



Contain and Engage

*A New Strategy for Resolving
the Nuclear Crisis with Iran*

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Contents/

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CONTAIN & ENGAGE

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INTRODUCTION AND SUMMARY

For six years, the United States has ineffectively confronted Iran over its nuclear program. Bush administration officials had several opportunities to constrain, perhaps even end, programs that could eventually give Iran a nuclear-weapons capability, but they rejected negotiations in favor of efforts to replace the ruling clerical regime. These efforts failed.

Iran now believes that it grows stronger while the United States grows weaker. U.S. entanglement in Iraq, the global addiction to oil, and the difficulties of building and sustaining a credible diplomatic coalition against Iran's budding nuclear program have emboldened Tehran and hardened the country's determination to proceed with its uranium enrichment efforts, which could produce not just fuel for reactors but fuel for bombs. Iran's government has exploited both the Iraq war and the international dispute over its nuclear development efforts to create rifts between the United States and our essential security partners.

In the process, Iran's clerical regime has broadened its regional influence, and in some ways strengthened its rule at home. The Bush administration has responded primarily by ratcheting up financial and military pressures, but has failed to change Iranian policy.

The administration's recent actions and rhetoric paint a disturbing picture of a president preparing for war with Iran. The United States has every right to protect its forces in Iraq and the region.

U.S. military action that strays beyond these limited objectives, however, could harden Iran's nuclear ambitions and give ammunition to those within the Iranian regime who say that nuclear weapons capabilities are the only way to safeguard their country.

There is little reason for Americans to have confidence in the Bush administration's failed strategy for dealing with Iran. Its counter-proliferation and democracy-promotion strategies, heralded as fundamental breaks from the policies of the previous decades, have proved disastrous. The Iranian nuclear program has accelerated over the past six years, while other proliferation problems have worsened across the board.

A more effective approach is urgently needed. This report offers a new way forward.

We identify five basic U.S. policy options for dealing with Iran's nuclear program, none of which offers an assured path to success. The options are:

- 1. Maintain the status quo of "muddling through."**
- 2. Non-military efforts to replace the current regime.**
- 3. Military attacks on known Iranian nuclear facilities.**
- 4. A "grand bargain."**
- 5. Decisive diplomacy to roll back Iran's nuclear programs.**

No simple solution exists for solving the Iranian nuclear problem. By rejecting the obviously flawed options, however, and then conducting a sober appraisal of the possible, we are left with our best available option: *decisive diplomacy to contain and engage Iran.*

This option boasts a number of interrelated policy proposals that we believe can achieve our core objective—the negotiated end of Iran's nuclear enrichment program—within 12 to 18 months. The contain-and-engage strategy offers the best chance of testing Iran's interest in trading away any future nuclear-weapons capability for present security and economic benefits that would accrue to the vast majority of the Iranian people.

At the same time, the strategy lays the groundwork for more effectively containing Iran should the country's divided ruling elites still press ahead with its nuclear enrichment program. The strategy will also help illustrate to the Iranian people and the world that the United States tried to resolve our dispute with the clerics.

But first, what's wrong with the first four options? This paper will explore in detail all five options, but briefly, here's why we ultimately rejected the first four.

The first option, to "muddle through," is often the default option in national security policy, particularly when deep divisions exist within a government. This is a policy with no clear

The contain-and-engage strategy couples coercive diplomacy with practical compromise to maximize the chances that Iran

strategic vision on how to employ the tools of American power—political, economic, and military—to achieve a common objective. Alas, “muddling through” is the current approach of the Bush administration. Divisions within the Bush administration have produced major strategic missteps in U.S. policy towards Iran, contributing to a worsening nuclear crisis and expanding Iranian influence in both Iraq and Afghanistan at the expense of America. Partial measures, whether negative, such as the sanctions imposed by the U.S. Treasury Department, or positive, such as the endorsement of economic incentives offered by the European Union, are unlikely to convince Iran to abandon uranium enrichment,¹ as we detail on page 24.

The second option, to pursue regime change through democracy promotion and other non-military means, is unlikely to fundamentally change the character of the clerical government under the Iranian constitution. Direct U.S. aid or sponsorship of anti-government groups in Iran could fatally damage those group’s credibility, weakening the indigenous forces for reform and retarding a genuine change of the regime. And even if such a change were to occur (as we detail on page 27), there is no guarantee that a democratically accountable government would renounce Iran’s nuclear programs.

The third option, to conduct military strikes against Iran’s known nuclear facilities, is the option least likely to achieve U.S. national

security objectives. The United States could not assume that air strikes would buy anything more than a few years’ delay in Iran’s nuclear enrichment program. It is unlikely that the United States and its partners could use this delay to end Iran’s nuclear program. Military strikes would likely consolidate support for an otherwise unpopular government, provoke a variety of asymmetrical military responses that could develop into a sustained war with Iran, and trigger global economic and political repercussions highly detrimental to American global security interests. This option is the worst of the lot, as we detail on page 30.

The fourth option, to negotiate a “grand bargain” with Iran, is not practical. It would require the simultaneous resolution of too many other U.S.-Iranian conflicts to achieve the most important objective—the negotiated end of Iran’s nuclear enrichment program. We agree with the vision of a “grand bargain” outlined by Middle East expert and former Bush administration official Flynt Leverett, who argues (beginning on page 33) that the resolution of the nuclear issue requires “an overarching framework in which outstanding bilateral differences are resolved as a package.”² Neither the Bush administration nor the governing coalition in Iran, however, is capable of making the sweeping changes required by this strategy in the near term. Moreover, the issues of Iran’s involvement in Iraq, its support for Hezbollah and Hamas, its hostility towards

es the pressures created by sanctions and
omises and realizable security assurances
n abandons its nuclear ambitions.

Israel, and its human rights record can and should be pursued on independent tracks from the nuclear issue.

Iran's nuclear enrichment program is by far the most urgent issue and it alone has the attention of the UN Security Council and the leverage that brings. By holding this issue hostage to the resolution of all issues, the grand bargain strategy risks failure to resolve any of them. That's why we believe our final option, to simultaneously contain and engage Iran, offers the best possibility of moving toward a broader agreement with concrete, reciprocal measures based on the principle that would underlie any grand bargain—recognition that the United States must address Iranian security concerns in exchange for Iran addressing ours.

The contain-and-engage strategy offers the best hope for slowing Iran's nuclear efforts, testing Iran's willingness to trade nuclear weapons capabilities in exchange for a fundamentally different relationship with the United States, and hedging against the failure of diplomatic efforts. The chief goal of this policy is to end Iran's uranium enrichment program.

The strategy recognizes that progress towards this goal is unlikely without progress on the overall U.S.-Iranian relationship, the development of regional security arrangements and the creation of a mechanism for assuring a steady supply of nuclear fuel to Iran and other nations. Our strategy, however, is not a long-term, comprehensive strategy for resolving all the issues that separate the U.S. and Iran. Rather, it focuses on the near-term challenge of constraining Iran's nuclear program so that the most dangerous aspect of that program—uranium enrichment—can be curtailed.

The reason: If Iran's enrichment program is not delayed over the next two years, Iran's nuclear engineers may achieve a level of

self-sufficiency to enable them to hide their activities from international inspectors and national intelligence agencies far more effectively. This could undermine the balance of power in the region and the viability of the global nonproliferation regime.

Conversely, constraining Iran's nuclear program would create the necessary time to work toward resolving a broader range of issues with Iran and shore up global efforts to stop the spread of nuclear weapons. Thus, U.S. policy should look to implement a series of measures that could contain the Iranian nuclear program and minimize Iran's regional influence.

We should complement these containment efforts with sufficient diplomatic openings to engage pragmatic members of Iran's ruling elite and appeal to the broad masses of the Iranian public in order to isolate and weaken the radical revolutionary elements represented by President Mohammed Ahmadinejad. Key elements of this policy include:

- Isolating Iran as long as it continues with its nuclear enrichment efforts;
- Preserving the unity of the UN Security Council and other nations engaged in negotiations with Iran over its nuclear program;
- Maintaining international and national sanctions, however limited, for the pressure they bring on the Iranian economy;
- Restricting Iran's access to nuclear and missile technologies;
- Breaking the diplomatic stalemate over Iran's defiance of the Security Council's demand to suspend enrichment, including direct dialogue with Iran;
- Investing in new diplomatic infrastructure, both security- and nonproliferation-related, across the Middle East in



Power Centers. Clockwise from left, Iran President Mahmoud Ahmadinejad, Supreme Leader Ayatollah Khamenei, Supreme National Security Council Secretary Ali Larijani, former president Akbar Hashemi Rafsanjani. (AP)

order to engage and contain Iran and to provide assurances to key U.S. allies that the United States remains committed to their security;

- Preparing smart military options to thwart any offensive Iranian military activities;
- Engaging Iran economically, beginning with the gasoline refinery sector;
- Creating a regional nuclear fuel bank consortium under IAEA leadership;
- Laying the diplomatic groundwork for a long-term strategy of containing Iran should negotiations break down.

In short, the international community must constantly remind Iran of the potential benefits as well as the continued and escalating

costs of its failure to comply with its nonproliferation obligations. Rather than pursue the faint hope that the organization of coercive measures will force Iran's capitulation, our contain-and-engage strategy couples the pressures created by sanctions, diplomatic isolation and investment freezes with practical compromises and realizable security assurances to encourage Iran onto a verifiable, non-nuclear weapons path.

As our report will make clear, a technical assessment of Iran's nuclear development program alongside a fundamental understanding of the complex political dynamics within that country point inexorably toward our approach as the best U.S. national security option available. There is no guarantee of success, but without making the effort, we face guaranteed failure.

IRAN'S NUCLEAR PROGRAM: A TECHNICAL ASSESSMENT

Any effort to control Iran's nuclear program must be informed by an accurate technical assessment that identifies what we do and do not know, along with "wild-cards" that could accelerate or delay the program. Misjudging the nature of the threat will lead to strategies that either overreach or under react.

The Nuclear Fuel Cycle: Fuel for Energy Reactors or Bombs

Uranium enrichment involves two basic steps: acquiring the feedstock for uranium enrichment, uranium hexafluoride (UF_6), and then spinning the UF_6 in gaseous form at super-sonic speed in centrifuges.³ This process separates U-235, the isotope of uranium used in the explosive core of a nuclear weapon, from U-238, the far more common isotope comprising 99 percent of natural uranium. Uranium enriched to three percent to five percent U-235 is used for fuel rods, and is known as low-enriched uranium (LEU); uranium enriched to 70 to 90 percent U-235 is used for bombs, and is considered highly enriched uranium (HEU).⁴ Additionally, when low-enriched uranium fuel is burned in a nuclear energy reactor, some of the uranium is converted into plutonium, the other material used in nuclear bombs. This plutonium can be separated from the spent fuel using specialized plutonium separation facilities.

As the accompanying diagram (page 12) shows, a country need not assemble and test a nuclear weapon to derive many of the perceived benefits of having a weapon. Developing the industrial complex necessary to enrich uranium or separate plutonium, as we explain in our analysis of the implications of Iran's program for U.S. national security on page 24, can convey national

prestige or generate regional fears. This technology can produce fuel for nuclear power reactors or the explosive core of a nuclear weapon. The Non-Proliferation Treaty, or NPT, does not prohibit countries that have signed onto the treaty from making and holding weapons-grade material, provided these activities are exclusively—and in good faith—for peaceful purposes and the material is under International Atomic Energy Agency safeguards. The IAEA, for instance, polices some civilian research reactors that use highly enriched uranium for fuel.

The History and Politics of Iran's Nuclear Program in Brief

Iran's nuclear efforts began in the 1960s under the late Shah Reza Pahlavi. After a brief interruption during the 1979 revolution that ushered in the current clerical regime, the new Islamic Republic restarted the country's nuclear efforts in the early 1980s in the midst of Iran's eight-year war with Iraq. Although the new government began acquiring design information and technical assistance for the construction of uranium conversion facilities and centrifuges from China and Pakistan beginning in the mid-1980s, the program for the enrichment of uranium has proceeded very slowly, not least because of steep technical challenges. This program proceeded alongside the public program to construct a 1,000-megawatt power reactor at Bushehr (see map, page 7) with Russian assistance.⁵ Iran also began another previously secret program that could give it the ability to re-process, or extract, the plutonium produced by this and other reactors.

Iran's nuclear enrichment program was also constrained by a combination of weak government revenues (as oil prices fell precipitously during the 1990s) and uneven support within Iran's governing elite. Beginning around 1999-2000, however, the Iranian

IRANIAN NUCLEAR FACILITIES



government began advanced engineering and development work for its secret uranium enrichment program, driven initially by a combination of increased government revenues (as oil prices rose) and a growing desire for regional dominance. These efforts were fed thereafter by U.S. threats of regime change and domestic politics.⁶

Iran's influence in the Middle East began to grow beginning in late 2003, as the insurgency in Iraq began to metastasize. The U.S. had eliminated two of Iran's regional rivals, the Taliban in Afghanistan in 2001 and Saddam Hussein in Iraq in 2003. In the intervening years, the Iranian regime actively cooperated with the United States in Afghanistan but felt increasingly threatened by U.S. rhetoric, including President Bush's 2002 State of the Union labeling Iran—along with Iraq and North Korea—part of an “axis of evil.”

In early 2003, the Iranian regime indicated a willingness to negotiate an end to its support for Hezbollah, its opposition to

the Israeli-Palestinian peace process, and possibly its nuclear program. An April 2003 proposal from Iran detailed a road map for resolving these differences. The Bush administration ignored Iran's overtures and key officials, including then-National Security Advisor Condoleezza Rice, now claim they never saw the Iranian proposal.⁷ As the insurgency in Iraq began to mount in 2004-2005, however, some in Iran lost interest in negotiating, as they perceived an opportunity to advance Iran's influence in the region at the expense of the United States. Iran's confidence grew in the aftermath of the Israeli-Lebanese conflict in the summer of 2006.

These developments have contributed to a growing consensus among Iranian elites that mastering uranium enrichment could enable Iran to achieve several key goals of paramount importance. These include deterring U.S. interference in Iran's internal affairs, consolidating regional dominance, and sustaining Iranian nationalism and support for the current regime.⁸

The Plutonium Route to a Bomb

In order to produce plutonium for a bomb, Iran must acquire a nuclear reactor, which produces plutonium in the fuel rods, and a specialized plant for extracting the plutonium from the spent fuel.

Iran is building a 40 MW heavy-water nuclear reactor complex at Arak. A heavy-water reactor uses natural uranium as fuel (bypassing the need to enrich the uranium) and produces more plutonium more quickly than other reactors. Iran claims the reactor is for civilian nuclear research. In August 2006, Iran opened a plant at Arak for producing “heavy water” that would be used to cool the planned reactor. The reactor itself is scheduled for completion in 2009, but it is highly unlikely to meet

that deadline. The light-water reactor at Bushehr being built with Russian assistance would offer Iran another alternative for acquiring plutonium. That reactor, if and when it is completed in the second half of 2007, will use low-enriched uranium fuel leased from the Russians. As part of its arrangement with Russia, however, Iran must also return the spent fuel to Russia.

To extract the plutonium from either source, Iran would have to build a reprocessing plant that uses chemical processes to separate plutonium from the spent fuel. Iran has told the IAEA that it has no plans to build such a facility; such a facility would be very difficult for Iran to hide.

Iranian President Mahmoud Ahmadinejad's populist, pan-developing world approach to the issue has raised his international profile and initially won him some political credibility at home, which gave him some room to adopt economic policies that Iran's traditional hardliner conservatives found objectionable. As we explain in our analysis of Iran's domestic politics on page 14, however, Ahmadinejad's domestic political credibility has begun to erode as Iran's economy suffers from capital flight arising from uncertainty over the outcome of the nuclear dispute, the impact of sanctions, and the inflationary effects of Ahmadinejad's economic policies.

