



CENTRE FOR EUROPEAN REFORM

policy brief

Crunch-time on Iran: Five ways out of a nuclear crisis

By Mark Leonard

IN JULY 2005, EUROPE HAD JUST FOUR weeks left to avoid a nuclear crisis. For the last few years, Iran has been openly flirting with the idea of developing nuclear weapons – but a show-down has been staged for August this year.

The stakes are high: European governments are concerned that Iran's nuclear programme could set off a spiral of proliferation in the Middle East (with Saudi Arabia, Turkey and even Egypt looking to acquire nuclear weapons). They also believe that a nuclear Iran could kill off the Non-Proliferation Treaty which has already been undermined by the nuclear programmes of India, Pakistan and Israel, and North Korea's decision to abandon the treaty in 2003.

Since the summer of 2003, the so-called EU-3 (Britain, France and Germany) have been negotiating with the Iranian government to convince it not to develop atomic bombs. At the end of May 2005, European negotiators promised Iran that they would produce a formula to defuse the stand-off by August. Tehran agreed to EU demands to suspend its nuclear programme. But the Iranians made it clear that if they did not like the EU's solution, they would send United Nations (UN) inspectors home and start enriching uranium again (a crucial step for making nuclear weapons). The success of these talks will depend on three factors: Iranian politics; the EU's ability to focus on foreign policy issues; and US foreign policy.

The surprise June election of a new Iranian President, Mahmoud Ahmadinejad, has added uncertainty to the EU-Iran negotiations. European governments had hoped that former President Ali Akbar Hashemi Rafsanjani would win. They thought he would be the most pragmatic among the candidates on the nuclear issue, a man the EU could do business with. The new president, on the other hand, has practically no international experience and is seen as an ultra-

conservative, having been a top commander of the Revolutionary Guards (the military wing of the revolutionary regime). As a long-term protégé of the Supreme Leader Ayatollah Khameni, his election has consolidated the grip of hard-liners over the Iranian government. President Ahmadinejad has already said that his government intends to re-start the country's nuclear programme and declared that he is not interested in a rapprochement with the United States. Even if he is willing to do a deal with the Europeans, the questionable legitimacy of his election and his history of extremism will make it harder for Europe, and above all the US, to make concessions.

Second, the EU must deal with Iran while its leaders are distracted by the constitutional crisis precipitated by the French and Dutch No votes. Unlike the divisive Iraq crisis in 2003, Britain, France and Germany are working well together on Iran. They are trying to solve the problem before it becomes a crisis. The EU-3 invited Javier Solana, the EU's foreign policy chief, to join their negotiations in late 2004 to show that they represent the EU, not just Paris, Berlin and London. And so far the three governments plus Solana have stuck firmly to their policy that Iran should not enrich uranium under any circumstances. The goal is to force Iran to choose between nuclear weapons and its relationship with Europe. However, after years of dealing with Iranian brinkmanship European governments are becoming jaded. There is a danger that European negotiators will simply reheat the trade and technology concessions they have offered up in the past rather than developing a package that is attractive enough to encourage Tehran to forswear its enrichment programmes.

The third factor determining the future of Iran's nuclear programme is the transatlantic relationship. After years of equivocation – caused by bitter disputes between advocates of engagement and regime change –

Washington finally threw its weight behind the EU's diplomatic efforts in March 2005. American incentives, in the form of support for Iran's membership of the World Trade Organisation (WTO) and supplying Tehran with badly needed airplane parts, have been combined with the threat of EU sanctions – in particular to refer Iran to the UN Security Council if it does not permanently cease uranium enrichment. But Ahmadinejad's election has set this process back and re-opened the debate within the Bush administration about the wisdom of supporting European diplomacy. Before the election, those favouring engagement were arguing for further US concessions – now they are trying to defend the status-quo. In the next few weeks, Europeans will have to convince Washington to make concessions (at least in private) on nuclear supplies, sanctions and security if the negotiations are going to succeed. This will largely depend on President Bush's personal assessment, as it was he who decided to shift the policy in March.

The Iranian nuclear issue could well reach a fork in the road this autumn. Either Iran will permanently suspend its uranium enrichment activities and unleash a virtuous spiral; or Tehran will insist on its 'right' to enrich uranium and force the EU into an escalating series of sanctions.

What is Iran doing?

