

The Iranian nuclear program: Alternatives to Sanctions

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Iran's nuclear file: what's beyond sanctions?

Various international and regional issues of concern surface and disappear. However, the Iranian nuclear file and the ongoing negotiations surrounding it between Iran and six major powers, sometimes fades for a short while, only to appear again as the number one issue on international and regional agendas. Iran is keeping the whole world busy, attracting attention in the region, and dividing people between those who are in support of its nuclear and regional ambitions and those who are hostile to Iran as an entity and also as a regional player.

Seeking neutral answers, and in order to shed light on this heated issue that is high on regional and international agendas, Al-Sharq Centre for Regional and Strategic Studies organized a seminar in cooperation with the Department of Middle East Studies, at the East Hall of the American University in Cairo, on November 13, 2010, with the participation of a distinguished number of researchers and specialists from Egypt and from other Arab and Western countries. The seminar attempted to seek answers to key questions related to this issue, such as: What is the impact of economic sanctions on the Iranian economy and the nuclear decision-making process in Iran? What are the regional and international responses to these sanctions, their motives and their background? What are the implications of a military escalation against Iran and can the effects on the global economy resulting from the closure of the Strait of Hormuz be predicted? The seminar concluded with a paper especially prepared to answer the 4th central question, that is: Why would prospects of a US-Iranian agreement open up and on what grounds? In any case, it is a scenario that should not be excluded from the discussions, in spite of the current state of tension existing in US-Iranian tensions.

In his paper, Ahmad el-Naggar, an economic expert from Egypt, discussed the economic impact of US and international sanctions on Iran. He concluded that economic sanctions, at its current level, cannot compel Iran to bow to western demands with regard to its nuclear file. Mustafa el-Labbad, an Egyptian researcher, studied the impact of economic sanctions on the nuclear decision making process in Iran. He concluded that the Iranian negotiator has, until now, proven to be very skilful and that Iran has taken big strides towards acquiring peaceful nuclear capabilities. In addition, he stated that, in reality, the current US administration has to make one of two choices: either undertake a military strike with its severe repercussions, or conclude a US-Iranian agreement. According to him, the US administration will require a

little over or less than a year to take a final decision. In his paper, the German expert on the Middle East, Henner Fürtig, discussed the contradicting international positions with regard to economic sanctions on Iran against the backdrop of the national interests of each party, while the Lebanese expert on Iranian and regional affairs, Talal Atrisi, analyzed the regional reactions related to sanctions imposed on Iran, covering specifically Iraq and the Gulf countries. For his part, Muhammad al-Saeed Idris, an Egyptian expert in Iranian affairs addressed Turkish, Egyptian and Saudi Arabian reactions on the sanctions. The Egyptian expert in energy affairs Amr Kamal Hammouda addressed in his paper the impact of closing the Hormuz Strait in case of military operations on the flow of energy resources from the Gulf to the global market. Brigadier General Safwat El Zayat, a well-known military expert, discussed in detail the "military strike option on Iran's nuclear facilities", and clarified the general features, constraints and impacts of such a strike. The seminar was concluded with a paper prepared by Trita Parsi, President of the Iranian-American Council in Washington, which covered the failed wrong diplomacy of Obama against Iran. The Sharq Centre for Regional and Strategic Studies presented a comment on the objective reasons for a US-Iranian agreement.

Economic sanctions imposed on Iran under UN Security Council resolutions 1737, 1747, 1803 and 1929 have contributed to the increased level of tensions. At the current level, there are only two key scenarios, either a military strike against Iran, or a US-Iranian agreement. In the midst of the existing polarization in the region among supporters and opponents of Iran, it shouldn't be forgotten that Iran is a major country in the Middle East and that it is also a historic entity with a presence of thousands of years that has helped shape the cultural and civilizational identity of the region. Therefore, we, as Arabs, should deal with Iran seriously as an ambitious, historic and neighboring regional player, a reality that proves its presence in the existing vacuum in the region, and as a neighbor that we either agree or disagree with. Perhaps the first step is to distance ourselves from the prevailing binaries of "opposing/supporting" Iran by attempting to understand the Iranian setting with all of its internal, regional and international complexities. An analysis of all these aspects has become a political necessity par excellence and not simply an academic concern for some specialists and experts any more. This is the importance of scientific conferences: they objectively break down a complicated

phenomenon, draw the line between the phenomenon and its origins, and then reassemble it after having analyzed its causes - a process through which the phenomenon becomes clearer.

The Iranian nuclear file reflects overwhelming regional ambitions and two extreme scenarios: a military strike, in the worst case scenario for the region, or US-Iranian understandings. Both will lead to a similar end result: a sharp and profound change in the new balance of power in the Middle East. By organizing this conference in Cairo, Sharq Nameh hopes to give an impetus for increased Egyptian and Arab engagement in the Iranian issue from the overarching perspective of Arab interests. This is necessary because the level of such engagement will either positively or negatively determine Arab presence in the region in the coming period, when combined with an Arab willingness to shape their political will, as op-

posed to the Arab world watching the current setting without taking any action to preserve their own interests and leaving the space vacant for foreign, non-regional forces to decide on the region's fate and future. In line with Iranian tradition, one would seek wisdom from Iran's famous poet, Hafez al-Shirazi, when the obscure future is difficult to explore. If we close our eyes and dig deep into Hafez's poems, we can find the answer with regard to the Arab future in the new balance of power in the Middle East:

Eternity, all the way through, has been divided in our absence...

You aren't to be blamed for the discontent of those with the smallest share.

Sharq Nameh

Economic sanctions and their impact on the nuclear decision-making process in Iran

Mustafa El-Labbad, Director of Al-Sharq Centre for Regional and Strategic Studies in Cairo and Editor-in-Chief of the journal *Sharq nameh*.

"Economic sanctions" on Iran has become a term heavily used by research centers, the media and in political corridors, although there is no internationally shared agreement on the economic meaning of "economic sanctions" and their political feasibility. The internal logic of sanctions is based on the political use of economic laws to prevent the sanctioned country from adopting certain positions. Thus this logic is based on the assumption that the political leadership in the concerned country will surrender - at a certain point - under external pressures simply because of its desire to retain its political power. The negative impact of sanctions on the sanctioned country reflects itself in various forms, such as in the increase in consumer prices, increased unemployment, losses incurred by business owners and a shrinking supply of goods. Given the fact that politics and economics are organically linked, the negative effects on the economic level reflect themselves on the political level. Thus, negative economic repercussions could also negatively impact on the feasibility of political considerations of decision makers in the concerned country, which will influence them and ultimately change them. However, studies on the impacts of economic sanctions often overlook the different nature of political systems of the countries that are subjected to sanctions¹, and the consequent different impact of these sanctions. Thus, it is wrong to assume that sanctions will have similar impact on the different political systems. The countries that impose sanctions often want to send a "signal" to the sanctioned country on the seriousness of its behavior concerning a particular issue and to alert it to the importance of changing this behavior.² With regard to economic sanctions it should also be noted that they do not come within an integrated strategy, but are often imposed based on internal considerations related to the country which imposes the sanctions.

Economic sanctions can, for the sake of simplicity, be divided into three basic types: trade and investment, smart sanctions and financial sanctions. Examining

the structure of Iran's foreign trade directly leads us to conclude that an oil embargo on Iran will lead to catastrophic results. This is because oil is the most important export commodity in Iran, and represents between 80-90 percent of Iran's exports. In addition, oil exports constitute 40 - 50 % of Iranian state revenues.³ However, on the other hand, withholding the approximately 6.2 million barrels per day, currently exported by Iran, from world markets is likely to lead to serious repercussions on the world oil market, making an oil embargo an unrealistic option. In contrast, financial sanctions on Iran have been more widely accepted and this international acceptance has reflected itself in the successive resolutions of the Security Council. Resolutions 1737, 1747, 1803 and 1929 contain a set of sanctions that basically target the higher segments of commercial and industrial interests in Iran. In addition to freezing the assets of the government, companies, and individuals who carry the nationality of the sanctioned country, hindering foreign investments in the sanctioned country is considered another pillar of financial sanctions. This kind of sanctions also includes a ban on exchanging the currency of the sanctioned country. This procedure not only makes commercial transactions difficult, but it also harms the sanctioned country's international economic reputation. Nevertheless, the financial sanctions will not be effective in the case of Iran, as compared to other countries, because the high price of oil during the last 5 years has allowed Teheran to accumulate vast cash reserves for a possible confrontation over its nuclear program. Given the fact that the Iranian Toman is a currency not fully exchangeable without the use of other conversion mediums in the global markets - similar to the currencies of all non-oil producing Arab countries - banning the exchange of the Toman will have an impact on the Iranian currency but within certain limits. For all these reasons, financial sanctions are not expected to bear fruit immediately and affect nuclear decision-making nuclear process. However, this package of measures in conjunction with so-called "smart sanctions" may be effective in the medium term.

