



Iran: Breaking the Nuclear Deadlock

A Chatham House Report

Edited by Richard Dalton



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Charity Registration No. 208223

ISBN 978 1 86203 208 8

Designed and typeset by Soapbox Communications Limited
www.soapboxcommunications.co.uk

Printed by Latimer Trend and Co Ltd

The material selected for the printing of this report is Elemental Chlorine Free and has been sourced from sustainable forests. It has been manufactured by an ISO 14001 certified mill under EMAS.

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Executive Summary and Recommendations

The dispute over Iran's nuclear programme is deadlocked. Five years of negotiations, proposals, UN resolutions and sanctions have failed to achieve a breakthrough. As diplomacy struggles and Iran continues to advance its nuclear capabilities, the issue becomes ever more grave and pressing.

There is some encouragement for progress in 2009. Iran's economic and political weaknesses could make it receptive to US president-elect Barack Obama's willingness to consider new approaches.

This report examines the Iranian and regional context for decisions that the US and Europe will take on shaping their relations with Iran. It goes on to explore options for the nuclear negotiations and offers recommendations to policy-makers to break the deadlock.

The position of the Iranian Supreme Leader, Ayatollah Ali Khamenei, is crucial to the resolution of the nuclear dispute and to the result of the presidential election in June 2009. President Ahmadinejad's populism has failed to convert sceptics into supporters of his faction or of the conservative cause as a whole. Economic failure, epitomized by lack of investment in Iran's energy resources and the increase in inflation, is more starkly apparent with the fall of the oil price. This is likely to strengthen the realist position within the Iranian leadership as the country moves towards the election.

The situation is complicated further by Iran's troubled relations with Western powers and its complex involvement in its own region. The US-Iran confrontation is

often played out elsewhere in the Middle East, most notably in Lebanon. Since 2001 Iran has become more assertive in pursuing its long-term aspiration to be the principal power in the region, particularly in Iraq, where it aims to limit US capabilities, to ensure that Iraq does not pose a threat and to build a platform for projecting its influence further. Elsewhere, political tensions, Israeli power, the US regional presence and the distrust of Arab governments have meant that Iran cannot exercise a decisive influence on the course of events. Iran can oppose the status quo in the Middle East but it cannot replace it.

“As a consequence of the likely change in US policy under President Obama in 2009, there will be a fresh effort to re-launch the nuclear negotiations with new elements – both positive and negative from Iran's point of view”

A further constraint on Iranian options is the slow development of Iran's oil and gas industry. The oil field depletion rate is high. Gas exports are delayed. Investment of the right kind and on a large scale will not take place swiftly without a resolution of the current stand-off over uranium enrichment. This may strengthen the domestic case for Iran to negotiate seriously on the nuclear issue. Failure to heed Security Council resolutions is likely to lead to additional sanctions in the coming months, either through the UN or outside it which will take a further toll on Iran's external links.

As a consequence of the likely change in US policy under President Obama in 2009, there will be a fresh effort to re-launch the nuclear negotiations, with new elements – both positive and negative from Iran's point of view – including bilateral contacts with the US. There is no consensus in Iran yet on how to respond and it is also unclear whether Iran will choose defiance or engagement.

Both sides must acknowledge that they will not achieve their goals through the policies they have adopted hitherto. The last eight years have seen no progress in reducing Iran's constraining impact on US aims in the region and the threat it poses to Israel's security. The US may already have recognized this and Iran too is now closer to acknowledgement. Despite its triumphalist rhetoric about its rising power, Iran is unable at present to make the breakthroughs it needs in achieving external security and domestic development, advancing its standing in the world and gaining full acceptance in its region and beyond.

The question of what behaviour by Iran would constitute an unacceptable threat to regional and international security – thereby justifying military action – should be discussed openly. A red line could be Iran's development of a specific capability that is assessed to be a direct and unacceptable threat to US and/or Israeli strategic interests and security. Or the red line could be defined more vaguely as any new moves to acquire nuclear weapons. This definition would be hotly contested internationally in the light of the controversial use of intelligence in the run-up to the Iraq war.

‘It is clear that no strategy, including attacking known nuclear facilities in Iran or a comprehensive agreement, can deliver a guarantee that Iran will not build a nuclear weapon.’

But both precise and vague definitions would lower the bar even further to the internationally unauthorized use of force and would degrade the protections available to all states under international law. Legal justification for military force can be found only in the right of self-defence against a threatened attack or in Security Council resolutions specifically authorizing force.

It is clear that no strategy, including attacking known nuclear facilities in Iran or a comprehensive agreement,

can deliver a guarantee that Iran will not build a nuclear weapon. All the available options are about managing risk and providing degrees of assurance against anticipated dangers.

There is full justification for modifying the present international approach in the face of deadlock: the current course of diplomacy will not minimize the likelihood that Iran will choose to make nuclear weapons, nor has it strengthened the nuclear non-proliferation treaty regime nor reduced tensions in the Middle East.

Sanctions may well be a crucial component but they alone will not succeed in persuading Iran to negotiate seriously. There are huge problems of trust to be overcome. Reaching agreement will be very hard: there may be no offer that Iran will be prepared to accept in return for transparency about the past, acceptance of intrusive monitoring and long-term international involvement in its nuclear affairs.

The uranium enrichment programme is the central roadblock to the progress of negotiations because of the public positions of both Iran and the Six (the UN Security Council permanent members and Germany¹). Various solutions have been proposed for the future of Iran's uranium enrichment capability. Among them, proposals for both a total cessation by Iran of enrichment on its territory and an off-shore enrichment facility are non-starters.

Recommendations

1. If negotiations resume in earnest, they are likely to focus on three options:
 - The current proposal of the Six for a time-limited suspension of enrichment while confidence in Iran's programmes is achieved;
 - An international consortium to manage a supervised on-shore enrichment joint venture with tight safeguards;
 - Continuation of Iran's programme, accompanied by restrictions including tailor-made international monitoring.
2. The negotiators should place whichever of these solutions is preferred within a comprehensive

- agreement, arrived at progressively. For now all three options should remain in play, with the understanding that flexibility will be needed if negotiations are not to be stillborn.
3. The US should plan for an eventual normalization of relations with Iran, once the current crisis is resolved. The US should thus consider how to take the first steps towards re-establishing normal diplomatic relations with Iran. This should include providing security assurances to Iran at the end of satisfactory negotiations.
 4. The US should engage Ayatollah Khamenei, through his advisers. Given the right set of incentives, it is likely that, as in 2003 when the nuclear talks with the EU-3 (UK, France and Germany) began, the Supreme Leader would permit Iranian negotiators to explore the new US position.
 5. A dedicated Presidential Envoy should be appointed to carry forward US bilateral contacts.
 6. The Six should make it clear to Iran in private that the consequence of admitting to any military-related work in the past would not be to invoke further sanctions. This could be key to thawing the Iranian position.
 7. There must be the credible prospect, endorsed by the EU, China and Russia, of a freeze in Iran's relations with outside powers if Iran remains obdurate or reneges on a negotiated deal. Such measures should include more wide-ranging sanctions, especially on arms.
 8. The Six should consult Asian and GCC states and seek their understanding and support for the negotiations as appropriate.
 9. The establishment of a Persian Gulf regional security initiative is vital for the long-term stability of the region. The process of developing it could help create momentum in the nuclear negotiations.

1. The Iranian Context

Reviving the Revolution

In order to appreciate what may influence Iran during the international negotiations, one must understand political developments during the presidency of Mahmoud Ahmadinejad, starting with the genesis and world-view of the *Osulgaran* ('Principlist') movement that promoted him. The name was adopted by hardline Iranian conservatives as a reinterpretation of the Western term 'fundamentalist'. The faction tends towards an authoritarian interpretation of Islam and plays down the democratic elements in the constitution in favour of government by the elect. It has coalesced around the Supreme Leader Ayatollah Khamenei. The election victory of the Reformist Mohammad Khatami in 1997 was a crushing defeat for the conservatives, and the development of Principlist ideas should be understood within the context of this and later electoral defeats.

Faced by the Reformists' political challenge, Ayatollah Khamenei was persuaded to encourage the conservatives to review their political strategy. This occurred under the intellectual guidance of the radical hardliner Ayatollah Misbah-Yazdi, who devised a strategy for domestic control by which all aspects of policy are subsumed to the strategic aim of domestic hegemony and the elimination of the 'heresy' of reform. Like the neo-conservatives in the US, the new conservatives in Iran – the Principlists – aimed to shatter the gridlock between left and right and inculcate effective new thinking.

The Principlists argued for a return to the early purity of the Revolution and sought to define themselves as the

authentic heirs of Ayatollah Khomeini and loyal supporters of the Supreme Leadership. They are deeply distrustful of the West, and the United States in particular, and hold a utopian conviction in the imminent collapse of the West and the re-emergence of Islamic Iran as a world superpower. The global mission is a useful tool to keep domestic critics in line and to convert the nationalist cause into their own. This heady mixture of nationalism and religion – a millenarian cocktail of redemption and ultimate triumph – is best represented by President Ahmadinejad, whose chief mission has been to try to popularize the Principlists' particularly authoritarian vision.

The Principlists in power

To establish themselves in power the Principlists had to engage in the electoral procedures established since the Revolution; for all their ability to manipulate elections, legitimacy demanded popular participation. But victory could only be guaranteed through a systematic de-politization of the public. The creation of social anxiety, through the exaggeration of domestic and international threats, has permitted the development of a security state in which individuals from the security and Iranian Revolutionary Guards Corps (IRGC) apparatus have taken leading positions in Ahmadinejad's cabinet. Targeted repression along with control over the tools of government has ensured that elections have become even more flawed. That the governing elite still concern themselves with voter turnout is a reflection of the fact that Ahmadinejad's populism has failed in its primary task of converting sceptical unbelievers into staunch supporters of the Principlist cause.

Ahmadinejad was fortunate in that his inauguration as president in August 2005 coincided with an upward trend in oil prices. He could afford to avoid any methodical policy of economic expansion and, drawing on Ayatollah Khomeini's dictum that 'economics is for donkeys', he proceeded to ignore professional advice and gave practical shape to his populism by spending lavishly on a variety of projects. Many of these simply involved the disbursement

of cash to social and religious organizations, as well as to individuals, with little accountability or transparency. This Iranian equivalent of a tax cut flooded the economy with a surfeit of cash which fuelled inflation and resulted in dramatic rises in property prices through speculation, without making a serious dent in unemployment or raising a low rate of investment in future productive capacities.

So far these economic problems have been masked in Iran by a mixture of oil revenue, coercion and a potent mix of nationalist and religious populism. The economic crisis in the West, which has caused such short-sighted gloating among Iranian hardliners, has now burst the oil bubble. As the situation becomes palpably worse Ahmadinejad has reaffirmed his conviction that a utopia is about to be realized.

In March 2008, Ahmadinejad gave a speech in Mashhad in which he expanded on his view that the Hidden Imam² supported him and his policies. He argued that Iran's global mission would soon be at hand and that it was time to 'wrap up' all the various distractions of domestic policy.³ For some time, domestic critics, largely from Ahmadinejad's own political faction, have been disconcerted by his egocentricity and have urged him to dwell less on utopian visions and more on the question of rising inflation. Rather than being the standard-bearer of the Principlist movement, Ahmadinejad has instead yielded to the temptations of vanity. Acutely sensitive to criticism, he has excluded and alienated many of those who helped bring him to power and been dismissive of others who do not share his world-view. His strategy appears to have been to maintain the support of the Supreme Leader's office and the loyalty of the people at the expense of the traditional political elite, including in crucial debates over economic policy. He has disregarded those who question whether he has needlessly aggravated Iran's international position through his abrasiveness.