Senior EU negotiators privately confess that they do not know exactly what the Iranians are trying to achieve. This confusion has simply grown with the election, with rumours that Iran's chief negotiator Hassan Rowhani has offered to resign.

Tehran's massive financial investment in nuclear programmes, coupled with its attempts to conceal power plants and research laboratories, certainly gives the impression that the Iranian government wants nuclear weapons.

Iran's reasons for seeking nuclear weapons are threefold. First, Iran is surrounded by US troops (in Afghanistan, Iraq, and some central Asian republics); and Washington has branded Iran part of the "axis of evil", consistently threatening it with 'regime change'. Nuclear weapons would act as a deterrent against any prospective American invasion. Second, atomic bombs would allow Iran to consolidate its position as a dominant player in the Gulf. The third reason is status: Iran's nuclear nationalism is partly inspired by its desire to 'punch its weight' in the world.

What is less clear is what price Tehran is willing to pay. There are bitter divisions amongst the Iranian elite. Most commentators distinguish between 'hawks' and 'conservative pragmatists'. The hawks (within the Council of Guardians; the Revolutionary Guard; the judiciary; and the Supreme Leader's office) appear to want nuclear weapons at any price: not only to deter prospective invaders, but also to consolidate the regime's power over the Iranian people. The

'conservative pragmatists' (mainly businesspeople) want nuclear technology too, but they do not want to endanger Iran's commercial relationship with Europe, Japan, China, Russia and India.¹ They worry that the regime will come under pressure if it fails to provide the Iranian people with economic growth and jobs. At present, the Iranian economy creates only 400,000 jobs for the million new labour market entrants each year. The pragmatists fear that economic sanctions would make matters worse. They therefore want to stay within the guidelines of the Nuclear Non-Proliferation Treaty (NPT), which prohibits Iran from developing atomic weapons, to ensure that they do not sacrifice foreign investment (which creates jobs) for nuclear know-how.

Before the election some observers thought that these competing factions had coalesced around a compromise strategy that is sometimes known as the 'Japanese model'.² The idea is to develop the ability to enrich uranium and

separate plutonium to generate nuclear fuel, but to do so within the rules of the NPT. If Iran, like Japan, succeeded it would not only have nuclear energy but also a latent military deterrence as it could develop nuclear weapons very quickly. If this is the goal, Tehran would prepare to build a complete range of nuclear fuel plants, based on a monitoring agreement with the UN's nuclear watchdog, the International Atomic Energy Agency (IAEA), in exchange for a promise to forswear nuclear weapons.

According to both US and EU intelligence Iran is at least a few years away from a bomb. Tehran has developed power plants which do not have any non-civilian uses such as the Bushehr facility, which was built with Russian help. It also has some 'fuel-cycle' facilities such as Natanz and Esfahan, which currently have peaceful purposes but could produce weapons-grade uranium. These two dual-use sites have been built eight metres underground with help from Pakistan. Another site, Arak, could produce weapons-grade plutonium but it is many years from completion. Tehran had hidden the existence of Natanz, Esfahan and Arak until Iranian opposition groups revealed their existence in 2002. The IAEA estimates that although the Natanz plant has room for 50,000 centrifuges, the Iranians have barely managed to build 1,000 centrifuges.³ This suggests that Iran is still some way off from making a nuclear weapon. Experts estimate that 1,000 centrifuges could only enrich 1,000 kg of uranium a year, while a primitive bomb would need at least 2,000 kilograms of uranium.

¹ Ken Pollack and Ray Takeyh, 'Tackling Tehran', *Foreign Affairs*, March/April 2005.

² See George Perkovich, 'Iran's Nuclear Program: The Challenge for Transparency', March 23rd, 2005 see <http://www.carnegieendowment.org/events/index.cfm?fa=eventDetail&id=755&proj=znpp>; and Peter Rudolf, 'US Policy towards Iran: Developments, Options and Scenarios', *Stiftung Wissenschaft und Politik*, April 2005, Berlin.

³ Ken Pollack, 'The Persian Puzzle: The Conflict Between Iran and America', Random House, 2004.

