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ANALYSIS

ANTHONY BUBALO
Research Fellow
Global Issues
Tel: +61 2 8238 9140
abubalo@lowyinstitute.org

DR MICHAEL FULLILOVE
Program Director
Global Issues
Tel: +61 2 8238 9040
mfullilove@lowyinstitute.org

IRAN, THE INTERNATIONAL COMMUNITY AND THE NUCLEAR ISSUE: WHERE TO NEXT?

EXECUTIVE SUMMARY

The international impasse over Iran's nuclear program is entering a critical phase. The compromise being offered by the international community, whereby Iran would carry out sensitive uranium enrichment work in Russia, is unlikely to be accepted in full by Tehran. The hardline rhetoric of new President Ahmedinejad is further limiting the prospects of a diplomatic solution being found. As a result, the issue is likely to come before the Security Council. Once in New York there are a number of ways it could play out. But at this stage it is not clear what the Council would be able to do to force a change of behaviour from Tehran. Faced with poor options all round, Washington may feel at some point that it has to risk the uncertain results of limited air strikes against Iranian nuclear facilities to delay what it regards as the unthinkable – a nuclear armed Iran.

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The impasse over Iran's nuclear program is shaping as the defining item on the international policy agenda in 2006. While Iran is probably some years away from a nuclear weapons capability, this issue has implications beyond the immediate impact on the strategic environment in the Middle East and Central Asia. Indeed, it touches upon some of the central questions facing the international community, from the future direction of US grand strategy to relations between the great powers, the future of the United Nations, and the continued relevance of the current multilateral nuclear non-proliferation regime. In this, the first in a series of Lowy Institute Analyses on the Iranian nuclear issue, we examine the likely trajectory of efforts to resolve this crisis over coming months.

A frisson over fission

So far, no-one has been able to present definitive proof in public of the existence of an Iranian nuclear weapons program. But the absence of a smoking gun is not reassuring. The concern is that Iran's effort to gain mastery of the nuclear fuel cycle through its civilian nuclear program would put it within easy technical reach of a nuclear weapon, with estimates of when Iran might be in a position to build a nuclear bomb ranging from a year to a decade. And because Iran has been caught lying about the full extent of its nuclear effort, there are real concerns about the existence of parallel, covert programs to produce such weapons.

Iran has rejected claims that it has nuclear weapons ambitions. It argues that the

indigenous development of nuclear technology is both a right and a necessity: a right, because as a signatory to the Nuclear Non-Proliferation Treaty (NPT) Iran is entitled to pursue the peaceful uses of nuclear power; and a necessity, because Iran argues that nuclear power will allow it to meet growing domestic energy needs while diverting oil and gas resources toward more lucrative export markets. Iran also argues that as it has repeatedly been the subject of international sanctions, it must develop this capability indigenously, rather than relying on foreign countries for either nuclear fuel or civilian nuclear technology.

While alluding to evidence of covert programs, the US and the EU claim that even aspects of Iran's declared civilian nuclear program – especially its uranium enrichment effort – can only be logically explained by the pursuit of a weapons capability. The International Atomic Energy Agency (IAEA), while more equivocal in its assessments of Iranian intentions, also has concerns about the direction of Iran's nuclear endeavours. In November 2005 it described full Iranian transparency with respect to its nuclear program as both 'indispensable and overdue'.¹

Undoubtedly, the issue is further complicated by the almost constant state of animosity that has existed between Tehran and Washington since 1979. This makes it difficult for either party to assume that the other has anything but malign intent. And it may well be that the Iranian regime, while knowing full well that its civilian nuclear program will furnish it with the

¹ IAEA Board of Governors Report, *Implementation of the Nuclear Safeguards Agreement in the Islamic Republic of Iran*, 2 September 2005.

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knowledge to build bombs, has not yet made a decision about whether it would actually do so.

Regardless of the true state and nature of Iran's nuclear program, however, measures are required to provide the international community with confidence that Iran's indigenous nuclear know-how will not be put to military ends. Given its strategic location, its past support for terrorism and its record of non-disclosure and dissembling about its nuclear program, Iran cannot expect the benefit of the doubt. The real question is, therefore, whether there are things that Tehran could do to provide the international community with the confidence that Iran's nuclear intentions are peaceful.

