



# SPECIAL REPORT

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## ABOUT THE REPORT

Iraq's neighbors are playing a major role—both positive and negative—in the stabilization and reconstruction of “the new Iraq.” As part of the Institute’s “Iraq and Its Neighbors” project, a group of leading specialists on the geopolitics of the region and on the domestic politics of the individual countries is assessing the interests and influence of the countries surrounding Iraq. In addition, these specialists are examining how the situation in Iraq is impacting U.S. bilateral relations with these countries. Geoffrey Kemp’s report on Iran is the second in a series of USIP special reports on “Iraq and Its Neighbors” to be published over the next few months. Next in the series will be a study on Saudi Arabia by Joseph McMillan of the National Defense University. The “Iraq and Its Neighbors” project is directed by Scott Lasensky of the Institute’s Research and Studies Program, who is also the author of the project’s forthcoming report on Jordan.

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**The views expressed in this report do not necessarily reflect the views of the United States Institute of Peace, which does not advocate specific policy positions.**

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## I R A Q   A N D   I T S   N E I G H B O R S

*Geoffrey Kemp*

# Iran and Iraq

## The Shia Connection, Soft Power, and the Nuclear Factor



## Summary

- Predominantly Shiite Iran emerges from the aftermath of Saddam Hussein’s fall with considerable power and influence in Iraq as Iraqis themselves struggle to acquire a semblance of unity and forge a new political order acceptable to Iraq’s three key groups: Shia, Kurds, and Sunnis. Iran’s leaders meet with Iraq’s most influential personality, Grand Ayatollah Ali al-Sistani; American diplomats do not meet with Sistani. Iraq’s new elected leaders make visits to Tehran and negotiate on substantive issues, including border security and joint energy projects. Iranian businessmen are investing heavily in Iraq’s overwhelmingly Shiite southern regions, and Iran’s intelligence operatives are deeply embedded throughout Iraq’s nascent security forces and within the Shiite militias that have tremendous street power in the south, especially in the city of Basra.
- Yet Iran faces a number of dilemmas with its Iraq policy that cannot, in the last resort, be decoupled from the broader challenges it faces in the region, especially its relations with the United States. Iran has reason to fear chaos in Iraq. It has reason also to worry about an eventually successful U.S. policy that leads to the establishment of a secular, democratic state. In the short run, its primary concern is that the nuclear standoff with the United States and Europe could lead to further deterioration with the United States that at some point could lead to the use of force.
- Nevertheless, Iran’s leaders appear to have calculated that they can withstand the diplomatic pressure they are facing from the United States, the Europeans, and many members of the International Atomic Energy Agency (IAEA), and that even if sanctions are imposed, Iran has the will and financial resources to ride them out.

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- Despite Iran's undoubted success in embedding itself deeply into Iraqi politics and its continued, almost gleeful defiance of the United States, the European Union, and the IAEA on the nuclear issue, it would be unwise for Iran's leaders to take their current good luck for granted. The Islamic Republic faces significant social and economic challenges that can only be made more difficult by alienating the key Western industrial countries. The embarrassing and objectionable statements by Iran's new president calling for Israel's destruction have harmed Iran's international image and caused great anxiety at home. Regionally, Iran has poor relations with its Arab neighbors, and it cannot be assumed Iraq's Shiite community will remain friendly and grateful indefinitely. Iran's vital national interests could be helped by ending the standoff with the United States. Likewise, the United States has more to gain than lose if it adopts a more coherent and pragmatic policy toward the Islamic Republic.

## Introduction

Iran has emerged as one of the great beneficiaries of the U.S.-led war to overthrow Iraq's Saddam Hussein regime. The irony of this development is clear: Iran was placed on an "Axis of Evil"—along with Iraq and North Korea—by President Bush in January 2002. One justification for the U.S. war against Iraq was the Hussein regime's presumed weapons of mass destruction and its linkages to al Qaeda and the broader threat of radical terrorism. Yet Iraq's new political elite has established close ties with the Iranian regime, which is still regarded by the Bush administration as the world's number-one state sponsor of terrorism and a country determined to pursue weapons of mass destruction. Iran's influence in Iraq is now greater than it has been for decades: Its leaders meet with Iraq's most influential personality, Grand Ayatollah Ali al-Sistani; U.S. diplomats do not meet with Sistani. Iraq's elected leaders make visits to Tehran and negotiate on substantive issues, including border security and joint energy projects. Iranian businessmen are investing heavily in Iraq's southern regions, and Iran's intelligence operatives are deeply embedded throughout Iraq's nascent security forces and within the Shiite militias that have great street power in the south, especially in the city of Basra. Yet Iran's successes in Iraq come at a time when the Bush administration and the European Union face serious challenges with respect to Iran's nuclear program. These challenges have intensified following the election of Mahmoud Ahmadinejad, a hard-liner, as Iran's president in June 2005.

Without satisfactory working relationships among Washington, Tehran, and Baghdad, the future stability of the new Iraqi regime could be in doubt. Iran has immediate influence on Iraqi politics because of history and geography, as well as economic, ethnic, religious, and paramilitary ties. The extent to which Iran uses this influence to negatively affect events in Iraq will be determined in large part by the future relationship between Iran and the United States. Iranian influence in Iraq is widespread, but its impact is ambiguous. Iran provided financial support to Shiite-backed political groups that helped them win a near majority in the Iraqi elections held on January 30, 2005. The success of those elections, with approximately 58 percent of Iraqis participating—despite a violent campaign by insurgents aimed at disrupting the vote—has changed the political calculus in Iraq. The insurgency failed in its aim to seriously disrupt or delegitimize the elections, thus bolstering both the provisional Iraqi government and the position of the United States.

Although alleged Iranian support for some insurgent actions appears to contradict its open stance of supporting legitimate Shiite-backed political groups, such activity highlights broader Iranian intentions of covering all its bases in Iraq in the event of a serious downturn in relations with both the United States and a future Iraqi government. Most of all, Iran does not want to see a new threat from Iraq re-emerge. The threat could be manifested in a number of ways: by a Shiite-Sunni civil war, the establishment of an independent Kurdish state in northern Iraq, the establishment of a rival Shiite clerical

government, or the establishment of a united government that is closely allied with the United States. To ensure that it can influence any potential outcome, Iran has established relationships of varying degrees with almost every faction in Iraq, in effect hedging its bets.<sup>1</sup> Tehran's mullahs have shown anxiety about a strong, pro-Western government in Baghdad that could offer permanent basing rights to U.S. forces and perhaps even have relations with Israel. But the conservative mullahs are also concerned, although more ambivalent, about the emergence of a strong Shiite-dominated clerical government in Baghdad. The complexities of the Shiite religion suggest that there would be rivalry between the clerical establishments, with Iraq's powerful religious centers of Najaf and Karbala eventually providing alternative sources of theological discourses to Qom, the religious center of Iran; yet this could be the case even without a clerical government in Baghdad. What Iran would prefer to see ideally in Iraq is a friendly neighbor that presents no discernable threat to its clerical regime either militarily or politically.

To this extent, the role of the most powerful man in Iraq, Grand Ayatollah Ali al-Sistani, is a critical variable. Sistani, who was born in Iran but has spent most of his life in Iraq, enjoys the support of the Iranian government; yet he believes that while clerics should exert political influence, they should not run the country. This view is also held by the Shiite Dawa party in Iraq, whose leader, Ibrahim al-Jaafari, is the country's interim prime minister. Their views are very different from the prevailing theocracy in Tehran, which supports the rule of the supreme religious leader (*velayat-e faqih*), who has no formal accountability to the people or the parliament. However, to date, Iran has supported the efforts of Sistani, viewing him as an integral part of maintaining stability in Iraq. As time progresses, though, and the potential for Sistani to rival Iran for leadership of the Shiite religious world grows, Iran's stance may shift.

One area where there will most likely be some competition between Iran and a strong Iraq is in the energy sector. Both countries are important energy producers, and while this does make them economically competitive, they have common interests in reaching stability in the region that assures both of them maximum access to world markets for their exports. The greatest threat to regional stability with respect to Iran and Iraq currently revolves around the Iranian nuclear issue, which involves the rights conferred to Iran by the Nuclear Nonproliferation Treaty (NPT). Under Article IV of the NPT, all states that are signatories to the treaty have an "inalienable right . . . to develop research, production, and use of nuclear energy for *peaceful* purposes."<sup>2</sup> According to Iran, this means that it has the right to develop a full nuclear fuel cycle. The United States does not agree, arguing that, given the past history of the Iranian regime, its support for terrorist organizations, and the covert nature of the Iranian nuclear program—whose uranium enrichment facilities were revealed only after a dissident group disclosed their location to the International Atomic Energy Agency (IAEA)—Iran is not developing its fuel cycle for peaceful purposes and thus does not have a right to develop it under the NPT.