¹ Brooks, Risa A., "Sanctions and Regime Type: What Works and When?", in: *Security Studies*, Vol. 11, 2002, p. 4.1- 50.

² Lektzian, David und Christopher Sprecher "Sanctions, Signals, and Militarized Conflict", in: *American Journal of Political Science*, Vol. 51, Nr.2, 2007, p. 415-431,

³ Peter Rudolf, *Sanktionen gegen Iran: Optionen, Probleme, Perspektiven*. Stiftung Wissenschaft und Politik, Deutsches Institut für internationale Politik und Sicherheit, August 2005.

"Smart sanctions" target the elite segments in the sanctioned country by harming the interests of these elites in order to push them to pressure the political regime in their country. The package of "smart sanctions" imposed on Iran includes a ban on the export of high-tech products to Iran, under the pretext that these will be used for military or nuclear purposes. This kind of ban is similar to the one imposed by the Western world on the East Bloc countries during the Cold War. It also includes a ban on Iranian civilian aircraft from landing at the different airports across the world and putting pressures on the various shipping lines of Iran. Similarly, the smart sanctions include blacklisting a number of people from the Iranian elites from entering other countries. This ban has its significant political implications. It means that a nuclear Iran will cause an internationally imposed isolation of Iran.

The above has already been undertaken within the context of the four Security Council resolutions. The "Bazaar" represents bourgeois business in Iran, and, in this case, the word does not mean a store for selling tourist products as it does in Egypt and other Arab countries. It is a Persian word that means "market." This word has been commonly used, for more than two centuries, in the different economic and political literature of the various intellectual schools of thought from the right and the left. Even Marx talked about what he called the Bazarkapital. The Bazaar has its historic impact in influencing the social and political structures in Iran. The major forces of the Iranian political system, were, and still are, the political expressions of an economic-social bazaar par excellence. Thus, the interests of the bazaar are the flag behind which Iranian statesmen of different social origins line up. Therefore, the Iranian commercial bourgeoisie, as referred to in the political and economic literature, is an essential pillar of Iran's ruling coalition, which is composed of this bazaar and the clergy. Given this background, this kind of sanctions is expected to actually put a certain pressure on the interests of the bazaar - its profits and its assets - and thus adversely affects the harmony between the different wings of the Iranian regime, in a manner that would create interest-based disagreements between the different wings. However, these disagreements need time to mature, not to mention the time needed for these to become active and utilized.

Iran's experience in negotiations with the West

Iran has a good experience in negotiating with the West over its nuclear program. During the period of time starting from 2003, three teams have managed Iran's nuclear file: Khatami/Rowhani, Ahmadinejad/Larijani, and the current team of Ahmadinejad/Jalili. The strategy of Khatami/Rowhani was based on delaying the transfer of the Iranian nuclear file to the Security Council for as long as possible by negotiating with the European Troika – a strategy revealed by Rowhani after leaving office.⁴ This means that Teheran was aware beforehand that negotiations with the Europeans would not stop the transfer of its nuclear file to the Security Council. This also implicitly means that Iran wanted to take advantage of the negotiations to gain time and, as much as possible, achieve technical gains, against the backdrop of the contradicting interests of the international poles. The Europeans offered to Iran to join the World Trade Organization and to open the doors for investments flow in exchange of suspending its uranium enrichment program. However, two elements have played a role in Teheran's refusal of the European offer. First, Iran did not find any direct benefits in the offer and negotiations in this respect would take a long time. The second was Teheran's desire to proceed with uranium enrichment, so as to improve its negotiating position. Iran was left with no other choice but to let international inspectors enter its nuclear facilities, to demonstrate the peaceful nature of its nuclear program, as a condition for continuing negotiations.⁵

At the time, Russia and Europe jointly tried to dissuade Iran from possessing a nuclear fuel cycle. Each wanted to supply Iran with this cycle to reap the economic benefits. Thus, Iran's bet was on China, through which it hoped to be able to create a hole in the wall of Security Council. Iran was well aware that its file would be transferred to the UN Security Council. To improve its chances, it signed agreements that give Beijing economic and political benefits, so as to urge it to use its veto power at the Security Council to prevent the adoption of a resolution containing military strikes against it. In the end, Iran agreed to a temporary and conditional freezing of its nuclear activities, for which, in exchange, the Europeans promised to continue negotiations with Iran, pending a

⁴ Hassan Rohani, "Beyond the challenges facing Iran and the International Atomic Energy Agency on the nuclear file," a periodic, Rahbord, the Center for Strategic Research – Teheran, September 2005.

⁵ Hassan Rohani, "Peaceful Nuclear Activity and Our Constructive Interaction with the World", a National Interest, No. a, winter 2005, p. 5-21.

lasting solution that would bring economic and technological benefits for Teheran. However, these benefits were subject to the condition of strict control over Iran's nuclear program and of maintaining this program below the level of the possession of a nuclear fuel cycle. It is interesting to note that Iran has actually stopped activities, but only in areas where it has achieved technical progress, while it has refused to freeze its activities in areas where it has faced difficulties in this respect. As a result, the Isfahan nuclear facility was established and has been in operation during the period of negotiations, in a unique example of Iran's capacity to gain time. Iran's negotiation skill can best be illustrated by looking at the number of centrifuges, of which there were only 164 when it started its negotiations with the European troika. When Rowhani left office in 2005, the number had reached 1,000. Iran suspended enrichment when it was at a technological stage that would allow it to return to enrichment and reach a level of 5.3 percent within a few months. Throughout the period 2003 - 2005, Iran was keen to stress, on each occasion, the voluntary and temporary nature of the suspension of uranium enrichment. It linked the suspension to the condition of an acknowledgment of its right to possess a nuclear fuel cycle if negotiations reach a dead end. And this is what has exactly happened when Ahmadinejad came to power the first time in 2005.

With the improved bargaining power of Iran and the change in regional conditions surrounding it, especially the predicament of the US in Iraq and Afghanistan, Iran's nuclear priorities have changed as well, with a military option becoming relatively difficult. This change is based on the perception by the Iranian leadership that it can return to its uranium enrichment program and reach the level of possessing a nuclear fuel cycle, although such a move would inevitably lead to transferring its file to the Security Council. For Iran, a nuclear fuel cycle became of great importance due to the fact that, while there are a limited number of countries that possess nuclear power, most of them do not possess a nuclear fuel cycle, i.e. the ability of self-enrichment. Instead of losing the Europeans as negotiating partners and the low ceiling of the Security Council's economic sanctions, Iran could negotiate again with the International Atomic Energy Agency, but from the position of a country that possesses a nuclear fuel cycle. The strength of this bargaining power is further enhanced by Iran's regional presence, which allows Teheran to escape international pressure by the United States because the management of the Iranian nuclear file has become so systematically and coherently linked to regional

developments. Thus, at the beginning of 2006, Teheran announced again that it would re-start its uranium enrichment program given that it had only temporarily and voluntarily halted it upon an agreement with the European Troika. Shortly after this, Teheran announced that it had succeeded in reaching a 3.5% level of enrichment, imposing a *fait accompli* on the new Western parties.

Javier Solana, the European Union representative at that time, offered a package of economic and political benefits to Iran to stop uranium enrichment. The negotiation strategy with Solana during the days of Ahmadinejad/Larjani, were expressed during rounds of talks stressing Iran's right to enrich uranium. At this point, Iran refused to start negotiations from the end point of stopping its enrichment program. With Solana and the EU stuck in the middle of the negotiations' maze, the US failure in the region, and the failed 2006 Israeli aggression on Lebanon due to the steadfastness of Iran's' ally, the Lebanese Hezbollah, Larjani was able to develop yet an additional negotiation aim: an increase in the number of centrifuges which enrich uranium, and therefore gain more time as a negotiation tool with the West. Teheran agreed on the principle of negotiations during the era of Ahmadinejad/Larjani and held various meetings with Western parties, but it also drained these negotiations from their Western content. The reason was that Iran's aim was to delay the transfer of its nuclear file to the Security Council and delay further sanctions, and thus gain time for its nuclear program. In spite of this, the Security Council passed 2 sets of sanctions through resolutions 1737 and 1747. With Larjani out of the National Security Council Secretariat, a new phase of Iranian-Western negotiations started.

The phase of Ahmadinejad/Saeed Jalili, the latter of who took over the Secretariat of the National Security Council replacing Ali Larjani, started by building on the achievements made by Khatami/Rowhani and Ahmadinejad/Larjani. Iran had succeeded in gaining possession of a nuclear fuel cycle by that time, which has been working in its favor since 2006. However, two more Security Council resolutions were passed during this period, numbers 1803 and 1929. The new realities created have been reflected in the new rounds of negotiation. Western parties, during the Vienna and Geneva rounds of dialogue that took place in 2009, did not insist on the previous demand for Iran to suspend uranium enrichment as a prior condition for negotiations, or even as a condition coupled with negotiations. The Iranian-Western negotiations started while Iran was still enriching uranium and with Iran possessing a nuclear fuel cycle. This

was a big victory for Iran. Thus, the successive stages of managing the Iranian nuclear file do not represent a break with prior stages. They also do not represent a radical change based on other ideological motives, but rather they are a logical continuation of these stages. The fundamental difference between the phases lies in Tehran's increased regional presence after the occupation of Iraq, which has led to a change in Iranian negotiation tactics and in the nuclear decision-making mechanisms in Iran.