Towards the June 2009 presidential election

Despite Ahmadinejad's manipulation of various political advantages – in which he has been assisted by official

intolerance of serious opposition – the economy remains his Achilles' heel. Economic failure will be the most important factor in loosening the political straitjacket in Iran and provoking questions about his candidacy. He will try to ride out the coming storm by stressing foreign policy success (pointing to the imminent collapse of Western capitalism and the rise of Iran), tightening repression and exciting religious and nationalist sensibilities.

One key consideration will be whether Ahmadinejad is able to maintain the fiction that he is an anti-establishment outsider who cannot be blamed for the economic ills of the country, which have been provoked by external and internal enemies. This will be difficult to sustain given that many of the immediate problems are a direct consequence of his lack of systematic policy. Furthermore, many in the Iranian electorate will see through his populist rhetoric of imminent national greatness.

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The Majlis (parliamentary) elections of March/April 2008 were a severe setback for electoral freedom in Iran. The general political trend over the last few years has been towards the consolidation of Principlist power and the prevention of broader political participation. Furthermore, Ayatollah Khamenei declared that Ahmadinejad should plan for another term.⁴ Some Iranians took this as an indication that the Leader had pre-decided the outcome of the election.

A strike in the Tehran bazaar in October 2008 against the imposition of a modest VAT-style tax is one indication of the economic difficulties affecting the country. The

strike rattled Ahmadinejad as the bazaar is part of revolutionary Iran's heartland. His immediate postponement of the proposed tax for a year showed that he was vulnerable: his opponents in the Majlis then exploited this to impeach his Interior Minister over a fraudulent PhD. It is increasingly clear that a combination of mismanagement and the general global economic downturn is likely to damage the Iranian economy further over the coming months. The consequences of this will be the single most important factor in determining the direction and outcome of the presidential election in June 2009.

An increasing number of influential voices are now pointing out that the government has squandered the benefits that arose from the period of exceptionally high oil prices. With the Reserve Fund depleted, and a programme of expenditure which has itself become dependent on continuing high prices, Ahmadinejad has made Iran vulnerable to a sustained fall in oil prices. Economists have already forecast that 2008 will see a dramatic increase in inflation in Iran compared with 2007.⁵ Oil prices persistently below \$70–80 per barrel would dangerously compound the government's problems.

One should not under-estimate Ahmadinejad's populist talents and it is unlikely that he and the Principlists would relinquish power easily. Nevertheless, an expenditure crisis would create an opportunity for Ahmadinejad's opponents. Khatami's suggestion that he might run again for president has excited interest among sections of the political and intellectual elites. Careful alliances constructed over recent years, in particular between Khatami and Hashemi Rafsanjani, in addition to Khatami's personal popularity, mean he would stand a very good chance of winning a fair contest. This would require both political will and coherent organization – the Reformist vote may well split, and in the end Khatami may not run. For any Reformist to win, Khamenei would have to accept that his former political opponents (especially Rafsanjani) provide the only rescue for a political system under serious challenge. Such pressure on Khamenei would need to become overwhelming, however, and by the end of 2008 it has not yet become so.

It is possible that, in the face of serious criticism and a failing economy, Khamenei will dispense with

Ahmadinejad and replace him with a new figure, someone similarly minded, though less divisive, with a reputation as a better manager. Khamenei is not likely to make a final decision until much nearer the time of the election.

Policy towards the US

Controversy continues among Iranian policy-makers regarding relations with the United States. A common view, reinforced by the financial crisis, is that the US is a superpower on the wane and that the East, including Iran, is well placed to outshine it. When Ahmadinejad congratulated Obama on his election, he was criticized for naivety over the possibility of real change in US policy, and for taking even such a small step on his own without clearance from the ruling circles.

Ahmadinejad's perception of the US is influenced by the distinction he makes between the US state and the American people, whom he considers oppressed by their governing apparatus. These views have been influenced by left-wing conceptions of imperialism and a conception of the 'State' as an abstract reality, which oppresses its people who suffer under a complex 'false consciousness' from which only the 'truth' can set them free. The 'truth' is represented by the Islamic Revolution and its principal messengers, among them Ahmadinejad. Such a position allows him to argue that he seeks friendship with the American people and to toy with political engagement – a move which he knows will be popular with Iranians – while always falling back on the argument that the US government cannot be trusted.

The realist wing in Iranian politics, including Rafsanjani and Khatami, considers that engagement should be pursued and a resolution sought to the impasse in US–Iran relations. In their view, an Obama presidency makes this possible and the advantages could outweigh the disadvantages (the process would be slow and would require some accommodation with Middle East realities, in particular the Arab–Israeli peace process and reduced US influence in Iraq). There is little doubt that a presidential victory by the Reformists in 2009 would result in a less combative approach towards international relations, but they would

still be constrained by the need either for consensus in the system or for a ruling in their favour by a sceptical Supreme Leader.

The combination of growing economic problems and the advent of an Obama presidency is likely to enhance the realist position in Iran. But set against the realists are many who give priority to the security of the regime, and who see the US as a continuing danger to the stability and cohesion of revolutionary Iran.

There is, in sum, no internal consensus on what to do next. Khamenei is the principal decision-maker, acting on several sources of advice, notably that of the Supreme National Security Council, which the President chairs. Khamenei has said that he would advocate relations with the US if it would benefit Iran, but that he sees dangers, not benefits at present. He has kept his counsel so far on the prospects under Obama. The outlook is, therefore, uncertain. Whatever the outcome of the Iranian presidential election, Iran might continue to defy the US, or it might accept engagement, should the US offer a new policy.

Energy politics

The energy politics of Iran stem from the state of the domestic energy sector. There is clearly a need for much

greater foreign direct investment (FDI) into the oil and gas sector. The fact that this cannot happen without a swift resolution to the current stand-off over the nuclear programme may lead to pressure on the Supreme Leader to agree to serious negotiations.

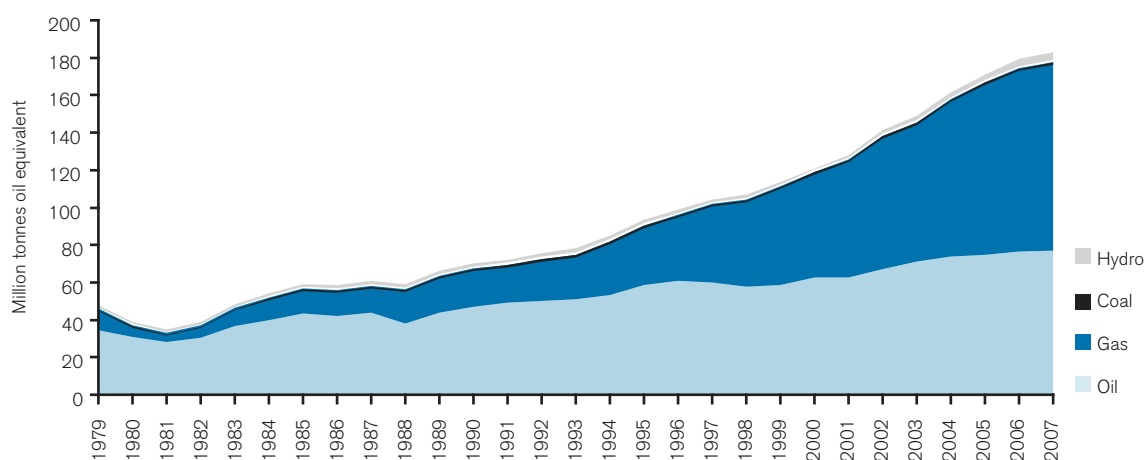
Figure 1 illustrates that, after a dip in consumption caused by the Revolution and the flat consumption during the years of the war with Iraq, domestic energy consumption has grown dramatically since 1988 both in terms of oil and gas. There are currently serious problems in both the oil and gas sectors.

In the **oil sector**, the production of crude has struggled for a number of years. Three factors explain this. First, in 1977 the Iranian Consortium developed an 'urgent' programme for secondary oilfield recovery on a massive scale to support ageing fields. The Revolution and then the war with Iraq meant that its implementation was severely constrained, something aggravated in more recent years by gas shortages needed for re-injection.

Second, the way in which the oil sector is structured does not generate the right incentives for the National Iranian Oil Company (NIOC).⁶ NIOC is being starved of funds for capital and operating expenditure (Capex and Opex), which it draws from the central government budget. Many of the senior technical staff of NIOC have left in the face of growing political interference.

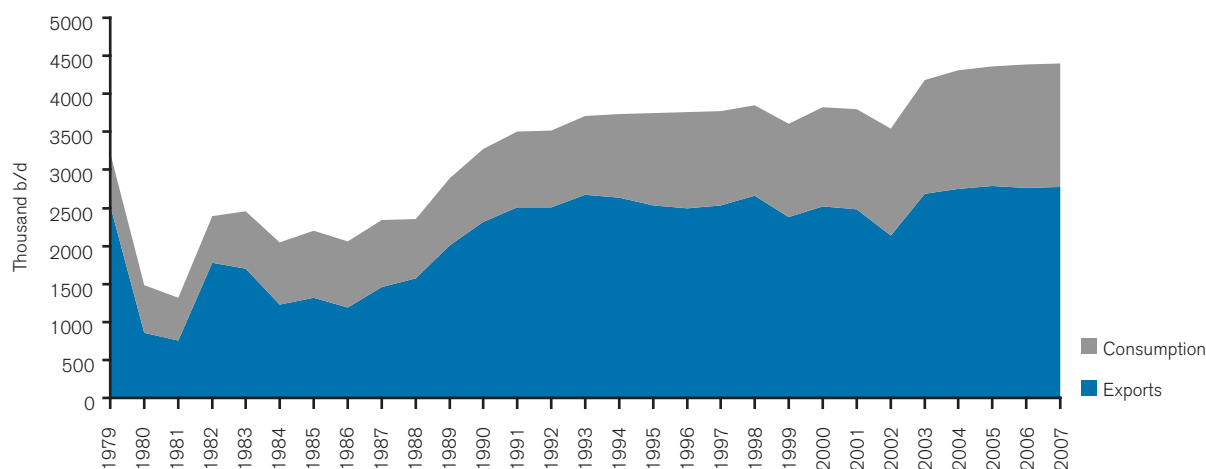
Third, attempts to involve the international oil

Figure 1: Iran: primary energy consumption, 1979–2007



Source: BP Statistical Review of World Energy, 2008.

Figure 2: Iran: oil consumption and exports, 1979–2007



Source: BP Statistical Review of World Energy, 2008.

companies (IOCs) via buy-back contracts have been disappointing. This is partly because the terms of the contracts were unattractive to IOCs with no benefits on the upside. US sanctions, as a result of the Iran-Libya Sanction Act (ILSA) of 1996, inhibited some IOC interest, something reinforced recently by the growing threat of wider sanctions over the nuclear stand-off. At the start of 2007, 17 blocks were offered under revised buy-back terms. So far contracts have resulted in only two cases.

Currently it is estimated that the natural decline rate on Iranian oilfields is 350,000 barrels per day (b/d) which means large investments are required simply to maintain existing production. The official target is to produce 4.3 million b/d during the fiscal year March 2008–March 2009. Beyond that, the target becomes more ambitious aiming at 8.5 million b/d by 2015 at an estimated capital cost of \$50 billion. In current circumstances this seems extremely unrealistic.

At the same time as oil production is struggling, consumption of transport fuel within the country has grown dramatically, encouraged by very high subsidies on domestic prices. In February 2008, the Majlis approved the provision of \$3.2 billion to import gasoline and diesel but the National Iranian Refining and Distribution Company (NIORDC) estimates another \$7–8 billion will be required. Since shortfalls are expected to be met in part out of NIOC's budget, this further aggravates NIOC's funding

shortages which constrain its ability to increase crude production.