Acting on behalf of the European Union (EU), Britain, France, and Germany (the "EU-3") have been negotiating with Iran to resolve the dispute over Iran's right to develop a nuclear fuel cycle. In November 2004, they reached an agreement in Paris for a freeze of Iran's enrichment-related activities as part of an eventual deal with the EU-3 to include economic incentives; however, in the text of the agreement, it is recognized that the freeze is voluntary and not a legal obligation.<sup>3</sup> The three European countries presented Iran with a comprehensive package of incentives in August 2005, which the United States supported. Iran's initial response was to reject the proposal and restart activities on uranium conversion, thereby triggering a diplomatic flurry.

On September 24, 2005, the IAEA's Board of Governors adopted a resolution stating, among other things, that "Iran's many failures and breaches of the obligation to comply with its NPT Safeguards Agreement . . . constitute noncompliance. . . ." The vote on this resolution was 22 to 1, with 12 abstentions, including Russia and China. Only Venezuela voted against the resolution and, to the surprise of Iran's leaders, India voted in favor.<sup>4</sup> The IAEA will continue to examine the matter, but, at this point, no decision on referring the matter to the UN Security Council has been made.

## Iran's Nuclear Program: A Chronology

**1957**

Iran and the United States sign a nuclear cooperation agreement.

**1967**

United States supplies Iran with a five-megawatt (MW) light-water reactor and related laboratories at the Tehran Nuclear Research Center.

**1968**

Iran signs the Nuclear Nonproliferation Treaty (NPT), which it ratifies in 1970.

**1970s**

Shah Mohammad Reza Pahlavi signs a series of deals for nuclear technology with the United States (1974), Germany (1976), and France (1977).

**1974**

Establishment of the Atomic Energy Organization of Iran under Dr. Akbar Etemad, who announces plans to generate 23,000 MW of nuclear energy within twenty years and acquire a full nuclear fuel cycle.

**1976**

Iran signs contracts with the German company Kraftwerk Union AG (KWU) for twin 1,300 MW light-water reactors to be built near the city of Bushehr, and with the French company Framatome for twin 900 MW light-water reactors to be built on the Karun River.

**1979**

Islamic Revolution. Nuclear plans are stalled; Ayatollah Khomeini disavows nuclear weapons for the Islamic Republic. Tehran gets into financial disputes with Germany's KWU, which suspended work on the two Bushehr nuclear reactors; at the time, construction on one reactor was complete and the core nuclear components were ready for shipment.

**1980–88**

Iran-Iraq War slows progress on nuclear program.

**1984**

Iraqi warplanes attack Bushehr nuclear complex; the bombing reportedly did not damage the reactor.

**1991**

China ships just over a ton of natural uranium in various compounds, allowing Iran to carry out undeclared conversion and enrichment experiments throughout the 1990s.

**1995**

Iran signs a deal with Russia to complete the nuclear reactors at Bushehr.

**1995**

President Clinton imposes oil and trade sanctions on Iran for seeking to acquire nuclear arms and for undermining the Middle East peace process.

**Mid-1990s**

Pakistan sells Tehran designs, technical drawings, and components for high-speed gas centrifuges used in uranium enrichment.

**1996**

Congress passes the Iran-Libya Sanctions Act.

(continued next page)

#### February 2002

International Atomic Energy Agency (IAEA) report declares existing and planned nuclear facilities are dedicated to civilian purposes.

#### August 2002

Iranian political exiles claim that Tehran has constructed a uranium enrichment facility at Natanz and a heavy-water plant at Arak, both of which are suspected of contributing to a weapons development program; Tehran again announces plans to develop a nuclear fuel cycle.

#### December 2002

Washington analyzes satellite-reconnaissance photos of Natanz and Arak facilities and declares that they are integral to Iran's "across-the-board pursuit of weapons of mass destruction." Iran accedes to IAEA request to inspect nuclear facilities.

#### February 2003

Iranian president Mohammad Khatami announces that Iran is pursuing nuclear fuel cycle. IAEA director-general Mohammed ElBaradei travels to Tehran to inquire about future nuclear plans.

#### June 2003

ElBaradei reports that Iran fails to meet obligations under Safeguards Agreement by not fully disclosing nuclear activities and imposes October 31 deadline for full disclosure, urges Tehran to agree to more intrusive inspections of the country's nuclear facilities.

#### August 2003

IAEA discovers traces of highly enriched weapons-grade uranium at Natanz facility; Tehran later argues that the traces were residual material from Pakistani-supplied equipment.

#### September 2003

Iran agrees to voluntary NPT Additional Protocol for more intrusive IAEA inspections regime after the agency discovers more traces of enriched uranium at various facilities.

#### October 21, 2003

EU-3 (Britain, France, and Germany) brokers deal with Iran to cease production of enriched uranium and to formally sign Additional Protocol.

#### November 2003

IAEA's ElBaradei claims there is no evidence of Iranian nuclear weapons program; Washington disagrees. Tehran acknowledges producing plutonium, and IAEA invokes censure of the country but makes no sanctions recommendations.

#### December 18, 2003

Iran signs the Additional Protocol at IAEA headquarters in Vienna.

#### February 2004

Iran is reported to have purchased nuclear weapons technology from Abdul Qadeer Khan, the "godfather of Pakistan's nuclear bomb." IAEA report claims that Iran conducted experiments with fissile material that can be used to trigger nuclear bomb chain reaction. Tehran does not respond to charges but says again that it will cease uranium enrichment program; subsequent inspections fail to show that Tehran has halted uranium enrichment.

If the United States is unable to resolve this issue to its satisfaction through the international negotiations of the International Atomic Energy Agency and the European Union, then talk of alternative, pre-emptive unilateral measures may increase. Such an alternative course of action would be strongly resisted by Iranian political leaders, who have the capacity to create significant problems for the United States and Iraqis in Iraq. Thus the future of the Iranian nuclear program and the stability of Iraq are, to some extent, intertwined. For this reason, the United States must work diligently for a more diplomatic solution to the nuclear crisis, and this can be done only if there is a common agenda with the European Union that minimizes the potential for disagreements the Iranians can exploit. Given the major rift between the United States and France and Germany over the decision to intervene in and occupy Iraq, forging a joint position on Iran has become a major test for both the Bush administration and the European Union.

## Iran's Interests in Iraq

Iran faces a paradox concerning recent U.S. intervention in the region. Prior to September 11, 2001, Iran's two most immediate enemies were Saddam Hussein's Iraq and the Taliban who controlled Afghanistan. Iran fought a bitter eight-year war with Iraq and suffered horrendous casualties, including those from chemical weapons attacks. The war ended in 1988 with Iran agreeing to a humiliating cease-fire and an awareness that it had lost the war, in part, because of its isolation from the rest of the world. In the late 1990s, it nearly went to war with Afghanistan over the murder of nine of its diplomats in Mazar-e Sharif in August 1998 by a Taliban-controlled militia. The assassinations occurred against a backdrop of violence along the Iranian-Afghani border stemming from Afghani drug trafficking. During this period, Iranian officials' greatest fear was that Pakistan's leadership would eventually become "Talibanized"—if, for example, the Musharraf government were overthrown by younger, more radical military officers sympathetic to the Taliban and its philosophy—and that they would face an extremist Sunni regime with nuclear weapons on Iran's border.

Thus, when the United States decided to simultaneously rout al Qaeda bases in Afghanistan and destroy the Taliban regime immediately following the terrorist attacks of September 11, 2001, Iran's leaders were of two minds: On the one hand, the United States would rid them of an adversary. On the other hand, it would maintain a major military presence in an adjacent country. Nevertheless, Iran was, by all accounts, cooperative during the war and played an important role in the postwar negotiations in Bonn, Germany, that set up the interim Afghani government under Hamid Karzai. Unfortunately, this cooperative spirit was ruptured in a matter of weeks, owing to U.S. concerns about Iran's harboring suspected al Qaeda operatives who had fled Afghanistan and Iran's decision to supply arms to Yasser Arafat's Palestinian Authority in January 2002. (Israeli forces intercepted the arms on the high seas aboard the merchant ship *Karine-A*.) It was against this backdrop that President Bush placed Iran on the "Axis of Evil," along with Iraq and North Korea, during his 2002 State of the Union address.

The prospect of being surrounded by countries with a major U.S. force presence poses a clear danger in the view of Iranian leaders. To the east, Afghanistan's Taliban is no longer a threat, but it has been replaced by a nascent democracy supportive of a large U.S. presence. The stronger eastern powers, Pakistan and India, both have nuclear weapons, and Pakistan, Iran's immediate neighbor, has become a major U.S. ally in the War on Terror. Along the Persian Gulf littoral, the United States has military relations with Kuwait, Qatar, the United Arab Emirates, Bahrain, Saudi Arabia, and Oman. To the north, Turkey also serves as a deterrent to Iran, despite the fact that the two countries share an interest in preventing upheaval in Kurdish areas. Turkey is a member of the North Atlantic Treaty Organization and a U.S. ally; it also provided aid and comfort to Iraq during the 1980–1988 Iran-Iraq War. Even prior to the U.S. invasion of Iraq, Iran had reason to feel

claustrophobic; the arrival of more than 150,000 U.S. troops to its region has only served to exacerbate these tensions.<sup>5</sup>

Thus, by the time U.S. preparations for the war against Iraq were under way, Iran was more equivocal than it had been in the case of a U.S.-occupied Afghanistan. To be sure, Iranian leaders bore Saddam Hussein no good will, but under Saddam, a weakened Iraq served a number of key Iranian interests. Saddam was, after all, cornered and isolated under UN sanctions, and his military capabilities were degraded from the 1991 Gulf War and continued to suffer a lack of spare parts and supplies. Iraqi oil production was low and intermittent because of its malfunctioning oil infrastructure, which helped Iran keep its share of the oil market. Furthermore, Iran was only too aware that the U.S. invasion of Iraq would have immediate implications for its security. Yet, as in the case of both Afghanistan and the 1991 Gulf War, Iran did nothing to interfere with U.S. military operations. It did, however, make sure that a number of its operatives were in-country and cooperating with the various Shiite groups with whom it had established close ties. As a charter member of the "Axis of Evil," Iran saw itself as a possible target of future U.S. military action. Although Iraq was the leading candidate for regime change, the new urgency with which Middle East transformation was discussed in Washington caused Tehran great unease. When the invasion became an undeniable reality, Iran viewed it as an alarming precedent for U.S. military intervention in the region under the Bush Doctrine's pillar of "pre-emptive" war.