Iran's Nuclear Program: Current Status and Future Potential

Iran is still in the early stages of perfecting uranium enrichment; its effort to develop an indigenous capacity for producing plutonium is even further behind. Despite the progress of the past five to seven years, its enrichment program, which currently poses the greatest concern, and constitutes our focus here, continues to face major technical obstacles that will take Iran many years to resolve.

Iran's declared uranium enrichment program is based on relatively primitive P1 gas centrifuge technology it acquired from A.Q. Khan, father of Pakistan's nuclear bomb and mastermind of a global black market in nuclear technology. Since 2001, Iran has completed most of the construction of a massive uranium-enrichment facility at Natanz, including protecting it from air attack under several meters of dirt and reinforced concrete.

The country also has: converted uranium to uranium hexafluoride at the new facility at Isfahan; opened new uranium mines; opened a heavy-water production plant at Arak and begun construction of a 40 megawatt (IR-40) reactor there; started

construction on a fuel manufacturing plant at Isfahan; tested centrifuges with uranium hexafluoride; and produced their first samples of low-enriched uranium. In late 2007, Iran also plans to commission its first nuclear power reactor at Bushehr.

Iran says publicly that it plans to move steadily from its two existing test cascades of 164 centrifuges each to a pilot facility of some 3,000 centrifuges. Iran plans to finish installing the 3,000 centrifuges in the spring of 2007, but it will likely be several years before the centrifuges are actually capable of reliably enriching uranium, as we explain further below. Most of the progress in constructing and operating Iran's main enrichment-related facilities—which have cost the country an estimated \$600 million to \$1 billion, according to the U.S. Department of State—appears to have occurred within the past five-to-seven years.⁹

Once Iran completes the 3,000-centrifuge cascade, it plans to construct a facility with more than 50,000 centrifuges at Natanz, ostensibly for the production of fuel for the Bushehr reactor.¹⁰ A facility operating with 50,000 reliable P1 centrifuges could produce enough highly-enriched uranium for dozens of bombs a year, depending on the quality of the UF₆ introduced into the centrifuge, the efficiency of the centrifuges, and other engineering factors.

Iran Still Faces Major Obstacles, But Could Eventually Overcome Them

The U.S. government's May 2005 National Intelligence Estimate on Iran's nuclear program projects that Iran is five to 10 years away from the ability to produce indigenously enough highly enriched uranium, or HEU, for a bomb, according to published accounts of the classified study. That NIE timeline represents the consensus judgment of the U.S. intelligence community.

The NIE does not say that Iran will definitely acquire a nuclear weapon in five to 10 years, or even that it is likely or probable that Iran will acquire a weapon in that timeframe. Rather, the NIE provides a conservative, worst-case estimate “designed to reflect a program moving full speed ahead without major technical obstacles.”¹¹

Director of National Intelligence John Negroponte restated this estimate on Sept. 1, 2006, in effect pushing it out another year. He told National Public Radio: “Sometime beginning in the next decade, perhaps out to the middle of the next decade would be a good timeframe. Five to 10 years from now.” Results of technical analyses by David Albright of the Institute for Science and National Security and by the International Institute of Strategic Studies mirror the U.S. intelligence community’s estimate.¹²

If Iran were to experience major technical obstacles, then it could be expected to take even longer. Iran appears to be experiencing just such problems, both in its ability to convert uranium ore to uranium gas at Isfahan and in its ability to get its centrifuges to enrich that gas.

Iran’s scientists do not seem able to produce pure high-quality UF₆ at this time. Richard Stone in *Science* magazine reports that, according to a U.S. State Department official: “Iran has struggled to convert UF₄ into UF₆, a dangerous process involving highly toxic and corrosive fluorine gas. The official also claims that Iran’s UF₄ is tainted with large amounts of molybdenum and other heavy metals. These oxyfluoride impurities in UF₄ ‘might condense’ and thereby ‘risk blockages’ of valves and piping.”

Iran can perfect these techniques, but it will take time. The problem with the centrifuges, according to the report, is that they over-

heat as they spin the uranium at supersonic speeds. “The Iranians are unable to control higher temperatures, and after a short period they must stop because of higher temperatures,” one Western intelligence official told *The Washington Post*’s David Ignatius. “So far they haven’t been able to solve this. They are simply crashing.”¹³

An August 31, 2006, IAEA report indicates that Iran’s experiments with its small 20-centrifuge test cascade have met with limited success. The same is true of the first 164-machine cascade used to enrich a small amount of uranium earlier in 2006, which has apparently operated only for days at a time, and the second 164-machine cascade opened in October 2006. Between August and November 2006 Iran enriched 34 kg of uranium to levels below five percent, or the level necessary for fuel rods used in nuclear energy reactors but not weapons, the IAEA reported in November. Weapons-grade uranium is normally greater than 90 percent enriched; Iran claims it has not enriched uranium beyond low levels.

Iran will most likely overcome these obstacles if left to its own devices, but not for several years. As Iran develops indigenous engineering and manufacturing capabilities, however, it will become less dependent on foreign suppliers for its program and less vulnerable to disruption or sabotage. Based on public sources, it is unclear when Iran will cross this threshold; it may already have. At the very least, in one to two years’ time, Iran is likely to have amassed enough experience building and operating centrifuges to make it even more difficult to gauge Iran’s overall competence with centrifuge technology.

There are also unresolved questions about Iran’s program that make it impossible to wholly exclude the possibility that Iran could achieve a surprise breakthrough. We

identify three critical ‘known unknowns’ about Iran’s program that could change the timeline and leave the United States vulnerable to a surprise Iranian nuclear *fait accompli*:

- If Iran has a parallel, secret enrichment effort capable of producing weapons-grade HEU before 2010, possibly using a more advanced P2 centrifuges.¹⁴
- If Iran has access to an alternative source of HEU, such as highly enriched uranium stolen or diverted from one of the many dozens of HEU stockpiles located around the world, or a supply of low-enriched uranium stashed in fuel rods that it could quickly enrich to weapons quality.
- If Iran acquires fissile materials or a complete nuclear weapon from a foreign government, such as Pakistan or North Korea.

Each of these “known unknowns” could dramatically shorten the timeline, and a credible U.S. policy towards Iran must take steps to hedge against them. But uncertainty cuts both ways. It is also possible that circumstances arise that *limit* Iran’s program. The program could actually be much less advanced than we think.

Most countries that have tried to enrich uranium have faced major technical obstacles; Iran’s record to date suggests that

it is no different. While prudence demands that the United States not count on these possibilities, a clear understanding of them highlights key bottlenecks in Iran’s program that U.S. policy should strive to exploit. Key wildcards include:

- If enrichment technology simply proves too difficult or expensive.
- If Iran cannot acquire key components, as a result of UN or multilateral sanctions.
- If the political divisions within the Iranian government exacerbate management problems in the nuclear program.

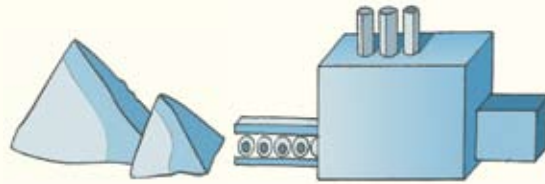
Absent an Iranian decision to end the program, these are factors that can only limit the rate of progress. A country of Iran’s size, technological sophistication, and wealth that is determined to perfect uranium enrichment will eventually do so. Pakistan, Iran’s neighbor to the southeast, is the classic case in point.

Yet sanctions, censure, export controls, and economic and technological problems have slowed down past efforts, such as those in Argentina and Brazil, allowing time for internal changes in governments to reverse previously resolute decisions to proceed with nuclear programs. Could that happen in Iran, too? To that question, we now turn.

URANIUM PRODUCTION MATRIX			
	LEU (4.4%)	HEU (90%)	BOMB EQUIVALENTS
P-1 Centrifuge	19.5 tons	585 kg	25
P-2 Centrifuge	48.7 tons	2,924 kg	120
URENCO Centrifuge	975 tons		

This matrix depicts the Annual Production of 50,000 Centrifuges at Natanz.

Uranium Mining & Milling: Uranium ore is mined and taken to a specialized mill, where it is processed into yellowcake, a powdery uranium oxide concentrate.

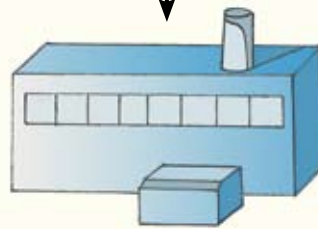


Uranium Mining & Milling



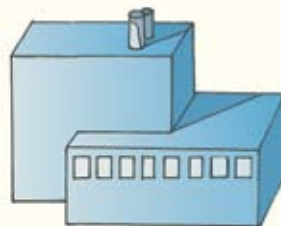
Uranium Conversion

Facility: A chemical plant purifies the yellowcake and converts it to uranium hexafluoride (UF_6), a highly toxic gas that can be used as a feedstock for uranium enrichment. UF_6 contains 0.7% U-235, the isotope of uranium used in energy reactors and bombs. The remainder is mostly U-238.



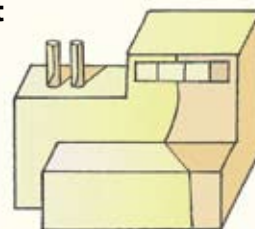
Uranium Conversion Facility

Uranium Enrichment: Most nuclear reactors require low-enriched uranium (LEU) that is 3-5 percent U-235. Nuclear weapons require highly-enriched uranium (HEU) that is typically above 90 percent U-235. There are several methods to achieve this higher proportion of U-235. Gas centrifuge technology, however, is the most common and economical method. It is the method that Iran is using. With this technology, centrifuges spin the UF_6 gas at supersonic speeds to progressively enrich, or concentrate, the proportion of U-235.

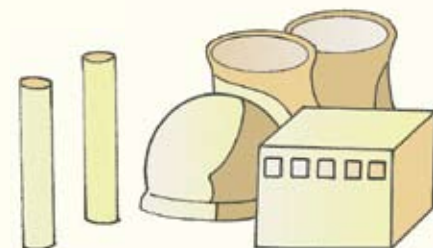


Uranium Enrichment

Highly-enriched Uranium



Reactor Fuel Fabrication



Uranium Fuel Rods

Reactor

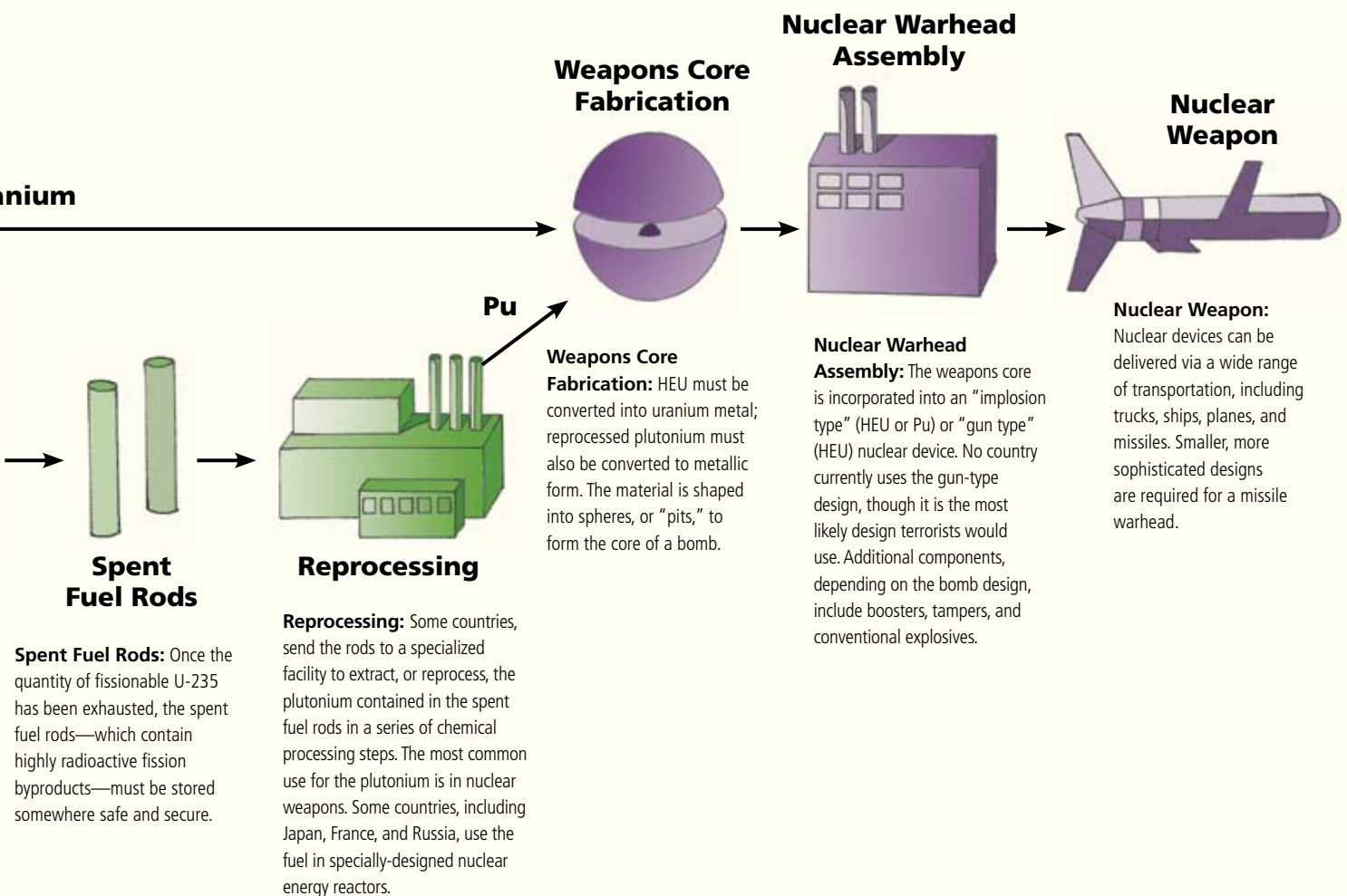
- Near-nuclear weapons capacity; can produce enriched uranium for energy reactors or bombs.
- Low risk, provided the spent fuel is not reprocessed.
- Near-nuclear weapons capacity; can produce plutonium for energy reactors or bombs.
- Weapons production capability.

Reactor Fuel Fabrication: The LEU is converted into uranium dioxide (UO_2) powder and pressed into pellets. These pellets are then inserted into thin tubes known as fuel rods. These tubes are assembled in clusters and used in the core of a nuclear reactor.

Uranium Fuel Rods: In the reactor, the radioactivity from the fuel rods heat water into steam, which drives turbines. Those turbines generate electricity. The nuclear chain reaction is controlled by keeping the fuel rods a safe distance apart and introducing "control rods" that help moderate the reaction. This reaction converts some of the LEU into a number of radioactive byproducts, one of which is plutonium (Pu-239).

NUC FUEL P S C H E N E R G

NUCLEAR PRODUCTION ELEMENTS FOR BOMBS



UNDERSTANDING THE ADVERSARY: POLITICAL DYNAMICS IN IRAN

The United States cannot craft an effective Iran policy without a nuanced understanding of Iran's factionalized domestic politics. Internal politics shape Iran's foreign policy decision-making, including over its nuclear program, and consequently shape both Iran's response to efforts by the United States and its partners to constrain the program and Iran's behavior should it succeed in mastering uranium enrichment.¹⁵

The United States has the economic, military, and political leverage to shape Iran's decisions, but it won't be easy. Iran's competing political factions make it very difficult to tell what the "true" Iranian position is amid the infighting. Those internal disputes can drag out decision-making and leave dissatisfied factions capable of sabotaging commitments made by the leadership.

