is the Iran and Libya Sanctions Act of 1996 (ILSA). The Iranian route, would likely be less expensive and would better serve markets, primarily because the resources would not have to travel as far. It also makes more sense logistically, because, as already noted, the future high demand areas for energy are increasingly in Asia, to the east. In the absence of alternative transportation routes, the landlocked Caspian Sea states will be more dependent on, and influenced by, Russia,³ thus undermining Washington's interest in promoting the political viability of the newly independent Caspian states.

Security Interests

As noted above, certain security interests have dominated U.S. policy toward Iran, the main focus of which has been to prevent Iran from acquiring WMD and long-range missiles and to halt Iranian support of Palestinian terrorist groups. In addition to these concerns, the United States also has high-priority security interests in preventing Iraq from threatening its neighbors. The Iraqi threat is also Iran's primary security concern.

In the event of a regime change in Baghdad, internal turmoil is a significant possibility. Over the longer term, U.S. policy makers could find themselves confronting internal strife in other countries bordering the Persian Gulf. Therefore, it is in the long-term interest of the United States to act now to help ensure Iran's future political stability in this important region of the world.

³ The Baku-Supsa "early oil" pipeline allows oil from Azerbaijan to travel to the Black Sea via Georgia. Kazakhstan has the ability to ship oil across the Caspian Sea by barge and then take advantage of the Baku-Supsa line. But the primary transportation route for oil that originates in Kazakhstan is the CPC line that transits Russia to the Black Sea port of Novorossisk.

A longer-term perspective is also required to prepare for the possibility that Saddam Hussein or a similar Iraqi leader will be in power at a time when UN sanctions have been lifted. The sanctions regime is already eroding. Moreover, the UN sanctions were never meant to address the significant quantities of conventional weapons and trained military forces that Iraq still possessed after the Persian Gulf War. After sanctions are lifted, Iraq can be expected to be more successful in its attempts to refurbish and expand its military inventory. The commercial incentives that Iraq will be able to present to potential arms suppliers by virtue of its oil income will make it relatively easy to accomplish this task, even in the face of existing multilateral export controls on various arms and dual-use items.

Thus, the future conventional military threat that Iraq may pose to its neighbors cannot be dismissed. Both the 1980 invasion of Iran and the 1990 invasion of Kuwait are evidence that Saddam Hussein considers military invasion of his neighbors to be an acceptable instrument for achieving foreign policy goals – and Iraq has not moved away from its contention that Kuwait historically is an Iraqi province.

Energy Security Interests

Providing for reliable and diverse sources of energy security is a high-priority interest of the United States. The United States has a major economic interest in ensuring reliable sources of energy for Europe, Japan and other countries because of the increasing interdependence created by the global economy.

To protect these interests, one of the key tenets of U.S. foreign policy over the last twenty-five years has been a commitment to protect the free flow of energy resources from the Persian Gulf. The United States has been willing to devote annual sums in the tens of billions of dollars to achieve this goal. It has deployed soldiers and equipment in forward positions in Saudi Arabia and Kuwait, headquartered the Navy's Fifth Fleet in Bahrain, and pre-positioned military equipment in Oman, Qatar and the United Arab Emirates.

A long-term time perspective of energy supply and demand is particularly important. Worldwide demand for oil and natural gas will increase significantly during the next decade. Iran is currently the second largest exporter in OPEC and the fifth largest oil exporter internationally. If Iran is to continue to provide the same share of the world's oil that it is producing today, substantial foreign investment will be needed. Despite U.S. sanctions, U.S. Department of Energy projections assume Iran's oil production will satisfy 5 percent of world needs in 2005, even with worldwide demand projected to grow by 10 percent by that time.⁴

⁴ Iran is estimated to have contributed 3.9 million barrels per day (mbd) of production toward 78.7 mbd of total world demand in 1999. The projections for 2005 are for 4 mbd of Iranian oil toward satisfying an 87.9 mbd expected demand. See Table D1, World Oil Production Capacity by Region and Country, Reference Case, 1990-2020, in *International Energy Outlook 2000* (Washington, D.C.: Energy Information Administration of the U.S. Department of Energy, March 2000).

Global demand for natural gas is expected to rise at an even more rapid rate than oil, so access to Iran's sizeable reserves – the second largest in the world – will also be important. Construction of the expensive infrastructure necessary to bring these reserves to market will be significantly delayed without substantial levels of foreign investment.

If future worldwide energy supplies are inadequate to meet growing demand, the United States, its allies, and trading partners will be adversely affected. Because they would have to pay higher prices for the energy they import, it would seem prudent to encourage foreign investment in the Iranian energy sector so that Iran can reach its full capacity in meeting future increases in demand. The United States, however, has barred U.S. firms from participating in such projects, and through ILSA, is attempting to extend this prohibition to include investors from other countries.

Economic Interests

The United States has a major interest in promoting its own opportunities for trade and investment abroad. U.S. companies have been barred from economic activity in Iran, however, and in many instances foreign companies have taken their place. U.S. legislation designed to deter foreign companies from participating in the development of Iran's energy resources is increasingly being ignored. Companies from France, Italy, Norway, and the United Kingdom are signing energy contracts with Iran, and they have been joined by companies from China, Japan, Malaysia, and South Korea. The U.S. sanctions have not succeeded in their objective of isolating Iran. Instead, U.S. companies have been isolated by being subjected to government restrictions that do not affect their competitors. This is a matter that affects more industries than just the energy sector. For example, Iran has embarked on a program of infrastructure development that can provide important export markets to key sectors of the U.S. economy, notably aircraft and telecommunications.

III. Thinking Beyond the Stalemate

The current stalemate between the United States and Iran, while emotionally satisfying to many Americans, does not serve overall U.S. interests well. U.S. national interests include, but are not limited to, regional stability, energy security and moderation of the Iranian regime. The importance of Iran in the promotion of U.S. interests is especially apparent when a long-term perspective is taken and contingencies are considered.

The New Context

Both the domestic and international contexts that frame U.S.-Iranian relations have changed significantly over the last few years. Inside Iran, pressure is growing for reforms that will result in a more open and accountable government, although reformers face significant opposition.

The Domestic Situation

Although there are formidable barriers to change, President Khatami has been persistent in his attempts to reform the Iranian system from within. His primary goals are to promote freedom of expression, ease social restrictions, and encourage the development of a civil society governed by the rule of law. He seeks to accomplish these goals through government programs and enactment of new legislation. In addition, Khatami ultimately wants to establish a system of public accountability for several key institutions that are now under the control of the Supreme Leader. These include the intelligence services, the IRGC, the judiciary, and the economically powerful religious foundations called *bonyads*.

Thus far, Khatami has been able to register only limited success in his efforts to achieve reform through a process of presidential-parliamentary cooperation. Reform measures can be vetoed by the Council of Guardians. If the parliament and the Council of Guardians cannot resolve their differences over specific legislative proposals, the Expediency Council has the power to intervene. Thus, both the Council of Guardians and the Expediency Council – both of which are appointed bodies – can overrule the popularly elected parliament. In addition, Supreme Leader Khamenei has the power to prevent parliament from passing or even discussing legislation on certain matters.

During the period since the dramatic victory of reform candidates in the February 2000 parliamentary elections, there has been a severe political backlash mounted by conservative forces associated with the Supreme Leader. Virtually all of the reform newspapers have been closed, and many publishers and journalists have been jailed. Key figures associated with the reform movement, including several close associates of President Khatami, have also been arrested. Student leaders have been jailed, as were participants in a conference in Berlin that was disrupted by anti-regime provocateurs. In April 2001, 60 members of an opposition party were also arrested. Many observers believe that the wave of arrests are part of a deliberate campaign of intimidation designed to weaken support for President Khatami in the June 2001 presidential elections.