The Iranian response to the U.S.-led Operation Iraqi Freedom, the subsequent U.S. occupation, and the January 30, 2005, Iraqi elections underscores the complexity of its foreign policy objectives toward Iraq. While Iran will most likely enjoy the benefits of a strong Shiite-dominated government as a neighbor, "the new Iraq" could potentially threaten Iran's legitimacy as the leading Shiite power in the region should a strong Iraqi government establish itself. However, the prospect of a weak central government plagued by ongoing civil strife and the breaking apart of the country into autonomous regions would be even more threatening to Iran's security and economic interests. Thus some political figures in Iran would like to see a strong Shiite-dominated government in power in Baghdad. To that end, Iran expressed cautious approval of the January elections, which resulted in a strong presence for the Shiite majority in the new government. Iranian foreign minister Kemal Kharazi congratulated Iraq and expressed hope that the elections will bring stability to the region.<sup>6</sup> Iran's state-run television praised the elections, noting that they were the beginning of the end of the occupation and insurgency in Iraq.<sup>7</sup> So Iran now finds itself actively supporting the position of the United States by supporting elections in Iraq, because such use of Iranian "soft power" is the most practical way to ensure Iraq's Shiite majority an opportunity to dominate the country's politics.

There is little hard data that would help in determining Iran's actual leverage and ability to influence the insurgency and Shiite parties in Iraq; there is no official trail of money or weapons to prove Iranian influence. However, the Iranian regime's relationship with the Shiite parties and communities is evident, and there are also apparent indications of Iran's simultaneous support for Shiite paramilitary groups in the Iraqi insurgency. In promoting a policy of soft-power influence in Iraq as a means by which to carry out its own policy objectives, Iran has donated tutelage and money to Shiite political parties such as Dawa and the Supreme Council of the Islamic Revolution in Iraq (SCIRI).<sup>8</sup> Some speculate that weapons are also donated to the insurgency, although it should be noted that with the fall of the Saddam Hussein regime, weapons in Iraq were—at least initially—easily accessible. Iran provides money for infrastructure projects in Iraq, particularly in the south, where it also has programs aimed at enhancing its reputation among large communities of Iraqi Shia.<sup>9</sup> While difficult to prove, there are some indications that in addition to providing money (and possibly weapons), Iran also maintains an extensive intelligence presence through redeployed Revolutionary Guards and paid informants.<sup>10</sup>

From an Iranian point of view, there are two worst cases concerning Iraq. One is chaos and civil war. Under these circumstances, Iran could hardly remain neutral and would

#### **March 2004**

IAEA urges Tehran to disclose its entire nuclear program by June 1.

#### **June 2004**

IAEA criticizes Tehran for attempting to purchase uranium-enrichment equipment and for not cooperating with the agency's inspectors.

#### **September 2004**

Tehran announces it has resumed "large-scale" enrichment program; IAEA orders Iran to stop and to reveal all of its nuclear activities by November 25. U.S. secretary of state Colin Powell asks the UN Security Council to impose sanctions.

#### **November 2004**

EU-3 discusses deal with Iran offering trade and nuclear energy incentives in return for Iran's abandonment of its alleged weapons program. IAEA issues a resolution to Iran to implement the NPT Safeguards Agreement and to abandon all nuclear activities until further inspection. Iran again agrees to cease uranium-enrichment activities for an indefinite period.

#### **January 2005**

Tehran allows IAEA inspectors to visit the clandestine nuclear site at Parchin.

#### **February 2005**

President Khatami says Iran will never give up nuclear technology but stresses it is for peaceful purposes only. Russia backs Tehran and signs a deal to supply fuel to Bushehr reactor. Defense Intelligence Agency director Vice Admiral Lowell E. Jacoby testifies before Congress that Iran is within five years of having the capability of producing a nuclear weapon—the same estimate U.S. officials have provided since 1995.

#### **March 2005**

Iran denies IAEA inspection access at Parchin nuclear facility.

#### **April 2005**

Tehran says it plans to resume uranium conversion at Isfahan facility. United States sells Israel special "bunker buster" bombs; some observers suggest that Israel might use the weapons on Iranian underground nuclear-research facilities.

#### **May 2005**

European Union says that Tehran's resumption of uranium enrichment program would cancel trade and energy package being negotiated by EU-3. Tehran waits to see package's details.

#### **August 2, 2005**

In a lead story, *The Washington Post* says that a recent classified U.S. National Intelligence Estimate determined that Iran is now ten years away from a nuclear weapon-production capability.

#### **August 5, 2005**

The EU-3 presents Tehran with a thirty-one-page document offering Tehran economic incentives and security guarantees in exchange for Iran's abandoning plans to pursue a full nuclear fuel cycle.

#### **August 8, 2005**

Tehran rejects EU-3 deal as "absurd, demeaning, and self-congratulatory," and vows that Tehran

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will resume an “irreversible” enrichment program, as is its right under the NPT’s Article IV.

**August 10, 2005**

Iranian technicians break UN seals on equipment at Isfahan plant under the supervision of IAEA inspectors; Tehran notifies the agency that it is resuming uranium conversion at the site. IAEA installs surveillance cameras at site to verify that no uranium is diverted.

**August 11, 2005**

IAEA adopts resolution drafted by the EU-3 calling on Iran to halt nuclear reprocessing activity at Isfahan.

**September 2, 2005**

An IAEA report says that Iran has produced seven tons of uranium hexafluoride—the gaseous compound that is spun in special centrifuges to produce enriched uranium—since activity resumed at the Isfahan plant. The report highlights Iran’s eighteen years of clandestine nuclear activity and says that the agency is still unable “to conclude that there are no undeclared nuclear materials or activities in Iran”; the report calls for “access to individuals, documentation related to procurement . . . certain military-owned workshops, and research and development locations.”

**September 17, 2005**

In a defiant speech before the UN General Assembly, Iranian president Mahmoud Ahmadinejad announces that his country will not relinquish its “right to pursue peaceful nuclear energy”; U.S. officials consider asking for IAEA vote to refer the Iranian matter to the UN Security Council for imposition of sanctions against Iran.

**September 24, 2005**

IAEA Board of Governors passes a resolution stating that Iran’s transparency on its nuclear program is “indispensable and overdue.” Stopping short of referring Iran to the United Nations, the resolution notes that outstanding issues are “within the competence of the [UN] Security Council.”

**Sources:** BBC News Online, Congressional Research Service, GlobalSecurity.org, IAEA, Middle East International, *New York Times*, Nuclear Threat Initiative, Radio Free Europe/Radio Liberty, *Washington Post*.

be drawn into a conflict that could lead to fighting among rival Shiite factions, Sunnis, former Baathists, and possibly Kurds and Turks. There is little reason to foresee a positive outcome for Iran in the event of such a clash. Iraqi Kurds would be tempted to declare independence, an obvious threat to Iranian interests, but joint resistance with Turkey to such a move would be difficult, given the uncertain relations between the two regional powers. The Iranian ideal in Iraq—a Shiite-dominated regime—is a doubtful outcome in the event of a major civil conflict in that country. A Sunni-Shiite civil war would undoubtedly draw Sunni-dominated Saudi Arabia into supporting the minority Sunni population, creating another unwanted scenario. Far more probable would be a ratcheting up of tensions with the United States and other regional powers, which would undoubtedly react to perceived Iranian interference with strong diplomatic, economic, and possibly military countermeasures.

The other worst-case scenario for Iran is the converse: the creation of a stable, pro-Western, secular democracy in Iraq that enjoys good relations with the United States, Saudi Arabia, Jordan, and, ultimately, Israel. The reasons for alarm at this prospective outcome are clear: both hard-liners and reformist elements are eager to increase Iranian regional influence, especially now that Saddam Hussein has been deposed and a new era of Shiite power may be dawning in Iraq. A stable, Western-oriented Iraq expanding its economy through ties to the Arab Middle East could have the effect of isolating Iran, especially if hard-liners continue to be ascendant and tensions with the United States remain high. A pro-U.S. Iraq would also wield significant power over Iranian economic interests by competing for the growing market in oil exports.