In addition, some influential factions view economic incentives with suspicion, are convinced that Iran does not need productive relations with the West in order to survive, and conclude that Iran can weather economic and political sanctions short of total isolation. Other factions would welcome a more productive relationship with the West, and indeed see it as a prerequisite for the survival of the Islamic Republic.

This does not mean that negotiating with Iran is futile. Rather, the United States has to be prepared for a difficult dialogue.

Neither Dictatorship Nor Democracy

Iran is neither a dictatorship, like Kim Jong Il's North Korea or Iraq under Saddam Hussein, nor a Western-style democracy. "The Iranian Revolution of

1978-1979," according to Nikki Keddie, Professor Emeritus at the University of California-Los Angeles, "united several groups, classes, and parties with disparate ideas who were against the old regime" of Shah Reza Pahlavi.¹⁶

The factions were not united, however, in their vision for the new Iranian state, relations with the West, and the role of religion. The outbreak of the Iran-Iraq war in 1980 enabled the charismatic Ayatollah Ruholla Khomeini to consolidate his vision of a theocratic state. Some factions were accommodated in his theocratic state; others were violently excluded.¹⁷

Today, Iran is a hybrid of more than a dozen unelected and elected institutions and actors that compete for power, influence, and the popular support of the Iranian people. These actors use a combination of Islamic ideology, nationalism, and, at times, violence to achieve their objectives. The authority of these institutions often overlaps and the government does not always speak publicly with one voice, so it is not always clear which entities are guiding policy.¹⁸

The result of this ideological factionalization, as Council on Foreign Relations scholar Ray Takeyh puts it, is that "Iran's foreign policy has always been characterized by a degree of inconsistency and wild oscillation between pragmatism and dogma."¹⁹ This does not mean, however, that Iran's leaders are irrational. There are patterns discernable by examining the two main poles that define the spectrum of political views among the ruling elite in Iran—hardliners and pragmatists, as well as the country's weakened, more moderate reformist faction.

The hardliner faction is traditionally composed of conservative clerics, so-called baazari merchants, and the Islamic chari-

table foundations known as *bonyads*—all of whom, for different reasons, are strongly opposed to foreign economic or social inroads into the country (see details, page 18) Hardliners dominate a number of key governmental institutions, such as the judiciary, the Revolutionary Guards, and the Guardian Council.

Iran's president Mahmoud Ahmadinejad is an upstart hardliner, but some of his policies—particularly in the economic realm—are controversial among the established members of the hardliner faction. The *Economist Intelligence Unit* reports that establishment hardliners have “frustrated aspects of [Ahmadinejad's] economic program.”²⁰

The pragmatist faction is led by Akbar Hashemi Rafsanjani, president of Iran from 1989 to 1997 and currently the chairman of the Expediency Council, an influential advisory body to Supreme Leader Ayatollah Khamenei. A cleric by training, Rafsanjani ran again for President in 2005 but lost to Ahmadinejad. Rafsanjani's views on foreign policy and economic issues broadly align with those of the reformist faction that rose to prominence under President Mohammad Khatami, who served from 1997 to 2005.²¹ The reformist faction, disorganized and lacking a charismatic leader of its own, is currently shut out of government. Hence, hardliners and pragmatists define the main political poles of Iran's government.

What Iranians Think

Key finding of recent public opinion polls

- The goal of eventually eliminating all nuclear weapons: 68 percent of Iranians in favor; 18 percent were opposed.
- Having a nuclear weapons free zone in the Middle East that would include both Islamic countries and Israel: 71 percent in favor; 18 percent opposed.
- Importance of Iran developing a full fuel-cycle nuclear program: 91 percent very or somewhat important; 4 percent not important.
- View of Osama Bin Laden: 74 percent unfavorable (including 68 percent very unfavorable); 10 percent favorable.
- Influence of the United Nations in the world: 58 percent mainly positive influence; 24 percent mainly negative influence.
- Threat of Iran's neighbors developing nuclear weapons: 76 percent view as a critical or important threat; 15 percent not a threat.
- Existing nuclear weapons states “actively work together toward eliminating nuclear weapons” as required by the Non Proliferation Treaty: 6 percent yes; 82 percent no.
- Likelihood that the U.S. will take military action against Iran's nuclear facilities in the next year or two: 48 percent somewhat or very likely; 45 percent not at all or not very likely.
- A military confrontation between Iran and the United States is likely to occur within the next ten years: 28 percent yes, 39 percent no, 20 percent neutral, 14 percent did not answer.

Source: “Public Opinion in Iran and America on Key International Issues.” Conducted by World Public Opinion.org. Published by the Program on International Policy Attitudes. 24 January 2007.

It is unclear where Supreme Leader Ayatollah Khamenei sits on the hardliner-pragmatist spectrum, though the fact that he has surrounded himself with individuals who tend toward pragmatism—such as naming Rafsanjani chairman of the Expediency Council and creating a Strategic Council for Foreign Relations staffed with pragmatists and even reformists—suggests that he has at least some appreciation of the pragmatist position.

What's more, Ayatollah Khamenei is believed to be growing wary of Ahmadinejad's approach to the nuclear issue, fearing that his confrontational approach "is undermining Iran's cause and its standing."²² Newspapers controlled by Khamenei have begun sharp criticisms of Ahmadinejad.

The hardliner and pragmatist factions nevertheless share several prominent characteristics that cut across political lines in Iran. Iranian nationalism is one of them. Both factions share a demonstrated willingness

to "compromise [their] Islamic ideological commitments and abandon endangered Shia communities to their enemies, rather than risk Iranian national interests by entering into foreign adventures," according to Shlomo Brom, a former Israeli Deputy National Security Advisor and retired general in the Israeli Defense Force.²³

Thus, in some areas of policy, such as relations with other Persian Gulf countries and its neighbors to the east, such as Afghanistan and Pakistan, Iran's policy has clearly trended in the direction of pragmatism and realism.²⁴

In other areas, though, notably its support for Hezbollah and its persistent interference with the Israeli-Palestinian peace process, Iran's policy retains much of its ideological character. But even here, Iran's instinct for adventurism appears tempered by an appreciation of Iran's vulnerabilities.

A glimpse of Iran's Baazari economy.



For instance, in April 2003, Iran signaled a willingness to reconsider its support for Hezbollah and its relationship with Israel. Iran perceived U.S. power to be at its apex, as Saddam Hussein's government fell and talk of invading Iran emerged. Iran presented the Bush administration with a road map to resolving the full spectrum of issues, potentially leading to the type of "grand bargain" many desire. While there were some legitimate questions about the credibility of Iran's gesture, the Bush administration ignored the offer and missed an opportunity to test whether the gesture was serious.

Since then, Iran's influence in the region has grown while U.S. power has deteriorated. With the 2005 election of Ahmadinejad, Iran's posture has shifted to one of defiant speeches, rejection of IAEA inspections and United Nations resolutions, and further acceleration of its uranium enrichment and reprocessing programs. Still, Iran has tempered these positions with at times skillful diplomacy to divide the UN Security Council members and create the impression that it is the victim of an American-led conspiracy to thwart its economic development.

Both hardliners and pragmatists also agree that the survival of the Islamic Republic is ultimately contingent on meeting the socio-economic needs of the Iranian people. But how to meet these needs is also a major source of conflict between the factions,²⁵ especially in the face of acute demographic pressures.

Ayatollah Khomeini encouraged Iranians to procreate in the 1980s, and they listened: Iran's population has nearly doubled since the 1979 revolution. An estimated 60 percent of Iran's population is below the age of 30. These baby-boomers came of age after the two pivotal events of their parents' lives, the 1979 revolution and the eight-year war with Iraq.

The rapid population growth has created an enormous youth bubble that Iran's ruling elites fear could burst into widespread

popular discontent. For Iran's baby-boomers, the economy has become the leading political issue. They want to improve their lives, but lack the money, jobs and housing to do so.

An estimated 40 percent of Iranians live under the poverty line.²⁶ Iran's economy generates little productive investment, suffers from unemployment in the range of 15 percent to 30 percent, and is wracked with double-digit inflation. Iran needs to create an estimated 800,000 jobs each year to keep pace with its burgeoning population; it creates only 400,000.²⁷

If Iran fails to modernize its economy, it risks a growing cohort of unemployed youth—a dangerous situation for any country. Iran has tempered this crisis to some extent by heavily subsidizing basic services through the government's oil revenues, but this revenue stream is in danger. The main effect of U.S. sanctions such as the 1995 invocation of the International Emergency Economic Powers Act by President Clinton and the 2006 renewal of the Iran-Libya Sanctions Act on Iran has been a dramatic reduction of financing to improve Iran's oil infrastructure.²⁸ The recent UN and unilateral U.S. sanctions on Iranian banks further deter investors.

More broadly, the Iranian government faces enormous difficulty marshalling the managerial, financial, and technical resources required to manage complex petroleum projects. Iran needs foreign investment and expertise for these projects because its own economy does not generate investment and its base of expertise has deteriorated since the 1979 revolution.

Iran's constitution, however, prohibits foreign ownership of its petroleum infrastructure. This forces Iran to devise cumbersome alternatives to attract foreign investment. These efforts have largely failed.²⁹ In addition, disputes within the Iranian government over the role of foreign companies in Iran's economy serve as another barrier.

The cumulative effect of this is that Iran produces less crude oil today than it did before the 1979 revolution.³⁰ Moreover, Iran's oil exports are expected to decline further over the coming decade, with one analyst—Roger Stern, of Johns Hopkins University—predicting that it could reach zero by 2015.³¹

Pragmatists are convinced the Islamic Republic cannot meet this challenge without undertaking fundamental economic reform at home and pursuing a more productive relationship with the West. The hardliners, however, celebrate Iran's traditional bazaar economy. They benefit from the status quo and resist fundamental economic reform for reasons of self-interest.

Ahmadinejad campaigned for president in 2005 on a platform emphasizing anti-corruption and economic populism, and reportedly believes that the hardliners in power have abandoned their revolutionary commitment

to economic justice. But he has failed to deliver on the anti-corruption and economic promises that won him election—in no small part due to hardliner opposition and their vested interest in the status quo.

Ahmadinejad's academic purges and his contempt for the traditional clerical elite have also swelled the ranks of his domestic opponents. The setbacks he suffered in the December elections, the recent rise in student protests, and the newspaper criticisms are the most public signs of growing popular opposition to his policies.³⁷ These domestic political developments present the United States with opportunities to further frustrate Ahmadinejad's economic plan, divide the hardliner faction against itself and the Iranian people, and enable reform-minded Iranian leaders to enlist the support of the Iranian people for a more productive economic relationship with the West.

The Powers Behind Iran's Unique Baazari Economy

Complicating any effort by the United States and the UN Security Council to offer Iran economic carrots in exchange for an end to their nuclear enrichment program are the main constituents of Iran's hardliner faction—right-wing clergymen, the baazari merchants, and Islamic charities known as *bonyads*. They share a common set of conservative economic and political preferences that include opposition to taxation, government regulation, and other measures that could help transform Iran into a modern, industrial economy.

The baazari merchants prefer “an economic system where they, as middlemen, are free to import and sell with the least governmental interference and regulation.”³² The *bonyads*, which control 10 percent to 20 percent of Iran's economy, oppose governmental regulation for similar reasons.³³ The clergy oppose governmental taxation because it cuts into the pool of money that observant Muslims are obligated to give away as charity to mosques and religious schools.³⁴

The baazari merchants and the *bonyads* are the primary financial backers of the clergy, and financed the 1979 revolution. The clergy, in turn, legitimate the economic activities of the bazaaris and the *bonyads*. Over the years, these hardliners have served as the primary obstacle to economic reform in Iran.³⁵

Beginning in 1989, Rafsanjani and later the reformist president Mohammad Khatami sought “World Bank-inspired structural adjustment policies” in which the government would actively “stimulate growth by intervening to guide the economy, and promote full employment, export competitiveness, and energy self-sufficiency (which in the case of Iran means diminishing reliance on oil revenue).”³⁶ The hardliners stymied these efforts.

A nuclear-capable Iran could embolden extremists, spark a regional arms race, and dramatically undermine global confidence in the nonproliferation regime.

IMPLICATIONS FOR U.S. NATIONAL SECURITY

No one knows for sure how the capability or near capability to build a nuclear weapon would shape Iran's security and ideological ambitions, facilitate Iran's pursuit of those ambitions, and influence the behavior of states in the region and beyond. It is possible, however, to identify the principle dimensions of the threat.

On the one hand, Iran could adopt a more restrained foreign policy, mindful that its new status raises the stakes of any conflict with its neighbors or the United States. This restraint would not guarantee against the possibility of mistake, miscalculation, or even the inadvertent transfer of nuclear materials to a terrorist organization. As the eminent British historian Sir Lawrence Freedman points out, "The prospect of nuclear war may render political leaders cautious, but during the Cold War there was quite a learning process before mutual deterrence appeared at all stable."³⁸

On the other hand, nuclear- or near nuclear-weapons capability could embolden Iran to adopt a more disruptive, confrontational foreign policy. It could give Iranian leaders confidence that they can induce strategic restraint in other countries. Iran could adopt a more belligerent posture towards its Sunni Arab neighbors, and perhaps try to drive a wedge between these neighbors and the United States. Iran's leaders could also conclude that they could safely increase their support to groups such as Hezbollah.

Finally, Iran could comply with the NPT for years while amassing a stockpile of fissile material. Warns Monterey Institute expert Leonard Spector: "If at some future juncture Iran found itself threatened by the United States or a resurgent Iraq, it could withdraw from the NPT, seize this stockpile, and manufacture nuclear weapons in a matter of weeks," depending on the extent to which it has already mastered other weapons-related technology and components.³⁹

Ramifications in the Middle East

Regardless of how Iran behaves with a nuclear- or near nuclear-weapons capability, the leaders of predominantly Sunni Arab countries in the region, such as Saudi Arabia and Egypt, will feel varying degrees of pressure to develop nuclear programs of their own. Like Iran, they would not necessarily need to build and test a weapon in order to match Iran's perceived capabilities; a nuclear energy industry and its supporting infrastructure—specifically fuel cycle technology—could be enough.