Nevertheless, many Iranians believe that Islamic tradition requires that popular will be taken into account when the Supreme Leader makes decisions. Khatami also takes the view that an Islamic republic is based on “the people’s determination, will, presence and participation.” Khatami has reinforced this view by pointing out that “even during the era of the infallible ones . . . the people exercised their supervisory role.”⁵

There are also practical constraints that may prevent the Supreme Leader from veering too far away from prevailing public sentiment. Although he has considerable coercive power at his disposal to keep the expression of public opinion in check, he has to take into account the possibility that his policies may provoke violent, widespread public reactions that would be difficult to control.

Economic stresses in Iran compound the current political pressures for change. Even though oil prices are high and the government is paying down part of its debt, the current

⁵ Speech of June 3, 2000, on the anniversary of Ayatollah Khomeini’s death.

power struggle occurs under conditions of increasing economic hardship for a large proportion of the Iranian population. Inflation and unemployment are high, and a perception exists that there is considerable corruption among the ruling clerical elite. The economy is structurally incapable of generating enough jobs to employ the ever-growing number of young people. It is estimated, for example, that the economy will have to generate 800,000 additional jobs per year to accommodate new entrants into the job market. This level is approximately 450,000 jobs beyond the economy's current job-creating capacity. Iran has been especially unsuccessful in generating employment for the growing number of university graduates. As Iran's press ruefully reports, one of the country's most significant exports is its highly trained physicians, engineers, and computer scientists.

Over the longer term, if economic hardships intensify and channels of expression of popular political will are blocked, Iran could suffer a degree of internal instability that would endanger regional security.

Foreign Affairs

Iran's foreign policy has changed significantly under President Khatami, who has been successful in reducing Iran's isolation. He initiated efforts to improve relations with key neighbors in the Gulf and made state visits to France, Germany, Italy, France, Japan and Russia. He was also able to reestablish full diplomatic relations with the United Kingdom.

The Europeans initially referred to their contacts with Iran as constituting a "critical dialogue" that they hoped would influence Iranian policies to move in a moderate direction. The United States which took an explicitly punitive approach to Iran, expressed skepticism about the efficacy of the European approach. Yet it is clear that the Iranians paid attention to the displeasure registered when the Europeans briefly withdrew their ambassadorial representation in 1998 in response to revelations of Iranian complicity in the 1992 assassination of an Iranian political dissident residing in Germany.

In 1998, the Europeans reformulated their approach toward Iran by launching a "comprehensive dialogue" that was supported by institutional arrangements:

- the European Commission would hold troika⁶ meetings with Iran every six months;
- the Commission established separate working groups with Iran on energy, trade, and investment; and
- the Commission and Iran would hold periodic meetings of experts on the issues of refugees and drug trafficking.

There are explicit expectations underlying the comprehensive dialogue. The possibility of an eventual trade and cooperation agreement with Iran was made contingent on the

⁶ The troika consists of officials from the countries holding the current, immediate past, and future European Union presidencies. The presidency rotates alphabetically among its member countries every six months.

government's continuation of political reform and economic liberalization. Among the political issues to be addressed are human rights, including freedom of the media, and the treatment of women and minorities. Iran's regional and international policies are also to be discussed. Questions related to Iran's security will be addressed, along with its role in the peace process and the international security concerns raised by the proliferation of weapons of mass destruction.⁷ It remains to be seen whether these expectations will be realized.

Lessons from Previous Approaches

Analysis of U.S.-Iranian relations over the years reveals what is not likely to work in future efforts to move beyond the current stalemate. In particular, despite whatever effect U.S. unilateral sanctions may have had initially, they are of declining value in the absence of multilateral support and are no longer effective in isolating Iran. They are also to some extent counterproductive because they provide a rationale for the continued hostility toward the United States that is promoted by the hard-line opponents of reform. They also provide a ready excuse for Iran's economic problems and thereby delay the kind of economic reforms that would liberalize the economy. Economic reform would also have the political benefit of weakening the power of the religious foundations and their ability to fund terrorism abroad and political repression at home.

The U.S. sanctions are the main obstacle preventing the United States from pursuing its complete range of interests with Iran. Tehran refuses to accept the U.S. invitation to engage in a government-to-government dialogue until they are removed. Such broad-based sanctions, in Iran's view, are hostile in nature and not appropriate for an environment of improving relations.

Given the current internal power struggle in Iran, an approach that insists on a specific *quid pro quo* form of reciprocity is unlikely to be successful. The power struggle, the existence of U.S. sanctions, and the Supreme Leader's opposition to negotiations with the United States combine to make it unrealistic to expect near-term Iranian willingness to engage in an official government-to-government dialogue in which all issues of concern to each party would be placed on the table. It is even less likely that Iran and the United States could agree on a "road map" for the resolution of these issues.

Even Track II, people-to-people exchanges between Iranians and Americans are not likely to lead the way to improved government-to-government relations anytime soon. Khamenei and many of his conservative supporters are fearful of an onslaught of "decadent," Western cultural values and "subversive," Western political ideas, and they maintain that the reform movement is being manipulated by enemies of Iran's Islamic system.

⁷ See "EU-Iran: Commission Sets Out Perspectives for Closer Relations," European Commission, DN:IP/01/176, February 7, 2001, <http://europa.eu.int/rapid/start/cgi/guesten.ksh>.

A Changed Strategy

Two principles should serve as the foundation of any new U.S. approach to Iran:

- The United States should first take those steps that are in its national interest. These should be taken independently, and not be contingent on Iranian or any other nation's behavior. Even if Iran does not respond, the United States will have removed obstacles to the attainment of U.S. objectives.
- The United States should also try to establish a relationship with Iran in which U.S. actions will be reciprocated by Iran so that the relationship can move forward on a mutually satisfactory basis.

Independent Steps in the U.S. National Interest

Some obstacles to the achievement of U.S. national interests have, in a sense, been self-inflicted, the primary example being the sanctions, which have not achieved their stated objective of altering Iranian behavior in areas of concern to the United States. Instead, they have worked at cross-purposes with U.S. economic and long-term energy interests. For these reasons alone the sanctions should be relaxed. As a practical matter, unraveling the complex sanctions provisions under the combination of executive orders, ILSA, foreign assistance and anti-terrorism legislation will take some time.

Certainly in the immediate future, the prohibition on the importation of Iranian oil should be removed. At the same time, the U.S. government should adopt a policy of approving license applications for swaps of Caspian and Iranian oil, and U.S. energy and other firms should be given permission to negotiate "executory" contracts⁸ in Iran.

The administration should discourage extension of ILSA following its expiration in August 2001. If such an approach appears unlikely to succeed, alternative legislation should be sought that narrows the scope of the sanctions and provides the president with flexibility in their application. It is often assumed that ILSA does not affect U.S. companies when in fact, its prohibitions are directed to "entities" without regard to nationality. Therefore, even if the executive branch were to exercise its authority to lift the 1995/97 executive orders prohibiting U.S. trade and investment in Iran, a renewal of ILSA by Congress would continue to effectively block U.S. investment in the Iranian energy sector. If ILSA is not renewed but the executive orders remain in place, U.S. energy firms would be precluded from investing in Iran while their foreign competitors maintain the freedom to do so.⁹ The executive orders and ILSA are so connected that any new approach to sanctions should consider them as a package.

⁸ These are contracts that cannot be implemented until the sanctions on trade and investment in Iran are lifted.

⁹ This is the *de facto* situation today. ILSA has not been enforced. One waiver was granted in May 1998, but all other foreign contracts are being studied to determine whether ILSA sanctions must be implemented. The process of studying the contracts cannot continue indefinitely, especially if ILSA is extended for another five years, as its proponents intend it to be.

