

Iran: Deal Done?

Robert Einhorn

Senior Fellow, Foreign Policy, Center for 21st Century Security and Intelligence, Arms Control and Non-Proliferation Initiative, Brookings Institution; Special Advisor for Nonproliferation and Arms Control, US Department of State (2009-13)

Ali Vaez

Senior Analyst, Iran, International Crisis Group

Chair: Dina Esfandiary

Research Associate, Non-Proliferation and Disarmament Programme, IISS

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10 St James's Square, London SW1Y 4LE T +44 (0)20 7957 5700 F +44 (0)20 7957 5710
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Dina Esfandiary

Welcome, everybody. Thank you for joining us today. My name is Dina Esfandiary. I'm a research associate at the International Institute for Strategic Studies, down the road. I'm joined here today by two very well-known experts on the Iran nuclear issue. Just before I get to introducing them, I'll just let you know that the event is being held on the record. You are welcome to retweet it. You are asked to use the hashtag #CHEvents and please can I request that you put all your phones on silent. There's nothing worse than being interrupted by that.

We will begin, will you start, Ali? Or Bob? You'll be starting. Okay, we'll start with Bob today. He is a senior fellow with the Arms Control and Non-Proliferation Initiative, and the Center for 21st Century Security and Intelligence at Brookings. He has had a long and well-known career in the State Department and we look forward to hearing his views on the day after the deadline for the deal.

Robert Einhorn

Dina, thank you very much. Chatham House, thank you very much for inviting me. I've heard the term Chatham House Rules so many times. I was looking forward to utilising Chatham House Rules, but we're not doing that today, apparently. So I'll wait to the next time.

Anyway, as Dina mentioned, we just passed the six month deadline for the interim deal, the joint plan of action concluded in Geneva last November and just before the deadline agreement was reached, on a four month extension. So I want to speak a little bit about the extension and about prospects for a comprehensive deal.

I was involved in these negotiations from 2009 to 2013. It was a very sterile period of negotiations. Not much was accomplished. I had the clear impression at the time that the Iranian delegation wasn't terribly committed to reaching a negotiated conclusion. I think after the election of Hassan Rouhani in June of 2013, that has changed. My sense is now, and I hear this from my former American colleagues in the negotiations, that both sides – and when I talk about both sides, I'm talking about the so-called E3+3 and Iran on opposite sides – both sides are genuinely committed to trying to achieve a solution.

I believe both sides attempted very, very hard to achieve a comprehensive solution by the end of this six month period, which was 20 July. The P5+1 wanted to finish by 20 July, because they were eager to turn the six month freeze on Iran's nuclear programme into a significant reduction. From the US side, the US knew that Congress would be breathing down the neck of the US administration and if there was no deal by 20 July, would be pressing for draconian additional economic sanctions which would have a disruptive effect on further negotiations. So they were incentivized to finish by 20 July.

Also, the Americans are conscious of our electoral calendar. We have midterm elections in November, and if you could finish the negotiations by 20 July, you could get this out of the way and not make it an issue in our election. So plenty of incentives on the American side.

For Iran, there were incentives also to finish by 20 July. The Iranians were very disappointed by the sanctions relief they gained during the six month deal. Critics of the interim deal, especially the Israelis, predicted that in this period, the sanctions regime would simply unravel. That didn't happen. It didn't materialize. Governments and companies all over the world were very cautious about dealing with Iran during this interim period. They wanted to wait until there was a comprehensive agreement and sanctions were actually lifted before cutting new deals with Iran.

The Iranians recognize this. The Iranian public recognize this, and they felt the only way they're going to get sanctions really lifted was to strike a comprehensive deal, so they were incentivized to do this by 20 July.

So both sides worked very hard, especially in this most recent round between 2 July and 20 July to finalize a comprehensive deal. They made some significant progress. The difficult issue of a heavy water reactor at a place called Arak. They made some progress. This was a reactor that I believe the Iranians built in order to produce plutonium for nuclear weapons. A critical objective of the E3+3 was to shut it down or modify it in a way as to reduce its potential production of plutonium. They seemed to be on the way to a compromise on that issue.