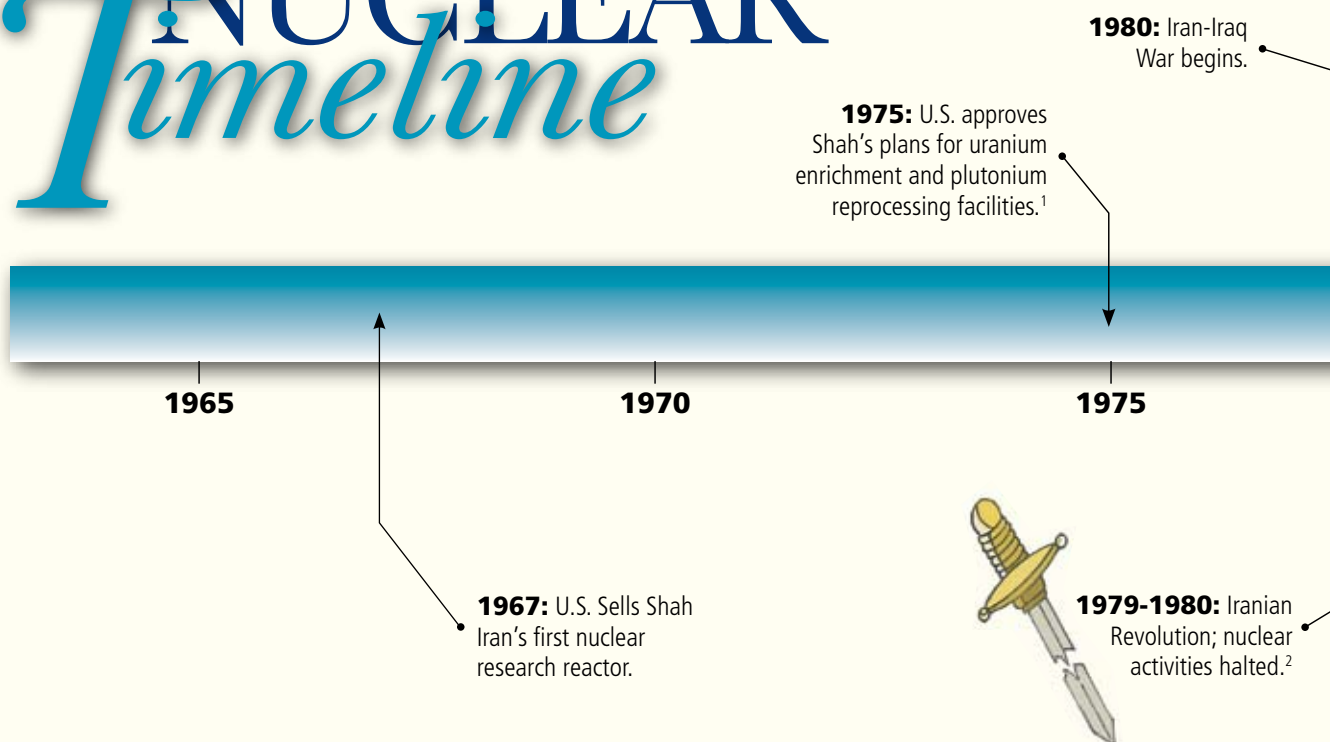
This is already happening. In September 2006, Gamal Mubarak, son of Egyptian President Hosni Mubarak and the presumed successor for Egypt's presidency, suggested that Egypt develop nuclear

power. He also wryly noted that Egypt "is not the only country that is thinking about this alternative to save on energy sources."

Indeed, Turkey has also indicated renewed interest in nuclear power, and the IAEA has reported that up to a dozen Arab countries have expressed similar interest. Most recently the states of the Gulf Cooperation Council announced plans for developing nuclear power for a water desalinization project. And Jordan's King Abdullah has suggested that his country, too, should explore nuclear energy.

Iran could even share nuclear technology with other countries, as Pakistan's A.Q. Khan did. Iran's leaders have already suggested they would be prepared to share nuclear technology with other Muslim

Iranian NUCLEAR *Timeline*



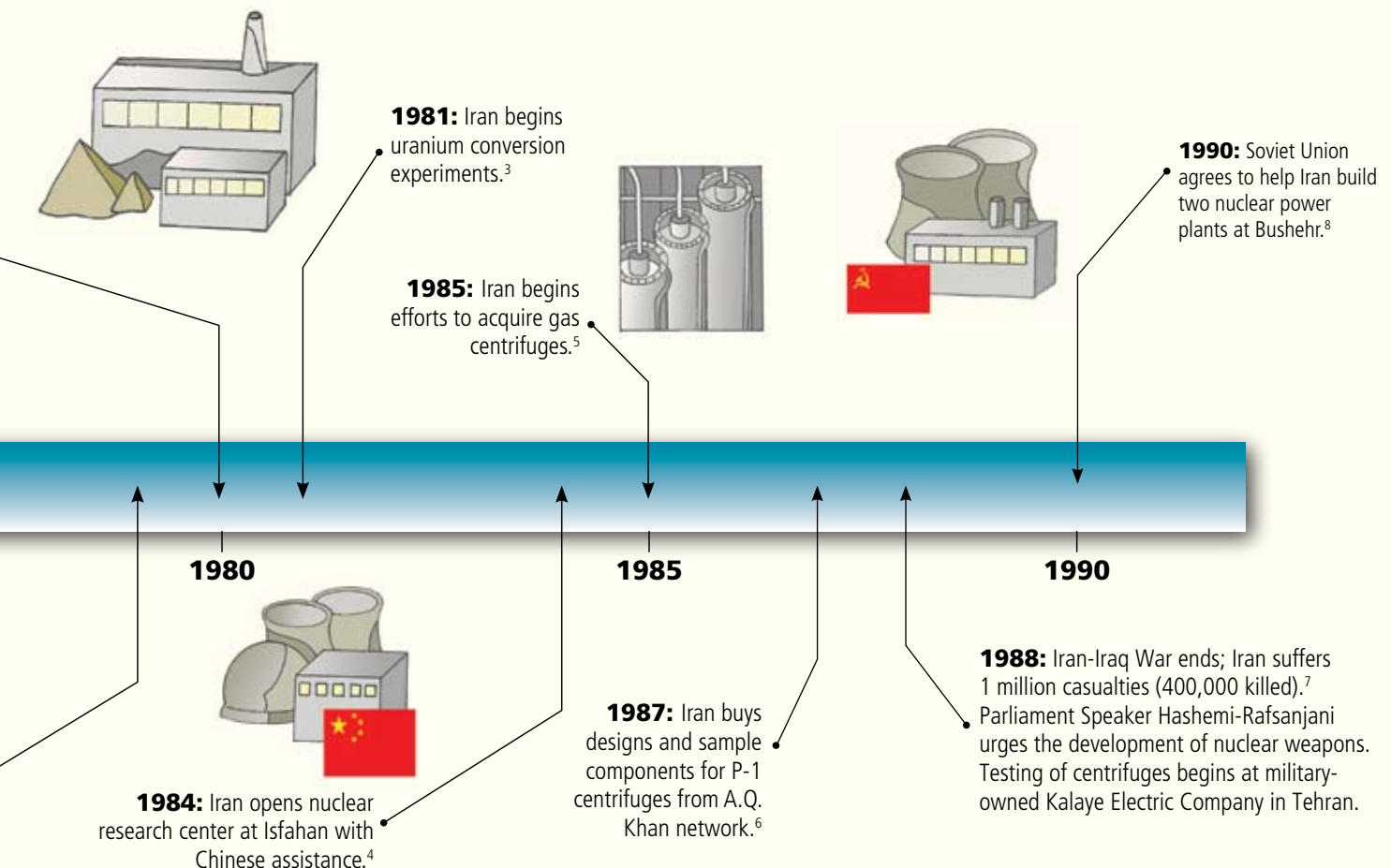
countries as energy development aid. While this is a far cry from sharing nuclear fissile materials or weapons with Hezbollah, these statements could be interpreted as a commitment to export uranium enrichment technology and thereby enable other countries to move to the brink of having nuclear weapons.

Iran might do this in an attempt to broaden its sphere of influence, drive a wedge between the United States and Muslim countries, or reassure Saudi Arabia and other Sunni nations that the rise of predominantly Shia Iran as a regional power with a “near nuclear” capability does not threaten them. Whether from cooperation or competition, though, Iran’s regional rivals are likely to pursue their own nuclear options.

All these nations will insist their programs are purely peaceful, and yet all of them would be laying the basis for future nuclear weapons development. This “virtual” arms race in the Middle East, where countries have the ability to build a weapon on relatively short notice, could quickly lead to a Middle East with not one nuclear weapon state (Israel), but four or five such states. With so many existing territorial, political and ethnic conflicts unresolved, this is a recipe for nuclear war.

Global Ramifications

Established uranium enrichment or plutonium reprocessing facilities in Iran would be a body blow to the global nuclear nonproliferation regime. The core problem with the spread of nuclear technology is not nuclear reactors, it is nuclear fuel. The

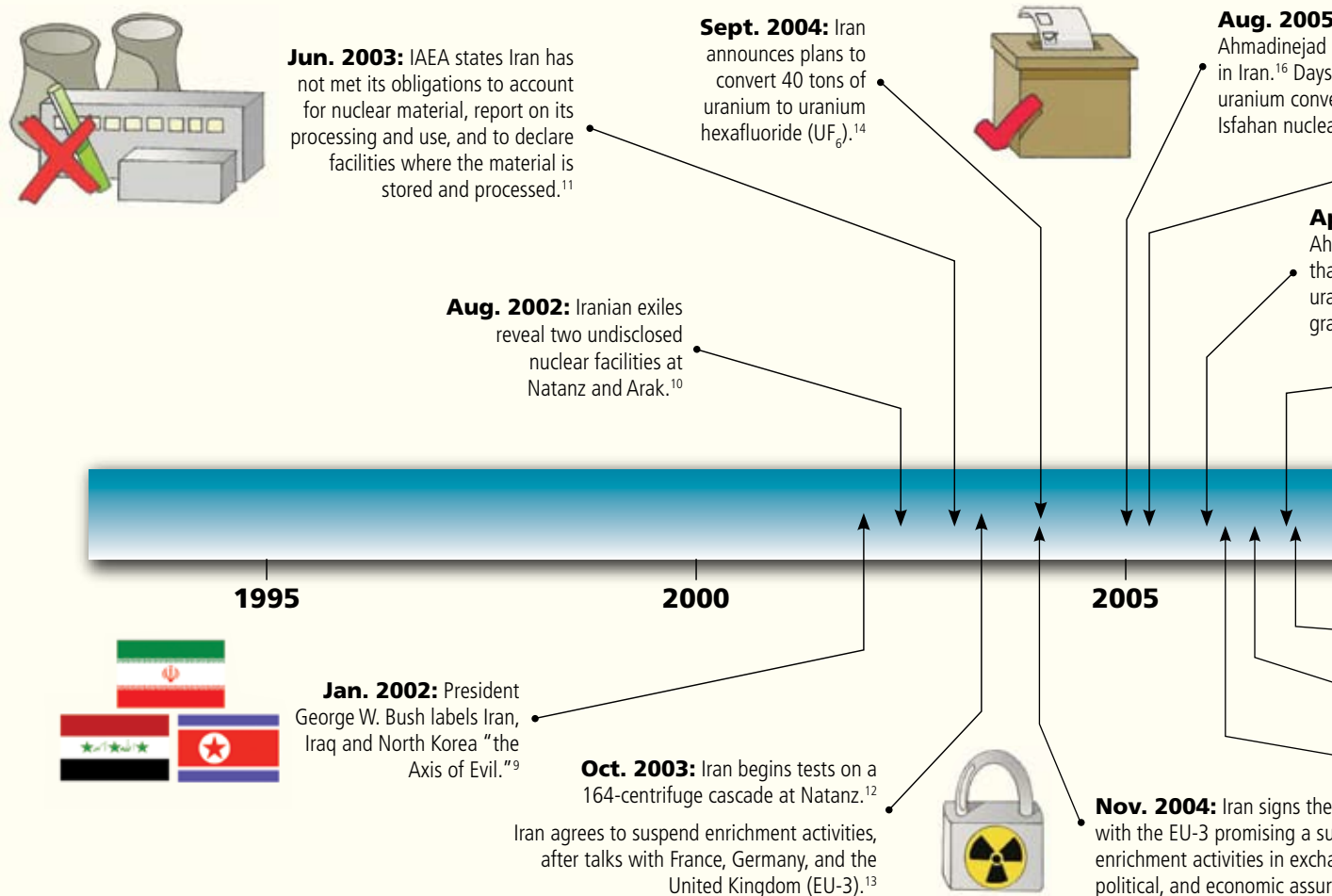


same facilities that enrich uranium to low levels for fuel can be used to enrich uranium to high levels for bombs. The same facilities that reprocess spent reactor fuel rods for disposal can be used to extract plutonium for weapons.

More than 40 countries have nuclear reactors, yet very few of them make their own fuel. Most purchase it from one of the six countries that make the fuel or from the one existing international consortium, the Uranium Enrichment Company, or URENCO. China, France, Japan, Pakistan, Russia, and United States are the only countries that currently enrich uranium in significant quantities. Germany, the Netherlands and the United Kingdom together produce fuel in facilities owned jointly by URENCO.

Today, the fuel cycle problem is growing more serious as several new nations seek fuel production capabilities and as the technological barriers to acquiring such capabilities recede. Iran is the most urgent example of this larger problem.

The Iranian government insists that Iran needs to develop nuclear power and indigenous fuel cycle capabilities. As several experts point out, it does not make economic sense for any nation to build its own indigenous enrichment and reprocessing facilities if its national nuclear power output is less than 25,000 megawatts. It may, however, make *political* sense: an indigenous uranium enrichment capacity would ensure that Iran is not dependant on foreign countries for its supply of nuclear fuel in energy reactors. It is also a



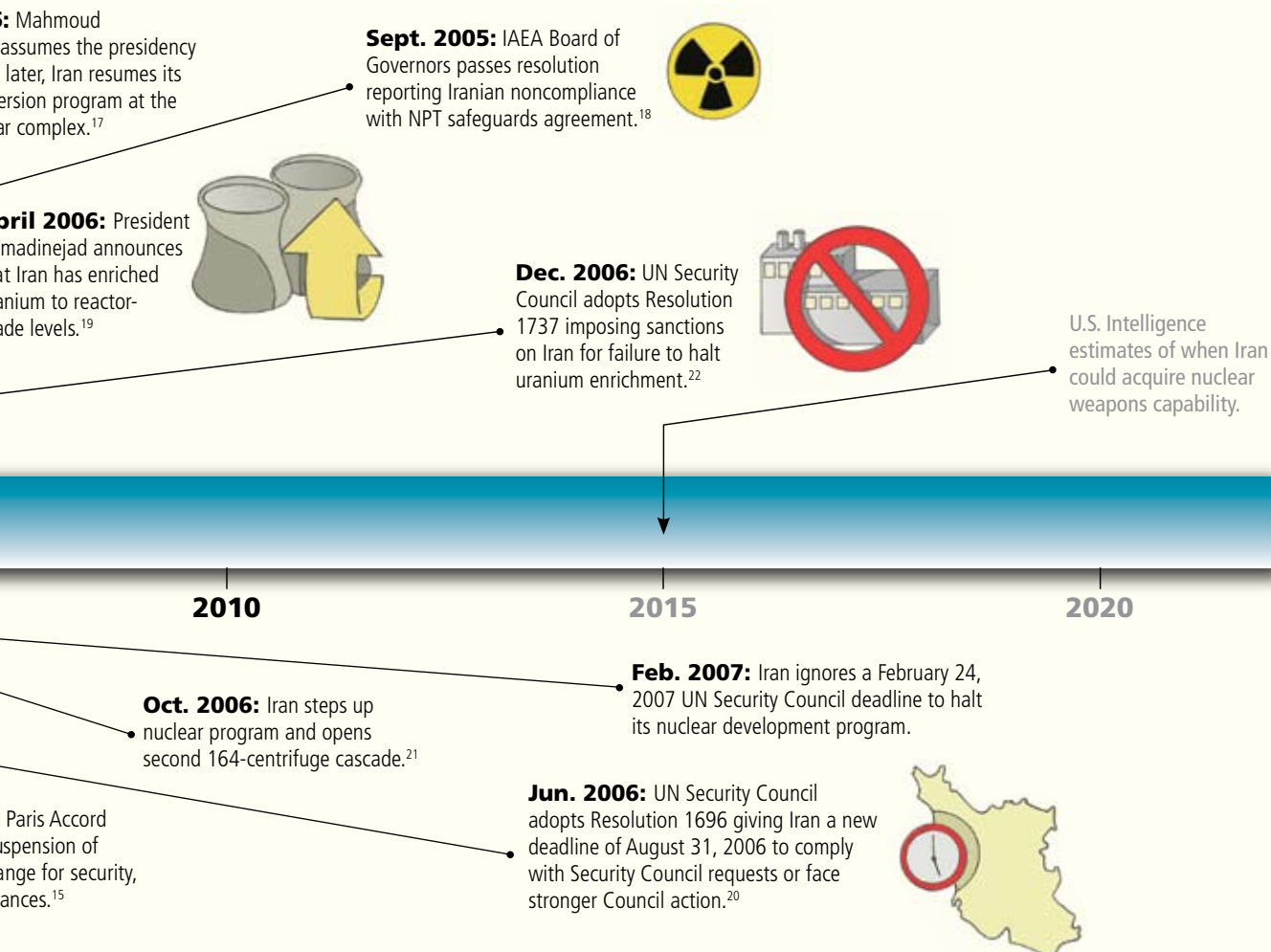
source of national pride. Iran insists that it must forge ahead with enrichment plants even though it has yet to put its first 1,000 megawatt reactor into operation.