Assessment of the current situation concerning the sanctions and the future of Iranian-Western negotiations

Sanctions imposed on Iran by Security Council resolutions and the ban on export of gasoline to Iran as adopted by international companies, though not stipulated in the Security Council's resolution, do, in fact, affect the Iranian economy. This impact is reflected in the decrease in the exchange rate of the Iranian currency, the Toman, against the dollar, an increase in the consumer goods prices and in fuel rationing.⁶ In addition, sanctions imposed on Iran by the Security Council cause relative international isolation, which influences to some extent the maneuvering space of Iranian foreign policy. Consequently, the current level of sanctions is actually pressuring the nuclear decision makers in Iran but it is a type of pressure that can be shouldered. That is to say that there is currently a struggle in the negotiations between two sides. Iran bears the pressure and the economic sanctions at internal political cost but gains time through the external negotiations. The West loses time through the negotiations but it increases its pressures on Iran through the Security Council's resolutions. However, by excluding the possibility of an oil ban on Iran - which could change its nuclear choices - due to its global impact on oil prices, and due to the inability of the six countries to reach a general understanding regarding sanctions on Iran, especially between the United States of America on the one hand and China and Russia on the other hand, the Security Council is not expected to issue resolutions with a high level of sanctions. Therefore, economic sanctions are not expected to have a big impact on Iran's nuclear options.

The two rounds held in Vienna and Geneva last year between Iran, on the one hand, and the six major powers, on the other hand, focused on a Western

offer to take the 1,200 kg of low-enriched uranium that Iran possess outside of Iran and in exchange Iran can receive rods of highly enriched uranium used for medical purposes with an enrichment level of 20%. The essence of the offer was to prevent Iran from possessing military nuclear capacity during negotiations, given that this quantity was about 75% of Iran's uranium stock in 2009. It was certainly not an attempt to help Iran on the nuclear level. In other words, the Western offer was an attempt to strip Iran from the time advantages it possess from among other negotiation factors. If Iran had accepted the offer, Western negotiators would have had 9-12 months time until Iran had become capable of accumulating the quantity it would have given away. Iran took its time to respond to the offer but did not refuse it as a base for negotiations. It suggested that the exchange should take place inside Iranian territory and not outside the country. Then again, the Iranian negotiator suggested a 3-phase exchange instead of one, in order to drain the offer from its content. With the US administration busy in conciliation making concessions to Russia and China in return for their support with regard to the Iranian issue, the deteriorating conditions in Afghanistan and Iraq and the failure of the Israeli-Palestinian settlement, it was not in a position to exert serious pressure on Teheran.

Iran was brilliantly able to penetrate the international gaps that exist among its six negotiators, thus, in Geneva and Vienna negotiations it appeared as if Iran was facing one monolithic party, but in reality it wasn't. People were watching on their TV screens repeatedly the scene of the Iranian delegation headed by National Security Council Secretary Saeed Jalili smiling, and on the other side of the table there were the representatives of the five Permanent Members of the Security Council: the USA, Russia, China, England and France, in addition to Germany and Javier Solana, Foreign Policy Chief of the European Union. The negotiating table was glittering from the lights that were hanging over the negotiators' heads. On the table there were flowers and water cups. Journalists were only able to take photos of the negotiation table for less than one minute and then they were asked to leave the room for negotiations. All over the world, people were sitting and predicting the results.

⁶ The Economist, Iran's economy: Sanctions begin to bite, October 7, 2010.

Around the rectangular negotiating table in Geneva there were two parties. Two opponents in the physical sense, but from the point of view of political interests things were different. Perhaps one should look at the negotiating table in Geneva in a different way, in a way that does not reflect the physical picture but rather the imagined space between the national interests of each party to the negotiations. In other words, Iran was not sitting by itself on one side of the table and the other six parties on the other part. By analyzing the interests of each party, the shape of the negotiation table would look much different. China concurs with Iran's position with regard to the Iranian nuclear file and opposes any military strikes against it. This is because China is a big industrial country which imports 14% of its oil from Iran. It also invests tens of billions of dollars in energy projects in Iran. Thus, the survival of the current Iranian regime is fundamental to China's national security considerations. It may not support Iran's possession of nuclear weapons, but it opposes a military strike or a high level of economic sanctions on Iran. It is true that Beijing will not enter into military clashes with Washington for the sake of Iran, but it will do everything possible to curb the anti-Iran impulse of the US. With this in mind, the shape of the table would look different. From the viewpoint of shared interest, it would look as if representatives from Iran and China are sitting next to each other. For its part, Russia is considered to provide international coverage for Iran. It has large geopolitical and economic interests and is exporting nuclear technology to Teheran. Iran, for its part, is providing Russia with the only access point to the Gulf and its vast oil and gas resources. It is also Iran's partner in the Caucasus and Central Asia.

Russia has always considered the Iranian nuclear file as an excellent tool in creating a balance with regard to US pressure related to Georgia and Ukraine. Therefore, Russia has been supportive of Iran in its nuclear program and it opposes any military attack on Iran. It holds the keys to violations of the expected international sanctions against Iran. Some Iranian experts describe Russia as being obsessed by maintaining a balance in its intersecting relations with Iran and the US.⁷ Russia will lose the important Iranian card from among its deck in two cases only: a change of the Iranian regime by military force, or in case an agreement is reached between Teheran and Washington regarding Iran's nuclear file and its regional role. Only

⁷ Ghoncheh Tazmini, "Russian-Iranian Relations in the Context of the Tehran Declaration", *Iranian Review of Foreign Affairs*, Vol. 1, No. 3, Fall 2010.

in these two cases would Russia lose its winning Iran card. In this respect, Moscow is different from Beijing. Practically, both Russia and China sit next to Teheran at the negotiation table in confrontation with Washington. However, Moscow's support for Teheran stops at certain pre-determined limits determined by Russia's national interests.⁸ Therefore, the best place for Russia at the negotiation table is at the short side in the middle between the two opposing parties. This was the internal logic of the negotiations during the two rounds. If Western countries want to continue with the mechanism of withdrawing enriched uranium from Iran as a basis for their negotiation offer as they did in 2009, they should ask Iran to export larger quantities of uranium and not just 1,200 kg, given that Iran has continued to enrich uranium and its stock has risen, which would entail an equal change in negotiation logic. With Western force unable to force Iran to accept the offer of 1,200 kg in 2009, it does not seem that the international balance of power would allow Western negotiators to force Iran at this point to supply a larger amount in 2010 or 2011.

During the negotiations period with the West, Iran was in 2010 able to raise its capacity to enrich uranium to the level of 19.7%, and therefore it is no longer in need of fuel rods for medical purposes. This makes the Western offer useless. The core of the negotiation conflict between Iran and the West is over an unfamiliar and non-tangible element in international negotiations. It is the time factor, and not borders, geographical or political demands, such as control over sources of energy, water or natural resources or even marine ports, like the majority of negotiations between different countries. Iran has succeeded in using the time factor to its favor. As time goes by, Iran comes closer to achieving its aims despite of the sanctions and the more critical position of Western negotiators. Iran's negotiations with the six powers are expected to start at the same level as the 2009 negotiations. Even if we assume that the US administration – which is opposing Iran's regional ambitions and nuclear weapons more than any other international party – is capable of raising the ceiling of negotiations and concluding trade-offs with Russia and China in this regard, the Iranian negotiator is expected to hold on to the time factor as a negotiation card to pressure the US. In addition, it will seek to activate the role of its regional allies as a repellent

⁸ Hossein S. Safizadeh, "Islamic Republic's Two-Tier Foreign Policy towards the US: From Suspicious in the Mid-term to proactive in the Long-term", *Iranian Review of Foreign Affairs*, Vol. 1, No. 2, Summer 2010.

wall in its attempts to face the expected pressure related to its nuclear file.

Conclusions

Economic sanctions are not an end in themselves; they are simply a political and economic tool. In the case of the Western-Iranian issue, these sanctions have been progressing. As time elapses, more sanctions are being imposed on Iran. Negotiations have become more complex and there has been no strategy to deal with Iran. Therefore, economic sanctions entered the story through a new door this time. They entered not as an application of the laws of political economy but as a "strategic bankruptcy." Iran's negotiating strategy is based on seven basic pillars. These are:

1. Dominating the time factor as a basis for Iran's negotiation position.
2. Possessing other cards related to other files to influence negotiations (Iraq, for example).
3. Offering some sacrifices during the negotiations as a "starter" (benefiting from the North Korean experience).
4. Giving the impression that it is facing technical difficulties in order to prevent a military strike.
5. Expanding upon differences within the Security Council: Russia and China facing the US, England and France.
6. Seeking the support of the organization of the Non-Aligned Movement, the UN General Assembly and Member States of the International Atomic Energy Agency.
7. Not allowing Iran to be portrayed as a "unique" case, and therefore bringing Brazil to the negotiating table because it has a nuclear program as well and attract Turkey as a place to negotiate against the backdrop of Turkey's national interests in preventing a military attack on Iran.