Playing for time

One step being sought by the international community is for Iran to give up its domestic uranium enrichment program. Uranium enrichment can provide fuel for nuclear power generation, but if the uranium is enriched to higher levels it can also produce material for the production of weapons. Suspicions about the ultimate aim of Iran's enrichment program were driven by the fact that it was launched secretly some twenty years ago and only acknowledged by Iran in early 2003 under international pressure. Iran has also been caught lying about the details of its domestic enrichment effort: for example, it first denied and was then forced to admit that it had already enriched a quantity of nuclear material.

In November 2004, Iran agreed to suspend enrichment activities pending negotiations with the EU over a package of measures that would

address both civilian nuclear and broader political and economic cooperation. In reality there was little Europe could offer Iran that was likely to entice it into a permanent suspension of uranium enrichment. Those negotiations ended in August 2005, when Iran announced it was resuming uranium conversion at its facility at Isfahan, a precursor step to uranium enrichment in the nuclear fuel cycle. This prompted a resolution of the IAEA Board on 23 September 2005 calling for Iranian non-compliance to be referred to the Security Council – although not immediately.

Whether the Iranian nuclear issue goes before the Security Council or not now largely depends on a compromise proposal ostensibly put forward by Russia. Moscow has offered to carry out with Iran a joint enrichment program in Russia as an alternative to Iran's domestic program. This would help reassure the international community that the uranium was not being enriched to levels beyond that required for power generation. The compromise is backed by, and may even have originated with, the US and EU. It represents a significant compromise on Washington's part, although it may well have been made in the expectation that the Russian proposal would ultimately be rejected by Tehran.

If rejection was the American expectation then so far Iran is living up to it, with public responses to the Russian offer in the negative. Nonetheless, at this stage Tehran does not seem to have made a clear and unequivocal decision to reject the proposal. So far Tehran has not resumed activity at the enrichment facility at Natanz – a move, which if taken, would probably lead to immediate Security Council referral. And Iran is set to resume negotiations

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with the EU, probably in order to explore the limits of what is being offered and, in typical fashion, play for time and probe for divisions in the international community.

Spoiling for a fight

Within Iran there is substantial support, through the various wings of the regime and among the public, for Iran's 'right' to pursue a nuclear program. It was always going to be difficult to convince the regime to give up entirely its effort to master the nuclear fuel cycle.

Iranian domestic politics is, however, making the search for a diplomatic solution to this issue even more difficult. The election of the more ideologically driven Mahmoud Ahmedinejad as Iranian president in June 2005 has prompted a power struggle within the regime, pitting ideologues, reformers and pragmatists against each other. That conflict has manifested itself in a number of ways. Ahmedinejad has, for example, moved quickly to appoint supporters to official positions, including key ambassadorial posts in London, Berlin and Paris. Regime figures such as former president Ali Akbar Hashemi Rafsanjani have criticised these developments, claiming that the 'purging' of competent people was 'hurting the country'.²

This internal conflict has also probably been reflected in recent rhetorical attacks by Ahmedinejad on Israel. In October 2005 he said that Israel should be 'wiped off the map';

in December he suggested the Jewish state should be moved to Europe, and claimed the Holocaust was a myth. These kinds of outrageous comments reflect the world view of the president and many inside the regime; what makes Ahmedinejad different is his greater preparedness to express these views openly with much less concern about their impact in the international community. A 'true believer' from the revolution's second generation, with a strong base in the Revolutionary Guard and the popular militia, the Basij, Ahmedinejad vows to return Iran to the true principles of the revolution, from the export of Islamic radicalism abroad to social justice and economic redistribution at home. In his view these principles have been abandoned by the regime establishment and especially by relative pragmatists like Rafsanjani (though Rafsanjani has also made incendiary statements about Israel in the past).

But there also may be an element of calculation in Ahmedinejad's statements. On one level they were probably an effort to link him directly to the ideas espoused by the Islamic Republic's founder, Ayatollah Ruhollah Khomeini. At another level they could be designed to provoke an atmosphere of confrontation with the outside world which provides the president with practical advantages in his struggles with opponents inside the regime. Iran's further isolation would cause the regime to coalesce against the external challenge. And while Ahmedinejad would probably be keen to avoid a military confrontation with the international community, and may calculate that the risks of such a confrontation are low, he would not fear it if it eventuated. For one thing the threat of such a conflict would only increase the

² Ali Akbar Dareini, Iran president's radicalism, isolationism and closed decision-making anger even friends. *Associated Press Newswires*, 28 November 2005.

