THE BROOKINGS INSTITUTION

SABAN CENTER FOR MIDDLE EAST POLICY

TOWARD A NEW IRAN POLICY

A SABAN CENTER SYMPOSIUM

Tuesday, November 23, 2004

The Brookings Institution
1775 Massachusetts Avenue, N.W.
Washington, D.C.

MILLER REPORTING CO., INC.
735 8th STREET, S.E.
WASHINGTON, D.C. 20003-2802
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[TRANSCRIPT PREPARED FROM A TAPE RECORDING.]

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INTRODUCTORY REMARKS

MR. INDYK: Welcome to the Saban Center for Middle East Policy at the Brookings Institution and to the symposium that we are hosting today entitled "Towards a New Iran Policy."

We've gathered a group of experts on Iran and on U.S. policy to grapple today with the thorny problem of what to do about Iran. For much of the last four years, that question was put in what I call the too hard basket by the first Bush Administration, and there was a good reason for that. It was too hard. Short of invading a country of 69 million people, we didn't have a good way of changing some very troubling aspects of the regime's policy: its aggressive sponsorship of terrorism, particularly in the Arab-Israeli arena, its determined pursuit of nuclear weapons, its meddling in Iraq, and its systematic abuse of the human rights of its citizens.

To be fair to the Bush Administration, it's not as if anybody else had a workable idea.

I personally had some experience with Iran in the eight years of the Clinton Administration. We contained it successfully for a while, but ultimately that failed. Then, when Mohammed Khatami was elected in a landslide, we tried to engage him for a while, but ultimately that failed, too.

On the other hand, ignoring the problem posed by Iran obviously didn't work either. Today, the country is on the brink of acquiring nuclear weapons, with all the dangerous implications that could have for regional stability and a nuclear arms race in the Middle East.

Today, Iran is in a position to influence the future of neighboring Iraq in a way it had never been able to do before. Today, Iran, through its Hizballah proxy, could launch Palestinian terror attacks against Israel that would put paid to all the hope of a new day in the Middle East peace process, just as its sponsorship of Palestinian terror back in 1995 and 1996 helped to destroy the peace making hopes during the Rabin-Peres era.

So, if there's one thing we should be able to agree on today it's that we can no longer afford to leave Iran in the too hard basket. The question is what to do instead.

At the Saban Center, we've been grappling with this problem for some time. We've sponsored two book-length studies and a discrete, or some would say not so discrete, study group. Shaul Bakhash is here today, and will lead our second--our first panel--a non-resident Senior Fellow at the Saban Center who is writing a book on the internal political dynamics in Iran. And Ken Pollack, our very own Director of Research, has just published his bible, the Persian Puzzle, his blockbuster book on the conflict between Iran and America. Copies are available in the bookstore just across the way.

With President Bush's election victory coinciding with the 25th anniversary of the Iranian Revolution, we decided it would be timely to conduct a public policy discussion of these thorny issues.

Ken has brought together a distinguished group of experts to lead this discussion.

We're going to start with Danielle Pletka, Vice President for Defense and Foreign Policy Studies at the American Enterprise Institute, who will outline her view of the policy President Bush might, should, will, must--all of the above--adopt in his second term.

Danielle's had a distinguished career in foreign policy in Washington, a product of Johns Hopkins School of Advanced International Studies and Smith College. She began her work in Washington as a staff member of *Insight Magazine*. In 1992, she was appointed to the staff of the U.S. Senate Committee on Foreign Relations, where she served for 10 years, rising to senior professional staff member during the tenure of Senator Jesse Helms as the Chairman of that Committee.

During that time, she played an influential role, as I can attest, in developing the Iraq Liberation Act, which laid the foundations for the Bush Administration's subsequent decision to topple the Saddam Hussein regime.

Danielle will be followed by two panel discussions; the first examining the dynamics and motivations behind Iran's foreign policies; and the second evaluating the nature of the threats that Iran poses on the nuclear and terrorism fronts and what help we can expect from our European allies in dealing with these problems. Those panelists will be introduced to you in each session.

Then over lunch, Ken Pollack will provide his own views of an alternative policy for dealing with Iran. As we tried to set it up, Danielle and Ken will provide the bookends of our discussion this morning and over lunch. We hope that we will all come away at least enlightened about the nature of the policy problems that the United States faces at the beginning of this new Administration, and, at best, with some ideas, workable ideas, for how to go forward.

So, thank you very much for coming, for joining us today. And please welcome Danielle Pletka.

U.S. POLICY TOWARD IRAN IN A SECOND BUSH ADMINISTRATION

MS. PLETKA: Good morning, everybody. Thank you, Martin, for that introduction.

I was telling Ken before we all sat down that I sat down yesterday to think through what the policy recommendations ought to be, recognizing that if I'd only sat down at some point seriously over the last six months or so that this all would have come to me, and that it just required a little bit of serious concentration, a little bit of undistracted attention, and then all of the solutions, the obvious remedies, the things that hadn't come to us over the last 12 or 15 years would become clear to me, and now I understand how Ken wrote a 600-page book.

And only one chapter of it, I understand, is policy recommendations. And this is also what I discovered as I sat down, I was very, very tempted to lay out the problem at length and had a very telling sentence. So, “what should we do,” question mark. And my typing ended at that point.

So, I'm going to--I'm going to I think reflect the same problem that everybody else here is going to talk about, which is that we face a challenge, and there are no easy answers.

Ken asked us to talk about what is, what might be, and what should be U.S. policy toward Iran in the second Bush Administration. And I'd like to just start for a moment with what is only because I think it's worthwhile on occasion to review the bidding. There does seem to be a certain tendency on the part of some people, perhaps even some countries, to focus excessively on the silver lining. I can't see you through my glasses, and I can't see my paper without my glasses. I think this means I need bifocals. That's really a horrible thing.

So, forgive me, I'm going to take off my glasses and hope for the best.

It's worthwhile putting the things together that I think Martin outlined. First, the IAEA. I went through and read all of the reports from the IAEA yesterday, and they really are quite instructive, although turgid in the same way that most United Nations and international organization reports are, but there are certain words that consistently stand out to us. They are the word "failure,"the word "concealment," and the word "breach." They are really regular features in each report, notwithstanding the efforts of our friend, Mr. Al-Baradei, to put the best possible light on Iranian behavior.

In addition, in talking with colleagues and friends from the European Union and inside this Administration and other allies, I think that there is a consensus, perhaps not a publicly spoken consensus, but certainly a genuine consensus that Iran is, in fact, developing nuclear weapons. If somebody has something different to say about that I really look forward to it. I know that the official reports of the IAEA have been balanced in saying that there is not conclusive proof that he Iranians are, in fact, pursuing nuclear weapons. But if you sit down and you look at the reports, it seems absolutely clear that that is, indeed, their aim.

In addition, we have the recent revelation that the Iranians have been working on a nuclear warhead for the missile arsenal that they already have. There was some question raised about whether or not the intelligence that had been received by the United States was, in fact, correct--was accurate. We've all been privy to these conversations before. Is our intelligence good is it not? Who can we trust? Who can't we trust? But the truth is that there is a vast body of evidence about Iranian missile proliferation and missile acquisitions. Martin saw it over his years. We have seen them go from shorter-range to medium-range to longer-range missiles. We have seen their relationship with North Korea, with China, and with Russia. I don't think there can be any doubt in our minds that there is a program and that the trajectory of the program is up. It is not even, and it is not down. They are interested, in fact, in having a robust missile program, and they can already obviously reach most of their neighbors and Israel. I imagine they are well on track to be able to reach Europe as well, although perhaps not England directly.

Then there is the question of terrorism. Now, again, this has sort of become something that we tune out. The Iranian--Iran is the worst state

sponsor of terrorism. Iran is involved in supporting Palestinian rejectionist groups. Iran is involved in a whole series of problematic activities. I think every one of us has heard this so many times that we tune out.

But let's just take all of it in conjunction. Recognize there's the nuclear problem. There's the missile problem. There is the relatively new problem of Iranian support for Al Qaeda, and support I think is a fair word when you provide safe haven, when you provide passage, when you provide what I would call an operational headquarters for elements of Al Qaeda, in fact, you are a supporter of that group. The bombing that took place in Saudi Arabia last year is widely believed to have been planned inside Iran. In fact, while the Iranians have told us that they have a close eye or have officials of Al Qaeda under house arrest, I really don't think this should make us feel any better. They shouldn't be there in the first place.

Obviously, there's the problem of Hizballah. Hizballah recently sent a drone over Israel. That's a significant escalation. They clearly received it from Iran. Iran--there have been suggestions that Hizballah has developed a certain independence; that they don't really need the Iranians. They don't need the Syrians. They've got enough money. They've got a political base. They're making a transition. In fact, what we see from that is that the--is that Hizballah is--remains committed to its conflict with Israel, remains committed to escalation with Israel, isn't just interested in its political life, and continues to have a robust relationship with the Iranians.

We also see Hizballah operating throughout Iraq, which provides some cause for concern.

There's Hamas. There are the other activities of Iran inside Iraq. It's not just, not just agitation, not just supporting the likes of Muqtada al-Sadr, but, in fact, genuinely destabilizing the country in a way that some have likened to the Lebanonization of Iraq. I'm not sure whether that's an exactly correct analogy, but certainly they have no interest in seeing Iraq prospering. They have no interest in seeing Iraq representing an important ally of the United States in the Gulf.

And finally, Afghanistan. On the human rights question, again, we've tended to gloss over these are bad guys. It's really a big problem. But, in truth, the more you look at it, the more revolting it is.

Newspapers, one after the other after the other after the other: closed. Recently, the government has cracked down on web sites, and on bloggers inside Iran and most people who follow Iran know that this has been an extraordinarily active and lively community. They have operated with surprising impunity for the last few years. They no longer operate with impunity, and, in fact, what we now know is that the Iranians have been very carefully tracking their activities, decided that their activities were no longer acceptable and went through and shut them down.

There's the story we've heard in the last couple of weeks about the 15-year-old girl being stoned to death for having sex with her brother. He received a prison term. There are the mass arrests that have taken place.

Again, over the years, we've seen arrest after arrest. There is an assumption that these are just short-term problem--you know, problem-solving

measures for the regime. They take everybody. They round them up. They throw them--and then eventually they come out, except for that fact that we don't spend a lot of time looking at the fact that they don't come out.

The young man who famously held up his bloody shirt on the cover of the Economist five years ago is still in Evin Prison--Ahmed Batebi. And I imagine he has no prospect of being let out. He was let out on medical leave. He spoke to the United Nations, and he was promptly thrown back in prison. These are things that have lost their ability over the years to shock us, and they should, in fact, continue to shock us.

I'm not going to go too much more into depth. Clearly, we have a problem. I think we all recognize that there is a problem. Perhaps we should listen a little bit more as to what that problem is, but then we have to ask the question, and this was where my big blank followed: what is U.S. policy?

Right now, up to this point, our policy has amounted to what I would call frustrated concern and congressionally mandated sanctions. Frustrated concern really isn't much of a foreign policy, although it's very satisfying. At the same time, we've looked at our friends in the European Union with this same frustrated concern, and we don't really appear to think very much of their approach. The EU3 approach to the Iranians has not been warmly welcomed in Washington and in the Bush Administration. I happen to agree with that skepticism.

On the other hand, I also agree with our European colleagues who turn to us and say, okay, you don't like what we're doing, what's your response? What do you want to do? We have the terrible problem of having to face something with nothing. And facing something with nothing is not terribly effective as an alternative in foreign policy.

So, while we have stood around and criticized our European colleagues, and I have been happily among those who have criticized, both privately and publicly, in fact, we have had very, very little to answer the mail.

What should our policy be? Fundamentally--don't bother me--fundamentally, we have a philosophical problem. The idea of a deal with Iran rests on the premise that there are circumstances under which this regime in Iran will give up nuclear weapons. Is there really such a circumstance, and what evidence is there that should lead us to believe that that is the case? I looked. I have--I went back, tried to approach this with a fresh and moderately unbiased eye, and, to the best of my ability, and there really isn't any evidence that should lead us to believe that, in fact, there is any circumstance, any scenario under which this regime in Iran would give up nuclear weapons.

What that really means at the end of the day is that no deal can be good enough, and in the formula I also tried to consider the question of whether a different regime in Iran would, in fact, be willing to give up nuclear weapons.

Last year, at AEI, we had a--we had what we called a town-hall eeting with people inside Iran, and we set it up, very complicated technologically. We set up a direct radio broadcast. We had people calling in to us from Iran, and we had a panel talking in Farsi about the evils of the regime, about the problems, why hasn't the America--why haven't the Americans done more? Are we the only Muslims in the world the Americans don't care about?

Bob Einhorn, late of the Clinton Administration and currently at CSIS, was the first person to stand up and he asked the gathered crowd in Iran whether or not they felt that Iran should be allowed to have nuclear weapons. And this dissident group all said absolutely. Yes, they should.

So, to view regime change as a solution, a panacea, to the problem of nuclear weapons I think is probably wrong. And I want to come back to that a little bit afterwards.

At the end of the day, our best hope for any deal is that it will delay an Iranian nuclear breakout. In other words, the best we can hope is to postpone the day of reckoning. But postponement really does come at a price. And I think that for those who believe that the price may be a reversal of U.S. policy of--longstanding U.S. policy on Iran, they are wrong.

We've heard repeatedly from our European allies that what will move Iran past this temporary--the Iranians keep emphasizing the word “temporary”--suspension that has been negotiated, and that began yesterday in earnest I gather, is serious talks with the United States about a renewal of relations. I mean, this at the end of the day is what you hear. Yes, we've made this deal. We've offered these carrots, but really what's going to get Iran to the table to make the crucial decision is that they're going--is that we're going to be able to cough up the United States and the United States, in turn, will cough up a major change in policy.

When the United States doesn't agree to this, and I really don't think it's on the cards that we will agree to this, and I should add I don't think it would have been on the cards had Senator Kerry been elected, when the United States says we're really not interested in doing an incremental deal with the Iranians à la North Korea, all of a sudden we're going to be at fault. And this, for me, at least has been one of the biggest flaws in the arrangement that the Europeans have made, which is that at the end of the day, the United States has become the football, and we are positioned to become the obstacle to a deal with the Iranians, which the Iranians, I don't think, would ever be willing to make. But we'll stop talking about that soon enough, because, in fact, it will be the United States that isn't willing to come to the table.

Now, I think that the Bush Administration makes a mistake in using the phrase not ready. We're not ready to talk about this. We're not ready to make an offer. We're not ready to come to the table. We're not ready to even contemplate what our policy should be in the future. We're still really talking about it.

Everybody has heard this for a couple of years, and has--I think many have been justly critical. In fact, the United States ought to step right up and tell both the Europeans and the Iranians that there is a deal. We have a deal. We're perfectly happy to offer it. The deal is the same as the one that we offered Libya. In other words, if Iran agrees to give up its nuclear weapons programs, all of its WMD programs, fully disclose them, hand them over, and when I say all of it, I'm including chem, bio, missile, nuclear and everything else, if they're willing to hand that up, and--and this is a significant and because I don't think that it is contemplated in any of the deals that the Europeans have made--and end its support for international terrorism and all

that that includes, then the United States is willing to step back, renew diplomatic relations, lift sanctions and start talking to the Iranians. Okay. There's the deal.

I believe that it behooves the Bush Administration to actually put that deal out there, and say that this is, in fact, something that we could seriously talk about if all of these conditions were met, because this will stop I hope the endless incremental process of trying to chip away at our policy in exchange for tiny concessions on the part of the Iranians that don't achieve anything.

So, will the Iranians agree to that? I don't know. I'm looking forward to hearing discussion about what motivates Iranian foreign policy, what they're thinking. My view is that there is no circumstance under which they would agree to that, that in fact they are not in the same place that the Libyans were, and that kind of a strategic decision does not--is not something that the Iranian government, the current Iranian government, would be interested in.

That leaves us in a difficult spot. I keep coming back to this old difficult spot. One option that we have is to wait for the inevitable unraveling of the European deal. I think that that is an extraordinarily appealing option for certain people. We're all telling ourselves that it is certain that the Iranians won't behave well, because over the last couple of years and throughout every deal that they have cut with the Europeans, in fact, the Iranians have reneged, sometimes obviously, sometimes slowly, sometimes covertly, but, in fact, they will not stick with the deal.

That's probably a mistake for us. There would be a genuine reluctance on the part of the Europeans to actually step up to the plate and say that the Iranians have reneged. It's not just a loss of face. I think we've all been in this same place. The United States has done much the same thing when it has been inconvenient for us to admit that certain things that are either sanctionable or unacceptable are happening. I remember happily over the entire course of my Senate tenure that Pakistan had imported M-11 missiles. I think that in--I had been in my job for four months. When we discovered this, I was three months away from my new job when we finally admitted that we had the intelligence, sanctioned them, and then lifted the sanctions. That was a 10-year process through which we were well aware that they had these. I think that we don't have 10 years to give the Iranians, but we can see that, in fact, the Europeans wouldn't be the first to--what was the word President Clinton used?--fudge on the facts about Iran. And we already saw hints that that may be something that faces us. We received this intelligence about Iran planning for a nuclear warhead, a thousand pages, shared them with the Europeans, and I understand that there might have been some reluctance to actually look at that information prior to signing on to the deal with the Iranians. That's a little bit troubling. Look at it. Ignore it if you will. But failure to look at it is not an open and honest process, and it's certainly not going to achieve any of our desired ends.

If the EU is unwilling to admit failure--I should put my watch in front of me--if the EU is unwilling to admit failure, and it has already written off the military option, time to believe what Jack Straw said, which is “there is

no circumstance under which we could envision military action against Iran," full stop--paraphrasing slightly--then we should recognize that the EU deal is, in fact, not going to unravel and that we can't sit around waiting for that, so that passivity and hope for a failure is not going to be a great policy option.

There are a couple of things that have been suggested in the Congress. Tightening the Iran-Libya Sanctions Act is one of them--an option. It's not a solution, but it is certainly a way to tighten the noose around the Iranian neck.

This may surprise some of the people who know me well around the room, but I actually don't think that that's a particularly appealing option at this moment. While you look at a lot of the European firms that are doing business in Iran, and they are, in fact, facilitating the operations of the regime and indirectly supporting everything that the regime is up to, at the end of the day, if we decide that now is the moment to renew a confrontation with Europe over secondary sanctions, we are going to be in trouble. And the conversation will no longer be about Iran. It will be about the United States. This is something we want to avoid at all costs.

So, while it is enormously appealing to nail--I don't know--Renault for what they're up to in Iran, I think that that's something that we should hold off on at least for the moment. Nor is implementing sanctions under the Iran Non-Proliferation Act. I don't know how many of you have thought about this in this room, but, in fact, the Iran Non-Proliferation Act sanctions any country or a company that shares nuclear-weapons technology or nuclear technology of any kind with the Iranians. I gather that would include perhaps the light-water reactors that the EU Three are contemplating sharing with the Iranians.

So, we have an interesting opportunity there. The President is not forced to sanction countries and companies involved, but he certainly has the option to do that. And, again, while it is extremely satisfying and entertaining to contemplate that possibility, it is perhaps not the best policy option for the moment.

So, what we should be doing is finding areas of agreement with our allies. At the end of the day, while it is true that the European Union and the EU Three in particular have embraced a deal with the Iranians, we cannot ignore the fact that they are going to remain concerned about the same things that concern us. Yes, they are concerned about an Iranian nuclear weapons break out. Yes, they are concerned about terrorism. Yes, they are concerned about the human rights problems. Yes, they are concerned about interference in--among Iran's neighbors and in the peace process and the Palestinian rejectionist groups. So, while we perhaps do not always have the same reaction to these problems, we ought to be able to identify the areas where we have shared concerns and actually begin to formulate some kind of a policy where we can, if possible, work together; if necessary, work alone.

I'm loath to use the phrase "coalition of the willing," but if it works, well, then it may work.

We need to tighten containment on Iran. We need to work to restrict the movement of Iranian officials who are implicated in terrorism,

implicated in torture, implicated in weapons proliferation. Surely that's something that we can agree on. In fact, Iranian officials who are involved in these activities should not be allowed to move freely throughout the world, should not be allowed to go on buying trips, should not be allowed to go prospecting, meeting with the Jerusalem Brigade of the al-Quds Brigade, rejectionist groups heading off to various places. Why not make an effort in that direction, in fact create a class of Iranian officials who are unacceptable to the world and have to stay at home?

Why don't we look seriously at the question of Iranian money, and how Iran transfers money to terrorist organizations and WMD facilitators? Yes, it's something that we do, but we don't do it aggressively enough, and we don't do it with our allies.

In fact, this is something that presents an opportunity to us. Both banks inside Iran and banks throughout the Middle East, and banks in Europe that are involved in these sort of financial activities should be anathematized. They should be placed outside of the financial system. Again, it's not going to stop Iran from developing nuclear weapons, but it is a step on which--it is a step--I think that we can agree with our allies on.

We should work to contain better, in the style of Libya and North Korea, Iranian weapons programs. In other words, the movement of WMD components and technology--by land, by sea, and by air. Again, surely our European allies, despite the fact that they have now cut a deal with the Iranians, are not interested in seeing missile technology coming into Iran. Surely, they're not interested in seeing further centrifuge, nuclear technology coming into Iran. Surely, they're not interested in seeing drawings and plans being faxed back and forth. These are the kind of pieces of information that we do have, that we do have access to, that we have occasion to stop. In fact, these kinds of activities were certainly a piece of the puzzle in bringing Libya to the table, and it is worthwhile trying to work together to do that. Then we should do a better job isolating the Iranians as a state sponsor of terrorism. If Iran Air is, in fact, transporting weapons to terrorists, Iran Air should not be allowed to travel anywhere. If we can prove it, and I think we can, this is a conversation we ought to have.

I mentioned the question of Iranian banks. What about terrorists in Iran? Is it acceptable? Is it acceptable to us? Is it acceptable to our European allies or to any of our other friends that Al Qaeda terrorists operate from Iran? Is there something that we should be doing about this? Does the deal that has been inked with the--between the EU and the Iranians deal with this question, and, if not, is there an opening for us to try and deal with it ourselves?

And finally, should the United States stand by and accept that a government that facilitated Khobar Towers and is named in the U.S. indictment go unpunished? Again, we went after the Libyans on Pan Am 103. It is not the same case. It is not a direct analogy, but the idea that we should sit idly by and allow the people who sponsor this act of terrorism that resulted in the death of American servicemen--something worth pursuing, and I will--I'm not sure that we can persuade other people that this should be their cause as well, but it is certainly worth an effort.

And finally, we ought to fulfill our original contract offered to the Iranian people. Last year, the President of the United States stood up, and he made a speech, which I think gave a lot of people hope, in July of 2003 in Los Angeles. And he said that our relationship will be with the Iranian people and not with the government that does not represent them. Ultimately, this is the secret. All of the other things are just ways to--are ways to slow the momentum, are ways to bring our allies into a cause that we need to make them part of, but at the end of the day, it is the Iranian people that are the key to the future. They are the key to having a--to ending a nuclear weapons program that threatens our allies, ourselves, Iran's neighbors, and everybody else. We need to provide much more support to Iranian dissidents, much more.

The President said, offered this up, and there has been basically no policy implementation. We need to, as we did with the countries behind the Iron Curtain, via radio, via television, via government statements, and so much more, support the Iranian people. We also should be operating inside Iran, on the ground. It's something we don't do now.

Now, perhaps we are simply incapable of this, and perhaps the CIA has so many problems that this is something that they--that is beyond their abilities. If that's the case, then that's obviously something that needs to be fixed. But in truth, if the Iranian people are our ally, if they hate their own government, then we ought to be helping them on the ground as well.

We ought to be providing political and diplomatic and economic support for groups inside and outside that want to see a better government, not with a view to revolution. I'm not lying to myself. I don't think a revolution is imminent. It's not on the cards. I don't think there's a stomach for it, and I don't think we should pretend to ourselves that with a little cash and little support and a better radio station, the Iranians would up and overthrow their own government. That's not right. But we spend a great deal of time talking about the legitimate aspirations of oppressed people in the Middle East. I don't understand why the Iranians people should be an exception. We should be doing a great deal more.

Now, again, that's not going to be a panacea. But if we have a shared goal with those people, which is to remove a regime that threatens us, threatens our allies, interferes with the peace process, sponsors terrorism, and proliferates weapons of mass destruction, surely we should be able to work better towards that shared goal.

I want to say one last word about the military option, and I woke up at five in the morning, sat up in my bed, and said to myself, oh, my God, I didn't say we should attack Iran. And so, I had to put that in there at the end.

