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THOUGHTS ON ENGAGING IRAN

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The announcement of future U.S.-Iran talks focused on Iraq suggests the Bush administration may be revisiting its approach toward Tehran. The search for an effective policy toward Iran has proven elusive for successive U.S. and EU administrations. While U.S. attempts to change Iranian behavior – and, indeed, the Iranian regime -- using political and economic coercion have not borne fruit, European attempts to use political and economic incentives have been similarly frustrating.

I. Iranian Realities

- Iran is integral to several issues of critical importance to U.S. and E.U. foreign policy, namely Iraq, non-proliferation, energy security, terrorism, and Arab-Israeli peace. In this context, ignoring Iran is not an option, attempting to contain it is unlikely to promote Western interests, and confronting it militarily would only worsen what the West seeks to improve. In short, there is no substitute for direct dialogue with Tehran.
- Despite widespread popular discontent, the Islamic Republic is not on the verge of collapse, and any reform movement will require time to revive. Having experienced a revolution and an eight-year war with Iraq, the unmet expectations of the Khatami era, and the horrors of what is

currently taking place in Iraq, Iranians are wary of political agitation. Abrupt domestic change is unlikely in the near term and would not necessarily lead to an improvement, as currently the only groups which are both armed and organized are the Islamic Revolutionary Guard Corps (IRGC) and Bassij militia.

- Iran's reintegration into the global economy and improved Iranian ties with the West will expedite political reform and dilute hardliners' control. A small but powerful clique with entrenched economic and political interests in the status quo will do everything in their power to torpedo attempts at reconciliation with the United States.
- U.S. concerns about Iran did not originate with and are not limited to its nuclear ambitions. U.S. sanctions and policy were in place prior to the nuclear revelations, and have more to do with the nature of the Iranian regime than with its nuclear pursuits. For this and other reasons, the nuclear issue cannot be resolved without addressing broader points of contention and deep-seated mistrust between the two countries.
- Iran arguably has more common interests with the United States in Iraq than any of Iraq's other neighbors. While much of the Arab world is concerned about Shia ascendancy in Iraq, Iran and the U.S. both wish to promote Iraqi stability, territorial integrity and democracy.

II. The Difficulties of Engaging Iran: Mistrust, Discord and Paralysis

Iran's leaders lack a clear consensus, whether concerning the country's nuclear policy, relations with the U.S., or Iran's regional role. This is due to internal discord, institutional paralysis, and above all a deep-seated mistrust of U.S. intentions.

- From the Islamic Republic's inception in 1979, Ayatollah Khomeini aimed to set up the revolutionary government's power structure in a way which would be "impenetrable" to foreign influence. This meant creating multiple power centers whose competition would provide checks and balances to prevent one branch or individual from becoming too powerful and susceptible to outside influence. However, while Khomeini's leadership rarely was questioned, Ayatollah Khamenei lacks the credentials and legitimacy of his predecessor, leading him to make decisions by consensus rather than by decree. The result has been considerable gridlock and political paralysis as well as a tendency to muddle along with entrenched policies.
- Ayatollah Khamenei's 18 year track record suggests a risk averse leader -- courting neither confrontation nor accommodation with the West—and paralyzed with mistrust. He believes the U.S. is not interested in changing Iran's external behavior but the regime itself. In Khamenei's world-view, the U.S. sees Iran's strategic location and energy resources as too valuable to be controlled by an independent-minded Islamic government. As a result, Washington aspires to revert to the "patron-client" relationship with Iran that existed under the Shah. In this context, whether U.S. officials announce they want to talk to Iran or isolate it, Khamenei presumes nefarious intentions. Washington's refusal to acknowledge or respond to Iran's 2003 overture only reinforced Khamenei's perceptions.
- At the same time Khamenei is weary of domestic rivals and will not take any foreign policy decision that risks hurting his political interests. The Clinton administration's

unsuccessful attempts to bypass Khamenei and engage Khatami and the reformists in 2000 are case in point.