Teheran is manoeuvring brilliantly with Russia and China as international poles. It is providing them with economic and oil concessions in order to raise the cost of compromise between the United States, on the one hand, and Beijing and Moscow on the other, in order to impact any new Security Council resolution. Thus, any such resolution will have a low ceiling. However, Iran is keen not to give up a significant portion of its oil and gas to the two countries, as Iraq did before 2003, because this would make US feasibility considerations tilt in the direction of a military strike. Therefore, Iran keeps its oil and gas fields

relatively far from Russia and China as a catalyst for US-Iranian imminence. Teheran also sorts the analysis of its relations with Washington on medium-term and long-term levels⁹, as well as in a way which reflects the great importance Iran attaches to this file as an entry point to solve its nuclear file crisis and the gateway to the international recognition of Iran as a regional superpower in the Middle East. However, given that economic sanctions are unable to force Iran to abandon its nuclear ambitions, the U.S. administration will have to return back to negotiations very soon. In light of U.S. President Obama's loss of the legislative elections in November 2009, he is unable to proceed with his internal policies, since they require the approval of the Republican majority in the two legislative chambers. However, foreign policy remains the one issue where Republicans cannot restrict his movement completely. Here the door is open for a Democratic-Republican understanding on both foreign and domestic policy. It is most likely that Iran becomes the center of US focus in the coming period.

Most probably the time available for negotiations will, more or less, be around a year before Iran reaches the point of no return in its nuclear program, in the sense of approaching, to a large extent, the peaceful Japanese peaceful model. At that time, the Obama administration has to admit to the failure of the policy of economic sanctions affecting Iran' nuclear weapons options. At the same time, Washington's options for resolving the Iranian nuclear file will be reduced to only two scenarios: a military strike with its many repercussions, or reaching an agreement with Iran which guarantees Washington's interests in the region, an option that faces diverse regional obstacles.

⁹ See also: Chehroz Ebrahimi, Bahar 1389 - Teheran.

The Economic Impact of U.S. and International Sanctions on Iran

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Any sanctions imposed by the international community and organizations on any country, are intended to inflict specific painful effects to coerce it into changing the policies that were the reason behind the imposition of the sanctions and to accept the conditions of the international community, organizations and the countries which dominate the decision-making process. Recent UN Security Council sanctions imposed in June 2010 on Iran have expanded the range of sanctions previously approved by the latter in December 2006. In March 2007 a more robust resolution called upon UN Member States and international organizations to cease from providing funding to Iran except for those funds allocated for developmental and humanitarian activities carried out by international organizations in Iran. Those sanctions were tightened again in March 2008. Accordingly, the new resolution bans Iran from investing in certain activities abroad linked to its nuclear program such as uranium mining. The resolution also authorizes the inspection of Iranian ships in the open sea, which was not allowed before except in ports. As a consequence, the door will be open for tension and provocation to which Iran may respond harshly against the vessels of countries who will attempt to inspect Iran's ships in the Arabian Gulf or by threatening their free movement in the open seas. The new resolution also prohibits all countries from exporting eight kinds of heavy weapons to Iran, especially tanks. Moreover, the Security Council resolutions imposing sanctions against Iran contained annexes with lists of Iranian individuals, firms and banks subject to sanctions to be added to the individuals and firms previously listed in other resolutions.

The international double standards are bluntly exposed in the Security Council's tight control over Iran, which is seeking to develop its nuclear program where there exist mere doubts on its intentions to build nuclear weapons, and its failure in taking any action against Israel, its nuclear program and its nuclear weapons created with the intention of blackmailing Arab countries. On the contrary, big countries have fiercely resisted all attempts made by Arab countries to subjugate Israel's nuclear facilities to

international inspection and control, using all available means of pressure. This is a clear indication of the double standards used in an unacceptable and immoral manner.

Additional U.S. and European Sanctions

Within the same context of tightened international sanctions on Iran, for its part, the United States took new separate actions to penalize Iran in an attempt to block its nuclear program. Hence, U.S. President Barack Obama signed off on new U.S. sanctions against Iran.

Although they are mild compared to the sanctions imposed on Iraq in 1990 following its invasion and annexation of Kuwait, they are, however, considered the most devastating for Iran so far. These sanctions aim at limiting Iran's ability to finance its nuclear program and deepening its international economic isolation by targeting the importation of refined petroleum products such as fuel for cars and planes and limiting the country's access to the global banking system. Obama said at a White House ceremony before signing the sanctions: "With these sanctions—along with others—we are striking at the heart of the Iranian government's ability to fund and develop its nuclear programs," adding that "We are showing the Iranian government that its actions have consequences, and if Iran continues its nuclear activities the pressure will continue to mount, and its isolation will continue to deepen". He pointed out that there should be no doubt that the United States and the international community are determined to prevent Iran from acquiring nuclear weapons. The US law prohibits US companies from exporting refined petroleum products, which are essential for Iran due to the country's shortage in oil refineries and consequently imports of approximately 40% of its gasoline needs. The law targets firms investing in Iran's energy sector as well, including non-US companies providing financial and insurance or transportation services. It can also prohibit non-American banks from doing business with the enormous US financial sector if they continue to deal with Iranian authorities listed in the blacklist, such as the Revolutionary Guards and a number of

banks. This new side of the US sanctions imposed on Iran is the harshest ever since it will push large firms with interests in the US market to scale back their business dealings with Iran and take part in the economically painful embargo against the Iranian economy. Certain foreign companies have already cut their economic ties with Iran as a result of the newly enacted law, especially companies that have more valuable business relations with the American market compared to those they have with the Iranian market. The most prominent among these companies is the giant French energy company Total, which has joined the growing list of companies halting gasoline sales to Iran. The Spanish Repsol company announced that it has pulled out of a contract it won to develop part of the Iranian South Pars gas field in the Gulf. In addition, many countries have ceased to refuel Iranian aircrafts.

China has strongly responded to the one-sided measures of the US against companies doing business with Iran, stating that the United States is not entitled to impose unilateral actions against Iran affecting other nations and their corporations. This is a rational response since China is undisputedly Iran's largest trading partner, with the two countries' total trade value amounting to nearly US\$20.6 billion, constituting about 15% of Iran's overall foreign trade in 2007. Nonetheless China's trade with the United States, which totaled almost US\$303 billion in the same year,¹⁰ is approximately 15 times the size of its trade with Iran. Undoubtedly, and to the disadvantage of many Chinese companies, they will be compelled to sacrifice their interests with either one of the parties, Iran or the U.S. This is not an ideal situation for these companies, but they will have to adapt to it, since the US law on sanctions against Iran has already been enacted and can only be reviewed and changed by a new law should things change with regard Iran's nuclear program and overall US-Iran relations. Following the path of the US, and in a similar step, the EU foreign ministers approved new sanctions on Iran targeting the country's energy, banking and transport sectors and banning the sale of European equipment and machinery to Iranian petroleum and gas companies. Additionally, they imposed restrictions on Iranian banks and expanded the list of those subject to a travel ban and asset freeze including members of the regime and its close friends. While European sanctions were beyond those approved by the UN, they will have a negative impact on European companies to the advantage of competing companies from other

countries, which are ready to cooperate with Iran and replace the European companies. However, the EU countries appear to be in a race with the Americans regarding the issue of sanctions against Iran. Germany's Foreign Minister, Guido Westerwelle, affirmed that "Iran has the immutable right to use peaceful nuclear power, but it shall commit to full transparency as a nuclear-armed Iran is unacceptable". This same minister, who calls for transparency on Iran's nuclear program, does not touch on the Israeli nuclear program and armament, as if he, along with other European officials, turns a blind eye when it comes to the Zionist entity and its nuclear program and weapons. As a result, the German position, along with the European, American and international positions, is losing credibility simply because of their immoral double standards. Also, the World Bank has rejected a loan requested by Iran. It should be noted that the WB hasn't granted Iran any loans since 2005. The Iranian minister of economy attacked the WB's position and recalled that sanctions imposed against Iran relating to provision of funding exclude humanitarian and development projects. He further announced that the position of the WB, which is chaired by the American Robert Zoellick, is essentially political and is contrary to the provisions stated in the agreement for the creation of the bank. The agreement prohibits any kind of interference in the political affairs of Member States as well as any political influence of any kind. In the following, we will attempt to concentrate on the economic impact of increased international and US economic sanctions on Iran. This cannot be ascertained without presenting a brief on the current conditions of Iranian economy.