There are those who suggest that a military option won't work. And I myself have questioned whether it will. But let's not fool ourselves. If the United States or one of our allies decides that the only solution to this problem is a military one, certainly we can do a pretty effective job of dealing with the Iranian nuclear problem. I'm not saying that they won't be able to come back. I'm not even saying that it will precipitate a revolution or that it will cause them to turn around and say, wow, this was a big mistake. But I think that the limits to our abilities have been significantly exaggerated, and in

talking to people who look far more seriously than I ever can at this, and who have been, I think that they would agree.

So, we have to recognize that while there are plenty of stops along the way, in fact, that is the end of the road. And we may well get there, Jack Straw notwithstanding. Thanks.

[Applause.]

MR. INDYK: Thank you very much, Danielle. I, too, was up at 5:00 a.m. worrying about Iran. And I too I suspect didn't come up with much of a better solution. But I just wanted to start off by posing--suggesting something that you didn't cover in what was a very comprehensive account of the options, and I guess what could be described as three tiers for a robust containment strategy. But at the end of the day, you end up where you started, which is that the Iranians are going to get nukes.

And I wonder why you didn't talk about the “day after” scenario. And it seems, from my own experience, that there's a great reluctance to try to deal with this in positive terms. That is to say: if, in fact, you're right, and I agree with you, that one way or other Iran is going to have nuclear weapons, shouldn't we be planning and talking about what we do when that day comes? Shouldn't we start preparing for that? It doesn't mean that we shouldn't do everything possible, as you've suggested to try to delay the day. But isn't it important to consider what kind of things we should be doing now to deal with that day if you're so sure that, in fact, it's going to come. And I wonder whether you've thought about those kinds of things, even if it's just a policy-planning exercise.

The one that I've thought about for some time, and try to get the government to do something about, when I was in the Clinton Administration, without success, was to look seriously at the question of extending a nuclear umbrella to our allies in the region, and I'm talking about--perhaps allies is too strong a word--but I'm talking about the Gulf States, including Saudi Arabia. I'm talking about Egypt. I'm talking about Israel and Turkey--although Turkey is already I think covered by NATO. But, in effect, basically telling these countries that will be threatened by Iranian nuclear acquisition that there is an alternative to a nuclear arms race, which is to say an American nuclear umbrella. And that's controversial. It needs study, and there is certain--there are lots of problems with it. But shouldn't we at least be engaging that kind of discussion as well?

MS. PLETKA: When do you want me to answer questions? Here. That's okay.

What you're really advocating is the future of Iran project. You know what I thought about that.

I think a couple of different things. First, I'm not--to take your second point first--the nuclear umbrella issue. First of all, it is not our deepest concern that this spurs a nuclear race. Yes, I think you're right that it could be a potential consequence, but much like the--some of the discussions that went on during the presidential campaign, the idea that we will protect you once you

are struck, or somehow we will provide a deterrent which may or may not work once you are struck by a nuclear weapon seems to me to be rather less appealing. It also contemplates a whole variety of relationships with governments that aren't perhaps the governments that we wish to remain in place for the next 20, 30 years, and so that raises another whole series of questions; and unfortunately, it does exactly what I just did for the last 20 minutes, which is it dances around the whole problem of solving the nuclear--the Iranian nuclear weapons program. So, yes, perhaps we have provided a disincentive to the likes of Saudi Arabia to pursue a nuclear weapons program, but, in fact, or to a new Iraq even, but, in fact, it doesn't solve the whole problem of this rogue regime with nuclear weapons and what it might do, and that--you know, that's always the great unstated, which is not only, you know, not only will this regime have nuclear weapons, but what will they do with them and to whom will they give them? And what will they use them for?

On the question of the future of Iran project, actually, I don't agree with you. I mean, I think that there's been a good deal more serious work done on talking to the Iranian people. In some ways, we are advantaged by the fact that the Iranian people really are in a different situation than the Iraqi people. We are able to have contacts. We do have exchanges. They're not the exchanges with the people we necessarily want to have exchanges with, but at the end of the day, there is a certain element of communication that goes on.

I guess when I advocated outreach to the Iranian people, when I advocated actually putting our money where our mouths were, keeping this contract with the people against the government, if you will, that is a first step in actually putting in place the building blocks of a better government. And I think we have to recognize that we're not looking at the question of nuclear weapons or no nuclear weapons in Iran. We're looking, as I said, at the question of who has them, and how they're going to use them.

And so, all of this--all of the effort that could be made in the direction of outreach to the Iranian people should be with a view to doing a great deal better than we did on Iraq and putting those in place. But formulating governments, thinking about structure, thinking about where the Town Council should be, thinking about how, you know, Iran should develop a whole new set of think tanks, as the State Department did in the future of Iraq project, isn't something that I think is terribly productive, because no matter what you do it falls by the wayside at the end of the day.

MR. INDYK: Okay. Thank you. We are going to move to discussion now, and I believe we have a good 15 minutes to do so. I mean, discussion, not just questions. There are lot of people with expertise in the audience, so, please feel free to speak up. Flynt Leverett.

MR. LEVERETT: Dani, thank you very much for a talk that was provocative and [inaudible]. If as you put it, the problem is Iran is going to have to--the real issue for you is which Iranians are going to be overseas that [inaudible] your capability. You acknowledged in your talk that a very profound change in this regime is not in the cards. We cannot foresee it in a time frame that's necessarily meaningful for our [inaudible]. If that's the case, and I would agree it's the case, shouldn't we be thinking about another way of

handling the Iranian nuclear problem, namely that there are a variety of ways and a variety of degrees to which Iran could know [inaudible] and that one goal of our policy ought to be to minimize how far the Iranians go down that path? You could say, for example, I mean, obviously we would like to prevent them from completing a uranium enrichment fuel cycle [inaudible], but if we're not able to do that, they, to some degree based on this, they are at least at the point where they [inaudible] with regard to [inaudible]. Okay. Beyond that, if they wanted to go further, maybe they actually fabricate the components for nuclear weapons, maybe they actually assemble devices, but they don't [inaudible] facilities. People know they have it. But they don't prepare it. And, you know, certain implications go with that. Your other statements [inaudible] with that view. And then you could lay out a scenario [inaudible] in North Korea. Publicly announce their withdrawal from the NPT and say to them build nuclear weapons and [inaudible]. I mean, each of those postures has different implications for our interests, and I think you could probably say some of those scenarios are more desirable or at least less undesirable [inaudible], and what I worry about with your posture, as a posture that you're recommending, is that if we're not engaged in a process of diplomacy and dialogue and [inaudible] with this Iranian regime right now about where your nuclear capabilities are and where their nuclear capabilities are headed, and what limits they are prepared to accept on how far down that path they can go, we basically are going to have no real ability to influence [inaudible] the situation there [inaudible].

MR. INDYK: Hold your answer if you would, and let's take a few others and get you to respond at the end. Steve Ross.

MR. ROSS: [Speaker if off mike. Very little audible.] [Inaudible]. I think that the primary threat of a nuclear Iran is not that Iran [inaudible]. The threat is that under a nuclear umbrella of the kind that was mentioned [inaudible] would be accelerated. And there is the belief that Iran [inaudible] war and being [inaudible] just before we [inaudible] the [inaudible] and had you waited just a little bit longer [inaudible]. So, we saw in Iran in the absence of nuclear weapons [inaudible]. We saw President Rafsanjani [inaudible] launch a wave of assassinations on European soil. And we saw Iran step up dramatically [inaudible]. All of this without and the question then becomes whether a nuclear Iran can be contained at the [inaudible], while the issue of [inaudible] of the nuclear weapons of its [inaudible]. And an American nuclear umbrella [inaudible]. And I think, you know, finally the idea of leapfrogging to some sort of stable conclusion that a nuclear Iran is inevitable, and let's get used to it [inaudible] is a very dangerous [inaudible] of policy, although the [inaudible] that a nuclear Iran is a very real possibility in the future. For us to skip over all of the things that we could do now to put that day off [inaudible].

MR. INDYK: Ken?

MR.POLLACK: I'd like to give a really excellent--

MR.INDYK: Could you use the microphone?

MR.POLLACK: Dani, I thought your presentation was very comprehensive. It was very, I thought, smart, practical, as we were discussing beforehand, we both ran into the same set of roadblocks and land mines when

we were thinking this through. So, I'm going to ask you one of the questions that I found it most difficult wrestle with and that is when we get to some of the other things that Iran is doing, and recognizing that there are degrees of pragmatism at different points, and ways that we might conceivably make progress with Iran on certain issues out there. And the question, the broad question is, would you be willing to make certain deals with Iran where we clearly could get something of value for them in return for giving something of value from us? And in particular, the one that I have in mind is, would you give up the MEK to get the Al Qaeda leadership?

MR. INDYK: Others?

MS. PLETKA: I mean, that's too much already. I [inaudible] to drone on endlessly.

MR. INDYK: David. We'll take David as the last one and then.

MR. : I just want to pose briefly the question that I'm sure is on our minds these days, which is, as we think about Iran policy, what are the implications of the choices we make for the war that we are now fighting in Iraq. As Rafsanjani has explicitly reminded us, Iran is in a position to make life much more difficult for the United States in Iraq. We have the prospect of a Shiite government coming to power, assuming January's elections go as scheduled. Do we expect Iran to play some kind of gentle hegemonic role? Do we fear that Iran, in fact, will be playing a nasty manipulative role? It seems to me that all these questions about Iran have to deal in a sense in the first instance with what are the implications for the war we're now fighting, our ability to stabilize Iraq? You know, do we see an alliance with Shiites in Iraq and parenthesis in Iran as the way out or not?

MR. INDYK: And just an addendum to Ken's question, because I just wanted clarification. When you were saying we should put the deal on the table, were you suggesting that we should put the deal on the table and tell the Iranians we're prepared to talk about this deal to them?

MS. PLETKA: Let me go in reverse order.

No. I think we should put the deal out there. I don't think we should negotiate. I think the second we begin to negotiate, you enter into a process of incrementalism that, at the end of the day, involves us being put on the table as the deal rather than the Iranian nuclear program. This is what we've seen in every negotiation we've had. This is the place that we're in with North Korea, which is that eventually you get to the point where in order to get them to the table, you have to offer something. Now, I think that we have far more leverage with the Iranians, far more leverage, in fact. The Iranian relationship with the outside world is the sine qua non of survival for the regime, I think. And so, we do have a lot of leverage. We can put this offer out there. We should be very clear that these are our terms. This is not an open negotiation. In fact, the world of weapons proliferation shouldn't be viewed as I think it is becoming as a bazaar, in which, you know, we can walk out and walk in and the price and a cup of apple tea, and you know, it will all be over. You can tell I just--

It's not. It should not be that way. And so we ought to deal with it up front, robustly, straightforwardly, put it out there, make very clear what our

terms are and finish. Any negotiation would mean that the terms of our deal would have to change. And, in fact, they should not change--would be my view.

Your question on the implications for Iraq. I thought I was very clever in not bringing up Iraq, because it's a very hard question to answer. But I do think that--I sort of feel embarrassed in a room of people who know, frankly, far more about the Shi'a, about Iraq, and probably about Iran and everything else than I do. But I do think that a lot of the things one hears about the Shi'a being this uniform body with a particular mind set are completely untrue. When I was in Iraq last year, and I talked to a number of Shi'a clerics, it is absolutely clear what great antipathy they have for the Iranian regime. How they feel that the religion and pretty much everything about it has been corrupted by the regime in Iran, and they're very, even people who are very hostile to the United States, are still extraordinarily hostile to the government in Iran. So, I worry much less about the ability of Iran to impose some sort of gentle Shi'a hegemony. To the contrary, I think that there is a far better argument to be made that we should be doing more intelligently to work with the Shi'a clerical establishment inside Iraq, which has a lot of credibility back home in Iran, to in fact sway things the other way rather than allowing the Iranians to believe that they maintain the ideological hegemony over the Shi'ia universe. I think we can reasonably talk about trying to transfer the center of Shi'a gravity from Qom to Iraq, to Najaf, to Karbala, and to other places.

And so, that is something I think we should be pursuing a lot more. We don't have the kinds of people who ought to be doing it well. Everybody's probably heard my colleague, Reuel Gerecht, talk about his affection for Hume Horan. I also had great affection for him. There aren't a lot of people like him out there, who can actually go and talk to the clerics in their own language and actually have these sort of theological discussions that might open up our policy options. But I think if the Iranians were smart, they would recognize that risk and see that that represents something of a threat to them.

I also think that there's an important other answer out there about the Iraq-Iran border, and this is something where there has been a good deal of very legitimate, on-point criticism. The border is basically open. I gather that in places where it is staffed by Americans things like, "Is that your passport, are you Mohammed, oh, yeah, you're Mohammed. Oh, yeah, you're Mohammed. This is your picture. Okay. Come on in"--is going on. That's a big problem, and, although, I know that more and more people are aware of it, I don't think that we've figured out what the solution is to closing down the borders. But we ought to be able to do a better job with that. We ought to at least be raising the barriers to Iranian interference in Iraq. And it will serve an additional purpose of closing off the Iranians inside their own country in a way that I think is going to be necessary for the future.

I'm not sure whether we can be 100 percent or indeed 50 percent effective at that, but it is something we ought to be trying a lot better at.

I'm not going to go any further about that, but I do think that Iran is a nuisance factor inside Iraq. I don't think that they will play a long-term role in dictating government policy.

Ken, degrees of pragmatism, making deals where we could, and in particular offering up the MEK for Al Qaeda, you know, you saw my face. If we set in place a precedent by which we negotiate to hand over people for Al Qaeda and we have one set of people who we don't like, who should we hand off once we've given them up? I mean, it's just--you know, if, in fact, Al Qaeda is a terrorist organization, it should not be operating, and the Iranians shouldn't have them, then the Iranians shouldn't have them. And we shouldn't have to make deals to get them handed over. You know, perhaps I'm standing too hard on principle, but it does seem to me to set in place a precedent that leads us down a very dangerous road. And, you know, you can analogize it to dealing with hostage takers or anything else.

MR. INDYK: You can [inaudible] our terrorists.

MS. PLETKA: Yes.

MR. INDYK: According to our definition.

MS. PLETKA: But that's true, but so we shouldn't be doing--

MR. INDYK: We want some terrorists. They want terrorists have been bombing them.

MS. PLETKA: You do think we should make this trade?

MR. INDYK: Absolutely.

MS. PLETKA: Really? Huh? Really. That's interesting. No, I don't. And it's not because I have any affection for the MEK at all. They are terrorists and don't offer us any alternatives for Iran as they pretend to. But, actually, I don't believe in that. No. No. No. I'm interested that you think that, because there was a lot of criticism over at the Pentagon for the people who were sort of thinking that that might be an option, and I would have thought you would have been one of the critics. But I was wrong.

Steve, you talked about a nuclear weapon emboldening the Iranians, and the kind of adventurism that they might engage in if they felt that they had this sort of force field around them -- that this is too dangerous a problem. You can't face up to them. I agree that their analysis is that if Saddam Hussein had had nuclear weapons, we would not have attempted to push back the invasion of Kuwait.

And I think you're right that perhaps I was a little bit--you didn't say this explicitly--but perhaps I was a little bit too cavalier in leaping over the interim steps to the Iranian nuclear weapon, despite the fact that we all agree that there's a certain inevitability to it, we ought to be doing all we can to contain them. But that's why we need a two-track policy. That's why we need a policy to deal with the eventuality that they have nuclear weapons and face up to the idea that there may have to be either a military option or ideally there would be an option in which there was a different government in control. And we are in a new world in terms of nuclear weapons. We are in a world in which we look at the government in control of the nuclear weapons far harder than we look at the question of having nuclear weapons any longer. And I think that that's a subject for a very different kind of a debate, but the NPT has already collapsed. And this is the place that we're in. And we ought to be at least quietly realistic about the problem that we face there. But that's why we need the two-tracks. On the one, we deal with the catastrophic eventuality, and, on

the other hand, we do our best to put in place a system of containment--I hate sitting next to Martin and talking about containment, I know he's just going to step down and laugh at me afterwards--but in which we try and do our best to slow down process, to anathematize and isolate the Iranians, to, in fact, use the levers that are available against them right now. Their desire for contact with the outside world. Their need to sell. Their need for investment. We should be able to use those far more effectively in the areas in which we have agreement.

And finally, Flynt, I guess I don't understand why people think that there are different stages to the Iranian nuclear weapons program. I mean, once they break out, they will break out. At any point between now and the fatal moment, what are their options? They can do a North Korea. I mean, this is what you've said. They can say, “Okay, we're there. We've used the terms of the NPT to get to where we need to be, and now we're finished with it. Thank you very much. Goodbye.” And from that moment they can proceed with their program. Yes, they will have problems with the people with whom they made deals, but we'll begin a whole new negotiation with them. Maybe we won't, but others will.

And I guess I don't understand why it is that you think that stopping them, you know, when they have the core and the weapon, but they haven't loaded it, is somehow more appealing than when they have two weapons or when they have four weapons. Or stopping them from using one form of enrichment versus another. Can we stop them just at a cascade but not atlas. I don't--I see those as the kinds of distinctions that animate, you know, an intelligence analyst, but shouldn't really animate policy makers. In fact, it is a distinction without a difference. Once Iran has the capability, once they have one rudimentary nuclear weapon, it's out of the box. It's finished. And so, if we're willing to give things up at each level, we might as well just forget it right now. In fact, our aim is to either stop them or to ensure that we are dealing with somebody else. I can't see a middle ground, and I can't see the appeal of the middle ground, either. I think it just puts us in a far more difficult position.

MR. INDYK: Danielle, thank you very much for a thoughtful and thought-provoking presentation and response. You've really gotten us off to a very good start this morning, and we're very grateful for you doing that, and for getting up at five o'clock and worrying about this problem as well. So, thank you very much. We'll move directly to the next panel now.

The coffee break will come after the next panel. But there's always coffee available just in the next room there, if you need it in the meantime. Thanks, again.

MS. PLETKA: Thank you.

[Applause.]

PANEL 1: IRAN'S FOREIGN POLICY AND MOTIVES

MR. INDYK: It's going to be normative.

MR. BAKHASH: Yes. Our first panel is on Iran's policy motives and the making of Iranian foreign policy. To discuss, this issue, we have two

very keen and knowledgeable analysts of Iran's internal politics and its foreign policy.

Hadi Semati is currently with the Carnegie Endowment for International Peace. He is a professor at the faculty of law and political science at Tehran University, and [inaudible -- mike goes dead] and of the Iranian political scene, the principal Iranian political actors, and the motivations for Iran's foreign policy.

Ray Takeyh is now a Senior Fellow at the Council of Foreign Relations. He's the author of a number of books with a new one coming out. And, again, I think you would all agree with me, a very incisive analyst of Iran's foreign policy.

So, without further adieu, Hadi will go first.

MR. SEMATI: Ten minutes?

MR. BAKHASH: Yes. Ten, twelve minutes.

MR. SEMATI: Thank you very much and thanks for the invitation, Ken, and Saban Center. You know, I wish Danielle would have stayed, so that I could feel a little more ease in raising some of the questions. And she kept arguing, I think I'm going to kick off from there, that Iran is getting the North Korean analogy, keep being raised back and forth. And I think my starting point is Iran is not North Korea. And in many respects, I will get into this and if Iran is not North Korea, then what it is, is, of course, not necessarily clear either. But nonetheless, I would argue much more clear than the whole range of other actors in that region, and for the very reasons that she made the comments about that; that Iran has been in contact, and actually invisible outside Iran itself. And we know a whole lot about Iran.

There are essentially--just to be very, very precise, I'm not going to get into discussions of any of these points that I'm going to raise now. What are the sources of Iranian foreign policy? Why do they act the way they act, and how they behave? There--essentially, I've stated this somewhere else--there are five sources, a few of which are constant and continuous sources of Iranian foreign policy and a couple of which that are changing. And a combination of these five elements tend to pretty much influence and shape Iranian foreign and security policy.

First and foremost, of course, is Iranian nationalism; that a lot have been written about that, and a lot have been done, and I don't want to get into this, either a reflection of Persian heritage. It's a reflection of Iranian, quote-unquote, “paranoia” about the outside world, and the interference of others and major powers into Iranian politics, or a combination of both. And a sort of self-perception of Iran as a unique player. A sort of right that we--and pride that we allocate to ourselves in terms of what the proper status of Iran is and ought to be.

So, nationalism, whether of Iranian heritage, Persian heritage, pre-Islamic world, infused with a sense of preeminence at that region is the driving force. It has been there and will be there.

Of course, the second source actually is more of a recent type, which is I think is still lingering but less so, I would say, a revolutionary utopianism that was in the '60s and '70s a mixture of Iranian radical Third

Worldism and Shi'a political philosophy that came to be very prominent in the '70s, and from 1970, 71 onward. So it's there, but it's losing its momentum and fervor. But nonetheless, it is there, and I think I will argue in the next segment how it actually has planted a certain seed into bureaucratic structures and decision-making policies and apparatus of Iran. That's--of course, Shi'a political doctrines have transformed itself along the way over the last three decades in Iran, and I'm not going to get into that either, but it's a powerful force still.

Thirdly, the security environment that I think it's essentially an overloaded system for the Iranian decision-making system. It's an overloading physical and objective sets of issues, and then, of course, compounded with massive misperceptions of the outside world. So, whether it's Afghanistan, it's Iraq, or it's Central Asia, and the nation building in Central Asia or the Fifth Fleet, you know, in the Persian Gulf and the rest, it is a security environment that objectively presents itself as an enormous headache.

Of course, and domestic politics is the fourth one. Domestic politics what is leads competition, which is a serious competition, built into this and combined with the previous three elements I think in terms of [inaudible] and domestic politics, it's not only elite competition. It's a set of internalized perceptions within bureaucracies. So, you have bureaucratic structures, you know, in charge of foreign policy making. I once counted those 11 official institutional mechanisms for decision making at least, and a whole range of other non-institutional and informal settings. And all of these are very much competing within the Iranian domestic politics on key issues. And depending on the saliency of the issue and the experience of one or the other agencies and organizations, their say and their power and influence vary across the board over these issues, but, nonetheless, let's say the Revolutionary Guards have much more to say about Afghanistan and Iraq than they have to do about Europe or--because their stakes and their expertise and their institutional presence over the last two and a half decades have been greater. And their expertise are not to be underestimated sometimes.

It's certainly a misperception to believe that these are a bunch of crazy, irrational folks, ideologically driven--you know the Revolutionary Guards are not necessarily that sort of picture. It's, you know, more complicated than that.

So, you have internalized misperceptions in these bureaucracies fighting over these issues to each other and with each other. It complicates this quite significantly.

Lastly, it's the Iran-Iraq War and its imprints on Iranian psyche. A whole web of institutions have been created out of that fear and experience. A whole set of industries. The way you have, as a friend of ours called it, a threat industry. You have it here, and we have it there. Having spent the last seven, eight months here in Washington, there is absolutely no difference between Washington and Tehran in terms of real politics. Absolutely nothing.

So, it is really that whole experience with the Iran-Iraq War. Incidentally, the current events over the last few months have indicated that the Rev Guards and the Iranian national security establishment is actually

interested to be in power, and they have argued recently that the military have played a significant role in Turkey. The military has played a significant role in South Korea. Why shouldn't the Iranian military forces play that role of stabilizing an evolutionary and developmentalist character in Iran? So, that's one of the indications that they're back to some extent, but not necessarily in full force. I do not want to overexaggerate that, but nonetheless, they are a reality, a political force.

So, the combination of these, some of which transcend regime content--nationalism certainly, security environment, and that's why a lot of people will argue that why Iran would have a nuclear--would try for a nuclear capability no matter who is in power, because they are driving this conclusion from these elemental issues of nationalism and security parameters.

The combination of all of these I think have created two essentially powerful ingredients of Iranian foreign and security policy, is it's strategic loneliness and vulnerability that they feel, and pride. These two I think is enormous power and powerful ingredients of any state that thinks it has the right to be more significant and be reckoned with.

Would this internalized sets of perceptions lead to a regime that is fluctuating? A regime that is indeed maneuvering with the outside world to shape itself in a way that it deserves or it feels that it deserves? I think at the core of the establishment, there is definitely competing notions of what Iranian interests are. And they are really fighting over these at this very moment that we are sitting here, over this nuclear issue. And the nuclear issue has become the dominant at least, and fortunately for myself at least, the dominant theme by which Iranian domestic policy is being shaped and by which, actually, it shapes Iranian domestic politics.

So, unfortunately, this has become one of those times that I think the nuclear issue has dominated for one reason or another.