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importance of the Revolutionary Guard, the Basij and the intelligence services, key presidential power bases.

As president, Ahmedinejad is just one of a number of key players in the formulation of foreign and security policy that includes the Supreme Council for National Security, the Expediency Council under Rafsanjani and, above all, Supreme Leader Khamene'i, the pre-eminent spiritual and political figure in the Islamic republic. As the regime has shown in the past, it is perfectly willing to sacrifice ideology for the sake of more pragmatic national (or even personal economic) interests. It is still possible, therefore, that the regime establishment may force Ahmedinejad to moderate his more incendiary rhetoric; there have already been some efforts to curtail the new president's power.

The Supreme Leader's role will be critical in how this internal conflict plays out. Superficially, Ahmedinejad's rhetoric is in line with that of Khamene'i. In reality, however, the relationship is probably an uneasy one given their generational differences. The Supreme Leader is also part of the regime establishment against which the president rails. And precisely because Ahmedinejad preaches a return to the principles of the revolution, it will not be easy for even the Supreme Leader to rein him in even if Khamene'i decides it is in Iran's national interest to do so.

Driving the international community together

If Ahmedinejad's outbursts are serving his own political interests inside Iran, they are also

helping to maintain a semblance of unity on the nuclear issue outside Iran – though for how long is not clear. There has been little distance between the US and Europe on this issue, with Washington backing earlier negotiations between Iran and the EU-3 (Britain, France and Germany) and Brussels of similar mind to the US on Security Council referral. Greater divisions exist between Washington, Moscow and Beijing, but they have been papered over for the moment, at least while the Russian compromise proposal remains in play.

For Washington the stakes are high. A nuclear-armed Iran would threaten critical US interests in the region in a number of ways: it would likely embolden a regime with strong links to Hizballah and other terrorist groups; endanger strategic waterways in the Gulf; threaten key allies such as Israel, Iraq and Saudi Arabia; and contribute to regional and global nuclear proliferation.

Given the importance of these interests, some of the Administration's critics (and indeed its supporters), have been surprised at the extent to which President Bush has made a point of working with allies and partners on the issue. In part this is smart statecraft, calculated to maximise international solidarity. But it has also been conditioned by an overall shift in US strategy in the past two years. Foreign policy in the early period of George W. Bush's presidency was marked by unilateralism and the explicit advocacy of pre-emption and regime change through the use of force. Since late 2003, however, it has undergone a significant recalibration: diplomacy has become the comeback concept. Washington has had a rapprochement with Tripoli despite Libya's appalling human rights record; cooperated with

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Paris in getting the Syrians out of Lebanon; and worked with Beijing, Tokyo, Moscow and Seoul over the North Korean nuclear program. The State Department has returned to prominence and the Pentagon has taken a step back. Many of the Administration's formerly dominant neoconservatives and assertive nationalists have been stripped out of the foreign policy process and now find themselves in the private sector, in international organisations, or in court.³

There are a number of reasons for this shift in US policy, and they all have to do with the war in Iraq. The failure to locate WMD undermined faith in the reliability of US intelligence, which is a critical component of any pre-emptive use of force. The inability to subdue the insurgency in Iraq has exposed the limits of US power – not only to foreign capitals but to the increasingly restive American people and their representatives in Congress. (The latest polling by the Pew Research Center and the Council on Foreign Relations, for example, shows a sizeable jump in the number of Americans who believe their country should mind its own business internationally.⁴) President Bush knows that his historical legacy is tied up in Iraq, and the struggle to avoid failure there imposes serious restrictions on Washington's freedom of movement elsewhere.

Current US policy, then, is being determined both by the politics of the Iran issue and the

general lines of American grand strategy. Both influences are tending towards diplomacy – at this stage.

Where do we go from here?

It is possible that, faced with a unified international front, Tehran will agree to the Russian compromise (perhaps hoping it might be able to backtrack later). But this is the less likely scenario. Iran will probably keep playing for time by rejecting the compromise publicly, but not unequivocally. The problem for Iran is that it cannot mollify the US and EU indefinitely. It is very likely that at some point in the next twelve months the US and the EU will seek action on the IAEA Board of Governors' September 2005 resolution referring Iran to the United Nations Security Council. There are three possible stages in the escalation of the Iran nuclear issue: getting to the Security Council; decisions taken by the Council; and actions taken after the Council.