Finally, the Bush Administration should undertake to lift the current ban on trade and investment in Iran by conducting a well-coordinated educational effort highlighting the ineffectiveness of the sanctions and their negative effects on U.S. energy and commercial interests. Such an effort is crucial to building support in Congress and among the public for this change. As appropriate, the administration and Congress should aim to lift the remaining economic sanctions sooner rather than later.

Steps toward U.S.-Iranian Engagement

Before pursuing reciprocal engagement with Iran, the United States should take the unilateral step of removing some of the outstanding irritants in the relationship. These steps are few in number and could be taken with minimal cost. Rescinding the current Justice Department order to fingerprint and photograph all Iranian visitors to the United States is one such measure. Others include undoing current U.S. practices that serve to “demonize” Iran and prohibit a more reasoned and utilitarian approach to the outstanding problems between the two countries.

- ***Coordinate with Europe, Japan and Others***

The United States should work more closely with European countries, Japan, and others to promote coordinated engagement with Iran. For example, coordination with the European Union would enable the United States to profit from groundwork that has already been laid. Ultimately, it may be possible for the United States and the Europeans to frame joint policy initiatives toward Iran that will be more effective than if undertaken independently. In addition, the Iranians would be more likely to accept a U.S. approach that is folded into that of the Europeans, because it would be less controversial at home.

- ***Lead with the Commercial Sector***

Once economic sanctions are removed, the United States will be able to draw upon the positive effects of commercial engagement with Iran. There is reason to believe that economic engagement can help prepare the way for political engagement. Contacts on a personal level are made possible and each side has an opportunity to learn about the cultural values of the other. Although economic relations are not free of potential misunderstandings and culturally imposed difficulties, in general they provide mutually beneficial rewards. Once these rewards become manifest, the positive attitudes they engender can likewise affect general attitudes toward the other nation.

- ***De-Link Sets of Issues***

The United States, in developing a strategy to maximize its overall interests, should de-link interests that can be pursued directly (geopolitical, energy, and economic) from those parts of its security interests (WMD, terrorism) that can be more effectively pursued multilaterally. Eventually, better and increased engagement with Iran should also help with difficult security issues.

- ***Timing***

A new U.S. strategy must take into account the full range of national interests at stake and the overall geopolitical environment to determine options that are both desirable and

feasible. Some will be more feasible in the short term, while others must wait for a more favorable political climate. The specific timing of any option, as well as the overall pace and scope of the efforts, must, of course, take Iran's behavior into account. Nevertheless, acting sooner rather than later will increase the United States' ability to influence positive trends and developments in Iran.

A Plan of Action

Several kinds of engagement are theoretically possible in U.S.-Iranian relations:

- unofficial Track II dialogue;
- contacts between U.S. and Iranian nongovernmental organizations;
- commercial engagement;
- early forms of diplomatic engagement;
- unofficial parliamentary exchanges;
- low-level government-to-government engagement;
- military confidence building measures;
- normal diplomatic relations;
- full government-to-government relations; and
- military cooperation.

There is a natural sequence to some of these steps, but many of these "phases" can be pursued simultaneously. Taking steps along the path of a particular form of engagement should not be made contingent on the achievement of similar progress in the other areas, but reciprocity from Iran should be expected when engagement is taken as a whole. In some instances, moving ahead will be cost-free to the United States but in others the United States will need to amend existing legislation to gain some freedom of maneuver.

PHASE ONE

The United States should continue and reinforce existing forms of engagement with Iran. As things stand now, there have been a few instances of U.S.-Iranian cultural and sports exchanges, and an ongoing schedule of Track II contacts between scholars and former government officials. In addition, nongovernmental organizations dealing with specific issues (such as the environment) have established forums that include U.S. and Iranian participants.

Track II Dialogue.

Approximately six meetings per year have brought U.S. scholars and former government officials into contact with their Iranian counterparts. Similar kinds of contacts between U.S. and Soviet participants served a useful purpose for both sides during the cold war. A special advantage of Track II contacts is that the participants usually have close enough relations with their respective governments to enable them to explain the nuances of current government policies. Such people – especially former U.S. senior foreign policy officials – can also convey new ideas to active policy makers.

Contacts between Non-Governmental Organizations

Iran has been receptive to interactions with U.S. and international NGOs, and NGOs in Iran have been growing in number partly as a result of President Khatami's emphasis on developing a civil society. Meanwhile, a U.S. policy change is underway to facilitate U.S. NGO activity in Iran. It is hoped that it will soon be possible for U.S. NGOs to obtain a general license that would permit them to enter into all of the necessary transactions for carrying out work in Iran.¹⁰

PHASE TWO

Commercial Engagement

Lifting economic sanctions would make it possible for U.S. companies to begin to obtain the benefits of commercial engagement with Iran. Such engagement can be facilitated by private U.S. organizations like the Chamber of Commerce and the Iranian-American Trade Association. Steps are already underway to hold meetings at which U.S. and Iranian businessmen can exchange information about their respective markets.

There are hurdles, however, that have to be overcome. One of these is the need for Iranian businessmen to travel outside Iran to apply for a U.S. visa, return to Iran, wait for 30 days, and then return to the country of application to pick up the visa. Consequently, only Iranians who are financially well off and politically well connected can get such a visa. In addition, while the U.S. executive orders remain in place, Iranians cannot make the financial transactions required by the United States to participate in trade shows, contract for legal services, and otherwise participate in bilateral trade.

Early Diplomatic Engagement

One of the most important strands of U.S.-Iranian engagement involves diplomatic contact between the two countries. Here the need for reciprocity from Iran is necessary, but Tehran has yet to respond to U.S. diplomatic overtures. For example, Iran has not allowed U.S. representatives to visit the Swiss embassy in Tehran which represents U.S. interests in Iran in the absence of diplomatic relations, or been willing to allow the United States to station a staff of U.S. consular officers there so they could process Iranian visa applications in-country. If and when the United States lifts its economic sanctions and establishes a

¹⁰ U.S. sanctions against U.S. financial transactions in Iran require separate applications for exemptions for each specific type of activity that would otherwise be prohibited.

commercial presence in Iran, it would be reasonable for the Department of State to want to station economic and commercial officers in Tehran.

Unofficial Parliamentary Exchanges

If the leadership in Iran acts on its seeming willingness to grant permission for exchanges between various members of the U.S. Congress and their Majlis counterparts in Iran, the meetings would have both symbolic and practical value. Such meetings would illustrate the breaking down of barriers to communication – the “walls of mistrust” alluded to by President Khatami during his January 1998 CNN interview. Meetings between U.S. and Iranian parliamentarians could be expected to provide a corrective to mutually held negative stereotypes. Under ideal circumstances, meetings between members of Congress and members of the Majlis could result in a genuine exchange of views that clarify positions, reduce tensions, and serve as a bridge to an official government-to-government dialogue at some future date.

Although the Iranians have agreed in principle to exchanges between U.S. and Iranian parliamentarians, they have been reluctant to follow through by setting specific dates and committing themselves to granting the necessary visas. Nevertheless, members of Congress should be encouraged to persevere in attempting to initiate a dialogue with their Iranian counterparts.

PHASE THREE

Given the distance that must be traveled before the normalization of diplomatic relations, an alternative approach to establishing government-to-government interaction may be in order. Although desirable, it is not necessary to have full diplomatic relations before government-to-government contacts can take place. What is being proposed here is a “bottom-up” approach that begins with discussion on less controversial issues.

