

THE BROOKINGS INSTITUTION

Saban Center Briefing

The Trouble With Tehran

Monday, July 24, 2006

10:00 a.m. - 11:30 a.m.

Washington, D.C.

C O N T E N T S

MODERATOR:

MARTIN S. INDYK

Director, Saban Center for Middle East Policy;
Senior Fellow, Foreign Policy Studies Program
The Brookings Institution

PANELISTS:

KENNETH M. POLLACK

Director of Research, Saban Center for Middle East Policy;
Senior Fellow, Foreign Policy Studies Program,
The Brookings Institution

PHILIP H. GORDON

Director, Center on the United States and Europe;
Senior Fellow, Foreign Policy Studies Program
The Brookings Institution

CARLOS PASCUAL

Vice President and Director, Foreign Policy Studies Program
The Brookings Institution

JEFFREY A. BADER

Director, China Initiative;
Senior Fellow, Foreign Policy Studies Program
The Brookings Institution

Anderson Court Reporting
706 Duke Street, Suite 100
Alexandria, VA 22314
Phone (703) 519-7180 Fax (703) 519-7190

Anderson Court Reporting
706 Duke Street, Suite 100
Alexandria, VA 22314
Phone (703) 519-7180 Fax (703) 519-7190

PROCEEDINGS

MR. INDYK: (In progress) -- what we were planning to focus on was how the United States, Europe, Russia, and China could concert their diplomacy in a way that would produce some kind of positive diplomatic result. Of course, the context has now changed, and in many ways, the issue of Iran's nuclear program has suddenly disappeared from the international agenda. Perhaps that is not coincidental. But it is nevertheless an important issue which is part now of a much broader question of what to do about Tehran, in the sense of what to do about an Iranian foreign policy that manifests itself not only in terms of a very troubling nuclear program, but also in terms of activities across the Middle East, the most obvious of which is Iran's strategic alliance with Hizballah.

As we know, or at least as I know from deep experience in the way these things tend to develop, is that they are all connected. So today we thought we would keep our focus on Tehran, but do it in the context of recent developments.

To discuss what to do about Tehran, we have four Brookings scholars, and I will introduce them all very quickly. Ken Pollack, he is the Director of Research at the Saban Center, and a Senior Fellow in the Foreign Policy Studies Program at the Brookings Institution. He has a career that takes him from the assessment side and analytical side of the Central Intelligence Agency, to the National Security Council, and then to Brookings where he has basically in all of those different functions focused on the subject that we are about to talk about today. He of course has dealt with other Gulf security issues, in particular, Iraq, but in this context, his latest book, *The Persian Puzzle: The Conflict Between Iran and America*, is particularly apropos. It was published by Random House in 2004.

Ken is going to be followed Phil Gordon who is a Senior Fellow in the Foreign Policy Studies Program here, and Director of the Center on the United States and Europe at Brookings. He too has had experience in government. He was Director for European Affairs at the National Security Council, and before that, Senior Fellow for U.S. Strategic Studies, and the editor of *Survival* at the International Institute for Strategic Studies in London. He has a long list of books, the most recent of which was *Allies at War: America, Europe, and the Crisis of Iraq*. Phil is going to speak today about Europe's position on the Iranian issues.

He will be followed by Carlos Pascual. Carlos is the Vice President of Brookings and Director of the Foreign Policy Studies Program here. Before joining Brookings, he served as Coordinator for Reconstruction and Stabilization at the U.S. Department of State. He also served in the National Security Council as Senior Director for, what did they call it in those days, Russia, Ukraine, and Eurasia. And of course has been our Ambassador in Ukraine from 2000 to 2003. Carlos is going to talk about the Russian dimension of this issue.

Finally, we are going to have Jeff Bader speak to us. Jeff is the Director of the China Initiative at Brookings, and also a Senior Fellow in the Foreign Policy Studies Program. He has had a 27-year career in the Department of State, the United States Trade Representative, and also in the National Security Council where he was, I can't find it amongst all his titles, but let's just say he has got a very distinguished career in the U.S. government.

(Laughter.)

MR. INDYK: Jeff's expertise is in China, and he will address those issues.

So without further ado, let's hear from Ken about the trouble with Tehran.

MR. POLLACK: Thank you, Martin, and good morning to all of you.

As Martin explained it, we originally conceived of this press briefing as kind of an update on the nuclear equation with Iran, but as is so often the case with the Middle East, that topic was overtaken by events quite literally.

What I thought I'd do, because the main theme I want to dwell on is the relationship between the fighting in Lebanon and the Iranian nuclear issue, I thought it would be useful to start by just recapping where we were with Iran before all of this started because that is a very important starting point. The way that I would describe where we were with Iran was that the international community had put the Iranians in a very difficult situation. The international community had come together in a way that they had not in the past and presented the Iranians with a package of positive and negative incentives, benefits for giving up their nuclear program, sanctions if they refused to do so.

Because you had all of the great powers of the world, the P-6, supported by various other countries, unanimous in presenting this to the Iranians, and because there was a growing sense that these countries really meant it, it placed the Iranian leadership on the horns of a dilemma. The fact of the matter is, as best we can tell, the Iranian leadership does not want to give up its nuclear program, and we can all speculate as to exactly what they are up to. I have my views, there are other people in the audience who probably have theirs. That is not terribly relevant. The one point that is relevant is that the Iranians clearly are not ready to give up that nuclear program, whatever its goals are.

By the same token though, it is equally clear that the Iranian government would very much prefer to avoid the economic sanctions that were part of that package, and I

suspect that they recognized that the economic sanctions that were part of that package could be the start in a much broader program of sanctions against them if they were to continue moving down this road, so this package deal created a dilemma for the Iranians. They did not want to say no to the package deal because doing so would incur those economic sanctions and start them down the path toward greater sanctions. But they also did not want to say yes, because yes would mean giving up their nuclear program.

So what we found from the Iranians was that they were trying to delay, and I think that they were trying to delay for multiple reasons. The first one was I do not think the Iranian government knew how to respond. I think that there were deep divisions, and we saw signs of this. Many people come back from Tehran and close Iran watchers, Iranian watchers of their own political system, have all reported these deep divisions within the Iranian political system over how to respond to this package deal, with the hard-liners saying we need to turn it down, with the pragmatists saying we are going to have to accept it, and with a variety of other people somewhere in the middle, including most likely the Supreme Leader 'Ali Khamene'i who has the ultimate decision on these kinds of issues and who seems to be the embodiment of this desire for Iran to have its cake and eat it, too, to both keep the nuclear program, and avoid international sanctions. So the Iranians were simply debating, and I think that was the first reason why they did not give an answer.

But I do think that there was probably an idea in at least some heads that the longer that they strung this out, the more likely the international coalition opposing them would weaken, would fragment, and maybe even fall apart altogether. Some of you were here a number of weeks ago long before Hizballah kidnapped any Israeli soldiers when I said that I think the Iranians are probably hoping that something will happen. At the time I

mentioned North Korea because that was the one thing that was on the horizon, but that something would happen that would refocus international attention away from Iran's nuclear program and onto something else, and the Iranians have got it. International attention is now very much focused on Lebanon, and that I think is the start of this interrelationship.

I think it goes beyond that. I think that there is no question that the Iranians are very relieved that most international attention has now shifted over to Lebanon and there is a lesser degree of attention on them.

But I think that the Iranians probably recognize that there is both danger and opportunity in what is going on in Lebanon. The danger comes from the widespread belief certainly in the United States but to a certain extent throughout the West that the Iranians were somehow culpable in the original Hizballah actions and to a certain extent for Nasrallah's continued resistance. This is dangerous for the Iranians, because, again, the mainstream Iranian leadership, principally Supreme Leader Khamenei, seems to recognize that it is bad for Iran to look bad at this moment in time; that the more that Iran looks like it is obstreperous, it is bellicose, it is aggressive, it is supporting the causes of violence around the Middle East, the worse it plays for them on the nuclear issue. For me, it is one of the reasons why honestly I just do not know whether the Iranians had something to do with the initial Hizballah operation.