What has added to the West's suspicions is the fact that Iran has been building up a stockpile of medium and long-range missiles, alongside its nuclear materials. Iran's latest long-range ballistic missile, the Shahab-3,

⁴ Oliver Thränert, 'Ending Suspicious Nuclear Activities in Iran', *Stiftung Wissenschaft und Politik*, November 2004, Berlin.

which could be fitted with nuclear warheads has a range of 1,300 kilometres (allowing it to hit Israel or even several European targets).⁴

Iran's diplomacy and the future of arms control

Iran's nuclear strategy also has a diplomatic dimension – to isolate the US and mobilise the developing world. This diplomatic strategy revealed itself during the seventh NPT review conference in May 2005 (189 countries meet every five years to review the treaty, which was signed in 1968). The EU and the US wanted to close some of the legal loopholes in the NPT which Iran had exploited, such as the right for any country to develop potentially lethal nuclear technology under the guise of a peaceful nuclear programme. The EU and the US had hoped to convince countries to voluntarily forgo developing fuel-cycle plants, and improve the effectiveness of the NPT, by making all countries sign the IAEA's Additional Protocol which authorises intrusive inspections of potential nuclear sites.

Tehran accused the US and the EU of focusing on the bits of the NPT they liked and dictating new terms to the developing world, while ignoring the rest of the treaty. It claimed that the US and Europe ignore Article 6 which commits nuclear-armed nations to eventually disarm, whilst trying to tear up Article 4 which allows any country to develop civil nuclear power. Many developing countries rallied to Iran's side, defending their right to develop peaceful nuclear technology. As a result, the review ended in failure.

Tehran claims it is resisting western pressure not just for itself, but also for the sake of the developing world as a whole. Iran has been very good at convincing developing countries to support its position – it effectively turned the NPT review into a 'loyalty test' for the developing world. It has also strengthened its hand at the UN by building important trade links with Russia (whose contractors are building the Bushehr plant); China (which has signed a \$70 billion oil deal); India and Pakistan (with whom Tehran is talking about building a pipe-line).

The difficulty for the West is that Tehran has powerful arguments on its side. First, there is a widespread perception of American double standards on nuclear weapons. The Bush administration has pulled out of the Anti-Ballistic Missile (ABM) treaty with Russia (so that it can build a missile defence system), shelved the Comprehensive Test Ban Treaty (CTBT), and has threatened to start testing a new generation of 'bunker-busting' low-intensity nuclear weapons. In addition, Washington has consistently failed to take

any action against the Pakistani and the (alleged) Israeli nuclear programmes.

The NPT itself entrenches a double standard: it allows five countries (Britain, China, France, Russia and the US) to keep their nuclear weapons (although they are supposed to work towards nuclear disarmament), while asking the rest of the world to forswear them. The NPT bargain is already difficult to sustain, but Europe and America appear to be trying to make that double standard even more pronounced by stopping non-nuclear countries from mastering the full nuclear fuel cycle. To make matters worse, the Bush Administration is considering developing new types of nuclear bombs (although it has cut its conventional stockpile), which many countries perceive as further evidence that Washington is walking away from its side of the NPT bargain.

For European countries that want to develop a treaty-based approach to handling weapons proliferation, finding a way of dealing with Iran is crucial. North Korea withdrew from the NPT last year and says that it now has nuclear weapons. Nuclear-armed India, Israel and Pakistan never signed the NPT, and did not face heavy sanctions when they developed nuclear weapons. If Iran decides to develop nuclear bombs, it will spell the end of the NPT as a viable mechanism for preventing proliferation. However, if Iran can be persuaded to abandon its quest for uranium enrichment it would create a template for a revitalised anti-proliferation regime. Mohammed El Baradei, the head of the IAEA, has proposed a possible way out of the impasse: a universal moratorium on any new enrichment and reprocessing facilities. This would deprive Iran of the argument that it is being singled out for unfair treatment.

Europe's policy and the Paris agreement

The EU worries greatly that a nuclear-armed Iran would provoke a nuclear arms race in the Middle East, and kill off the NPT. To prevent this from happening, the EU has developed a policy based on incentives and sanctions that would force Iran to choose between nuclear weapons and its relationship with the West.

The European approach dates back to a joint declaration signed by the Iranian foreign minister and the EU-3 foreign ministers in Tehran in October 2003. Iran agreed to suspend all activities that would lead to a full nuclear fuel cycle and to allow IAEA inspectors into its nuclear sites. In exchange Europe recognised Iran's right to build light water reactors, and agreed to co-operate on trade and civil nuclear programmes.