A strategy of disaggregating areas of potential government-to-government interaction with Iran would enable the United States to approach a political rapprochement gradually, while evaluating the extent of Iranian interest and reciprocity. Limited working-level contacts would be pursued first, with contacts at the ministerial level as the ultimate objective. Difficult issues would be postponed until a climate of trust has been established.

Low-level Government-to-Government Engagement

There are several areas in which Iran’s government and society are facing pressing problems. Environmental and narcotics control issues are among them. Tehran suffers from some of the worst air pollution in the world, and the country faces problems of increased drug abuse among its own population and rising drug trafficking from producers in Afghanistan who use Iran as a transit route to lucrative drug markets in Europe.

There are various non-controversial ways in which the U.S. government can help Iran address these problems. NGOs are already at work on these issues and they can provide a

useful bridge to eventual working-level government-to-government programs. For example, NGOs can make their Iranian counterparts aware of U.S. government assistance programs. They can also hold meetings at which working-level U.S. government officials are among the participants. Non-controversial areas for cooperation should be chosen for initial government-to-government cooperation.

Unfortunately, however, even modest programs cannot now be undertaken officially because of legislation that bars U.S. bilateral foreign assistance to countries – like Iran – that appear in the Department of State’s Terrorism List. This legislation should be amended by “carving out” exceptions so that U.S. bilateral foreign assistance is permitted for programs that addressed issues concerning the environment, drug control, and public health.

Official U.S. Export Assistance

Lifting economic sanctions would make possible U.S. investment. This would solve only part of the problem, however. U.S. companies would still be at a disadvantage compared to their competitors, because other U.S. legislation bars Terrorism List countries from receiving export assistance from the Export-Import Bank, the Overseas Private Investment Corporation (OPIC), and the Department of Commerce Trade Development Administration (TDA).

The United States might amend existing legislation so that the programs of the Export-Import Bank, its OPIC guarantees, and its TDA assistance can be used with government approval to support U.S. businesses seeking to invest in enterprises in Iran.

Confidence-Building Military Cooperation

Confidence-building measures can serve to reduce tensions and promote regional stability. For example, both the U.S. and Iranian navies interact regularly in the Persian Gulf. They provide notices-to-mariners (NOTAMS) about certain operational conditions, including naval exercises, and they have established common procedures for communications. The navies should be encouraged to pursue other means of cooperation, such as averting incidents at sea and jointly mounting search-and-rescue efforts. This list could be expanded to include humanitarian assistance and disaster relief.

PHASE FOUR

Resolution of the Hague Tribunal Claims

More than 20 years have passed since the United States and the Islamic Republic of Iran signed the Algiers Accords ending the 1979-81 hostage crisis. At that time, Iran made a commitment to release all of the U.S. diplomats held as hostages and in return the United States agreed to release Iranian assets frozen in U.S. banks as a sanction against the hostage taking. The United States also committed not to intervene in Iranian internal affairs. In a carefully timed sequence, the hostages were released on the first day after the Reagan administration took office in January 1981 and the United States returned close to \$9 billion in Iranian assets that had been frozen in U.S. banks and their foreign subsidiaries.

The Algiers Accords also provided for a claims tribunal to oversee binding third-party arbitration of both private and government-related claims involving the two countries. This process at The Hague moves very slowly in part because complicated problems of fact and liability have to be resolved. The tribunal has, however, been successful in resolving essentially all of the 4,000 or more claims involving private claimants, and most of the smaller government-to-government claims. Several large claims are still being arbitrated. The largest outstanding monetary claims relate to purchases that Iran made under the U.S. Foreign Military Sales (FMS) program. In keeping with FMS procedures, Iran deposited money in a Department of Defense FMS fund, and disbursements were then made to the contractors supplying the equipment and services. The Iranian claims relating to the FMS programs are two-fold:

- First, there is a claim relating to the FMS fund, itself. Iran alleges that at the time the FMS relationship was severed, it had deposited \$11.3 billion in the fund but had received only \$9.5 billion worth of military goods and services. Iran wants to be paid the balance of \$1.8 billion, with interest. The United States does not pay interest on FMS funds under normal circumstances. If the tribunal validates this claim and decides to award Iran interest, the sum owed would be approximately double, or \$3.6 billion.
- Second, Iran claims that it is owed \$1.4 billion for undelivered FMS equipment for which payment had already been disbursed from its FMS fund. If the tribunal validates this claim and interest is awarded, the sum owed would amount to \$2.8 billion.¹¹

Based on these numbers, Iran believes that it is entitled to a possible FMS settlement in an amount that could be as much as \$6.4 billion. In addition, it has claimed compensation for costs it had to bear during the process of shutting down the FMS program. A related issue arises from controversy over which of the two countries should pay the costs owed to U.S. contractors for contract cancellations. The United States used the Iranian FMS account to pay contract cancellation fees – and this is one of the reasons why the account now has a balance of only \$400 million compared to the \$1.8 billion that Iran believes the account should contain. The work necessary to resolve the FMS claims is daunting. There are seventy to eighty cases that involve sums exceeding \$250,000. These cases involve approximately 1,200 separate FMS contracts, only 130 of which have been briefed.

The outstanding Hague Tribunal claims complicate U.S.-Iranian relations. The Iranians tend to use the issue as a vehicle for expressing their sense of “grievance.” Iranian officials have repeatedly claimed that the United States has been willful and unfair in refusing to return billions of dollars of frozen assets. The charge is played for maximum effect on public opinion, and inflated dollar figures are used. Recent rhetoric has been toned down, but past Iranian statements claimed that the amount owed to Iran was in the neighborhood of \$20 billion.

¹¹ For a detailed description of the Iranian point of view, see the interview granted by Goodarz Eftekhari Jahromi, the Iranian representative to the Hague Tribunal, as quoted in Roozbeh Farahanipour, “Iran No Longer Possesses Deposits in American Banks,” *Payame Azadi (Morning Daily)*, January 16-17, 2000.

In an attempt to respond to the Iranian sense of grievance and wipe the slate clean, former Secretary of State Albright, in her March 17, 2000 speech, proposed that the United States and Iran increase their efforts to conclude a “global settlement” of the outstanding legal claims. Such a settlement would require devising simplified legal mechanisms at The Hague, as well as a considerable degree of political will on the part of both countries. If a global settlement is *not* reached, many more years will pass before the remaining claims can be resolved on a case-by-case basis.

Although the proposed global settlement was one of the key aspects of Albright’s approach to Iran, it is significant that the Clinton administration did not move beyond the rhetorical before it left office. In other words, U.S. representatives to the tribunal were not authorized to broach the subject with their Iranian counterparts. This policy should be changed and representatives to the Tribunal should be authorized to inform the Iranian negotiators of the United States’ willingness to pursue a rapid global settlement of the remaining claims.

The U.S. government has already paid some individual tribunal awards. The money for these payments came from the Treasury’s Judgment Fund.¹² It is significant that the Judgment Fund is a *permanent and indefinite appropriation*. This means that Congress does not have to authorize disbursement of specific payments and the Judgment Fund does not have a “cap” that would require it to be replenished by congressional authorization upon being exhausted.¹³ Any Hague Tribunal awards, including a potential global settlement, are payable from the Judgment Fund – no matter how large the size of the award – and any resolution of the remaining claims *will* require the expenditure of considerable amounts of money. For the most part, members of Congress and the public at-large are not aware of how much will have to be disbursed from the Treasury to settle the claims – even under conservatively drawn scenarios. As a matter of practical politics, it would be wise of the executive branch to consult closely with Congress in anticipation of the necessity of making a large payment to Iran at some future date.