As can be seen from Figure 2, Iran has struggled to increase and even maintain exports. The higher international prices enjoyed since 2002, however, have to a large extent disguised the economic consequences in terms of budget revenues and current account balances. Clearly, the lower oil prices experienced since July 2008 threaten the macroeconomic stability of the country. The Oil Stabilization Fund (OSF) which was supposed to build up during periods of high oil prices has been raided on several occasions by President Ahmadinejad to fund populist economic policies. The budget for the current fiscal year showed a rise in spending of 19% and fiscal year 2007–08 showed an increase of 20%. However, it is estimated that at the end of 2007, the OSF had a balance of only \$10 billion despite the very large windfall revenues recently accruing to the government.

If nothing is done to curb transport fuel demand and there is no positive movement on the buy-back arrangements, then Iranian crude exports will decline quite rapidly in the near future. Currently there is discussion in the Majlis over whether to move to production-sharing agreements but these remain controversial, not least because the Iranian constitution forbids non-state ownership of reserves. In 2007, the government introduced gasoline rationing which has slowed consumption. Then, in 2008, it announced that motorists could buy more

gasoline, but at international prices. How far this move to higher gasoline prices will restrain demand remains to be seen, especially given the country's extremely fuel-inefficient stock of cars.

The **gas sector** faces a similar set of problems. Annual production in 2007 averaged 130 billion cubic metres (bcm). The official target for 2020 is 475 bcm. This would make Iran the world's third largest gas producer, accounting for 8–10 per cent of total output. There is little doubt the reserve base could support this and one estimate suggests the reserves could support a production level of 600 bcm by 2025 and maintain this for at least 25 years. However, the underlying problem is that the development of these undoubtedly large gas reserves, most obviously the South Pars field, is well behind schedule. As in the oil sector, this is because of a mixture of financial, structural, political and managerial problems.

The result has been a serious shortage of gas. Gas is extremely important in Iran's primary energy mix, as can be seen from Figure 1. Domestic gas consumption, encouraged by very low subsidized prices has been growing at 10% annually over recent years. It accounts for 60% of energy, of which 34% goes into the domestic sector. During the winter of 2007-08, demand spiked to 15–18% above the previous year. The resulting shortages were aggravated by the suspension of imports from Turkmenistan owing to disputes over prices and payments. Gas supplies to industry (especially petrochemicals) and power were cut dramatically. At the same time, many gas re-injection programmes were put on hold.

This domestic energy context has considerable implications at national, regional and global levels.

Domestic issues

A faster rate of investment will require that hydrocarbon development becomes less of a football in domestic politics and that a fundamental change occurs in attitudes towards buy-back contracts. There should be a more vigorous campaign to reduce transport fuel consumption. While this would almost certainly be best achieved by having very much higher retail prices, this would cause considerable political problems for whichever government pursued this path.

There is certainly a good case to be made for the development of nuclear power as a source of electricity, given both the problems with domestic gas production and the plans for gas exports. But it can be argued that solving gas problems through greater FDI would prove a quicker solution, given the long timeframe for developing nuclear capability to generate electricity.

Regional issues

The key regional issue relates to Iran as a source of gas exports for the region. NIOC has allocated a number of fields and South Pars phases exclusively for export, which means they will not be plugged into the domestic gas network.

There are three liquefied natural gas (LNG) projects: Iran LNG, which intends to offer 80% of the equity to the private sector; Pars LNG (this involves Total, which is being very cautious about committing itself); and Persian LNG, which involves Shell and Repsol. The current official line is that the rising costs of LNG projects globally are making the LNG option look less attractive and the future of all these projects must be in doubt. This view has been somewhat reinforced by the fact that much of the LNG technology is under the control of the US and therefore subject to sanctions.

There are a number of pipeline projects. The Iran-Pakistan-India line (a \$7.4 billion project to deliver 60 million cubic metres of gas per day) looks to be frozen 'until further notice', given the apparently intractable dispute between Pakistan and India over transit fees and between India and Iran over prices for gas. There are various options under discussion to deliver gas to Europe including the Nabucco and South Stream Pipelines. Most recently, announcement was made of the 'Persian Pipeline' to run through Turkey, Greece and Italy into Western Europe. There are also plans for exports to Sharjah and Ras Al-Khaimah in the United Arab Emirates (UAE).

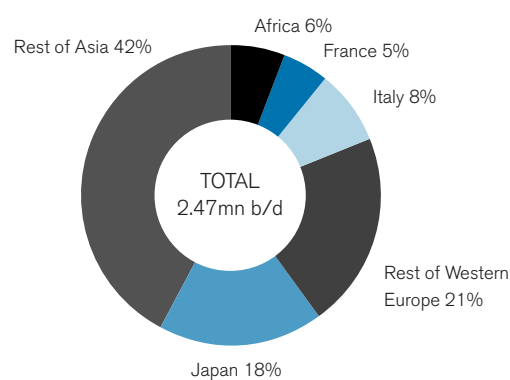
All these projects have led to concerns that there will be insufficient gas to meet export and domestic requirements, given the current problems with development and the gain of high-value oil exports if gas is re-injected. The Majlis is arguing that it should approve any new export project and there are growing signs of opposition to all gas exports.

Consumers should regard dependence upon gas imports from Iran as something of a high-risk strategy.

Global issues

In 2007, Iran accounted for 5.4% of global oil production (making it the world's fourth largest producer) and 5.5% of global exports (making it the third largest exporter). The destinations of its exports are shown in Figure 3. Clearly in a world where oil supply constraints are expected in the medium term,⁷ Iran's current problems with crude production are important for global oil markets.

Figure 3: Iranian oil exports, 2007



Source: OPEC Statistical Bulletin 2007.

Another key global issue is Iran's apparent control of the Straits of Hormuz, through which around 35% of world oil

exports pass. While its geographical location appears to give Iran great leverage on global oil markets, passage is in fact governed by the United Nations Convention on the Law of the Sea. Closure of the straits would breach international law. In any case, it would be seen by and treated as a *casus belli* by most OECD countries. Thus for Iran to close the straits by military means in response to, say, a military attack by Israel or the US would not be feasible given the overwhelming Western military forces in the Gulf.

Nevertheless, any serious threat to the straits by Iran would clearly provoke a major response in the oil futures market. Prices could rise to very high levels very quickly. This would have serious implications for a world already in what promises to be a major recession.

Of greater importance in terms of world oil markets is Iran's role in OPEC. In a world which has seen a major revival of 'resource nationalism'⁸ there is within OPEC a group of countries which are both strong price hawks and hostile to the US. Iran is a key member of this group and, as such, has the ability to encourage OPEC to be more aggressive on oil prices. In recent years, the absence of excess capacity to produce crude oil outside Saudi Arabia has limited OPEC's relevance. However, with the prospects of economic recession leading to lower oil demand and a likely increase in OPEC's excess capacity, its role in oil markets will be reasserted. The powerful group of which Iran is a leader could have a serious impact. The recent announcement of the creation of a gas 'group' by Iran, Qatar and Russia could also presage a similar sort of outcome in gas markets.

2. The Regional Context

Iran and its region

Understanding Iran's motives and the ramifications of international policy decisions on Iran requires consideration of the regional context. The major issues contested

by Iran and the US include Iraq, the Arab–Israeli conflict and Lebanon. The confrontation between the two countries is often played out within these areas. The US maintains that Iran gives practical support to militias in Iraq. In Palestine, Iran lends support to Hamas while the US supports Fatah. In Lebanon, Iran provides support for Hizbullah in its struggle with the Lebanese government, which in turn is backed by the US, UN, EU and the Arab League.

Iran's regional position has been strengthened since 2001 by the wars in Afghanistan and Iraq. The establishment of a Shi'a government in Iraq has opened up unforeseen opportunities for the extension of Iranian influence and Iran now regards Iraq, its former adversary, as part of its regional hinterland. Relieved of a powerful Iraq, Iran can now pursue its long-term aspiration to be the main power in its region. It believes the US should step aside so that Iran can take its rightful place.

Iran and its region



Source: Chatham House

Nothing expresses this new self-confidence better than Iran's relations with the Arab states. Ahmadinejad's approach has been to return to a theme common to the early revolution by appealing to the Arab street over its rulers. Arab anxieties, periodically expressed in exaggerated terms, have been matched on occasion by rhetoric from the Iranian side, where strident nationalism can take on distinctly anti-Arab tones. The commercial ties that bind the two shores of the Persian Gulf remain strong, but Arab–Iranian tensions have rarely been more acute.

This has limited Iran's regional influence. In the last two years, Iran has not advanced its relations with regional governments, with the exception of Syria. It is no more trusted, nor more influential. This is due partly to political tension, but also to Iran's economic weakness, its disputes with the West, its factional and revolutionary nature, the lack of appeal of its culture, the perception it creates of double-dealing in Iraq and Afghanistan, and its own poor decision-making processes.

‘ So long as the potential for a more successful US Middle East policy exists under the much-welcomed Obama, the popular view of Iran in the Arab world is unlikely to improve once more ’

It has also become apparent that Iran can oppose the status quo, but not replace it. Iran's popularity has declined since its peak in 2006 around the war in Lebanon. So long as the potential for a more successful US Middle East policy exists under the much-welcomed Obama, the popular view of Iran in the Arab world is unlikely to improve once more.

Iraq

Iran's involvement in the affairs of Iraq has been a source of intense speculation. Some view Tehran as a dark force in

the politics of Iraq, capable of intervening behind the scenes not only with Shi'as, but also with Kurds and Sunnis.

The most thorough study published to date, by the Combating Terrorism Center at West Point, has concluded that Iran exerts influence in Iraq in order to limit American power-projection capability in the Middle East, to ensure that the Iraqi government does not pose a threat to Iran, to keep in touch with all political actors and to build a reliable platform for projecting influence further abroad.⁹

Since 2007, the Iraqi government, or at least the Iraqi political process, has become increasingly institutionalized. The slow consolidation of state structures and institutions has afforded less space for outside powers to impose a particular position upon the Iraqi government. This institutionalization was the result of two factors that many assume to be causally linked but that were in fact quite separate. The first of these was 'the surge' of US forces that occurred in Iraq toward the end of 2007 and into 2008. With a greater US commitment to Iraq, which included greater US focus on the activities of the Iraqi government, 'the surge' is assumed to have increased security. However, the stabilization since the spring of 2008 owes much to the fact that communities within mixed cities and areas – especially Baghdad – have effectively separated themselves. The Sunni–Shi'a conflict has run out of steam and Baghdad is dominated by the Shi'as. The end result is an increasingly effective Iraqi government seeking to extend its writ across its territory and wishing no longer to be subservient either to the US or to powerful neighbours.

Iran will always be important in the minds of Iraqi politicians: they have to consider how their actions may be viewed in Tehran. The Iranian influence partially explains the Iraqi government's resistance to a Status of Forces Agreement which favours US interests. The Iraqi government is attempting to reposition the country as an independent sovereign entity that considers its own interests and the sensitivities of its neighbours in its dealings with others. In May 2008, it warned Iran against assisting militias, especially in the south, and Iran has since then backed off to a degree.

The Iraqi government's constituent parties have good reasons to maintain close links with Tehran. The ties that bind the Shi'a Islamic Supreme Council of Iraq (ISCI) with Tehran remain intact, particularly since ISCI's popular support has been eroded by Muqtada al-Sadr and the Da'wa party of Prime Minister Nouri al-Maliki. ISCI now needs Iran in a way that it did not before. The Kurdish parties remain acutely aware of the risk of upsetting Turkey and Iran as the dispute over territories between the Kurdistan Region and Iraq proper begins to intensify. With Kirkuk at the centre of this storm, the Kurdish leadership has to maintain a difficult balance between satisfying an increasingly nationalist Kurdish population, and calming Turkish and Iranian concerns.