Iran's attempted acquisition of fuel cycle capabilities is one of a number of setbacks to the nonproliferation regime in the past six years. The conclusion of the 2006 U.S.-India civil nuclear trade deal without a roadmap for revitalizing the Non-Proliferation Treaty, North Korea's nuclear weapon and missile tests, the failure of the nuclear-weapon states to minimize their own nuclear arsenals, and grave doubts about the wisdom and legitimacy of U.S. global strategies, could return the world to the pre-NPT instability of the 1950s and 1960s, with many of the nations capable of making weapons preparing to do so.

We could once again confront John F. Kennedy's fearful prediction:

*Stop and think for a moment what it would mean to have nuclear weapons in so many hands, in the hands of countries large and small, stable and unstable, responsible and irresponsible, scattered through the world. There would be no rest for anyone then, no stability, no real security and no chance of effective disarmament. There would only be the increased chance of accidental war, and an increased necessity for the great powers to involve themselves in what otherwise would be local conflicts.*⁴⁰

That is why the U.S. must select the right policy options to persuade Iran to roll back its nuclear enrichment efforts. There are numerous proposals of how to accomplish this, though we believe only one course of action offers the best chance in a reasonable time to forestall President Kennedy's troubling vision.



POLICY OPTIONS

The United States has five main policy options: continue the current policy or slight variations of it; actively promote a change in the Iranian regime; launch military strikes against Iran's nuclear facilities; offer Iran a grand bargain; or contain the Iranian program while engaging the Iranian people and the pragmatic elements of the ruling elite. We critically outline each of these options below. Our conclusion is that none of them offer an assured path to ending Iran's nuclear enrichment program, but that only one of them has the potential to both roll back Iran's program and contain Iran should negotiations fail.

OPTION 1: Maintain the Status Quo of Muddling Through

Often, the default option in U.S. national security policy, particularly when an administration is divided, is to continue the current policy with minor tactical adjustments in the hope that conditions will somehow improve further down the road. Sometimes it even works.

More often, however, this fall-back policy of making tactical shifts simply prolongs a strategic disaster, as in the Vietnam War or the current Iraq war. That's also been the case with the United States dealing with Iran since Iran's 1979 revolution. No U.S. administration has had a coherent, successful Iran policy.

THE FIVE POLICY OPTIONS

	WOULD IT CONVINCE IRAN TO NEGOTIATE A DEAL?	WOULD IT DELAY IRAN'S PROGRAM?	WOULD IT END IRAN'S NUCLEAR PROGRAM IN THE NEAR FUTURE?	WOULD IT END IRAN'S NUCLEAR PROGRAM IN THE NEAR FUTURE?
Maintain the Status Quo	No. Sanctions not harmful enough and benefits not compelling enough.	Not Much. Makes it harder for Iran to finance and acquire sensitive technologies. Long-term sustainability doubtful.	No. Iranian government will wait out sanctions.	No. China, Russia, allies, have no interest in ending Iran. Some obstacle to a deal.
Regime Change	No. It would harden Iran's resistance.	No. Iran will accelerate efforts as threats increase.	No. Democratic regime change in Iran will take many years; new regime could keep program.	No. Key U.S. allies oppose change in Iran.
Military Strikes	No. Strikes would strengthen Iran's resolve to acquire a nuclear deterrent; would start a war, not solve conflict	No. Short-term delays offset by intensified efforts to get a weapon rapidly.	No. Iranians would rally around regime. Iran likely to get a weapon by any means necessary.	No. Strikes would not end Iran. Global attention in Muslim world.
Grand Bargain	No. The Iranians no longer appear interested in a Grand Bargain.	Maybe. If talks encourage Iran to suspend enrichment.	Yes. If implemented this would stop Iran's programs.	Yes. Key U.S. allies support Iran, not the attempt at containment, sustainable only if Iran is contained.
Contain and Engage	Probably. This is the only politically viable option that would bring Iran to the negotiating table on its nuclear programs.	Yes. Using both sanctions and talks could block needed foreign assistance and convince Iran to suspend enrichment.	Maybe. Comprehensive plan offers Iran real benefits, while erecting serious barriers to proceeding with program.	Yes. Key U.S. allies support Iran, not the attempt at containment, sustainable only if Iran is contained.

Today, however, the consequences of failure are greater than they have ever been, yet the Bush administration still has “an ad hoc policy that we’re making up as we go along,” as a senior administration official told *The New York Times*. “It is to squeeze Iran, using international pressure, to get them to rid themselves of their nuclear program.”⁴¹ Some elements of this policy make sense, and have even produced some tactical shifts in Iran’s behavior. As we explain below, however, this approach is unlikely to convince Iran to abandon uranium enrichment.

The root cause of this ad “hoc-ery” is a basic indecision within the administration over what to do about Iran. In 2001, the

National Security Council began to draft a presidential decision directive on Iran that would officially set U.S. policy.⁴² The administration was so internally divided between those who wanted to end Iran’s nuclear development program and those who wanted to end the regime that it could not finalize the directive. President Bush was inclined towards regime change, but neither he nor his senior advisors—such as then-National Security Advisor Condoleezza Rice—made a final decision on the specifics of U.S. policy towards Iran.⁴³

The result of this policy paralysis was that the United States sat on the sidelines as France, Germany and the United

Kingdom achieved a temporary suspension of Iran’s enrichment program in October 2003, which was formalized in a November 2004 agreement. The Europeans offered incentives to Iran to permanently forgo enrichment, including security and territorial integrity guarantees.

Belatedly, in the spring of 2005, Secretary of State Rice offered American support for the incentives, but it was no secret that Vice President Dick Cheney and others within the administration opposed them.⁴⁴ For this reason, Secretary Rice’s verbal support for incentives lacked credibility. In addition, without the prospect of a new relationship with the United States—the goal that appears to have mattered most to the Iranians—the negotiations failed. Iran resumed conversion activities in August 2005 and uranium enrichment in January 2006.

SHOULD IT CONTAIN IRAN IF THE NEGOTIATIONS FAIL?	IS IT LIKELY TO SUCCEED?
Japan and most European countries have no interest in permanently isolating Iran. They view the United States as the deal breaker.	No. Would not end or significantly delay the program.
U.S. and partners reject regime change.	No. Change in Iran will take years. Overt U.S. effort unlikely to galvanize a popular movement, and could backfire.
Iran would isolate the United States, not the world. Danger would increase, especially for the Middle East.	No. Would strengthen Iran, weaken the United States, and encourage others to start weapons programs.
U.S. and partners will conclude that the United States, is the obstacle. They would garner support for making it more effective and sustainable over the long-term.	No. Neither Bush nor Ahmadinejad want reconciliation; both believe their strategic interests are better served through confrontation and coercion.
U.S. and partners will conclude that the United States, is the obstacle. They would rally support for making it more effective and sustainable over the long-term.	Yes. This is the only viable win-win scenario for all parties.

June 2006 Incentives Ignore Iran's Security Concerns

The Bush administration made a tactical adjustment by lending firmer support to a negotiated outcome by supporting a new package of incentives offered to Iran in June 2006 by China, the European Union, Russia, and the United States. The package reportedly included nuclear cooperation in building light-water nuclear energy reactors in Iran, a guaranteed supply of nuclear fuel, agricultural assistance, support for World Trade Organization membership, and spare parts for its aging fleet of passenger aircraft.

The United States, however, did not make the strategic adjustment of addressing Iran's security concerns—a main driver of its nuclear ambitions and a key reason why the package of incentives presented to Iran last year were spurned by Tehran. The Bush administration, according to former NSC official Flynt Leverett, would only support the June 2006 offer if the EU agreed to drop any security and territorial integrity guarantees.⁴⁵ The EU obliged; again negotiations failed.

In addition, the incentives that were offered fall short of shifting Iran's cost-benefit calculus. The most lucrative incentives—such as nuclear energy cooperation or WTO membership—would not bear tangible fruit for Iran for many years. From Iran's perspective, accepting such a deal would be extraordinarily risky. It would require Iran to take immediate action that would be difficult to re-start—namely, verifiably ending its enrichment program.

Iran's refusal of the offer did help overcome Chinese and Russian resistance to sanctions on Iran, garnering support for the UN sanctions resolution. But the United States in 2007 now finds itself

trying to achieve what the Europeans had achieved in 2004: a temporary suspension of uranium enrichment leading to negotiations on permanently ending Iran's enrichment program.

Pressure Alone Won't Work

Iran cannot simply be squeezed into compliance. The UN sanctions enacted on December 23, 2006 undoubtedly raise the costs of Iran's noncompliance and hinder its efforts to acquire sensitive nuclear technology. The nuclear crisis, according to the *Economist Intelligence Unit*, "is imposing a heavy opportunity cost on Iran's economic development, slowing down investment in the oil, gas and petrochemical sectors, as well as in critical infrastructure projects, including electricity."⁴⁶

The administration has also increased the pressure with efforts by the U.S. Treasury Department to discourage international banks from doing business with Iran. In early 2007, the department designated the Iranian-owned Bank Sepah as a supporter of proliferation and cut all ties between Sepah and the U.S. financial system.

Financial pressure, sanctions, export controls and interdiction efforts will certainly make it more difficult for Iran to acquire needed components. These efforts also increase investor uncertainty and have had a major adverse impact on Iran's economy. They have produced political pressure inside Iran that seems to have induced President Ahmadinejad to temper his rhetoric. But there is still no sign that the Iranian government will fundamentally change its stance on uranium enrichment.

So long as Iran's economy retains its oil lifeline, it is extraordinarily unlikely that sanctions alone will raise the costs high enough to convince Iran to abandon its enrichment efforts. As Dr. Gary Clyde Hofbauer and Dr.

Jeffrey J. Schott, experts on economic sanctions with the Peterson Institute for International Economics, point out: “Sanctions short of Iraq-style isolation will have no impact on Iran’s financial ability to carry on a bomb project.”⁴⁷

These measures may delay Iran’s program, but unless political conditions change fundamentally within Iran in the near future, such as a change in the regime, or Iran’s current leaders see a better path for their country, coercive diplomacy is unlikely to prevent Iran from acquiring a nuclear capability or convince its leaders to abandon uranium enrichment.

OPTION 2: Regime Change

The desire to promote a change of regime in Iran, as opposed to a change in the regime’s behavior, is understandable. There is no question that the country and the world would be a better place if the mullahs in Iran were replaced by a moderate, democratically accountable government that renounced nuclear weapons, recognized Israel’s right to exist, withdrew support for groups that use terror tactics, and adopted a constructive role in the region.

The United States has two options for promoting regime change in Iran. It can support Iranian dissident and pro-democracy groups in the expectation that these groups will produce a government that renounces policies that the United States opposes. Or it can

launch an air strike against Iranian nuclear facilities and other military targets in the hopes that the raid sparks a popular revolt against the mullahs.

Both of these options have been put forward by conservative pundits and analysts. Neither holds any promise for countering the immediate threat posed by Iran’s nuclear ambitions. The non-military efforts to topple the regime are unrealistic for the three main reasons detailed below.

The Iranian Regime Is Relatively Stable

Iranians continue to turn out in large numbers to vote in Iran’s quasi-democratic elections, with 60 percent of eligible voters turning out for the 2005 election that gave Mahmoud Ahmadinejad the presidency. “Despite serious flaws, the election presented voters with real options, and they made a choice,”⁴⁸ notes the International Crisis Group.

Indeed, Iranians would not vote in such numbers if they didn’t think that their government, despite its deep flaws, retains some legitimacy and is capable of responding to popular will. The December elections for the Assembly of Experts—which saw similarly high voter turnout—demonstrated the stability of the regime even as they suggested that Ahmadinejad’s base of support is weaker than many appreciate.

Existing disincentives and incentives for Iran to forgo uranium enrichment fall short of fundamentally changing Iran’s cost/benefit calculus.

Similarly, as poor as Iran's economy is, it would be a mistake for the United States to assume that economic discontent could destabilize the regime in the near term. The high price of oil provides Iran with a crucial lifeline for sustaining its economy into the near future, despite the Iranian government's gross mismanagement of this valuable resource. More broadly, Iran's economy—despite its shoddy fundamentals—has weathered war, sanctions, and dramatic fluctuations in the price of oil without collapsing or inspiring a populist revolt against the mullahs.

In addition, there is currently no Iranian individual, movement, or institution capable of organizing and leading a mass movement for fundamental political change in Iran in the near future. Student demonstrations are a welcome sign of opposition to government policies but hardly indications that ordinary Iranians are prepared to overthrow their government in what would be a violent conflict between them and the armed supporters of the regime, such as the Revolutionary Guards and the paramilitary Basij corps.

The reformist movement seems to be reviving but is still “disorganized, lack[s] a charismatic leader, and ran on a desultory eight-year record” in the 2005 presidential election, when their candidate lost to Ahmadinejad.⁴⁹ The reform movement may recover or a new leader may emerge, but this will take time.

Nor does the Iranian exile community offer a convincing populist leader for the Iranian people to rally behind. Leading Iranian exiles such as Mohammad Reza Pahlavi, the son of Iran's deposed Shah, have little popular support within Iran. Armed dissident groups such as the Mujahedin al-Khalq, or MEK, have virtually no popular support in Iran, and in fact are viewed by most Iranians as terror organizations. Many Iranians recall that MEK fought for Saddam Hussein during the 1980-1988 Iran-Iraq war, and are also aware that the organization now enjoys the de facto protection of the U.S. military.

Finally, unrest and insurgent activity in Iran's restive eastern provinces, while clearly a major irritant for Tehran, fall far short of threatening the overall stability of the Islamic Republic.

Democratic change in Iran is likely to take many years, and there is no guarantee that a democratic Iran would renounce uranium enrichment.

The lesson is that democratic change in Iran will be an incremental, gradual process that could take many years to produce fundamental changes in Iran's domestic and international priorities. In the meantime, Iran may perfect its nuclear capabilities.

No Guarantee that a Democratic Iran Would Renounce Nuclear Weapons

Whether democratic or not, Iran will continue to be highly nationalistic and aspire to regional hegemony and global influence. "Iran's quest for international status is a nationalist glue that united hard-liners and reformists, secularists and religious conservatives," according to Iran expert Shahram Chubin at the Geneva Center for Security Policy.⁵⁰ A democratic Iran may well conclude that a near-nuclear capability is a helpful tool for achieving that status.

In fact, Iran's leadership has exploited this nationalism to transform the country's nuclear program into a point of national pride: more than 90 percent of Iranians believe that Iran should pursue peaceful nuclear technology, according to a study of Iranian public opinion conducted in late 2006 by Steven Kull of the University of Maryland.⁵¹ In another recent poll, conducted by the international polling firm Zogby International for *Reader's Digest*, respondents said developing nuclear weapons for defense is a more important priority than expanding freedom.⁵² (see the results of recent polls in Iran on page 15.)

While accurate polling in Iran is notoriously difficult—indeed, Iran's leaders have used such polls as propaganda in the past—these polls should sound a note of caution about opinion trends in Iran.⁵³ Nationalism pegged to Iran's nuclear development program is alive and well across most of the country.

Overt U.S. Intervention in Iranian Politics Would Backfire

That's also why overt U.S. efforts to influence domestic politics in Iran would likely undermine the very forces of moderation and tolerance that we would hope to support. "Iran's nationalism is strongly fueled by the history of intervention, manipulation, and exploitation of the country by foreign powers," according to a comprehensive RAND study on Iranian security policy.⁵⁴ Ordinary Iranians bridle at attempts by foreign powers to influence the political direction of their country.