So, Iranian foreign policy I think definitely has shaped, based on these elemental forms of rivalry, both ideological and institutional, have gone from an anti-status-quo regime to an accommodationist political structure. In my judgment, there's serious questions as to the nature of acceptance of the arrangements in the region. But there is no doubt in my at least mind that the regime has passed that threshold of constructing a new political order based on what it perceives to be a very stratified, unequal world order.

So, in a way, they have come to the conclusion--I think, in my judgment--over the last few years that national security and foreign policy is best achieved by strengthening Iran from within. That's the argument of the Chinese model and all of that; that it's basically the question that you got to be able to create a model and the strength enough to be able to deal with the outside world on a very competent basis.

At this very moment, I think these forces indicate to me at least that there is a shift taking place from a more anti-status-quo to a very accommodationist state, whereby incentive structures, accommodation could bring at least a fair amount of factions, a significant degree of political core groups into the bargaining process, into the negotiation process, or the what they consider with the right status that they deserve to be. And it's for me

unthinkable to believe that in the next few years at least that there could be a reversal in terms of status and foreign policy, a reversal of a significant and substantial degree.

I'm going to leave it like that. I know it's--I'm essentially--it's 10 minutes you said. Yeah. Or should I?

MR. BAKHASH: You can have a couple more minutes.

MR. SEMATI: Okay. One area that I think is significant to recognize as we deal with this very current crisis on the nuclear issue, which Ray will talk about, is that a combination of all of these forces have managed to bring one significant faction on top of the other, and these are serious, serious issues of discussion. These are not ploys or public posturing. So, in a way, the fundamental question for Iranians at this moment over this, especially this negotiation, what are the pragmatist forces that could come to manage or who come to hold the most urgent portfolios for Iranian foreign policy in the next few years?

I think that the debate over the nuclear issue will significantly define, in my judgment, the course of Iranian nuclear--I mean, foreign policy over the next few years. How it is handled? It's going to have costs. It's going to have victims. It's going to have internal feuds and all the rest. So, I think in a way the pragmatist conservative elements within the foreign policy apparatus are now handling the portfolio, and they're actually going through tremendous pressure internally.

In that sense, the deal is very fragile, at least as far as Iranian domestic policy is concerned. But at the same time, this I think could be, could be paradoxically an issue through which Iranian foreign policy, and Iranian desires to be accommodated could be actually bought, and they could be brought into this arrangement in the region, whereby they feel that they have a sort of stake in establishing a security structure, a cooperative framework. I think at the end of the day, the primary concern for most of these folks inside Iran is the question over what's the U.S. position, and what will the U.S. role and intentions be in this game that we are going to play?

So, significant changes over the next few years are highly unlikely. Modest changes in the direction of accepting a sort of quid-pro-quo framework for why you could give Iranians security guarantees, plus a range of other issues, incentives, could create a key to a transformation in Iranian—I think--foreign policy posture, because this all--I think this is the ultimate test of Iranian foreign policy management, the nuclear issue, because it's so much tied up with legitimacy, institutional survival of a lot of these vested interests, plus the whole entirety of revolutionary legitimacy. If they can't really get out--if they can get out of this successfully, ultimately I think the foreign policy of Iran could prove to be of significant, you know, importance for the region.

MR. BAKHASH: Thanks, Hadi.

MR. SEMATI: Sorry.

MR. TAKEYH: I'll invest in one. Before I begin talking about the nuclear issue, I want to assure Tammy that I won't use the phrase “they're going to eat grass, but they're going to get nuclear weapons.” So, where does the

nuclear weapons fit into Iran's foreign policy, domestic politics, strategic posture, if you would?

And what I would say if you look at the debates that took place in Iran between 1997 and 2000, 2002, the state was fractured based upon domestic political issues--how to democratize the polity, how to reform the Islamic system, and so on.

Today, if you look at the Iranian government with the conservative consolidation, the state is fractured once again, but it's fractured over key foreign policy issues. And two of those issues that have proven contentious and divisive are nuclear weapons, as Hadi alluded to, and I actually would suggest Iraq as well--about what to do about Iraq, but that's a separate discussion.

So, where is this nuclear issue within the--sort of--corridors of clerical power? As I understand it, and this cautionary note should be that there's a considerable degree of opacity about this, and much of what we think we think about Iran's nuclear deliberations are speculative, and, therefore, transitory. I would suggest that there are two factions within the system of government about how to proceed, and Hadi sort of alluded to them.

The primary supporters of a nuclear breakout option--and the debate really at this point is about nuclear breakout or nuclear hedging, about nuclear ambiguity versus just flamboyantly having a nuclear weapon and using it as an instrument of diplomacy. That's the debate. It's not about nuclear disarmament in a categorical sense. The Libyan paradigm of disarmament has no applicability to Iran. And Iranians tell you that all the time: “We're not Libya. We're a real country, and, therefore, this has no application to us.”

So, within those narrow parameters, where does the nuclear weapon issue sit? I suggest the primary supporters of the nuclear breakout option are some of the most significant and powerful forces within Iran today. The hardliners who are closely associated with the Rahbar, Ayatollah Khamene’i, and you find them in key institutions within the Islamic Republic--in the Guardian Council. You find them in the Pasdar, the Revolutionary Guards. You find them also in the judiciary. Now why should a judiciary have a foreign policy? This is Iran. It does. And you also find them in other sort of non-state actors which commercial firms are associated with [inaudible] that tend to benefit from, profit from the nuclear program.

And the argument is actually rather simple. The fundamental tenet of the hardliners' ideology is the notion that Iran is in constant danger, that there are predatory external forces constantly encroaching upon Iran, and ultimately the only way that these threats can be disabled is to have military self-sufficiency and military self-reliance. And some of those lessons were derived, as Hadi said, Iran-Iraq War. Some of them were derived from a revolution that, in its original conception, sought to refashion regional and international norms, and just because the revolution failed, they didn't get the message. They still believe in the revolution and its mission and the viability of the Islamic template, and the notion that Iran, given its self-reliance, given its history, requires an independent deterrent capability. And nuclear weapons fit into this, and nuclear weapons have become even more significant in light of

what has transpired in the Middle East and the Korean peninsula for the past couple of years.

In a sense, if you're an Iranian strategic planner, and you're looking at operation Iraqi Freedom, and there's sort of a documentation of this, you arrive at the unmistakable conclusion that non-conventional weapons--chemical, biological--are not sufficient deterrent against an American president determined to effect regime change. In a sense, when the United States perceived that Iraq had those depositories, that did not constitute a deterrence. That -- in the new era of post 9/11 Middle East and the era of Bush doctrine, in the era of transformation, in the era of Axis of Evil, in the era of connection between state sponsors of terrorism and proliferation, in these competing eras, that the only way you can deter the United States is the possession of the strategic weapon. And if you start out as an ideological predisposition that conflict with the United States is inevitable and perhaps necessary, then you begin to see that nuclear weapons fit into the issue of regime security and territorial integrity, not to mention it has domestic political implications.

Given their paranoia, given their suspicion, the Iranian right does not necessarily fear sanctions, international coercion, or ostracism. In some way, they look forward to that, because that could once again play into the domestic politics, and you can refocus international attention--or domestic attention on external actors as opposed to deficiencies and failures of a revolution with limited achievements.

So, that's one side. And the arguments that the hardliners make are actually rather compelling.

At core, all disarmament agreements stipulate a sort of--a state to forego a degree of sovereignty for acceptability into international system. If a state foregoes its right to enrich uranium, but nevertheless will be part of the international order, that specific bargain that is the fundamental tenet of every disarmament agreement has not appeal for the Iranian right. In a sense, that's overtaken by other factors, whether it's ideology, whether it's self-reliance, whether it's a suspicion of the international system and its inability to deliver, the same international actors that stood by as Iran was subject to chemical weapons attacks by Iraq.

So, in order to safeguard Iran's viable interests, you need an independent nuclear deterrence. And if the international community doesn't like it, so what? If they're going to impose sanctions on us, we can live with it. And some members with the Iranian hardline community suggest that, like India, we can--there will be an initial imposition of sanctions, then we'll come out of it. I think they're wrong about that, but nevertheless--

In contrast to the hard, hardliners, there are just simple hardliners. And the argument that they make, and you find them again within the various places of the national security establishment, they tend to gravitate to Rafsanjani; but I think his importance, despite what was said before, is actually lessening in terms of some of his protégés have moved on. But nevertheless, you find them within the national security establishment, within the defense ministry, and perhaps in the regular armed forces.

And the argument that they make is Iran requires some degree of restraint on this nuclear portfolio, not to necessarily dismantle the nuclear apparatus, but to the extent possible develop the nuclear program within the broad and flexible parameters of the NPT, which will be broadly and flexibly interpreted.

The argument, the economic argument, is particularly compelling to this group. Although it's tempting to see this division as between sort of a reactionaries and reformists, it's actually, as I said, a division within the conservative block.

Essentially, the suggestion is that given Iran's longstanding membership in the Non-Proliferation Treaty, given the international scrutiny that is placed on Iran, a provocative policy of breakout will not necessarily serve Iran's practical interests. And those practical interests come in two forms. One, some argument is made that actually a nuclear breakout will only accentuate Iran's strategic vulnerabilities in a sense that it could congeal the American presence on Iran's periphery. It could lead to isolation of Iran in the region.

And then there's an economic argument, and the economic argument is actually quite compelling, because 25 years after the revolution, Iran's economy is a mess. Rafsanjani once famously said that my economic wellbeing now is worse today than it was before the revolution, which means 25 years after the Revolution, no one has benefited from Iran’s Islamic Revolution.

And the macroeconomic picture is daunting. Iran needs to, we all know, produce about one million jobs. It produces 400,000. Double-digit inflation. Double-digit unemployment. Industrial decay. Dilapidated oil industry. Beyond that, there are the factors that it is a country with very cumbersome subsidies which consume significant parts of the GNP. It cannot dispense with those subsidies because they have become politically sensitive. It cannot undertake structural economic reform, because it fears popular backlash: a significant development for a regime without legitimacy or electoral popularity. So how does this regime seek to rejuvenate its economy, given the structural problems and given its inability to deal with those structural problems?

Well, it's to rely on foreign investments. And today, the Ministry of Trade and Economy estimates that Iran needs about $17 billion in foreign investments to be--to keep up with its demographic pressures and institutional pressures.

It's hard to see how Iran can get that type of international investment when it's provocatively crossing the nuclear threshold and brandishing those weapons. One thing we can be certain of, if Iran becomes the next--sort of it crosses the nuclear threshold in contravention of its NPT obligation, the American economic sanctions are likely to be multilateralized. And America's coercive paradigm toward Iran is likely to be internationalized. Now, whether that will persist or not, I suspect that it will.

But so Iran today, I would suggest, is at crossroads. It has to make fundamental choices regarding its nuclear program. So far, its decisions have

been indecision. So far, as Hadi mentioned, the pragmatists seem to have won the day. I don't know if they won the day because of the power of their arguments or simply because the decision has been to--“let's just see what the nuclear [...] develops, and we'll make the decisions when we get closer to the threshold.”

Let me just suggest a couple of factors that are ominously hovering over these internal nuclear deliberations, and I mentioned two specific ones. Number one, emergence of nuclear weapons as an issue of Iranian identity, as an issue of Iranian nationalism. It is a program that is now embraced by the population at large. Recent polls have shown that 75-80 percent of the Iranians support the nuclear program. It suddenly has become an issue of significance for Iranian people, because as they look over the country and its revolution, suddenly there's a sophisticated, robust nuclear program, which means that the revolution, after all, did have an achievement. It had a scientific achievement. And you can't point to any other achievements. There's no social value. It has no economic values to point at, but it did do something. It produced this scientific community that has produced a weapon or at least a weapons capability that reflects some degree of success.

And you see it every day. Student organizations, which we have thought about as a sort of a vanguard of progressive political change and democratic transformation, are also ardent proponents of the nuclear program. I mean, the demonstrations in the universities, open letters, and so on. And that, I would suggest, tends to cross the public--the entire spectrum of the Iranian public.

So, increasingly, Iran is getting to the point of Pakistan in a sense that the issue of nuclear weapons is becoming closely enmeshed in Iranian nationalism. Now, they're not to the point of Pakistan, where Pakistani military officers that John Siegler and I used to deal with, at the end used to give me key chains with a nuclear warhead on it, and signs like saying, like, “to India,” they're not there yet--you can go in Karachi stores and buy a clock radio that is actually a nuclear warhead--but it's getting there.

The second thing that's emerging that is quite ominous as well is emergence of patronage politics, emergence of bureaucracies that are dedicated and devoted to the nuclear program not because of the strategic value, but because of profits. These commercial firms that are established to procure nuclear technology are actually run by Revolutionary Guards and *bonyads*. And there has been a proliferation of these commercial firms. So you're getting to the point of where India was, where significant bureaucracies, the scientific establishment, the Revolutionary Guards and others are embracing the nuclear program not because of its large values of deterrence or revolutionary fervor, but because there's money to be made in this project.

And that's not a peculiarity of a third-world theocracy. That happens in states across the spectrum. The United States. Canada, if Clinton campaigns against SDI. President Clinton funds it every year. These programs have a way of regenerating themselves and having bureaucracies associated to them.

So, if you look at Iran's program, at this point, I would agree with Hadi that Iran has embraced somewhat of a policy of ambiguous restraint. But that is interim and tentative. And I think in the future, you begin to see Iranians make some decisions regarding whether to cross the threshold or not. And I think that ultimate decision will be predicated upon three, four factors that we can get into it. But the most critical actor in determining the direction of Iran's nuclear deliberations at this particular point I would say is the conduct of the United States.

While previous Iranian debates had to be resolved internally, through evolution of Iran's own institutions, to developments of Iran's own internal politics, this particular debate can only be resolved externally. And more specifically, the conduct of one actor, the United States, the type of security architecture that emerges in the Persian Gulf, the type of Iraq that emerges, and whether that Iraq is going to be the subsidiary of the American superpower, policing the Gulf on the behest of the United States, heavily armed by--Iran, like the Shah of Iran used to be, or is it going to be a fractious state? The type of internal debates that take place will largely be affected by the external conditions and the external security environment, and the primary guardian of that security environment, the United States.

And I'll stop right there, and give Hadi's watch back.

MR. BAKHASH: Thank you very much, and thank you both for staying within the time constraints. In the interest of time, I will move almost immediately to questions. I will just throw out a comment, and the two speakers can respond to it as they respond--we'll take a few questions together.

Let me say that I think that while the--there is obviously division in Iran over major issues of foreign policy and debates and different pressure groups that have an influence on foreign policy, I would not characterize it as fragmented. On the contrary, I would say there's much greater cohesion in the making of Iranian foreign policies today than we have witnessed at almost any time since the Revolution.

A number of indicators. First of all, the Ministry of Foreign Affairs is now a major actor in foreign policy, and I think speaks for Iran's foreign policy.

Secondly, we see much greater coordination among the main foreign policy actors. So, for example, Hassan Rowhani, the Secretary of the National Security Council, is clearly the person to negotiate with on the nuclear issue.

And third, it seems to me that we've had a number of indications recently that the foreign policy establishment or the power structure as a whole have found the mechanisms for debating these issues and coming out with a foreign policy. Iran's negotiations with the EU over this agreement have been conducted by a government. And in the end, there is a clear posture and a stand and a position that the Iranian government takes.

So, it seems to me while there is debate and difference in the government, there is a clear foreign policy establishment, an ability to work out these debates to achieve a consistent foreign policy, and I think if you look at the main kind of areas--relations with Russia, relations with China, relations

with the EU, there's been relations towards the Persian Gulf states, a very consistent policy over a number of years.

Okay. I'll take a few questions at a time, and then we'll ask for responses. Yes?

MR SIGLER: Yeah. John Sigler at National Defense University. We see three and, if you Ray's formulation, four reasons for development of the program--security, political leverage, pride, and one that I hadn't thought about, economic pluses and minuses--that have to be taken into account in this debate.

And, as you said, the debate is somewhat opaque, so it's hard to know exactly what's being said, but I'd like to ask a question about the security end of the debate, which is if this capability is developed, is--does it enter into the Iranian debate that they become the target of the American nuclear arsenal, which they probably are not now, which is an existential threat to them. Further, as Danielle pointed out, there's one series of thought about a nuclear arms race in this part of the world, and two countries in particular would be--might be pushed toward it--Saudi Arabia and Egypt. Those would be nuclear arms states--would be again an existential threat to Iran. Have they, in their debate, talked about the downside of this program in terms of their security?

MR. TAKEYH: I can say a few things about this. Prior to this sort of an international scrutiny of this program, there were some debates, and we saw them, about the utility of nuclear weapons for Iran's strategic posture, whether it serves Iran's interests--what would happen if Iran has nuclear weapons? What would the conduct of the regional states be, not in terms of getting their own nuclear capability, but in terms of the relationship with the United States? A weapon that was designed to deter the United States and marginalize it, could it paradoxically sort of further buttress the American presence on Iran's periphery? What kind of an implication that has for Iran's key relationship, and here there is not necessarily Egypt, but Saudi Arabia certainly, but key international actors--the European Union, the increasing economic partners of Iran--China and Japan--how would that affect their calculation in terms of dealing with Iran?

Well, one of the things that has struck me, and Hadi perhaps can speak to this, is there's no strategic culture in Iran, in a sense that there is no IISS. People writing reports saying this is what's happening or not. This is--theirs is a level of ambivalence about the type of security that nuclear weapons actually purchase a state like Iran. In a sense, really the only thing that nuclear weapons can do for Iran in terms of its deterrent posture is prevent an American invasion. And frankly, nobody is really talking about that. I shouldn't say nobody. Most people aren't talking about that.

But it doesn't stop a conventional strike by the United States on Iran, because Iranian response to any sort of a military confrontation, direct military confrontation with the United States, and they have said so repeatedly, is going to be asymmetrical. And they have--they've even been more specific. What is it, Hadi, from Kandahar to Kabul, from Morocco--yeah, they've been very regionally specific about where the retaliation is going to come, basically, Iraq and Afghanistan. So, there is a--there was a whole debate, John, what role

do nuclear weapons play in Iran's defense policy and international relationship. That debate has been subsumed by--the issues now are no longer security but sovereignty, are no longer deterrence but national rights. The discourse of the debate has altered.

Now, I don't know if that means the internal debate has changed on those particular issues, but it has moved to a different set of considerations.

MR. BAKHASH: Thank you. David Mack.

MR. MACK: [Speaker is off mike. Very little is audible.] Yes. David Mack. [Inaudible]. I fully accept your statement that the Iranians don't see any similarity in themselves to North Korea; that--and I'm sure [inaudible]. But I wonder if they have given any serious consideration to the Israeli experience in terms of the [inaudible] that has a well-documented policy of [inaudible]. Have they been talking among themselves about this [inaudible] of what the Israelis did in terms of Israeli security as [inaudible]?

MR. SEMATI: Yes. Actually, indeed they have. There are a couple of centers actually part of--Israeli studies bureaus or centers that do quite a lot of studying on Israeli politics and security and foreign policy. So, there's quite a substantial literature actually, in Persian, in Farsi on these issues.

I think at the end of the day, you know, the debate has not died as to the utility of weapons. But the argument that Iran is a case like South Africa or Sweden or Japan or all of those, or Libya, these are the sort of, in my judgement, the sort of models that at least the internal actors do not believe it to be cases that the international community could look into and say, okay, we can deal with Iran à la, you know, South Africa or other places, at least as for their end of the bargain is concerned. That principal deliberation, as Ray said, I think has stopped to some degree. But still, last week, they came out--all different forces came out in support or against the deal in forceful ways, and very, very significant. So, they are--they have been studies of Israelis' doctrines and postures, and I think the argument is they want to remain within the NPT framework. This is my firm belief that they're not irrational and crazy people and they want to break every standard of international regimes. They want to use the benefits of these particular regimes and then, at the same time, keep a degree of nuclear [inaudible] and the capability. So, if there is any possible recommendation or posture, I think Iran would be a very different case in terms of rollback. It would be a late rollback, and I'm pretty much in agreement with Flynt's argument that you--you know, it's going to take a lot more to suppress the capability [inaudible] back. It's not going to be these models that we have looked into.

Certainly, Iranian pragmatism is clearly there that will negotiate and renegotiate. So, there's lack of strategic culture for sure, but at the same time study of other actors and how they have come to parity. And for them, this is a political parity question. This is how they can stand up to the Americans.

In other words, I've talked about this to a lot of people inside Iran that--they say actually they're scared because, you know, “we don't understand”--that's quote unquote--“we don't understand why deterrence works in every other country's case, but it doesn't work in the case of Iran.” And the argument is actually there, isn't that they don't want to do that because

deterrence will work if we have the capability, if not the weapons themselves. Deterrence will work. That's why they're talking about regime change because deterrence will actually work. If that is the calculus, therefore, I think the typical rollback model is not going to work. You got to come back to some sort of arrangement that I think--as I said, this is really a turning point in that sense.

MR. BAKHASH: Ken?

MR.POLLACK: I accept Shaul's point and Shaul's refinement of Ray's point about the range of differences among the different Iranian policy actors, and the way I'd characterize--I think the way that Ray put it is that they've kind of reached an equilibrium point regarding the nuclear weapons, at least for the moment. And Ray also made the point that right now the most important actor that could affect that equilibrium is the United States.

But I'd like to ask all three of you to look at potential factors inside Iran that might also affect that equilibrium. Are there things going on inside Iran today, are there actors, are there events that could change that equilibrium? And one that comes immediately to mind is in 2005, we're going to have presidential elections in Iran. If Rafsanjani wins the election, does that--that strikes me as most likely not changing the equilibrium point, but might it? And are there other actors who if they became president might change the equilibrium point? Or could a sudden falloff in oil prices suddenly change things? Or are there other things internal to Iran that could suddenly shift this equilibrium point on nuclear weapons?

MR. TAKEYH: I'll start out--there are presumed candidates as we know them. At least two of them, as I understand, Ali Larijani and Velayati, have taken positions against a deal. And Lorajani described it was, what was it, Hadi, giving pearls and getting candy back. So, I think a prospective Iranian president which is likely going to come from the conservative camp, is unlikely to fundamentally disrupt this proposition, and it should be noted that President Khatami was a rather ardent supporter of this program. And much of the advancement that took place was under the auspices of the reformers. Before that, the program was stagnant and inflicted with corruptions and so on. They straightened it up.

I think the critical internal issue, and what you may think of, Hadi, would be economic issues: whether Iran can afford its defiance, whether Iran can afford its belligerence, and what impact that has on its key commercial partners. And the key commercial partner that is emerging now is China, in a sense that increasingly there is a sort of a reorientation of Iran's trade patterns away from the west to the east; the idea being that the emerging industrial states of India and China are likely to be there in the long run. They're most reliable. They're the most effective and the least politically cumbersome trade relationships that Iran can have. And if that means that they have to lessen their relationship with the EU countries and perhaps accept kind of less sophisticated technology, then you have to live with a certain degree of restrictions on that one.

Should Rafsanjani get elected? I never thought Rafsanjani was a panacea for Iran. He'll find himself in the same position that he was in the early

1990s, obstructed by a hardline parliament and a hardline Supreme Leader. And I think, therefore, should he not run, you begin to see not so much emergence of strong president, but consolidation of the Iranian polity under the leadership of the Rahbar Khamene'i, because Larijani and Velayati, as Hadi and I were talking the other day, are going to act as Khamene'i's chief of staff, without any sort of independent judgement of their own.

So, the question is whether the Supreme Leader's office is going to be even more awesome--I mean, he already has a strong core of constituencies in the Rev Guards, the new parliament is more in tune with his perceptions--and will the next president act like his chief of staff as opposed to someone who tries to argue with him? I suspect that it will be the strong emergence of the Rahbar on all aspects of Iran's--he already has constitutional power. Now, you begin to see institutional dominance.

MR. BAKHASH: I think I gave you the economic arguments. Yeah, I think right now, as I said, the last two days have been very critical for me. I've been reading these articles and editorials. There is a little split taking shape. This is surprising to me. And that split is actually taking issue with--the conservatives are taking issue with the Supreme Leader or make your deal. So, that little angle tells me that the next--yeah, the Presidential election could be an important solidification of the conservatives, thereby sabotaging the deal is quite likely.

So, I think that's why I agree with Ray that more and more when you look into this, then this end of the external forces are going to be more and more critical, how they can solidify certain factions and against the other factions in terms of incentive structures and give and takes.

So, the conservatives will--are in line to take the presidency. If they do, that will have enormous--it will give them enormous--more power actually, if not enormous. They already have enormous power. The more power and more ability to construe the Supreme Leader in terms of why it has gotten Iran to this place that it has.