I think that, first of all, there simply is no evidence available to most of the people in this room, I exclude a couple of the people in this room who I suspect may have some additional evidence than others in this room, but for most of us, we just do not have any evidence to know whether or not Iran truly was aware, let alone actually gave a green light to this operation.

Beyond that, I think that we can, based on previous patterns of behavior, suppose that Iran may very well have had some degree of knowledge, but it is just not clear how much, and, again, it is not certain that they did. Hizballah has been acting much more independently of Iran especially since the end of the Cedar Revolution, and I cannot rule out the possibility that they absolutely were blind-sided by this. I am struck by the fact that most Iranian officials seem to be genuinely surprised by recent events. I just cannot tell if they were surprised by the whole crisis itself, or simply surprised by the Iranian reaction to the Hizballah operation.

But it is clear that in the United States, Iran is seen as the ultimate culprit behind Hizballah's operation, and they are being held accountable. That that view is not solely limited to the United States creates real danger for the Iranians. The more that they look evil, the more that they look aggressive, the more that they look like they are supporting violence and opposing processes of peace in the Middle East, the worse it is for them on the nuclear front, because the more willing other countries are to say, you know what, we really cannot allow the Iranians to get their hands on this technology because they are a force for instability in the region, because they cannot be trusted with this kind of technology, and, therefore, we will join in the international effort to sanction Iran and to try to prevent them from acquiring it.

By the same token, there is also opportunity for Iran here, and as far as I am concerned from an American perspective, this is I think the great fear. The opportunities for Iran are several fold. First, there is the possibility that Hizballah will be the ultimate winner from the current conflict. Right now Hizballah is trading punches with Israel one for one, and while the punches they may be landing do not hurt as much as the punches that Israel is

landing, the fact of the matter is, their strategy is rope a dope, and as long as they can stay in there trading punches with Israel, they are winning. They are burnishing their credentials in the eyes of many in the Arab world as the one Arab entity that can actually stand up to Israel and trade punches with it and do so in a way that no Arab state has ever been able to do. If Hizballah prevails in this conflict, that will greatly raise the prestige, the strength, the influence of Iran's great proxy in the Levant. It will draw other countries to Iran's orbit, it will draw other groups like Iraqi Shia militias further into Iraq's orbit because Iran will be seen as the efficacious partners or the efficacious state able to stand up to the United States of America, Israel, and its other allies in the Middle East.

The second great danger though for the United States, the second great opportunity for Iran in this crisis, is in some ways the opposite, which is that Iran might be the peacemaker, and that would be equally dangers, perhaps even more so for the United States. As I said, it is clear that the Iranians were surprised by something about this crisis. As I said, I do not know if they were surprised by the whole crisis, that is, they were not aware of the Hizballah operation and they were caught by surprise by that, or they were aware of it and they simply were not expecting the Israeli response, but it is clear they were surprised.

To their great credit, and I think that it is important not to undersell them, they have reacted in a very clever manner. Khamene'i dispatched Mottaki, the Foreign Minister, to Damascus, where they immediately offered to mediate the crisis, and that creates this danger for Iran. As I said, it is very bad for Iran, it is very helpful to American efforts, to try to bring this international pressure on Iran for its nuclear program for Iran to be seen as acting aggressively. But the more that Iran looks like it is acting in a restrained and

responsible manner, the worse it is for applying that same [international] pressure. And the worst of all would be to have this fighting drag on for several more weeks with the U.S., Europe, and the Arabs unable to stop the fighting, only to have the Iranians turn around and say, You want this fighting stopped? We can turn off Hizballah, but there is a price, and that price is that your package goes out the window. I think that would be a very difficult offer for a lot of countries to say flat out no to. I think if the Iranians went to the Russians and the Chinese and probably some European countries and said we can turn off Hizballah, but you've got to back off on our nuclear program, I suspect that a lot of those countries would look long and hard at that offer. I cannot say for certain where they would come out, but I think that they would be very enticed by it. That would make Iran look like a force stability in the region, it would make Iran look like a peacemaker, and would greatly undermine this international consensus to prevent Iran from acquiring this nuclear technology.

Let me stop there with these two different possibilities, these possibilities of danger for Iran, but these possibilities for real opportunity for Iran, which also translate to real potential problems for the American-led, the European-led as well, effort to try to prevent Iran from acquiring these technologies by building a strong international consensus to oppose them.

MR. INDYK: Thank you, Ken. That is why I love working with you. You always brighten my Monday mornings.

(Laughter.)

MR. INDYK: Phil?

MR. GORDON: Martin and Ken have both underscored the degree to which these two separate issues, or apparently separate issues, the Iranian nuclear program, and the

Lebanon crisis, are related. I would like to begin with a point about the interrelation and then talk about how the Europeans play on the two pieces of it, the nuclear and the Lebanon.

We do not know. As Ken said, it is hard to get in behind the scenes and understand exactly the role Iran may or may not have played in Hizballah's operation. But there does seem to be a lot of circumstantial evidence that there was a role, not least in the way that Ken ended, that you can easily play out a scenario in which this leaves Iran with more leverage, and, therefore, it would not be particularly surprising if that were part of the plan from the beginning.

Nor does it seem to be a coincidence that the Hizballah kidnapping that started this current Lebanon crisis took place in between the Iranian rejection, I will call it a rejection and we can be more sophisticated later, of the West's nuclear offer, and the European return to the Security Council with a resolution for sanctions on Iran. In other words, it was not only an attempt, apparently, to change the subject, but an attempt to send a message to those who were returning to the Security Council to contemplate this, that Iran can really make your life miserable.

If you remember, when the Iranians last put off E.U. Foreign Policy Chief Solano who was the sort of messenger of the West with the U.S. and European proposal to Iran, when he went they were supposed to meet July 5th, I think the Iranians delayed it for a couple of days, but when they finally met there was yet again a nonresponse. But then what Iranian negotiator Larjani said in the following days was we have not rejected it, we are still entirely open to talks, but that will not happen if you go back to the Security Council. And it was that context, it was that week, where the Europeans were indeed planning to go back to the Security Council that this all took place. So, yes, it may be a coincidence, maybe

Hizballah just decided this and it happened to happen at that time, but to me it sure looks an attempt by Iran to remind us what it has the capability of doing if we pursue a tough policy towards Iran.

That does not mean that they know what response was expected. There, too, we can only speculate. Maybe they thought this would be a message, a very short, punctuated message about what they potentially could do that Israel would not respond massively to, but maybe they also thought it through and figured if they do get a massive response, that is also a message. It is the chaos in the region that Iran could create if we in the West decide to really push this and get tough with Iran. All of that is entirely circumstantial, but it does leave the impression that this was not a coincidence at all, and that Iran knew what it was doing at least to an extent.

Where does that leave us, and in particular the Europeans, on these two pieces of the puzzle, the nuclear issue and the Lebanon crisis? First, on the nukes, let me just say one word about the context to remind us how we got into a situation with the Europeans playing such a lead role on the nuclear issue. If you remember when this all emerged, it was in the summer of 2002, this latest round in the Iranian nuclear program, when dissident groups revealed that the Iranian nuclear program was actually much more advanced than we had thought, that there was an advanced enrichment process going on that we did not know about, and it was much more serious than we had previously believed.

Why did that get the Europeans involved? Partly because they cared about proliferation in the region, but also partly because what else was happening in the summer of 2002? We in the United States were talking about invading Iraq and changing the region through the use of force. For Europeans, it was not too difficult to think that process through.