Iran, however, is only less influential at present because the Iraqi government has been in better shape under al-Maliki's more effective leadership. Tehran is well positioned to exploit any new fissures which may open within the fragile edifice of political unity in Baghdad. Such fissures opened with alarming speed in the autumn of 2008. The Iraqi National Assembly was unable to pass a provincial elections law before the summer recess. The alliance between the Kurds and the Shi'as in government nearly fell apart over that law and the future of Kirkuk. Then there is the question of how to incorporate into the structures of the state the 'Awakening' groups of Sunnis set up by the US to combat Al-Qaeda. While locally powerful, these groups have regularly expressed their opposition to the Shi'a-dominated government, and the hostile sentiment is reciprocated by Shi'a officials. If no way is found to normalize the 'Awakening' groups and promote a unified Iraqi security infrastructure, the Sunni-Shi'a conflict could restart. In all of these questions there are possibilities for what is now reasonably benign Iranian influence to become, very quickly, far more disruptive.

Iran has adopted a two-track strategy, supporting the development of an independent Shi'a-ruled Iraq that would be friendly to Iran, while maintaining pressure on the US to leave. It has supported and encouraged some of the violence since the insurgency began. According to the West Point study, 'even as its political allies came to power in Baghdad with U.S. backing, Iran began supporting anti-government, anti-coalition militia movements typified by

Jaish al Mahdi and, later, the Special Group Criminals.'¹⁰

The Iranian Revolutionary Guard Qods Force, augmented by Lebanese Hizbullah trainers, has sponsored paramilitary training at camps in Iran and Lebanon. Iranian-supplied weapons have been employed against Coalition and Iraqi forces, including the most lethal of improvised explosive devices (IEDs), known as Explosively Formed Penetrators.

Against the background of large-scale insurgency and factional and criminal violence, the Iranians have been responsible for only a small proportion of what has gone on. Furthermore Iran's militia allies are not always politically reliable: they tend to oppose Iranian political influence. Muqtada al-Sadr and others are willing to accept Iranian training and weapons to pursue their own political, religious, or criminal aims, but not Iranian control over their actions.

The Gulf Cooperation Council

The relationship between the GCC states and Iran has a long pedigree of managed tension, occasional flare-ups, cautious balancing and intermittent attempts at co-optation. The GCC states have usually found ways to counteract risks arising from Iran without riling Tehran.

In addition to their belief that Iran wants to dominate the region, the GCC states have specific security concerns, including the safety of offshore oil and gas installations: Qatar has been told it would be attacked first should it collude in a US attack on Iran; Oman must avoid a military clash with Iran in the Straits of Hormuz; Bahrain is nervous about possible Iranian irredentism. Bahrain, Kuwait and Saudi Arabia have concerns about Iranian influence amongst their own Shi'a populations. The UAE retains a territorial dispute with Iran over the islands of Abu Musa and the Tunbs.

Beyond this, Iran's wider Shi'a network, with its links to Lebanon and Iraq, is also seen as a source of Iranian influence and potential regional destabilization. Saudi Arabia and Bahrain are particularly worried about this, but believe it may be contained by bringing Iran into cooperative frameworks.

The prospect of Iranian nuclear power reinforces many such fears: it would strengthen Iran's drive for predominance and threaten to draw the region into armed conflict. GCC states announced in 2007 an intention to explore civilian nuclear power although this could be viewed in part as diplomatic theatre. In 2008, several states signed civilian nuclear cooperation agreements with French and US groups, with the UAE seemingly ahead in terms of tangible plans.

All the GCC states remain very concerned about the possibility of a nuclear-armed Iran, and have been seeking to prevent this by indirect signals, and by trying, with increasing frustration, to persuade the EU to involve them seriously in attempts to engage Iran. None of the above seem to be effective, and the rulers are facing a stark dilemma. Yet, however worried they may be, none wants a military solution – they feel too vulnerable to the spill-over, both from direct Iranian counterattack and through regional and domestic destabilization.

Well over half a million Iranians live and work in the GCC, with some 450,000 in Dubai alone. The UAE has other common interests with Iran including shared gas fields and a possible future need for Iranian gas to fill the gap between booming demand and limited local and Qatari supplies. Links with the GCC states have increased as a result of the tougher sanctions on Iran and the already extensive investments by Iranians in the GCC economies have continued to grow.

Oman has been discussing bilateral relations with Iran, including over security and investment. Qatar has used its Security Council membership to question Western policies on sanctions.¹¹ King Abdullah of Saudi Arabia has sent out an important message by receiving Ahmadinejad. US pressure has failed to dislodge this underlying resistance in the GCC states to anything that looks like reducing their options for dealing with Iran.¹²

The GCC states, in their various ways, have decided on a policy of persuasion, containment, and cooptation – all the while retaining their own ultimate 'insurance' in the shape of defence understandings with the US. They consider at present that there are no good options, but that any US or Israeli military intervention would be a cure worse than the illness. An attack would create the worst of

all worlds, bringing direct military, political, economic and environmental consequences for the GCC states, and quite possibly resulting in a less stable, less predictable, more radical, and thus more dangerous, Iran.

Syria

The strength or nature of the relationship between Syria and Iran has altered little over the last three decades. Brought together by circumstances, rather than by ideology, the two countries have supported one another politically, economically and militarily at various stages of their respective isolation. The recent tumultuous years have not shaken this solid foundation, but several issues have now been added to the equation, the US invasion of Iraq being the most notable.

Syria and Iran have denied rumours of tensions following the revelation of secret Syrian–Israeli peace talks, reminding others that such peace talks have been conducted before without any detrimental effect on the relationship. The relationship may become less high-profile during periods of Syrian involvement in negotiations, but has never deteriorated. A peace agreement would imply that Syria stops supporting various non-state actors which oppose Israel. Syrian officials argue that this support would no longer be necessary if the settlement were comprehensive.

It is unlikely that an Israeli strike on Iranian nuclear sites would drag Syria into an open conflict with Israel. In a demonstration of its capabilities and determination, and as an indirect warning to Iran, Israel struck a target in Syria in September 2007 that the US later claimed was a nuclear reactor under construction. If the same should happen to Iran, it is more probable that proxy actors, such as Hizbullah, would engage in retaliatory attacks, possibly with Syria's logistical help.

Indeed, it is through Lebanon and the joint support provided to Hizbullah that the stakes in Syrian–Iranian relations are highest. In February 2008, one of Hizbullah's senior officials, Imad Mughnieh, was assassinated in Damascus, putting the Syrian regime in a sensitive position. Most fingers were pointed at Israel, and Syria has

yet to explain the breach of security. The subsequent assassination of Mohammed Suleiman, the Syrian official allegedly in charge of relations with Hizbullah, suggests that some parties are trying to drive a wedge between Syria and Hizbullah, and consequently between Syria and Iran.

The showdown between Hizbullah and the Lebanese government in May 2008 provided Syria with a new opportunity to demonstrate its power in the region and to highlight the continuing alliance with Iran. It is because of this cooperation on Lebanon that French President Nicolas Sarkozy departed from past policy and engaged Syria. Other European countries are likely to re-establish normal relations with Damascus, which has spent the last few years waiting for Bush's presidency to end and hoping for a more realistic successor who will engage to find common ground. Instead of trying to break the Syria-Iran alliance, France has initiated a different approach, coaxing the Syrian regime to use its good offices with Tehran and to act as a messenger to break the impasse over the nuclear issue. So far, Syria has responded positively to this new request which brings it additional international influence and has to date done no harm to its relationship with Iran.

Lebanon

Lebanon is still the principal theatre of the US-Iranian confrontation and can be used as such by Iran. Lebanese-Iranian relations are deep rooted and include interactions between all strands of both societies. Hizbullah is only one aspect of this relationship, but it is an important one. Hizbullah is the equivalent of a wing of the Iranian Revolutionary Guards Corps, funded, trained and armed to maintain its position at the front line of the confrontation with the US and Israel.

The first round of the US-Iran confrontation, in the early 1980s, included attacks on the US Embassy and marine barracks in Beirut as well as the hostage crisis and the Iran Contra affair. The US then withdrew for nearly twenty years, allowing Iran and Syria to consolidate their position in the country. The second round started in the summer of 2004 when the US and France renewed their protection of Lebanon by calling for Syrian withdrawal

and the disarmament of Hizbullah. Franco-US consensus over Lebanon came at a time when the transatlantic rift was at its worst. Resistance to the Franco-US approach has destabilized Lebanon and led to several assassinations, two conflicts – in 2006 with Israel and in 2007 in the Palestinian refugee camp of Nahr el Bared – accompanied by a political crisis in which two camps have developed, one pro-Western and the other pro-Iran and Syria.

International and regional support to the Lebanese state is the way to prevent renewed destabilization of the region through Hizbullah. To this end, US policy towards Lebanon has broad European and Arab support and is conducted fully under a UN Security Council umbrella. This could be a template for the new US administration in its approach to the Middle East. The United Nations Interim Force in Lebanon (UNIFIL) is European-led; most of the countries involved were opposed to the US invasion of Iraq but collaborated with it over Lebanon. Other multi-lateral instruments such as the UN investigation into Rafic Hariri's assassination¹³ also have wide participation and backing. UN and Arab League intervention through Security Council resolutions 1559, 1701 and the Doha agreement are meant to restrict Hizbullah to the constitutional rules in Lebanon where it is relatively contained. The positive effects would be reinforced by a policy of restraining Israel from another attack.

Israel

Appearances at the United Nations by the Israeli and Iranian presidents in autumn 2008 illustrated the distrust and contempt which dominate the two countries' relations. Mahmoud Ahmadinejad again questioned the legitimacy of Israel's existence, while Shimon Peres called Iran the global centre of violence and fanaticism which poses a threat to the entire world.¹⁴ Peres' speech reiterated the prevailing view among Israeli decision-makers that Iran seeks regional hegemony and, in the process, is dividing the Middle East, thus harming the chances of a comprehensive peace. Israel's main strategy in dealing with Iran has been to try to convince the international community that Iran is not only a challenge for Israel, but for the whole world.

There is a consensus in Israel that Iranian nuclear military capacity would pose an existential threat, hence it must be removed before the programme can reach a point of no return. Some Israeli estimates predict this will happen by 2009. When assessing Israel's policy options, one should recognize that its concerns are genuine. These concerns are exacerbated by the vitriolic rhetoric coming from Tehran which is directed at the Jewish state, its citizens and the memory of Holocaust victims and survivors. This rhetoric aggravates and distorts assessments of the probability of Iran attacking Israel with nuclear weapons.

“There is a consensus in Israel that Iranian nuclear military capacity would pose an existential threat, hence it must be removed before the programme can reach a point of no return”

An Israeli attack on Iranian nuclear installations is the most widely discussed policy option, but it is by no means the only one. Current Israeli strategy works on two complementary levels. One is to improve missile detection and interception capabilities. The other is to encourage the international community to act before it is too late. Israel emphasizes the merit of diplomatic efforts, whether they be through the EU or the UN Security Council. The hope is that Iran's economic, social and political vulnerabilities make it susceptible to external pressures. Israel also believes that, as long as the military option remains credible, it can pressure the international community to act first, as it is widely believed that an Israeli attack on Iran could have severe consequences for the region and beyond.

It is certain that a military operation by Israel against Iran would be complex and dangerous and would lack any guarantee of success. Israel would rather see a US-led military operation against Iran than lead one itself. However, Israel has proved in the past that it can operate successfully well beyond its borders. Executing such an attack would be the largest challenge the Israeli political and military establishment has ever faced. Israel has insufficient military capability to destroy Iran's entire nuclear programme, but its air force probably has the means to cripple it.¹⁵ However, Israel has very limited air refuelling capability and no aircraft carriers, and would require US permission to fly over Iraq. Therefore such an operation, though possible, is extremely risky. It appears that even the Bush administration has been reluctant to provide such permission.