Actually, the nuclear issue has become internally, in Iranian politics, a question of legitimacy in reverse, as I've called it other ways. That is, the Iranian regime is very much in a dire legitimacy crisis. But when it comes to this particular issue, what the public is asking--and students of mine have read this issue exactly in the same normative way--you know, these clerics, one more negative on their portfolio is that they have deprived Iran of the right to nuclear weapons or nuclear capability, if not weapons. This is the other way to question the legitimacy of the regime; that they have deprived us in essence of this particular capability. If it was the Shah or others, you could have it. So, it's an argument that actually I would say with the sort of conservative leadership outside the U.S.--solidified that conception that there's nothing wrong with the weapons. It's who has it. If that's the case, therefore, we've got to think about a different political posture, a different political makeup, which makes sense. I think it's in evidence, empirical evidence is there that if you have the--if you're the good guy, you can have the weapons.

So, the reformist argument lacks that credibility in the sense of the international system. So, internally it could go that way. It's a very fragile

deal in essence as far as the Iranian opposition, domestic conservative opposition is concerned. It could change, you know, really dramatically unless it builds up a momentum of incentive and rewards.

MR. TAKEYH: Can I just say one thing, Shaul? Just one thing very briefly.

There was an editorial that Hadi and I have been talking about in the newspaper *Sharq*, which is a reformist paper, called "Commanders and Soldiers." In a sense, we always looked at the conservative block as pragmatists versus hardliners. But this editorial looks at the conservative block in generational terms. And what it says is the next generation of conservatives that are coming up, that are in the parliament today, that are in the second, third tier of the Revolutionary Guards, that are likely to be the next president of Iran, not maybe in 2005 but later, are even more dogmatic. And their criticism of their elders is, you're too conciliatory. I mean, it's hard to look at Khomeini and say you're too conciliatory. But they do, and sort of the criticism that the Red Guards made in a sense of the feeble, bureaucratized Communist Party of China that has stuffed the revolution, that [...] the fervor and spirit out of the revolution.

So, for all of us who look for Iranian generations that will change and become progressive and secular and so on, the next conservatives that are coming up are even more dogmatic.

MR. BAKHASH: David Falk.

MR. FALK: Thank you. It strikes me that maybe we're all focusing a little too heavily on the nuclear issue as the sum total of Iran's foreign policy. Unfortunately, it's not. There are a lot of other things that Iran is up to, and perhaps just a very brief sort of analogy might be made to Pakistan in this sense: that for many years, American policy makers tended to think that the main problem about Pakistan was its threshold nuclear capability. Well, it turned out that that wasn't the main problem from an American standpoint with Pakistan. The main problem was Pakistan's support for the Taliban in Afghanistan.

So, with that analogy very roughly in mind, I'd like to ask Hadi Semati to clarify what you meant when you referred in passing almost Iran as a hege--[...] Its foreign policy, and I want to look in particular, I want to ask you to look in particular at its policy on Israel and also perhaps even more urgently to talk a bit about Iran's policy toward Iraq, where I think it would be fair to argue there is no status quo. And so, it's almost, sort of by definition impossible for anybody to be a status-quo power with regard to what's going on in Iraq. What does Iran want to do there? Where does it see that situation going, regardless of whether it does or does not acquire or announce nuclear capability?

MR. BAKHASH: Hadi, I'm going to take a couple more and then turn to you. Clayton Swisher.

MR. SWISHER: I have a quick observation and a question I'd like to throw out there.

I heard from the first panel, from Mrs. Pletka--I was hoping she would stick around to maybe offer her comment--that there's an Iran that the

Bush Administration should reach out to. There's a body of dissidents that, in fact, our CIA, and others should operate on the ground in Iran to work with. And then I hear from this panel that there's 75 to 80 percent of Iranians who support achieving a nuclear capability. Would the real Iran please stand up?

Could you, the panel, please comment how this Iran would look under Mrs. Pletka's strategic advice, if the U.S. were to operate when there seems to be a constituency that wants nukes?

MR. BAKHASH: Naur Gilon.

MR. GILON: You mentioned that there are two groups there, one moderate, one more moderate, two extreme groups, one more moderate and one less, and you said that one can--U.S. policy will influence them. The question is, do you have a preference? Do you think the U.S. should support, with its actions, one of these teams? In my eyes, at least for the short run, I think that the more dangerous is the more moderate one because this is the one that is more likely to disrupt any attempt of building international pressure and stopping Iran's nuclear program because they are smarter. They are doing it under the NPT, under the allowed, or what--their interpretation of the NPT. So, I wanted your comment on that.

MR, BAKHASH: Actually, these three questions all fit in very well together, so, Hadi, why don't you start?

MR. SEMATI: Yeah, I think the transformation of the Iranian state to a more status-quo orientation--I mean, look at the portfolio of Iranian foreign policy agendas and issues, whether it's issue area or non-issue areas, and in the Caucasus, in Central Asia and the Persian Gulf area and South Asia, practically all of these are very national interest-base-driven security and foreign policies.

The last remaining issue that heavily commanded illogical nationalist slash paradigm is Israel, and the U.S. for obvious reasons. We're obsessed with these two. But I think even there, [inaudible] vis-à-vis Israel, in particular, there have been--in my judgement, in my observation--a significant evolution with the Iranian polity in that accepting more and so and increasingly the terms of a two-state solution, even though they don't want to say and just state it. And it's hard, I know. In today's globalized world, public space is significant in terms of stating your positions, and that's the craziness of Iranian foreign policy; that they actually capitulate but without actually using and capitalizing on the public space and public--and world opinion. In significant ways, I think it has moved in that direction. And actually, part of that nuclear portfolio I know unfortunately Israelis have, you know, past signaled in my judgement to the Iranians that if you change a certain policies of yours, we could live with Iranian nuclear power, and even a nuclear weapon, even. This is the image that some of the Iranian hardliners have even in that sense--that Israel is much more capable of living with a nuclear Iran than American would be; therefore, the road to nuclear weapons status is through Tel Aviv. In that sense, there is a debate significantly inside Iran how to shape that, whether it--and in all the realpolitik. And I think because of the pre-revolutionary relationship within Iran, Israel, there's good degree of optimism on that ground. Whether they will exaggerate it or not, that's another issue.

So, there has been some movement in that direction. Iran is less really anti-Israeli as it, you know, compared to five years ago, ten years ago, and it's moving--that debate is taking over. People are writing about it in the papers. I'm surprised that--if I write these things, I will be arrested tomorrow morning. But there are some people who are writing it that are actually from the very hard core of the regime itself; that they are writing, this is the fundamental problem that we have with the U.S., with everybody else. We got to come to terms with this issue. And they look into U.S.-Iranian relations in the substance of Iranian-Israeli relationship. They say moving in that direction.

On Iraq, I would argue that at the core of the regime's and the start of the public's objective is definitely--it's been my view ever since that it's the stability of Iraq and a democratically elected government, which is to their benefit--Shi'ism come to power. But would that mean at every cost? Not necessarily. So, there are also contingencies in there. What are the cost of threshold beyond which Iran would find itself to be and would find its interests to be destabilizing?

I do not bring that--believe that naturally Iran is destabilizing Iraq. I think Iran fully understands, and it has in a convergence that Iraq will ultimately be, you know, in Iranian national interest to have a solid, coherent and political structure inside. But they could derail it if they seem to be establishing a state that is anti-Iran, or Iraq could be used fundamentally as a launching--either politically or militarily--launching pad against Iranian interests. But also contingencies that would throw out of the window that--a stability [inaudible] Iranian objective out of the window definitely.

But, at this point, my judgement is there's a consensus inside Iran at least to the, from across the board, that really we should hope to stabilize Iraq. But they don't know what Americans are up to. That's the very tricky part of it. They don't know what Americans are doing. They were--they have to preposition themselves, and they have. So, they have prepositioned themselves. Realpolitik. I mean, you guys are doing the same thing. Don't you? I mean, there is--this fundamental question that one of the [inaudible] once told me that we have in a sense, we have become even with Americans in a way. We used to--Americans did a coup d'etat in 1953 in Iran, and we had this lingering thing with Americans. We can't get rid of this, but we don't know. But we came back at them. We did something wrong. And we did something--that was hostage crisis. We are basically even.

Now, where--let's get back to the working of some sort of a deal. In a way, that's a simple way of characterizing in a strategic partnership or relationship, but nonetheless, I would--you know, the psychology of the relationship; that for Iranians, for part of even the conservative establishment, you could have a division of labor. You could fight with Americans in South Lebanon or in Israel, have a very normal relationship in Persian Gulf with them or actually in the South Asian Caucuses. You could do all at the same time.

But I think they are beyond this point. The argument is they have come to the realization, in my judgement, reading all this literature, that ultimately they have to come to terms with this neighbor. This is a reality, and

the conservatives are talking about it. [Inaudible] has talked about it. And in a way, there's no other way. But it's important how it is being approached.

I think this is critical. How you do it? How would you reach out to the Iranians that are interested in accommodation?

In terms of dissidents, I would say, yeah, I mean, there's not real social movement in the sense that they want to undermine the [inaudible] stand of the part of the regime.

It's actually, if any, U.S. has very limited capability to effect Iranian domestic politics. And the much that it has, it is on other issues. There's not a significance force inside Iran that would be mobilized by explicit American support and intervention. Certainly, students believe that the very little support that exists there, and there is a tremendous amount of goodwill toward Americans and America in particular in Iran. But that went out of the window, the minute that the regime changed to--it becomes the, you know, essential end point. And a lot of people are talking about that; this is what Americans are after, actually. They don't want to talk about it; that this is not our policy, but they're after regime change. Therefore, why should we begin to talk to them if they are actually after regime change, whether it's through military or simply coercive means?

So, in a way, the regime-change paradigm set them in a course that is going to fulfill the prophecies that you made; that a confrontation is inevitable. But it's not inevitable, because of fundamental convergence of interests on a lot of issues--that's if you cultivate the constituencies that you think that can come to terms with you over these significant issues. It's not the nature of the regime, because, you know, we have dealt with a lot worse regimes than--you're doing a good--we're doing the KGB guy in German. Can't you deal with other guys in Iran or other places? There are possibilities there.

MR. TAKEYH: Whenever I'm asked a question about Iran's foreign policy, my usual response is there's a debate. On issue of Israel, I'm actually far less sanguine than Hadi is. And here I would point to the Supreme Leader. For him, I think it's fair to say, and he has said it repeatedly himself, Israeli is an illegitimate construct. It is a usurper of Islamic land. It's an agent of American imperial transgression. There can be no accommodation with that state.

Now, there may be others within Iran's Islamic polity that are suggesting that perhaps some sort of accommodation can be made, and we shouldn't be more Palestinian than Palestinians. But I think that uncompromising dogmatic stand still reflects his predilections. And I would suspect that it would restrain the enterprising diplomacy of anyone else. I don't expect Iranian-Israeli enmity to diminish any time soon, because it sort of defines his ideology; it defines his world view. And this is one place where I would suggest that ideology defines Iran's policy as opposed to pragmatism, realpolitik, and so on.

On Iraq, there is a debate. And the debate is between those who want to export the revolution. And essentially, they're suggesting that the most reliable Iraq that we can have is not a Shi'a dominated Iraq, but an Islamic Republic of Iraq. And also if we can export suicide bombers, so on, and so

forth, we can further entangle the United States in its quagmire and therefore temper its designs elsewhere. While others are suggesting that the point that Hadi made; that what we need in Iraq is not yet another proxy war with the United States, but stability. And the best way you can achieve stability is to have Iraq reconstitute itself in some form, and if that implies cooperation with the international community and the United States. then that's something that's important enough to do so.

On--just briefly on nuclear reversal. How do we achieve nuclear reversal, whether Flynt's argument that it's incremental or whatever? There have been cases in the past of nuclear reversal, historically, you know, South Africa, Argentina, Brazil, what have you. And every state has to be viewed in the context of its own narrative, in the context of its own region, in the context of its own national experiences and historical heritage.

But, nevertheless, are there lessons to be drawn from these? And all these cases--there was a kind of a combination of incentives and disincentives, a change in the strategic environment. It is hard for me to have any state that views nuclear weapons as indispensable to its security will relinquish those weapons under the threat of military reprisal and economic strangulation. It is hard for me how a state can dispense with the deterrent value of a nuclear weapon if it's the subject of coercion and isolation and robust containment.

I hate to say this, because I said it so many times before, that good cop, bad cop--Americans being good cop or bad cop, or maybe your perspective is Europeans being bad cop, Americans being good cop, whatever--that gets you interim agreements. That gets you suspensions. That doesn't get you a doable permanent solution to Iran's nuclear challenge.

MR. GINSBERG: Both of you--Mark Ginsberg. Both of you sort of tiptoed around the 800-pound gorilla issue, and I'm going to try to press both of you on this. And that is the drumbeat that has been going on in Washington by visitors from Israel that they will act unilaterally if they could, militarily, against Iran's nuclear facilities. Whether they're constrained or not as a result of European agreement or by U.S. diplomacy, who knows? But certainly, there isn't an Israeli visitor that doesn't come here who suggests, implies, threatens that Israel will not tolerate a nuclearized Iran.

So, assuming that's the case, what's your scenario in the event Israel does act against Iran, what are the regional consequences? What do you see happening as a result of that action?

MR. BAKHASH: I'll take a couple more. Yes.

MR. DAWOUD: Yeah. I was surprised Israel hadn't come up to this point, because this is actually what I wanted to ask about. You know, in addition to Israel's, you know, threatening noises about Iran's nuclear program, you know, up to now, it sort of sounded like all the discussion is, you know, the U.S. being the key player and the reason Iran wants nuclear weapons. I mean, certainly, you know, Israel's nuclear capability is a factor, and, you know, to also bounce the other side, although, you know, there seems that there's no chance of it, but, you know, if there was some deal where Israel could be persuaded to give up its nuclear weapons, is there any way Iran could-

-could that really change Iran's thinking--be part of a denuclearized Middle East, which certainly Iran has proposed?

MR. BAKHASH: One more comment, question?

MR. TAKEYH: I would say a military strike against Iran, whether it's from Israel or from the United States, they're going to be co-joined together anyway. I mean, recently there was an editorial in Kahan--Hadi maybe you saw it, too--that when American forces were fighting in Fallujah, it says American-Israeli commandos are fighting in Fallujah. So, wherever the planes go from, it's going to be an Israeli-American strike. So, therefore, if it's going to be a strike, might as well have it be Americans because it's logistically more sophisticated, and Ken Pollack has told me that Israelis don't have the military logistical capability of doing it. I'm not sure if we do. But, so, there will be a number of consequences to a military strike.

First of all, assuming that the program is not disabled, and I mean, that has to rely on American intelligence--and I'm not prepared to say American intelligence was remarkably deficient in Iraq, but absolutely proficient in Iran. It is not--sort of an intellectual proposition I'm prepared to concede to. So, it might not actually disable the program if you don't get all the sites. And what Iranians have done is engage, as we know, in redundancy. Redundancies mean if you--you build five plants to do the same thing, it's economically cumbersome. But if you destroy four, you don't disarm the program and you don't shorten the nuclear time line.

So militarily the strike might not succeed in either demise of Iran's nuclear edifice or shortening of the time line that Iran will achieve nuclear capability. I don't have the intelligence at my disposal, so, in that sense, I'm quite similar to the CIA.

The second thing that I will say is the consequences of the nuclear--a strike on Iran's facilities would be a dramatic change in two fronts. I think you'll see a very different government come to power in Iran. Whatever moderation, pragmatism that exists is gone. Hasan Rowhani is going to be a private citizen. Ambassador Zarif is going to be a lecturer. Mr. Mosavian might clock in some [inaudible] time. You know, you might see some reformist friends that are in there waiting for him. It's going to be a consolidation of not a conservative government, but an ideologically hardline government, and Tammy is not here, so I can say it: they're going to eat grass, but they're going to eat nuclear weapons, because it will validate all the arguments of the hardliners, namely that an absence of nuclear deterrence will be military coerced by the United States, and the international community will concede to it at the end.

MR. BAKHASH: Any other questions, comments?

MR. SEMATI: May I just add?

MR. BAKHASH: Yes. Please.

MR. SEMATI: I think that in a way the prepositioning in Iraq plus a whole range of other options that are available to Iranians are not necessarily going to drive them to, you know, kind of clash head on with Americans if they're attacked, or Israelis. I don't think that's going to be necessarily that. It's more cautious, more measured in response. But I think it will be very selective

in response, but it will be a response. Of course, some people will argue that there is a possibility there of no response; that the Iranians will actually be much more clever not to respond. And say, okay, we're not going to create enormous pain to Americans and Israelis for escalation, and then this is a possibility. I think it's a remote possibility. It's still a possibility.

So, in a way, you're going to be faced with a very solidified, unified internal government under the hardline conservative, and then a very public that's--you know, we think to --we should reach out to in terms of democratic aspirations; this public is going to back off the Iranian government. In my mind, the 51 percent is going to jack up to 75 percent support. There's no doubt in my mind that there would actually--there's significant evidence that actually some of the conservatives would love to see that. They actually are provoking that to happen because they think that this is going to last them longer. This is going to make--give them time.

So, in a way, the military attack--they've done the--I think they're waiting for it in one way. They are--they know that it's almost inconceivable--almost. But in a way they have prepared themselves.

The responses could, of course, be a lot painful and costly for Iran. I'm not underestimating that. It's going to be really difficult for Iran to do. But I think in terms of cash that they have, the economic stability over the last few years, despite all structural problems and a fairly significant exhaustion of the public with this political mockery and bickering at the top--conservatives, reformists, and all the rest--there's a degree of reserved acceptance I will say, unfortunately, for somebody of a strong guy to come and kind of put things together and patch things up, and face up to the outside world and internal challenges.

So, it could actually sway the internal dynamics in--in the trajectory of a status quo and further confrontation down the line. It's not going to end there.

MR. BAKHASH: Well, thank you both, very much. It's a very good conversation, and we're right on time. So, thank you all.

[Applause.]

MR. INDYK: Everyone can take a 15-minute break. If you could back here at 10 after 11:00 a.m., when the next panel starts.

[Recess.]

PANEL 2: THE LAY OF THE LAND: THE THREAT FROM IRAN AND THE INTERNATIONAL PERSPECTIVE

MR. INDYK: All right. We'll get started with the next panel. This panel we've entitled something—"The Lay of the Land: The Threat from Iran and the International Perspective." I tend to look at it as, from the American perspective, the problems that the United States faces when it thinks about its Iran policy. There's the terrorism issue, which we've dealt with for a very long time with Iran. There's a nuclear program which now looms very large in all of our thinking, and we've been speaking about all morning long. And then finally, there is the issue of our European allies, who have often been the most

problematic for us in trying to work out an Iran policy--and obviously, they think the same way about us. And I think that it is clear that whatever our policy toward Iran is, we're going to need to find a way to work better with our European and now our Japanese and Chinese and Russian allies, if we can call them that way as well. The problem of Iran is clearly one that is beyond the capacity of the United States to handle alone, and, for that reason, as well, trying to figure where our allies are coming from and what is possible with them I think is a key ingredient in trying to figure out what it is that we can do with Iran.

We've got three terrific speakers for this. We're going to start with Daniel Byman, immediately to my right. Dan is a professor at Georgetown, and he's also a non-resident senior fellow here at the Brookings Institution Saban Center. He is a long-time student of terrorism and Persian Gulf issues. He's formerly a CIA analyst, and also worked at the Rand Institution, and he has a new book coming out called *Deadly Connections: State Sponsorship of Terrorism*, in which Dan explains exactly how we get all of these different countries out of the terrorism business.

Dan will be followed by David Kay, who I think is known to all of you. David is back at the Potomac Institute, where he concentrates on counter-terrorism and weapons proliferation, but he is obviously best known to all of us as the former U.N. chief--or the IAEA chief nuclear weapons inspector in Iraq, and also the former head of the Iraq Survey Group, which was responsible for going into Iraq after Operation Iraqi Freedom to determine what exactly it was that Iraq had and why we didn't know they didn't have it.

And finally, Phil Gordon. Phil is a senior fellow here at Brookings, and he is also the director of our brand new Center on the United States and Europe. Phil I think is also well known to you. He is a very frequent commentator on U.S.-European affairs and also U.S.-European-Middle Eastern affairs. He was my colleague at the National Security Council, and he is the author of a number of books, including most recently *Allies at War: America, Europe, and the Crisis Over Iraq*.

So, Dan, why don't you start us off?

MR. BYMAN: Thank you very much, Ken, for having me here. When I talk about Iran and terrorism, I'm going to talk about four categories: focus on Iraq, talk about Israel, talk about Iran's relationship with Al Qaeda, and then briefly talk about the rest of the world. The scope, unfortunately with Iran, is actually quite daunting. I'll conclude by talking about a range of very bad options we have, and then punting in terms of actual decisions--one of the joys of being both an academic and a think-tank person.

With regard to Iraq, as has been discussed, Iran's interests in Iraq are staggering. Regardless of which drive you see as dominant in Iran's foreign policy, it is present in Iraq. Whether it is ideology or religion or nationalism or prestige or security or ethnicity, it's there across the border.

So, it is not surprise that Iran is doing a bunch of things that the United States that those who favor the U.S. position are quite upset about. Iran is, of course, flooding the country with intelligence agents, Revolutionary Guard types; and also Lebanese Hizballah is deploying significant numbers as

well. Some of the groups are receiving arms, almost certainly with Iranian connivance. Many are receiving money.

As was mentioned before, Iran is not seeking simply to have Shi'a be dominant in Iraq, which is a relatively simple goal, but to have their Shi'a be dominant, and that to have some degree of control within the community as well as to have the community being doing quite well. But that's actually a relatively limited view of the scope of what Iran is up to in the country.

Iran is actually forging ties to almost every group as far was we can tell--ties to various jihadist group, ties to Baathists, ties to the Mahdi Army. They have their favorite proxies, and I would actually not put Muqtada al-Sadr in that category. They have their favorite proxies, but they always want options. And for Iran, having as many options as possible in Iraq is paramount.

And as a result, you work with a range of people, including people you hate, and who may hate you, if that expands your capabilities.

There are leaks that Iran is actually directly ordering violence. Attacks against U.S. officials. Hits. Needless to say, I don't have the independent knowledge to confirm that or say it's wrong. We do know some Iranian leaders have publicly called for attacks on the United States, but that sort of rhetoric is actually rather common.

The bad news from a U.S. perspective is that I think Iran would say it's being quite responsible in Iraq. And that if you look at what is going, this is a pale shadow of what Iran could do if it were determined to make Iraq a living hell for the United States, that--this is not Lebanon. And, in fact, Iran's capabilities in Iraq are far more than they would be in Lebanon, in part due to proximity and part due to historic ties. And, as a result, you can argue that what is going on right now is in some ways the least of what Iran is capable of, and that many of Iran's proxies are groups--proxies is the wrong word--many of the groups Iran has ties to may be fighting the United States, but Iran's direct control is often limited.

Let's talk about a few things that have come before. The idea of instability I think is very important here. Iran, I would say, has a paradoxical attitude towards instability in Iraq. On the one hand, I believe Iran fears instability in Iraq--that instability in Iraq poses a range of dangers to Iran's security.

On the other hand, instability is the primary weapon Iran has to affect events in Iraq; Iran's influence, whether it's diplomatic or economic or military, is exceptionally limited. But its ability to manipulate politics and to undermine as a form of influence is tremendous. So, Iran may fear instability at a macro level, but its tools for achieving various goals almost always involve some degree of instability.

In general, my view, as you've heard me say, is that Iran is seeking options. And these options can go for a wide variety of contingencies, whether it's a regime that is established in Iraq that has favorable views of the United States, a continued U.S. presence, a U.S. drawdown that eventually leads to withdrawal. In all these cases, Iran has options that enable it to escalate or exert influence.

Again, some depressing--at least my depressing contention that the situation may be artificially good in Iraq from a U.S.-Iran point of view right now, in part because things seem to be going so poorly for the United States and Iraq. I see Iraq in some ways as a plum that Iran is waiting to drop into its hand. And right now, U.S. policy is certainly against that, but I don't think is preventing that. And, as a result, Iran doesn't need to confront the United States directly in Iraq because things are moving in its favor. But if things shift, if they get dramatically better in particular, Iran may have an incentive to make things worse using its own capabilities.