Thus another reason for Iranian anxiety about a stable Iraq is the competitive threat it would pose for primacy in oil exports from the region, which Iran relies on to bolster its flagging economy. Iran benefits from high oil prices, but its structural economy is weak as a result of inefficiency, corruption, and a lack of foreign investment. Although the country is acknowledged to have the world’s second-largest oil reserves, many of its older fields are in need of new investments in order to maintain production; foreign direct investment (FDI) needs in the oil sector are estimated at \$17 billion.<sup>11</sup> FDI will also be necessary to expand the natural gas sector until it fulfills its immense potential.<sup>12</sup> Iran’s labor demographic is worrisome and can only get worse in the coming decade: More than half of the Iranian population is under the age of 25, and every year tens of thousands more Iranians enter the workforce than the economy can handle; the unemployment rate is rising, creating new social pressures that antireform elements may be increasingly hard pressed to contain.<sup>13</sup> The U.S. Iran-Libya Sanctions Act of 1996, which threatens sanctions against non-U.S. companies investing more than \$20 million in Iran’s energy sector, has exacerbated the problem by making foreign companies wary of large capital investments.<sup>14</sup> Some members of Congress want to reinforce these sanctions through the Iran Freedom Support Act, which is aimed at further restricting international investment in Iran’s energy sector and providing support for prodemocratic groups and forces inside the country. (Neither the House of Representatives nor the Senate has approved the bill.)

Unlike Iran’s attempts in the 1980s to export the Islamic Revolution through the funding of Shiite resistance groups, current circumstances encourage Iran to use soft power to help create some sort of Islamic government in Iraq.<sup>15</sup> Iran has enhanced its soft power recently by utilizing family networks and relationships in its attempt to secure its interests. A strong Shiite Islamic neighbor is both a blessing and a threat to Iran and its ambitions of holding a leadership role in the region, but it may very well be Iran’s best scenario in light of unfavorable conditions. Both Iraqis and Americans should recognize that Iran is a putative but untrustworthy partner in the quest for Iraqi stability.

Iran’s foreign policy strategy in the near future is most likely to be threefold:

- First, Iran will continue to promote the democratic process in Iraq in order to consolidate a strong Shiite voice in the new government. Utilizing this “soft power” will be Iran’s best means of reaching its objective of stability in Iraq.

- Second, Iran will continue to refrain from utilizing all of its assets to promote disorder in Iraq. Iranian intervention will most likely come in the form of gathering intelligence or loosening border controls rather than actively participating in the insurgency or sponsoring militants in Iraq. Iran can take a passive stance because the insurgency appears to have become a self-sustaining entity. This development is advantageous to Iran because some disorder serves its purpose of reducing Iraq's overall strength, but chaos and civil strife are inimical to its objectives.<sup>16</sup>
- Third, Iran will continue to support diverse and, sometimes, contradictory Iraqi actors—ranging from politically active clerics to insurgents—in order to prevent an Iraq strong enough to rival Iran and to hedge its support for the Shiite political movement to ensure that it maintains an ability to influence events in Iraq.

This three-pronged strategy will support Iran's overall security objectives by maintaining a stable but relatively ineffective Iraq and ensuring that the challenge the U.S. faces in stabilizing Iraq will deplete its resources and divert its attention away from Iran.

## Iran's Influence in Iraq: Past and Present

Iran's involvement in Iraq is deep-rooted. Although thus far Iran has opted for intervention through primarily soft power and religious ties, it could choose to be a more significant and active (and violent) player should its strategic interests be challenged. Iran's capacity, capability, and will to influence events in Iraq are high in terms of both hard power and soft power. Despite a weak formal military capacity relative to its size, Iran has the capability to funnel large amounts of personnel and materiel into Iraq if it considers such actions to be in its interest. Furthermore, the intense history between the two nations means that Iran has a significant capacity to influence Iraqi political elites and large sectors of the Iraqi population. The historical relations between the two countries have been troubled. The most recent traumatic event was the Iran-Iraq War from 1980 to 1988. Prior to the Iranian Revolution, relations between the Shah's Iran and the Saddam Hussein regime were highly contentious, but tensions had not spilled over into full-scale war.

### *The legacy of the Iran-Iraq War*

To understand Iran's complicated relations with Iraq, the drama of the 1980–1988 Iran-Iraq War must be clearly understood. Following the successful overthrow of the Shah of Iran in 1979, an Islamic republic was established under the leadership of Ayatollah Khomeini. This was a watershed event in Middle East politics, and the impact of the Iranian Revolution on the neighboring states was profound. Immediately upon assuming power, Ayatollah Khomeini began to preach the need to export the Islamic Revolution to other countries in the Middle East, including Iraq. In response to this threat and out of fear of its possible success, Saddam Hussein made a pre-emptive decision to go to war with the new revolutionary state in 1980. For two years, the fierce fighting took place in Iran itself, but after recovering from initial blows, Iranian forces pushed back the Iraqi advance and in June 1982 had essentially expelled Iraq from Iran.

At this point, Iran could have declared a victory, but Khomeini decided to take the fight across the Shatt al-Arab waterway into Iraq itself and forcefully export his revolution by overthrowing Saddam Hussein. Khomeini expected the Shiites to rise up to support his invasion, but they did not. By now the assumption throughout the Arab world was that if Iran succeeded in deposing Saddam Hussein, it would only be a matter of time before the vulnerable monarchies of the Gulf fell, including the prized Saudi Arabia and its oil. It was at this point that the United States, which had been neutral in the war, decided to tilt toward Iraq. Iraq had the support of all the Arab countries,

with the exception of Syria and Yemen, and with access to vast lines of credit from the oil-rich states it was able to purchase billions of dollars worth of arms on the open market, particularly from China, France, and Russia. Iran, on the other hand, was subject to a very effective international arms embargo orchestrated by the United States. In seeking to repel the massive onslaught of Iranian forces across the Shatt al-Arab, the Iraqis used chemical weapons frequently and quite effectively with few international repercussions. The war continued to escalate, but Iran was nevertheless able to maintain a foothold on Iraqi territory. In 1988, Khomeini reluctantly agreed to a cease-fire and Iran retreated. A year later, after Khomeini's death, Iran began implementing a more pragmatic and less revolutionary foreign policy.

The trauma of the war, in terms of both the nature of casualties and the isolation Iran found itself in, continues to have a profound impact on the contemporary Iranian psyche. Iranians' continued sense of isolation has made successive Iranian governments determined to achieve significant military and economic self-sufficiency, lest they be shunned again in terms of security requirements in a future conflict. They remember well that U.S. support of Saddam Hussein was critical to Iraq's success and that despite the eventual U.S. determination to depose the Iraqi leader and the Baathist regime, the Americans have made no friendly gestures to Iran. Particularly galling to the Iranians was the refusal of the international community to take action against Iraq after its use of chemical weapons in violation of the 1925 Geneva Protocol. Iran's ambitions to develop a nuclear weapons capability as a deterrent grew out of these isolationist fears and the hostile positions of the international community—in particular the United States. It is in this context that contemporary dilemmas facing Iran with respect to Iraq must be viewed.

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While Saddam Hussein was in power, Iran hosted a number of important Shiite groups violently opposed to the Iraqi Baathist regime, particularly before the outbreak of the Iran-Iraq War. Specifically, the powerful Supreme Council for the Islamic Revolution in Iraq, led by Ayatollah Muhammad Bakr al-Hakim and his militia, the Badr Brigade, joined forces with Iran in the Iran-Iraq War and maintained an active presence on the Iranian side of the border after the war.<sup>17</sup> In 1991, after many Iraqi Shia responded to President George H. W. Bush's ill-fated call for a Shiite uprising, SCIRI temporarily occupied the Iraqi port of Basra. After the reprisals that followed, SCIRI withdrew to Iran and continued to be the most prominent Shiite group opposing Saddam Hussein's regime, alternately cooperating and competing with other exile groups, such as Ahmed Chalabi's Iraqi National Congress.

Subsequent to the U.S. invasion and the establishment of the interim Iraqi government, SCIRI reinvented itself as one of the two main political parties representing southern Shia (the other being Dawa). Its spiritual leader, Bakr al-Hakim, was assassinated in the early days of the war, but the movement still commands significant support. SCIRI's current political leader, Abdul-Aziz al-Hakim, is a well-known and popular politician in Iraq.<sup>18</sup> While exiled in Iran, SCIRI and Dawa supported the Iranian regime and advocated an Iraqi Islamic theocracy. Now that they have returned to Iraq, they have moved away (Dawa in particular) from support of the notion of government led by the *velayat-e faqih* and begun instead to promote a less prominent—but still meaningful—role for religion in governance. Given its past Iranian ties, it is widely believed that SCIRI would be the conduit for any significant Iranian influence in Iraq. Yet while SCIRI remains a popularly backed Shiite group, there is still lingering Iraqi resentment toward its past Iranian ties.<sup>19</sup>

As a result of the increasing Iranian presence in Iraq, there are growing ties between the two Shiite communities, and Iranian investment in tourism and various other activities is booming. Although such influence may have diminished somewhat because of the violence unleashed by Muqtada al-Sadr, who led a limited Shiite uprising against the new Iraqi government and the occupation forces in 2004, investments and personal ties will likely continue to grow if stability returns. Economic links have not played an important role in Iran-Iraq relations since the outbreak of war in 1980; however, as sanctions steadily eroded, Iran sought to share in the spoils, and smuggling along the border was increas-



ingly overlooked. Given the degree of turmoil following the ouster of Saddam Hussein, official economic ties have been slow to resume; what exists so far are discussions on large joint projects, such as a multimillion-dollar airport in southern Iraq (financed by a low-interest loan from Iran) and an oil pipeline between Basra and Abadan. Yet the flow of religious pilgrims, as well as economic synergies in the energy and transport sectors, makes an increase in economic ties an appealing objective for both countries.