Since 2003, the process has been anything but smooth. The first major crisis took place in February 2004, when the IAEA reported that the Iranians had not been sticking to the 2003 deal. It questioned why Iran was still mixing centrifuges with highly enriched uranium. Iranian politicians responded that they would not give

up on their 'right' to enrich uranium, and repeatedly threatened to resume enrichment activities. The EU-3 and Solana saved the process by securing the so-called Paris agreement in November 2004. As a "voluntary confidence building measure" Iran agreed to suspend the production, installation and testing of gas centrifuges for uranium enrichment, as well as its plutonium separation activities.

This new agreement was much more explicit than the October 2003 deal and it was backed by IAEA inspections (for as long as the EU and Iran continue negotiating to find a long-term solution). The EU-Iran negotiations are broken into three working groups: transfer of nuclear technology; trade and co-operation; and security issues. But at the end of the first phase of the process in March 2005 they had failed to make much progress on any of these issues.

The core disagreement between Tehran and the EU is over what would constitute 'objective guarantees' that Iran's nuclear programme is peaceful. Europeans argue that only a permanent end to uranium enrichment will provide an objective guarantee. Iranians hope for a compromise that would allow them to develop a complete nuclear fuel cycle under international supervision. At a meeting on April 29th, Iranian negotiators tried to relaunch the negotiations by proposing some possible "objective guarantees". On the one hand they offered to get the Iranian parliament to ratify the IAEA additional protocol and allow IAEA personnel to conduct continuous inspections. But they also proposed that they would resume restricted uranium enrichment under supervision by the IAEA. Crucially, Tehran said it wanted to resume not with a token pilot project, but with assembling 3,000 centrifuges at Natanz and using them to convert uranium into fuel rods – potentially enough to create a bomb.

In exchange they asked the EU to agree to the following: market access for Iranian goods; recognise Iran as a major source of energy supply; signal its readiness to build new nuclear plants in Iran; loosen export control regulations; and give Iran a guaranteed supply of nuclear fuel. The Iranians also said they wanted the EU to launch an initiative to make the Middle East a weapons-of-mass-destruction (WMD) free zone, and sell Iran some defence equipment. Tehran saw these measures as part of a four-step process which would also include the setting up of joint taskforces on counter-terrorism, export controls, defence requirements and regional security.

Unsurprisingly, the Europeans did not accept the proposals from Tehran. When Europeans failed to embrace these proposals the negotiations faltered, with Iran repeatedly threatening to start nuclear activities in its Esfahan fuel-cycle plant. In the event it did not carry out this threat, but instead agreed at a meeting in Geneva on May 25th to wait until August when the EU will present some new proposals.

The EU is now trying to construct a package of measures which could get the nuclear talks back on track. Officials are exploring the development of:

- ★ A 'political framework' which would be largely rhetorical at this stage but contain statements on areas for future co-operation such as security in the Middle East.
- ★ A commitment that the EU sees Iran as a long-term supplier of energy, as well as a list of energy-related projects.
- ★ A commitment to share civil nuclear technologies, as well as European guarantees for Iran's access to nuclear fuel (so that Iran would not simply rely on Russian supplies).

Europe's best argument for the resumption of talks is that they can help Tehran distract concessions from the United States. That is why the transatlantic relationship is so important.

The transatlantic dimension

In a private meeting one European negotiator has compared the talks with Iran to a cocktail party, where the person you are talking to continuously looks over your shoulder to catch the eye of someone more important. That VIP is the United States. Europeans have said from the beginning that they will not succeed without American support. This is because the Iranians are keen to play Europeans and America against each other, and the US controls most of the things that Tehran wants. Europe can threaten Iran with isolation, but it is the US that holds most of the incentives in each of the 'baskets' of negotiations:

- ★ Transfer of nuclear technology: European companies would not transfer nuclear technology without an American endorsement of some sort.
- ★ Trade and co-operation: It is American sanctions and objections that have prevented Iran from joining the WTO and other international organisations.
- ★ Security issues: The EU-Iran discussion on security is meaningless without American participation, given that Iranians think their security is threatened by the US, not by Europe.