I'll briefly talk about Israel. From Iran's point of view, terrorism in Israel is a remarkable success story. That Iran used terrorism successfully in the 1990s to disrupt the peace process, I mean, there are many reasons for this, about which many in the people room know far more than I. But continued terrorism was one of the major reasons for this foundering. And Iran has a fair amount to do with this. And right now, Iran is, of course, supporting several Palestinian groups to varying degrees as well as the Lebanese Hizballah. But it doesn't take much for Iran to keep the violence going. This is, needless to say, has its own dynamics that are well beyond the control of any outside state. And, as a result this is simply Iran can check this in the success column, keep things going, keep its channels and options open, but doesn't have to do much.

Iran's relationship with Al Qaeda is actually quite complex and at least I would say quite confused. There was some initial cooperation with the United States on many of these people, but at the same time and before that, there was a knowing turning away of a lot of Al Qaeda activities in the country, certainly with regard to transit. And as a result, you have a case where Iran was doing what I think is rather typical Iranian behavior on much of this, which is both try to be the good cop and the bad cop, which is allowing activity, allowing a certain level of violence, but also trying to demonstrate that it has the capabilities to act against this.

Most of the contacts we've seen in the past have largely been tactical: a lot of personal relationships, some sanctuary, some training, but not the direct operational control. The big question is the May 2003 attacks, because there were leaks saying that these attacks were actually directed from Tehran. It would be shocking to me if there were senior Al Qaeda leaders who were running around the country, whom the Iranians claim they were watching, that the Iranians had no idea that they were directing a major operation in Saudi Arabia. It is possible, but I would be very surprised by that.

However, I actually again think this falls into a pattern of Iranian behavior that the United States has typically had a hard time understanding, which is: the idea of being conciliatory and escalating at the same time are not anathema for Iranians, even though from a U.S. point of view, it's, you know, are you trying to be our friend or are you trying to be our foe?

From an Iranian point of view, raising the pressure on the United States through violence increases the incentives for the United States to want the Iranians as a friend. They've never quite gotten that we don't get that, that we tend to call things off abruptly when something goes wrong, and we've

never quite gotten that this is a pattern they've exerted throughout their behavior, which is both reaching out a hand and reaching out a fist.

I would also agree just in conclusion on this point with what Danny said, which is Iran is getting a free pass on this. You could argue that Iran's open tolerance of Al Qaeda is greater than that of any country in the world. And certainly that it has more capability than many countries in stopping this. I'll discuss--I think there are some reasons for this. I'll discuss when I talk about solutions, but this is quite serious to me. And it's something that has gotten not the attention it deserves.

Around the world, Iran has actually in my mind become much more responsible, and we've seen a dramatic change in the last 10 years. Iran has a presence everywhere, whether directly or through the Lebanese Hizballah, and it has contacts with a wide range of groups in a number of countries. But it hasn't been very active. This is an extremely latent capability. They've done things--the Iranians, for example, have cased U.S. embassies--that have given them a deterrent capability. You know, we know if we do something that they have the ability to attack a U.S. embassy, but we haven’t seen the level of Iranian activity worldwide that we saw 10 years ago. It's a large change.

Very, very briefly, what can be done? Shoring up containment always sounds good. I'm skeptical it can be done, but, you know, count me in the fans on that. I'll plod as others do the hard work on that.

However, I would say that there are few of Iran's demands that we can accommodate as well as we move in this direction. What was discussed before, a question and response in the first session on the Mujahidin-e-Khalq. I think the best comparison I've heard of this people is that they would be the muggers in Beirut, and that's kind of my view of them. The idea that we are essentially harboring terrorists in Iraq is quite troubling to me, and to me it diminishes our ability to credibly say to others, how dare you harbor terrorists. And we have a group--that is, a known terrorist group on our own list, had done atrocious behavior not only against innocent Iranians but also against the United States in the past--and that we tolerate that is very troubling to me. This, to me, is one of the many things that could be part of a deal on the Al Qaeda folks. I'm going to also add it generates excessive bad will among the Iranian population. This is something that can easily be used to demonstrate to Iranians who might otherwise be more favorable to the United States that the United States is fundamentally hostile to Iran. You know, why would we tolerate these people who are, you know, quite troubled to put it mildly, if not--if not that we have deeply, deeply hostile ambitions? And so I think that what we see as a relatively minor issue is a tremendous issue in Iran.

Also, Iran has had some demands that we've turned a cold shoulder to, I think in part for some of the reasons outlined about not legitimating this, but, to me, again, should be on the table.

One is the idea that they wanted to find about some of the folks we have at Guantanamo that were involved in the killing of Iranian diplomats in 1998 in Afghanistan. That seems perfectly reasonable to me. Again, this is part of the overall U.S. policy of being opposed to terrorism and violence around the world. We are acting consistently with our own policy. We are not making a

special exception for Iran, quite the opposite. We are treating Iran as we are treating other countries, and this seems--providing this sort of information seems reasonable.

A few other side notes just to throw out, we haven't had it in this talk, although it may come up, which is the importance of reengaging the Middle East peace process. That, along with having more humint, is kind of one of the great useless recommendations that you hear constantly in town. This is something that would actually make terrorism worse, I will point out. That's one of the downsides of this. While I'm actually in favor of it, from a narrow terrorism point of view, there are reasons that terrorism might increase to disrupt this.

Military strikes on Iran in a limited way, certainly with regard to terrorism, certainly would fail and probably would backfire and make things worse. Limited military strikes have an exceptionally bad history with regard to stopping sponsorship of terrorism. Almost all the times they've been used, they've made things significantly worse, and increased it. They anger allies. They solidify support at home for a government. I would say that both of the remaining reformers in Iran would have their position hurt. So, we're not going to help our friends there. You can't actually do much that the civilian infrastructure you are about are trying to--or the--excuse me--the terrorist infrastructure you'd like to target is exceptionally difficult to do and is almost meaningless operationally. So, you end up having to blow up civilian infrastructure to make a difference, which tends to make the United States look as a bully.

And most troubling for me is Iran can retaliate. I mentioned that they cased embassies around the world, and also given the U.S. vulnerability in Iraq, they could raise the heat there tremendously, and I think we'd get relatively little from military strikes without much gain.

Okay. That leaves the horrible question, which is, you know, if not that what?

And, you know, fortunately Phil's here, so I'm going to, you know, to shove this off on him, but when it comes to pressure, what we've seen with terrorism at least is that Iran is much more responsive when there is a specter of multilateral pressure, that they've always believed they can play off the Europeans in the United States, and they--they actually have a good reason to believe that. But when it occasionally looks like the United States and Europe are going to get together, as happened in the aftermath of the Mykonos trial, for example, then the Iranians get scared and actually change their behavior. I don't think they change it in a deep, fundamental strategic sense, but I'm willing to live with tactical changes that save more lives. And so, you know, if there are ways we can do this, I'm for it.

The tradeoff, of course, may be on the nuclear issue. And even though I'm a terrorism watcher, I'm actually much more concerned about the nuclear issue. So, I think we have to recognize that that we have a host of massive concerns with the Iranians, and we need to prioritize. And one thing that I urge all people to think about is, you know, what are the two or three things we care about most, because if we present a list to our allies in

particular, and to others of 20 things we care about, we'll get none. So, I'll stop there. Thank you.

MR. INDYK: Great. Thank you, Dan. David?

MR. KAY: Everyone's talking to me about the nuclear program. Ken, why should I be different? No, I was happy to accept your invitation. I was somewhat concerned since the last time you had produced a book, and I came over here to speak about it, we had six people in the audience rip their clothes off and start shouting fortunately at you, not at me, that you were a warmonger. I--you know, I was afraid my heart probably couldn't take that today.

What I'd like to do, particularly if I look at this audience, please keep your clothes on. What I'd like to do quickly today on the nuclear issue is talk about what we know, what we think we know, and what we don't know, but would like to know, and I'll do that rather quickly and then get on to the policy issues, which are really the interesting ones.

The first thing--of what we do know, and it's amazing how many Americans seem to skate over this. The first nuclear reactor given to Iran was given by the United States in 1967--five megawatt trigger reactor, research reactor, under the Eisenhower Atoms for Peace Program. Still operated. Interestingly enough, it's still engaged in activities that we suspect are related to their clandestine program.

The other thing that Americans forget is that in 1974, the Shah announced a policy of 23,000 megawatts of nuclear energy in Iraq. The U.S. reaction? Henry Kissinger beat down the door to be sure that two U.S. constructors, General Electric and Westinghouse, had a preferred position in selling those reactors. We did not say, it's a stupid idea, why would you want to do that when you are flaring gas, and you have immense oil reserves? We said, that is very interesting; it's an example of how the Iranian economy is moving and becoming modern. Imagine in Iranian ears who it sounds now when we denigrate that capacity. They remember. We were sellers of nuclear reactors, and wanted to be sellers of nuclear reactors to the Shah.

When the '79 revolution came along, the Iranians abandoned their nuclear program until some time near the end of the Iraq war. The exact date relates--awaits more revealing information as to exactly whether it was two years before the end of the war or at the end, but we do know now that beginning in the late 1980s, early 1990s, A.Q. Khan took on the Iranians as one of his customers. We unfortunately don't know--in terms of the area of what we actually know--we don't know much more than that because the Pakistanis have refused to allow the U.S. to have direct access to A.Q. Khan or the IAEA to have direct access. So, much of what we think we know about what A.Q. Khan gave to them is what we know he gave to the Libyans. And, so, it's by analogy there. We also know, because of some of the work done by the IAEA of Russian and Chinese entities that were involved in nuclear activities in Iran in that period. The Chinese were heavily involved. Iran has major uranium deposits. The Chinese, beginning in the late 1980s, provided assistance, although they promised at one point not to, in the exploration and processing of that uranium.

We know that the Iranians have pursued both uranium activities and plutonium, the other classic route to nuclear weapons. In the uranium area, they pursued everything from mining to concentration yellow K, conversion, and uranium hexafluoride on up through enrichment and centrifuge. I'm speaking very carefully about what we know. A lot of the details about that we do not know.

But essentially, they have mastered almost all of the steps. We have knowledge that they've mastered almost all of the steps in terms of enriching uranium to the level that it would be useful for weapons. There's still some doubt about exactly their capability in the centrifuge area. A.Q. Khan seems to have sold them the P-1 European design that he stole from Eurenco. The IAEA has found P-2 parts there. The Iranians speak of their desire to use margine steel, but the difficulty in how they went to fiber--carbon fiber for doing it. There's a lot there that you'd like to know, but there's enough to say that with regard to the uranium schmeer of activities of enriching uranium, they're there. They have that capability.

In the plutonium area, there's less information and less certainty. The Iranians have admitted to the IAEA that indeed they carried separation experiments out. They say that these were in the period 1988 to 1992. The forensics point out that that plutonium is not old enough to be--have been separated in 1992. It must be more recent than that. The Iranians continue to deny it. The IAEA has not found any more conclusive proof of it.

They've engaged in a couple of other activities. The process of initiating a nuclear explosive device depends on a neutron initiator in most designs. They went the classic, but rather crude, route of plutonium--PO-210, using actually that trigger reactor. They admit to having done that in the late 80s, early 90s--say they abandoned it, but don't say what they did otherwise. When you get down to it, and Dani referred to it quite correctly, if you read--just take the June 2003 report of Al Baradei to the Board of Governors to the IAEA. You have an extremely long list of breaches of non-proliferation obligations by the Iranians in almost every one of the areas that are related to what you would do if you were going towards weapons.

What we think we know as opposed to what we really know. We think the Iranians actually have successfully enriched uranium above the levels that they admit, which are on the five to seven percent level. We think at least in small amounts, they've gone to the 80 to 90 percent range. Not proven--thinks.

We think they have received far more substantial assistance from Chinese and Russian entities than they admit to, and perhaps others. We think they have at least one, some would say certainly more than one, workable bomb design. The one we seem to be clearest in what we think is a classic Chinese design that the Chinese initially passed to the Pakistanis and that A.Q. marketed to around the world. There is some evidence, though, that they've gone beyond, and it would be hard not to go beyond this design. This is everyman's design for a warhead. It's designed to be hard to fail. It is--it does not try to be efficient in terms of its use of neutrons. It's rather crude, but it does work.

And we think they're embarked on a program that clearly has as the end point a nuclear weapon capacity, although they deny it, and the IAEA continues to say they cannot confirm that there is a weapons program there.

Now, what we don't know, and what we don't know is really substantial. We don't really know the chronology of this program. There are tidbits that indicate that it really started as early as '86 and '87. The best evidence tends to go to the '89-'91 period of time. We don't know the full list of foreign suppliers. One recent revelation was, in fact, guess what: Malaysia supplied parts to Iran for the centrifuge design--another classic A.Q. Khan route. But we really don't know the full list of foreign suppliers.

We don't know--and this is probably the most vexing--we don't know what activities remain clandestine, and what remain clandestine and still working. Everything in the archaeology of that program so far does point to, as mentioned earlier, multiple redundancies in the system. For example, we know the enrichment program moved--it was established at one location in 1997, moved to another in 2002. The Iranians seem to be embarked upon a program design to both provide--to hide it and to be redundant, and we simply don't know how much remains out there.

We don't know the extent of weaponization activity. For example, have they mastered the arcane, but actually no longer entirely that difficult, ability of setting simultaneity and getting a very efficient yield out of the program? We know they sought deuterium. Have they in fact mastered the art of boosting the explosive yield on their devices? How far along are they? How much have they actually shrunk that Chinese design to fit on the end of a missile? How have they ruggedized it, so it will stand the vibration effects of that missile as it takes off and then reenters the atmosphere?

The command and control network for that program--exactly how it's embedded throughout Iran. I mean, you've heard tidbits this morning, and it really is striking as you look at the Iranian program, although it shouldn't be amazing to us because we've seen it in our own program, the embedded economic interests that now are at the heart of that program. There are a lot of people profiting off of that program, and they become arguers and supporters of that program.

We really don't know who they are, because if we knew who they are, we could trace their links outside of Iran, and we might be able to start interfering with it. We certainly don't have complete knowledge. And, finally, we don't really know their full intentions for the future.

Now, the more interesting challenge that Ken put to me was, are there solutions to the Iranian program? Let me deal with two points.

First of all, inspection. Inspection by--international inspection by itself is never a solution to preventing a state from proceeding towards nuclear weapons--by itself. And, in fact, weapons programs--and we know this, but we very often ignore it--are the outgrowth of a very complicated calculus. Threat risk. Advantage-disadvantage. Cost benefits. The consequence. Political-economic security of proceeding versus not proceeding. And I would suggest that rather than cartoonize this, if we're interested in understanding Iranian behavior, we ought to think through the Argentine, Brazil, Republic of Korea,

Taiwan, Japanese, Israeli, Swede, Belgian, Italian, Swiss programs. These were all programs. It's widely--we refuse to acknowledge this because it is embarrassing to two director generals of the International Atomic Energy Agency, but the Swedes carried on a nuclear weapons program for two years after the signing of the NPT, while there was a Swedish Director General of that program. It wasn't Hans Blix; I'm not bashing Blix. It was Eckland. You know, we ought to look at--in fact in many ways, the one that is most interesting because it seemed to have the least rationale for it, is the Argentine-Brazil one. And, in fact, if you want to take the point that bureaucratic politics can make a huge difference in driving a program, the Argentine-Brazilian program was driven by bureaucratic interests inside those two countries. They became economic interests in some cases, certainly in the Brazilian case it did, and drove those programs until you had a change of government.

Inspections work best in really confirming that states are living up to obligations, not in finding proof that they are violating it. There is an inspection ambiguity dilemma that is at the heart of inspection, particularly when you have a country that has admitted it has violated and had a program in the past. Inspections finds bits and pieces of evidence. I know Dani and others are infuriated when Baradei announces that he has found no proof of a clandestine nuclear weapons program in Iraq. Can't he look in front of his eyes? But look at the evidence. What you find are evidence of violations. Bits and pieces of things which, in fact, you can--the state being inspected can deny because A, it was part of the old program and it's not part of the new program, or, look, that's part of something else. It doesn't relate to this. It's very difficult.

I would suggest that there's something else, as part of the ambiguity dilemma, that in the case of Iran we've got to be critically aware of. Inspections are vitally affected by the political support that underlies them. It is not science.

When inspection regimes realize that the political supporters of the inspection regime don't want you to find violations because it will force them to take courses of action that they are not prepared to, inspection regimes tend to draw back and be inefficient.

And this is not a new discovery. Look at the demilitarization of the Rhineland Agreement that came out of the Treaty of Versailles. The largest on-site inspection arrangement ever in place. Multiple thousands of inspectors running around the Rhineland. It became an elaborate dance at the end as the inspectors ran up against knowing that the Germans were violating the agreement, but the British and the French did not want the inspectors to come forward with convincing proof because they were not prepared to take the next step of the consequences of a German violation. And, indeed, in Iran you run the very same obvious problem with regard to this new agreement and subsequent agreements. The Europeans are not prepared to join in American military action or to join even, I would suggest, an economic sanction regime against Iran. So, in fact, the real payoff of inspections is not likely to limit Iranian choice.

Now, my final point--I will stop quickly. I think we need to accept the delay in the Iranian move towards a final nuclear weapon as success. Success is not eliminating Iran's nuclear capability. Iran is not Libya, and if you think that is the deal that you're going to put on the table, all you're likely to do is accelerate the Iranian to having nuclear weapons. It's both insulting and ineffective.

But the good news is there is a very long list of states that the U.S. over 40 years have dealt with who have considered, have advanced their nuclear program, have looked like they were going towards a weapon program, even towards cutting metal, in which we successfully talked them out of going the final step and moved them back. And it's by dealing with A, political consequences of doing it--and it's not if you do it, we're going to nuke you or we're going to invade you. It's if you do it, your political life, your security dilemma will, in fact, become worse, not better, and explaining this. And one very interesting case, because we realize the limitation of us as an interlocutor, we had countries that had extensive trade and political relations with the country, in fact, make the case that we're going to have a hard time carrying out trade and economic relations with you if you go that final step. There are a range of practical engagement strategies that actually have been very, very successful in keeping states from going that final--the final step of weaponization and fielding nuclear weapons.

I would suggest that if you look at these, and hink about doing it, but the one sine qua non of doing this is you've got to have allies and you've got to have engagement. And here I will draw a very sharp distinction with what Dani described as the deal. I do not think you will be you t able to use any of these tools if you tell the Iranians the only deal we're interested in is if you, you know, carve up, declare carve up, truck up, and send to Oakridge all your nuclear establishment. That's not going to be convincing in Europe. It's not going to be convincing in Tehran. But if you're--if you go beyond that, there really are tremendous advantages. And, in fact, the interesting thing is the Iranians have actually made themselves more susceptible to these arrangements than in the past. It's interesting, the large gas deal signed between Iran and China. The immediate reaction of people: ah, that means we'll never get sanctions through the Security Council. Look at the other thing: they're involved in a relationship where they trade gas for dollars, for money. The Chinese can talk to them credibly about the political consequences of going nuclear, the economic consequences. The same thing is true about the Indians, who are engaged in economic relationships with the Iranians. There is a much wider audience of people now than just us and the Europeans. But it's going to really take engagement. And at that, having gone over my 10 minutes--

MR. INDYK: That was great. Thank you very much, David. Phil, tell us what the Europeans want and what they might be willing to do?

MR. GORDON: Okay. I think David's final comments are actually a nice segue into that issue about whether it's possible to change a country's incentive structure and persuade it that it's actually in its interests not to pursue nuclear weapons, because that, of course, is precisely what the Europeans are trying to do.

Ken asked me to talk about what's behind that thinking, what they're trying to accomplish, and what they might want for us, and whether there's anything we can do with them, which is what I'd like to do. First, let me make just a couple of background points.

The first one is that I think European and American analysis, assessment of the Iranian nuclear situation is very similar. This debate is not really about what Iran is up to, and I've been to too many meetings with American officials and Europeans, where the American official, including in this room recently for that matter, tries to persuade his European audience that Iran is cheating, that they're pursuing nuclear weapons and we have the intel to prove it. That is a needless speech to give. The Europeans know all of that, and they share the American assessment that Iran is interested in having nuclear weapons, and that they've been cheating in the past on their commitments. There's some nuance between European and American views and within Europe as to whether Iran is determined to get a nuclear weapon or whether they want to get up to the threshold and might stop. But the essential question--they're interested in a nuclear weapon--is not actually part of the transatlantic debate.

Secondly, on the threat assessment, in other words how bad would it be if Iran had a nuclear weapon, there I think there is some difference between Americans and Europeans, though perhaps not as much as is often assumed or implied. It's true I think that Americans worry about this more than Europeans, and there's some good structural reasons for doing so. The United States would be more in the line of the consequences of a nuclear weapon, whether it be more aggressive Iranian behavior or terrorism or the proliferation consequences in the region. Those would more be an American problem than an Iranian one, and it's not surprising America is more worried about it. But we shouldn't exaggerate this point. In other words, I don't think it's accurate to say that Europeans are sort of indifferent about an Iranian bomb or complacent or worse, they somehow want to see America contained in this way. Europeans, too, at least governments, think that an Iran with a nuclear weapon would be a very bad thing. The problem or the real difference with the United States is not that. It's not how much they worry about the issue. It's in thinking about the options to an Iranian nuclear weapon. In other words, Europeans agree and sometimes use the word that an Iranian bomb would be unacceptable. The problem is that the alternatives for the Europeans are also unacceptable.

And at some point, you know, you have a duel between these things. So, Brookings we did a sort of scenario on Iran with Europeans a few months ago, and when the scenario got to the point that Iran was really on the verge of deploying a nuclear weapon, and the challenge to the Europeans was, okay, what do you do now, unacceptable started to mean well, more acceptable than any conceivable alternative to it. So, you know, it may be fair to say that an Iranian bomb to Europeans is not acceptable in theory, but ultimately it may become acceptable in practice, though I'm not altogether convinced that the same isn't true for the United States.

The real difference, thus, is not about how we look at the situation, but in what we've proposed to do about it, and that's where I think the American and European differences are great. And let me just try to say, as

best I understand it, what the Europeans are trying to accomplish in this deal that they have proposed with Iran.

Several assumptions behind the European thinking. The first is what I began with. Europeans assume that Iran wants nuclear weapons, and they're pursuing nuclear weapons, and there are good reasons for Iran to want them. And Europeans also assume that even if there was a different government in Iran, they would still want nuclear weapons. But they believe that the current cost-benefit analysis for Iran is what leads them to pursue that option, and that it is possible to change that incentive structure. Indeed, it's necessary to change that incentive structure, and David's points about there being other countries in the world who have made a cost-benefit analysis and decided that in the face of a certain amount of carrots and sticks that they would decide not to pursue it. And that is really the essence of the EU3 deal with Iran. It says that if Iran agrees to forego the nuclear option, at least in the short term suspend it and later cease uranium enrichment and that whole range of processes, then there would benefits for Iran in doing so: better diplomatic relations, trade, peaceful use of nuclear fuel for energy, and a dialogue on regional security issues.

There's a bit of a stick in the European approach to Iran. But it's just a bit of a stick, and I'll say something about the stick options in a minute. But mostly, it's the absence of a carrot, because the next assumption the European approach to Iran is that all of the coercive options on the Iranian nuclear issue are very bad and don't work, which is why they're so reluctant to go down that road.

Just very briefly, invasion is a non-starter, not even worth talking about, especially in the wake of Iraq. Targeted strikes that Americans sometimes talk about, Europeans believe would possibly delay the Iranian nuclear program. They don't deny that, but think that the consequences of targeted strikes would be worse than acquiescence and the bomb. You would get Iranian retaliation, possibly through terrorist proxies. You'd get an Iranian determination to destabilize the situation in Iraq, and you would get an absolute Iranian determination to build nuclear weapons. So, you would buy a bit of time, but it wouldn't get you much more than that.

And then we get to the question of non-military coercive action: sanctions in the Security Council, because right now the Americans aren't saying we need it immediately or the nuclear option--or the military option. They're saying at a minimum, let's take it to the Security Council and now. But there, too, I think it's important to understand why the Europeans are so reluctant. They include going to the Security Council in their package. The EU deal with Iran says that if Iran fails to comply, it ultimately goes to the Security Council. But I think the Europeans see this the same way that you see things like nuclear deterrence or the pulling the trigger on force in Iraq. It's a great threat to help you get what you want, but if the threat doesn't work, actually deploying that threat is not worth it. And that is because going to the Security Council, they say, well, what would you actually do when you got there? And if we went to the Security Council, first, just going there could lead Iran to say, fine. The deal is off. We're withdrawing from the NPT. We're

proceeding with uranium enrichment and the whole nuclear process, and enjoy yourself at the Security Council.