It is these significant economic and social ties that give the Iranians a strong paramilitary capability in Iraq that they could unleash should U.S.-Iranian relations deteriorate to the point of open conflict. The large numbers of Iraqi Shia who sought shelter in Iran and subsequently returned have increased the informal ties among the Shia in the two countries. In addition, the financial backing that Iran supplies to a number of prominent Iraqi groups gives them added influence in Iraq that has so far been only passive. However, while they are unable to challenge the United States militarily, their ability to carry out terrorist acts and train and instigate an insurgency against the Americans in Iraq is well documented.<sup>20</sup> Should the United States up the ante against Iran with respect to nuclear weapons, it will undoubtedly be in Iraq and Afghanistan that Iran retaliates.

If it is widely accepted that Iran has some sort of presence in post-Saddam Hussein Iraq, the question becomes the *degree* to which Iran has already intervened—and that is a matter of some dispute. Iraqi politicians themselves have vacillated between open condemnation of Iranian interference and public acknowledgment of Iranian efforts to reduce that interference. In late July 2004, then-Iraqi minister of defense Hazim Sha'alan called Iran "the first enemy of Iraq" and warned that "We can send the death to Tehran's streets, like they do to us."<sup>21</sup> By late September, however, full diplomatic relations between the longtime enemies had been restored and Sha'alan was stating publicly that "border infiltrations have receded and interference is restrained in Iraqi state institutions."<sup>22</sup> There is little disputing that both SCIRI and Dawa have received financial assistance from their former host; they are the primary vehicle through which Iran hopes to establish a strong Shiite government in Iraq. While both parties claim that they maintain full independence from Tehran, they clearly provide an infrastructure through which Iran can exercise significant influence in Iraq's political evolution. Accusations have been leveled against Muqtada al-Sadr for also receiving military aid from Iran during his uprising, but the facts on this count remain unclear.<sup>23</sup> The Shiite community is not as monolithic as many in the West might imagine, but it is undeniable that many southern Iraqi Shia have numerous and varied ties to their Persian neighbors.

In the realm of the Iraqi political structure, the composition and policies of the new government will depend on the outcome of the work of those Iraqis elected to the National Assembly on January 30, 2005. This interim government, led by the new prime minister, Ibrahim al-Jaafari, and his cabinet, is tasked with the writing of a provisional constitution. Although the Shiite-backed groups won many of the seats in the election, they were unable to establish a clear majority. The biggest loser in the election was the Sunni population. With much of the Sunni-populated areas mired in conflict, many polling stations were not erected; in the areas that had polling stations, many Sunnis boycotted the election. Yet with the failure to disrupt the elections via the insurgency or delegitimize them through their boycott, many in the Sunni community have begun to come to terms with the reality of the new Iraqi government, and the prospects for its success have thus increased considerably.

Still, the period following the successful elections in Iraq serves as a sober reminder of the distance Iraq must still travel before having a stable, functioning government. The delay in the formation of the government—caused by the initial inability of Prime Minister al-Jaafari to form a cabinet acceptable to Sunnis, Shia, and Kurds—coincided with an increase in insurgent activities. The failure to capitalize on the aftereffects of the successful elections has set back the interim government, but now that the cabinet has been formed, the first freely elected Iraqi government can take on more responsibility in establishing itself. Despite many setbacks, the interim government finally succeeded in its most important task—the approval of a new constitution in a national referendum on October

## Iraq's New Political Elite: Ties to Iran

### Ibrahim al-Jaafari

Current prime minister of Iraq and head of Dawa Party (anti-Saddam party, split from Supreme Council for the Islamic Revolution in Iraq, or SCIRI, after Iran-Iraq War over Iranian influence). Spent ten years in Iran during Iran-Iraq War, but moved to London in 1989.

### Abdul-Aziz al-Hakim

A cleric and leader of SCIRI party, formed under Ayatollah Khomeini and fought against Iraq in the Iran-Iraq War. Also heads the United Iraqi Alliance (UIA). Helped form Badr Brigade with training from Iranian intelligence and Iranian Revolutionary Guard Corps. Returned from Tehran in 2003.

### Grand Ayatollah Ali al-Sistani

Iraq's top Shiite cleric. Iranian-born and speaks Arabic with an Iranian accent, but does not advocate Iranian-style Islamic state. Maintains ties with the Iranian clerical hierarchy and has an office in the Iranian spiritual center of Qom.

### Ahmad Chalabi

Deputy prime minister. Accused by Washington in 2004 of sharing sensitive information with Tehran about U.S. intelligence gathering against Iran.

### Humam Hamoudi

Chair of Constitutional Committee. SCIRI member; worked very closely with SCIRI head al-Hakim. Returned from twenty-two-year exile in Iran in 2003.

### Adil Abd al-Mahdi

Deputy president. Minister of Finance and Government in Allawi government. SCIRI member. Economist. Spent 1980s in Iran and recently accompanied Jaafari to Tehran.

### Bayan Jabr

Minister of the Interior. Minister of Housing and Reconstruction under provisional government. Senior member of UIA and SCIRI; member of SCIRI political bureau in Lebanon and Syria during the 1990s. Former commander of Badr Brigade. Fled Iraq and took exile in 1980s in Iran.

15, 2005, to be followed by a general election in December. Although Sunni support for Iraq's new basic law was secured somewhat by the promise of an amendment process after the general elections, it remains unclear whether a lasting political agreement between the three main Iraqi groups—Shia, Kurds, and Sunnis—will be ultimately achievable.

Meanwhile, the government of Ibrahim al-Jaafari has quickly established close relations with Tehran. In July 2005, Jaafari headed a delegation of Iraqi officials to meet with Iranian officials, including Supreme Leader Ayatollah Seyyed Ali Khamenei. A memorandum of understanding was signed to build a pipeline from Iraq to Iran to allow Iraqi crude oil to be processed at Iran's Abadan refinery. If these steps toward formal reconciliation continue, Iran's goal of having close relations and strong influence in Baghdad will be consolidated.

A telling indication of Iran's influence among the Shiite leaders of Iraq is the fact that as of August 2005 the most powerful Shiite in Iraq, Grand Ayatollah Ali al-Sistani, has met with the Iranian foreign minister but has avoided direct contact with U.S. officials. Perhaps the clearest evidence of Iran's day-to-day influence in Iraq is in the south of the country, which is predominantly Shiite. Basra, once a favored weekend destination for Iraqis and other Arabs seeking cosmopolitan Western nightlife, has become a theocratic city patrolled by militant thugs imposing strict Islamic taboos on alcohol and enforcing dress codes reminiscent of Iran in the early days of the revolution.<sup>24</sup>

Nevertheless, both engagement and disengagement in Iraq carry risks for Tehran. Continued work with parties such as SCIRI and Dawa to increase Shiite power, help with building physical and social infrastructure in southern Iraq, and create trade ties with the new post-Baath Iraq will provide clear benefits to the Iranians in the coming years. The risk Iran runs if it meddles too blatantly in Iraq, however, is the backlash it could create with many Iraqis. While Iran and Iraq share many cultural and religious bonds, there are still significant differences between the two populations, the most notable of which is the Persian-Arab divide. Deeper engagement might have the effect of stoking these differences and creating a sense of outside interference among Iraqis. However, disengagement may increase the chances of Iran's two worst-case scenarios occurring in Iraq: Iraq descends into civil war and Iran is compelled to intervene, or Iran disengages. In the latter scenario, the loss of influence could strengthen both Sunnis and Kurds in Iraq and lead to a decline in national Shiite power and representation in Iraq's new political institutions; it could also usher in the creation of an Arab or Western bulwark to Iranian power and influence in the region. The latter scenario would be undesirable from the perspectives of both Iranian national interest and the Iranian conception of how Iraq should be restructured.