Complications from the “Victims of Terrorism” Claims

On April 24, 1996, Congress passed the Antiterrorism and Effective Death Penalty Act. Section 221 amends the Foreign Sovereign Immunities Act by depriving Terrorism List states of sovereign immunity in instances in which private U.S. plaintiffs seek to sue such states for damages. Section 221 was designed to permit U.S. citizens and the families of deceased citizens to sue Terrorism List countries for:

“personal injury or death that was caused by an act of torture, extrajudicial killing, aircraft sabotage, hostage taking, *or the provision of material support or resources for such an act.*”
(Italics added)

¹² This fund was established by the Automatic Payment of Judgments Act of 1956 and is codified at U.S.C. Section 1304.

¹³ Instead, the claims paid from the Judgment Fund are charged against the entire U.S. budget. In other words, the total paid from the Judgment Fund in a given year is either subtracted from a budget surplus or added to a budget deficit.

The language of the legislation draws an explicit connection between the act in question and “the provision of material support or resources” for that act, but the evidentiary standards employed in subsequent court cases have not been strict.

The legislation which removes Iran’s sovereign immunity, was enacted the year before President Khatami’s election victory in May 1997. The full effect of stripping Iran of sovereign immunity was not felt until lawsuits were filed and decisions reached under the new dispensation. From 1998 to the present, U.S. courts have awarded both compensatory and punitive damages against Iran in several high-profile cases.

Iran did not attempt to defend itself in these cases, because it does not recognize the jurisdiction of the U.S. courts in which the cases were tried. In the absence of an adversarial proceeding, “default” judgments were rendered and the size of the awards was especially generous. Five major cases were decided,¹⁴ and the total of the awards reached was \$208.4 million in compensatory damages and more than \$1.1 billion in punitive damages.

These awards complicate the ability of the U.S. government to fulfill its obligations in the Hague Tribunal process. Attorneys for plaintiffs Terry Anderson and the Flatow family were successful in obtaining judicially approved writs of attachment that enabled them to attach Iranian assets in the United States. The assets that they tried to attach included:

- monetary awards to Iran from the United States that had already been mandated by the Hague Tribunal; and
- money in Iran’s FMS fund under the jurisdiction of the Hague Tribunal pending a decision on its ultimate disposition.

The United States went to court and successfully quashed these writs by claiming that U.S. sovereign immunity protected money in the Treasury that had been earmarked for payment to Iran in compliance with the outstanding Hague Tribunal claims.

When the plaintiffs confronted this roadblock, Sen. Frank Lautenberg (D-NJ) and Sen. Connie Mack (R-FL) introduced the Justice for Victims of Terrorism Act, which, among other things, deprived the United States of sovereign immunity in cases in which Terrorism List countries were at issue. After considerable negotiation with the Clinton administration, a compromise was reached and codified in Section 2002 of the Victims of Trafficking and Violence Protection Act of 2000.

¹⁴ The plaintiffs were the family of Alisa Flatow, who was killed by a bomb placed on an Israeli bus by the Palestinian Islamic Jihad (PIJ); former U.S. hostages in Lebanon Joseph Cicippio, David Jacobsen, Frank Reed, and their families; former U.S. hostage and journalist in Lebanon Terry Anderson and his family; the families of Matthew Eisenfeld and Sara Rachel Duker, who were killed by a bomb placed on an Israeli bus by the Palestinian group HAMAS; and the family of Marine Lt. Col. William R. Higgins, who was kidnapped and killed in Lebanon by the Lebanese Hizbollah.

This legislation is significant because it goes a long way toward protecting the Hague Tribunal process from U.S. domestic litigation. There are, however, other aspects of the revised legislation that introduce complications down the road. For example, it authorizes the government to pay damages awarded to plaintiffs, but to do so it transfers the claims for compensatory damages from the plaintiffs to the U.S. government. This subrogation¹⁵ of the claims is then used as a vehicle for requiring certain actions by the U.S. government. In the case of Iran, it involves the following:

- No funds shall be paid to Iran from property blocked under International Emergency Economic Powers Act (IEEPA) or from Iran's FMS account until the subrogated claims have been dealt with by Iran to the satisfaction of the United States.
- It is the sense of the Congress that the president should not normalize relations between the United States and Iran until the subrogated claims have been dealt with by Iran to the satisfaction of the United States.

Iran has already registered its disagreement with this arrangement and, in theory, could file a complaint against the United States either with the Hague Tribunal or at the International Court of Justice (ICJ).

Additionally, the Victims of Trafficking and Violence Protection Act seems to imply that Iran must admit to responsibility for the terrorist acts that gave rise to the judicial awards to the U.S. plaintiffs and, perhaps, pay compensation. Yet, Iran not only does not recognize the jurisdiction of U.S. courts in this matter, but it also argues that it is not complicit in violent acts undertaken by organizations to which it has contributed funds for general purposes. In a tit-for-tat gesture, Iran has now passed matching legislation that permits Iranians to sue the United States in Iranian courts for injuries sustained at the hands of the U.S.-supported government of the Shah of Iran.

With an eye toward the future, Congress should examine the possibility of rescinding the 1996 legislation that deprived Iran and other Terrorism List states of their sovereign immunity, which is in violation of widely recognized principles of international law. Meanwhile, in pursuing an expedited global settlement of the remaining Hague Tribunal claims, the United States should be fully aware of the difficulties that will have to be overcome because of the restrictions imposed by the victims of terrorism legislation.

PHASE FIVE: THE DIFFICULT ISSUES

One of the most difficult problems that the United States confronts in its current relationship with Iran results from Iran's effort to acquire nuclear weapons. Iran asserts that it is in full compliance with all of its Nuclear Nonproliferation Treaty (NPT) commitments and that it has no intention of pursuing a nuclear weapons program.

¹⁵ Subrogation is the substitution of one creditor for another so that the new creditor succeeds to the former's rights.

Furthermore, Iran insists on exercising its NPT right to obtain peaceful nuclear technology and claims that the United States is trying to deny it this right and is therefore in violation of Article IV of the NPT, which commits the Parties to the Treaty to

undertake to facilitate . . . the fullest possible exchange of equipment, materials and scientific and technological information for the peaceful uses of nuclear energy . . . and to [contribute] to the further development of the applications of nuclear energy for peaceful purposes, especially in the territories of non-nuclear-weapon States Party to the Treaty, with due consideration for the needs of the developing world.

Iran has legitimate national security concerns, given the nuclear weapons capabilities of nearby states and Iraq's aggressive history and potential to move quickly to a nuclear weapons capability in a post-sanctions environment. There are two related ways of dealing with this problem:

1. devise a means by which Iran can exercise its NPT entitlement to access to civilian nuclear power technology without raising weapons proliferation concerns;
2. consider ways of helping Iran address its legitimate security concerns without recourse to nuclear weapons or other forms of WMD.¹⁶

Curtailing the Proliferation Potential of Nuclear Power Technology

Over the longer term, it may become possible to develop with Iran an adequate and effective new safeguards regime. If this were possible, the United States could then change its current policy of attempting to deny Iran access to light-water nuclear power reactors for generating electricity. Under such a regime, *all* potential suppliers of such technology would first negotiate agreements with Iran whereby Iran would agree to do the following:

- sign and ratify the Model Safeguards Protocol¹⁷ of the International Atomic Energy Agency (IAEA);
- commit itself to forego NPT-allowed civilian nuclear activities that raise weapons proliferation concerns; and
- agree to an IAEA inspection regime that would monitor and verify whether the joint commitments between Iran and the potential supplier are being met.

If such a regime could be negotiated successfully, the United States would be in a position to withdraw its objections to the sale of French, German, or Russian nuclear power reactors to Iran and, with congressional approval, the United States would be able to sell Iran such reactors itself.

¹⁶ The emphasis here is on nuclear weapons. Chemical and biological weapons are discussed in Volume II. Iran is party to the Chemical Weapons Convention (CWC) and the Biological and Toxin Weapons Convention. It, however, is following procurement policies that give reason for concern.