We used force to deal with the WMD program in Iraq, and then we turned to the next issue, and if it turns out that Iran has a major enrichment program, that is next. So if they could not think of a way to help us defuse and deal with the Iranian nuclear program, we Americans were going to do it our way, and they did not like that scenario of an invasion or a bombing of Iran. So I think that stimulated the Europeans to take the lead on this issue. Again, that is not to say that they did not care about the issue itself. Europeans I think more than we often give them credit for understand or recognize the real problems with an Iranian nuclear weapon for further proliferation in the region, with other countries perhaps having to respond, for the Nuclear Nonproliferation Treaty which is very important to them but which would simply be dead if Iran had a nuclear weapon, and also for protection for Iran for sponsoring terrorism in the region. The Europeans took seriously the issue itself, but they also wanted to forestall America dealing with it in a different way. They took the lead; they proposed a negotiation process with Iran which was initially accepted. It was a deal to discuss further economic and diplomatic relations with Iran in exchange for what the Europeans called objective guarantees that Iran would not pursue a nuclear weapon, and those objective guarantees were defined as Iran not maintaining a nuclear fuel cycle.

That was the sort of negotiation that went on for almost 3 years, where Iran did suspend its enrichment program and fuel cycle operations, and the two sides talked. There were a lot of ups and downs, but it is worth noting that every time Iran started to walk away from the process and the Europeans threatened to go to the Security Council, Iran would come back and the talks would begin again. That went on, and the U.S. really did not have much to do with it.

That process seemed to come to an end last fall when the Iranians really ended up saying, not only saying, ended up doing, started to convert nuclear fuel at their plant at Isfahan and prepare the feed stock that would go into the centrifuges, then announced that they were going to start spinning the centrifuges again, and then started spinning the centrifuges again. That pretty ended the idea that this would lead to an agreement between the Europeans and Iran, and that is where American gets brought in, which, by the way, was a constant European refrain throughout the process, that it would only really work when the United States was brought on board. They were doing their best in trying to offer enhanced trade and diplomatic relations with Iran and threatening disincentives or sticks or sanctions, but the reality was that they knew, and they kept reminding us, that this would only really work once the United States got involved because when it came to carrots and sticks. On carrots, the Europeans are pretty much maxed out anyway. They already traded and had diplomatic relations with Iran, so what much further could they do? They invested in Iran, they traded with Iran, and they could not offer Iran much on the positive side. And we could not much offer Iran much more on the negative side. We already didn't trade with Iran and didn't talk to Iran, and so if you wanted to put together a new package to change Iran's incentive structure on the nuclear program, it had to be a joint European-American approach, so throughout this process they wanted the United States to get more involved.

As one of the European nuclear negotiators once put it to me in a notion that is familiar to people in Washington, whenever he met with the Iranian nuclear negotiators, he felt like he was at a dinner party or a reception where the person was always looking over his shoulder for someone more important to come into the room, and that is what was happening to the Europeans. The Europeans would arrive, and the Iranians would talk to them sort of

politely, but they were looking over their shoulders because there was someone more important that they had to deal with. That remained the situation until the United States decided to show up at the dinner party.

In February 2005, President Bush travels to Europe, this is in the context of trying to mend relations with allies that are strained over Iraq, and he listens to the Europeans and they tell him quite frankly that the process is coming to an end, it is not working, and the United States really should get involved. Since then we have seen a real turnaround I think in American nuclear policy which evolved from the previous policy and attitude which basically said you Europeans are going to fail, it will never work, you will only reward bad behavior if you engage with the Europeans. The better way to deal with this program is through strength, toughness, and deterrence, and the threat of force, and that was really reversed after the President went to Europe and listened to the Europeans and came back and said we now support what the European-3 are trying to do.

Not long after that, we not only supported it diplomatically, but we said we would put some carrots into the mix, possible WTO membership for Iran, and spare parts for Iranian aircraft. Not long after that, we said we would actually be open to a Russian proposal to enrich uranium on Iran's behalf which we had opposed before. Not long after that, we said we will talk to the Iranians about Iraq and show that we are willing to do that. And not long after that, we said we will talk to the Iranians about the nuclear program. So we really evolved in the direction that the Europeans asked us to evolve, getting to the point where together the Europeans and Americans in May or early-June of this year were able to present Iran a much more serious package of carrots and sticks along the lines that the Europeans

were hoping for all along, designed to really test the Iranians and see if such an enhanced package could convince them to abandon their nuclear program.

I am afraid to say it looks we are nearing the end of that road. And to be fair, Europeans never promised that it would work. The case was to find out, to test them, to give it a shot, and to know that if we have to turn to sanctions or some other policy, it was because we tried all other options previously. That is the package that the U.S. strongly supported, and I would add to its credit, it was worth trying this and seeing if it would work, and at least we have constructed a situation unlike Iraq where it is the U.S. and most of the international community, and especially the Europeans on one side and Iran on the other, rather than the U.S. isolated because it was not willing to get involved in the process. But that offer as I think Ken reminded us was put out there a couple of months ago now, and the Iranian response has been: We have to study it. We are not sure yet. We will get back to you. We have not rejected it, but let's see. And time goes on and the Europeans and Americans alike are getting pretty fed up with that process which seems to be failing.

That leads us to "what now", and also leads us back to the tie-in to the Lebanon crisis. I think what the Europeans do now is, and have already, indeed gone back to the Security Council despite the Lebanon crisis to start the path toward sanctions and penalties for Iran. The question in Washington has long been: Would the Europeans really step up if Iran says no and support penalties and sanctions for Iran? And I have always felt the answer to that would be yes, and I think that we are seeing that that is the case now. There has long been skepticism here that the Europeans eventually would say, we tried, but it really didn't work out and you don't want to have sanctions because that would be difficult, so let's just have a compromise, and they have I think stood firm.

I think part of the reason for that is their credibility is at stake. After several years of saying this, for the E.U. now to say, we took the lead, the E.U.-3 is a new type of process, carrots and sticks can work, let's do it, and then to be rejected and just, all right, well, we gave it a shot, but never mind, the credibility of European foreign policy would be completely dead. And I think Ken's point about how the Lebanon crisis affects this also feeds into this. With Iran looking like it is responsible, and the Europeans share that assessment for the violence currently going on in the Middle East, there, too, for Europeans to sort of give them a pass and say, well, let bygones be bygones, I think is unlikely. So that process has started, and you saw that last week, that the European members of the Security Council went to the Security Council under Chapter VII and put forward a resolution that demanded that Iran cease its enrichment program and proposed, unspecified as of yet, penalties.

So I think the Europeans are on board for that, and that obviously leaves a huge question about what the Russians and Chinese will do on that, which I will let Carlos and Jeff talk about. But I think on that issue, the ball is in the Russian and Chinese court because I think the Americans and the Europeans are agreed on the next step at the Security Council.

Lastly, on the Lebanon crisis and how it affects this part of it, the big question here on that, too, has been will this cause a split between Europeans and Americans over Israel and Lebanon as we have seen so often in the past. There I would say, in terms of analysis, not really. Europeans largely share the analysis that I hinted at the beginning, that Iran is indeed significantly responsible for this, and Syria as well, and that Hizballah provoked the crisis and is mostly responsible for it. The split or potential split comes in

terms of what we do about it. There, too, I think we are in fact seeing signs of a split where the United States, and especially the U.S. Government, has stood absolutely firm behind Israel, has been reluctant or has not wanted in any way to criticize the Israeli response, has said they needed to be given time to do what they need to do and so on. They vaguely called for restraint, but not calling for a cease-fire. Whereas, in Europe you are seeing rising opposition to the Israeli response, very severe criticism of civilian casualties, and clear calls for a cease-fire. So I do think there is potential there for a split, there will be rising pressure especially with civilian casualties from the Europeans for a case-fire, and maybe that will push the United States in that direction as well. But if it goes on, I do think that there is potential for a return to the bad old days in U.S.-European relations on Hizballah, but I also think that whether we like it or not, Europe is going to play a role in the Israel-Lebanon crisis.

And that is the point that I will end with, whether we like it or not, because this process seems to me one way or another to go back through the Security Council and the Europeans will play a role there, and then if in the process of the negotiation that I think this will inevitably trigger anyone's needs to talk about troops or foreign troops or NATO troops. I think there, too, we come back to Europe because the United States is unlikely to do it, Israel cannot do it for other reasons, and then we are back to European countries and NATO members.