The United States has particularly heavy baggage here. All Iranians are keenly aware that the United States overthrew their democratically-elected government in 1953, supported the brutal regime of the Shah for decades, supported Iraq during the Iran-Iraq war, and maintains broad economic sanctions that limit Iran's economic development.

Too often, United States policy has played directly into the hands of those within the Iranian regime who exploit nationalism to their own cynical ends. According to Bahram Rajaei with the American Political Science Association: "Since 2002 [when President Bush identified Iran as part of his axis of evil] the radicals have been able to plausibly claim that Iranians must unify against a growing U.S. bellicosity, which poses a direct threat to Iran's stability and hard-won independence. Despite deep internal political divisions, this argument resonates with Iranians of all stripes."⁵⁵

President Bush's denunciations of Iran's 2005 presidential election "were widely seen in Iran as damaging to pro-reform groups because the comments appeared to have boosted turnout among hard-liners in [the] election," helping Ahmadinejad win, according to an Associated Press analysis.⁵⁶

Air strikes against Iran's nuclear program but time for what? This would be not the end of the conflict

The Bush administration has sought to drive a wedge between the Iranian people and the conservative clerical leadership on the nuclear question as well, but it too seems to have backfired.

Iranians appear *more* inclined to support a nuclear weapons program when outside powers threaten them, not less inclined, according to a recent opinion poll.⁵⁷ This reaction by Iranians is unsurprising.

“As a proudly non-Arab and Shia state, Iran has a collective sense of national particularity and isolation at times of rising regional tensions that has rivaled even Israel’s perception of being encircled and under threat in a difficult neighborhood,” according to a recent Chatham House study.⁵⁸ Iranians are no different from nationalistic people elsewhere: when confronted with a foreign threat, they tend to rally around the flag, not tear it down.

OPTION 3: Air Strikes Against Iran’s Nuclear Facilities

For years, some in the administration have favored direct military action to topple the Iranian government. The popularity of this option within the administration has waxed and waned over the past few years, as do expert predictions over whether the administration is planning such action. At any rate, in 2007 there is certainly a great deal of speculation in the media and among experts over whether this is a viable option.

There is no question that the United States military has an indispensable role to play in countering Iran’s nuclear and regional ambitions, assuring U.S. allies in the region of America’s commitment to their security, and defeating military threats that Iran may pose. A “preventive” assault on Iran itself, however, is quite a different proposition.

There is a strong likelihood that the United States could destroy most, maybe even all, of Iran’s known nuclear facilities with air strikes, according to retired Col. Sam Gardiner, an expert in military planning and war games.⁵⁹ There would likely be few American casualties.

Such air strikes would probably set Iran’s nuclear infrastructure back by several years. The United States could also degrade, but not destroy, Iran’s capacity to retaliate by simultaneously targeting Iran’s medium-range ballistic missiles, Republican Guard bases, and naval assets that could be used to disrupt shipping in the Persian Gulf.

The ongoing civil war in Iraq and rising concern over how stretched our armed forces are in the region and around the world have diminished the appeal of this option among the majority of U.S. policy-makers. But this option remains very much alive, as a persistent drumbeat for war with Iran continues in the far-right media. For instance, this summer William Kristol, influential editor of the *Weekly Standard*, used the Hezbollah attacks—what he called

er facilities might buy some time, the start of a new and costly war, over Iran's nuclear program.

“Iran’s Proxy War”—to argue for war:

We might consider countering this act of Iranian aggression with a military strike against Iranian nuclear facilities. Why wait? Does anyone think a nuclear Iran can be contained? That the current regime will negotiate in good faith? It would be easier to act sooner rather than later. Yes, there would be repercussions—and they would be healthy ones, showing a strong America that has rejected further appeasement.⁶⁰

This is, to put it mildly, an extraordinarily optimistic assumption, yet some senior members of the administration may still favor this option. The problem is, an air strike would probably eliminate any perceived need within Iran to maintain the pretext of a peaceful program, which it attempts to sustain by showing some restraint in its enrichment activities. Iran would likely eject inspectors and move its entire program underground so that all of its efforts to perfect uranium enrichment would be secret.

Iran would then have no incentive to be transparent about its nuclear activities—transparency would only tell the United States where to bomb next. In fact, Iran would have very reason to launch its own Manhattan Project to acquire a bomb as soon as possible.

Iran Would Launch a Crash Program—and Eventually Succeed

There is little disagreement among nuclear weapons experts that a country determined to acquire nuclear weapons

that is also endowed with Iran’s level of technical expertise and financial resources will eventually achieve that objective. In the case of Iran, while an air strike might destroy much of Iran’s physical nuclear infrastructure, it could not destroy Iran’s nuclear expertise. Iran would also retain blueprints, technical specifications, and other plans.

Following an air strike, the United States could constrain but not prevent Iran from procuring sensitive technology. Iran could also have secret nuclear facilities that remained intact. After a U.S. military strike some countries might even decide that it is in their interests to help Iran acquire nuclear weapons. Russia, for instance, might regard U.S. military action in Iran as destabilizing and damaging to its national security and seek to counter U.S. power in the region by strengthening its relationship with Iran.

This possibility increases as the global nonproliferation regime weakens and the barriers and norms against nuclear trade and assistance diminish. Indeed, the United States could not even rule out the possibility that Iran has the technical expertise and engineering skills to not only make up for lost time, but to *accelerate* its enrichment program. Alternatively, Iran could be emboldened to look abroad for technical support, fissile materials, or even a complete weapon.

Iran quite possibly could mobilize its resources to acquire highly enriched uranium by any means necessary—for instance, by stealing it from an inadequately guarded stockpile located in Russia or one of dozens of other countries that have significant quantities of HEU in military or civilian stockpiles.⁶¹ If Iran were to succeed, it could have a nuclear weapon within weeks or months, depending on the extent to which it pre-positioned weapons-related components to enable rapid construction of a bomb.

After Bombing, What Next?

Given this uncertainty, the United States should not assume that several days of air strikes would buy anything more than a brief delay of a few years in the program. Whether an air campaign can advance

U.S. objectives thus hinges on whether the United States could use this window to resolve the dispute by alternative means. The problem, however, lies in defining these alternative means. There appear to be just two options, both problematic.

One option is negotiation: an air strike might buy the United States a few extra years to try to negotiate a settlement. But it is doubtful whether, following the strikes, there is any package of credible incentives and disincentives that could convince Iran to verifiably forswear nuclear weapons. An air strike would certainly affect Iran's cost/benefit assessment of having nuclear weapons, but in exactly the wrong way. From Iran's perspective, the perceived benefits of a nuclear deterrent will have increased dramatically following a U.S. military strike.



Iran's Shahab-3 missile, which has a 800-mile range (foreground); Iran President Mahmoud Ahmadinejad and Iran military leaders (background.) (AP)

The other option is regime change: an air strike might buy the United States a few extra years to promote democracy in Iran. These extra few years, however, would not be sufficient to produce a democratically accountable government—especially since an air strike is likely to strengthen the Iranian regime’s grip on power, at least during the medium term, as Iranians rally around the government.

Iran Would Retaliate

There would also be tremendous pressure on the Iranian government to respond to the attacks. While the benefits of an air strike are elusive, the costs are clear. As Peter Brookes from the Heritage Foundation says, “After an assault, Iran might lash out with a vengeance.”⁶²

Iran could hit back with military force or use its terrorist networks against both the U.S. and its allies in the region. There is a real possibility that Iran could rally Muslim support for a devastating new wave of terrorist attacks against Israel.

Iran could also increase its support of insurgents in Afghanistan and Iraq. As retired Army Major General William Nash, who served in both Iraq and Bosnia, asked: “What if one hundred thousand Iranian volunteers came across the border? If we bomb Iran, they cannot retaliate militarily by air—only on the ground or by sea, and only in Iraq or the Gulf. A military planner cannot discount that possibility.”⁶³

Iran could temporarily threaten the world’s oil supply and major economies by disrupting the flow of oil through the Strait of Hormuz.⁶⁴ A war with Iran would almost certainly send the price of oil soaring past \$100 a barrel, likely triggering recessions in major global economies.

The attacks would also inflame Muslim anger from Europe to Indonesia and rally the Iranian public around an otherwise

unpopular government, undermining the forces of moderation that are crucial to combating terrorism in the Muslim world. Rival Sunni government leaders would privately celebrate the strikes, but publicly condemn them as their citizens vented their rage at another Western assault on a Muslim state.

This would be the start of a new and costly war, not the end of the conflict over Iran’s nuclear program. It would be a war that the United States is not currently equipped to fight. With the Iraq War sending U.S. military readiness to its lowest levels since the end of the Vietnam War, it will take many years and hundreds of billions of dollars to restore combat fitness.

It would also be a war with an unclear endgame. What would victory look like? What sort of military force would be required to achieve this victory, bearing in mind the U.S. experience in Iraq? Until there are clearer answers to these vital questions, this option should not be seriously considered.

OPTION 4: The Grand Bargain

This is the most holistic approach and one with great appeal. New America Foundation analyst Flynt Leverett summarizes the logic of this strategy:

Diplomatic resolution of the nuclear issue inevitably will require a broad-based restructuring of U.S.-Iranian relations, amounting to an effective rapprochement between Washington and Tehran. As Iranian officials have repeatedly made clear in diplomatic exchanges and private conversations, Iran will not agree to strategically meaningful restraints on the development of its nuclear infrastructure without having its core security concerns addressed. This means that Tehran will require, among other things, a security guarantee from Washington...bolstered by the prospect of a lifting of U.S. unilateral sanctions and normaliza-

*tion of bilateral relations. But, no American administration would be able to provide a security guarantee unless U.S. concerns about Iran's support for terrorist organizations and its attitude toward Israel were also addressed. And, the Iranian leadership would not be willing or able to address those concerns absent a strategic understanding with Washington about Iran's place in the region.*⁶⁵

Stanford University experts Michael McFaul, Abbas Milani and Larry Diamond detail how this approach could end the problematic elements of the Iranian program:

*Washington should propose to end the economic embargo, unfreeze all Iranian assets, restore full diplomatic relations, support the initiation of talks on Iran's entry into the WTO, encourage foreign investments, and otherwise move toward a normal relationship with the Iranian government. In return, Tehran would have to agree to three conditions: a verifiable and indefinite suspension of activity that could feed into a nuclear weapons development program, including all enrichment of uranium, with a comprehensive and intrusive international inspection regime administered by the International Atomic Energy Agency; an end to support for terrorist groups and activities and affirmation of basic human rights principles under international covenants and a recognition for the legitimacy of international and domestic efforts to monitor those conditions.*⁶⁶

We do not quarrel with the vision of this approach, but with its practicality. We judge that it is highly unlikely that either government could engage in such an “extreme makeover” of the relationship.

At present neither President Bush nor President Ahmadinejad want reconciliation; both believe their political and strategic interests are better served through confrontation and coercion. More pragmatic policymakers in both countries seem to favor rapprochement, but press their

case gingerly. We judge it extraordinarily unlikely that either government will soon embrace this path.

Moreover, even if there was political will, implementing a grand bargain strategy would take years to implement. Case in point: President Richard Nixon and Secretary of State Henry Kissinger secretly and dramatically reversed decades of policy to open direct diplomatic discussions with China in 1972, yet two decades later, the United States still had serious proliferation concerns with China which only slowly ended its export of sensitive technologies. China did not even join the nuclear Non-Proliferation Treaty until 1992.

Today, we have neither a president nor secretary of state interested in duplicating the Nixon-Kissinger approach with Iran. We need a more pragmatic, realizable approach to restrain the Iranian program before it can consolidate as a permanent part of Iran's political and security culture. The time is not ripe for a Grand Bargain.

OPTION 5: Contain and Engage

Our strategy has two main objectives. The first objective is to break the impasse that has emerged over whether Iran should suspend enrichment prior to negotiations. The United States has conditioned its participation in negotiations on such a suspension; Iran, however, has insisted that this is a non-starter. We propose a tactical compromise that will maximize the chances of a long-term strategic victory.

The second objective is to make the most of such an opening and achieve a negotiated settlement. Unlike the grand-bargain strategy, we do not believe that it is necessary to achieve all the desired goals in order to contain Iran's weapons capability programs. Unlike the regime-change strategy, we

believe the proper focus of U.S. policy must be on the direct national security threat of potential Iranian nuclear weapon capabilities. Finally, we believe that neither coercion alone nor incentives alone are capable of decisively influencing Iran's behavior.

Rather, the United States must simultaneously contain and engage Iran.

Such a strategy would strengthen the hand of those within Iran's ruling political establishment who believe that the current mutually destructive collision course with the United States is not in Iran's interest and weaken those who actively promote such a clash. The strategy aims to convince the Iranian people that the foreign policy decisions of their government are wrong and that their government is to blame for Iran's economic problems. It would marshal the sustained support of allies to maximize the chances that the United States achieves its objectives through negotiation while laying the groundwork for a long-term strategy of containment should the negotiations break down.

CONTAIN AND ENGAGE IRAN

We start from the premise that we cannot know for certain what Iran's intentions are, or if the Iranian government has a consensus on its own strategy. Has it made a final strategic decision to acquire a nuclear weapons capability? Or is it willing to end or defer the program for a new relationship with the West?

The aim of U.S. policy must be to test the latter while minimizing the chances of the former. We must prevent Iran from presenting the United States and the world with a surprise nuclear- or near-nuclear-weapons *fait accompli* and increase the chances that Iran will conclude that its security and economic needs are better served in cooperation with the West.

Our strategy proceeds on the additional assumption that the United States and its allies likely have a 12-month-to-18-month window to achieve our core objective, the negotiated end of Iran's enrichment program. This assessment is driven as much by the politics of the issue as it is by the technical status of Iran's program.

Why? Well, new rounds of negotiations with Iran premised on our contain-and-engage strategy will in all likelihood reveal by early- to mid-2008 whether Iran is determined to press ahead with its nuclear enrichment program and whether key countries such as China and Russia are willing to let them.

Within 12 months to 18 months new negotiations will have produced a temporary suspension of Iran's nuclear enrichment program and some momentum towards a negotiated outcome or revealed that a deal simply isn't within reach. By that time, too, Iran probably would have gained experience working with centrifuges, and so become increasingly self-sufficient and less vulnerable to international efforts to delay the program. Now is the time to act.

Debate Requires Disclosure

Congress ordered a new National Intelligence Estimate on Iran delivered to the House and Senate Committees on Armed Services by early 2007. Congress should now insist on its delivery as well as the release of an unclassified version for public debate and, in a related matter, the information behind administration claims that Iran is aiding attacks on U.S. troops in Iraq. Congress should reassert its constitutional responsibility mandated by House and Senate rules for "comprehensive policy oversight," especially for this critical national security issue. The NIE and any dissenting views need to be aired, including the likely consequences of military attacks on Iran.⁶⁷

We believe a negotiated outcome is possible, though not guaranteed, if a strategy of contain-and-engage is adopted. The first step is to break the diplomatic stalemate over Iran's defiance of the Security Council's demand to suspend enrichment. Once that stalemate is broken, the United States must implement a strategy to maximize the chances of success. And if the negotiations break down, the contain-and-engage strategy lays the groundwork to contain Iran's nuclear program and its regional ambitions.

Breaking the Stalemate

The core diplomatic challenge facing the United States, its partners—the European Union, Russia, and China—and Iran is to craft a compromise that allows all parties to claim some victory. Any successful negotiation requires nothing less. This means that the United States must be willing to address Iran's legitimate aims, which include a desire for respect, independence, security, and a say in regional affairs.