### ***Iran's support of terrorist organizations and its broader regional goals***

In addition to its ability to influence events in Iraq through its strong ties to the Shiite community, Iran can also exert indirect influence on the situation in Iraq through its ongoing support of Palestinian militant factions in Lebanon and the Palestinian territories. This influence affects the Palestinian-Israeli peace process and, to this extent, Iran's interests and actions in Iraq cannot be decoupled from its broader regional agenda. Its relations with Syria and Lebanon have particular importance for the United States because of the linkage with the Arab-Israeli conflict and the clear evidence that Iran's support for the militant group Hezbollah has been instrumental in orchestrating lethal terrorist attacks against both Americans and Israelis. The political events that have unraveled in the Middle East in 2005, involving Lebanon, where Hezbollah is strongest, and Syria, an ally of Iran, have the potential to affect the Arab-Israeli conflict and Iran's relations with Israel and its neighbors. If U.S. policy succeeds in resolving the Arab-Israeli conflict, the effect will weaken Iran's power and influence in the region, including in Iraq. The reason is simple: If relations between Israel and Syria and Lebanon are normalized, Hezbollah and Iran's power will decline, and the Arab Gulf states will find it easier to establish relations with the Jewish State—and so will Iraq.

Alternatively, if the Arab-Israeli conflict continues and Lebanon and Syria remain hostile to Israel and U.S. policy, Iran will be a regional beneficiary and will strengthen its position in Iraq: No Iraqi government is likely to establish close ties with Israel absent a resolution of the Palestinian problem. As long as the conflict continues to fester, Iran will continue to exploit it for its own purposes.

Recent developments in Lebanon and Syria have unleashed political forces that neither the U.S. nor Iran can control but which have important implications for regional stability. On February 14, 2005, former Lebanese prime minister Rafik Hariri was assassinated in Beirut. Hariri had led the Lebanese opposition to the extension of pro-Syrian President Emile Lahoud's term in office. The assassination sparked massive protests within Lebanon against Syria's military presence there since 1976. These protests, combined with strong international pressure—especially from France and the United States—led to the collapse of the pro-Syrian Lebanese government and the withdrawal of Syria's military forces. The extent of independence that Lebanon will now enjoy is still difficult to determine, but these events—and the October 21, 2005, United Nations report implicating Syria in Hariri's assassination—have greatly increased the pressure on the Syrian government. Some pressure has also been placed on Hezbollah to disarm and fully join the political process. If this were to happen, Iran's leverage and influence in both Lebanon and Syria would be diminished.

There is a parallel linkage between U.S. success in Iraq and its ability to influence events in Palestine, Syria, and Lebanon at Iran's expense. Iran's standing as one of the top state supporters (along with Syria) of Palestinian terror organizations rests on hard evidence and is a title accepted with no small pride by the Iranians themselves. Support for the Palestinian cause—in effect defined as the destruction of Israel—has been one of the pillars of the revolutionary regime's foreign policy. Hamas, Palestinian Islamic Jihad (PIJ), the Popular Front for the Liberation of Palestine-General Command, and especially Hezbollah all have received assistance from Tehran in the recent past; yet such assistance was not always extended to the Palestinian Liberation Organization (PLO) and its former chief, Yasser Arafat.

Many observers have made the claim that much of U.S. policy toward Iran during the 1990s, including the Iran-Libya Sanctions Act of 1996, was based on the assumption that Iran was a threat to both Israel and reform-minded Palestinians.<sup>25</sup> Relations between Iran and Arafat alternated from warm to frigid to merely indifferent; throughout the Israeli-Palestinian peace process in the 1990s, Iran did not have a friendly relationship with Arafat, especially after he supported Saddam Hussein's attack on Kuwait in August 1990. However, relations between Arafat and Tehran were reinvigorated with the outbreak of the second intifada in 2000, and a preponderance of evidence points to PLO-Iranian Revolutionary Guard Corps complicity in the foiled attempt to ship fifty tons of weapons to the Palestinian Authority aboard the *Karine-A* in January 2002. Both Arafat and Iran initially denied involvement, but in February 2002, Arafat wrote a letter to U.S. secretary of state Colin Powell "accepting responsibility . . . as chairman of the Palestinian Authority" for the shipment.<sup>26</sup> The *Karine-A* represented the pinnacle of a rebuilt Palestinian-Iranian relationship, yet even this seems to have been more a marriage of convenience than a real union: Arafat may have believed the peace process to be dead and accepted the first offer of arms he received, while, on the Iranian side, the transaction offered a public relations coup for the Islamic Republic in the Middle East-wide quest to demonstrate anti-Zionist credentials. One direct effect of this event was to reinforce the Bush administration's poor opinion of Iran; it was also one of the reasons Iran was placed in the "Axis of Evil" in the January 2002 State of the Union speech.

Iran's complicated relationship with Hezbollah and the Palestinian conflict is influenced by what is happening in Iraq. Hezbollah remains an asset for the Iranians as long as the Arab-Israeli conflict remains unresolved and good relations with Syria and Lebanon remain a priority for the Iranian regime. Furthermore, the relationship provides a counter-

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weight to U.S. threats to Iran that stem from the military presence in Iraq and that could arise over charges of Iranian intervention or even the nuclear issue.

Hezbollah has been the primary recipient of Iranian largesse since the early 1980s, and Iran takes great pride in having helped Hezbollah push Israel out of southern Lebanon. Before his death, Arafat suggested that Hezbollah was meddling in the West Bank and attempting to infiltrate his Fatah base in the PLO, especially through the al-Aqsa Brigades, an assertion supported by many U.S. and Israeli diplomats.<sup>27</sup> Yet there have been fewer accusations of any heightened Hezbollah presence in Gaza, where Hamas accepts Iranian funding but claims to maintain complete military independence.

There is little outward sign that the death of Yasser Arafat in November 2004 will result in a change in Iran's attitude toward the Palestinian-Israeli struggle. Editorials in Iran's reformist newspapers offered eulogies that were neither warm nor hostile, while editorials in the more hard-line papers were more inclined to point out Arafat's failures (i.e., Israel's continued existence).<sup>28</sup> Arafat's funeral coincided with al-Quds (Jerusalem) Day, which offered the Iranian street its opportunity to reaffirm continued loathing toward Israel and veneration for leaders of Hamas and the PIJ, such as the assassinated Sheikh Ahmed Yassin. The government's official statement about Arafat's death was diplomatic but emphasized Tehran's support for the intifada, noting that the uprising "is a strategic choice of the Palestinian people" and that Israel "only understands the language of force and violence."<sup>29</sup>

However, the death of Arafat has weakened Iran's position in the region. Mahmoud Abbas, who replaced Yasser Arafat as the leader of the PLO and president of the Palestinian Authority, has been willing to cooperate with Israel and has received the personal blessing of President Bush. If the prospect of a two-state solution to the Israeli-Palestinian conflict gains strength following Israel's dramatic withdrawal from Gaza in August 2005, Iran may be forced to shift its position. Although the regime remains on record as committed to Israel's destruction, there has been a gradual widening of the political dialogue in Tehran over the years to include more moderate ideas, such as the hardly radical notion that if the Palestinian people accept a two-state peace settlement, Iran should accept that choice as well. Two reasons account for the change: The first is the struggle between ideologues and pragmatists; pragmatists tend to frame their criticism of the "Zionist beast" in slightly less apocalyptic terms than the ideologues, although there is no clear factional divide. The second is that as Iran seeks to assert itself internationally, Tehran may find it beneficial to impart a note of strategic ambiguity in the minds of international observers regarding its intentions in the Israeli-Palestinian struggle.

Tehran faces a difficult choice regarding its short-term behavior toward the Palestinians. Support for the hard-line groups such as Hamas and PIJ could backfire. Public exposure of Iranian aid to Palestinian hard-liners at a moment when there is hope for a renewed Arab-Israeli peace effort would only bolster those who seek to increase the pressure on the Iranian regime. Linkage between the nuclear and terrorism issues—conflating the weapons program, support for Hezbollah, and the general threat to Israel—may very well form an important part of the hawkish rhetoric arguing for forceful action against Tehran. Certainly, it will be impossible for the United States to engage Tehran broadly without serious discussion of support for the armed Palestinian groups, but treating the nuclear weapons program and support for Hezbollah and other groups as utterly inseparable would be a nonstarter for Iran at any negotiating table.

Any notion that the Iranian regime will lessen its official hatred of Israel was vanquished when President Ahmadinejad addressed a conference titled "A World without Zionism" on October 26, 2005, in Tehran. His call for Israel to be "wiped off the map" not only caused an international furor but also strengthened the U.S. and EU argument that the Iranian regime supports terrorism and cannot be trusted with nuclear weapons.<sup>30</sup>

## U.S. and Iranian Perceptions of Iraq

Although both Iran and the United States seek stability in Iraq, there are several major obstacles that can put the two countries on a path to conflict. The immediate issue is the Iranian nuclear weapons program. For the major differences to be reconciled, pragmatism must overcome ideology on both sides. For U.S. and Iranian hard-liners, strategic competition between the two countries is a zero-sum game, and the threat of conflict cannot be ignored. American critics of dialogue with Iran profess that it is not in the interests of the United States to negotiate with, let alone provide incentives to, a repressive and undemocratic regime. Aside from historical precedents that suggest otherwise, as the United States realizes it needs more and more international support to resolve the Iranian nuclear question, and as the Iranian mullahs realize that to solve their own economic dilemmas they have to reach out, both sides should realize that there is room for a realistic, mutually accommodating approach to resolving their largely self-constructed impasses. But until Tehran's anti-Israeli rhetoric and material support for Hezbollah are contained, no U.S. administration will be able to engage with Iran on a full range of issues. However, the nuclear issue provides a narrow—but significant—opportunity for the United States to engage Iran through a multilateral framework that includes the European Union. This engagement could be followed by a renewed dialogue that could lead to cooperation in a number of areas.