So, yes, we may have a different view on this question, but whether we like it or not, I think we are going to be talking to and about the Europeans a lot on this crisis in the weeks to come.

MR. INDYK: Thank you, Phil. Carlos, the Russians have since the collapse of the Soviet Union I guess seen that they were going to have a role in the Middle East. Has their moment come?

MR. PASCUAL: I think Russia is going to be schizophrenic on how to deal with the Iran nuclear program. It has been schizophrenic on it. It is going to be schizophrenic on how to deal with Lebanon. In some ways, I think Russia would prefer not to have to deal with the Lebanese issue at this point in time, but it is an inevitable reality that is out there and is going to have to be dealt with, and let me try to give you a sense for why those complexities exist.

I think, one, it is important to remember that Russia is part of the problem in Iran dating back to its nuclear program in the 1990s when Russia was cooperating with Iran on the Bushehr nuclear power plant. At that stage, the Russian program was headed up Minister Adamov, the Minister of Atomic Energy, and I think many of us felt that program was used as a screen for the provision of illegal technology and illegal technology transfers which also could have led to technology transfers on missiles.

President Putin would prefer not to have a focus on that, and I think he has been largely successful in defusing attention away from it. But what it points out is that there has been a history of engagement and involvement in Iran by Russia that you cannot ignore, and you have to understand the pieces of it to understand the Russian schizophrenic position.

One part of that is indeed that team that was headed by Minister Adamov who had just until Friday been in jail on corruption charges, and the fact that he was actually released on bail is indicative that perhaps maybe he has not completely lost his influence in Russian society. That is not to say that Adamov is a dominant character now. Minister

Kirienko who now heads that agency has made a significant attempt at reforming its orientation. But here Minister Adamov is, who has been able to leave that jail, and as he said, "On Monday I will start work," whatever that might be.

The second is a legitimate high-tech community in Russia where there has been extensive and continuing underemployment and unemployment, and has consistently been looking for export markets. In the past, Iran has been a short-term alternative, and the question that they have to be thinking for themselves is whether dealing with Iran now in the short-term is in fact going to be counterproductive to other long-term options, and I will come back to that in a minute.

The third group is the traditional foreign policy and security community in Russia. These are smart people. They understand that a nuclear Iran with missiles is not good for Russia. They understand that those missiles can actually hit Russia. And against that are three countervailing factors which complicate matters for them in the short-term.

One is you never admit you made a mistake in the conduct of your security policy, and you cannot admit the mistakes that might have occurred in the 1990s. The second is an absolute neuralgia against Security Council sanctions against any major potential trading partner, one, for economic reasons. But secondly, Russia has consistently sought to prevent a precedent of sanctions against another country that could be utilized as a precedent for scrutiny of Russia's own internal behavior.

Third, Russia is absolutely committed to ensuring it is not seen as being subservient to the United States or United States interests which, hence, has been complicating getting a consensus position within that foreign policy community.

Finally, the fourth group that I think is important to think about are those who are looking fundamentally at Russia's political interests, particularly in the presidential administration and the President himself, and their basic question is, What is good for Russia and what is good for the President of Russia? What is the perception of Russia's role in the world? Is it seen as strong? Is it seen as a problem solver? And is it going to result in something which allows Russia to sustain its commercial interests?

As a result of those conflicting factors, it has been difficult for Russia to bring its policy together, yet it is starting, at least on the Iran nuclear program, to evolve toward some form of consensus with the P-5, the E.U., and with Germany, in part I think because there has been some convergence of security interests and commercial interests and interests with the United States, and let me give you a little bit more detail on that.

One aspect of Russia's response, in particular, President Putin's response, has been greater tolerance toward the Iranian nonresponse than you have seen from the other partners who have been involved. President Putin has said Iran is an influential regional power. Iran has the right to gain access to all high-technologies. The key to resolving this problem, he said, is not toughening the six-country position, but ensuring that you have unity among the countries. The reasons for this I think are twofold. One is a commercial concern, a commercial interest, of having nuclear dealings with Iran on nuclear fuel, on reprocessing of fuel, as well as gas interests in Southern Iran. Secondly, ironically, Russia now has a competing European country, France, in the provision of nuclear power technology, because in the past it was Russia and Bushehr, now there is a potential French technology for a light-water reactor which is something that has to be going through the Russian mind of are they going to beat us out in this market.

A second concern is that Russia simply does not want to be seen as a puppet of the United States, particularly after Vice Cheney's speech in Lithuania in April. Some of that clearly has been mitigated by the G-8 where Russia seemed and appeared as a country of strength and power, and President Putin I am sure will forever relish that scene on the podium with President Bush where he got the opportunity to comment saying we certainly do not want us to be seen as having a democracy that follows the Iraqi model. In effect, what has happened is that the G-8 has given President Putin an opportunity to refocus attention on other issues, and obviously that has been aided by events in Lebanon.

But the impact of this on Russia's response has been to really back off of a strong, aggressive stance on sanctions. You hear President Putin saying as late as the G-8 that it is too early to speak of sanctions, that mentioning sanctions will create unfavorable conditions for beginning the negotiating process. So Russia is going to keep its options open on the sanctions question, even though it has been joining with its other partners thus far.

There is a change which is coming in the Russian position, and I think that what we can begin to see is that Russia is starting to signal to Iran that there is an expectation that there can be a solution and that there should be a solution. Part of this is driven by I think President Putin's personal involvement. He commented at the G-8 meetings that he spoke to Ahmadinejad in June, that Ahmadinejad told Putin that this issue would be brought to closure within a month. Now Putin is saying they are talking about August, and he reminds Iran by saying that our position, Russia's position, is based on hope that negotiations will begin. They have to begin, a mild rebuke, but what is increasingly involved is that now this is about him, Putin, he is also part of this equation as well.

The other factor here is that I think that there has been a blending of commercial and long-term security interests. If you look carefully at President Putin's comments about the solution on the Iranian nuclear question, it is not so much just focused on Iran being able to process fuel, but he says that the solution lies in a network of international centers to enrich uranium and make it possible to reprocess fuel. He says that each country would then have a democratic access to new technology. So in effect, what he is doing from a security perspective is saying that we have a new problem, the demand for nuclear technology in the world. That demand for nuclear technology requires access to fuel and the reprocessing of spent fuel, and Russia can be part of that solution. There is a bigger issue here than just Iran. It can be a solution for Iran, but it something which is bigger, and that happens to coincide with U.S. interests as well.

What he is also starting to do is to put down the marker that if Iran rejects this offer, there may be countervailing Russian interests that allow Russia to go along with sanctions in the interests of Russian security and long-term commercial interests. So I think President Putin is opening that door to staying with the P-5 plus the E.U. and Germany.

Finally, I think on this question of the message that Russia is giving is one to Russia and to the United States, that economics is a problem solver and that President Putin is doing this because it is his choice. He is saying that the solution requires improving the overall security situation in the world, and implicit in that is that he is part of coming up with that solution.

A final point on the linkage of the Iranian nuclear question and the Middle East. I think Russia has the last interest of all of the principal players involved to draw that kind of a linkage for the following reasons. One is a commercial one, still that ongoing

interest of being able to do business with Iran. A second is with the United States, to be able to continue to poke the United States and say that Israel has been disproportionate in its response and you, the United States, are not doing enough to rein in Israel.

A third factor, frankly, is a question of precedent or comparison. I think Russia is going to over time be concerned that some may draw linkages between what Israel is doing in Lebanon and what Russia has done in Chechnya, and in particular, its bombings in Grozny. If you look at and compare the language of what took place in 1999 and early-2000 in Grozny, and what is being said by Israeli leaders, there is a similar striking resemblance in the nature and tone of the objective and why the operation is necessary.