The United States should be prepared to make a tactical, short-term compromise to achieve the strategic objective of an Iran that verifiably renounces nuclear weapons. The way out is the choreography previously considered by the EU in mid-2006. The EU would agree to renew negotiations without preconditions, as Iran wants, but with the understanding that Iran would then immediately suspend its enrichment activities for a limited period, allowing the United States to join the discussions.

The initial suspension probably could not last more than a few months. During this time, if it became clear that serious negotiations were underway for a thorough conclusion to the nuclear standoff, then the West could consider agreeing to partial operations of a pilot facility at Natanz, with strict limits on the number of centrifuges and on the amount of time

such centrifuges could operate. This would be accompanied by an intrusive inspection regime to prevent secret operations.

Neither Iran nor the U.S. and other UN Security Council members—most notably, France and the United Kingdom—would be happy with even these highly limited, carefully monitored operations for more than a year or so. We agree. We oppose the permanent operation of even limited enrichment or reprocessing capabilities in Iran. But some compromise may be necessary to allow time to negotiate a permanent cessation.

Indeed, this approach seems to us to be the only practical means of beginning a process that could convince Iran to end the program. The reason: It seems impossible for any Iranian politician to agree to the indefinite suspension of its enrichment facilities at this point. This deal offers a middle route, neither indefinite suspension nor permanent operation. It is a compromise to save face, buy time, and allow the broader contain-and-engage strategy to unfold.

Why might this work now when it didn't last year? For starters, there is greater pressure in Iran today for breaking the impasse than there was in mid-2006. At that time, President Ahmadinejad's combative, no-compromise posture on the nuclear issue had some popular support within Iran and around the region. To many Iranian political elites, Ahmadinejad's strategy was working—Iran had so far escaped UN Security Council censure while moving ahead with its enrichment plans.

The UN sanctions resolution enacted in December 2006, however, surprised many Iranians, who thought that Iran would escape UN condemnation. The Security Council is more unified than they anticipated. Iranians hold the United Nations in high regard; the resolution was a sharp rebuke and thwarted

Ahmadinejad's attempt to portray the conflict as a battle between Iran and the United States alone. As a result, Ahmadinejad's popularity is declining, as pragmatic and even hardline Iranian political elites criticize his policy in growing numbers.

Nevertheless, Iran won't return to the negotiating table unless Tehran concludes that it is better off there than it is enduring the status quo. As uncomfortable as the status quo may be to many in Iran, they apparently prefer it to accepting the deal offered to Iran in June 2006. The UN sanctions fail to back Iran into a corner or impose insurmountable barriers on Iran's ability to acquire sensitive nuclear and other technology. And the incentives

contained in the June 2006 offer to Iran if it returns to the negotiating table remain less than compelling.

The contain-and-engage strategy offers the best chance of getting Iran to the table and convincing it that its interests are best served by ending the enrichment program. To communicate the constructive intentions of the United States and the gains that Iran could achieve through negotiations and compromise, the president must open a channel of direct communication to Iran's leaders. The Iranian leadership must understand the choices being presented to them. The United States cannot make the choice clear and its strategy credible by acting through diplomatic proxies.



Iran President Mahmoud Ahmadinejad at the United Nations, where he rejected calls to halt his nation's nuclear development program. (AP)

Beyond Suspension: Avenues for Restricting Iran's Enrichment Program

All parties involved in the current standoff with Iran agree that Iran has the right to build its planned nuclear power reactors. The disagreements lie in how to limit the technologies inside Iran for enriching uranium and reprocessing plutonium, which can also be used for weapons purposes, and the diplomatic course that is most likely to produce a favorable outcome.

There are four possible avenues to negotiated restrictions on Iran's nuclear enrichment capabilities:

- Achieve a permanent suspension of the enrichment and reprocessing programs;
- Allow some limited enrichment work on Iranian soil, under strict controls;
- Construct a multi-national or international enrichment facility with Iranian participation under strict controls;
- Create an internationally guaranteed supply of nuclear fuel to reassure Iran and other states that they would continue to be supplied in the event of a failure in the commercial market or a foreign policy rift (aside from nonproliferation violations).

The first avenue is clearly preferable. Iran would get its fuel from Russia, as it originally agreed to do in the contracts for the construction of the Bushehr reactor, and send the spent fuel-rods back there for disposal.

This is also the most economical plan. It removes the major concern about the program by greatly reducing the risk of an Iranian "break out" capability. The problem is that Iran insists it will never agree to it.

The second is deeply problematic. It would allow Iranian technicians to gain increased knowledge of the enrichment process, risks the transfer of those skills and those technicians to a covert facility, and could eventually lead to the development of a full-scale enrichment facility as the Iranians now plan for Natanz. Its chief benefits are that many of the parties involved in the negotiations could readily agree to it—possibly with Chinese and Russian support—and that it is the easiest to implement.

The third avenue also risks giving Iran access to the most advanced centrifuge technologies. Moreover, if the facility were located in Iran, the Iranian government could forcibly seize it at some point. Proposals for such a facility include elaborate mechanisms such as self-destructing centrifuges and black boxes around the sensitive technologies, but the risk remains. Iran may accept this as a compromise, particularly if the facility were located on Iranian soil.

But chances are the United States would not—and indeed, should not—even though this sort of facility was supported by the United States during the time of the Shah. It would be more acceptable to Washington to have this facility constructed in Russia, as Russia and others have proposed, or elsewhere in the region, though this would still

Iran must be backed into a corner. The Iranian leadership must understand

increase Iran's understanding and experience in the enrichment process. Iran, thus far, has rejected that compromise.

The fourth avenue is the most attractive, as it could not only solve the Iran issue, but establish a model that could finally fix the gaping hole in the nonproliferation regime that allows countries to acquire the means of producing bomb materials. This defect in the NPT regime has existed from the beginning of the nuclear age; fixing it in negotiations with Iran would be a double bonus.

IAEA Director Mohammed ElBaradei has proposed such a solution. Says ElBaradei:

*"My plan is to begin by setting up a reserve fuel bank, under IAEA control, so that every country will be assured that it will get the fuel needed for its bona fide peaceful nuclear activities. This assurance of supply will remove the incentive—and the justification—for each country to develop its own fuel cycle. We should then be able to agree on a moratorium on new national facilities, and to begin work on multinational arrangements for enrichment, fuel production, waste disposal and reprocessing."*⁵⁸

What's more, the Nuclear Threat Initiative, or NTI, an American nonprofit group committed to reducing the threat of nuclear proliferation, has recently secured a \$50 million grant from billionaire U.S. investor Warren Buffett to help finance a "fuel bank" that could back up any international fuel supply arrangement. NTI Co-Chairman Sam Nunn, a former U.S. Senator, said in announcing the grant on Sept. 19,

2006, "We believe that such a mechanism can be achieved, and that we must take urgent, practical steps to do so."

We agree. It is possible to end Iran's enrichment and reprocessing activities (option one) but only by pursuing the type of regional solution proposed in option four and by building durable international mechanisms for engaging and containing Iran. Iran must be backed into a corner, but offered an attractive way out. In other words, the United States must contain and engage Iran.

We detail below the four main elements of our strategy: economic engagement; security and political initiatives; nonproliferation measures; and laying the groundwork for containing Iran should negotiations break down.

Economic Engagement: A Trojan Horse for Political Change in Iran

The United States should continue to support multilateral and unilateral sanctions on the sale of sensitive nuclear and missile technology to Iran and oppose the sale or transfer of military hardware to Iran. To change Iran's cost-benefit calculus, however, Washington needs to identify economic incentives that will appeal across factional lines, engage the Iranian people to make them understand the stakes in the standoff, appeal to international partners, and retain additional bargaining chips for use in other disputes with Iran. An offer to lift U.S. domestic restrictions on and opposition to foreign investment in Iran's gasoline refinery sector fits the bill.

, but offered an attractive way out.
and the choices being presented to them.

Iran imports more than one-third of its gasoline from international markets and then pays a subsidy to bring the price down to 34 cents a gallon. The Iranian parliament, currently headed by hardliner conservatives, has threatened to curtail these subsidies due to the enormous strain it puts on Iran's budget and the inflationary pressures it exerts on Iran's economy. This threat has provoked public outrage within Iran, due to the major impact it would have on ordinary Iranian's pocketbooks.

The reason Iran imports so much gasoline is that its domestic refinery capacity is derelict. Iran loses around \$5.5 billion a year merely from leakages.⁶⁹ The United States would frame its proposal as a step toward an end to U.S. domestic restrictions on and opposition to foreign investment in Iran's petroleum sector. As noted earlier, Iran's crumbling petroleum infrastructure is a major medium-to long-term vulnerability: Iran derives an estimated two-thirds of its revenues from oil exports, and any significant decline would hit it hard. Iran's government uses these revenues to placate its restive population, including its expensive gasoline subsidies.

This proposal is likely to appeal across factional lines. Pragmatists and reformists will value the foreign investment potential. Many hardliners will appreciate the long-term impact it could have on gasoline subsidies, which they generally oppose. Both factions will value the added energy independence. The proposal could divide hardliners who oppose foreign investment from those who oppose gas subsidies, while providing pragmatists and reformists with an opportunity to make the case to the Iranian people that foreign investment will help Iran's economy in tangible ways.

In addition, by tying the future of Iran's petroleum sector to Iran's nuclear ambitions, the United States could over time create a powerful budgetary constituency within the

Iranian government that opposes Iranian policies that may disrupt the valuable new flow of financial and technical assistance.

The incentive could also engage the Iranian people more effectively in the debate over their country's enrichment program. This is an important potential source of leverage for the United States because the main day-to-day concern of ordinary Iranians is the domestic economy, not nuclear energy.⁷⁰ Gasoline prices are an enduring feature of Iranian political debate and a major economic issue for Iranians, and so a proposal relating to gasoline refinery could highlight



for ordinary Iranians—for whom the nuclear issue is not a day-to-day concern—that the enrichment program comes at a real opportunity cost to Iran’s economic development.

Indeed, Iran’s President Ahmadinejad exploited Iranians’ concern about the economy to justify the enrichment program by framing the program at home as primarily about Iran’s economic development, not military power. So far, his strategy has worked: while Iranians tend to oppose a nuclear weapons program, they tend to support the nuclear enrichment program. The United States and its partners should welcome an Iranian

domestic debate that is so framed since Iran’s economy is weak, and has grown weaker under President Ahmadinejad. The political backlash against Ahmadinejad stems in significant part from his poor handling of the nuclear issue and its effects on the economy, as pragmatists, reformists, and even traditional conservatives begin to doubt the wisdom of his policy decisions.

We believe this approach would increase the chances that China and Russia support the overall contain-and-engage strategy. Both countries have significant economic relationships with Iran, particularly in the petroleum sector. They are likely to press forward with their relationships whether or not Iran abandons uranium enrichment. Yet both countries have found it difficult to do business in Iran’s petroleum sector due to the prohibition in Iran’s constitution against foreign ownership of its petroleum infrastructure and political in-fighting among Iran’s factions. This approach could reduce such obstacles by empowering proponents of such investment.

Finally, the incentive is measured and strategic. Unlike Vice President Dick Cheney’s position during the 1990s and into the first few months of Bush’s presidency that the United States ought to end all unilateral sanctions on Iran,⁷¹ our strategy would retain other American unilateral U.S. sanctions as bargaining chips for use in future negotiations. The incentive has the potential to shift Iran’s cost-benefit calculus on the nuclear question, but also signals a willingness on the part of the United States to address Iran’s interests in exchange for Iran addressing ours. This could be the first step towards resolving other outstanding issues between the United States and Iran.

Iran’s burgeoning population and growing energy needs threatens the nation’s energy independence but also offer the United States and its allies an opportunity to engage with the Iranian people. (Flickr/Hamed Saber)



As an added bonus, we believe that economic engagement has the potential to undermine the stability of the Iranian regime over the long-term. It is true that economic engagement would, in the short-run, enable the Iranian government to deliver greater economic benefits to the Iranian people, thereby reducing to some extent Iranians' dissatisfaction with their government. Over the long-term, however, economic engagement would be a Trojan horse that would empower Iranians politically and economically, eroding the mullah's grip on power.

Iran experts Vali Nasr and Ray Takeyh note:

*More than sanctions or threats of military retribution, Iran's integration into the global economy would impose standards and discipline on the recalcitrant theocracy. International investors and institutions such as the World Trade Organization are far more subversive, as they would demand the prerequisites of a democratic society—transparency, the rule of law and decentralization—as a price for their commerce.*⁷²

Implementing this proposal will require changes to U.S. law and administrative practice that restrict U.S. trade with Iran and sanction foreign entities from investing in Iran's oil infrastructure.⁷³ Iran will not take the proposal seriously unless it perceives that United States Congress supports it. Accordingly, the Bush administration will need to work closely with Congress.

Security and Political Initiatives

At the same time, the United States must also invest in new diplomatic infrastructure, both security- and nonproliferation-related, across the Middle East in order to engage and contain Iran and to provide assurances to key U.S. allies that the United States remains committed to their security. In tandem with this region-wide push, the United States must also take concrete steps to address Iran's security concerns.

The United States' objective should be to facilitate the creation of a diplomatic forum or institution capable of serving the legitimate, diverse interests of all the states in the region and promoting democracy and civil society in the region. The ever-deteriorating situation in Iraq is a good place to start.

The American people, the Iraq Study Group, and members of Congress from both parties oppose President Bush's plans to surge an additional 21,500 troops into Iraq. What's needed instead, according to the Iraq Study Group, is a diplomatic surge "to build an international consensus for stability in Iraq and the region. This diplomatic effort should include every country that has an interest in avoiding a chaotic Iraq," including Iran and other interested countries."⁷⁴

Center for American Progress experts Lawrence Korb and Brian Katulis rightly add that "these countries are already involved in a bilateral, self-interested and disorganized way"⁷⁵ with dealing with the fallout from the chaos in Iraq. While our interests and theirs are not always identical, none of them wants Iraq to become "a failed state or a humanitarian catastrophe that could become a haven for terrorists or a hemorrhage of millions more refugees streaming into their countries."⁷⁶

The United States should use this shared interest as the basis for creating the diplomatic infrastructure needed to deal with Iraq and other security issues facing the region. The architecture should strive to reduce Shia-Sunni tensions and provide a forum for all countries in the region, regardless of their sectarian make-up, to discuss security issues and build confidence.

The United States should use this new architecture to address Iran's security concerns. Secretary of Defense Robert Gates's

America must be willing to address Iran's security concerns if it expects Iran to address America's security concerns.

statement on February 2, 2007, that “We are not planning for a war with Iran” is a step in the right direction. The United States must be willing to address Iran's security concerns in exchange for Iran addressing ours.

At the same time, the U.S. military has an important role to play in containing Iran. Its multifaceted relationships with key countries in the region help assure these countries that the United States remains an important ally. In addition, the United States has every right to protect its forces in Iraq and take defensive measures to prevent any actor or country—including Iran—from threatening our soldiers.

Finally, the United States must directly engage the Iranian people. American films, television and radio shows enjoy a large Iranian audience, but more personal exchanges can have a powerful impact. Members of Congress should consider opening a dialogue with members of the Iranian parliament, as called for by Congressman Gregory Meeks (D-NY). Sporting, scientific, and cultural groups should be encouraged to organize reciprocal visits and conference. And U.S. strategic communications to Iran—through such media as Radio Farda—should feature substantive programming designed to spark debate within Iran, as opposed to popular music programming.

Non-Proliferation Initiatives

The United States and its partners, as noted above, should support the Nuclear Threat Initiative's effort to create a fuel bank consortium under IAEA leadership. NTI's pledge of \$50 million to the IAEA is contingent on other countries providing an additional \$100 million to make the fuel bank a reality. The United States and its partners should provide such financing and immediately launch into discussions with the IAEA over the physical location of the fuel bank, its governing structure, and the conditions a country must satisfy to gain access to nuclear fuel.