- Because of this paralysis, the Islamic Republic historically has had a tendency to make critical decisions under duress. The decision to end the Iran-Iraq war (in the words of one former European diplomat in Iran, "the only major decision the regime has made in the last three decades") was reached only after tremendous cost in blood and treasure and a fear that Washington intended to enter the war in support of Iraq. Likewise, the 2003 overture to the United States was made at a time when the regime feared the U.S. might set its sights on Tehran after Baghdad.
- Iran's leadership also is acutely aware of the role of oil in politics. In this regard, it is going to have to make very hard decisions in coming years. Gasoline is heavily subsidized (at a cost of over \$10 billion per year), the baby boom generation is entering the labor force, and the country is churning out automobiles, so there is growing consumption and little conservation. At the same time, oil production has been gradually decreasing due to a lack of investment in energy infrastructure projects. Given the uncertain political and business climate, foreign investment has diminished. If the regime continues at this pace--increased consumption and decreased output--within a decade the country could conceivably become a net oil importer.

This will force very painful decisions. Either the regime will have to cut gasoline subsidies and encourage conservation—a difficult task for a president who ran on a populist platform -- or the leadership will have to alter its policies to attract outside investment. Most likely it will be a combination of both.

III. What Should Be Done?

The policy implications of the above observations pull in opposite directions. On one hand the analysis suggests internal political reform in Iran is highly unlikely as long as the country remains isolated, implying a need for engagement by the West. On the other hand, it suggests that Iran makes decisions only

when compelled to do so, implying a need for a tough, “no nonsense” approach.

In fact, simultaneously presenting two distinct paths to Tehran may be the best way forward. It is necessary to make clear to Tehran that a hard-line approach is counterproductive and will only increase Iran’s isolation. Security Council resolutions and international political and financial pressure will not bring about a diplomatic resolution to the nuclear accord, but in the short-term they may be necessary tools.

At the same time, more pragmatic elements in Iran need to be able to argue with plausibility that a different Iranian approach will trigger a more positive Western response. Pragmatists currently complain that in the highly-charged international environment, their calls for moderation are easily dismissed as naïve and irresponsible.

Several guiding principles can be suggested:

- Any dialogue must be comprehensive – i.e., not limited to Iraq or the nuclear file only, and not limited to the EU; Iraq could be a good starting point given the two sides’ common interests.
- In the context of a diplomatic accommodation, the West acknowledges Iran’s right to a full fuel cycle. In return, Iran would agree that while it has every right to enrichment, it would not exercise this right until it receives a “clean bill of health” from the IAEA. Any eventual domestic uranium enrichment program should be delayed, closely monitored and limited, at least in the earlier stages.
- Iran should be explicitly but privately reassured that it will not incriminate itself for fully cooperating with the IAEA and admitting past transgressions in order to get a “clean bill of health.” Otherwise Iran will continue to have an incentive to obstruct and obfuscate as long as it senses that that the costs of cooperation exceed the costs of non-cooperation.
- More important than the precise technical details of any nuclear agreement—how long of a suspension, how many centrifuges, etc.— is for the U.S., E.U., Russia, China, and India to agree on a common approach. When it came to Iraq the U.S. was content with strong resolutions and a weak coalition; when it comes to Iran the key is – at the outset at least -- mild resolutions in order to achieve and maintain a robust coalition.
- Russia is key. Iran is banking on the fact that a) Russia will not agree to substantive sanctions; b) China will follow Russia’s lead; and c) EU resolve will waver without Russian and Chinese support. If faced with a united front which includes Russia and China, however, Iran might recalculate its approach.
- Although Iran responds to pressure, it is unlikely to agree to any arrangement in which it is seen as admitting defeat or being forced to compromise. Besides the issue of saving face, many in Iran’s political elite—chiefly Ayatollah Khamenei—believe that this will only encourage the U.S. to exert greater pressure.
- The U.S. needs to clarify what a different Iranian policy would trigger on its part. It should provide a clear road-map to Iran as to how a normalization of relations between the two countries would be possible.
- Threatening military force against Iran is counterproductive. It weakens the position of Iranian moderates who strive to forge a different relationship with Washington and strengthens the argument of hardliners who advocate pursuing a nuclear weapon as a deterrent.

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