US engagement is critical for the success of European policy. But it is very difficult to convince Washington of the merits of engagement with Tehran. The US does not have a coherent Iran policy because the nuclear issue is subordinate to the urge not to confer legitimacy on the Islamic regime. In its first term the Bush administration was so divided on Iran that it was impossible for American officials to agree on a

⁵ Peter Rudolf, 'US Policy towards Iran: Developments, Options and Scenarios', *Stiftung Wissenschaft und Politik*, April 2005.

draft of a presidential directive on policy.⁵

Furthermore, Washington has no communication channels in Iran, and refuses to talk – even

informally – to Iranian government officials. The US cut off diplomatic ties when President Jimmy Carter closed the US embassy in Tehran in 1979. In 1996 US Congress prohibited trade with Iran, when it passed the Iran-Libya Sanctions Act. As well as banning American companies from trading with Iran, this act promises secondary action against any non-American company that trades with the Islamic Republic. And the Bush administration's language – branding the regime as 'evil' and calling for regime change – is hardly designed to promote compromise with Iran. The US containment policy is driven more by ideology and a historical antipathy that goes back to the 1979 hostage crisis, than attempts to influence current developments. The coldness is reciprocated: the Iranian President, Mahmoud Ahmadinejad, has said that there is "no significant need" to improve Iran's relations with the United States.

Even so, after years of refusing to engage there was a shift in US policy in March, following President Bush's visit to Europe. Washington agreed to support Iran's application for WTO membership, and to sell spare parts for Iran's ageing civil airline industry. This move towards a policy of engagement could open the way for a re-alignment of US foreign policy. However, these concessions are very modest: Tehran has been able to source many airline parts on the black market, whilst complying with WTO rules would lessen the government's control of the economy which has allowed the regime to build up a formidable network of patronage.

⁶ Lawrence Kaplan, 'Tehran Twist', *New Republic*, March 28th 2005.

And it is not clear how many more concessions the US would be willing to make – given the continued divisions

in the administration. In an article in the *New Republic* Lawrence Kaplan describes three Iran groups.⁶ First, those who argue for US engagement. They are led by National Security Adviser Stephen Hadley; and include the State Department's Undersecretary for Political Affairs, Nicholas Burns, and members of the Non-proliferation and Near Eastern bureau of the State Department and some NSC staffers. The Vice President, Dick Cheney, and Defense Secretary, Donald Rumsfeld, lead the ranks of the opponents of engagement. They failed in their attempt to scuttle the President's shift towards engagement in March, but they managed to obtain two key concessions: a European commitment to refer the matter to the UNSC in writing if necessary, and an agreement within the administration that the negotiations would not be allowed to go on indefinitely. The third group are the 'fence-sitters'. They are convinced the process will fail, but are happy to play along with the Europeans so that

Tehran (rather than Washington) gets the blame when the negotiations fail. This group includes the Secretary of State, Condoleezza Rice, her deputy, Robert Zoellick, and the Deputy National Security Adviser, Elliot Abrams.

EU negotiations will almost certainly fail without greater US involvement. The change in US policy in March is not enough to force Iran to choose between juicy carrots and sharp sticks. There are a number of things that the US could put on the table (in private), which would strengthen Europe's hand:

- ★ Offer the possibility of a security dialogue including a mutual non-aggression pact like the offer to North Korea.
- ★ Support Iran's civil nuclear programme and suggesting possible collaborations.
- ★ Release Iranian financial assets which were frozen in 1979.
- ★ End sanctions against non-American companies that invest in Iran's oil and gas sectors.

But after the Iranian election this will be even more difficult to achieve because the Bush administration is deeply ambivalent about supporting the EU. Firstly, because nobody trusts Iran to comply with a deal after it concealed its nuclear programme for years. And even if Washington trusted Tehran, it would still not want to normalise relations with Iran until it satisfied other American concerns. These include Tehran's support for terrorism (especially Hezbollah), its non-recognition of Israel, and its human rights record. Many in the Bush administration understandably fear that a nuclear agreement would simply bolster the mullahs and impede reform.

Five scenarios

Negotiations with Iran have become more uncertain due to several factors: What will President Mahmoud Ahmadinejad do? Is he capable of delivering a deal? Can the Europeans persuade the Bush administration to strengthen their hand by offering more concessions? Will Europeans remain united if things go wrong? Will Europe and America form a common position (including agreements on joint incentives and sanctions)? How will China and Russia react if Europe refers Iran to the UN Security Council? There are five possible scenarios to could be played out over the next six months:

1. Status quo

Under the first scenario, nothing happens.

The Europeans fail to develop a set of proposals that is detailed or attractive enough to persuade Tehran to end uranium enrichment permanently. But though Iran fails to close down its programmes permanently,

it does not restart its enrichment activities for fear of provoking a crisis. In these circumstances both sides would simply muddle on.