As the conflict over the Iranian weapons program intensifies, the most crucial aspect to preserving the possibility of an eventual diplomatic breakthrough will be the avoidance of escalation by each side. The difficulties in limiting such escalation, though, are significant. From the Iranian perspective, the troubles in Iraq provide both the motivation (the avoidance of strategic encirclement) and the opportunity (the overstretching of U.S. forces) to press forward with their nuclear program as quickly as possible. On both sides, the key to avoiding escalation will be to consider the nuclear issue in a multilateral framework. For the Iranians, international involvement will mean greater assurance that their national interests are being taken into account. For the United States, an international imprimatur on whatever actions are taken—cooperation, sanctions, or military force—is a strategic imperative, given the currently overextended posture of the U.S. military and international skepticism about its diplomatic and intelligence assessments in the wake of the Iraq war.

A successful multilateral negotiating forum would require Iran to either dismantle or put under international control its nuclear fuel-cycle program as part of a far-reaching agreement with the United States and the European Union. It would also require an end of Iran's support for anti-Israeli terrorism and at least implicit recognition of the right of Israel to exist. In return, this deal would have to include the lifting of U.S. sanctions, a key impact of which has been to deter others, such as Japan and many European companies, from investing in Iran's energy sector. Iran would also require some sort of crackdown on the Mujihadeen al-Khalq, the militant anti-mullah terrorists who are still in Iraq and have not been disbanded by either the United States or the Iraqi government. Most critical for the mullahs would be an end to the questioning of the legitimacy of the Islamic Republic or other regime-change statements on the part of the United States.

### ***How willing is Iran to cooperate with the United States on Iraq?***

The United States ended diplomatic relations with Iran in 1980 following the 1979 revolution and subsequent hostage crisis. Public diplomacy since then has been confined largely to accusations and complaints about the evil intentions of the other side. Nevertheless, over the years, there have been a number of official and semiofficial efforts by the U.S. and Iranian governments to work together on specific problems. Most notable of late was the cooperation at the Bonn Conference in December 2001 concerning the formation of the interim Afghani government. In the 1980s, a more notorious example included the

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Iran-Contra affair by operatives in the second Reagan administration to broker a clandestine deal that included an exchange of Iranian money for U.S. and Israeli weapons stocks, the release of some American hostages held by Hezbollah in Lebanon, and the use of the proceeds to fund the Contras in Nicaragua. By and large, though, both countries have avoided official contacts.

Although official U.S. policy for years has been that it is willing to have diplomatic contacts with Iran and discuss any subject under whatever ground rules the Iranians prefer, the reality is that this policy has not been pursued by the Bush administration, and no Iranian government has been willing to accept the offer. Yet there is an assumption that at the right moment even the conservative leadership in Tehran would be prepared to negotiate with the United States, provided that it desist in its efforts to change the regime in Tehran.

Currently, Iran has few incentives to cooperate with the United States on Iraq. In fact, it can probably exert enough influence to realize its preferred outcomes in Iraq and better pursue its broader objectives for the region as an exporter of a revolutionary Islamic agenda without engagement with the United States. Yet if there is one factor that will eventually push Iranian leaders into some sort of engagement with the United States, it is Iran's need to reform its economy and attract more foreign investment to develop its oil and natural gas reserves.

In June 2005, the former mayor of Tehran, Mahmoud Ahmadinejad, won the Iranian presidency in a runoff against former president Hashemi Rafsanjani. Ahmadinejad's election was a surprise to everybody, including many Iranian specialists who predicted a Rafsanjani victory. While the election was clearly not democratic by Western standards—the vast majority of aspiring candidates were denied an opportunity to participate—the runoff was certainly lively and open, and involved sophisticated electioneering on a par with typical Western elections. It is clear that Ahmadinejad tapped the bitter resentment of Iran's burgeoning underclass with his calls for an end to corruption and a redistribution of resources in favor of the poor. Furthermore, the election was a rejection of the behavior of many of the older clerics and support for the generation that fought and suffered so harshly during the eight-year war with Iraq. Ahmadinejad was formally confirmed in office on August 6, 2005, by the Iranian parliament.

Ahmadinejad's presidency will eventually be judged on how he handles the Iranian economy. On this matter, he faces a fundamental dilemma: Oil is Iran's key export earner and its primary source of hard currency, and over the past year, Iran has benefited greatly from the rising price of oil on the global market; Iran's current account is in good standing because of profits from oil sales. However, the overall Iranian economy is riddled with structural weakness, and its need for major capital investment is overwhelming, including investment in the energy infrastructure. Since Ahmadinejad's election, confidence in the economy has dramatically weakened: the Tehran stock exchange has sunk into the doldrums, and there has been much capital flight from and very little investment in the domestic economy. In the short run, the oil bonanza has provided Iran's government with a cushion to ensure the availability of staple goods for the working class, such as bread and fuel, and has given it confidence that it can withstand further sanctions imposed by the United States or possibly the Europeans. The Iranian leadership does not believe the UN Security Council would agree to oil sanctions against Iran, given its critical importance to the overall world oil market at a time of high prices. Perhaps the only situation in which oil sanctions against Iran could be contemplated is a worldwide economic recession, dramatically curtailing the demand for oil.

Oil revenue is a critical component in Iran's capacity to ride out its disputes with the United States, Europe, and, indeed, its neighbors. It can also use its principal export earnings to provide support for groups that it believes serve its broader interests in the Islamic world, such as Hezbollah. But most of all, Iran's oil is a critical component of the regime's domestic strategy. By and large, the Iranian population has been quiescent over the past two years. There have been occasional riots and demonstrations, but nothing to

***Yet if there is one factor that will eventually push Iranian leaders into some sort of engagement with the United States, it is Iran's need to reform its economy and attract more foreign investment to develop its oil and natural gas reserves.***

fundamentally threaten the regime. What would concern Iran's conservative leaders would be massive unrest on the part of the Iranian working class and the underemployed, akin to the shipyard strikes that began the downfall of the communist regime in Poland, as well as other peaceful disruptions in Eastern Europe that helped topple communism. As long as earnings from oil exports remain high because of increased global demand, Iran has a cushion of wealth that enables the regime to continue to provide subsidies for basic staples such as fuel and food. If oil prices were to fall precipitously, as happened during the mid- and late 1990s following the Asian financial crisis, the Iranian regime could face its most serious test.

Iran's long-term energy scenarios, however, make investments in this sector's infrastructure a pressing concern. And if the regime views oil as a diminishing asset in the longterm, its efforts will most likely center around its natural gas reserves—the second-largest in the world after Russia's. Natural gas is a more difficult and costly product than oil to develop and bring to the market. Unlike crude oil, which has well-established pipelines and shipping routes to customers worldwide, natural gas must either be liquefied at the source of extraction or pumped to specific markets over long pipelines or to terminals for liquefaction and subsequent transportation by sea in liquefied natural gas ships. Not only are the initial capital costs of building a gas-exporting infrastructure very high, but unlike oil, which commands a worldwide benchmark price, the gas market is more regionalized, and prices vary widely. To develop a gas supply relationship requires long-term commitments on the part of the producer and the purchaser, meaning long-term contracts with high up-front capital investments. Most investors are unwilling to engage in long-term gas deals if the political situation in the producer country is uncertain. Iran's quest to seek export outlets for its abundant natural gas reserves has been hurt by U.S. sanctions, which have been paralleled by the active intervention of U.S. diplomats in international forums and with individual countries to veto or discourage Iran's gas export deals. As long as the U.S.-Iranian relationship remains hostile, foreign investors, including foreign governments, will be cautious about laying out billions of dollars for Iranian gas projects. Add to this the byzantine and often corrupt manner in which business is conducted in Iran and it can be seen why investors would prefer to do business with Iran's gas-producing neighbors Qatar, Oman, and the United Arab Emirates rather than deal with the mullahs and face the wrath of the U.S. executive and legislative branches. Iran's ability to fully exploit its abundant natural gas sources would be significantly improved if it ended its quarrels with the United States and U.S. sanctions were terminated.

Another major reason for Iran to cooperate with the United States in Iraq relates to progress on the nuclear issue. Given Iran's desire not to see civil war and chaos in Iraq, it will continue to play a relatively passive role with regard to the insurgency and general resistance to the formation of a new government according to U.S. preferences. However, if negotiations with the United States and the European Union on Iran's nuclear program deteriorate and Iran is referred to the UN Security Council for possible sanctions, it might be tempted to increase the level of instability in Iraq. While such instability is a decided risk for Iran as a bargaining strategy, it could also happen if the regime faced direct military confrontation with the United States; at least in the former case, Iran's leaders may figure that they could probably calibrate the instability and use it to their advantage.