Even if an Israeli attack were successful, this would most likely result in retaliation against strategic targets in Israel and around the region. Nonetheless, arguments against a unilateral military attack go beyond fear of Iranian retaliation. It would most probably have a negative impact on the entire Islamic world, including countries which have signed peace agreements with Israel. Moreover, it would fuel Islamic radicalism. A unilateral Israeli action would also be another blow to the UN and its role in upholding international law as a means of resolving conflicts.

If diplomacy fails and military action is too dangerous, it is not unthinkable that Iran might acquire nuclear weapons. This would leave Israel with another option which has not found support among Israeli decision-makers. It involves changing Israel's nuclear doctrine, from one of ambiguity to open deterrence. Deterrence of this sort might not work at the same level as during the Cold War but, on a state-to-state level, it would still be satisfactory. Given the uncertainty over achieving a diplomatic solution – and the potentially disastrous consequences of a military operation against Iran – deterrence might serve to stabilize this difficult relationship if and when Iran becomes a nuclear power.

3. The Iranian Nuclear Programme and Iranian Policy

Iran is pressing on with its potentially dual-use fuel-cycle activities and with construction of its heavy water reactor at Arak, which could be used to produce plutonium for military purposes. Iran is in breach of UN Security Council Resolutions 1737, 1747 and 1803 – which required it to suspend this work as a prelude to negotiations and to satisfy the concerns of the International Atomic Energy Agency (IAEA) about suspected violations of Iran's non-proliferation obligations.

The Institute for Science and International Security (ISIS) summarized the IAEA's September 2008 report on Iran's programme and safeguards as follows:¹⁶

The report, which shows Iran's continued non-compliance with [UNSC resolutions] includes two important findings. The first is that Iran is making significant progress on developing and operating its centrifuges. The second is that Iran continues to resist efforts to address substantively its alleged nuclear-weapons related work, which the IAEA says remains of serious concern.

In a further report of 19 November, the IAEA confirmed both points.¹⁷ In addition, Iran refused to allow the IAEA to make a scheduled visit to the Arak reactor.

During 2008, Iran has solved many of the problems associated with running its centrifuges and may have reached a point where its cascades are operating in a stable manner, with fewer centrifuges breaking. Iran is

progressing towards the point at which it will have accumulated enough low enriched uranium (LEU) to have a capability to produce quickly, should it chose to do so, enough weapons-grade uranium for a nuclear weapon. ISIS estimates that it could reach this capability at some point between April 2009 and September 2010.¹⁸

Iran's intentions remain in dispute. Iran maintains that it has no intention of producing nuclear weapons, which would not be in its interests and which have been ruled out in a solemn religious decision by the Supreme Leader. President-elect Obama, in contrast, drew on standard US discourse when he said on 8 November: 'Iran's development of a nuclear weapon I believe is unacceptable. We have to mount an international effort to prevent that from happening.'¹⁹ However, there is no evidence in open sources that Iran is currently developing a weapon.

The published version of US intelligence on the point remains as in the National Intelligence Estimate of November 2007:

... Judge with high confidence that in fall 2003, Tehran halted its nuclear weapons program. Judge with high confidence that the halt lasted at least several years ... Assess with moderate confidence Tehran had not restarted its nuclear weapons program as of mid-2007, but we do not know whether it currently intends to develop nuclear weapons. Judge with high confidence that the halt was directed primarily in response to increasing international scrutiny and pressure resulting from exposure of Iran's previously undeclared nuclear work. Assess with moderate-to-high confidence that Tehran at a minimum is keeping open the option to develop nuclear weapons.²⁰

These points are plausible. It is likely that Iran wishes to develop the full capability to build and deliver a weapon, should it decide to do so in the future, including the earliest possible mastery of all aspects of the nuclear fuel cycle.

Iran links its nuclear programme closely to its national independence and security. Its leaders have responded to international pressures by comparing resistance in the nuclear issue to resistance in the 'Holy Defence' (against Iraq in the war of the 1980s). They also consider Western coun-

tries' record on assisting nuclear development to be poor and argue that Iran should move towards full self-sufficiency.

Iran's policy has the following aims:

- Maximize scientific and industrial progress as far and as quickly as possible.
- Cooperate to a degree with the IAEA, and so neutralize the technical case for doubting its assurances of peaceful intent.
- Play a part in the talks about talks conducted by Javier Solana for the Six. These are based on the freeze-for-freeze proposal of June 2008 and Iran's questions about it, which the Six will answer once a date can be set for talks between Solana's deputy and his Iranian equivalent.²¹
- Press for negotiations without preconditions with the Six including the US. Iranian leaders have expressed the view that if the US looks at negotiations carefully and uses diplomatic tools, the views of Iran and its negotiating partners can become closer.
- Stand its ground meanwhile in the hope that a new US administration will come up with new proposals which would be advantageous to Iran. This explains Iran's disappointment that Obama spoke as he did on 8 November. Larijani's response to Obama's remarks was that it 'signals a continuation of the erroneous policies of the past ... Change has to be strategic, not just cosmetic.'²²
- Avert new sanctions, whether multilateral or bilateral or by the EU.
- Proclaim military readiness with the aim of making military action against it look extremely risky, and undertake military manoeuvres such as rocket launches to dramatize the point.

4. Policy Options

It is generally accepted that more must be done to reduce the risk that Iran will obtain nuclear weapons, to avert nuclear proliferation and to reduce the chances of nuclear weapons being used.

The British government's view is that the Iranian nuclear programme poses a threat not just to Israel but to the stability of the entire Middle East. At present, Iran has neither the intention of waging war, nor the capability to do so successfully across its frontiers against the enemies it would encounter. Its intentions in developing its armed forces are primarily defensive. The threat to regional security that Western politicians speak about lies at some indeterminate time in the future. It consists primarily of the risk that there will be a nuclear arms race in the Middle East; a domino effect initiated by the drastic weakening of the non-proliferation regime which would follow the revelation – or well-grounded suspicion – that Iran could build an effective weapon if it chose to do so.

‘The aim is to reach agreement on a verifiable Iranian nuclear programme that excludes military applications’

As noted in the previous chapter, Iran is probably now close to mastering all the technologies needed to produce nuclear weapons. No strategy, including either attacking known nuclear facilities in Iran or reaching a comprehen-

sive agreement, can deliver a guarantee that Iran will not build a weapon. The aim is to reach agreement on a verifiable Iranian nuclear programme that excludes military applications. All the options are about managing risk and providing degrees of assurance against danger.

Force

Regime change

Given Iran's hostility to the US and to Israel, regime change has been canvassed – particularly in Republican circles in the US – from 2000/03 when substantial US forces were present to Iran's east and west, in addition to US bases in Central Asia and the Indian Ocean, and the US naval presence in the Persian Gulf. Regime change would come closest to providing a guarantee that Iran would never build nuclear weapons. But no government sees this as a solution. It would take a land invasion and temporary occupation, which the United States will not undertake. So the dream of replacing the Islamic Republic with an alternative democratic government remains a dream. Most states, including EU member states, would go further in ruling this out, insisting that such decisions are for Iranians, not outsiders, to take and therefore that the practicalities do not need to be considered as it is a matter of principle.

The military option

Israel has the greatest reason to make effective plans for attacking Iranian nuclear facilities (see Chapter 2). There are reasons to doubt, however, whether the Israelis have the capability to make a lasting impression on the Iranian nuclear programme with their military capabilities. According to retired Gen. John Abizaid, an Israel–Iran confrontation would be ‘bad for the region, bad for the United States [and would] ultimately move the region into an even more unstable situation.’²³ It is likely that Iran would rebuild destroyed facilities, using knowledge, people and equipment that had not been caught up in the attack. Iranians would draw the conclusion that they would not have been attacked if they had possessed a declared nuclear deterrent, and would proceed to build one forthwith.

President Bush, and President-elect Obama have insisted that the military option remains on the table,

calculating that Iran will not negotiate seriously unless it knows that there is a genuine US red line. In the absence of conclusive evidence of an active Iranian weapons programme, however, and with the real risks of Iranian retaliation against US forces in Iraq, it is not in the US interest to escalate the situation now. Given the indications that this is a mainstream US military view both as to an Israeli and as to a US strike, the new US administration is unlikely to listen to the lobbies calling for early military action.

What behaviour by Iran would constitute an unacceptable threat justifying action? The point has not often been discussed openly. It could be Iran's development of a *specific capability* that is assessed to be an unacceptable threat to US and or Israeli strategic interests and security. This could be couched more vaguely as 'any new moves to acquire nuclear weapons' but then it would be hotly contested in the light of the Iraq war. Both formulations lower the bar even further to unauthorized use of force and degrade the protections available to all states in international law. Legal justification for military force can be found only in the right of self-defence against a threatened attack or in Security Council resolutions specifically authorizing force (see Annex).

There will be differences between Israel, the US and US allies, quite apart from in the wider international community, on what situation would require a forceful response. A detailed explanation of the circumstances under which force could be lawfully used against Iran is in the Annex to this report.

In brief, the mere possession of weapons of mass destruction (WMD) cannot be said to represent a threat giving rise to the right of self-defence. There must be a specific intention to attack. The threatened attack must also be 'imminent' if force is to be used legitimately in self-defence. The possession of WMD presents particular difficulties in applying this criterion. As the 2002 US National Security Strategy argued: 'We must adapt the concept of imminent threat to the capabilities and objectives of today's adversaries.'²⁴ In interpreting the law, the particular circumstances of each case must be considered.

To assess whether the criterion of imminence is met, it should be related to the criterion of necessity: is the

threatened attack so close that it is necessary now to use force to avert it? The problem was discussed in 2005 in the Chatham House Principles on the Use of Force in Self-Defence:

- Force may be used only when any further delay would result in an inability by the threatened state effectively to defend against or avert the attack against it.
- In assessing the imminence of the attack, reference may be made to the gravity of the attack, the capability of the attacker, and the nature of the threat, for example if the attack is likely to come without warning.²⁵

The US or Israel would need to show that their actions were justifiable on the grounds of the facts known to them.

Can Iran be deterred?

Iran's likely response to strategic deterrence, namely deterrence by Israeli and US nuclear and conventional forces, is much disputed.

Those who believe that Iran is ideologically driven to a degree that excludes rationality consider that the only defence against an Iran armed with nuclear weapons or possessing the full capability to build them would be preemptive attack, repeated every few years as necessary. According to this view, the consequences of miscalculating the intentions of a nuclear-capable Iran would be utterly catastrophic, and thus Israel and the US should take not the slightest chance.

Iran defines its foreign and defence policy in terms of its desire to spread the benefits of Islam and to lead its region and the world in bettering the human condition. More prosaically, it is determined to preserve national security, to ensure the survival of the Islamic Republic and to promote its interests. There is no place in these strategic aims for national suicide. While attempting to develop these aims, Iran must be aware of the limits to its military power in the face of US capabilities. It is overwhelmingly likely that it would not initiate aggression or subvert neighbouring governments, thereby inviting

retaliation against its vital interests, other than in defence.

Deterrence does provide assurance of containment while the serious concerns over how Iran acts on other issues in the region, including its nuclear programme, are addressed through diplomacy. As Obama has said, ‘we have not exhausted our non-military options in confronting this threat; in many ways, we have yet to try them.’²⁶

Last resort

Although the use of force is, and should be, a last resort and should only be undertaken lawfully, the international community, and Iran in particular, should take careful note that under the new US administration, as under the old, there will be limits to tolerance of security threats originating in Iran. There is no doubt of the capability of US forces to undertake military action against Iran or of the willingness of President-elect Obama to order it *in extremis*.

For the present, it is likely that the US will continue to prefer a diplomatic solution, while reserving the right to attack Iranian facilities, at least in the event of Iranian aggression or possession of a nuclear weapon. It will probably be able to hold Israel in check through further rounds of negotiations, provided the outcome is positive and likely to be achieved by the end of 2009 or mid-2010.