This is not the most likely outcome. However, since negotiations began in 2003 it has been in both sides' interests to buy time. Iran does not want to concede on the principle of its right to enrich uranium. On the other hand, the EU is comfortable with the status quo. As one European negotiator put it: "We are relaxed. They have suspended their uranium enrichment so we could continue with the status quo for 10 years if necessary – we do the negotiating, they keep up the suspension".

The problem is that the status quo is unstable. Already the negotiations have gone to the brink of collapse several times. What is more, even if the EU and Iran were happy to continue muddling through, it is likely that others would up the ante. Within Iran hard-liners will put pressure on the government to resume enrichment. Equally, the US would become increasingly restless and would continue putting pressure on the Europeans to refer the matter to the United Nations Security Council.

2. Towards a grand bargain.

Under this scenario, the Europeans would come up with a *détente* package – and Iran would respond in kind. The EU would offer a better overall relationship including a trade and co-operation agreement and more investment. They would also lift export controls on sensitive equipment. Currently the EU does not have an arms embargo on Iran (as with China) but there is a political agreement amongst EU governments which effectively blocks the sale of any defence goods, as well as so-called dual-use technology like communications systems that could have a civil and military use. In addition, the EU would offer support for Iran's civil nuclear programme with fuel supply guarantees, propose to build power stations, and even allow Iran to acquire enriched uranium abroad.

In this scenario Europeans would also put pressure on the US to signal its willingness to make further concessions, in particular to initiate a US-Iran security dialogue. Senator Joseph Biden has gone further: he says the US should offer Iran a mutual non-aggression pact.

The premise for this short-term solution would be to eventually reach a 'grand bargain' between the US, Europe and Iran. Such a bargain would not only address Iran's nuclear programme, but also Iran's support for terrorism and persuade it to recognise Israel and improve its human rights record. In return, Europe and the US would offer Iran a number of incentives, including a lifting of all trade sanctions (except sensitive military technologies), and Washington would recognise the Islamic Republic.

3. Ratcheting up the pressure

If the EU does not make an attractive enough offer by August, Tehran has promised to re-start the process of uranium enrichment. The Iranian government would notify the IAEA of Iran's decision to resume nuclear activities, and invite the IAEA to remove their seals from the plant at Isfahan.

The EU would then ask the IAEA to refer the matter to the UN Security Council (UNSC). This would probably result in a three-step process. First, the UNSC would issue a firm statement urging Tehran to "immediately suspend all enrichment activities" and send the issue back to the IAEA with a new deadline of say, six weeks. Russia and China would most likely support such a resolution because it would involve any sanctions.

If Tehran failed to comply with the deadline, the UNSC would have to consider placing some limited sanctions on Iran. But it is difficult to predict how events at the UN would unfold. Russia and China have supported EU diplomacy because they do not want to be forced to accept sanctions at the UN. If the UNSC moved to impose sanctions, it is possible that China (and potentially Russia) would withdraw their support for the UN process because of their commercial interests in Iran.

If the UN process broke down, Europeans would have to consider imposing unilateral sanctions on Iran. They could start with targeted sanctions such as restricting international travel by key Iranian decision-makers; freezing foreign financial assets of the Iranian elite; and preventing any transfer of sensitive technology.

If this failed to convince Tehran to shelve its nuclear ambitions, the EU would have to consider even tougher sanctions such as an arms embargo and measures against key Iranian individuals. The EU has imposed similar sanctions before on other countries. For instance, in the case of Zimbabwe, the EU has placed travel restrictions on 95 individuals – including President Mugabe, his immediate family and senior government officials – due to the government's gross human rights violations. Other sanctions include a ban on arms sales and the freezing of Zimbabwean assets in European banks.

The Iranian government is already bracing itself for a sanctions fight, and would no doubt respond tit-for-tat with measures such as custom tariff hikes, travel restrictions and revoking oil and gas licences on countries that impose hostile economic policies against Tehran. Ultimately it has the option of supporting terrorist activities in Iraq and other countries through Hizbollah or Hamas

4. Compromise

Some people have argued that it is already too late to stop Iran from developing an indigenous nuclear fuel cycle, and that an Iran with nuclear know-how

would not necessarily be as dangerous as some have suggested. Therefore, the EU and the US should try to persuade Tehran to restrict itself to a heavily monitored pilot programme coupled with a cessation of its weapons programme.⁷

⁷ See for example Michael Kraig, 'Realistic Solutions for Resolving the Iranian Nuclear Crisis', Stanley Foundation, 2005.