The same with sanctions. Europeans see sanctions not as this immediate thing, as a useful tool to hopefully make Iran hesitate before going nuclear, but if it doesn't work and you actually have to pull the sanctions trigger, where does it lead you? In the European mind, it leads you down the path towards, you know, take your pick: Cuba but probably even worse, because it doesn't have WMD; Iraq until last year; or North Korea.

In other words, you pull the sanctions trigger, but then what are you left with? Iran is still determined to pursue nuclear weapons. Sanctions wouldn't conceivably work for years or decades, if ever, in the Cuba example. The North Korea example shows that. And, so, you don't get anywhere. And, so, that's why I think they're so averse to actually going down the coercive route and much more focused on the carrot route.

I mean, just to be clear, I think there is a scenario in which Europeans would support going to the Security Council, and sanctions. There at some point would be a limit to their patience. We're seeing that that expands because of the great reluctance to deploy that, but I think they have accepted the notion that if Iran continues to fail to abide by its obligations under the NPT and in the deal, at some point they would have to go to the Security Council. But if they did, they would want to start slowly. And first it would be condemnation, and then it might be a visa ban for officials, and a cessation of dialogue, and then maybe a little--possibly a ban on investment, but the idea that in the near term they would be willing to go to the Security Council and say, okay, forget it, trade is off, diplomatic relations are off, and investment in Iranian energy sector is off—that, I think, is much further down the road.

So, that's their thinking, and then I guess the question is, what do they want from us and what role could the U.S. play in this?

And I think they've been quite clear about that, too. They want the U.S. to get on board, because the assumption is there's not an alternative to this approach that I just outlined in the carrots; that the only way to actually make it work is to get the U.S. involved in it, because they rightly point out that, to the extent that “good cop, bad cop” works--or carrots and sticks--right now, both sides are maxed out. The Europeans can offer a little bit more carrot, but not much more. I mean, they invest in Iran. They trade with Iran. They talk to Iran. So, it's not as if they have so much more carrot that is suddenly going to change the Iranian incentive structure significantly. And similarly, the U.S. is maxed out on sanctions. I mean, there are military options, but basically, you know, we can't threaten to stop trading with Iran or investing in Iran.

So, the only way if you actually believe that it's possible to change a country's incentive structure, given what we've already deployed, the only way to add to our collective package of carrots and sticks is for the Americans to start including some carrots and for the Europeans to start including some sticks. And that's what they would like to engage us on. Get the United States to put on the table as well some more carrots to make foregoing the nuclear option more attractive to Iran, and, in exchange, Europe might

consider some of the sticks that would make actually moving forward more difficult.

That would require, and I wouldn't--I won't even pretend to get into the details of what that package would include here, but I would stress how important it would be to very specifically go through all of the potential carrots that we would put on the table, and all the potential sticks that they would in exchange for what from Iran. And I think a European critique of the United States is we haven't even engaged in that debate. I mean, this would take--this would take extensive and detailed negotiations. It would look similar to 1441 in some ways. And hopefully it will be more detailed than that, because we found out in that that just a general agreement to have a threat of serious consequences in exchange for an agreement isn't enough.

But the U.S. would have to put on the table the things it might do, whether it's recognition or a dialogue on regional security issues like Iraq, Afghanistan, fuel for peaceful nuclear energy, WTO membership, security guarantees--things that might be attractive to Iran that the U.S. would put into the basket in exchange for Europeans to say very specifically, okay, and if they don't go for it, we'll agree with you on the investment or the trade ban or whatever. And then, again, you'd have to be very specific with Iran on what it would have to be.

That's the sort of package that I think Europeans are pushing the Americans to get involved in. Again, and to sum up, it's not out of any naïve believe that somehow talking to Iran will get it to move off of an option that most Iranians seem absolutely convinced they need to move on, but much more based on a fundamentally pessimistic assumption that there's any conceivable alternative to this approach. So, I actually think it is worth having this dialogue with the Europeans, at least to see whether some such package could be put together, because I fear--as others have said before me--if not, the train has left the station. There's very little way for us to stop it.

And ultimately, if the U.S. and Europe could agree on some such package, it would basically be a message to Iran that says, look, we know what you're trying to do, but the ball is in your court. You can chose to be impoverished and a pariah nation and isolated, with nuclear weapons, or you can give up that option, maybe remain on the threshold, in exchange for the things you want, including economic benefits, recognition, and a dialogue on security issues.

MR. INDYK: Thank you, Phil. I thank all of these for terrific presentations.

I'm going to start off by asking a couple of questions, and I'm going to ask questions of David and Dan because Phil actually just answered the last question, or the question that I had for him. But let me start off by asking David--to lay out in your thinking, in your mind, what's wrong with the European deal, the agreement just signed? What would you want to do to that deal? Let's say the United States did get involved in it, and we had a subsequent agreement, what would you want that agreement to look like with Iran based on our experience with past countries, your own experience with Iraq, et cetera?

And for Dan, I want to go back to this question of Iran's involvement with Al Qaeda, because I think that it is a critical issue, and you definitely touched on it. But I want to ask you the deeper question of--given the fact that you do believe that there is an Iranian strategic decision about cooperation with Al Qaeda, and that they are simultaneously provoking us and trying to engage with us, ehat do you think it would take to get the Iranians to give up Al Qaeda completely, given that that is one of our obvious goals for them?

So, David, why don't you start off and then Dan?

MR. KAY: It's hard to start off about the Paris Agreement. That way--what's wrong with that agreement is what's wrong often with agreements; that is, the two parties to the agreement, the two sides to the agreement, have a very different impression as to what the agreement is about, and what they've agreed to.

I think the Iranian view of it is it's a temporary measure to get them past the Board of Governors meeting and an immediate threat to go to the Security Council. The Europeans view it as a much longer-running agreement, which allows time to negotiate something very much along the lines of what Phil laid out. I think the agreement as a temporary bridge is not bad. Now, I'm cynical about whether the Iranians will live up to it for a very long time, but I think that's partly, to a large extent, in our court; that is, it opens a window to start a discussion with the Iranians about their strategic security future. But first of all, we've got to have that discussion with the European allies ourselves, to be sure that we can craft a package that we're prepared to live with; that we think has some chance of success. There are a lot of things out there that could be put on the table. For example, you do not have to tell the Iranians that there is no condition under which you could have nuclear reactors for peaceful purposes. I can imagine a number of conditions--the regionalization of fuel supply and other things that actually would help U.S. non-proliferation interests in many areas of the world. This is actually a creative opportunity to think about what is the package that would give a security that the Iranians are not using the cover of the agreement to clandestinely move forward with a nuclear weapons program.

So, it obviously has to involve commitments of transparency well beyond the typical NPT inspection regime. It's got--so, I think the agreement is that opportunity. My great fear about it is that we are going to sit back and say the Iranians are going to breach the agreement and do nothing, and, sure enough, the Iranians will breach the agreement and then we're right back there as opposed to using this period to craft something that, to use Roger Fisher's term, is a “yes-able” proposition for the Iranians and for ourselves. It's an opportunity for diplomacy to work. And there are amazing sticks and carrots that we can put out there that don't depend on military action on our side or economic sanctions. We can do it.

I'm optimistic at the theoretical level of being able to craft that. I'm not optimistic at the level of seeing the diplomacy engage itself yet to do it. It does us no good to describe, and I think Phil put it exactly the way I see it, to describe the Europeans as being naïve about the Iranians. The Europeans are,

if anything, more cynical about--than we are about the Iranians, having seen some of it much closer up than we have. But we need to engage. If we don't engage, yeah, I'm a pessimist.

MR. BYMAN: One thing David was very good about in his talk was identifying what we know, what we think we know, and what we don't know. One thing I did not do in my talk, but should have done, was when we talk about Iran and Al Qaeda, we're in the what we don't know. And what I'm telling is what I think I know, but "know" I would use very loosely here. So, let me tell you some uninformed speculation, and go from there.

First of all, we need to disassociate Al Qaeda as a movement of several hundred highly trained, highly motivated jihadists who have sworn *bay'ah* to bin Laden from the broader Sunni jihadist movement worldwide.

And needless to say, they are linked. You cannot completely disassociate that, but I think Iran's ties to the narrow movement are largely tactical, are largely instrumental. They would be willing to give it up for a variety of reasons. Deal with the Mec, some effective use of a stick, additional carrots. There are a number of small packages that could be put together in theory--not necessarily in practice--where I don't think they are that wedded to these people. Many of these people they have old ties to, but others among them are linked to people who have committed pogroms against Shi'a in different parts of Afghanistan and Pakistan. So, there isn't the bond that you have with the Lebanese Hizballah, for example, or even some other Sunni groups that have been clients for a long time.

The flip side of this, though, is that the Sunni jihadist movement is now the world's premier revolutionary movement. And for Iran to give up contact with that, or influence with that--if it has any; I think actually its influence in general is quite limited--would be decreasing its ability to have some input into the opposition throughout much of the Muslim world. And given, again, that Iran's forms of influence are exceptionally limited, that in general its--in the last 25 years it has influenced politics by working through either subversion or opposition, however you want to call it, it doesn't have many options. So, if it wants to reach out and affect events, whether it is in Algeria or Egypt or elsewhere, it doesn't have that many choices. So, to give up completely the Sunni jihadist card would be quite difficult for Iran.

I also think it goes against their general principle, which is you never completely cut a link or you never completely cut a relationship. You modulate it constantly. But you're always moving it.

So, I think that a combination of the Mujahidin-e-Khalq, a combination of some U.S. sticks--whatever they might be, they might not exist anymore--the pressure from local allies, the pressure from European allies could move Iran in a positive direction on this. I think incentives could as well. I don't think they have a hard-core commitment to preserving the Al Qaeda core elite presence in Iran right now. But I do think they have a much deeper interest in maintaining contacts with the broader jihadist movement. So, I think we could succeed, under certain circumstances, to get half of what we want, but never all of what we want.

MR. INDYK: Dani, you've got the first question.

MS. PLETKA: Hi. Dani Pletka. I have to go back after David for some of the things he suggested. If I had been a tabula rasa and arrived here this morning, and I had ignored what I had to say, and listened to all the rest of you, I would have come to a number of different conclusions. One of them is that we all pretty much agree that Iran is interested in a nuclear weapons program and that--none of us are naïve; we recognize that while we hope this isn't true, that, in fact, it is true, and that the Europeans agree with us about this.

And we also know that the Iranians believe that such a nuclear weapons program is their--I've used this term loosely--their birthright, something that they should be allowed to have, something that--about which there is no disagreement in the broader Iranian body politic, including between so-called reformers, dissidents even, and the establishment. Those I think are widely agreed-upon facts. Then, we talk about Iranian support for terrorism, and we agree that Iran has pretty much got its finger in every pie, wants to reserve the options to continue having its finger in every pie, isn't going to walk away from the pie under pretty much any circumstances because it provides options--deniability to use Ollie North's term--and a lot of other options for the Iranians that they may not otherwise overtly have. Again, I don't think there was a lot of disagreement about this.

At the same time, what is being advocated is that a deal to allow Iran to walk away from all of this and go back to some form of status quo ante, in which we have a decent relationship, we have trading relations, and we recognize them diplomatically is, let's see, insulting. I can't quite figure out why.

In addition, I am to understand that we have got to have allies and have got to have engagement, otherwise, we have no deal and that that offers us tremendous advantages. What are those tremendous advantages, if, in fact, Iran is going to keep its finger in the pie of terrorism and is going to be maintaining its right to a nuclear weapons program?

Now, other countries have given up their nuclear weapons programs, but I don't think those other countries viewed themselves as requiring the nuclear weapons for a whole variety of important strategic existential reasons, not to speak of the fact that they did not view this as an essential birthright for their own country. So, I cannot quite think of a parallel example in which countries have given up their nuclear weapons.

And finally, we need to open up a discussion of Iran's strategic security, as if somehow Iran's assessment of its own security is somehow enhanced by these nuclear weapons, and that if only we can assure Iran that it is not going to be threatened in any way, then perhaps they'd be willing to give these up despite the fact that I think we've already agreed that they have no intention of giving them up. I'm kind of confused, as you can see. And I can't quite figure out why it's worth us giving anything to a country that intends to keep its finger in the terrorism pie, and intends to have nuclear weapons other than perhaps to assuage the irritation of certain bureaucrats in London, Paris, and elsewhere.

MR. KAY: Thank you, Ken. We'll let Phil deal with the insulting. Look the insulting comment was, and this comes as no surprise, there are few places in the world that you could refer to as being like Libya that wouldn't be insulted. And, in fact, I even think in Libya, you'd probably insult the Libyans if you told them they had to be like Libya.

That is, quite frankly, an insulting political analogy to draw throughout the Middle East, Dani, and you drew it. I didn't.

With regard to the strategic security interests, I, in fact, think the basis of a dialogue is to point out to the Iranians that actually their security, strategic security position would probably be worsened by their having nuclear weapons. And I genuinely believe it would, and I think there are ways to explain that, and there are ways for others to explain that to them. In fact, it would probably solidify American military force in the region. It probably would raise for them--they would have to understand, as only the Pakistanis have now started to understand, when you have nuclear weapons and you have an opponent, it means you have to have a command control warning system that allows you to see that they survive when that opponent tries to deal with them.

There are a whole list of things that you need to have that dialogue. But I guess what I'm most amazed by your comment is you actually were part of the consensus. You started out by saying I don't think there's anything we can do that will stop them from having nuclear weapons.

MS. PLETKA: Yeah. But I don't want to give up [inaudible].

MR. KAY: So, in fact, just let them go, and I actually think there are a number of things we can do that have the prospect of stopping them from weaponizing.

Now, with regard to the point there is no other country that has faced such an extra--I'll never get that right--threat is, in fact, I'm not sure I'd tell the Taiwanese that. And, in fact, the Taiwanese had metal. They were fabricating a core. There are other countries that I think they viewed themselves as in equally vulnerable positions at various times, including the South Koreans.

So, I mean, I--no country is analogous. History doesn't repeat itself. It may rhyme, to use a famous phrase. I think what does repeat itself is, in fact, the techniques that we have used with regard to these other countries ought to be examined in detail to see if they're an applicable kit bag to deal with them. And I'm convinced that we can't do it by ourselves. I'm actually convinced that the Iranians are more vulnerable or more open to the application, I mean, of these kit bags than we seem to think or that they even seem to think. So, I think it's a worthwhile path to go down.

MR. GORDON: I'll deal with the--Dani, I agree that you're confused, but you blamed it on us. But it seems to me confusing that Europeans are naïve because they believe that somehow some package of carrots and sticks will persuade Iran not to pursue a nuclear weapon when you seem to be absolutely convinced that they are determined to do so, and no package of incentives or disincentives is going to persuade them to the contrary. It may well be naïve. I think just about everyone who's talked about this today has said how hard it would be to persuade Iran not to do so.

My problem with the critique of the European approach, which one reads a lot in this town, including the place that you work, is that you get this series of quite devastating paragraphs, with which I agree, about why this probably won't work, and why Europeans are reluctant to go down the road of sanctions, and all of that. And it's all very persuasive. But always is missing is the final paragraph, which says, “and therefore here's what we need to do differently.” And then there's this devastating paragraph about how somehow military force or destabilization or some other policy approach will work.

So, I think, you know, this--the European approach is just it's dispassionate analysis. It says we’ve got this hell of a problem on our hands. All of the options that have been presented are not working, and we've got one that probably won't work either, but it might. And it's more likely to if the Americans get on board and give it a shot.

I don't find that--I don't find that to be immoral or weak, or--it's just a simple recognition of reality. I mean, yeah, it's tough world out there. You have to make complicated tradeoffs, and it seems to me better to go for a small chance of success than to just be indignant about the situation, and not have an alternative to it.

Last point, because I think this applies to the U.S. Government position on the Iranian--on the EU nuclear deal with Iran. I don't really understand what the position is. I mean, it's we're not going to get in the way and denounce it, but, at the same time, we're not going to touch it with a ten-foot pole or participate in it. Meanwhile, the clock is ticking, and we don't really have a policy alternative.

MR. INDYK: Stay there.

MR. EREKAT: My question is to Daniel Byman. You know, what are the bases for the allegations that Iran actually supports Hamas. I mean, of all the research that I have done, there's really no actual support beyond the rhetoric. As a matter of fact, they quietly refused to allow Hamas operatives that were thrown out quietly from Syria and from Lebanon. They didn't allow them in. You know, Iran is viewed by all the Palestinian groups, including Hamas, as being culpable in the destruction of Iraq and pan-Arabism and so on.

So, there is really no love lost there. And my other question to you, why do you think they are keeping on Mujahidin-e-Khalq. The Mujahidin-e-Khalq factor. Why is the U.S. keeping that?

MR. BYMAN: [Off mike.] Beyond--particularly with regard to Lebanese Hizballah. And my view is Iranians have a perfect cut-out. And you use the Lebanese Hizballah. You use their training camps. They're actually in some ways better trainers than the Iranians in certain technical reasons. And it allows Iran to say exactly this, which is, you know, where's your proof? Where is the Hamas mastermind operating from Tehran? When you actually see these people running around Lebanon with linkages to Hizballah.

Now, the Hamas is not an Iranian proxy. I don't see Hamas as doing Iran's bidding remotely at the level that we saw with Palestine's Islamic Jihad, where record after record shows that these guys are going back to Tehran for instruction and are constantly worried about this. They have a relationship. Iran forges these relationships which is--through money and influence and ties

trying to nudge a group in a direction it wants. And I think it has done this with Hamas, but would Hamas be there doing what it's doing now and what it did in the past without Iranian support? Sure. That's in part what makes the relationship work--is it's based on mutual interest.

And, so, it's important to recognize as--I mean, a lesser version of your point, which is the Hamas relationship is profoundly different than I would say with Palestine Islamic Jihad. But I wouldn't allow Iran to wash its hands completely.

On the U.S. and the Mujahidin-e-Khalq. You know, I'll give you theories. You know, one is, you know, right-wing neocon to end the world theory, which is, you know, this is the point of the spear that's going to be thrust in the Iranian belly. I think that's actually overstated to say the least. I think there is a recognition that turning these guys over to the Iranian government directly is actually something that requires the United States to be cold and swallow hard, and that this could have been done relatively easily, I think, if we had a policy about this right after the war; that right after the war could have gone through, oops, they happen to have all gone across the border, fleeing our tanks. You know, we didn't actually make a decision. It just happened that way. But now it actually, you have to go up to Capitol Hill, which, you know, even though Dani is not there anymore, still a very, you know, tough place and you have to say, you know, yes, we traded with the Iranians, and it was an ugly deal. And that's something that especially now when it looks like the Iranians do not want to play ball, when it looks like they are circumventing a bunch of other deals, it's a very hard deal to make.

So, I would say that it--the initial decision was simply inaction, which became policy. But over time, that inaction makes a policy decision on this right now much, much more difficult than it would have been a year and a half ago. There are others in this room who may know far more about the deliberations on this than I do. This is really just gleaned indirectly.

MR. : [Off mike. Inaudible] A very quick question, a narrow question, for David Kay. Usually think that agreements require three things to work: a shared vision or interest, which you indicated was not the case here; credibility of action in the event that one of parties breaks the agreement that you would take a responsive action, which has been debated here today; but the third element is verifiability of the agreement. You have some experience in this regard. Given the size of Iran, the fact that they've concealed a program for 18 years without anybody detecting it for that length of time, what is your confidence in the ability of the international community or our own country to verify, were there ever to be an agreement with Iran to end its nuclear program?

MR. : Thanks, Ken. One quick comment and then--on David's excellent presentation and then a question to Phil.

David, the assessment about what we thought we knew, as well as what we think we know, and just to point out that at least during the Clinton years, we thought that the problem was Russian provision of technology to Iran. We had no idea whatsoever about A.Q. Khan and that's a salutary point. I mean, we had no--never--it never came across our radar screen that the Pakistanis would be helping the Iranians get nuclear weapons. So, it's salutary when we

think about what we don't know now; that just how much we didn't know then about the core of what we now believe is Iran's nuclear program.

The second point is you said in terms, in the category of what we know is you said, I think you used the words, they are there, when it comes to uranium enrichment. But it's--it appears possible that they're not quite there; that they are actually maybe having some difficulties; and that, on the other side, I just wonder whether we, given what we assumed about Iraq and its capabilities, whether we may be making a similar mistake in assuming that, in fact, the Iranians are better at what they do than they actually may be--that as good as they are at acquiring the stuff, actually making the enriched uranium may be technically quite challenging to them. I can't assess that, but there seem to be some indications of that.

For Phil, I think if you--one of the interesting things in having you all on the same panel is to basically put the challenge to you of how to develop an integrated strategy. I mean, it's very interesting that the focus of the policy debate is all about what to do about Iranian nukes, and occasionally we talk about what do we do about the Mujahidin-e-Khalq, but it's a minor issue compared to the Iranian nukes issue.

Why haven't we developed--why haven't the Europeans in particular developed a more broad-based strategy that tries to couple the problem of Iranian sponsorship of terrorism with the problem of Iranian pursuit of nuclear weapons.

Why I ask that question is that Dan mentioned that the Iranians had developed a very effective means of disrupting our efforts to achieve a comprehensive peace in the Middle East, and that was manifestly clear. And the reason that they developed that capability was precisely to thwart our overall strategy in the Middle East, which was to isolate them through a peace process. And they were very concerned about that isolation through the peace process, and they remain concerned today about that isolation. As soon as the Syrians even suggest that they might be interested in talking to the Israelis about peace, an Iranian delegation turns up in Damascus, because they understand that that could threaten their broader interests in the region.

So, when we talk about carrots and sticks, how is it that the Europeans never think about that particular stick? How is the Europeans are never prepared to recognize the very negative role that the Iranians play in disrupting the Middle East peace process, which the Europeans say is critical to their whole interest in the Middle East. For if we were prepared to say to the Iranians in this dialogue that Europeans are having with them that they have to cut out their support for Palestine Islamic Jihad, and Hamas, and Hizballah, and we took--made an effort to try to achieve piece, which would basically cut them off from their connection with Hizballah and Syria, that in that process we might actually develop a stick that could have some impact on their overall strategic calculation.

So, why not have a grander strategy that incorporates that element?

MR. INDYK: I don't know about anybody else, but I find these presentations so good that I get more and more confused as you go along.

From David Kay, we learned before coming here today really that inspections backed by sanctions had much more of an impact in the Iraqi case than I think anybody in this room would have believed two years ago. It was really quite a surprise how effective they were. And we heard from you today I thought an extremely eloquent argument for package of incentives, structured incentives, combined with inspections as a possibly avenue to at least slowing and maybe indefinitely delaying weaponizaton of the Iranian nuclear program. And from Phil we heard a very eloquent case for an American-European dialogue that's less constrained than the one we've had so far, in which the Europeans would acknowledge that they've kind of run out of carrots and the U.S. has much bigger carrots to play.

But you pulled a punch a little bit, Phil, because I thought that Dani made a very persuasive case that we also have bigger sticks than other people have. And you didn't really allude to putting those on the table in this dialogue with Europeans that kind of, I take it, more implicitly from what you said than explicitly, kind of ruled out in advance as things that are destabilizing or emotionally upsetting to talk about or won't work. We know that before we actually even talk about them. I wonder if you couldn't put all of these things together and say, if we're going to have this dialogue among allies about what to do about Iran, maybe we should have a serious dialogue about really big carrots and really big sticks, and really look into these things in an intellectually unconstrained way, not being afraid of name calling on anybody's part, that you're too soft or too hard or whatever is the thing that stops people from actually honestly talking this through.

Personally, my intuition is that at the end of this, you'd probably conclude that big carrots have some potential and big sticks do, too. And that actually some combination of really big carrots and really big sticks might get you where you want to go.

MR. DENMORE: Yeah. Guy Denmore of the Financial Times—

[...]

MR. KAY: A policy of assembling suppliers and producers around the world who were able to deliver, even to the Libyans to be insulting to the Libyans, since it's agreeable, I can be insulting to Libyans--even to the Libyans a package that they could deal with.

On the issue of are they there. When I meant, if I didn't say it, when I said they are there, they have the whole package of techniques. Their engineering and nuclear--producing high-enriched uranium is a combination of science, engineering, and art. They are--they are continuing things. Actually, even in the U.S. program that you learn, forget, and relearn, and if we ever go back to producing nuclear weapons, there is some of the critical techniques we have forgotten. Sure, they are not up to a hundred percent efficiency. But they have everything, and I think an eye-opener for a lot of people the last couple of weeks--a lot of those tricks are in the production of uranium hexafluoride. It's a vicious material to deal with. It eats up pipes. It's hard to deal with. They look damned efficient at producing it. So, they're learning, which is one indication for me if there's probably a continuing activity we haven't found yet.