Sanctions

The multilateral sanctions options are limited. The UN Security Council is only able at present to reiterate the position it first took two years ago, to adopt limited phased sanctions on the basis of IAEA assessments of Iran’s compliance. The measures which have been adopted remain weakly enforced, and Russia and China continue to act as powerful brakes on any dramatic enhancement of sanctions. The EU wants a lead from the UN Security Council and is not united.

While sanctions appear to have had a minimal influence on Iran’s nuclear policy, it is clear that they have had an impact on its economy and international business.²⁷

Iran certainly faces dilemmas in its external relations. There may be some toying in the Iranian government with possible positive responses to the Six for tactical reasons. But there does not yet seem to be a substantial body of opinion in Iran advocating a move to what the West and the Arabs have demanded from Iran: moderation in its approach in the region and to the West and responsibility in its reaction to decisions of the IAEA and UN Security Council.

‘Despite Iran’s economic woes, there is no chance that such sanctions alone will dissuade it from pursuing its uranium enrichment programme’

Obama has already made clear that he would like to see tougher multilateral and unilateral sanctions against a recalcitrant Iran.

The Europeans and a number of other countries may agree. The EU is increasingly showing itself willing to enact financial measures against Iran, and a number of large investments in the energy sector have been postponed, making it harder for Iran to develop this sector. However, EU states can still do more: for example, stopping government-backed loans to Iran; increasing the efficiency of the existing measures, given that implementation and compliance have been uneven across the EU.²⁸ If the Security Council fails to enact additional sanctions, the EU is more likely to act unilaterally.

Despite Iran’s economic woes, there is no chance that such sanctions alone will dissuade it from pursuing its uranium enrichment programme. Iran will calculate that European trade and investment are not essential for survival. Furthermore, the all-important oil price may stay in the range OPEC intends, between \$60 and \$90 p/b. It would be wrong, therefore, to assume that increasing the pressure, using the limited means currently open to the Six

collectively and the US unilaterally, would bring to the fore a pragmatic centre in Iran willing to suspend enrichment in return for benefits no greater than the Six offered in June 2008.

It has been contended that sanctions should be rejected as a policy instrument because of an inbuilt potential to facilitate escalation, on the grounds that the failure of a policy of sanctions might subsequently be used to justify military action.²⁹ If at any stage military action were considered, it would be because the level of threat had risen to the point where action was preferable to inaction. However, there is no more of an automatic link between the failure of sanctions as a tactic and war than there is between the failure of other tactics, such as dialogue, and war.

Sanctions remain a necessary adjunct to a strategy based on negotiation. Every country resists giving in to pressure. But equally, every country, including Iran, considers where its long-term interests lie and would like to put an end to pressure, if it can do so with honour and advantage.

Diplomacy

What are the options for the international community, including Iran, for ending the current stand-off and increasing security for all, through resumed intensive diplomacy?

Diplomatic efforts are focused on negotiating an agreement with Iran, including restrictive measures and intrusive monitoring, that would minimize the likelihood of Iran's choosing to make bombs, or having the materials to do so. In such an agreement, Iran would receive important advantages enabling it to strengthen its economy. In addition, in the view of this report, the nuclear non-proliferation treaty (NPT) regime must be strengthened, and political tensions in the Middle East involving Iran must be reduced.

NPT: background

Iran has the right to research, develop and use nuclear technology for exclusively peaceful purposes – provided

it is not in breach of its NPT obligations. During the five years since contacts started between France, Germany and Britain (the EU-3) and Iran, many proposals have been put forward as a basis for reconciling this right with the need to create confidence in Iranian capabilities and intentions. Central to an agreement would be whether and under what conditions Iran could have access to the essential dual-purpose core of either power generators or a weapon: namely enriched uranium. The following proposals have been put forward, chiefly inside the international negotiations, to address this point. None has yet gained general support, being rejected by one side or the other, or by both:

- 1 Cessation of enrichment (EU-3 2003);³⁰
- 2 Indefinite suspension (EU-3 2005);³¹
- 3 Continuation of fuel-cycle activities, under normal safeguards and the Additional Protocol (Iran 2004/5);³²
- 4 Internationally supervised on-shore enrichment Joint Venture (Iran 2004–present,³³ detail in published work by US academics³⁴);
- 5 Off-shore enrichment Joint Venture (Russia 2006);³⁵
- 6 Moratorium on industrial-scale enrichment (Iran 2006);³⁶
- 7 Moratorium on all enrichment activity pending creation of confidence (the Six 2006–08).³⁷

All are still on the table except Option 6, which has fallen away since Iran's achievement of industrial-scale production in 2008.

It is safe to say that it will not be possible to reach agreement on Options 1–3: Iran will not accept cessation or indefinite suspension at any price (Options 1 and 2); and in the light of what the IAEA and US intelligence have said about Iran's past activities, it is quite unrealistic to think that the Six will agree to continuation of Iran's programme under Option 3. This would involve, after all, no more than the normal assurances – that is, those assurances required of countries which, unlike Iran, have no record of concealments or of inadequate cooperation with the IAEA, no self-avowed military involvement in some relevant programmes, have not dealt with the

proliferation network of A.Q. Khan, and have not expressed consistent opposition to the existence of a member state of the UN.

Building blocks for the next round

Leaving aside questions such as how to begin negotiations, whether Iran would engage seriously and what the total package should comprise, the potential diplomatic building blocks of a solution in 2009 to the problem presented by Iran's nuclear ambitions are:

- a) Iran's proposals for an international consortium³⁸ (Option 4 above), and variations with extra safeguards against proliferation proposed by Thomson and Forden and Thomson³⁹ and Luers et al.⁴⁰;
- b) off-shore enrichment – for example the Russian proposal of 2006 or the more recent Saudi proposal for a regional enrichment centre outside Iran;
- c) time-limited suspension of uranium enrichment (a moratorium), achieved through acceptance by Iran of the current proposals of the Six (freeze-for-freeze), i.e. more exchanges of the kind seen today, leading to a comprehensive agreement on the lines of the restated Proposal of the Six of June 2008;⁴¹
- d) a fresh approach, such as no international consortium but a suite of tough measures including thorough monitoring of the facilities of an enrichment-capable Iran, to ensure against diversion of nuclear material and to make it much harder for a future Iranian government to resume weaponization.

5. The US and the New Start in 2009

The transition to an energetic Democrat administration in the US affords a clear opportunity for fresh thinking on an issue that is too serious to leave unattended. There will undoubtedly be a new start in 2009. This section outlines President-elect Obama's policy statements to date and assesses the prospects for bilateral and multilateral negotiations under the new presidency.

Obama and Iran policy

Senator Obama had indicated that he would meet the leaders of Iran without preconditions but subsequently qualified his remarks, insisting on 'sufficient preparations' and adding that Ahmadinejad 'is not the most powerful person in Iran'.⁴² Obama has promised to 'mirror military strength with aggressive, effective, tough diplomacy', citing former presidents Kennedy, Nixon and Reagan as his examples.⁴³ Comments on other important quotations from the campaign website which provided an indication of Obama's thinking are set out below.

'Obama supports tough, direct presidential diplomacy with Iran without preconditions.'

It is vital that the Iranians should be aware that US negotiators are speaking with the authority of the President, and that he is personally engaged. If the new administration confirms next year that it is prepared to talk bilaterally to Iran without preconditions, new possibilities will open up.

'Obama and Biden would offer the Iranian regime a choice. If Iran abandons its nuclear program and support for terrorism, we will offer incentives like membership in the World Trade Organization, economic investments, and a move toward normal diplomatic relations.'

WTO membership is a weak thing, as far as the Iranians are concerned. It is distant in time and a two-edged sword, as their industry is far from ready for more international competition. Permission for US (and consequently European) investment in the Iranian economy, particularly in oil and gas, would be a huge inducement, for the reasons set out in Chapter 1 above, as would a move to normal relations – coveted by successive Iranian presidents because of its potential popularity with Iranians at election-time.

'If Iran continues its troubling behaviour, we will step up our economic pressure and political isolation. Seeking this kind of comprehensive settlement with Iran is our best way to make progress.'

A comprehensive settlement is the best way forward. The EU-3 (from 2003 to 2005) and the Permanent Five and Germany (from 2006 to 2008), have not had the possibility of a comprehensive solution to offer, as the question of eventual US normalization with Iran has been off the table, and as Iran has refused to engage under the condition that it first suspends its enrichment activities.

As these extracts show, it is now clear in broad terms how the Obama administration is likely to approach a new bilateral track, and about the inducements and penalties it would put into the mix. It should also be expected that the US would wish to maintain the joint approach by the Six, and their unity, as far as possible.

However, nothing in the campaign literature offers a clue as to which option, from among those in the previous chapter, the new administration would choose for the heart of the multilateral agreement with Iran, to reduce risks and obtain assurances of long-term non-proliferation. No early answer should be expected, as it will take new appointees time to review the history and the options and to assess up-to-date intelligence.

Prospects for Iranian participation in a bilateral track

In spite of the Iranian regime's distrust of and voluble antagonism to the US, it is likely that it would engage in a bilateral track. The precedents for direct contacts include the talks at deputy minister level held in Geneva in connection with Afghanistan from 2001 to 2003 during Khatami's presidency, and the three rounds of talks between ambassadors to Iraq in Baghdad in 2007. A good deal has changed since then.

First, the Iranians know that the ground has been well prepared, in the State Department and, under Robert Gates, in the Department of Defense, for a change of policy. In his testimony to the House Committee on Foreign Affairs, as far back as March 2007, the then Undersecretary of State, Nicholas Burns, said that 'diplomacy is our best course of action in blocking and containing the Iranian regime ... a military confrontation with Iran is not desirable, nor is it inevitable if we continue our skilled diplomatic course and have the patience to see it play out over the mid- to long-term.'⁴⁴

Under the Bush administration, the political leaderships in Washington and Tehran distrusted each other intensely. The arrival of a new leader and new team in Washington without the burden of past decision-making does not lessen the underlying hostility of the Iranian government to the US, but it will be easier to do business. If those in Iran opposed to talks with the US try to prevent an initiative, it will be possible for those in favour to argue that it would be right to see what the new language in Obama's speeches amounts to.

Furthermore US forces will leave Iraq. With both a Status of US Forces Agreement that meets Iraqi requirements and a timetable for withdrawal, Iran will come to see for the first time since 2003 that it is no longer directly threatened on its western border. The US will also be less exposed to Iranian spoiling tactics,

Iran's self-confidence and sense of power in the region peaked in 2007 after the war in Lebanon and with the stalling of the drive for UN sanctions. The relative success of the US in Iraq, the evident limits to Iran's influence more widely, the prospect that Obama will be able to wield US power more subtly and persuasively than Bush, and above

all the failure of the Iranian government's economic policies have taken some of the wind out of their sails. It is now less likely that the Iranian regime would read overtures from the US as a sign of US weakness and continue to shun engagement. The Principlists who stress regime security may wish to be the faction that makes the breakthrough: once the Republican administration has left the White House, they will be freer to try to persuade the Supreme Leader to authorize exploratory talks again (see Chapter 1).

Iranian pride and the sense of a mission to lead the Islamic world in confronting the US do not preclude rational long-term responses to new situations. Iranians are united in asserting their right to enrich uranium, but may be open to negotiation on timing. The leadership is convinced it can extract a high price for any cooperation it wishes to offer.

It is therefore likely that, as in 2003 when the nuclear talks with the EU-3 began, the Supreme Leader would permit Iranian negotiators to explore the new US position. At the end of each round of talks, the negotiators would report the results and he would decide whether to proceed further, having also heard the views of his close advisers and the submission of the Supreme National Security Council. On a subject as sensitive as this, not even a Reformist president, if one were elected in 2009, would be able to proceed without Khamenei's backing.