The Current Status of Iran in Terms of Economy, Performance Indicators and Immunity Limits

Iran's GDP calculated at the prevailing US\$ rate was US\$251.5 billion in 2008, i.e. Iran ranked 31st among countries of the world. The per capita share of GDP was approximately US\$3,540. The real GDP, calculated in US\$ according to purchasing power parity (PPP), was nearly US\$769.7 billion with Iran ranking 18th globally, while the average per capita share of GDP was approximately US \$10,840 in 2008.

Iran's agriculture sector contributes nearly 10% of its GDP, while extractive industries contribute approximately 33%, manufacturing industries 11%, and the services sector approximately 46%¹¹. Iran has a sub-

¹⁰ IMF, Direction of Trade Statistics Yearbook 2008, p. 138, 140.

¹¹ The World Bank, World Development Indicators 2010, p. 33, 231.

stantial base of agricultural resources. Available and usable inland water resources amount to approximately 129 billion cubic meters, which means that the per capita share is about 1,800 cubic meters. This indicates that Iran is relatively abundant in water and has the potential to expand the use of water since it only uses 93 billion cubic meters of its available inland water. However, Iran's water productivity is low. According to World Bank data published in its 2010 report on world development indicators, water productivity in Iran has reached about US\$1.4 per cubic meter, compared to a world average of US\$8.3. The size of Iran's agricultural land is more than 20 million hectares, i.e., equal to 48 million acres. It also possesses a massive wealth in livestock of nearly 80 million head of sheep and goats, and approximately 9.7 million head of cattle and buffalos. This allows the country to achieve a high degree, or complete, food and crop self-sufficiency, which is strategically necessary for the meat and dairy industries. However, Iran is in fact a major importer of important cereals, namely maize, rice, barley and wheat, listed according to their import value, as well as meat, soybean and its oil and dough. The most important countries which export to fulfill Iran's needs for food and agricultural commodities are the UAE, Brazil, Switzerland, Thailand and Ukraine, while it exports peanuts, raisins and spices to the UAE, Germany, Iraq, Russia, Spain and other countries. Iran's agricultural trade balance suffers from a great deficit estimated at US\$3 billion annually.

This is mainly due to the fact that Iran relies on rain-fed farming, i.e. 85% of the cultivated area is rain dependent. This type of farming is unpredictable and low in productivity compared to irrigated agriculture, and requires many irrigation, storage and distribution projects i.e. it necessitates human effort and large investments which Iran did not undertake. It is hard to understand why Iran did not implement the investment projects required to convert rain-fed farming into highly productive irrigated farming that could satisfy the country's need for food. This indicates that there is a flaw in the order of priorities in the investment and development of the different sectors of the Iranian economy. The total forested land area is about 11.9 million hectares, i.e., equivalent to more than 28 million acres, which is a tremendous area that could constitute a strong foundation for the manufacture of wood, wood products and the paper industry. This possibility, however, has not been transformed into real capacities, due to the absence of investments in this area. With regard to the industrial sector, the prolonged years of wars and sanctions have ad-

versely affected the development opportunities of this sector, which is dependent on the purchase of investment goods (machinery) from abroad. The total value added of Iran's manufacturing industry amounted to nearly US\$29.8 billion in 2008 with a total contribution to the GDP of approximately 11%, compared to a world average of approximately 18%, a world average of approximately 33% in the rapidly growing countries of East Asia and the Pacific, and of approximately 27% in low and middle-income countries, which includes Iran, in the same year¹². The structure of Iran's processing industry consists for 27% out of machinery and transport equipment, which reflects the special status of the automotive and auto parts industry that has achieved relative progress in Iran in cooperation with capitalist industrial and technologically advanced countries such as France and Germany. This industry is also composed of the food, drinks and tobacco industries for approximately 10%, textiles and garments for 14%, chemical and pharmaceutical products for 13%, and approximately 46% for various other industries¹³. Iran has enormous reserves of oil and natural gas, which is sufficient, if invested in a highly efficient manner, to provide the necessary funding to support a rapid growth of the country's economy and transform it into an advanced and prosperous one. Iran's oil reserves were estimated in 2008 at approximately 136.2 billion barrels, i.e. nearly 11.7% of total world oil reserves, placing it second in the world. It also produces approximately 4.1 million barrels of oil per day, equivalent to approximately 4.8% of total world oil production, allowing Iran to be energy self-sufficient and capable of exporting large quantities. This also allows for the development of refining, petrochemicals, fertilizers, cement, aluminum and other industries, which mainly depend on oil, gas or electricity. Iran's large natural gas reserve was estimated in 2008 at nearly 28.1 trillion cubic meters, equivalent to 15.9% of total world gas reserves, ranking second in the world after Russia. The country also produces approximately 111.9 billion cubic meters of natural gas on an annual basis, equivalent to about 3.8% of world production, ranking fourth worldwide after Russia, the U.S. and Canada. Despite high oil prices and the increase in Iran's production and exports sectors along with increasing export incomes, which have funded higher investment rates in Iran in general, there is a large deficiency in channeling new investments into oil refinement required to provide

¹² The World Bank, World Development Indicators 2010, p. 231, 232.

¹³ Ibid. p. 235

the Iranian people with their needs of refined petroleum products.

Thus, Iran, the country with the world's second largest oil reserves and which is the fourth largest oil producer, continues to import gasoline and certain other petroleum products while exporting its crude oil. This situation reflects an irrational failure to meet the communal needs of such products, given that there is an enormous surplus in raw materials necessary for their production. Moreover, recurring gasoline crises lead to certain levels of violent public unrest, as happened when the Iranian government decided to ration gasoline consumption in 2007. The decision led to the outbreak of demonstrations and major unrest in several Iranian cities in June of that year. This can only be described as a real failure for a country drenched in oil!

On the whole, it can be said that the Iranian economy is similar to the traditional economies of developing countries. Iran, like other oil exporting countries, did not succeed in benefiting from its natural wealth revenues in diversifying and developing the country's economic structure and convert it into an advanced industrial economy, despite the available potential for Iran to achieve such success. Such a success requires a high level of economic management imbedded with efficiency, integrity, and strategic and tactical planning to make use of an economy high in potential. Until now, this potential has not been transformed into real parallel capacities. With regard to Iran's economic performance indicators, the real GDP growth rate reached an average of 2.9% annually during the period 1992 - 2001 and approximately 6.4% annually during the period 2002 - 2007, benefiting from the surge in oil and gas prices and Iran's exports share value. Nevertheless, this positive growth has relapsed sharply following the eruption of the US and the global economic and financial crisis in 2008, the consequent decline in the price of oil during the second half of that year, as well as the decrease in Iran's oil production and exports. Iran's real rate of GDP growth was approximately 2.1% and 1.8% in 2008 and 2009, respectively. The International Monetary Fund (IMF) estimates that growth rate will reach approximately 3% in 2010 and 3.2% in 2011. In any case, Iran's economic growth remains dependent, in large part, on oil prices. On the other hand, unemployment rates, associated with the rates of growth and new investments as well as the nature of these investments in terms of their level of dependency on the capital or the labor force, totaled approximately

10.5% during the period 2005 - 2008¹⁴. Undoubtedly this high rate of unemployment, with its loss of the use of the capacities of the unemployed, their deprivation from living a dignified life, the increased levels of dependency and poverty, and the partial loss of public and private spending on educating unemployable graduates of the educational system, is a sign of weakness in Iran's employment policy. Moreover, this high rate of unemployment creates an environment conducive to crime and political violence as well as a general feeling of anger against the state and society.

Iran's inflation rate has reached an average of approximately 23% per year during the period 1992 - 2001. The average rates were approximately 15.7%, 15.6%, 15.3%, 10.4%, 11.9%, 18.4%, 25.4%, and 10.3% in 2002, 2003, 2004, 2005, 2006, 2007, 2008 and 2009, respectively.

These rates indicate that Iran is one of the few countries that has not been successful enough in tackling inflation. The country continued to suffer from high, or at least above average, rates of inflation compared to prevailing inflation rates worldwide and in developing countries in general. The rates in capitalist and technologically advanced countries were approximately 1.6%, 1.8%, 2%, 2.3%, 2.4%, 2.2%, 3.4% and 0.1% in the above-mentioned years respectively. The average rate in developing countries and emerging economies registered nearly 6.9%, 6.7%, 5.9%, 5.9%, 5.6%, 6.5%, 9.2% and 5.2% in the same years as listed above. It is known that high rates of inflation affect those who receive their incomes from the return of their work i.e. wages and salaries since the latter do not increase in proportion with the official or real high rates of inflation. However, it leads to increased value of wealth for owners of property rights as well as for property owners in general because the prices and the value of their property increase by inflation. There is a positive impact associated with the global and economic financial crisis related to the decrease in inflation rates worldwide which assisted Iran in decreasing its own inflation rates. But despite the crisis, Iran has continued to suffer from relatively high inflation rates. With regard to the level of foreign trade, the value of Iranian exports reached US\$116.4 billion in 2008, ranking 34th among the largest commodity-exporting countries in the world in that year. The value of commodity imports was approximately US\$57.2 billion in 2008, whereas the total trade surplus was about US\$59.2 billion in that same year. Iran's exports value of US\$116.4 billion includes US\$375 million related to high-tech exports,

¹⁴ The World Bank, World Development Indicators 2010, p. 79.

equivalent to about 0.3% of the overall Iranian exports and about 0.03 of the world's exports in the high tech sectors¹⁵.