Finally, I think Russia realizes that the situation in Lebanon is really, really complicated, and the last thing that they want to do is to be seen as failing. I think the Russia response is going to be continue to use this as an opportunity to poke at the United States when possible, but not take any kind of definitive stance that allows it to maintain its flexibility on how it will come down on the Lebanese question in the future.

MR. INDYK: Thank you, Carlos. What about China? Are they going to take the same position?

MR. BADER: I think that China will be a lot like Russia, but not exactly, and I will make some differentiations.

First of all, a little bit on the history of China's relationship with Iran. They have had relations with Iran since the days of the Shah, since 1971, when they established relations as an anti-Soviet alliance. The Chinese maintained continuity in their relationship with Iran through the Khomeini era. They did not have any natural warmth for the Islamic Republic of Iran. The Chinese I think are baffled by religious parties, religious-led

governments. It is contrary to their culture and their understanding of the way the world works, but that has not stopped them with other countries. If you look at Pakistan as Pakistan has become increasingly Islamic in the 1980s and 1990s, it has not affected negatively the Chinese relationship with Pakistan, so they are willing to turn a blind eye to that.

China's basic approach to relations with countries is to take states as they find them, with respect to sovereignty of states, not to meddle in their affairs, not to express a preference about forms of regime since at some point that can be turned against them. Their approach to Iran as their approach to any significant state, they take it as they find it. I think in the case of Iran in the 1980s, there may have been some slight hedging on the part of China because of concern about possible meddling in Shenyang Province where China has a large Muslim population. I think there was some concern that states from the Middle East, and Iran in particular, might be encouraging growth of fundamentalism in an area where China's control is not completely secure. But I do not think that is a major factor in China's attitude towards Iran. I think their main concern in Shenyang has to do with ties with Central Asian states where there are great closer ethnic and commercial relationships in the case of Iran.

What has happened in the last few years in China's relationship with Iran is about one word, it is about energy. Beginning about 2 or 3 years ago, China has begun developing a strategic energy partnership with Iran. Until 1993, China was an oil exporter. Now they are an oil importer. In 2004, they received about 15 percent of their oil imports from Iran, and Iran was the second-largest source of oil for China, second only to Saudi Arabia which is responsible for about 18 percent of Chinese imports. This relationship comes out of nowhere. In the 1990s there was very little Iranian export of oil to China.

In addition, there is natural gas. In 2004, Sinopec signed a deal described in the media as a \$75 billion deal for 25 years' worth of 10 million tons of liquefied natural gas to be sent by Iran to China, and also giving China a 51-percent share in the development of the Yadavaran oil field. That deal has not been consummated yet. If you listen to the Chinese, the Iranians have been pretty blood-minded in the negotiations and it is still where it was a couple of years ago, but it is a potential 300,000-barrel-a-day field about half the production of which the Chinese would hope to come to China.

There is also an economic dimension to the relationship beyond energy, and there is a history of an arms relationship I want to say a few words about.

On the economic side, I think that the statistics vary depending on where the Iranians are sending their oil, but I would say that I think that China is Iran's leading economic partner at the moment in terms of trade. I think they are number one. The Chinese are building the Tehran Metro; the Chinese are responsible, something like 95 percent of the motorcycles in Iran come from China. It is the biggest opportunity for the Chinese, not for Chinese investment; there is very little Chinese investment in Iran today, but in terms of Chinese projects, there is about \$6 or \$7 billion worth of projects involving Chinese labor and Chinese contractors in Iran.

On the arms sales side, there is quite a history. I am not sure what the history tells us about the years to come, but I think there are some lessons there. In the 1980s, the Chinese were selling silkworms to the Iranians until 1986 when the United States imposed a freeze on export controls to China and the Chinese halted the sale of silkworms to Iran.

Then in the mid-1990s, there were two similar transactions. The Chinese were selling C801 and C802 missiles to Iran and you all have heard about C802s in the last

few days in connection with Hizballah firing of a C802 against an Israeli vessel. That is a Chinese missile in its origin. In 1996-1997 as President Clinton was about to receive President Jiang Zemin on a visit, the U.S. leaned very hard on the Chinese to stop the sale of C801s and C802s to Iran, and the Chinese did.

Around the same time, the Chinese had been building a light-water reactor for Iran and were involved in several other nuclear cooperation projects with the Iranians. The U.S. leaned hard on China to halt all nuclear cooperation with Iran, which they did. They halted assistance to the light-water reactor, and they halted all cooperation on new nuclear programs with Iran.

I think that there is a lesson in this that gives us some sense of where the relationship is going to be going forward in terms of Chinese attitude towards the Iranian nuclear program, and I think that lessons is when the U.S. makes Iran a central national security interest, the Chinese are going to respect the U.S.'s position. They are not going to until they have to. Their energy relationship and their economic relationship more broadly with Iran has become increasingly important to them. They do not want to cut it off and they do not want to damage it. Therefore, they hope that the Russians, and to a lesser extent the Europeans, will not move too quickly do they do not have to in turn damage their own relations with Iran. But if the U.S. says this is the central national security issue for the United States and we expect you to respect our national security interests here, I am persuaded that the Chinese will, in an end game, do so.

As to their approach to the nuclear issue, historically Chinese strategic doctrine has not placed much emphasis on the Nuclear Nonproliferation Treaty or the nonproliferation regime. They have, of course, provided the Pakistanis the design for their

own nuclear device in the 1980s. I think it is fair to say they have been pretty casual historically about nuclear nonproliferation, but I think that is changing. If you look at their approach on the North Korea issue, and in particular, their support for the resolution recently in the Security Council on North Korea, to me that was quite striking. North Korea is, of course, a state with whom China has a closer relationship than they do with Iran, and they were still prepared to come pretty close to supporting sanctions. They stopped short of supporting sanctions. Of course, they knocked the Chapter VII provision out of the North Korea resolution, but they did agree to language that urged states not to provide assistance to North Korea's nuclear program or its missile program which could not have been an easy thing for them to do.

As Carlos said about Russia and sanctions, he referred to the Russian general neuralgia to sanctions, if Russia has a neuralgia, I don't know what the stronger word would be, paranoia, phobia, hyperneuralgia, China's attitude towards sanctions I would say are stronger than Russia's. They have been of course historically the victims of sanction from 1949 until the 1970s. They see resolutions introduced in the U.N. Human Rights Commission regularly attacking them. They are concerned about use of sanctions by the West for their human rights practices, for Tibet, for all manner of reasons. So they will be very late coming on board if there is to be a sanctions resolution in the U.N. on Iran.

They will I think try to stay as close to the Russians as they can, as long as they can, but depending on their relationship with the U.S., I think that ultimately the Chinese will be a little bit softer than the Russians. I think that ultimately the issue of sanctions on Iran from the Security Council will be more an issue of Russia than of China. As to China, all you have to do is look at the numbers, \$250 billion of trade of year with the

United States and the United States role in China's modernization. The Chinese are very clear that the U.S. relationship is the most important relationship to them. I do not think they are looking to tweak the United States in the way that Russia looks for opportunities to tweak the United States. They are looking to keep their relationship with the United States stable.

As to their attitude towards the Middle East and the Persian Gulf generally, whereas once the Chinese supported national liberation movements and were aligned with radical movements in the region, that has changed I think quite dramatically. I think the Chinese natural sympathies and natural strategic alignments in the region tend to be with more moderate states. I think it tends to be more with the Saudis and Jordanians and not naturally with the Iranians.

Two last points. They are concerned about the stability of the Persian Gulf. By 2015, something like 70 percent of China's oil imports are going to come from the Persian Gulf. By 2030, the IEA projects that China is going to be importing 80 percent of all of its oil, of which the overwhelming majority is going to be from the Persian Gulf. The idea that a Persian Gulf that is in turmoil and in which Iran has nuclear weapons and in which other states potentially have nuclear weapons is not an attractive scenario for the Chinese. In fact, Bob Zoellick in his strategic dialogue with the Chinese very much emphasized that aspect of the risks to China's national interests in an Iranian nuclear program. I think he emphasized that more than the nuclear proliferation risk.