Nevertheless, the motivation for Iran to help *stabilize* Iraq is clear: a fractured Iraq, possibly in a state of civil war, carries a threat of regional conflagration that would directly affect Iran's security. However, cooperating with the United States on this issue while other issues are unresolved will seriously test the diplomatic abilities of each side. Iran claims to be willing to help, and it has periodically taken concrete steps in such areas as border security. In reality, though, absent the hope of seeing its contributions recognized and rewarded by the United States, Tehran also has the motivation to let the United States bear the major burden of stabilizing Iraq. Iran's terms and conditions for cooperation in Iraq are dictated by the regime's national goals and strategic interests.

***However, if negotiations with the United States and the European Union on Iran's nuclear program deteriorate and Iran is referred to the UN Security Council for possible sanctions, it might be tempted to increase the level of instability in Iraq.***

From the U.S. perspective, working directly with Iran is unlikely in the current diplomatic environment, given the current standoff on the nuclear and terrorism issues. U.S. recognition of Iranian interests in maintaining Iraqi stability would be useful in achieving an agreement, tacit or explicit, that promotes Iranian cooperation rather than interference. While the prospect of an overall rapprochement with Iran should remain the ultimate U.S. goal, separation of the Iraq issue from the more daunting challenges of Iran's weapons program and its relations with Israel is logical from a tactical perspective. The United States must continue to avoid making Iraqi politics a proxy for U.S.-Iranian confrontation.

The regional impact of cooperation could range from trivial to transformational, depending on the framework and degree of success. There are three levels of potential cooperation: tacit agreement with Iran that would commit both sides not to use Iraq as a proxy battlefield; direct dialogue with Iran solely on the issue of Iraqi stabilization; and discussion of Iraq as part of a wider engagement with the Iranian regime.

The first option, predicated on avoidance of a proxy conflict, is in effect to a greater or lesser extent now, because the avoidance of strife in Iraq is in the interest of both countries. Direct dialogue with Iran regarding Iraq specifically could be more helpful in both addressing the security needs of Iraq and easing regional tensions but has little chance of working without satisfactory resolution of the outstanding nuclear issue. However, if a discussion of Iraqi stabilization measures occurred, it could be used as a jumping-off point for more wide-ranging talks related to the regional security situation. The third possible framework—broad engagement—clearly carries the largest potential benefits; unfortunately, it is the scenario that faces the most obstacles.

In order to encourage Iran to cooperate on Iraq, the United States must resist temptations to blame difficulties in fighting the insurgency on Iran unless such accusations are based on clear and hard evidence. So far, such evidence of Iranian complicity has been difficult to document, although in October 2005 British prime minister Tony Blair openly accused Iran or its surrogates of providing explosives to insurgents in southern Iraq fighting British forces.<sup>31</sup> On a broader level of prospective cooperation, the Iranian regime's priority is to have the United States remove its economic sanctions and abandon talk of regime change. The second goal is more realistic than the first: the Bush administration seems to have toned down its rhetoric on regime change in Iran, but it will not be willing to consider lifting economic sanctions absent a permanent freeze or a dismantlement of the Iranian nuclear fuel cycle.

## Implications for U.S. Policy

Iran can serve as a spoiler or as a facilitator for a successful U.S. policy in Iraq, however one defines "successful." As such, the Islamic Republic is very cognizant of its advantage in linking issues on the negotiating table with its reluctant American interlocutor. The most obvious among these putative linkages is U.S. compromise on Iran's nuclear program and Iran's further cooperation with Iraq to help consolidate the power-sharing arrangements under its new constitution.

The basic problem with improving U.S.-Iranian relations, let alone entering into bilateral negotiations, is that the United States still lacks a coherent policy toward the Islamic Republic. Until it articulates one, it will be difficult to build an impregnable alliance with Europe, and possibly with Russia and Japan, to effect enough political pressure on Iran to suspend its nuclear fuel-cycle program, let alone solve other outstanding differences.

For nearly two years, the Bush administration, because of its preoccupation with Iraq and its internal division between neoconservatives and foreign-policy pragmatists, has outsourced the task of confronting Iran on the nuclear issue to the IAEA and the European Union. For a period in the summer and fall of 2003, this policy was effective. Iran took



seriously the admonishments of the IAEA and the EU, especially those from the foreign ministers of the EU-3. Such cooperation could perhaps be explained in part as a result of the successful U.S. military operation to remove the Saddam Hussein regime in the spring of 2003. As the war in Iraq became more complex, Iranian hard-liners gradually acquired confidence in defying the international community. This boldness occurred in tandem with the consolidation of power in the Iranian parliament by the conservative hard-liners and the expectation that they would capture the Iranian presidency in the June elections. These events, along with high oil prices, have strengthened the hard-liners' grip on power. Furthermore, the international campaign against the Iranian nuclear program has generated a domestic backlash that has resulted in many reformers and moderates sympathizing with the government in its decision to stand up to the United States and the international community.

Negotiations over Iran's nuclear program are complicated because the Europeans have taken the lead, particularly the EU-3. In this regard, the U.S. relationship with the EU-3 is somewhat fuzzy. The Bush administration did an about-face in February 2005 and agreed to support the negotiations, offering minor incentives to Iran to cooperate, but official U.S. policy remains vague on the fundamental issues.

On August 5, the Europeans presented their proposal; it was more detailed than anything offered in the past and received the full endorsement of the United States. Considering the degree to which the European proposal was prepared to accommodate Iran, particularly on the transfer of nuclear technology for peaceful purposes, this represents a major concession by the United States and a shift from the former position of extreme equivocation on all of Iran's nuclear needs.

The proposal, among other things, offered the Iranians

- Cooperation for a peaceful civilian nuclear program in which the used fuel will be transferred to another country for disposal.
- Reassurance of Iran's right to enrich uranium by reaffirming the "inalienable rights of all [NPT] parties to develop research, production, and use of nuclear energy for peaceful purposes."
- Increased political and economic relationships with the West.
- The opportunity for Western companies to bid on nuclear contracts in Iran.<sup>32</sup>

In return, Iran would be asked to indefinitely continue its suspension of all enrichment activity. While these proposals were seen by the Europeans to be very generous, they were summarily rejected by President Ahmadinejad as an "insult."<sup>33</sup> Iran restarted its uranium conversion facility at Isfahan. The European Union and the United States immediately referred the matter to the IAEA Board of Governors in Vienna, which called an emergency session on August 9, 2005. As noted previously, the IAEA issued a sharp rebuke of Iranian behavior in the resolution voted on by the agency's Board of Governors on September 24, 2005.

It is clear that the Iranian government feels sufficiently confident of its diplomatic position on the nuclear program, at both the UN and the IAEA, to run the risk of a major confrontation with the United States and Europe. The key test will be whether the United States and Europe can continue to address this issue from the same set of principles and talking points. Much will depend on whether the Europeans, after two years of intense negotiations, are now finally prepared to join the United States on imposing economic sanctions against Iran, irrespective of what happens at the IAEA or the UN Security Council. The Iranian nuclear issue will be a test not only of U.S.-European relations, but of European resolve as well. It is important to note how far out on a limb the European governments, particularly Britain, France, and Germany, have gone in proposing this agreement and what a challenge they face if the Iranians are unwilling to be flexible and continue their nuclear conversion program. The crisis is likely to come to a head if the Iranians proceed also to restart their uranium-enrichment program at Natanz.

## Conclusion

Iran's leaders appear to have calculated that they can withstand the diplomatic pressure they are likely to face in the coming months from the United States, the Europeans, and many members of the IAEA, and that even if sanctions are imposed, Iran has the will and financial resources to ride them out. It remains to be seen what the long-term implications of this are for both Iran's domestic politics and its actions in Iraq. If the United States and Europe increase their rhetoric against the Iranians, and if sanctions begin to hurt Tehran, Iran may use its bargaining chips in Iraq at a critical moment in its post-Saddam political evolution. The direct linkage between Iran's nuclear issue and its role in Iraq is becoming clearer.

Iran emerges from the aftermath of Saddam Hussein's fall with considerable power and influence in Iraq, particularly in the short run as Iraqis themselves struggle to acquire a semblance of unity and forge a new political order acceptable to the country's three key groups. Yet Iran, like the United States, does not wish to see a complete failure in Iraq, particularly if a civil war breaks out, as this will draw both states inextricably into a messy and dangerous situation. Iran's policy of retaining influence in Iraq while seeing the United States humiliated and eventually withdrawing from the region remains a priority.

Despite Iran's undoubted success in embedding itself deeply into Iraqi politics and its continued, almost gleeful defiance of the United States, the EU, and the IAEA on the nuclear issue, it would be unwise for Iran's leaders to take their current good luck for granted. The Islamic Republic faces significant social and economic challenges that can only be made more difficult by alienating the West. The embarrassing and objectionable statements by its new president calling for Israel's destruction have harmed Iran's international image and aroused further anxiety domestically regarding his behavior. Regionally, Iran has poor relations with its Arab neighbors, and it cannot be assumed that Iraq's Shiite community will remain friendly and grateful indefinitely. Iran's vital national interests could be helped by ending the standoff with the United States. Likewise, the United States has more to gain than lose if it adopts a more coherent and pragmatic policy toward the Islamic Republic.

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