As for Iran's foreign debt, rising oil prices, in addition to exports revenues accumulated since 2003, enabled the country to reduce its external debt from US\$21.9 billion in 2005 to US\$13.9 billion in 2008¹⁶. These limited debts, which constitute less than 5% of Iran's GDP, do not form any possible source of pressure on the country simply because it can easily fulfill them all due to large financial reserves accumulated during the oil boom years extending from 2003 to 2008 and the accompanying large surplus in Iran's current account balance that peaked at the beginning of 2005. It is worth mentioning that the surplus reached approximately 8.8%, 9.2%, 11.9%, 7.2%, and 2.4% of GDP during 2005, 2006, 2007, 2008 and 2009, respectively¹⁷.

Despite the decline in oil prices after the eruption of the US and global economic financial crisis, they soon settled down and are currently still hovering above US\$70 a barrel. Iran enjoyed some degree of exchange rate stability during the last seven years and its currency has witnessed a drop of less than 7% against the dollar, benefiting from currencies that have increased in prices against the US dollar in that period. Nevertheless, Iran will face a big retreat against the dollar this year due to the low rate of the euro against the dollar after the eruption of the financial and economic crisis in Greece this year.

The year 2002 was of great turmoil for the exchange rate of the Iranian rial (IRR), losing about 75.6% of its value against the dollar given falling oil prices and the low foreign exchange earnings. Apparently, the increase in oil prices and the subsequent surpluses in the trade balance and the current account balance brought stability to the Iranian currency against the key free currencies. It should be noted that this stability is a factor that hinders the increase of import prices and consequently contributes to curbing the increasing rate in consumer prices (inflation rate). Nevertheless, other factors affecting this rate were more powerful and influential and induced high prices that led to the high inflation rates referred to above.

International, U.S. and European Sanctions and the Limits of Their Economic Risk

Regardless of the fact that international, US and European sanctions against Iran are unfair for a country that has peaceful or even military nuclear intentions, especially when the US and other Western countries turn a blind eye when it comes to the possession of nuclear weapons by the aggressive Zionist entity without subjecting it to the Treaty on the Non-Proliferation of Nuclear Weapons, and the absence of fair rules to address the issue of fair access for different countries to the nuclear club, whether for peaceful or military purposes, what concerns us here is the possible impact of these sanctions on the Iranian economy. This is especially important because the economy, for Iran and for all other nations, is the basis of its overall strength. It should be noted from the outset that the Iranian economy, which enabled it to finance an active role in the region and build loyalties and external power centers when the oil boom was at its peak between 2003 - 2008, will not be able to continue to play this role without an increase in oil prices and a similar increase in the current account balance surplus. The capacity of the Iranian economy will be unstable and fluctuate depending on the oil prices, which accounts for about 83% of the value of Iranian exports. Turning to the impact of sanctions on the Iranian economy, the fact is that the length of period during which it has been subjected to US or international sanctions, which extends for more than three decades, has helped the country to adapt to this situation and build a kind of immunity or ability to cope with these sanctions. It is crucial to stress that sanctions that do not include a ban on Iranian oil exports cannot cause an important crisis for the Iranian economy. This ban is the only sanction that could be considered as a big blow to the country's economy and social stability, to the extent that Iran is entitled to regard it as a declaration of all-out war against it, should this occur. However, as much as Iran is unable to withstand any ban on oil exports, the global economy cannot endure the absence of more than 3 million barrels per day of Iranian oil exports because such absence will create sky-high prices. Even though the market would probably manage for several months depending on commercial stockpiles available, if prolonged, it would lead to a deep recession in the global economy. For that reason, not even a fool would venture to impose an oil embargo on Iran, unless there are possibilities to compensate for its production and exports by relying on back-up energy products from countries with large reserves, such as Iraq and Saudi Arabia. Until then, Iran seems

¹⁵ Ibid. p. 243, 341, 342.

¹⁶ World Bank, Global Development Finance 2010, p.152.

¹⁷ IMF, World Economic Outlook, April 2010, p. 175.

immune to the imposition of an oil embargo, which is considered a very painful blow to its economy. It should be noted that Iran has been subjected to US sanctions since the 1980's, and were even tightened in the mid-nineties. Further international sanctions were imposed in 2006, and tightened in 2007 and 2008. The US cannot do anything more with regard to its one-sided penalties on Iran. It can only increase restrictions on non-US entities dealing with Iran, which may adversely affect Iran's options in dealing with international companies. However, Iran will always find companies that do not have important interests with the American market and are willing to enter into economic cooperation with the country, without any consideration to the new US sanctions. Such companies, however, will increase the prices of their goods and services provided to Iran to exaggerated levels. Iran will have no other choice but to deal with these companies and accept their conditions. This will deeply harm the Iranian economy and Iran's interests. Nevertheless it will likely lead to significant changes in the geographical distribution of Iran's foreign trade and economic ties inducing an attempt by Iran to distance itself from European and Western economies in general. With the new international and US sanctions banning the export of refined oil products to Iran, the country is expected to experience more acute crises related to the provision of gasoline for its citizens and its economy in general. Aware of its weaknesses in this area, Iran has put in place plans to achieve self-sufficiency in the production of gasoline within a two year period, while simultaneously reducing domestic demand by gradually ending its fuel subsidies. Given that Iran is capable of doing so, it is puzzling that it did not take such steps a decade ago, or at least since 2003 when oil prices have risen and the value of its exports and the surplus in its current account balance have witnessed a similar increase, which meant that the necessary funds to finance the construction of oil refineries and provide refined products vital for the Iranian economy and citizens were available then.

Despite the fact that Iran has a plan set-forth for the implementation of necessary investments to produce refined petroleum products within two years, international and US sanctions prohibiting companies from doing business with Iran or firms that provide refined petroleum products from entering the US market will make Iran's mission extremely difficult and costly. This is especially true after the ban imposed by the EU on the export of machinery and equipment necessary for the energy sector and for oil refineries.

Even if Iran manages to conclude agreements with foreign companies that accept to cooperate with it in this area, there will be a two-year gasoline crisis shortage during which social unrest and their fallouts can materialize in a previously politically inflamed society. Although Iran has filled its fuel tanks in the recent past in anticipation of these sanctions, these reserves, however, can only help avoiding the crisis for several months. Iran's bet is to breach the embargo by smuggling petroleum products from Iraq through the long border between the two countries across the Shatt al-Arab. This option seems the most effective method to face the sanctions imposed on Iran as long as the sectarian government of al-Maliki stays in power. It is worthwhile mentioning that this government has been formed under conditions created by the US colonial occupation of Iraq – an occupation that made a deadly mistake by dissolving the Iraqi army and state structures. This has paved the way for a government appointed by the US to serve as its puppet and cater for its interests to form sectarian structures with genuine allegiances to Iran and to serve those of Iran instead.

European sanctions targeting Iran's banking system are likely to add to the complexity of Iran's economic relations with other countries and raise their costs, but they will also lead to a change in Iran's external banking and financial relations. This will make the Europeans lose an important market which will go to Asian, Latin and Middle Eastern countries that could be ready to cooperate with Iran in this area.

Despite the overall negative effects of international, US and European sanctions, Iran will continue to endure them all. The sanction that would have a real impact and that could constitute a severe blow to the economy is an overall oil embargo, which neither Iran nor the world can endure if no other big producer with large back-up production emerges, geared up to compensate for the absence of Iran's oil from international markets.

In contrast to impressionist judgments, which limit the impact of international, US and European sanctions on Iran to their negative aspects, there are nonetheless some positive sides. They will stimulate rapid industrial growth in order to contribute to the production of substitutes for the import sectors affected by the sanctions, mainly the oil refining sector and civilian and military commodities banned from entering Iran. Fears related to expanding sanctions will likely push Iran to seriously pursue raising the level of food crops self-sufficiency, mainly grain, through the cultivation of abandoned land ready for immediate farm-

ing, expanding the use of highly productive irrigated farming and providing the necessary investments to build reservoirs and irrigation canals. In any case,

while Iran may be affected by the new sanctions, within their current limits they will not force the country to submit to the colonial will of America.