Similarly, the Fordow enrichment plant, this was a covert enrichment facility buried deep underground, less vulnerable to military attack than the other big enrichment facility. The E3+3 want it to be closed down. Iran wanted to continue operating it. They seemed to be working out some kind of a compromise that would involve altering the purpose from a significant scale enrichment facility to something else, perhaps a facility for research and development.

But despite genuine efforts to break through and despite this evidence of progress, they weren't able to break through on the most critical issue of the negotiation, and that's the uranium enrichment capacity that Iran would be allowed to possess under an agreement.

Iran was insisting on having sufficient enrichment capacity to provide enriched fuel for the Russian supplied nuclear power reactor at a place called Bushehr. It wanted to have that enrichment capacity by the year 2021. There was a Russian-Iran agreement that Russia would supply fuel for that power reactor for about 10 years, but this fuel supply contract would run out in 2021, and the Iranians were saying, 'We have to have the capability to do it ourselves when this contract ran out.'

7 July, the Supreme Leader of Iran, Khamenei, said in a speech that Iran had to have very large enrichment capacity. He said 190,000 Separative Work Units, which is a technical term describing enrichment capacity. But what this means, it would be a huge expansion of Iran's current enrichment capability. 190,000 Separative Work Units is equivalent to well over 100,000 centrifuges. Now, Iran has about 19,000 installed centrifuges, only 10,000 of which are actually operating. So what the Supreme Leader was talking about was over a tenfold expansion in existing operating capability.

Then the head of the Atomic Energy Organization of Iran said the following day, actually 8 July that they would need to have this capability in place within eight years and during this eight years, they'd have to do research and development on very advanced

centrifuges. They have to test these out. They'd have to mass produce them so that after eight years, they would have in place the capability to provide fuel for this nuclear power reactor.

Now the big problem with having such a large enrichment capacity is that it would give Iran the option, if it so decided, suddenly to break out of an agreement and to produce enough fuel, enough weapons grade fuel for a single nuclear bomb in a matter of weeks. So this was clearly unacceptable to the E3+3 governments. At the same time, the Iranians were saying, and Foreign Minister Javad Zarif said publicly that during this agreement, Iran would not agree to reduce its current uranium enrichment capacity.

The E3+3, the P5+1, they're interchangeable terms, had a very different view of this critical issue of enrichment capacity. For the E3+3, the key goal on this issue was to lengthen the period of time that it would take Iran to produce enough weapons grade uranium for a single bomb. Now it's about two to three months. With the capacity the Supreme Leader talked about, it could be a couple of weeks. But the E3+3 wanted to lengthen this capacity to six months, 12 months or even more to give the international community plenty of time to react in case they saw Iran breaking out of its constraints.

To lengthen this breakout timeline, they needed to reduce very significantly the enrichment capacity of Iran, from current levels. They were talking about at most an enrichment capacity limited to a couple of thousand centrifuges of the current first generation.

But they thought that this should be acceptable to the Iranians, because when you look at Iran's near term needs for enriched uranium, they see that the only near term needs are to provide fuel for a couple of small research reactors, reactors that can produce medical isotopes for the diagnosis and treatment of cancer. The Iranians have a research reactor actually provided by the United States, many, many years ago.

This Iraq reactor I talked about will probably be converted to use enriched uranium so it has a need to have enriched uranium for that. It also wants to build a small, second research reactor as well. But all of these needs could be met at very low levels of centrifuges and the US and its partners were saying this should be enough. You should be able to meet your near term needs with this limited capacity.

As far as your need to fuel this power reactor, power reactors take, you know, about 100 times more enriched uranium than research reactors, but to meet your need to fuel this Russian supplied reactor at Bushehr, the Russians are happy to extend its 10 year fuel supply contract for the life of the reactor.

That's the sensible thing for you to do, it's cheaper, the Russians know how to design fuel for the reactor they built, the Iranians don't have the intellectual property rights to produce their own fuel and so it makes all the sense in the world to produce fuel for these small research reactors who rely on the Russians and the international market to provide fuel for power reactors.

The E3+3 countries said... The Iranians said, 'No, we can't do that. We can't rely on the international market. We can't even rely on the Russians, because we were burned in the

past.' In the '70s there was a European enriched uranium consortium, EURODIF. The Iranians got burned. The EURODIF consortium didn't meet their obligations to Iran. Iran says, 'We can't afford to do this again. We can't even rely on the Russians, who have been pretty good partners on the Bushehr project. We need to have our own fuel independently, so we can't be subject to a supply cut-off.'