The sticks issue. Steve, let me just say, I actually believe it important that we keep on the table the possibility of military action. I think, in fact, although we denigrate both our capability to do it and easily they can reply to it by turning the heat up in Iraq, which I think is absolutely true. The case seems to be that the Iranians take it seriously. So, I mean, I wouldn't remove it from the package at all.

A guy's question about the IAEA inspections and the intrusiveness of them. All I can say is if you read what the Washington Post says today, and, therefore, it must be true, what Mohammed Al-Baradei said when they--when he was asked are you going to follow up on the MEK suggestion as to the latest area. He said, there's a difference between robust inspections and harassing a member state. I'm afraid that it probably is not at this point going to be one that goes out and hunts for a clandestine program. Look the fact of the matter is, and one thing that is a serious issue and we ought to not push it on the table. That program went for 18 years under IAEA safeguard without being discovered. And I think one reason we don't--some of us don't want to give up the MEK quite as easily as others is they may be the only human assets we have in the country.

So, you know, they're often wrong. They often harass, but occasionally they give you something. I'm not--I think that is a real issue there, and it gets back to Marvin's question. If you go ahead with a package, you're going to have to--transparency and verification measures that go well beyond traditional IAEA measures. And my last concluding repeat point: this is something the Administration ought to challenge the Europeans to start thinking about and working on right now, because it's going to have far more impact, actually, if it comes from them, and they understand the issue, and it's serious. Let's challenge them with--rather than denigrating them for being naïve and French--may God help us--you know, let's challenge them with a real technical problem and ask them to come up with a solution. And I'll let you deal with the Israeli issue.

MR. GORDON: Let me start. I'll be brief. But--I sort of feel, you know, I sat up here and described this terribly complicated Hail Mary pass that includes, you know, a certain amount of incentives, a very complicated--nuclear fuel and dialogue and this and that in exchange for other complicated things--IAEA safeguards and verification and uranium suspension and so on, and then I said it probably won't work. And then people say, well, let's throw in terrorism and Israel and more sticks and let's make it that much more complicated. I think that's the response to the type of suggestion Martin made. You could do that, and decide on your priorities, and you could decide that issues like Israel and terrorism, and even human rights should be in the package, and you shouldn't do one thing, but you should reprioritize. But you just have to acknowledge that what was already intensely difficult in the first place becomes more difficult if you do that. You might actually be near success on the nuclear issue, and this complicated set of you give this and you get that is close to working, and then there's a delivery of Katyushas to Hizballah. And you have to decide: is the whole thing then over? And you then stop the trade and diplomatic dialogue with Iran because of that delivery that you discovered, which means that they

stop on the nuclear side, and the whole thing blows up. So, you just have to decide, you know, what's most important, and acknowledge that. By expanding and making it more integrative and dealing with all of our problems, you make it less likely that you deal with some of your problems.

I think you would also have to acknowledge--I mean, there are tradeoffs in doing the way we did. I mean, I think Europeans concluded that the most urgent issue was the nuclear one and were willing to pull all of the arrows out of the quiver in order to try to deal with that. But you have to acknowledge when you do that that the tradeoff is, then, you've got nothing left to deal with all the other things that are important to you. I think we saw that in Libya, where we decided that terrorism and then WMD were really important to us, but human rights, once we gave the rewards, the deal included, you know, dealing with terrorism issue and the WMD issue, but by doing that, we effectively said, even though our policy is to promote democracy in the Middle East, and that is the key to solving all these problems and all the rest, we effectively said, forget it. You know, we can't--you can't get everything.

And so I think, Martin, that that is sort of the attitude on the nuclear thing; that that particular issue is so important and so hard in and of itself that we'll be willing or we would be willing, if you went down this road, to put less of a priority on the other things.

But I think as part of this dialogue with Europe, we would be certainly able and right to say that's not enough; that these other issues are so important to us that they have to be in the package, too. But if we did that, we'd just have to recognize that it complicates it even more, and you subject the overall success to trying to accomplish even more that I said at the beginning was probably very difficult to accomplish.

Steve, I think it's sort of--I'll just end with this point about the bigger sticks and bigger carrots. It's sort of the same point. By all means, all of this should be on the table. When I said that Europeans saw military force as a non-starter, it wouldn't work, that's not to say that that wouldn't be part of the serious U.S.-European discussion about an approach. I was just giving an assessment, and I happen to share it that you wouldn't get there. And in that dialogue with Europe an outcome would not end up being an agreement that if the Iranians didn't cooperate on the nuclear side, the Europeans would support American use of force. I think it would be a stretch enough. It's going to be hard enough to get that deal with the Europeans that says if they don't cooperate, we go to the U.N. Security Council, we put on serious sanctions. I think that's the reach. But, you know, by all means, this needs to be part of the discussion, and I'll end with this thought, which is the point I made earlier. We're not even having this discussion about whether it should be terrorism, Israel, whether military force should be on the table. Instead our policy and attitude just seems to be paralysis. We don't like the EU deal. We don't want to do that, but there you go. And it's not getting us anywhere.

MR. INDYK: Thank you, all, very much. Next on our agenda is lunch. And there is lunch set up in the next room. So, please when we're done here, go out, get your lunch, take a bathroom break, whatever you need to do,

come back in here. We will start with the last part of the day. My little summary of everything that I learned today and was in my book already.

[Recess.]

"AN ALTERNATIVE APPROACH TO IRAN"

MR. INDYK: On the Iranian puzzle, *The Persian Puzzle*, excuse me. And in that book, for those few of you who haven't read it yet, there's a very detailed final chapter of policy prescriptions that I think Ken will summarize for us today. This, of course, is not Ken's first book. He's written several other books, the most notable of which is *The Threatening Storm*, that best seller that caused us to go to war in Iraq. Before he came to the Saban Center as the director of research here, he served in the National Security Council as its director for Persian Gulf affairs, and previous to that, he's been at the National Defense University as a professor, at the Washington Institute for Near East Policy, as a fellow, and, of course, spent years in the CIA as an analyst of both Iraq and, in particular Iran, from where his wealth of knowledge originates.

So, I'm very proud to have him as my partner at the Saban Center. I'm in awe of his ability to produce books in the midst of all these other responsibilities and very glad to have the opportunity to call him to the podium.

MR. POLLACK: Thank you, Martin. Thank all of you for agreeing to put up with me while you try to enjoy your lunches. I have a bit of a confession to make. I'm the one who set this whole conference up, and, of course, I set this conference up with very much in mind the fact that I was going to be the last speaker. So, I put other people on panels, the different people who I spoke to when I was writing my book and trying to think through what it was that we ought to toward Iran. And that's very convenient for me because what it means is that you've already had reflected many of my own views, many of the views that helped shape my own thinking toward U.S. policy toward Iran, and what I'm going to try to do is to pull together a whole number of the different strands that are laid out there, that were laid out this morning, into what I conceive of as a way of moving forward with Iran, as a way of dealing with Iran and what I called in the book “the Persian puzzle,” dealing with Iran in all of its different difficulties for the United States, at the very least trying to turn off some of its more problematic behaviors, and possibly even move us toward a new relationship if that's at all possible.

So, a lot of what I'm going to say is going to build off of many of the remarks that you've already heard this morning.

But let me say that I start from a very fundamental point, which I heard reflected in all the discussions this morning, but that I didn't necessarily hear reflected in many of the questions. And that is that there are competing forces, very important competing forces, in both Iran and Europe and among our allies. And these competing forces are extremely important, I think. In particular, I disagree vehemently with this approach that we've heard this morning, and I hear very often reflected in the American media, that the

Iranians are bound and determined to have nuclear weapons and nothing we can do is going to change that.

I actually think that the panel that we had on Iranian domestic politics, with Ray, with Shaul, with Hadi, made very clear that Iranians are debating this issue; that there is a range of opinion on Iran's nuclear programs. And what's more, something that was said, mentioned a number of times, but I don't think really got reflected that the priorities in Iran differ from person to person and from group to group. And in particular, this is very important for me, because when I look at Iran and look at the Iranian political spectrum, and when I talk to people like Hadi and to Ray and to Shaul and to others, what I hear is that, yes, every Iranian, if you were to ask them, if you were to simply poll them, and sometimes this is done, and ask a very simple question--should Iran have nuclear weapons?--you get an overwhelming “yes” response.

But the simple fact of the matter is that that is entirely irrelevant to policy making, okay? It's utterly useless, because the question is never would you like a certain thing. Every American would like to have a billion dollars. The question is, what are you willing to do to get it? And that's where I think the Iranian policy debate gets very interesting.

And, again, I think that this was reflected in the panel this morning where we heard both Ray and Hadi make the point that the economy looms extraordinarily large in the thinking of Iran's leaders. It looms large in a whole variety of different ways, and, from my thinking, one of the most important ways is that this leadership recognizes that its own declining popularity, which is a threat to its continued rule in the most basic sense, is ultimately derived in large measure from its poorly performing economy. Now, there are other problems as well. There are political problems. There are social problems. Ray mentioned all of those in his remarks. But the economy is, in many ways, the most important factor out there. And right now, I would argue that one of the reasons why I think the Iranians are feeling quite confident is that the price of oil is very high, and it has temporarily and to a certain extent buoyed their economy. But I think they know that's not going to--excuse me--not going to last forever.

And that's why Ray's remarks about the importance of foreign investment are so important, because you are hearing in the Iranian domestic debate considerations about which is ultimately more important for us. Are nuclear weapons are highest priority or our economy our highest priority.

Now, to a great extent I think many of those in charge have been able to finesse the issue by basically arguing that they can have their cake and eat it, too. And there's reason to believe that. All through the 1990s, they were able to have their cake and eat it, too. They were able to get significant trade and aid from Europe, from Japan, from China, from Russia, and, at the same time, they were able to proceed quite smartly with a clandestine nuclear program.

And from my thinking, the starting place to think about U.S.-Iranian relations and dealing with Iran's nuclear program--and also its support for terrorism, and its opposition to the State of Israel and Middle East peace stems from that fundamental problem in Iran--is its economic difficulties, the

concern shown by its political leadership for its economic difficulties. And to me, that opens up a tremendous opportunity to deal with Iran, and to convince Iran that it has a choice to make. It has a choice between acquiring nuclear weapons or having the kind of healthy economy that might allow it to stumble on forward.

Now, I recognize, as Phil pointed out in the last panel, that this effectively means allowing this current regime to remain in place for quite some time. I don't particularly like that. I don't much care for this regime. But I see that as a necessary evil from the point of view of the United States and also from our European allies.

So, that's one that I am willing to set aside.

Now, Dani this morning talked about having a dual track approach to deal with the problem of Iran and its nuclear weapons program. I actually think that Dani was short by one. We need not a dual track approach, but a triple-track approach. This reflects a few different things. First, it reflects different opportunities that are out there for us. I'm going to talk about those opportunities. But it also reflects the difficulty of dealing with Iran, its nuclear program, and its other problematic behaviors that we've talked about all morning. I think we can all acknowledge getting Iran to change its behavior is going to be very difficult.

And myself, both as someone who has served in the government for many years over the past 16 years, and also as an historian, I look back on the history of U.S.-European relations over the last 25 years, and I think we have tried basically every policy imaginable from undeclared warfare to unilateral concessions with Iran, and every single one of them has failed to fundamentally change Iran's behavior.

Now, some have had different secondary benefits. Some have been more successful than others. But at the end of the day, we've never been able to fundamentally change Iran's behavior with whatever policy options we've tried. And that does suggest to me that it is going to be very difficult to change Iran's behavior today, and that's why I think we need to look at a whole variety of different approaches to Iran, each of them reinforcing the others.

The first of these tracks is what's typically called the grand bargain. The grand bargain is effectively what Martin and I and some others in this room tried to do during the Clinton Administration. And it's what others suggested at different points in time. It's, to a certain extent, what the first Bush Administration had in the backs of their minds. It's, to a certain extent, what the Reagan Administration had in mind when they embarked on the Iran-Contra fiasco.

Basically, what the grand bargain says is, and it's something we talked about in the first panel and talked a little bit about with Dani, it's this idea of could we strike a deal with the Iranians? Could we sit down with the Iranians and trade off what they're doing that we don't like for what we're doing that they don't like?

And I think that there is some possibility out there that this might occur, that we might be able to get this kind of a deal. And just to be very brief--and, again, this is all spelled out in greater detail in the book, if you are

interested--I think, if under those circumstances, we ought to be willing to sit down with the Iranians and say we will lift our sanctions completely. We will settle all of the claims that you have against us, a universal settlement of all of the different claims stemming from the days of the Shah and the terrorism suits since then.

We would, I think, or should be willing to give Iran security guarantees of one form or another. And by the same token, I think we should be willing to enter into a pattern of security discussions, along the lines of what we did with the Russians in Europe, to try to help them to deal with their security concerns, because I do recognize that one of the motivations that Iran has is defensive. One of Iran's motives, both in seeking nuclear weapons and in supporting terrorism, is because they do feel threatened by the United States, even if ultimately many of those threats are threats that they have themselves provoked by their own very actions. But the simple fact of the matter is there are a lot of governments that don't particularly care for Iran. They do face security threats, and I do think that part of the deal with Iran has to be acknowledging their security concerns and finding ways to deal with that.

By the same token, I'm willing to work out arrangements for Iran on its energy needs. I think David's point is a very important one, about the Shah and his determination to build a massive nuclear energy program to meet Iran's energy needs. I think there are other ways to do it. I'd much prefer the Iranians go the natural gas route, but I think there are a whole variety of ways that we can handle that, but the simple basic bottom line is I think we do need to recognize that Iran does have some energy considerations and that ought to also be part of it.

And finally, I think that we ought to go, and this I think gets to some of Steve's points about the big sticks--sorry--big carrots and big sticks, and I consider these pretty big carrots--I think another big carrot that ought to be part of it is integrating Iran into the global economy, bringing them into the WTO, bringing them into other trade agreements. I think all of that can be on the table. It should be on the table, and especially for those who are interested in regime change, and as I said, I would like to see a different regime in Tehran. I like the WTO, because it is ultimately a subversive organization. And I think the WTO could have a great deal of impact in forcing the Iranians to make changes that would ultimately be beneficial to us and to the Iranian people and not necessarily so to their own government.

Now, what do we want from Iran. And I think this is obviously very important.

It's not just that we want them to give up their nuclear program. As David pointed out, we want them to agree to Iraq-like inspections. Okay, that has got to be part of the deal. It has to go beyond the IAEA. I completely agree with David. The IAEA was designed many years ago to allow countries to prove that they weren't cheating and building nuclear weapons. That was the fundamental philosophical belief behind it. It was not developed to try to prove or find out if a country was cheating.

Now, to their credit, I think the IAEA is pushing the edge of the envelope. They are trying; they're moving in different directions. They're

actually doing things with the Iranians that do stretch what is within the letter of the law in terms of what the NPT permits them to do and what the various sidebar agreements permit them to do. But that said, we're clearly not there. And for us to be willing to sit down with Iran and give them all these goodies, I think that the Iranians have got to be willing to accede to an inspection regime that we can have real confidence in.

Second, I think that Iran has got to agree to suspend--sorry--end its support for terrorism--I do buy the points that Martin made--and I would also add into that, ends its violation opposition to the existence of the State of Israel and its violent opposition to a Middle East peace. I think Martin is absolutely right that all of these things do have very important connections, and I think that if we're going to be willing to sit down and put those very big carrots on the table for the Iranians, they have got to be willing to meet us on all of our important considerations, not just the nuclear issue.

Now, this is all kind of the ideal case. This is the Iranians decide that they want a better relationship with us. This is the Iranians decide that they really do want to solve this problem. They really want the trade. They're willing to forego all of these things, and they sit down and they--and we have a very different kind of relationship with them. This is effectively what the Libya deal, if I may use that pejorative term, would look like for Iran, as far as I'm concerned.

It wouldn't look like the Libya deal. It would be a much bigger, much more comprehensive deal, with a whole lot more attached to it. And I would be willing to sit with the Iranians and negotiate this stuff. I think at the end of the day, it's going to be critical I think to negotiate this, because, quite honestly, it's not just that the Iranians are going to try to whittle our position down. It's that we need to whittle their position down. And I'll give you just one example of that. The universal claims, which is a critical issue to Iranians, the Iranians claim that they are owed basically around $35 billion by the United States. That's nonsense, okay. But we're going to have to get them down from that position, and I'll be honest with you, even though I asked the State Department to look into this during my time in government, they were never able to give me a clear answer on exactly what they think the claims are. They know it ain't $35 billion, but the problem is it is so extraordinarily complicated that it's very difficult to come up with what the right number is.

And, I'll go a step better. If I were back in government, being forced to sit down with this, I don't think I'd want to suddenly agree to $10 billion with Iran or something along those lines. I think that this is going to be a process of negotiation, and I'd like to use those negotiations to try to whittle down the Iranian position as best I can. So, I am glad--I am willing to sit down with the Iranians and negotiate, something I think they would be, too.

There's one consideration for me, and that is that the Iranians have got to agree during the course of these negotiations that their nuclear program is completely suspended, like the European deal right now. It can't be that the Iranians, you know, do what the North Koreans do, which is get us involved in negotiations and then keep doing what they want to on their nuclear program. An essential precondition from my perspective is, the Iranians have

got to be willing to suspend their nuclear program, all effort--IAEA in there inspecting--and I have a fair degree of confidence that the IAEA can do this, and ultimately what we're looking for, and this is David's point, what we're looking for from the IAEA is to simply raise the risk in Iran's mind that they will get caught, and this deal will be ended, because again this assumes a benevolent Iran. This assumes an Iran that's fundamentally changed its mind about things.

And I think there are real advantages for the United States if we can go this route. If we can go this route, assuming that Iran is the benevolent Iran that we're thinking of, this would be the easiest way to solve everything. Okay. It's clear that this is the best way to wrap all these problems up because they are so extraordinarily difficult.

Even if Iran is not benign, though, even if we're dealing with the Iran we currently have, as Ray and Hadi and Shaul described it this morning, I'm perfectly glad to hand this out there. I think it's important to the United States to leave the grand bargain on the table. I think it's important for Iran to see that the United States is willing to sit down and negotiate an end to all of these problems. I think that it is important for the Europeans and our other allies to see that as well. I think it is important for all of them to see that the preference of the United States is a cooperative solution to all of these problems. And, again, in my best case, in my fantasy world, the Iranians look at this and say, you know what, the Americans clearly mean it. They clearly want a better relationship from us, and we don't have to be frightened anymore.

And that, I think, would be the best of all possible worlds. And if we could get it, it would be great. And if we can't get it, I think it's still very important to leave it out there, and say, we're willing to move in this direction.

Now, of course, I'm not terribly sanguine that we're going to get this happen. And I'm not terribly sanguine not just because I think that Iran does want its nuclear weapons and isn't convinced that it's willing to bargain them away. I'm also very concerned because this requires Iran to get over an enormous psychological and political hurdle, which they've, so far, been unable to do, and that is their relationship with the United States. This regime came to power riding on a platform of anti-Americanism. And that anti-Americanism was not incidental to the Iranian Revolution. It was a critical element of Khomeini's thinking and Khomeini's ideology throughout the revolution and beyond.

And what we've seen from Khomeini's heirs is that they have not yet been able to get past any of that. I hope that they will, and certainly there are lots of Iranians who are moving past it. And I think there are great many Iranians who have basically given up on the anti-American aspects of the Iranian Revolution.

But so far, this regime has not been able to do so. This, again, is what we found in the Clinton Administration in 1999 and 2000, when we tried, very hard, to put the grand bargain on the table. And we tried. We made 12 separate gestures to Iran to try to demonstrate to them that we really meant it, and we were really willing to go the full nine yards and put all of these big carrots on the table if the Iranians were willing to give us what we needed. And

the Iranians couldn't. And they couldn't because of these psychological and political problems with their relationship with the United States and how that relates to the psyche of this regime and to their own internal politics.

And so, for those reasons as well, in fact, for those reasons in particular, I think it's very unlikely that this Iranian regime is going to be willing to accede to the grand bargain and sit down at the table with us anytime soon.

So, my next track--my fallback after we've laid out the grand bargain and had the Iranians reject it. Here it is the true carrot-and-stick approach that the last panel was getting at, that Phil started to lay out; that Steve also added points to, that David and Dan also added to.

I am a believer that a carrot-and-stick approach can work. Now, do I think it will be difficult? Yes, I think it will be very difficult, but I think it will be difficult for reasons mostly domestic and alliance-related and less so from the perspective of Iran. I think it's going to be hard to get the United States, and in particular this Bush Administration, to agree to a policy of carrots and sticks, because at the end of the day, it will mean that they would have to make concessions to Iran. But let's set that aside. I think it's unlikely that the Bush Administration would also be willing to go for the grand bargain, but I'm willing to lay that out there, too.

I think the second problem that we're going to face is with the Europeans. And I think Phil laid it out very nicely, which is, at an intellectual level, the Europeans are committed to both the problem and the process for solving it. What I'm not certain of, and Phil alluded to this, is whether politically, they're willing to actually follow through with every aspect of it.

Now, I don't think it's hopeless, and I'm going to lay out what I think it would look like, and this in some ways is just summarizing points other people have made, but I do think that that's where the real problem lies.

I think it is a real going concern if we could get the Europeans, because of what I initially described about Iran, and what I take from what people like Ray and Shaul and Hadi are saying about this debate inside of Iran, which is that if we could get true multilateral sanctions from the Europeans or the threat, that's what we're talking about, the threat of true multilateral sanctions from the Europeans and add on the Japanese as well, that that would have a tremendous effect inside of Iran.

Dan alluded to this. He's right. I'll add another example. What we have seen from the Iranians in the past is that whenever they think they are actually going to face true multilateral sanctions, they turn on a dime. He mentioned 1997 in Mykonos. That's one good example. The other one out there is 2003, after the initial revelations by not just the MEK, but the IAEA. When that first IAEA report came out, and all of sudden everyone realized my God the Iranians really have been cheating, and they have been much farther along, and they've been caught red handed, the Iranians thought that they were about to get sanctions. They thought that was the next step that was coming. And they immediately accepted the European proposal to suspend the uranium--the enrichment program and to move into these negotiations.

Now, unfortunately, what happens is that the Europeans seem to have convinced the Iranians that they would never sanction Iran for these violations; and that, over the course of six months, convinced the Iranians to go right back to what they were doing. But while that threat was out there, while the Iranians actually believed that they might face sanctions from the Europeans as well, they were scared.

And I think that opens up a very important door with Iran. There is a debate inside of Iran. The Iranians recognize their economy is very fragile, and I think that the big sticks that Steve were talking about, for my money, the sticks that we should start with are the sticks that are aimed at Iran's economy. And we have very powerful sticks to use there. And it's not just our sanctions, because as Phil as pointed out, our sanctions at the moment are constant. The variable is the European sanctions.

As Ray pointed out, Iran is desperate for European investment. They are desperate to have the trade and aid that Europe is providing. And the problem is that just refusing them the aid and the trade, well, that's somewhat painful for them. I think it's painful enough for them to get them to at least think about going down this route, but if you added to the prospect that there would be real sanctions that would penalize Iran, I think that would be a very daunting prospect for the Iranians, and in particular, what I think that it does is it opens up this debate in Tehran, and it allows us to lay out two very different paths for Iranians. And I think ultimately that's what the carrot-and-stick approach should be. And I think David was starting to get at this in some of his remarks.

It's saying to Iranians, you have two different courses in front of you. If you go in the right direction, if you agree to end your nuclear program and stop your support for terrorism and agree to allow Israel to exist and allow a peace process to move forward--and that of course is assuming we actually start a new peace process, but I'm hopeful in the wake of Arafat's death that we actually move down that path--then under those circumstances, there are going to be very big rewards out there.

And by the same token, if you don't move in that direction, there are going to be very heavy penalties to pay. The status quo is not going to be what obtains. If you move it--continue to move down this path, you're not just going to get the status quo, it's going to get worse and worse and worse for you.

Now, let me flesh out a little bit about the carrots and sticks, and I don't want to talk about specific carrots or sticks. I think those are out there. I want to talk about the general nature of the carrot-and-stick approach.

First, I think it's got to be done outside the Security Council. As a number of people have alluded to it, there is no way on earth that we're going to get this through the Chinese. They have made it very clear. They have no interest in sanctioning Iran. And I doubt we could get it past the Russians either. And I think there are a bunch of other countries that would just not want to be seen blocking this. And I will say, you know what, that's fine. This is not an issue where we need the Security Council. Because at the end of the day, while the Iranians would prefer not to have international sanctions from the Security Council, what they are most afraid of are the sanctions coming from

the Europeans and the Japanese. That's who we need, and I think this is the kind of deal where we can sit down with the Europeans and the Japanese and cut the deal outside the Security Council. It would be much better for all of us.