¹⁷ Sometimes referred to as the Enhanced Safeguards Protocol.

Close to two dozen countries have already signed the IAEA Model Safeguards Protocol, which was devised after the discovery of Iraq's clandestine nuclear weapons program and contains measures designed to permit IAEA inspection of *undeclared* nuclear sites as well as the declared sites that are already the subject of the basic IAEA inspection regime.

In addition, the protocol contains language that enables the IAEA to conduct inspections in the subject country in order to investigate the accuracy of suspicions that have been brought to the attention of the IAEA by another IAEA member state. This means that, for example, if U.S. intelligence uncovers troublesome activity in Iran, it can ask the IAEA to investigate to ascertain whether the suspicions are well founded. Under the terms of both the basic IAEA agreement and the new protocol, if the IAEA discovers that an NPT adherent is engaged in nuclear weapons activity, it is obligated to bring this fact to the attention of the UN Security Council. Although the NPT does not have a sanctions provision, the Security Council has the ability to impose sanctions under such circumstances.

Iran is already in complete compliance with the Full Scope Safeguards program of the IAEA and Iran has left the door open to signing the Model Safeguards Protocol. Its leaders have said that Iran would not be the first country in the Middle East to do so, nor would it be the last. In informal conversations in a Track II setting, Iranian participants have said that Iran would be willing to sign the protocol in exchange for being able to acquire civilian nuclear technology without U.S. interference. The extension of IAEA safeguards to undeclared nuclear facilities would provide a significant mechanism for preventing potential clandestine transfers of nuclear material from civilian to weapons-related purposes.

Regardless of the protocols signed, the NPT allows certain peaceful applications of the nuclear fuel cycle that particularly lend themselves to the eventual production of fissile material that could be used in nuclear weapons. These permitted but troublesome capabilities are facilities that permit:

- uranium enrichment;
- reprocessing of spent nuclear fuel;
- heavy-water production of nuclear energy; and
- independent fabrication of nuclear fuel.

Thus, under current circumstances, if Iran (or any other non-nuclear state adherent to the NPT) wants to purchase a reprocessing plant or engage in any of the above activities, it need merely notify the IAEA of the location of the nuclear material involved and the IAEA will have no cause to fault either the recipient or the supplier country.

Consequences of the Current Approach. The U.S. approach to preventing Iran from gaining weapons-useful technology and materials through its civilian nuclear program has been to try to discourage Iran from acquiring all forms of nuclear reactors, including those permitted by the NPT. In the process, we have created temptations for Russia, while frustrating our allies.

Moreover, the U.S. policy of denial with respect to Iran includes civilian light-water nuclear power reactors even though Washington has promoted donation of the same to North Korea.

In addition to prohibiting U.S. manufacturers from selling Iran light-water nuclear power reactors, the United States has been successful in persuading France and Germany to agree to a similar prohibition.¹⁸ This has left Iran completely dependent on Russia as its sole supplier and the United States is pressuring Moscow to cease providing Iran with civilian reactors after the two at Bushehr have been completed. Russia has thus far been adamant in refusing to comply, and the combination of Russian recalcitrance and U.S. pressure has served to strain U.S.-Russian relations.

The current U.S. prohibition on the sale of light-water reactors to Iran has weapons proliferation implications in and of itself. The construction of the Russian plants brings Iranian authorities into contact with Russian nuclear scientists, some of whom have nuclear weapons expertise. Many of the latter are now unemployed because the Russian nuclear weapons program has been curtailed. The possibility that Russian nuclear scientists might have pecuniary motives that would cause them to participate in clandestine nuclear weapons programs in other countries has been a cause for concern among U.S. policy makers.

The other problem arising from Russian-Iranian cooperation in civilian nuclear applications is that Russia wishes to maximize its ability to earn money from its nuclear expertise. In doing so, Russia may be willing to provide Iran with some of the civilian applications of nuclear technology that are allowed by the NPT, but have weapons proliferation potential. This would help Iran fulfill its desire for an entire nuclear fuel cycle. This is a right to which Iran is entitled under the terms of the NPT, but it involves acquiring heavy-water nuclear reactors, reprocessing facilities, uranium enrichment facilities, and an independent fuel fabrication capability – in other words, the four troublesome capabilities described above. Russia is believed to be predisposed toward providing some of these capabilities, and private discussions between Russia and Iran are thought to be already underway.

A New Approach. Assuming progress in bilateral relations, other initiatives could be pursued in phase five. U.S. weapons proliferation concerns would be eased if Iran were able to buy light-water nuclear reactors from French, German, and U.S. firms instead of from the Russians. It would dilute Iran's strategic dependence on Russia from which Iran also receives most of its conventional weaponry. Most important, if Iran were to interact with U.S., French, and German companies capable of selling light-water reactors, it would not be in contact with nuclear scientists who could be tempted into assisting a clandestine nuclear weapons program.

¹⁸ The German company Siemens had been in the process of constructing the Bushehr reactor but ceased work during the Iran-Iraq War. When approached by Iran to complete the project, it refused to do so because the United States had already made its policy of denial clear to the German government. Consequently, Iran turned to Russia instead.

If it is decided to change current policy, the first order of business would be for the United States to make clear that it will no longer oppose the sale of civilian nuclear power reactors to Iran if – and only if – the sales take place under the terms of an IAEA-monitored agreement whereby Iran:

- signs and ratifies the Model Safeguards Protocol of the IAEA; and
- agrees to forgo independent uranium enrichment, reprocessing, heavy-water nuclear reactors, and independent fuel fabrication capabilities.

The United States already has a legislatively mandated vehicle for negotiating such an agreement and it can invite other countries to do the same.¹⁹

If the United States decides to revise its policy to include the sale of U.S. made nuclear power reactors to Iran under an expanded safeguards regime, congressional approval will be required. The government-to-government agreements²⁰ that must be negotiated prior to the sale of U.S. nuclear technology to foreign countries come into effect only if Congress has not registered its disapproval in a joint resolution, which must take place within 90 days of the date of submission. These Agreements for Nuclear Cooperation are sent to Congress along with a Nuclear Nonproliferation Assessment pertaining to the recipient country. The assessment is prepared by the Department of State in conjunction with the Central Intelligence Agency and contains a classified annex.

Presumably, any Nuclear Nonproliferation Assessment concerning Iran would include information on its clandestine procurement attempts. Congress would then have to weigh the non-proliferation progress represented by Iran's monitorable adherence to the proscriptions contained in the Agreement for Nuclear Cooperation and the seriousness of its clandestine procurement practices. A substantive case could be made that the former outweighs the latter, particularly because any procurements converted into a weapons-related form would presumably be discovered by the joint IAEA-United States inspection and monitoring process.

Addressing Iran's National Security Concerns

The ability of the United States to influence another country's national security decisions such as whether to pursue a nuclear weapons or general WMD capability, is limited, at best (although it did have some influence with Japan, South Korea, and Taiwan). It may well be

¹⁹ The U.S. Nuclear Regulatory Commission (NRC) regulates the export of parts, fuel, and major components of nuclear power reactors. If U.S. firms want to export civilian nuclear power plants to Iran, they would first have to receive NRC approval. The export of U.S. civilian nuclear power reactors is approved only if Section 123 of the U.S. Atomic Energy Act of 1954 is fulfilled. This section of the Act stipulates that parts, fuel, and major components of nuclear power reactors can be directly exported from the United States only if an Agreement for Nuclear Cooperation is already in force between the United States and the recipient country. Agreements for Nuclear Cooperation have had provisions that enable the United States and the IAEA to inspect the recipient country to see whether stipulations made in the agreement are being carried out.