Under this scenario, the Iranians could offer to scrap industrial-scale plans to enrich uranium (such as the Natanz plant). In exchange they would retain a pilot project of maybe 100 centrifuges, and continue talks about retaining the capacity to produce low-enriched uranium. This would allow the Iranians to open a single small nuclear power reactor by 2010. The EU might agree to this plan, but only so long as the Iranian plants were under joint ownership or operation, and fully open to international inspections. There is a precedent. Russia is currently discussing with Iran the possibility of having Iranian uranium enriched in Russia.

Europeans have so far rejected this type of compromise out of hand. They say they will only accept a permanent cessation of enrichment. A small pilot project would not allow Iran to develop nuclear weapons, but the Europeans fear that once Tehran has developed the know-how it will be impossible to stop them from developing weapons (possibly through covert programmes).

However, a compromise of this sort would certainly be better than an unfettered Iranian nuclear programme like the one North Korea is pursuing. If Tehran refused to concede on the principle of its right to enrich, it is possible that some Europeans would want to cut a deal. Although the German Government has firmly opposed any Iranian enrichment programme so far, some French and British officials fear that they might support a compromise if things go wrong.

However, if the Europeans did agree to such a plan, they would have a new transatlantic crisis on their hands. Washington would never accept such a fuel bargain. It could also lead to disastrous splits within the European camp between Britain and France on the one hand and Germany on the other.

5. Military Strikes

The Bush Administration is keeping its military options open even while it goes down the diplomatic route.

No one in Washington is seriously considering invading Iran – it is three times the size of Iraq, has a punishing terrain, and it would be impossible to assemble an international coalition to support it (most countries will not support US sanctions against the country – let alone invasion). However, if diplomacy fails, it could open the way for preventive military strikes against nuclear targets by the US or Israel.

The *Atlantic Monthly* magazine organised a war game involving an attack on Iran, in December 2004. Ex-

officials from US intelligence, diplomatic community and military identified more than a dozen known targets associated with Iran's nuclear programme, and about 300 other key non-nuclear targets, which included locations of WMD, conventional air defences, command-and-control facilities and critical infrastructure such as electricity plants.

The analysts concluded that a unilateral Israeli attack would be "very high risk", making it almost prohibitive: "To get to Iran, Israeli planes would have to fly over Saudi Arabia and Jordan, probably a *casus belli* in itself given current political conditions; or over Turkey, also a problem; or over American-controlled Iraq, which would require US approval of the mission". Unlike the attack on Iraq's Osirak plant in 1981, this would be very complicated.

However the experts concluded that an American attack would bear low military risks. The strikes could be carried out within five days, with minimal casualties. From a diplomatic perspective it would also not be too frightening. Unlike the invasion of Iraq which was preceded by a lengthy diplomatic show-down, this could be done as a shock attack with no attempt to get UN backing. It is clear that attacks would provoke international condemnation, but the after-effects would be more like the global response to the bombing of Libya in the 1980s than the prolonged transatlantic crisis of the Iraq War.

The difficulty is that pre-emptive strikes are unlikely to be very effective. Western intelligence agencies are not confident that they know enough about Iran's nuclear programme to hit all the sites. And even if they do, Iran is so advanced in its programmes that it could probably recover the lost time relatively quickly (within one to five years). Military strikes could also have extremely dangerous and unintended consequences. At the very least they would probably unite the Iranian people behind the Mullahs. Or worse, they could lead to a surge of Iranian-sponsored terrorism in Iraq. For all these reasons military strikes would be the worst-case scenario.

Conclusion: Hope for the best, but prepare for a nuclear-armed Iran

As they approach the August deadline, European negotiators must pull out all the stops to develop an attractive package for Iran. In order to make this possible, they should use private diplomacy to make it clear to Washington that the US will get the blame for failure if they do not put more incentives on the table.

The goal must be for the EU and the US to agree on a broad set of incentives if Iran does comply, and sanctions if it does not. By August Iran should be presented with a clear choice: to scrap uranium enrichment and enjoy increasing integration into the world; or to continue developing the nuclear programme and suffer even greater isolation. In order to encourage US diplomatic engagement, European

countries – especially Britain – should also tell the US in private that they would be unwilling to support military strikes under any circumstances.