Finally, on the nuclear proliferation side, as I said, I think the Chinese are paying more attention to nuclear proliferation, and for good reason. You have the U.S.-India now which raises questions for Chinese national security because the Indian military nuclear program is not going to be under safeguards, and the U.S.-India deal has an obvious impact

on the future of the NPT. You have the North Korea withdrawal from the NPT. You have Iran's ambiguous behavior towards the NPT. You have the risk if Iran goes nuclear of other states in that part of the world going nuclear. At the end of this queue of countries going nuclear with the breakdown of the NPT stands the one country that China really cares about, and that is Japan. We have I think the likelihood at the moment of Shinzo Abe being the next Prime Minister of Japan in September. He is more nationalistic, more conservative, and less apologetic about Japan's past than previous prime ministers. After the North Korean missile launch he talked about Japan adopting a policy of preemption. He said it is worth studying. I think that the Chinese understand that in the post-NPT world as five or six countries are looking at nuclear weapons that the Japan equation changes.

Finally, on the Israel-Lebanon side, I think that the Chinese are going to be pretty passive on that. Again, they are going to be looking I think at two principal actors in determining their position. They are going to be looking at the position of the United States, and they are not going to want to be adversarial to the U.S. position. And they are going to be looking at the moderate Arabs. They are going to be looking at how the Saudis and Jordanians are looking at the issue. They have so far I think largely mirrored the European line about disproportionate use of force by the Israelis, and at the same time they have been critical of Hizballah. So I think that they will be the caboose on this particular train and not be central actors.

MR. INDYK: Thank you, Jeff. We have had a very rich, complicated, and fascinating series of presentations. We have about 30 minutes now for questions. I would ask you, please, to wait for the microphone and to identify yourself before you ask the question.

MS. SLAVIN: Barbara Slavin with "USA Today" and the Woodrow Wilson Center. I wanted to ask how you think the Bush administration is going to react to this in the way it treats Iran, whether the Lebanese situation is going to strengthen the hands of those who argue that the U.S. is going to need to talk to the Iranians, is going to need to allow the Iranians to have a sort of security dialogue about the whole region, or whether it is going to strengthen those who say you see, they cannot be trusted, don't have anything to do with them, if they don't give a positive response on the nuclear issue, move to isolate and move towards sanctions.

MR. INDYK: Ken?

MR. POLLACK: I don't think it is clear yet, Barbara. I see very different trends on the part of the Bush administration. I do not think that they really have sat down and come up with a unified strategy for approaching this. Right now, I see them looking at it primarily from the Israeli perspective.

What I tried to do in my presentation was to lay it out from an Iran-centric focus which I actually think gives you a very different perspective on the issue. My analysis as I read it would argue that bringing this to a conclusion very quickly is in the best interests of U.S.-Iran policy, that the longer this goes on, the greater the danger for U.S. policy toward Iran. The greater the likelihood that Hizballah emerges as the winner, the greater the likelihood that Iran can emerge as the ultimate peace broker if we do not do it ourselves. So from the perspective of what we are trying to accomplish with Iran, I think the argument suggests that the United States needs to move much faster to shut this down, to create the alternative in Lebanon to deal with this problem, than we have so far seen the administration do.

That said, I do see some positive aspects as well. You have had some comments over the weekend from senior Bush administration officials saying that they understand that they need to split Iran from Syria, which I think is right, and that effectively they need to kind of isolate Iran from the situation in Lebanon, which I also think is right. So I think those are positive developments. As I said, I think for the moment they continue to see this from an Israeli centric perspective, what is best for Israel, what is best for that situation there, as opposed to really recognizing it and saying looking at our Iran policy, what is it that we most need to happen in Lebanon to preserve our Iran policy, which I do not think they are at yet.

MR. INDYK: Carlos?

MR. PASCUAL: I very much agree with what Ken said. I think the only point that I would add is that in the end, on the management of the Iran policy, I think you will get a strong group coming back and ask the question, What is it that we need in order to have a chance of success? In the end, they will come back to the point that we need to be able to stick with the Europeans in particular. Sticking with the Europeans will inevitably force us to listen to what some of the European concerns are.

As Phil I think outlined, the Europeans are getting more and more frustrated with Iran and there may be--

(End Side A. Begin Side B.)

MR. PASCUAL: (In progress) --will mitigate some of the harder lines in the administration that might be willing to take a tougher stance on Iran.

MR. INDYK: Stefano?

MR. STEFANINI: Thank you, Stefano Stefanini, the Embassy of Italy.

Martin, there is one point I would like to come back to that has been touched on very shortly by Ken Pollack right now, the relationship between Syria and Iran. Do you see it as strategic as the relationship between Hizballah and Tehran, or a passing alliance? Ken already said it; we should try to split Syria from Iran. Given the fact that at the moment that the administration does not talk either to Tehran which has been for a long time, nor to Syria, do you see a role for the Europeans in this respect, obviously a role which would have to be agreed with the United States?

If I can touch very briefly, one point which struck me was what Jeff was saying about the importance of the Persian Gulf for China, especially in the future. Is this going to bring China and the U.S. to a collision course? What I mean is does that mean that China's medium- and long-term interests do not want to see the U.S. in a strong position in the Gulf because they would control their vital supplies?

MR. POLLACK: The relationship between Syria and Iran is also complicated, like everything in the Middle East. The two states do have some common interests, and certainly during the period of the 1980s and most of the 1990s, we have seen something of a strategic axis. But by the same token, it was weaker in the 1990s than it was in the 1980s. Why? Because the Syrians felt like they had an alternative, and while they kept Iran in their back pocket, they also did put distance between that relationship at different points in time and you saw some strains between Syria and Iran at different points in time which does open up this next point to me. If you really are serious about splitting Iran and Syria, and I do think that is important, you are going to have to offer Syria something. You

have to give them an incentive. Right now they have absolutely no incentive not to tie themselves with Iran, because, frankly, the Iranians are the only ones offering them anything.

As to my own personal perspective, I do not think that we want to just make concessions to the Syrians. I think that would be a mistake as well. But my own feeling is that if the Syrians could be helpful in shutting down Hizballah, I would be willing to put together a similar kind of package for Syria that we did with Iran. I would like to see a package of both carrots and sticks offered up to Syria basically saying the same thing, give up your bad behavior, give up your own WMD program, your support for terrorism, et cetera, and we will help move you in a more positive direction and integrate you into the global arena. If not, we are going to sanction you as well.

This goes to the point that Phil was making, actually a couple of different points that he was making with regard to Iran, that a lot of this is about smoking them out. You have heard people talk about Bashar al-Assad really wants to do the right thing; he just does not have the opportunity to do so. Let's give him the chance, and let's find out, and if he is able to do so and willing to do so, that is great, and if he is not, well, we know that, too, and let's treat him accordingly.

It also gets to this question of when you were raising the issue, Stefano, of should the Europeans take a greater hand. I think to some extent they should, but to go back to Phil's point about the Iranians always looking over their shoulder to see if there is a more important person entering the room, I think the same thing will be true with the Syrians. They may be more receptive to initial European overtures, but if they do not believe that the United States is part of this process, I do not think they are going to be interested in it as well.

To wrap with a reiteration, again, with the Syrians I do not want to suggest that this is all about just buying the Syrians and making them happy so that they do things for us. First, I think their influence over Hizballah is more limited than it once was because they withdrew from Lebanon. Second, I do not think that we should let the Syrians off scot-free, and I think that pressure on the Syrians can be helpful as well. What I am suggesting is I think there is an opportunity to move Syria away from Iran, it is one that we should take, but, again, for me it is very much a process of carrots and sticks to move them away, not just carrots.