Strictly speaking, a referral from the IAEA Board to the Security Council is not necessary: any Council member can, in theory, propose an issue to the Council. However, assuming that no breakthrough occurs in coming months, the US and its allies are likely to nevertheless push for a referral from the Board in order to add credibility to their cause. A vote for referral would likely be won. The 23 September Board resolution, finding Iran guilty of 'many failures and breaches of its obligations', was passed 22-1 with twelve abstentions, including Russia and China. Since then, the composition of the Board has changed and there has been speculation that the election of Libya, Belarus, Syria and Cuba could shift the Board away

³ See two analyses by Michael Fullilove: *Bush is from Mars, Kerry is from Mars too*, Lowy Institute Issues Brief, October 2004, and 'Bush begins to tread softly', *The Age*, 7 November 2005, p.13.

⁴ Pew Research Center and Council on Foreign Relations, *America's Place in the World 2005: Opinion Leaders Turn Cautious*, Public Looks Homeward, November 2005.

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from the US position. In fact, the passing of the baton probably caused no net change to the Board's position, as five of the states which abstained on 23 September (Mexico, Nigeria, Pakistan, Tunisia and Vietnam) have now departed.⁵ A more serious possibility is that the prospect of imminent Council referral could cause several non-aligned states which were previously prepared to stay out of Washington's way to step back into it. Still, a strong vote for referral remains likely.

Even a referral from the Board does not guarantee the Council will consider the question. In practice, a consensus or wide support is required before a proper discussion takes place. If Iran's nuclear program does come before the Council, negotiations will centre on two broad sets of options: words and sanctions. Within the first category the Council could, for example, invite the Secretary-General or another mediator to become involved in the issue. It could pass a resolution (or adopt a statement by the Council President) condemning Iran's behaviour, pressuring it to allow better access to IAEA inspectors or demanding that it cease work on uranium enrichment.

The next rung up the ladder of escalation is UN sanctions, which could take a number of forms. Economic sanctions are unlikely to gain much support because of their likely humanitarian consequences, the possible effect on global

energy prices and the difficulties of policing such sanctions given Iran's size, the nature and variety of its neighbourhood, and its plentiful supplies of oil. Diplomatic sanctions are more plausible, perhaps targeted against particular members of the Iranian regime.

Which option will be exercised? The politics of the Council will be easier for the American side in 2006, with two states who abstained from the 23 September vote of the IAEA Board (Algeria and Brazil) being replaced on the Council by countries which supported the US position (Ghana and Peru).⁶ Ultimately, though, the outcome of any debate will depend to a significant degree on the positions of Russia and China, both veto-wielding permanent members. Tehran has relied on both countries for succour and while both have edged closer to the Western position their support for the US/EU position may evaporate once the Council is seized of the matter.

Iran is a strategically important country and both Moscow and Beijing have thick economic relationships with it. Russian science, technology and weapons exports are one of the few patches of sunlight in its otherwise gloomy economic environment, and US sanctions have made the Islamic Republic a particularly valuable market for the Russians. Politically, Moscow's determination to exercise its great power prerogatives (and squeeze the Americans into awkward positions) should never be underestimated. China is a hungry consumer of Iranian energy: over the past year, for instance,

⁵ The members of the IAEA Board of Governors for 2005-2006 are Algeria, Argentina, Australia, Brazil, Belarus, Belgium, Canada, China, Colombia, Cuba, Ecuador, Egypt, France, Germany, Ghana, Greece, India, Indonesia, Japan, Republic of Korea, Libya, Norway, Portugal, Russian Federation, Singapore, Slovakia, Slovenia, South Africa, Sri Lanka, Sweden, Syria, United Kingdom, United States of America, Venezuela, and Yemen.

⁶ In 2006 the Council will comprise: the permanent five, Britain, China, France, Russia and the United States; and ten elected members, Argentina, Denmark, Greece, Japan, Tanzania, Congo, Ghana, Peru, Qatar and Slovakia.