Well, the E3+3 said, 'Well, if you're concerned about a supply disruption, then you should buy from the Russians a five year supply of reactor fuel, store it on Iranian territory. You don't have to be worried about a supply disruption.' But that wasn't good enough.

Anyway, the E3+3 countries are concerned. Why is it that Iran is insisting on an enrichment capacity that would be difficult technically for them to produce, of questionable legality because of the intellectual property right issues, not economical at all – the Russians could do this much more cheaply. Why are they going to all this expense and effort and so forth to do this on their own? That raises questions about Iran's ultimate intentions.

Why did they need this excess capacity? Is it so that they could have a very short breakout time? Anyway, that's the kind of conclusion that many in the international community will draw about Iran's desire for this very large enrichment capacity.

Anyway, this is the... I haven't gone through all of the issues in the negotiations, but this is the hard issue. This is the pacing issue, I think, in whether there's going to be an agreement. They couldn't break through in time for 20 July. They agreed to this four month extension to 24 November. That's the one year anniversary of the conclusion of the interim deal. During the four month period, the E3+3 agreed to release 2.8 billion dollars worth of Iran's oil revenues that had been held up in restricted overseas banking accounts.

The Iranians agreed that in exchange for that 2.8 billion, they were going to make certain concessions, the most significant of which was to take some of the near 20 per cent enriched fuel that's already been turned into powdered form, but they would turn it into metallic fuel plates. Once it's in fuel plates for reactors, it's very difficult and time consuming to turn it back into the gaseous form that could be used to enrich to weapons levels.

That's where are. Four months now to try to reach this deal, but even with the four additional months of extra time, it's going to be a huge challenge. One reason it's going to be a huge challenge is that on both sides, there are very strong domestic critics. The US Congress, there are many members of the US Congress who are opposed to any deal, and want the US administration to drive a very hard bargain.

In coming weeks, I'm sure the administration will have to fight off efforts by US Congress to pass new sanctions legislation that would impose additional draconian sanctions on Iran. Members of Congress say this is necessary to give the Iranians incentive to negotiate seriously. The administration believes this would have a disruptive effect on the talks.

But President Rouhani also faces strong domestic opposition. This is something Dina and Ali understand better than I do and they undoubtedly will speak to it. But there are

Iranian hardliners who oppose any engagement with the West, with the great Satan. They oppose a deal. Their concern is that if Rouhani's administration strikes a deal, and it results in the lifting of sanctions and the improvement of the Iranian economy, that this will give a great boost in Iran to reform and moderate forces in Iran. So from an Iranian perspective, this is really about the future of Iran and governance in Iran.

One factor that could provide additional incentive to conclude a deal is the belief that a nuclear deal could facilitate US or Western/ Iranian co-operation on regional security issues – on Syria, on Iraq, on Afghanistan. There are many who believe, including me, that Iran and the US do have common interests in these areas, a convergence of interests and that working together could help solve these problems.

But at the same time, there are strong opponents, both in the US and in Iran, are working together on regional issues. This very strong opposition I think has led to caution on the part of both Washington and Tehran in trying to work together on these regional issues. Both Washington and Tehran, both the US and Iranian delegations take the view we have to conclude the nuclear deal on its merits. Neither side is prepared to make concessions on nuclear issues in order to get greater cooperation on the regional issues.

So President Obama said several months ago that he thought the chances of an agreement are about 50/50. I'd say that's about right. I'd maybe place it a little higher than that, but I think it's a very iffy proposition. There are strong forces at work in both countries that are going to oppose a deal and make it very difficult to give the negotiators the room for manoeuvre that they need to finalize a deal. I'll leave it at that. We can open it up in Q&A.

Dina Esfandiary

Thank you very much. We'll now move onto Ali. I think you have a presentation, so I'll get out of the way. Ali is the International Crisis Group's Iran analyst. He's been working on these issues also for many years. I believe he's just come back from a couple days in Vienna, so it will be interesting to see his take on it.