MR. BADER: As to Stefano's question on China, I think you could see, how should I put it, I will not say conflict, I will say what you are going to see is increasing Chinese penetration of the states in the Persian Gulf and increasing solidification of their political and commercial ties with the states of the region. I think we have seen that in the last 5 years. They essentially had no relationship at all with the Saudis until the late-1980s when their relationship was based solely on the provision of CSS2 missiles by China to Saudi Arabia, but then since 1995, with the development of an energy relationship, and now a quite broad-based relationship with presidents going back and forth, and lots of construction projects, they are doing similar things with all of the states in the Gulf Cooperation Council, and the Gulf Cooperation Council states I think see China as a tremendous economic opportunity. They see the trend lines in energy growth in China and India and realize that that is a hedge against potentially declining demands in the West or technological change that could produce declining demand in the West at some point. So there is a natural relationship I think developing between the GCC states and the Chinese.

That said, I do not see it as an area of conflict, primarily for two reasons. One is oil is a fungible product. There is a functioning international oil market. You cannot lock up oil. The Chinese are not going to lock up oil supplies in the region through deals. Any oil they get from State X means they will not get oil from State Y, and if they are buying 150,000 barrels from Sudan, that means 150,000 barrels that is freed up from Saudi Arabia to sell to Europe or the U.S. In any case, there is a functioning market, so I am not worried about the locking up of oil scenario that we see a lot of speculation about. Gas is little bit of a different issue because gas is very much tied to supply lines.

Beyond that, on the military side, the Chinese are not yet anywhere near developing a blue water navy. They do not have any aircraft carriers. They do not have long-range bombers with the capability of operating far from their area. Their buildup in the last few years has been mostly focused on Taiwan and focused on securing the area off their shores. At some point a generation down the road, I am sure that the Chinese will want to have a blue water navy. Presumably, in the interim the United States will not have stood still. The Chinese understand that for at least a generation they cannot challenge the United States militarily, and they are not looking to. I think that their basic approach to the Persian Gulf is stability. They recognize that the U.S. is going to play the dominant role in assuring stability. They just want to have their own flags planted there politically and economically so that the states in the region take them seriously.

MR. INDYK: Let's take a couple of questions from the back.

QUESTION: (Off mike) Embassy of Saudi Arabia. A lot of people argue that a root cause of all the problems is the Arab-Israeli issue, and nobody has mentioned the peace process. It is almost as though what you said about Iran wanting a distraction, this is a

distraction for Israel. No one talks about what is happening to the Palestinians right now because everybody is focused on Lebanon. Where does all this fit with the peace process, and where is it going?

MR. INDYK: Let's take one over here.

MR. PHELPS: Tim Phelps from "Newsday." I wanted to ask Ken, you said in your book that if the proper array of carrots were offered to Iran, I hope I am characterizing it accurately, that maybe a deal could be reached. Do you feel that the package that was offered to Iran ought to have been sufficient enough to get them to take the carrot?

MR. INDYK: Should I answer the Arab-Israeli question? I will do it quickly. To the extent that Palestine is no longer on the agenda, the Palestinians can thank Hizballah for that. Hizballah I think was trying to take a ride on the Palestinian cause, but it has managed to drown it for the time being.

But that said, I do not remember a single Lebanese crisis that did not end with an initiative to try to resolve the Israeli-Palestinian or Arab-Israeli conflict in one way or another. The crisis in Gaza is ongoing and is not about to end just because we resolve, if we ever resolve, the Israel-Lebanon crisis. So I expect that we will come back to it again, but the heart of the matter, at least from my perspective, is highlighted by the problems we face in Lebanon. Both in the case of the Palestinian Authority and the Lebanese situation we have weak governments who are unable to control their territories, and that makes it extremely difficult to launch a peace process when you do not have a viable and capable partner on the other side, whether it be Abu Mazen versus Hamas, or Fouad Siniora and the Lebanese government versus Hizballah, we have to find ways to treat that, and the precedent being set

now with an international force apparently being acceptable to all the critical parties including Israel to try to strengthen the capability of the Lebanese government, I suspect that precedent will also be used in the Palestinian arena finally as the way to try to create a basis upon which you can build some kind of conflict resolution process, somebody on the other side who is going to be responsible and capable, and if they cannot be responsible and capable, they are going to be backed by the international community to be able to be a partner to any kind of peace process. That is what is lacking. Ken?

MR. POLLACK: On the package, first and most importantly, we do not really know exactly what is in the package. There has been a lot of speculation in particular on what the carrots that were offered were, but we do not have a perfect understanding of that, and, actually, that is good. I do not think it is a problem for the public not to know what the package looks like, and I do think we have any clue what the sticks are. Again, we have a lot of rumors, we have a lot of supposition, but we do not have a complete knowledge there.

Based on that limited amount, what I would say is I think that the deal on the table is a good one, but it probably is not quite good enough, and I think that is one of the reasons why you are seeing Iranians struggling with it perhaps more than they would if the deal were more powerful. The issue that is out there is whether the U.S. is willing to go down the road farther with the carrots. As Phil is suggesting, I think the Europeans have been pretty good in talking about how willing they are to take the steps on the sticks, and, again, based on nothing but rumors, based on things that we hear from people in the administration, it sounds like the sticks that are on the table and pretty good and what they are saying to the Iranians is here is the full panoply, this is what we would start with, but you

need to understand that if you do not start doing the right thing, we are just going to keep marching down this path and we are going to apply greater and greater sanctions all the way up to this point, and I think the path that they are laying out for the Iranians as best as I understand it is a pretty compelling one on the stick side.

On the carrot side, the problem is, and, again, Phil laid this out very nicely, the carrots need to be ponied up by the United States, and as best I understand it, the Bush administration has not yet been willing to show all the leg it needs to on the carrot side. In particular, I think at the end of the day it is going to require the U.S. being willing to say we are willing to ultimately lift our own unilateral sanctions against Iran in return for Iran doing the right thing, to really bring the Iranians to the point where they are able to accept this deal where they have the internal fight that gets them to the point where they can actually accept this kind of a deal.

It does not seem like the administration is there yet. It does not seem like the harder-line elements within the administration have been willing to say, yes, if the Iranians are willing to do the right thing, we will on our part pony up all of these carrots the way effectively that we did with Libya.

That said, I do not want to make this out to be purely an American problem. It does seem to me that there is some reluctance on the part of administration hard-liners to do this because they see it as making concessions to Iran, and they do not like making concessions to Iran, even though I and other people keep arguing, no, these are conditional concessions, these are purely based on Iran doing the right thing, and, again, it is very much in the model of the Libya deal.

That said, let's remember this is only right now a negotiation about Iran's nuclear program, and America's unilateral sanctions on Iran are about three things, the nuclear program, Iran's support for terrorism, and its opposition to the Middle East peace process, and every administration before this one was willing to say very succinctly and very openly, if Iran meets our needs on those three issues, we will lift the sanctions. Right now we are only dealing with the nuclear program, and you may remember what I said in my book is if we only deal with the nuclear program, the U.S. really cannot put all of its sanctions on the table because that would be just overlooking Iran's support for terrorism which may be what got us into the situation in Lebanon to begin with.

So we are going to have to be willing to expand to take into account Iran's support for terrorism, its opposition to the Middle East peace process. If we are able to convince the Europeans, the Russians and Chinese to do so, then I think it is important for the United States to put those other carrots on the table.

I would end by saying I would really like to see the Bush administration, and, again, this is something it has not been willing to do because of its own dysfunctions, restate that very simple line that the Clinton administration used to restate all the time and that quite frankly the Bush and Reagan administrations adhered to as well, which is if the Iranians are willing to meet our needs on those three issues, we would be willing to lift all of our sanctions. The fact that the Bush administration has so far refused to do so I think puts a weapon in the hands of Iran's hard-liners and makes it harder for our European and other allies.

MR. INDYK: Phil, do you want to comment?

MR. GORDON: I suppose. Ken has added three more levels of complexity to a hugely complex thing, so I do not want to comment too long.