The multilateral negotiations

At this early stage in the emergence of new policies in the US and possibly in Iran, and before the US has consulted its partners, it is impossible to predict the course of events, but a number of factors would contribute to a negotiated solution.

Policy unity among the Six

Diverging interests mean that the Six have always had to negotiate internally on their positions.

China wants there to be stability around Iran and a regular supply of energy. As much as 70% of its oil imports come from the Middle East and it considers that it has the right to security of supply. It has been unwilling to get more from Russia. China and Iran are not close, but are united by self-interest. If the negotiations were to collapse,

China would not be likely to ally with either side. It opposes acquisition of nuclear weapons by Iran, encouraging it to be pragmatic and not to seek conflict.

China has tended to track Russia's positions on the nuclear negotiations. Hence it participates fully in representations to Iran but has refused to support new UN sanctions. It is not yet clear how far either Russia or China will go in supporting stronger sanctions as part of a fresh approach next year.

Russia and Iran share antipathy toward the West but they have been unable to translate this into a substantial alliance. The Iranian leadership looked on nervously at the Russo-Georgian war of August 2008, trying to forget Soviet expansionist traditions that once threatened its sovereignty. Its response to the war was low-key – Iran is still playing a delicate balancing game, using Russia as an ally for 'protection' against the West while remaining wary of getting too close and becoming dependent.

The Russian view of Iran is not unlike the Western view of Russia: difficult and potentially dangerous. A nuclear Iran would be contrary to Russia's interests and it has backed the latest UN Security Council resolution warning Iran (again) to suspend its enrichment programme. But the profit potential remains significant from arms sales, technological assistance (including future nuclear reactor construction) and energy partnership. Russia still shies away from tougher sanctions, but has now run out of significant alternatives when pressed on how to advance matters.

Russia and Iran have, respectively, the largest and second largest gas reserves in the world and are on the point of forming an association with Qatar to exert greater leverage on importing nations. This underscores Russia's intention to use energy as a political tool – to monopolize supply and project influence. It is not clear how Russia will respond to strategic discussion with the US over Iran.

A staged process

The sooner the Middle East initiatives prefigured in Senator Obama's campaign are launched, including multi-lateral and bilateral initiatives with Iran, the easier it will be to evoke new thinking among US partners and the fewer

will be the potential setbacks arising from day-to-day events in a crisis-prone region. The Six will probably wish to press forward more vigorously with the Iranian talks after the inauguration of President Obama.

The Six presented a revised proposal to Iran in June 2008 and exchanges on it continue. They are still trying to find a way for Iran to acquiesce in the Security Council requirement that it suspend enrichment activities by being flexible about the process – under the freeze-for-freeze idea. This is a development of Mohamed El Baradei's suggestion of a 'time out', namely that Iran would not add to its existing programme and the Security Council would not adopt further sanctions. A corollary of Iran's refusal so far to freeze its current activities is that discussion of extra sanctions will resume.

‘The psychological effect of measures taken so far is one thing; actual macroeconomic losses to Iran are another, and these are much less noticeable.’

The psychological effect of measures taken so far is one thing; actual macroeconomic losses to Iran are another, and these are much less noticeable. The agenda for the next Security Council review of Iranian non-compliance should include the following additions:

- further names to the asset freeze and travel ban lists, including IRGC individuals and entities;
- further designations of Iranian state-owned banks;
- bans on new loans and grants to Iran by international financial institutions;
- an embargo on arms sales *to* Iran (the current ban is only on sales *from* Iran);
- restrictions on some oil and gas transactions with Iran.

The last Security Council resolution (1835 (2008)) of 27 September 2008 did not contain new sanctions on Iran,

and Russian and Chinese opposition to new sanctions may continue.

European countries are still discussing their policy. Agreeing to ban new export credits to Iran or new investment in Iranian oil and gas would have a significant impact, as would barring more Iranian banks from the European financial system.

Gaining further leverage

The fall in the oil price, if sustained, and the adoption of policies on Iran advanced during the US election campaign will strengthen the hand of the Six, so long as other issues are addressed:

- *Diminishing the value to Iran of delay and of bidding for more incentives.* The Six could convey to Iran's leaders that the more Iran advances its enrichment capability, the less valuable – not more valuable – a freeze or cessation of those activities becomes. Continuation of enrichment on the present basis, with basic IAEA safeguards only, would cause offers of nuclear cooperation, trade, and other special economic incentives to be withdrawn.
- *Thinking through the consequences of Iran coming clean.* The Six have not yet indicated to Iran what the consequences would be of admissions by Iran of past weapons-related work. Iran will expect at present that any admissions would lead to further sanctions. The Security Council could clarify that this would not necessarily be so.
- *Involving other powers – in Iran's neighbourhood and beyond.* Energy security, stability, trade links, arms supply, non-proliferation – there are numerous ways in which the matters to be negotiated with Iran affect the GCC, India, Turkey, Japan, Indonesia and others, including non-permanent UN Security Council members. Unanimity will not be achieved, but the objective should be to craft an approach that all can endorse in general terms and that carries added conviction as a result.
- *A Persian Gulf security dimension.* This has always been included – whether in the August 2005, June 2006 or June 2008 proposals to Iran. The references to

regional security have become less specific with each formulation. They are seen as an add-on, when in fact they should be central and could be crucial. Of course a negotiating process for a security arrangement must be owned by the countries of the region, but given the reliance of the GCC countries on external relationships for defence and Iran's belief that its main enemy is the US, no one should object if a group of countries with a legitimate international responsibility for peace and security through their membership of the UN Security Council were to give a lead.

Two steps could be envisaged: a general statement by the UN Security Council of the need for agreed principles and practical measures for security in the region, covering the GCC, Iran and Iraq, together with an invitation to UN Secretary-General Ban Ki-moon to launch consultations.

The work would reflect the fact that neither the US nor Iran is going to be able to squeeze the other's influence out of the region. It would show Iran that it could achieve higher levels of security for itself by supplementing national defence with international cooperation.

- *The manner in which the US makes its initial bilateral contacts will be crucial.* There is a case for secrecy, and for announcing contacts jointly in agreed terms only once there is agreement to take the process forward with an agenda and each side is ready to take on its critics at home. An announcement could include public expressions of respect of the other as an interlocutor and a joint commitment to explore a wide-ranging agenda over time. Each would have to expect that the other would not change its rhetoric in advance of a meeting of minds. In such ways, a challenging agenda could stay in the comfort zone of each party for long enough to see whether the process would generate momentum.
- *Taking the use of force off the table.* As set out above, the right of self-defence is paramount. But there is a case that removing from US diplomacy the current explicit option of the use of force, before self-defence could be invoked, would be more conducive to

engaging the Iranians in constructive negotiations – even if this threat implicitly remained. There is no sign yet that this will be official policy under Obama, but it will enter the debate in coming months.

- *Spelling out to Iran the economic risks it is running.* One lesson of dealing with Iran is that any future risk to Iranian interests from non-cooperation with the UN must be clear. There should be the credible prospect, endorsed by China, Russia and many other major trading countries as well as the EU, of existing sanctions remaining in force and of new sanctions, especially on arms, if Iran remains obdurate on key issues. These include not coming clean on all its past activities, applying the Additional Protocol to its safeguards agreement and renegeing on a negotiated agreement. It would be fatal to leave Iran with the impression that there will be no long-term disadvantages to defiance of the Security Council. A real issue here for the US and its allies will be obtaining Russian agreement. Moscow may be resistant unless other issues on its own agenda with the US and EU are also addressed – such as missile defence in Poland.
- *The US must be prepared to offer security guarantees.* Debate continues in the policy community on the place of security assurances in a new approach. Some say that their greatest value would lie in putting up front a statement that the US would not use force against Iran except as a response to an Iranian act of aggression, which would include any new moves to acquire nuclear weapons. Others argue convincingly that it would be such a prize for Iran that it should not be put on the table until there is a substantial measure of agreement in outline.

A dedicated Presidential Envoy

The preparations, consultations and negotiations have been time-consuming and have, at times, taken senior officials away from other responsibilities for long periods. A new effort involving US leadership and wide consultation in the Middle East and Asia will be more demanding. There are practical reasons, therefore, for appointing one person to be dedicated to leading the work. Moreover, to quote a US diplomat with 40 years of experience of Iran:

Both Iranian and American sides come to the negotiating table burdened with years of accumulated grievances and suspicions. Their recent history has led both sides to assume the worst about the other and to see it as infinitely devious, hostile, and duplicitous. Yet, while talking to Iran may sometimes be difficult and unpleasant, it is also worth doing and may help both sides to find common interests lurking behind walls of hostility and distrust.⁴⁵

Breaking down those walls requires that the US government's effort should carry weight in the right quarters in Iran and in the US Congress. It would be desirable that that person should be seen to have the full confidence of the President and to report to him. A person of that stature is likely to have the strategic conception and tactical capability to exert the necessary influence.

US bilateral diplomacy is too important, however, to be caught up in and vitiated by the Iranian presidential election campaign in June 2009. One way to avoid the obvious dilemma would be to begin the bilateral discussions with Iran with regional rather than nuclear-related issues.⁴⁶

6. Conclusion

This report has shown that time is no longer on Iran's side. Relative to its aspirations, Iran's regional situation, its domestic politics, its economy, and its all-important energy industry are not in good enough shape for it to be able to stand out for ever against the international demand for negotiation. The twin goals are a high level of assurance that Iran did not and will not divert nuclear material for military purposes and that it will take its place in its region as a constructive power.

It is not possible to set out in detail how a US bilateral strand might mesh with the multilateral talks. A detailed plan – especially one drawn up by outsiders – would not survive the opening engagement. So initial steps by the US and, it is to be hoped, Iran as well would be incremental, but the final negotiation would reflect the wider aim, which has been clear since the time of the first joint proposal of all of the Six on 1 June 2006, namely:

... to develop relations of confidence and cooperation with Iran based on mutual respect and the establishment of international confidence in the exclusively peaceful nature

of Iran's nuclear programme ... a comprehensive agreement with Iran.

In the June 2008 proposals by the Six, not only was the area of cooperation spelled out further, but it was made explicit that once confidence was restored, Iran would be treated like any non-nuclear weapon state party to the NPT. In other words, it would enjoy the right to enrich uranium and develop civil uses of nuclear technology.

‘ Reaching detailed agreement will be very hard: it is not yet clear whether there is *any* offer Iran will be prepared to accept ’

There are huge problems of trust to overcome. The misleading stereotypes which abound in Iran and the West are a serious obstacle. The negotiating parties *vis-à-vis* Iran are not united. Reaching detailed agreement will be very hard: it is not yet clear whether there is *any* offer Iran will be prepared to accept – in gains secured and pains forgone – in return for transparency about the past, acceptance of intrusive monitoring in future, and long-term international involvement in its nuclear affairs. The US and its partners would be well advised to explore the detail rapidly with Iran's neighbours and with Iran itself. Iran will severely imperil the future of its people if it does not accept the challenge and negotiate in good faith.

Annex: Military action against Iran's nuclear facilities – international legal considerations

Any possibility of a military strike on Iran by the US as a result of development of Iran's nuclear weapon capability has diminished recently; views differ as to the likelihood of a strike by Israel. But the matter is being discussed sufficiently widely to justify consideration of the grounds in international law for any such military intervention.

The Bush administration has been criticized for ignoring international law during its years in office. But it has used legal arguments (however controversial) to support its military actions and it has claimed to act consistently with its international obligations. It can therefore be expected that this or a new administration would attempt to put forward a legal justification if it were to undertake a military intervention in Iran. The same might be expected of Israel.