Ali Vaez

Thank you very much, Dina, for that introduction. It's a great pleasure to be here at Chatham House and to be once again on a panel with Bob. As he pointed out, and as you can see here, a vast divide remains between Iran and the E3+3, despite some tangible progress on some issues. I'm not going to pretend that I can bridge this gap for you in my allocated 10 minutes, but what I would like to do is to first talk about why I think extension was actually a good idea. Some people might be disappointed by the fact that there wasn't a deal by 20 July, but I think it actually works better this way.

Second, I will talk about the most important stumbling block in the negotiations, that Bob also mentioned, the issue of enrichment. I'll end with outlining a few options, very broadly, of how we can go around this major obstacle.

To start, let's talk about five reasons that over time are better than game over. Number 1, just watching this process close up, I had really the impression that the talks were stalemated, partly as a result of the looming deadline. This might sound counterintuitive,

but the reality is, the way that the parties tackled this process was that they started with putting maximalist opening gambits on the table. Then they dug their heels in, and hoped that the other side would budge at the 11th hour, because the other side is desperate for a deal.

Well guess what? That didn't happen. No one blinked at the last minute and I think this was a good exercise, because now they know that they can't wait until 24 November before they come up with some more innovative ideas for resolving this problem. So a realistic, more clear-eyed approach I think overall is better.

Second reason I think it was good to go into overtime is that the negotiators were smart not to accept, not to be pushed into accepting a deal because at the end of the day, only a good deal is sustainable over the long run. Remember, we're talking about a deal that is very complicated, it's highly technical, and you don't want to reach a deal only to see it collapse in a few years or a few months down the road because the negotiators were rushed by an arbitrary deadline and overlooked a crucial technical detail for implementation of the deal.

Third issue, and this particularly applies to Iran and the United States, is that more time was needed to condition public opinion for a compromise in the real sense of the word. In the past few weeks, both sides had done a lot of public posturing. The goal of that was to strengthen their hand at the negotiating table. I don't think that actually brought them any closer to their objective. To the contrary, it actually diminished their room for manoeuvring.

But now they have time and they have to use this time to walk back from those less realistic positions.

Fourth reason I would say is that it became clear during this process that narrowing the gap was simply not possible. I mean, the parties are tackling these issues from a completely different starting point with a different mindset. So what they need instead is to broaden the options. Broadening the options, again, requires time because they need to come up with new solutions.

Finally, as a Persian proverb has it, 'Old age appears intolerable until one considers the alternative.' In this case, too, I think the alternatives to extension weren't really appealing for either parties. At best, it would have been a return to status quo ante, which wasn't very attractive.

Now the question is, can in this overtime the parties find a solution to resolve the most important difficulty, which is the issue of enrichment? To answer this question, I need to first of all explain in simple terms what are the starting positions of the parties. But I really believe that if this critical issue of enrichment is solved, all the other pieces of puzzle will fall into place. So this is very important.

Now Bob very eloquently explicated the E3+3 position, which I think boils down to this one sentence. Because they don't trust Iran's intentions, they need to constrain its capabilities. So this graph shows more or less an ideal scenario for the six power, which is a very low threshold, as Bob mentioned, something in the lower thousands of SWU,

4,000 maximum. This is a threshold that remains static for a very long period of time, and at the end of this period when we get to the sunset point, Iran will be treated like any other NPT member-state and it can enrich to its heart's desire.

In mirror image, the Iranian position is that because we don't trust the international fuel market, we need to have our own capabilities. Their position is based on what Foreign Minister Zarif suggested in Vienna last week, is to maintain their current level of operating centrifuges, which amounts to around 9,400 SWU, until 2021, seven years, when the Russian contract for supplying the Bushehr reactor, Iran's sole power plant, expires. At that point, the Iranians want to drastically increase their enrichment capacity and reach 190,000 SWU that they contend is necessary for fuelling the reactor.

Here I have to disagree with an article that Bob recently wrote. I was hoping that he would mention it, but he didn't. But he talks in the article about a rights creep. This is a real concern in the P5+1, that they're afraid, and the implicit recognition of Iran's right to enrichment that happened in the Geneva agreement, has now created a sense in the Iranians that they can get much more. That's why they're putting out numbers such 190,000 SWU.