Table 1:
Iran's rates of growth, inflation, current account balance, and investment inflows and outflows

	Real GDP growth rate	Consumer Price Index (Inflation Rate)	Nominal price of oil per barrel based on OPEC's "basket" of crudes USD/barrel	Real price of oil per barrel based on OPEC's "basket" of crudes in the 1995 prices USD/barrel	Current Account Balance as percentage of GDP	Iranian FDI inflows in million USD	Iranian FDI outflows in million USD
Annual average between 1992 - 2001	2.9%	23%	00	00	00	44	403
2002	7.5%	15.7%	24.3	21.8	3.1%	37	1299
2003	7.2%	15.6%	28.2	24.9	0.6%	482	-356
2004	5.1%	15.3%	36	31.2	0.6%	100	19
2005	4.7%	10.4%	50.6	43	8.8%	30	76
2006	5.7%	11.9%	61.1	50.8	9.2%	1626	386
2007	7.8%	18.4%	69.1	56.5	11.9%	1658	302
2008	2.3%	25.4%	94.1	75.3	7.2%	1492	380
2009	1.8%	10.3%	60.9	00	2.4%	00	00
2010	3%	8.5%	00	00	2.3%	00	00
2011	3.2%	10%	00	00	1.7%	00	00
2015	3.2%	10%	00	00	0.3%	00	00

Source of rates of growth, inflation and current account balance: IMF, World Economic Outlook (WEO) April 2010, p. 160, 166 & p. 175.

Source of FDI inflows and outflows: United Nations, United Nations Conference on Trade and Development (UNCTAD), World Investment Report, Several Issues.

Source of oil prices data: General Secretariat of the League of Arab States and others, Unified Arab Economic Report, July 2009, p. 325.

"OAPC", Monthly Bulletin of the Organization of Arab Petroleum Exporting Countries, February 2010, page 35. 2000 data not available.

The International Differences regarding Sanctions on Iran (USA, EU, Russia, China)

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To a certain extent, the history of the complicated relationships within the group of the five permanent members (USA, Great Britain, France, Soviet Union/Russia, China: P-5) of the United Nations Security Council (UNSC) mirrors the history of the international system during the last fifty years. Whereas the front-lines of the Cold War – regardless of numerous internal quarrels – directly separated the P-5 into two distinctive Western (USA, Great Britain, France) and the Eastern (Soviet Union, China) camps, the end of the Cold War did not lead to an end of differences within the P-5, but to the emergence of new fault lines, defined less by ideological than by economic interests. The behavior of the P-5 in their attempts to enforce the sanctions regime against Iraq after the Second Gulf War in 1991 can serve as a graphic example for these changes. Between 1991 and the overthrow of Saddam Hussein in 2003 the USA and Great Britain on the one side and France, Russia and China on the other side developed very different strategies towards dealing with Iraq and acted accordingly. As a by-product, they strengthened the impression of a continuously discordant international institution.

Mixed experiences with previous Iran sanctions

Basically, this characterization also applies to the P-5's handling of the sanctions against Iran, alas, not surprisingly, once again within the framework of a changed system of allies and rivals. Due to the specific nature of the (non)relationship between the USA and the Islamic Republic of Iran after the revolution of 1979, the sanctions against Iran were for a long time a unilateral mission of the USA, temporarily and ineffectually supported by Great Britain, France, Russia and China in this sequence of enthusiasm.

Since the overthrow of the Shah, and especially since the occupation of the U.S. embassy in Tehran on 4 November 1979 and the humiliating, 444-day hostage-taking of 52 embassy staff, which included a failed rescue attempt, the United States has made numerous attempts to reverse the Islamic Revolution and to bring down the regime that emerged from it – both directly through support for attempted coups, logistic and financial help for the opposition, and indirectly through political and economic sanctions. The

latter included – among other things – restrictions on trade, travel, and financial transfers. Most sensitive to the Iranian revolutionaries was the freezing of some four billion US-\$ of Iranian assets in U.S. accounts and the takeover of Iranian investments in U.S. corporations.

A further pronounced tightening of the sanctions came in August 1996 with the Iran Libya Sanctions Act (ILSA), which meant that foreign corporations would also face the prospect of considerable disadvantages if they invested more than 20 million US-\$ in the Iranian energy sector. In January 2002 in his annual State of the Union address President George W. Bush included Iran – alongside Iraq and North Korea – in his “axis of evil.” In June 2003 he endorsed the students protesting in Tehran and other large Iranian cities. On 30 September 2006 he signed the Iran Freedom Support Act, which was approved by both houses of Congress and which – after the “rehabilitation” of Libya – replaced the ILSA at the same time as extending it. This made “democracy promotion” in Iran an official aim of U.S. foreign policy. Directly following this came the allocation of 75 million US-\$ that the then Secretary of State Condoleezza Rice requested for thinly veiled support for regime change in Iran (Rudolf 2007). Interestingly, U.S. policy toward Iran did not depend on the party affiliation of the respective president. During the first Gulf War in the 1980s, the conservative Republican Ronald Regan secretly delivered badly needed weapons to Iran. In 1996, the Democrat Bill Clinton initiated enactment of ILSA and its continued extension.

During the same period, main European countries such as the P-5 members Great Britain and France as well as Germany were initially keen to depoliticize their relations with Iran, so as not to jeopardize lucrative economic and trade relations. This trend continued after the end of the devastating 1980-88 war with Iraq, when Iran offered preferential terms for quick reconstruction. With the blessing of the late Ayatollah Khomeini, the new and more pragmatic Iranian leadership under his successor, Ayatollah Khamenei, president Rafsanjani and Foreign Minister Velayati had put the reconstruction of Iran on the top of their priority list. They were approaching Europe and – to a

lesser extent – Japan to help them in the construction of the “first genuine Islamic state in the 21st century”.

Simultaneously, stronger contours of a common EU foreign and security policy emerged, namely in the form of the European Union’s “critical dialogue.” Through this dialogue the European Union promised the Iranian government not to judge it based on moral categories but to treat it – from a rational standpoint – as the leadership of an important regional power. Based on these conditions, topics such as human rights, civil liberties, torture, terror, and weapons of mass destruction could be brought into the dialogue.

This approach was based on the opinion that increasing external pressure on Iran would more likely serve to strengthen the position of the ruling regime and diminish the scope for forces critical of it. Considering the heterogeneity of the political landscape in Iran, moderate forces within the leadership would have to be convinced that a moderate foreign policy would serve the country’s national interest and this goal could only be achieved through communication and incentives. Strengthening European-Iranian relations further would then, according to this way of thinking, only be possible if Iran were to respond with actions. That was the theory at least. In practice, however, the “critical dialogue” soon suffered from the fact that the Iranian side had no timeframe placed upon it for these “actions” and the threat of sanctions was left out entirely.

The situation changed significantly in June 2003, when the International Atomic Energy Agency (IAEA) reported doubts about the peaceful direction of the Iranian nuclear program. Now the pressure from Washington to alter the soft line towards Iran increased tremendously. The Europeans, especially the so-called EU-3 group (Germany, France, Great Britain) recognized that they risked a substantial deterioration of their relations to the USA in exchange for uncertain benefits from a continued appeasement policy towards Iran. The initial solution they found was not a complete adoption of the U.S. strategy but the inauguration of an own approach. In October 2003, the EU-3 finally succeeded in wrenching an agreement out of Tehran. Iran agreed to stop uranium enrichment and sign the 1970 Additional Protocol of Nuclear Non-Proliferation Treaty in return for the promise of a far-reaching expansion of relations. The feeling of triumph in European capitals about the victory of their soft power method did not, however, last very long: Iran did not keep to the agreement. Similar efforts of the EU-3 in November 2004 and May 2005

also failed. The Iranian leadership believed it could afford this posture because Washington had just concluded a problematic nuclear deal with India, and both China and Russia made it clear in the UNSC that they did not share the U.S. assessment of the danger emanating from the Iranian nuclear program.

As a result, new fault lines were drawn within the P-5, with the U.S. at one pole and Russia/China at the other one with the EU-3 in an inconvenient inclined position trying to re-adjust its policy between the “critical dialogue” and a tougher sanctions regime. After all, considering Germany’s important role in the matter, the traditional formula P-5 was extended to P-5 + 1 when it came to future negotiations and dealings with Iran.

In this constellation, continued U.S. urgings and heavy lobbying caused the UNSC to adopt three rounds of additional sanctions on Iran:

- Resolution 1737 (23 Dec. 2006) demanded that Iran suspend its uranium-enrichment activities and address IAEA concerns about possible military connections to its nuclear program. In addition, it called on states to block Iran’s import and export of “sensitive nuclear material and equipment” and to freeze the financial assets of those involved in Iran’s nuclear activities. When Iran refused the U.N. demands, two subsequent rounds of sanctions were imposed in 2007 and in 2008.
- Resolution 1747 (24 Mar. 2007) banned all arms exports to Iran and froze the assets and restricted the travel of people involved in Iran’s nuclear program.
- Resolution 1803 (3 Mar. 2008) asked countries to scrutinize their activities with Iranian banks and urged countries to inspect cargoes to see if prohibited goods are on board.