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Chinese companies have struck preliminary agreements to purchase several times as much liquid natural gas from the Iranians over the next quarter-century than was announced in Australia's celebrated North-West Shelf Venture of December 2004.

The way in which any debate in New York plays out may depend to a great degree on the discussions that precede it in Vienna. If the US can demonstrate that it has exhausted all reasonable options at the IAEA level then the chance of getting a meaningful Council discussion is increased – which means the issue may drag out for some time.

Jaw-jaw or war-war?

Even if diplomacy on the Iranian nuclear issue is successful in the short term, the unpalatable truth confronting the international community is that in the medium to longer term the options for forcing Iran to change its behaviour are probably limited. Even if Iran accepts the Russian proposal on uranium enrichment, suspicions will remain that Tehran will pursue nuclear weapons through other covert avenues. And if, as is more likely, Iran rejects the Russian proposal and the issue is brought before the Security Council, there are limits to what the Council will be able to achieve.

Under these circumstances two other options present themselves: direct negotiations between Washington and Tehran and unilateral military action. The US has more to offer Iran by way of economic inducements than any country or bloc. However, broad bilateral talks are unlikely to occur. If such negotiations never got off the ground in the more permissive

environment of the administrations of former Iranian President Mohammed Khatami and former US President Bill Clinton, they are less likely to fly under the hawkish presidencies of Bush and Ahmedinejad.

The use of force cannot be dismissed. Certainly the Security Council would be highly unlikely to authorise such action. And a US invasion on the scale of Iraq is not, of course, contemplated: the US military is overstretched, America's credibility has been damaged, and in any case Iran is three times larger than Iraq in terms of both geography and population.

The more likely option is unilateral US (or much less probably, Israeli) air strikes designed to set back Iran's nuclear program by a number of years and in the hope that in the mean time Iran's regime might change as a result of internal processes. Indeed, while the imbroglio in Iraq would seem to militate against further use of force in the region, Iraq offers advantages in terms of air and ground bases from which to strike into Iran (a situation that probably won't last indefinitely).

Of course, the military option also involves significant risks. It is questionable whether such strikes could deal a serious blow to a well-dispersed, defended and bunkered Iranian nuclear program. Even if successful, the White House would have to balance the prospect of delaying Iran's nuclear effort for a few years against its effect on Iran's international behaviour, the United States' reputation and position in the region, the situation in Iraq, and international oil prices, to identify just some of the possible consequences. Furthermore, President Bush would have to sell this option to a foreign policy élite and an American public

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which is clamouring to get out of its current Middle East deployment, let alone initiating a new one.

Nonetheless, it would be brave to believe that just because the outcome of the military option may be uncertain, Washington won't try it anyway. Faced with poor policy options all round, Washington may feel at some point that it has to risk the uncertain to prevent what it regards as the unthinkable.

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ABOUT THE AUTHORS

Anthony Bubalo is a Research Fellow at the Lowy Institute for International Policy. His principal research interest is the politics of the Middle East. Prior to joining the Lowy Institute he worked for the Department of Foreign Affairs and Trade (DFAT), serving in Australian diplomatic missions in Saudi Arabia and Israel. He was also Senior Middle East Analyst with the Office of National Assessments from 1996 to 1998. From 2002-2003 he was a director on the Australian government's Iraq Task Force, and subsequently was DFAT's Senior Speechwriter. Major publications include, with Dr Greg Fealy, *Joining the Caravan? The Middle East, Islamism and Indonesia* and with Mark Thirlwell, *Energy Insecurity: China, India and Middle East Oil*.

Dr Michael Fullilove is the Program Director for Global Issues at the Lowy Institute for International Policy. Previously he worked as a lawyer and an adviser to Prime Minister Paul Keating, and he was a consultant to Frank Lowy AC on the establishment of the Lowy Institute. Michael graduated in government and law from the Universities of Sydney and New South Wales, with dual university medals. He also studied as a Rhodes Scholar at the University of Oxford, where he took a master's degree in international relations and wrote his doctorate on United States foreign policy. Michael's Institute publications include *Angels & Dragons: Asia, the UN, Reform and the next Secretary-General*, and *Diaspora: the World-Wide Web of Australians* (with Dr Chloë Flutter). His first book, *'Men and Women of Australia!' Our Greatest Modern Speeches*, was published by Vintage in November 2005.

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