But in fact, if you look at the proposal that Foreign Minister Zarif put on the table and he was negotiating in 2005, and I know people are in the room who remember that very vividly. This is basically the same approach, what he's suggesting now. It's completely consistent. He suggested in 2005 starting with a threshold of a few thousand centrifuges, and then after a period of confidence building, moving to industrial scale enrichment. I don't think the implicit recognition of rights in the Geneva agreement was counterproductive in any way.

Having said this and with all due respect to some of the negotiators who are in the room, I think there are logical problems with the positions of both sides. Let's start with the Iranian position. They're saying that we want to fuel the Bushehr reactor in 2021. But why do they need their current 9,400 SWUs? There's absolutely no need for it. What are they going to do with the output?

Actually, Foreign Minister Zarif, in his recent *New York Times* interview, even admitted to this fact, that at the moment, they don't need enrichment. So why not accepting to go below 9,400?

By the same token, if you take the P5+1's position, they reject out of hand any kind of evolution, quantitatively or qualitatively, in the enrichment programme. It really doesn't hold water. Why? Because imagine that we have a 20 year deal with Iran. In year 19, we're telling the Iranians, 'No, no, no, we can't tolerate more than 4,000 centrifuges.' But then one year after that, when they get the 'get out of jail free' card, they can have one million centrifuges. What happens in terms of confidence-building in a matter of years? If you compare year 19 to year 20.

I think it really doesn't make any sense not to tolerate some kind of controlled evolution in Iran's enrichment programme based on Iran fulfilling its commitments under any deal. The real reason that these positions are illogical, I think, is because this is not about

physics. This is about politics. The optics of it simply don't look good if you give Iran additional sanctions relief without Iran further rolling back its enrichment programme.

If you turn the table, from the Iranian perspective, it's really a hard sell to go back home and declare victory if they can't even retain the current number of operating centrifuges. We can talk about these issues in technical terms, but at the end of the day, it is a political issue and as long as we don't talk about it in those terms, even in the negotiating room, I don't think there's a way out.

Now, I don't want to sound too pessimistic, and I think there are options for squaring this circle. The reality is, if you look at the approach that both sides have adapted, they're actually not that different. They both agree that there needs to be an initial cap on the number of centrifuges and that cap at some point will come off. The question is, where do you draw the initial line? And then how do you draw out the curve from going from point A to point B? That's the real question.

Thinking about the solutions, please remember that this has been likened to a Rubik's Cube. There's a reason for that. The reason is, there are many components to this agreement. This is not a checklist. It's a package. It's a package because it has different elements, and there is a trade-off between those elements.

For example, if we are to convince the Iranians to go below 9,400, you could strike a balance, playing with different elements, such as the level of enrichment, constraints on the level of enrichment, constraints on the size of Iran's stockpile of enriched material, showing more flexibility on research and development, increasing the number of inspections. As Bob noted, maybe providing Iran with backup fuel.

This could result in Iranian flexibility about what happens next, which is if you don't think about the final step as a single phase of sequential steps, but instead as multiple phases of different durations, then you can inject the sense of dynamism in the deal, which otherwise will feel too stifling for the Iranians, because we're telling them 4,000 centrifuges for 20 years. All the billions of dollars that you've spent on this, all the national pride that you've invested in it. It doesn't matter. The protests in Tehran these days by hardliners, their slogan is, 'We don't want a decorative, a symbolic enrichment programme.'

Then when you break up the final phase into shorter steps, and you create some kind of step by step process, you can peg it to either the political calendars – President Obama is in office for another two years. President Rouhani was re-elected, has an office for another seven years. Or you can peg it to objective milestones, like the amount of time that the IAEA needs to resolve the possible military dimension issues of the Iranian nuclear file, or the amount of time that the agency needs to come up with so-called broader conclusions, which basically means the agency's ability to testify that all activities and material in Iran's nuclear programme are geared purely towards a peaceful programme.

So there are ways around this, but it requires a different kind of approach. We suggested, for me to do a little publicity, we suggested some of these ideas in a report that we published back in May. And my bottom line is this. There is a way out. But it requires the

negotiators, beholden as they are to their national narratives and political constraints, to put aside brinkmanship and adopt a different approach, an approach that would require them to sit down and have an honest discussion about what it takes politically for them to sell a deal back home. Thank you.