Second point: all of this has to be laid out in advance. Okay, this is important for two reasons. It's important for the Iranians, and it's also important for our negotiations with the Europeans, and our--actually, our involvement with the Europeans.

For the Iranians, they've got to see what these two roads look like. Okay, if all we do is say, if you continue to develop nuclear weapons, we're going to sanction you, which is effectively what 1441 did, it's meaningless. The Iranians can say the Europeans will never pull the trigger. Okay. It's got to be laid out in advance. We've got to be able to sit down with the Europeans and say each step Iran takes in the negative direction is going to trigger the following sanctions. And each step that Iran takes in the positive direction is going to trigger the following incentives for Iran. So, there is a very clear path for Iran. There can be no ambiguity for Iranians as to what they're going to face. We can't allow Iranian hardliners to just kind of wave it off and say, they don't mean it when they talk about sanctions. They've got to be staring the actual sanctions in the face.

I think it's also important for our relations with our European allies. And here this is a lesson that I learned from Iraq. The biggest problem that we had with Iraq was that the moment that the fires from Kuwait cool, no one outside the United States and Great Britain and occasionally the Japanese, and, of course, the Kuwaitis were willing to sanction Iraq ever again. Okay. Trying to deal with this stuff once it is upon us is effectively impossible. I think the only way that we're going to get the Europeans to agree to the sanctions is if they are sanctions triggered by Iranian behavior, and actually Phil was alluding to this in his remarks, if they are sanctions triggered by Iranian behavior into the future.

If we simply say, well, here are a bunch of different things that Iran can do badly, and each time they do something badly, we're all going to get together and decide how we want to punish them, it will never happen. Okay. Only if we are able to get the Europeans to agree to it up front, and we lock them in, that if Iran does X, it triggers the following response from all of us, do I think there is a real chance that we would actually get sanctions applied by the Europeans.

Again, as Phil was suggesting, they're glad to threaten the sanctions, but they're not so willing to actually impose them when the sanctions or when the misbehavior is upon us.

Now, obviously, there's going to be a price to that. From Europe's perspective, I think the United States has to be willing, by the same token, to lay out the same set of positive incentives. Each positive step that Iran takes has to be rewarded as well. And that brings me to my next point.

They need to be incremental. Okay. One of the problems that we've had with the Iranians is that we've said you don't get anything until you go all the way down the road. There's a pot of gold at the end of the rainbow, but you don't get anything on the way.

And again, this is problematic for Iran's internal politics. You have a real debate inside of Iran, but the hardliners can constantly say to those arguing for cooperation what the heck--you know, what are we going to get? You take these steps; what do we get? The Americans are not going to give us anything until we've shut down the nuclear program, end all cooperation, and agree to, you know, a full comprehensive Middle East peace. We get nothing for anything else.

And, you know, you can get, as Phil pointed out, a shipment of Katyushas that scotches the whole deal. It can't be that. It's got to be incremental steps, and it has also got to be incremental steps, because we want the incremental steps on the negative side.

Okay. Phil pointed out the Europeans want to kind of tiptoe into this relationship. In all honesty, that's fine, as long as the tiptoeing is laid out ahead of time. We match each incremental penalty with each incremental step that Iran takes so that we know at the end of the day where we're going and so that Iran knows at the end of the day where it's going. And what's more, Iran needs to be paying a price at each step, and they need to be convinced that the Europeans are really going to stick to this. If all you do, is have the great, you know, stick of sanctions at the end of the road, which will be difficult for the Europeans to actually pull the trigger on, I think the Iranians will be glad to keep pushing down the road and pushing down the road, taking each little incremental step, recognizing that the Europeans will be glad to argue away each Iranian transgression as being relatively minor, and, therefore, not being worth lowering the boom of this massive stick on them.

They've got to be incremental, leading up to bigger and bigger, more and more painful sticks down the road.

The goal of all this policy--or this approach would be to try to change Iran's cost-benefit analysis, to get at those priorities I talked about. And I think that, as I said, there is a real prospect that if we could get Europe to agree to this, it could actually have real impact inside of Iran.

But as I said, I'm much less concerned about making this policy work if we can get it with the Iranians. I much more concerned about making it work with the Europeans.

And there just let me say a couple of points about how I think we need to deal with this with the Europeans, because while I'm hopeful that Phil is right--and I'm sure that the people that he speaks to probably are telling him this, because I know I speak to Europeans who say, yeah, we can live with this kind of approach, it would work with us--but I'm not entirely convinced that we need to talk to someone like Chancellor Schroeder, who has a whole variety of other political considerations, that he'd actually be willing to do it if we were serious and actually sat down at the table. And I think that there are approaches that the United States needs to think about taking with Europe; and here I think there are two.

First, there's the point that Martin made in his questions in terms of setting this up as part of a larger policy toward the Middle East. It's been one of the problems that we've had. We've tended to compartmentalize the different issues in the Middle East, looking just at Iraq, looking just at Iran,

looking just at the peace process, just at the transformation issue, just at Saudi Arabia, just at Libya, just at each of these things.

I think, for my own purposes, for a whole variety of reasons, that need to have a much more integrated approach, and what's more I think that we ought to have an integrated approach that brings the Europeans into the process. I think it's much harder for Europe to stiff us on Iran if they see what we're doing in Iran as part of this larger process, because, of course, many of our concerns about Iran and its problematic behavior and its attempts to acquire nuclear weapons are about how Iran plays in the rest of the region, how Iran's changed behavior can influence other things in the region, exactly as Martin was suggesting. And I think that once we sit down with the Europeans and try to bring them into this--first of all, I think they'll be delighted, because I think that A, they want to see a more integrated transatlantic strategy toward the Middle East, and second, I think it's much more persuasive to sit them down and say, if you're going to ignore Iran, how are you going to ignore all of these other problems that ignoring Iran is going to cause for us?

So, that's one point.

A second point is I think that we need to have a conversation with Europe about the importance of Iran and ultimately the importance of Iran to the transatlantic alliance. I think this is something that's going unsaid at the moment. But it's a conversation that when I have with Europeans really all of sudden gets people thinking about this. Today, there's no debate between U.S. and Europe about European security. There aren't any threats to European security. And the transatlantic alliance is no longer about securing Europe.

It's also not really about trade. We'll trade with Europe no matter what happens, but there is a question hanging out there about the future of the transatlantic alliance. Now, this got raised to a certain extent during the Iraq debate. You had Americans who were saying, you know, what use is the transatlantic alliance if we can't count on European support for something like Iraq? Now, that was obviously a problematic discussion. It didn't work out terribly well.

I think in the case of Iran, we're going to have a very good case to make to Europeans about the importance of Iran to that transatlantic alliance, because if, as I suspect, over the course of the next 6, 12, 24 months, Iran becomes more and more and more dominant in the U.S. policy agenda, and if increasingly, the United States is looking to Europe for compromise solutions on the Iran issue, I think more and more Americans are going to be looking at the future of the transatlantic relationship in light of what happens with Iran. This will be a second test. And in some ways, it will be a much harder test because, as Phil pointed out, Europeans agree with us on the basic problems out there. And so, the question is going to be whether Europe is willing to really put its money where its mouth is on a problem as important to the transatlantic alliance as Iran.

And I think that what Europeans need to understand, and I say this as a matter of fact, not a matter of threat, is that I think that European unwillingness to join with us in multilateral sanctions, when they are also coupled with the carrot of multilateral benefits for Iran, I think under those

circumstances, you will have a lot of Americans saying, what the hell is the transatlantic alliance for anymore? If it's not for Iraq--and we can understand why they had problems with Iraq--but it's also not for Iran, what is it for? I think it's a very compelling argument for Europeans who are committed to the transatlantic alliance.

And I think that that is something that can be very persuasive. Now, that said, I just want to reinforce the point that ultimately the only way that you're going to--that we are going to convince the Europeans to meet us half way is if we're willing to come the other half way. That's why it has to be carrots and sticks, not just sticks.

But I think that we have a very good case to be made for the Europeans; certainly I'd like to try it. And, as Phil pointed out, this may not be a perfect solution either, but I think it's the best one we've got. I think the true carrot-and-stick approach is probably the one most likely to both be able to bridge the differences between the U.S. and Europe and be able to influence Iranian behavior.

And then finally, my last one. The third track.

This is the ultimate fallback position, and it's effectively strengthening containment. At the end of the day, I think it's unlikely that Iran will accept the grand bargain any time soon, and I am dubious that we will be able to reach a consensus on the carrot and stick approach, because of the differences between us and Europe, and because even at the end of the day if we get Europe on board, I'm not convinced the Iranians will go for it. I think that it has best chance of all. But it is, by no means, a certainty. And depending on the circumstances, Iranian nationalism may assert itself or these firebrands that Hadi and Ray and Shaul talked about may ultimately end up winning the day, and under those circumstances, both of--both tracks one and two are going to fail. And under those circumstances, we're going to have to go back to our old standby, containment, and try to figure out a way to prevent the Iranians or convince them not to go down this track.

I think containment is going to be very difficult. We tried containment all through the 1990s, and it certainly had its benefits. I mean, there were real benefits to containment, and I think that typically those benefits are downplayed. But what containment never did was get the Iranians to turn off their nuclear program. It may have inhibited their nuclear program, in fact, I'd be willing to bet money that it inhibited their nuclear program, but the fact of the matter is they clearly made quite a bit of progress.

Strengthening containment it's mostly the stuff that we've already heard. Dani outlined a lot of it, so I'm not going to go into to many details, but I will emphasize a couple of things.

We do need to try to prevent Iran from acquiring dual-use technology arms, other elements of their WMD programs as best we can. We should tighten and enforce our regulations as best we can. We should also prevail upon the Europeans to do so. And, in fact, on that score, I actually think that we can make even greater progress on terrorism than we can on nuclear weapons, because especially after 9/11, the Europeans really did recognize that their terrorism laws were lax, and I think we've got other advantages. The

French, over the past 10 or 12 years, have radically changed their approach to counterterrorism, and are, in fact, much closer to our policies on terrorism. I think all of that opens up real opportunities to try to strengthen those--the containment of Iran in those senses, even if we can't get the Europeans to agree to a true carrot and stick approach.

Another thing I'd add, and I think it was kind of implicit in some things that people said, but I think it needs to be made explicit, are redlines. The Iranians need to understand what is and is not acceptable behavior as far as the United States is concerned and what would trigger a U.S. military response.

And here this may just be a matter of setting Iran up for some future strike. It may be a matter of simply laying down the law so that once they get a nuclear weapon, we have a little bit better sense of how they're going to act, and how--and have a sense that they know how we'll act. But at the end of the day, this may be one of the more important elements of containment, and it's something that we've, so far, failed to do with Iran. We need to make clear that terrorist attacks against the United States' interests, including attacks by Al Qaeda that can be tied back to Iran, would be met by any response that the President feels appropriate, including the use of force.

Obviously, overt Iranian uses of military force would be added to that list. I would also add mucking around in Iraq, which I'm not going to further define today. But I think you all know, it's like Potter Stewart said about pornography. Subverting friendly governments is another clear redline I would add to that list, and there are others that we can add.

I would certainly keep the sanctions in place on Iran. As I said, they haven't changed Iranian behavior, but they certainly have inhibited over time, and I think that we should press the Europeans on sanctions, and in particular the key for me on the containment issue is a point that Phil alluded to, which is convincing the Europeans that once Iran does cross the nuclear threshold then they must apply sanctions.

And here the issue is as a much about Iran as it is about other countries, because one of the real risks that we're going to run is proliferation and an arms race in the Middle East. And, as David suggested, we have seen many countries start down the nuclear track and pull back because they were afraid of this powerful disincentives. And I think, as Phil suggested, there will be a real tendency on the part of many Europeans once Iran has crossed the nuclear path to say, eh, what the hell. You know, if they got the nuclear weapons, why bother now? We want the trade. You know, it will once again make the case that we need to engage with the Iranians; that this is the best way to bring them around, and to bring them to good behavior. I think that Iran--the Europeans--we need to set the Europeans up well in advance and make it clear that if Iran ever does cross the nuclear threshold very powerful sanctions must apply. We can't just handle it the way that we did India and Pakistan, because if we don't, then I think countries like Egypt and Saudi Arabia, conceivably Turkey, conceivably Iraq some day, all of those countries will look at it and say, what the hell is the cost of having a nuclear program? If no one sanctions Iran, whom everyone agreed was a threat, who everyone threatened with

sanctions, if no one was willing to pull the trigger then, then there's no downside for us as well.

And so, I think a key element of containment is that.

I would also say--and, you know, Dan pointed this out, this is a throwaway line, but it's actually an important one--we do need to dramatically improve our intelligence on Iran. It has been one of our greatest failings. I've not talked about the military options, mostly because I don't think we've got the intelligence to make them work right now. I like the idea of having military options on the table as a potential last resort for the President, even though I see huge downsides to exercising them. Nevertheless, I think that it is important that Iran think that we have military options, and I think that it's important for the President to have military options, because you just never know what's going to happen.Iran is unpredictable. There are a bunch of nasty hardliners who might decide to do things that most of us would consider highly unlikely and certainly highly impractical. So, I want us to have those military options.

Right now, we haven't got the intelligence to have those military options where Iran's nuclear program is concerned, and where Iran's terrorism capabilities are concerned. And I think it needs to be there.

And a last point, and this gets back to something Dani said, but I might put it a little bit differently, which is I think regardless of which track we happen to be pursuing most aggressively at any given point in time, I think that we do have to take a very consistent rhetorical stance in terms of Iran's domestic politics. And there, I think we simply have to be true to what we consistently reiterate is our ideal, which is democracy. I think that one of our problems with Iran has been inconsistency--that they don't know exactly where we are, and what's more, when I look back on our 25 years of history with this regime, one of the things that strikes me most is, as I said, we've tried almost every policy under the sun, every policy except real carrots and real sticks in conjunction with the Europeans. But we've never, with all those other policies, been able to really affect Iranian behavior, and, in particular, whenever we've tried to influence one particular group of another inside of Iran, we've failed. And often times it's been counterproductive.

And that being the case, I think that at the very least, we ought to be true to ourselves in terms of standing up and very consistently saying, we think that Iran ought to be an democracy. And I think that we ought to say, for example, in February 2004, when Iran had disgracefully rigged Majlis elections, we ought to stand up and say, you know what? Those elections were disgracefully rigged.

Is this going to hurt us with the Iranians? Yes, undoubtedly it will. But this, of course, gets back to my initial point or one of my initial points about the psychological problems with Iran. We criticize countries all over the world, and countries all over the world criticize us. Typically, when countries have found it in their best interest, they look past those criticisms. The Europeans criticize us constantly for having the death penalty. I don't remember that ever coming up in a discussion of U.S. foreign policy toward Europe. This is a constant. It's only a problem with countries like Iran, who are

so psychologically sensitive to it. And, as I said, since it is so difficult for us to influence Iran, since it is so hard to move Iran in any positive direction, I think it is important for us to be consistent, to show Iranians where we'd like them to be at the end of the day.

I don't think it's going to have a big impact one way or the other. If the Iranians want to deal with us, they will. They'll find a way to look past it, just as every other country did. And I'm kind of reminded as a final point that, you know, Ronald Reagan once called the Soviet Union the Evil Empire. But at the end of the day, Mikhail Gorbachev was able to look past that and ignore that kind of rhetoric because it was in his interest to do so.

The problem we have right now with Iran is not our rhetoric. The problem we have right now is that this regime has not yet found it in its interests to be willing to actually engage with us. When they're willing to do so, I think the rhetoric will become a secondary issue. Until they're willing to do so, I think rhetoric may be all we've got left. Thanks very much.

[Applause.]

MR. INDYK: Thank you very much, Ken. Since we're committed to finishing at two o'clock, we have only a little time for discussion now. I think what we'll do is you can eat and we'll take all the points and then get you to respond quickly at the end. Sam Lewis?

MR. LEWIS: Ken, it's easier to be logical as a historian or an author, than it is as a policymaker, and I think you're aware of that. The first of your tracks, the ideal track, and basically the second track also would require the decisions by this Administration that I see no conceivable way they would ever take, which means you will end up with track three. So, why kid yourself?

MR. INDYK: Yes. Please.

MR. SWISHER: Clay Swisher. Ken, I wanted to follow up on Ambassador Lewis' point. Politically, it seems the Bush Administration, I mean, it would be insurmountable to envision them engaging directly with Tehran. It seems more that there's not public conditioning of the U.S. public to deal with Iran--that we have a lot psychological baggage. So, it seems like there's more of an opening for third parties and for people such as yourself and Ambassador Indyk and others who used to work this to engage informally as sort of a CBM or confidence-building measure than it would, you know, us hoping that the Bush Administration is going to reach out to those mullahs that they have so famously deemed evil.

MR. INDYK: Carol.

MS. GIACOMMO: Carol Giacomo with Reuters. Ken, you make the point that there should be an agreement that--with the Europeans that once Iran crosses the nuclear threshold that sanctions must apply immediately. The United States and the Europeans have often disagreed on what the nature of the threat was in the past. How--short of a nuclear test, how will you, you know, make sure that both sides are in the same ballpark when they're judging when Iran crosses this threshold?

MR. INDYK: Jim?

MR. PLACKE: Ken, in your description of your carrot-and-stick approach, how important would it be for Russian participation, and how likely is that, and what happens if the Russians refuse to participate?

MR. INDYK: I'll just add to that. Don't you also need to include China, given China's stake in Iran? Japan, too--but particularly China, which could veto any U.N. Security Council sanctions?

MR. : Ken, I want to--we're here to talk about Iran, but we're also mindful of the fact that there's at least one or two other places in the world that make us uncomfortable, and, so, as a consequence, the question that I'm interested in, and I'm going to sort of stretch a point to make one, is that if we accept that we essentially make our way on the basis of some combination of hard power and soft power, and that at the moment, this Administration has us pretty well bogged down in the hard-power side of the equation, and in a deep hole on the soft power side of the equation, what's there in the world of realpolitik, what sticks do we come to the foreign policy and national security table with in 2004 as opposed to 2002 or 2000? What's the capacity of the United States in the hard-power and soft-power category today as opposed to not too many years in our past?

MR. INDYK: Thank you. Marvin has the last question.

MR. : It's really kind of a follow-up on what Carol was asking. Our presentations this morning, I think, concluded that the European states see no utility to sanctions against Iraq in terms of accomplishing the policy objective that we've laid out. On what basis do you have any confidence that dialogue with the Europeans would lead them to agree to automaticity in sanctions, when they would presumably still conclude that the policy objectives could not be achieved by the imposition of sanctions at that point in time?

MR. INDYK: You have five minutes.

MR. POLLACK: Okay. Sam. Look, Sam, you're absolutely right. Last week, I gave a talk at Woodrow Wilson on what the policy of the Bush Administration would be toward Iran. It was a very different talk. You know, my job as I see it here, is not to say what I think will happen, but to say we have a problem. Here's a way I think we could solve it if we were willing to do so. And basically, you know, if nothing else, put the Administration on the spot, and ask them to explain, well, why aren't you following this kind of a course that Pollack and Gordon and Kay and all of these brilliant minds think would work so effectively? You know, as you know, being out of the government, that's about the best you can do.

Clay: effectively the same thing. I mean, you're right. The United States has psychological baggage, too, but one of the things that really impressed me during the Clinton Administration was that I think that our psychological baggage is minuscule compared to that of Iran. At the end of the day, the Democrats, the Republicans, and everybody else backed the Clinton Administration on the initiative. At the end of the day, everyone said this might work. Let's try it. Everyone was able to get past their psychological problems with Iran and say, let's see if it can work. Iran has not demonstrated that it is as far along the path as we are. So, I think the psychological, the political problems are much more on the Iranian side than ours.

Track two. Yes. I agree with you. It would be great to have track two. At the end of the day, especially with Iran, I don't think track-two negotiations mean anything. I mean, I've been involved in track-two negotiations with Iran. I am constantly amazed by how little impact it seems to have on any Iranian policy debate. It seems to have an impact on ours, because we talk to other people and say, hey, the Iranians might be interested in this and that. In Tehran, it seems like they go home, they have dinner, they go to sleep, and that's it. So, yes, I'd love to do it, but I'm just not convinced it will help.

Carol, how do we determine when Iran has nukes? That's a great question. And I think, again, A, this is a topic for a discussion with the Europeans, but I think there are different ways that you can play it. One is obviously, yes, if they detonate a nuclear weapon, that would do it. But another way to think about it might, depending on what they do with the IAEA--you know, if they decide that they're simply going to stiff the IAEA and the Europeans, we might say that constitutes, you know, the determination to acquire nuclear weapons, because it would be--it would not be consistent with any other Iranian policy. Or we could do it along the lines of, and, you know, here it's obviously problematic, because you're making Mohammed Al Baradei the trigger man, but, you know, one way to do it--we certainly did this with UNSCOM, it worked, you know, not--only so well, but you could say a IAEA finding that Iran had crossed a certain threshold would be it.

But, again, I think that there are other creative ways. Again, if you wanted to be creative, I think you could be creative with this, and find thresholds short of Condi Rice's proverbial mushroom cloud.

Jim and Martin's point about Russia and China. It would be great to have Russia and China on board. I'd like nothing more than to have Russia and China on board with us. And I certainly think it would be worth the effort. I certainly think that there are things that we can try.

At the end of the day, I'm not convinced. I think, you know, as hard as I think it will be to work this out with Europe, I think it will 10 times harder with Russia and China. And that's one of the reasons why I don't think that you try this carrot-and-stick approach through the U.N. I think it has to be a multilateral framework outside the U.N., with the U.S., the main European governments, in fact, any European government who wants to participate, the Japanese and anyone else who will agree to it. I mean, you know, if there are other countries who want to sign up for this, I [inaudible], you know, they should all come on board. But I think you've got to try to do this outside the U.N., because I don't think you'll get the Russians and the Chinese.

But at the end of the day is that I'm still sanguine, because when I look at the Iranian debate, when I look at how they've responded in the past, it is the European sanctions that have been of most concern to them. And I suspect, I strongly believe, in fact, that if we actually had those, that real threat of real multilateral sanctions from the Europeans, that would be enough to move the Iranians regardless of what the Russians and Chinese did, because the Russians and Chinese cannot replace Europe's and Japan's aid and trade to Iran.

You know, the Russians clearly don't have the capital for it. I don't think the Chinese do either.

Gary. What sticks--what is the capacity of the U.S. today?

Unfortunately, it is--and this is--it's unfortunate because the Iranians have figured this out. And, you know, whenever I meet with Iranians, I'm really struck, and this is kind of the--you know, regime officials and people, especially, with the regime--I'm struck by how confident they feel, the swagger that they walk with when they confront the United States. They are, regardless of whether or not you agree with this, they believe we stuck our foot in a bear trap in Iraq, that we are absolutely bogged down there, that we have no ability to use force against them. And as a result, I think we do have diminished capability.

And then finally--that's not to say we have none-but it's diminished. And then finally, Marvin. What confidence do I have that the Europeans would go along with this?

I do have some degree of confidence, and first I'll start with Phil's point, which I think is a good one, which is given that we've got no good options, it's at least worth pursuing that. But I actually think you can make a more positive case than that, which is I do think that there are Europeans who recognize the problem. I, at the very least, would like to set this up for Europeans, because I've had any number of Europeans say, if you are willing to, if the United States is willing to go along with real positive benefits, with real positive incentives, we would be willing to sign up for the negative.

And the good part for the Europeans is if they believe that the Iranians would really come around, then why not do it? Because they don't think they'll ever have to apply the sticks in that case.

So, that's another incentive. And then finally, at the end of the day, as I suggested, I think it will be tough, but I think the United States has some very powerful arguments to raise with the Europeans, and our problem is we haven't done so, because we've simply argued with them about isn't Iran bad? And, therefore, shouldn't you sanction them? And the European answer is yes, Iran is bad; and, no, we're not going to bother to sanction them. I think that there are much more powerful arguments you can deploy when you start to put this in the broader context, both of the Middle East and the transatlantic relationship.

MR. INDYK: Well, Ken and all the other panelists, I want to express my appreciation--I think the appreciation of the audience today for what has been a very rich series of presentations, and a lot of food for thought. I leave you with this last one, perhaps it's a little too cynical, perhaps it's a product of my own involvement in the Middle East; is that the psychological baggage that we do bring to the Middle East is that we think every problem has a solution, and I come away from today thinking that maybe this one just doesn't.

Thank you, all, very much for joining us.

[Applause.]