Such a consortium would serve three interlocking objectives. First, it has the potential to address Iran's concerns about security of fuel supply. An international fuel bank that is country-neutral, durable, and governed by objective criteria is more likely to attract Iranian support than a *sui generis* mechanism created specifically to deal with Iran.

Second, a fuel-bank push would head off the regional proliferation consequences of Iran suddenly announcing its nuclear- or near-nuclear capability. At the very least, the existence of a credible nuclear fuel bank would make it harder for Iran's Sunni Arab neighbors to pursue any nuclear weapons ambitions under the guise of nuclear energy development.

Third, a nuclear fuel bank could serve as a first step towards more ambitious, global efforts to prevent the abuse of nuclear-fuel-cycle technology. That's why the United States should press ahead with the fuel bank proposal with or without Iran's support. This initiative would reduce the chances of a "virtual" arms race in the region by controlling the most sensitive component of the nuclear fuel cycle, uranium enrichment. The possibility that Iran may be left out of such an important initiative may also serve as an added inducement for Iran to forego uranium enrichment.

More broadly, the United States must restore global confidence in the international non-proliferation regime. As Sam Nunn and former U.S. Cabinet secretaries George Shultz, Henry Kissinger and William Perry recently wrote: "U.S. leadership will be required to take the world to the next stage—to a solid consensus for reversing reliance on nuclear weapons globally as a vital contribution to preventing their proliferation into potentially dangerous hands, and ultimately ending them as a threat to the world."⁷⁷

Specific steps that the United States should take include efforts to strengthen and accelerate global programs that would reduce or eliminate the possibility that Iran—or any actor—could acquire nuclear weapon technologies, materials or the weapons themselves from national arsenals. Washington should continue to build global and regional support for the Nunn-Lugar Cooperative Threat Reduction programs, the Proliferation Security

Initiative, and international export control regimes, including UN Resolution 1540, the Nuclear Suppliers Group, and the Missile Technology Control Regime.

Additionally, the United States must redouble efforts to lock down and secure vulnerable stockpiles of fissile materials wherever they exist in the world, particularly HEU, to prevent Iran from taking this shortcut to a nuclear weapon.

These nonproliferation objectives, however, must also happen at home. The United States must lead the way in devaluing the military, political, and symbolic importance of nuclear weapons if it expects other nations to give up permanently their own pursuit of these weapons.

Shultz, Kissinger, Nunn and Perry are absolutely right when they argue: "Without the bold vision, the actions will not be perceived as fair or urgent. Without the actions, the vision will not be perceived as realistic or possible."

It is not necessary to fully implement this vision in order to resolve the current nuclear crisis, but it will be impossible to resolve the crisis without advancing toward this vision. The three broader efforts—for Middle East security, for an end to the fuel-cycle loophole, and for a global reduction of nuclear threats—are important in and of themselves. Progress towards their achievement can both help solve the immediate Iranian crisis and illuminate the practical importance of these global structural security enhancements.

Russia and China have resisted making progress on Iran policy for good reason: the Iranian nuclear program is a direct threat to Iran's ambition to become a global superpower.

Maximizing the Chances of Partner Buy-In and Long-Term Sustainability

Russian and Chinese cooperation for this strategy is critical, but it is not assured. The two countries have resisted the Bush administration's preferred strategy of economic, political, and military coercion because they delight in seeing another American set-back in the Middle East, some might say. There may be a kernel of truth to this—Russia, for instance, views Iran as an important tactical ally in the Middle East.

But it is no more than that. Russia and China, like the United States, have no interest in an Iran that is nuclear-capable. Nor does either country want to see a regional virtual arms race that it could spark. A nuclear war in the region would be as disastrous for them as it would be for the United States.⁷⁸

So, too, would a U.S. conflict with Iran. The more plausible explanation is that China and Russia believe the Bush administration's strategy is flawed on its merits; that it is more likely to harden Iran's ambitions than soften them. China and Russia fear that if they endorse strong diplomatic or economic sanctions against Iran, the Bush administration may use them as a pretext to take military action that would further destabilize the region.

In addition, China and Russia have always harbored genuine skepticism about the ability of sanctions and other coercive measures to produce fundamental shifts in policy when the measures are not accom-

panied by positive incentives—particularly when the two countries have economic interests in the target state, as both China and Russia do in the case of Iran. It is small wonder the two countries have resisted the Bush administration's approach.

U.S. efforts to marshal Russian support has been further undercut by the lack of a coherent Russia policy that recognizes how actions taken in one policy sphere affect the actions taken in another policy sphere. The clearest example of the lack of such a strategy is when Vice President Cheney publicly vilified Russia's backsliding away from democracy just days before Secretary of State Rice was to meet with Russian officials to enlist their support for U.S. policy towards Iran.

U.S. policy on NATO expansion and its efforts to entice Poland, the Czech Republic, Ukraine and other countries on or near Russia's borders to participate in ballistic missile defense efforts provoke animosity in Russia. While some of these policies may be reasonable, it is important that the United States also consider the entire picture to ensure that U.S. policies toward Russia are mutually reinforcing across the spectrum of issues. A comprehensive Russia strategy clearly lies beyond the scope of this paper, but is sorely needed to ensure that the United States is using its power in a coordinated way.

We believe the contain-and-engage strategy of backing Iran into a corner but offering Iran a way out is more likely than any other to sustain support from China and Russia.

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s than soften them.

CONCLUSION

Providing a Firm Foundation to Contain and Engage Iran

The steps outlined above—targeted economic engagement, new security and political initiatives, and renewed regional non-proliferation efforts across the Middle East—would position the United States to pursue a more ambitious agenda with Iran. Solving the nuclear issue could even generate political momentum toward addressing other aspects of U.S.-Iran relations, such as the Middle East peace process.

It is possible, however, that the strategy outlined above may fail. Iran may decide that the value of its uranium-enrichment program outweighs the package of carrots and sticks outlined above. The contain-and-engage strategy positions the United States to carry forward a more effective, sustainable strategy for containing Iran's program compared to current U.S. policy.

It is unlikely that the United States could effectively contain Iran without the support of key allies and partners, including China and Russia. These partners, however, are unlikely to support an effective containment

strategy unless they perceive that the United States has tried less coercive alternatives and remains open to a negotiated settlement. A strategy of contain-and-engage provides Iran with opportunities for rapprochement at the same time that it makes a strategy of containment more sustainable over time by attracting the support of key allies and partners.

In addition, the strategy would reduce the chances of an arms race in the Middle East. It would help assure U.S. allies that the United States remains a resolute partner in maintaining peace and security in the region.

If the strategy works, it could be the first step toward dealing with the full range of issues in America's difficult relationship with Iran. It could pave the way to easing the Sunni-Shia tensions stoked by the civil war in Iraq and Iran's rise. It could provide an opening to address Iran's relationship with Hamas and Hezbollah. And finally, over the long-term, it could plant the seeds of democratic change in Iran.

There is no guarantee of success. But without making the effort, there is a guarantee of failure.

If the strategy works, it could be the first step toward dealing with the full range of issues in America's difficult relationship with Iran.

ENDNOTES

- 1 On Iran's role in Afghanistan, see Rohde (2006).
- 2 Leverett (2006).
- 3 Compared to the actual process of enriching uranium, it is generally not technologically challenging for a determined country to acquire "yellowcake," or uranium ore that has been mined and processed into a form capable of being converted into UF₆. Iran has two uranium mine sites, one at Anarak and the other at Saghand. Iran's major mine is located at Saghand, in the desert province Yazd. According to the Atomic Energy Organization of Iran (AEOI), the Iranian government organization that oversees the country's nuclear program, the mine has an estimated 857 tons of uranium ore reserves. Based on an estimate that it takes 20 tons of uranium to ultimately produce enough HEU for 4-5 bombs, then Saghand could supply Iran with enough uranium to make 160-200 bombs.

More broadly, it is not technologically difficult for a country to acquire natural uranium using indigenous sources, even if the country lacks uranium mines with concentrated deposits of uranium ore. This is because uranium is abundant in nature, and can be easily extracted from indigenous sources other than uranium mines. Sources such as ordinary granite and seawater, for example, contain uranium, and the technology for extracting the uranium from these sources is neither difficult to obtain nor master. This would be far more costly than extracting it from a mine that contains high-grade uranium deposits, but it may not be costly enough to serve as a significant obstacle for a country with adequate resources and the determination to acquire nuclear weapons.
- 4 Uranium containing 20% or more U-235 is considered highly enriched uranium, but it cannot be used in a bomb until the proportion of U-235 approaches 70%.
- 5 Jerusalem Post (2006).
- 6 Rohani (2006).
- 7 Kessler (2007).
- 8 Rohani (2006).
- 9 United States Department of State (2005).
- 10 Rohani (2006).
- 11 Linzer (2005).
- 12 Albright (2006); Chipman (2007).
- 13 Ignatius (2006).
- 14 There is also some provocative circumstantial evidence that Iran, in the past, experimented with a more advanced P-2 centrifuge at military installations in the country. But it appears to have ended that work and eliminated obvious signs of the experiments. The failure of Iran to fully disclose this history is a major part of the dispute between Iran and the IAEA, and now the Security Council.
- 15 To write this section, the authors consulted with several Iran experts, including Ray Takeyh (Council on Foreign Relations), Hadi Semati (Brookings Institution), Trita Parsi (National Iranian American Council), and Karim Sadjapour (International Crisis Group). Any errors or omissions are the authors' alone. The authors also hosted a half-day workshop with Iran and nuclear non-proliferation experts on the subject in July 2006. The authors additionally relied on range of scholarly works; see bibliography.
- 16 Keddie (2006), p.240.
- 17 Moslem (2002), pp.47-88.
- 18 Byman et al (2001), ch.3, pp.21-29.
- 19 Takeyh (2006), p.4. For instance, Iran reportedly encouraged the Supreme Council for the Islamic Revolution in Iraq and other Shia groups to work with coalition forces and the fledgling Iraqi government at the same time that it provided arms and support for Shia militia opposed to the U.S. occupation.
- 20 EIU (September 2006), p.1.
- 21 For an extended discussion of the reformists' alliance with the pragmatists in the mid- to late-1990s, see Moslem (2002), pp. 180-251.
- 22 Fathi and Slackman (2007).
- 23 Brom, p.228 (in Sokolski & Clawson, 2005).
- 24 For instance, by the late 1990s Iran began to rehabilitate its relations with the Gulf Arab states, apparently realizing that the ideologically-driven antagonism that had characterized Iran's posture during Khomeini's reign had left Iran isolated.
- 25 The two factions are also divided over social and cultural policy. Whereas hardliners are "extreme in terms of their adherence to the application of Islam to the social and cultural realms," pragmatists, by contrast, tend to think that the Islamic Republic can, and indeed, must accommodate some measure of social and cultural progress or risk further alienating Iran's baby-boomers. This is a highly charged, ideological debate in Iran. Anan overt effort by the United States to join the debate would inadvertently delegitimize Iranian advocates for social and cultural freedom.
- 26 CIA (2006).
- 27 Vakil (2004), p47.
- 28 Torbat (2005), p.420. For a list of U.S. sanctions on Iran, see *ibid*, pp.410-411.
- 29 Stern (2007).
- 30 DOE (2006).
- 31 Stern (2007).
- 32 Moslem (2002), p.105.
- 33 Keddie (2006), p.273.
- 34 The bonyads, which control 10-20% of Iran's economy, oppose governmental regulation for similar reasons. Keddie (2006), p.273. The clergy opposes governmental taxation because it cuts into the pool of money that observant Muslims are obligated to give away as charity to mosques and religious schools.
- 35 Efforts to privatize industry have greater political support among conservatives, insofar as they reduce the government's role in the economy, but they have not attracted significant interest from investors. For instance, the government was able to sell just 30% of advertised government assets in 2005. EIU (August 2006), p.25. Moreover, since Iran restricts foreign ownership of much of its industry, the only companies in Iran able to purchase government assets tend to be other state-owned companies.

- 36 Moslem (2002), p.128 ; p.130.
- 37 Nazila Fathi, reporting from Tehran on the unrest, notes, "The students' complaints largely mirrored public frustrations over the president's crackdown on civil liberties, his blundering economic policies and his harsh oratory against the West, which they fear will isolate the country." "Iran President Facing Revival of Students' Ire," *The New York Times*, December 21, 2006, page 1.
- 38 Freedman (2003), p.441.
- 39 Spector (2003).
- 40 Kennedy (1963).
- 41 Schmitt (2004).
- 42 Kessler and Slevin (2003).
- 43 Leverett (2006).
- 44 See, e.g., Wright (2005).
- 45 Leverett's sources are European diplomats. See Leverett (2006).
- 46 EIU (2006).
- 47 Hofbauer and Schott (2006).
- 48 ICG (2005), p.15.
- 49 ICG (2005, p.5.
- 50 Chubin (2006), p.19.
- 51 Kull (2007). See also Lynch (2006).
- 52 Reader's Digest (2006), p.20.
- 53 Rather than dismiss all polling in Iran as unreliable, we believe it is more prudent to examine polls on a case-by-case basis. After careful study, we conclude that the polls we cite are reliable enough to serve as indicators of broad opinion trends in Iran.
- 54 Byman et al (2001).
- 55 Rajace (2004), p.169.
- 56 Murphy (2005).
- 57 Reader's Digest (2006), p.26. Carnegie Endowment Vice President George Perkovich (2006) aptly summarizes the problem with pursuing nonproliferation objectives through regime change:

Pursuing nonproliferation through regime change democratization can actually increase rather than reduce demand for nuclear weapons. Leaders in states such as Iran and North Korea and perhaps others may have come to see nuclear weapons as the best bulwark against U.S. intervention. After all, the most accepted rationale for a state to seek nuclear weapons is to deter more powerful adversaries from threatening its sovereignty and territory. U.S. threats to attack unfriendly governments and their nuclear capabilities also help consolidate those regimes' power domestically. Historically, autocrats and authoritarian governments have used threats of foreign aggression to centralize power and constrain democratic culture and practice.
- 58 Lowe and Spencer (2006), p.8.
- 59 Gardiner (2006).
- 60 William Kristol, "It's Our War; Bush should go to Jerusalem—and the U.S. Should Confront Iran," *The Weekly Standard*, July 24, 2006
- 61 Bunn and Wier (2006).
- 62 Brookes (2003).
- 63 Hersh (2006).
- 64 Brooks (2003).
- 65 Leverett (2006), p.6.
- 66 McFaul et al (2006), p.126.
- 67 For broader recommendations on how to improve Congressional oversight of U.S. intelligence, see McDonough et al (2006).
- 68 ElBaradei, (2006)
- 69 Stern (2007), p.380.
- 70 Sadjadpour (2006).
- 71 Associated Press (2004).
- 72 Nasr and Takeyh (2007).
- 73 For a list of U.S. sanctions on Iran, see Torbat (2005), pp.410-411.
- 74 Iraq Study Group (2006), p.6.
- 75 Korb and Katulis (2007). For extended analysis, see Podesta et al (2006); Korb and Katulis (2006); Korb and Katulis (2005).
- 76 Korb and Katulis (2007).
- 77 Shultz et al (2007).
- 78 In addition, the nuclear issue is just one of several other issues that Russia and China have with Iran in their bilateral relationships with Tehran. For instance, Russia and Iran have conflicting positions on rights to mineral, fisheries, and other resources in the Caspian Sea.

TIMELINE ENDNOTES

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- 4 "Iran Nuclear Chronology 1957-1985," Center for Nonproliferation Studies, August 2005. http://www.nti.org/e_research/profiles/Iran/1825_1826.html; "Proliferation: Pulling a Bomb Apart," *The Economist*, 14 March 1992, vol. 322, no. 7750, p. 46.
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- 6 Ibid.
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Tyler Stone—Iranian Nuclear Facilities Map (page 7)

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