At the same time, Britain, France and Germany must work on shoring up the EU's own position. The small countries were unhappy about the way the process was initiated by the EU-3, but most have been pacified by Solana's involvement, and by the extensive briefings they have received after each negotiation. However, Austria, Greece, and Italy – all countries with extensive economic interests in Iran – are still disgruntled about their exclusion from the process. So far, they have remained united behind the EU position, but there is a danger of damaging European splits if things go wrong.

Europe and America must also step their efforts to work with China and Russia, because they will be crucial players if Iran is referred to the UNSC. European officials believe that the Russians are sincere in their opposition to the prospect of a nuclear Iran. China's position, however, is more complicated. So far Beijing has supported the EU's diplomatic efforts by refusing to promise Iran that it would block any UN action. Since both of these countries have an interest in keeping the Iranian issue away from the UN, the EU should persuade them to pressure Iran not to resume its nuclear activities.

However, even as they try to negotiate a settlement, Europeans and Americans must begin to prepare for a nuclear Iran. This will mean stepping up efforts to block the supply of nuclear materials to Iran and reassuring its neighbours so that they do not respond by developing their own nuclear programmes. Although Europeans could take part in a containment policy of sanctions and sea and air blockades of nuclear material, this will mainly be a job for the Americans. The US will need to persuade Iran's neighbours such as Turkey, Saudi Arabia and Egypt not to develop their own nuclear programmes. Offering these countries the protection of a US nuclear umbrella – in the same way that the US guaranteed security in Europe – is an unattractive option as it will force the US to become even more involved in the Middle East, tying it to incumbent regimes, and increasing its unpopularity. However this would be a better outcome than a nuclear arms race in the world's most combustible region.

In the long-run, the dangers of a nuclear Iran can only be averted with a paradigm change in the attitude of the Iranian government and Iran's dangerous neighbourhood. As Iran's nuclear programme has become a national project, it is likely that any Iranian government, even the most democratic one, would also want nuclear weapons. However, a government that seeks its legitimacy from its ability to deliver economic growth for its citizens would not want to pursue a nuclear project at all costs. European governments have so far been so focused on the nuclear issue that they have turned a blind eye to the

democratic set-backs in Iran over the last few years, including the rigged parliamentary elections of 2004, and widespread irregularities in the first round of the Presidential elections this year. In the future, Europeans must become better at speaking out against violations of human rights and democracy. They must also develop a programme of civil society work and public diplomacy designed to open up Iranian society. This should include upgrading the work of political foundations in Iran, increasing the funding for Persian language radio and websites, and developing exchange programmes to expose the elite to the West.

But the bigger paradigm shift must be at the level of the neighbourhood. At the moment plans for a new regional security architecture look pie-in-the-sky, but it will be difficult to soothe Iran's existential concerns until there is a structure that can give Tehran confidence about its safety by integrating it into a common framework with Iraq, Kuwait, Pakistan, and Israel. This is an area where Europeans – with their unique experience of mutual security frameworks – could add real value. The big idea which has been doing the rounds of the foreign policy community is developing a Gulf equivalent to the Conference for Security Co-operation in Europe (CSCE, now the OSCE).⁸ The CSCE was developed as a confidence-building measure between NATO and the Warsaw Pact in the 1970s, providing a forum for the peaceful resolution of differences as well as measures on arms control, and agreements on human rights. Similarly, a regional security forum in the Gulf region could eventually agree on confidence-building measures, such as notification of exercises, exchanges of observers, and information exchanges. The ultimate objective would be arms control agreements that might include a ban on WMD with international inspections to enforce compliance. The EU should actively encourage moves towards such a forum through diplomacy, by providing expert assistance, and by trying to link the trade and aid programmes contained in its association agreements to regional co-operation.

⁸ For a good description of this see Kenneth M. Pollack, 'Securing the Gulf', *Foreign Affairs*, July-August 2003, New York.

In the end it may be impossible to avert a nuclear crisis, but Europeans must do all they can to try – both to avoid the negative consequences of a nuclear Iran and to save the credibility of EU foreign policy and the transatlantic relationship. If Europe's negotiators manage to pull off a coup in August, it will show that the constitutional crisis has not condemned the European Union to impotent intervention.

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