I would say one thing I am worried about in this is that we are together in the way you described on a change in the incentive structure of carrots and sticks. I think that the Bush administration has already, as I have tried to describe, come a significant way in that direction, and it goes back to Barbara Slavin's initial question about does Lebanon strengthen the hard-line case or the negotiations to deal with these states' case? I think it does give a strong talking point to the hard-line case, and, frankly, I think it even increases the likelihood, and that is the wrong word because I do not think it is likely, it increases the possibility that the United States or Israel could use force against the Iranian nuclear program because you have a much clearer argument now. I think a month ago the idea of the United States, I thought this was implausible then and I think it is unlikely, to just use force against Iranian nuclear sites would have really seemed a provocative act that would have led, and this is the reason I did not think it was likely, to Iranian responses in part by fueling a Hizballah-Lebanon crisis, and the hard-line case is strengthened in two ways.

One is Iran is refusing our nuclear deal even though we put it on the table and they are promoting violence in the region, and we really have to deal with this problem. Moreover, a war with Iran might become necessary. Again, before that was theoretical. We used to talk about if Iran had a nuclear weapon, you could have a war in the region, and that was theoretical. Now Iran and Israel could go to war over this, and Iran with a nuclear weapon is totally unacceptable in that context.

Third, one reason not to strike Iranian nuclear facilities was that they would release and have a war with Israel on its north border. That reason is gone, because if they

are going to do that anyway, it turns the logic around and it says that if they are going to do that--

MR. INDYK: Why shouldn't we.

MR. GORDON: We shouldn't, precisely. So all of that strengthens the case for the hard-line position and the hard-line action.

All of that said, I still think that that is flying in the face of the greater trend here which is the American willingness to engage, talk, support the Europeans and offer carrots. All of that stems from a simple thinking through of this crisis and where it leads and how bad it gets, and, frankly, the American position in the world which 3 or 4 years ago when we started thinking about the hard-line approach and we will have a decisive victory in Iraq and that will frighten dictators throughout the region and inspire democrats and moderates and all the rest, and we had a massive budgetary surplus and then the biggest army in the world and all of that, is no longer the case either.

So, yes, short-term strengthens the case for the hard-liners, but the longer-term trend here, and that is what I think it comes back to, is that we are going to engage one way or another whether it is via the Europeans or not, and we are, as Ken said, putting carrots on the table because that is really the only choice that we have.

MR. INDYK: Thank you. We have 5 minutes left. Let's take a couple of questions together and then we will conclude. Gary?

MR. MITCHELL: Gary Mitchell from "The Mitchell Report." I am not quite sure where the boundaries are on this discussion.

MR. INDYK: Global boundaries.

MR. MITCHELL: Right. So I was going to ask the question about where is New Zealand in all of this.

(Laughter.)

MR. MITCHELL: I want to ask a question about nonstate actors and ask whether there is anything in the last whatever period of time, but relatively recently, about what is taking place in the Middle East today, A, that indicates that nonstate actors, if we do not call them for the purposes of our discussion today terrorist groups, let's say they are nonstate actors, Carlos said that the Russians have neuralgia and Jeff said that the Chinese have hyperneuralgia about sanctions. Where are the various geographic regions that are represented on the panel today on the notion of dealing with nonstate actors in conflicts of the type that are now taking place in Israel, Lebanon, and that might take place if the conflict expanded beyond where it is today?

MR. INDYK: Last question.

MR. HAROLD: Scott Harold, Brookings. Ken, I want to follow-up. First, I wanted to welcome your statement that you are not certain whether or not this was an intentioned act driven by Tehran. In particular, it seems hard to know ahead of time whether or not such a Hizballah attack would actually succeed in capturing and kidnapping Israeli soldiers. But I wanted to ask you more specifically if you could give us some insight into where this action in the Lebanon-Israeli conflict is driving politics in Tehran. Is it strengthening hard-liners? Is it calling into action moderates who may have said we are slipping towards the precipice? Thank you.

MR. INDYK: Who wants to deal with the nonstate actors issue? Volunteers? Carlos?

MR. PASCUAL: I think one of the complications with the nonstate actors is that you are dealing with a region, and I am going to return the favor and pass this over to you very quickly, where there has been a consistent interlinkage between nonstate actors and state entities. So trying to understand what is the activity of a nonstate actor alone is extraordinarily complex because you have states, Iran and Syria in particular, that are interlinked with the actions, say, of Hizballah. How do you deal with Hamas? What kind of label do you put on it relative to its position as a state? Obviously, there is no Palestinian state, but it is in a position of governance and it has linkages with important state actors.

In terms of an example of the complexity of responding to that, Russia's response normally on any act of terrorism when clearly it is linked to nonstate actors is unambiguous and ruthless, go after them, strike them hard, strike them harder than anything that they could possibly imagine, and make your position known. And the fact that you get Russia, for example, saying that the Israeli response has been proportionate is interlinked with a whole series of complicating factors, those complicated linkages between nonstate actors and state actors, which I think is making it a lot harder for the international community to know exactly how to phrase what the appropriate response is.

MR. INDYK: One response that we see in Lebanon, as I said before, is to interpose an international force to deal with a nonstate actor by supporting the Lebanese armed forces to give them a capability to control their own territory to prevent this nonstate actor from performing. And the other thing of course which is out there, and I think we will probably do a separate briefing on this is, Syria and Iran as the sponsors as Hizballah become the address for containing the nonstate actors as Carlos I think was suggesting, and that is the other side of this, how do you impress upon the sponsors of the nonstate actor that they have

to act to curb them without conceding them the territory? In other words, how do you get Iran and Syria to curb Hizballah without giving them control over Lebanon? And that is the dilemma the Bush administration faces. Ken?

MR. POLLACK: To answer your question, as always, we do not know exactly what is going on inside of Tehran. Our sources of information are terrible. The one thing that I note is that the Iranians have been awfully quite over the last 6 or 7 days. Typically, that means that they are debating this, and that seems perfectly logical. We know that there are deep divisions within Iran over all of these different issues, and based on nothing but pure speculation, based on the little bit that we know, I think it probably is likely that you have different groups within Iran advocating different perspectives or different positions.

My guess is that the hard-liners as led by Safavi in the Revolutionary Guard Corps, but quite likely including President Ahmadinejad, are probably arguing that this is their moment, which is important. Phil laid out the case for why Iran was probably involved I think very nicely. The coincidence of the timing is a little bit too powerful, and we do know that the Iranians have these deep ties with Hizballah and in the past Hizballah typically has at least notified Iran that they are going to conduct these kinds of operations.

Whether the Iranians knew about it or not, my guess is that the hard-liners are saying we have to take advantage of this. We have to further distract the world's attention. And what's more, these are our brothers. They are being attacked by the Israelis. This is our opportunity to show the world that we are willing to support those Muslims who are willing to stand up to the Israelis and to the Americans, but this is also an opportunity for us to refocus the world's attention. My guess is that the pragmatists are in there arguing the

opposite and saying this is catastrophic. If they find out that we are behind this or if we simply keep encouraging Hizballah, it is going to look like we were responsible for this and that is going to sink us in the eyes of all of these other countries.

My guess is that the Supreme Leader and the people around him are probably caught somewhere in between trying to figure out exactly how they negotiate it. As I said, I think the most interesting thing was their very quick recognition that sending Mottaki to Damascus and offering to mediate could actually be a very good position for them to steer through this, to do exactly what Martin and I have both been suggesting, which is to show that they are the ones who can rein in the nonstate actors and in so doing solidify their position in Lebanon.

MR. INDYK: Thank you. One of the great things for me about working at Brookings is that I have colleagues here who know a hell of a lot about the different angles that all seem to come together in the Middle East. I have learned a lot from this morning and I hope you have, too. I want to thank you, gentlemen, for your contributions, thank you for your questions, and we will be doing press briefings throughout this crisis. So if you are not signed up to the Brookings alert, please see somebody at the back of the room or outside and they will take care of that, and we hope to see you again in the near future. Thank you very much.

(Applause.)

* * * * *