²⁰ Such an agreement can be negotiated in the absence of diplomatic relations, although this is clearly not the preferable situation.

that Iran will not back away from pursuing a nuclear weapons capability or positioning itself to move quickly toward such a capability in the face a severe international threat. If this is the case, U.S. sanctions or other measures are unlikely to persuade Iran to change course, and the United States will have to continue to try to manage the issue through efforts to deny access and, ultimately, through efforts to address Iran's legitimate national security concerns.

There may be important differences among Iranian leaders on the issue of nuclear weapons. Ayatollah Khomeini ruled out the option of pursuing them, even while Iran was keenly aware of its vulnerability to conventional missile and chemical weapons attacks during the Iran-Iraq War. Ayatollah Khomeini argued that because nuclear weapons are by their very nature indiscriminate in the casualties they inflict, killing civilians and combatants alike, their use is counter to the teachings of Islam. This argument still has power. In addition, many Iranian decision makers want very much to retain Iran's international respectability. This is, in part, Iran's rationale for signing major arms control treaties and for cooperating fully with the IAEA inspection regime. These factors have to be weighed against the national security argument that Iran needs to have nuclear weapons in order to deter the use of such weapons against Iran by other nuclear states in the region.

Iran's nuclear weapons program is probably in an early stage, so there is likely still time for Iran to quietly and deliberately consider the costs, risks, and benefits of pursuing a nuclear weapons capability. Similarly, there is also time for the United States and the international community to consult with Iran about its national security concerns and to address as many of these as possible with conventional defense alternatives. Iran's primary security concerns will be driven by Iraq for the foreseeable future, and there are some things that the United States can do to assuage them.

First, the United States should continue to closely monitor Iraq's military developments. These efforts will probably be intensified if and when the UN sanctions against Iraq are lifted. Significant Iraqi movement toward an operational nuclear weapons capability will be impossible to hide from view. Just as the United States proved itself willing to share sensitive intelligence data with Iraq during the Iran-Iraq War, the United States could share intelligence data about Iraq with Iran.

The United States could also assure Iran that a nuclear weapons capability under the control of Saddam Hussein will not be tolerated. There has not as yet been an official U.S. policy statement on this subject. During the 2000 presidential campaign, however, future vice president Dick Cheney stated:

[I]f, in fact, Saddam Hussein were taking steps to try to rebuild nuclear capability or weapons of mass destruction, we'd have to give very serious consideration to military action to stop that activity. I don't think you can afford to have a man like Saddam Hussein with nuclear weapons, say, in the Middle East.²¹

²¹ Transcript of the vice presidential debate between Cheney and Senator Joseph Lieberman (D-CT), CNN, October 5, 2000.

IV. Expectations of Iranian Responses

How far and how fast the United States moves should depend on responses from Iran. While U.S. efforts should not be inflexibly tied to a specific *quid pro quo*, the United States ultimately must realize clear benefits from engagement in the short and longer term. The United States also should anticipate hostile responses by some Iranians opposed to improved relations. These will be mainly directed at the proponents of closer ties, but also may be launched against U.S. businesses and other interests.

The Department of State should initiate a review of U.S.-Iranian relations. It should prepare a balanced report, with contributions, as appropriate, from other government agencies. The report should address the full scope of U.S. interests, highlight progress as well as problem areas, and recommend additional actions needed to maximize U.S. interests. A report like this should then be issued on an annual basis as long as necessary.

ANNEX

Comments by Working Group Members

Hooshang Amirahmadi

While the report is reasonably balanced, Iran should be given more credit for a few of its rather significant initiatives. The report either silently dismisses many of these actions or portrays them as responses to gestures made by the United States. It is important that the United States acknowledge initiatives, such as those listed below, to encourage and embolden Iranian efforts to reconcile differences with the United States.

- President Khatami's interview with CNN (certainly not a reaction to any U.S. move);
- Iran's assistance in securing the release of western hostages held in Lebanon;
- Iran's neutrality during the U.S.-led war against Iraq (this must be seen as a pro-U.S. stand);
- Iran's offer of a \$1 million contract to Conoco, Inc;
- Iran's people-to-people exchange initiative introduced in President Khatami's CNN interview;
- Iran's "dialogue among civilizations" initiative, a step which has contributed, albeit slightly, to a lessening of tensions; and
- Speaker Karrubi's meeting with several members of Congress and major Jewish leaders in New York City in summer of 2000.

Jahangir Amuzegar

The report's main premises are basically sound, and its principal recommendations seem defensible. Yet, an effective application of these recommendations requires due attention be paid to several specific points:

- While U.S. unilateral sanctions might have had no "discernable" effect on the Islamic regime's overall behavior, or its attitude toward the United States, they have undeniably hurt the Iranian economy – as frequently admitted by Iranian officials.
- While Iran has found access to "alternative investments and supplies," the latter have been acquired at higher costs, or in inferior quality – as evidence by Tehran's repeated requests for their removal.

- U.S. approaches in the past to “engage” Iran have not only failed to produce concrete results, but instead emboldened the clerical regime to raise the ante. Each concession by Washington has spawned a new demand from Tehran. There is no reason to believe that this successful policy ploy will be abandoned by the ruling clergy.
- For these reasons, even if the right policy of *reciprocal response* were judged too restrictive or inadvisable at this time, any new unilateral relaxation of sanctions should at least be limited to some narrow and well-defined areas where (a) U.S. national, geopolitical or economic interests are clearly involved; and (b) there are distinct benefits to the *people*, as distinct from the *government*, of Iran.

Robert Copaken

Although I concur with the report overall, there is an omission in the report that I find regrettable. Although I understand that when the issues to be addressed by the working group were originally formulated back in 1998, the issue of our national interest in the protection of the human rights of religious minorities in Iran had much less prominence than it has assumed more recently, I am nevertheless troubled by the complete omission of this issue from the body of the report. The poor treatment of Bahai, Jews and women in Iran is deplorable and merits a mention, especially in light of the recent State Department report on religious persecution of these minorities in Iran and elsewhere. The espionage show trial and conviction of the Jews in Iran, despite urgent appeals by both Russia and the United States, ought to have made this issue at least as important in our list of priority interests as our commercial engagement with Iran.

Kenneth Katzman

I sign on to the general themes of the paper in favor of greater engagement with Iran and the need for eventual normalization of relations, while taking note that the report mentions continuing U.S. concerns about Iran’s strategic weapons programs and support for certain Middle Eastern groups that employ violence. However, as an analyst of the Congressional Research Service, the non-partisan analytic arm of the U.S. Congress, I take no position on whether or not the Administration and the U.S. Congress should, at this time, terminate specific U.S. economic sanctions currently in place for Iran, or undertake, renew, amend, or rescind any other specific Executive measures or legislation relating to Iran.

Geoffrey Kemp

The report is well argued, well researched, and well written. It contributes significantly to a better understanding of the complexities of U.S.-Iran relations. Many of the recommendations are timely and sensible and deserve support. My concern is that the report fails to fully address the most immediate political issues that bedevil the relationship.

First, the relationship has seriously deteriorated over the past six months due primarily to Iran’s increased and public support for terrorism against Israel. This has included hosting a

conference in Tehran in April 2001 on the Intifada that was accompanied by inflammatory speeches against Israel and the U.S. by the Supreme Leader and the President. As a result of this development there has been a distinct hardening of opinion concerning Iran in the new administration and U.S. Congress. This has resulted in proposals to continue, in some form or another, ILSA-type legislation. If it is determined that Iran is directly supporting an escalation of violence against Israel, including confrontation along the Lebanese border, the situation could get much worse. In addition, continued Russian support for Iran's missile program remains a prime item on the U.S. agenda and is not addressed in the summary or part one of the report.