The Charter of the United Nations prohibits the threat or use of force in a state's international relations except where the Security Council has authorized force to maintain or restore international peace and security or where a state is exercising its inherent right of individual or collective self-defence.⁴⁷ Although resort to the Security Council may be the most appropriate response to the existence of any threat to international security, there is no likelihood of the US or Israel seeking a Council resolution

to authorize intervention in Iran in present circumstances, and there is no likelihood of their securing a resolution even if they sought one. The legal justification which either country would put forward, if they were to intervene, would be that of self-defence.

Self-defence

Article 51 of the United Nations Charter preserves a state's right to use force in self-defence 'if an armed attack occurs', until the Security Council has itself taken measures. The 2001 intervention in Afghanistan, for example, was reported to the Security Council by the US and the UK as an exercise of the right of self-defence following 9/11, to prevent further attacks on the US and its allies.⁴⁸ Force may be used by a state in its own self-defence, or collectively when another state has requested armed assistance.

The UN Charter does not set out the conditions for lawful self-defence. It is widely (though by no means universally) accepted that the right includes the use of force in order to avert the threat of an imminent attack – often referred to as 'anticipatory' self-defence. The notion that a state must be inactive until it is actually attacked is contrary to good sense. But there is obviously a danger that an expansive doctrine of anticipatory self-defence would encourage the use of aggressive rather than defensive force, and there are limitations to the right. The required criteria⁴⁹ in relation to a threatened attack are that force may be used only if the attack is 'imminent' and only when it is necessary to use force to avert it; the force used must be proportionate to the need to avert the attack. These criteria of imminence, necessity and proportionality are discussed below.

A threat of an imminent attack

'No country should ever use preemption as a pretext for aggression.' *US National Security Strategy 2002 and 2006*

There is no right under international law to launch a military intervention against Iran in order to change the

country's regime or to impose particular policies upon it. There is no right to intervene in self-defence unless there is in fact a military threat from Iran.

President Bush declared in 2002 that 'if we wait for threats to fully materialize, we will have waited too long'⁵⁰ and the US 2002 National Security Strategy stated that the US would stop rogue states *before* they were able to threaten the use of WMD.⁵¹ But international law does not allow preventive force before a threat exists.⁵² And the mere possession of weapons of mass destruction cannot be said to represent a threat giving rise to the right of self-defence. As well as the capability to attack, there must be a specific intention to attack.⁵³

The threatened attack must be 'imminent' if force may legitimately be used in self-defence. The criterion is subject to misuse and it has been the subject of much discussion.⁵⁴ The possession of WMD presents particular difficulties in applying the criterion, particularly in the light of the catastrophic consequences of making an error in determining the reality of a threat. According to the 2002 US National Security Strategy, 'We must adapt the concept of imminent threat to the capabilities and objectives of today's adversaries.' This may be right, but it has ever been thus. In interpreting the law, the particular circumstances of each case must be considered.

To assess whether the criterion of imminence is met it should be related to the criterion of necessity: is the threatened attack so close that it is necessary now to use force to avert it? The problem was discussed in the Chatham House Principles on the Use of Force in Self-Defence, which state:⁵⁵

- Force may be used only when any further delay would result in an inability by the threatened state effectively to defend against or avert the attack against it.
- In assessing the imminence of the attack, reference may be made to the gravity of the attack, the capability of the attacker, and the nature of the threat, for

example if the attack is likely to come without warning.

The US or Israel would need to show that their actions were justifiable on the facts known to them; the evidence must be credible. In 1981 the Security Council dismissed the claim by Israel that it had attacked the Osirak nuclear plant in self-defence. Their attack was condemned by the Council as a 'clear violation of the Charter of the United Nations and the norms of international conduct'.⁵⁶

Necessity and proportionality

If it is decided in good faith that the threat of attack is one which presents an irreversible emergency, the criterion of necessity must be met if force is lawfully to be used in self-defence. That is, it must be shown that force is the only means possible to avert an attack. Peaceful means must have been exhausted or be unavailable.⁵⁷ The assessment of the necessity of a particular action is far from straightforward even if it is undertaken in good faith, as it should be; it can be made only on the basis of the facts available at the time. Finally, the criterion of proportionality requires that the level of force used is no greater than that necessary to remove the threat.⁵⁸ The criteria of imminence, necessity and proportionality are therefore essentially interconnected: the threatened attack must be one for which a military response is necessary because there is no alternative in the circumstances, and the level of force used must be necessary because proportionate.

Any military intervention which was not necessary to respond to the threat of an imminent attack by Iran would be contrary to international law. It is a truism that international law does not have the means of enforcement available to domestic legal systems. But the impact of the legally controversial intervention in Iraq in 2003 on the reputation of those states involved in that action shows that lawbreaking states do not emerge unscathed.

Notes

- Also known as the P5 (US, UK, France, China and Russia) + 1.
- This term refers to the belief of Iran's 'Twelver' Shi'a that the Twelfth Imam is a messianic figure who has been in occultation since the ninth century and will shortly return to do battle with evil and bring justice to the faithful.
- Ali Ansari, 'Iran under Ahmadinejad: Populism and its Malcontents', *International Affairs*, 84 (4), 2008: 683–700.
- 'Iran's Khamenei urges Ahmadinejad to plan for second term', AFP, 24 August 2008, <http://afp.google.com/article/ALeqM5jQV9WbHQ0tnQm7ItwirKETOSJr8A>.
- Inflation is forecast to stand at an average of 28% by the end of 2008, as compared with 17.1% at the end of 2007. Economist Intelligence Unit, *Iran Country Report: September 2008*.
- See *Investing in Middle East and North Africa Oil: Institutions, Incentives and National Oil Companies*, World Bank/ESMAP Report No. 40405-MNA, 2007.
- See Paul Stevens, *The Coming Oil Supply Crunch* (Chatham House, 2008).
- See Paul Stevens, 'National Oil Companies and International Oil Companies in the Middle East: Under the Shadow of Government and the Resource Nationalism Cycle', *Journal of World Energy Law and Business*, 1(1), 2008: 5–30.
- Joseph Felter and Brian Fishman, *Iranian Strategy in Iraq: Politics and Other Means*, Combating Terrorism Center at West Point Occasional Paper Series, October 2008.
- Ibid.
- 'Iran Sanctions Discussions Paused', BBC News, 23 March 2007, http://news.bbc.co.uk/1/hi/world/middle_east/6483989.stm.
- Marc Lynch, 'Why US Strategy on Iran is Crumbling: Gulf States No Longer Want to Isolate Iran', *Christian Science Monitor*, 4 January 2008, <http://www.csmonitor.com/2008/0104/p09s03-coop.html>.
- See Nadim Shehadi and Elizabeth Wilmshurst, *The Special Tribunal for Lebanon: The UN on Trial?* (Chatham House, 2007).
- See 'Full text of President Ahmadinejad's speech to the UN General Assembly', *Ha'aretz*, 24 September 2008; and 'Shimon Peres' speech to the United Nations General Assembly', *Ha'aretz*, 25 September 2008.
- Iranian nuclear facilities are within range of the Israeli Air Force (IAF) following the delivery of 25 F15s and around 20 F16s. The US will supply another 102 F16s.
- David Albright, Jacqueline Shire and Paul Brannan, *IAEA Report on Iran: Centrifuge Operation Significantly Improving; Gridlock on Alleged Weaponization Issues*, ISIS Report, 15 September 2008, http://www.isis-online.org/publications/iran/ISIS_Report_Iran_15September2008.pdf.
- IAEA Board Report, 19 November 2008, <http://www.iaea.org/Publications/Documents/Board/2008/gov2008-59.pdf>.
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- 'Obama quashes Iran's hopes for change', BBC News website, 9 November 2008, http://news.bbc.co.uk/2/hi/americas/us_elections_2008/7718603.stm.
- Adapted from 'Key Judgments' in 'Iran: Nuclear Intentions and Capabilities', *National Intelligence Estimate*, November 2007, http://www.dni.gov/press_releases/20071203_release.pdf.
- 'Solana's Offer to Iran', Middle East Progress – a Project of the Center for American Progress, <http://www.middleeastprogress.org/2008/07/solana%E2%80%99s-offer-to-iran/>; Alistair Lyon, 'Iran Seen as Impervious to World Nuclear Offer', Reuters, 7 July 2008, <http://www.reuters.com/article/newsOne/idUSLY071725620080707?sp=true>; 'Iran Ambiguous on Nuclear Offer', BBC News Website, 5 August 2008, http://news.bbc.co.uk/2/hi/middle_east/7542675.stm.
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- See *The National Security Strategy of the United States of America*, September 2002, <http://www.whitehouse.gov/nsc/nss.pdf>.
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- Barack Obama Campaign Website, http://origin.barackobama.com/issues/foreign_policy/.
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47. Another more controversial justification for the use of force in international law is unilateral humanitarian intervention to avert massive humanitarian disasters from causes such as genocide. Although President Ahmadinejad's statement expressing the wish that Israel 'vanish from the pages of time' has been described by some as threatened genocide, this would not, even if a real threat, be a ground for humanitarian intervention but for self-defence if the conditions for lawful self-defence were met.
48. See UN Doc. S/2001/946 and UN Doc. S/2001/947.
49. The *Caroline* incident in 1837 gave rise to an exchange of notes between the UK and US governments which contained the formulation frequently used as laying down the criteria for lawful self-defence: '[i]t will be for ... [Her Majesty's] Government to show a necessity of self-defence, instant, overwhelming, leaving no choice of means, and no moment for deliberation' and the action must not be 'unreasonable or excessive; since the act, justified by the necessity of self-defence, must be limited by that necessity, and kept clearly within it.'
50. George W. Bush, Speech at West Point United States Military Academy, 1 June 2002, <http://www.whitehouse.gov/news/releases/2002/06/20020601-3.html>.
51. 'We must be prepared to stop rogue states and their terrorist clients before they are able to threaten or use weapons of mass destruction against the United States and our allies and friends.' See *The National Security Strategy of the United States of America* (note 24 above).
52. For a recent critique of the claim to preventive intervention from the viewpoint of a political scientist, see Nicholas Rengger, 'The Greatest Treason? On the Subtle Temptations of Preventive War', *International Affairs*, 84 (5) (2008): 949–61.
53. Oil Platforms (Islamic Republic of Iran v. United States of America), International Court of Justice, 2003, <http://www.icj-cij.org/docket/index.php?pr=216&p1=3&p2=1&case=90&p3=6&search=%22%22Iran+and+United+States%22%22>.
54. In the UK context, for example, see evidence given to the House of Commons Select Committee on Foreign Affairs in June 2004 by two international lawyers. On the one hand Daniel Bethlehem QC went beyond the established norms by seeming to drop the criterion of imminence altogether in relation to a 'threat of catastrophic attack': 'it would in my view be appropriate to begin to think beyond imminence to reasonable foreseeability, ie, away from temporal notions of threat and towards action required to neutralise the risk of catastrophic harm'. On the other hand, Professor Philippe Sands QC adopted the statement of the UK Attorney-General: 'international law permits the use of force in self-defence against an imminent attack but does not authorise the use of force to mount a pre-emptive strike against a threat that is more remote.'
55. This Chatham House study can be found at http://www.chathamhouse.org.uk/files/3278_ilpforce.doc.
56. In Security Council resolution 487 (1981) of 19 June 1981 after a long debate (S/PV 2280-2288).
57. In its decision in the Oil Platforms case (...) the International Court of Justice held that 'the requirement of international law that measures taken avowedly in self-defence must have been necessary for that purpose is strict and objective, leaving no room for any 'measure of discretion' (para. 73).
58. The International Court of Justice has confirmed that it is a well-established rule of customary international law that a use of force in self-defence must be 'proportional to the armed attack and necessary to respond to it'. 'Nicaragua case (... para.176); see also para. 41 of the Advisory Opinion on the Legality of the Threat or Use of Nuclear Weapons (...).

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