The report does not say how it would advise the Bush administration to manage these stumbling blocks. These questions should be addressed by the co-chairmen when the report is made public.

Habib Ladjevardi

I joined the working group on U.S.-Iranian relations because, as someone born in Iran and raised in the United States, I have a deep affection for both countries. Above all, my objective in the group discussions has been to help the architects of the proposals foresee the impact of their recommendations on the lives and views of ordinary Iranians. With this in mind, I find the proposal to remove economic sanctions against Iran to be misadvised because its timing coincides with the most virulent attacks of recent years by the conservative forces against the reform movement in Iran. The past year in particular has witnessed the imprisonment of many of the reform leaders, the closing of all independent newspapers, and further curtailment of the role of the legislature. Lifting the embargo at such a time will not only embolden the anti-reform forces, it will send the Iranian people a message that the United States is indifferent to their struggle for the establishment of a representative government and that its only interest is the pursuit of commercial interests.

On the other hand, I fully support the proposal to rescind the requirement to fingerprint and photograph all Iranian visitors to the United States. Most of these visitors are relatives or friends of U.S. residents or citizens; many are prominent scientists, scholars, athletes or creative artists. By putting them through such indignities, the program turns friends of the United States into detractors. Moreover, these visitors, who have already suffered in their country, are abused again by representatives of a people they have considered to be their friends.

Bruce Laingen

I agree with this paper and the thrust of the recommendations. However, I record my regret that the very first line of the paper's "Key Judgments" reads "The current stalemate, *while emotionally satisfying to many Americans*, does not serve overall U.S. interests well." It does not. But this is not the place for a qualifier of the kind stated. If that kind of qualifier is to be included, it should be elsewhere in the paper, including some analysis of how this judgment was reached. That analysis is not now evident in the paper.

Presumably the reference is to instances of Iranian terrorism, including the hostage crisis. But who are the “many Americans”? What is their number today, and their influence, twenty years since the hostage crisis ended? On what basis can the paper make the assertion that the feeling is so consequential today?

I believe it cannot. Indeed I believe that the vast bulk of the American people have put the hostage crisis behind them, no longer give any serious thought to it, and are ready to get on with a more normal relationship. I assume that the reference to these “many Americans” has to do with some in the media, the few members of Congress who give much thought to Iran, and a small, if influential, number of Hill lobbyists. But the paper should not leave the reader to conclude, which I think it does with the forecited clause, that a large number of Americans want to see the stalemate continue.

Suzanne Maloney

I concur with the underlying principles of the Atlantic Council report: that the United States should ground Iran policy on a comprehensive assessment of our national interests; and that despite Iran’s domestic power struggle, these interests justify limited U.S. initiatives to engage with Tehran.

However, I differ in two areas. First, the analysis perpetuates a long-standing misjudgment about the relevance of Iran’s domestic political cleavages for U.S. policy. The convenient dichotomy between ‘good’ reformers and ‘bad’ conservatives is misleading; both camps contain pragmatists and radicals on international issues. Moreover, these assumptions would continue to anchor U.S. policy in the murky waters of Iran’s internal affairs. We should simply accept that for now, despite its contradictions and contestations, the Islamic Republic is here to stay, and we must deal with the regime as broadly construed.

Secondly, the recommendations adopt a precariously sanguine approach on two primary U.S. concerns: terrorism and WMD. On the former, political constraints and international norms suggest that commercial engagement should be pursued through limited mechanisms that condition increasing U.S. trade and investment on Tehran’s disengagement from violent opposition to the peace process. And with regard to Iran’s emerging nuclear capability, this issues is too urgent – for both parties – to defer until some hypothetical ‘Phase Five.’ The depth of our differences and the dilemmas of our history imply that the United States and Iran must tackle the tough issues early on, and mere diplomatic engagement in these areas may be the most ambitious objective for the near term.

George Perkovich

Iran’s effort to develop a suite of ballistic missiles constitutes a proliferation threat that must be addressed in addition to the problem of nuclear weapon acquisition discussed in this report. Iran’s legitimate security interests in deterring and counteracting Iraq’s current and potential missile capabilities should be recognized. However, the range of ballistic missiles required to address Iran’s legitimate regional defense requirements should be delimited.

Efforts should concentrate on stopping the acquisition and/or deployment of longer-range missiles that could threaten Israel and, eventually the U.S. homeland. Distinctions should be made between systems arguably necessary to deal with security concerns emanating from Iraq and those that would threaten more distant states. The phased diplomatic engagement of Iran recommended in this report should include dialogue that seeks limitations on Iran's ballistic missile acquisition program. Such limitations – with provision for monitoring and verification – should be sought in conjunction with the recommended negotiations to allow international cooperation in Iran's energy sector, including nuclear power reactors. The goal should be to proscribe Iranian acquisition of weapon-sensitive nuclear technologies – e.g., capabilities for uranium enrichment, spent fuel reprocessing, heavy-water production, and fuel fabrication – and longer-range ballistic missiles.

Brent Scowcroft

Regarding the sections of the paper that deal with the energy interests of the United States and the Caspian region, I believe that the Baku-Ceyhan oil pipeline should be a top priority for the United States. Turkey is a key ally of the United States, one who suffers substantial economic losses as a result of the sanctions against Iraq. The benefits to Turkey – and to diversification of oil sources and routes – are a principal goal for oil delivery from the Caspian basin.

Paul Sullivan

Given the fluid nature of Iranian politics at this time, and its expected fluidity in the near to medium term, it is probably best to take a stance of cautious optimism. Any moves toward rapprochement should be carefully weighed. Even within these caveats, it could be to the benefit of both countries to become more engaged in discussion, trade, cultural dialogue and some diplomatic exchanges. It is often the case that misunderstandings through a lack of communication lead countries down the wrong paths in their quests for national security and prosperity. Iran is a pivotal country in the region. It could be unwise, and could be to our long-term detriment, to shun the country, and to keep alternative voices from Iran unheard for much longer. Communication with Iran is also all the more important as most of the rest of the world has already opened their doors to Iran. Unilateral sanctions and unilateral cold diplomacy do not work, and, likely, will not work.

It will likely be in the national and economic security interests of the United States to begin a cautious opening of its doors. If, however, the politics of Iran turn against our interests in a significant and threatening manner, then the doors should be closed until another day.

Amin Tarzi

While agreeing with the basic premise of the working group findings – that the current stalemate between the United States and Iran is not beneficial to either country or for regional security and global energy politics, and that a change in the behavior of both countries is necessary – I do not believe that the current state of affairs between Washington

and Tehran is “emotionally satisfying to many Americans,” as the report states. The problem, as I see it, is that most people are not fully aware of the complexities of the situation and tend to look at the U.S.-Iranian relationship from a specific perspective. This stated, I wish to add my name to the list of Working Group members, noting the following points.

The policy paper views overall U.S.-Iranian relations from the U.S. energy sector’s perspective, discounting or overlooking important security issues, such as Iran’s pursuit to acquire WMD and long-range ballistic missiles, which requires attention and inclusion in any official dialogue between the two countries. As such, Iran’s legitimate defense requirements should be discussed with Washington directly. Moreover, to say that Iran’s desire to acquire WMD and missiles is a product of a specific organization, such as the IRGC, and not the government at large, does not solve the issue.

Finally, I do not agree that the “core security issue” dividing the United States and Iran is the Israeli-Palestinian conflict. Rather, Iran’s belligerent statements against the United States – such as messages carried on its missiles that call for trampling the United States – as well as Iran’s refusal to hold government-to-government dialogue with the United States and repeated calls for the destruction of Israel, are core security issues.