Whereas the Europeans demonstrated an increased readiness to enforce tougher sanctions, Russia and China were still not interested in really implementing them. In realization of Resolution 1803, Brussels imposed sanctions on corporations and individuals thought to be involved in the nuclear and missile program. Defense Minister Mostafa Mohammad Najjar, head of the Iranian nuclear energy body Golamresa Aghasadeh, and other individuals were forbidden from entering the EU. Furthermore, the EU froze the assets of Bank Melli, the largest state credit institution in Iran and one through which a large proportion of business transactions between Europe and Iran were conducted.

Yet, due to Russian and Chinese reservation the three rounds of sanctions remained too limited to inconvenience the Iranian regime significantly, and have therefore not persuaded Iran to abandon uranium enrichment activities.

Iran and the P-5 + 1: a seemingly never ending story

During the fall of 2009 a rare chance emerged for the P-5 + 1 to act jointly. In September, Western intelligence services had found "irrefutable evidence"¹⁸ of a secret uranium enrichment plant, capable of producing highly enriched uranium near Iran's holy city of Qom. The Iranian leaders were clearly caught off guard and made cryptic reference to a "pilot plant" on which they had allegedly informed the IAEA already about. Furthermore, on 28 September Iran had tested its Shahab-3 missile, capable of reaching Israel and beyond.

Thus, when Iranian negotiators met with P-5 + 1 representatives in Geneva in October 2009 after more than a year, the Iranians were interested in showing good-will, whereas on the other side of the table even Russia and China tried to avoid the impression that they would tolerate every Iranian provocation. To reduce the threat of additional sanctions, the Iranian delegation therefore signaled its readiness of cooperation in a so far unprecedented manner. The tentative deal reached in this atmosphere in Geneva stipulated that Iran would export most of its roughly 2.000 kg of low-enriched uranium to Russia, which would then convert it to the material needed for a medical research reactor in Tehran. France would also assist in fabricating the material into metallic rods for use in the medical reactor. Iran also agreed to let international inspectors visit the newly disclosed uranium-enrichment facility in Qom within two weeks, and then to attend another meeting with negotiators from the major powers by the end of the month.

Strangely enough, Iran is in fact prohibited from exporting nuclear material under UNCS resolutions. Thus, a new resolution would be necessary for the deal to go through.¹⁹ Yet, nobody doubted that the P-5 would easily rubberstamp such a resolution, because removing low-enriched uranium from Iran would mean that it could not be further enriched to weapons grade there. Alas, while the P-5 + 1 were still celebrating their success in Geneva, Iran began to backtrack from the deal, insisting on receiving medical-grade uranium from abroad before giving up any

of its commercial-grade uranium, and only turning over part of its stockpile for further enrichment while keeping part inside Iran²⁰. With a heavy heart, the apparently frustrated P-5 + 1 agreed to give Iran a last chance to show diplomatic willing until the end of 2009.

Nevertheless, not unexpectedly, the unity within the P-5 + 1 began to crumble. A completely new situation emerged in which the U.S. and the EU-3 were supported by an angry Russia that felt itself unduly surprised not only by the Qom reactor but even more by the "perkiness" of the Iranians to decline its "generous offer" to enrich uranium in Russia. Therefore, it was China alone that insisted that the only answer to Iran's obduracy would be more talks. Stiffer sanctions would be ineffective and would even increase the risk of the Iranian people uniting around the regime.²¹ Thus, the ultimatum, set for the end of 2009, went by once again without any Iranian concessions. Consequently, the U.S. administration blamed China for allowing Iran to circumvent the UNSC resolutions. By the end of January 2010, Secretary of State Hillary Clinton warned China that it would face economic insecurity and diplomatic isolation if it did not sign on to tough new sanctions against Iran for its nuclear program, seeking to raise the pressure on Beijing to fall in line with the rest of the P-5 + 1.²² But instead of participating in the attempts to convince China to change its position, the Russian government became hesitant. When the U.S. circulated a new draft of outline sanctions to their partners in the P-5 + 1 in March 2010, Russia noted the proposals but declined to discuss them until China responds. In fact, Moscow was hiding behind Beijing, because the Kremlin shared one central argument of the Chinese government that nobody was able to deliver a convincing alternative if sanctions would not work?

As if there were not enough blows for Washington, Tehran surprised the world powers on 17 May 2010 by signing an agreement to export most of its low-enriched uranium to Turkey in exchange for nuclear fuel. The proposed deal could only be interpreted as a heavy attack against U.S. efforts to get a United Nations agreement on further economic sanctions against Tehran. The attack was aggravated the following day when China officially welcomed the swap deal saying that it hoped the proposal would "help promote the peaceful settlement of the Iranian nu-

¹⁸ The Economist, London, 1 October 2009.

¹⁹ Washington Post, Washington D.C., 2 October 2009.

²⁰ Katz, Mark N.: „Russian-Iranian Relations in the Obama Era“, in: Middle East Policy, Vol. 17, No. 2, 2010, p 66.

²¹ The Economist, London, 3 December 2009.

²² The New York Times, New York, 30 January 2010.

clear issue.”²³ The UNSC and the IAEA were to confirm the deal and one can only guess what the U.S. administration did on the same day to convince the other permanent UNSC members and Germany that now a turning point had been reached: either to show unity despite internal differences or to risk insignificance within a very short period of time²⁴. Anyway, on 20 May Russia and China supported a new draft resolution for an additional round of sanctions against Iran. So even the two P-5 members that cooperate most closely with Iran had basically signaled that Tehran had gone too far and that it should comply with its obligations.

Under these circumstances, it did not come as a surprise when the UNSC on 9 June 2010 passed resolution 1929, a 24-page document imposing a fourth round of sanctions on Iran for its failure to “meet the requirements” of the IAEA and comply with previous resolutions regarding its nuclear activities²⁵. Resolution 1929 contained the toughest sanctions against Iran to date, including a ban on exporting three major categories of conventional weapons. While all permanent UNSC members voted in favor of the resolution, Turkey and Brazil, the two powers that had signed the surprise deal with Iran on 18 May, opposed and Lebanon abstained. U.S. secretary of defense, Robert Gates took that chance to blame the Europeans for alienating Turkey from the West by their reluctance to admit Turkey as a EU member.²⁶ The same Robert Gates praised resolution 1929 for providing “...a legal platform for individual nations to take additional actions that go well beyond the resolution itself”²⁷. Thus, the U.S. secretary of defense was able to scare off different co-members of the P-5 within a few days time: the Europeans which had so dutifully followed the U.S. line since 2008 and Russia/China that were exactly against any expansion of sanctions beyond those agreed within the UNSC. Now at latest, the short period of time in the beginning of 2010, when China was isolated in the UNSC had been forgotten. Both China and Russia returned to their traditionally complementary positions within the UNSC, which allowed them to shield each other from diplomatic isolation. Of Beijing’s recent six ve-

toes, three were cast in tandem with Russia (for instance on Myanmar and Zimbabwe).²⁸

Yet, in order to get a more detailed picture, a separate analysis of individual P-5 + 1 members and groups seems unavoidable.

The U.S.: still the driving force

As mentioned earlier, the U.S. has the longest and most consequent tradition of sanctions against Iran. Previous remarks have also made clear that upholding or prolonging the sanctions regime had almost nothing to do with the party affiliation of the respective president. Even George W. Bush who put Iran into his “axis of evil” construct and repeatedly stated that a “military solution” against Iran’s alleged nuclear weapons program is always on the table realized at the end of his presidency that the very “military solution” is not a realistic option. As long as this is the case, sanctions are the toughest response available. The logical result of this consideration was that both President Bush and his successor Barack Obama made optimizing the efficiency of sanctions one of their basic strategic targets in dealing with Iran. On the other hand, this commonality should not conceal a decisive difference in both presidents’ strategy towards Iran. Whereas Bush could only hardly hide the fact that regime change in Tehran was his ultimate goal, Obama proved his sincere readiness to re-start a dialogue with Iran and to open a new chapter in the bilateral relations. Even on the very day when resolution 1929 passed the UNSC, Hillary Clinton declared: “Our goal is not to punish Iran; our goal is not to sanction Iran; our goal is to end any doubts or questions about the purpose of Iran’s nuclear program, and to prevent Iran from obtaining nuclear weapons.”²⁹ In September she added: “The U.S. remains open to negotiations with Iran even as sanctions intended to constrain the country’s nuclear program begin ... Sanctions and pressures are not ends in themselves ... they are the building blocks of leverage for a negotiated solution, to which we and our partners remain committed.”³⁰ To strengthen its approach, the Obama administration resorted to three main tactics.

Firstly, collecting as much international support as possible by constantly repeating the allegation that Iran is effectively trying to develop nuclear weapons. The statement of UN-ambassador Susan Rice that “all

²³ The Economist, London, 18 May 2010.

²⁴ Shenna, John C.: “The Case Against the Case Against Iran: Regionalism as the West’s Last Frontier”, in: Middle East Journal, Vol. 64, No. 3, 2010, p. 341

²⁵ Snow, Charles: “Fourth Round of Sanctions on Iran”, in: Middle East Economic Survey (MEES), Vol. 53, No. 24, 2010, p. 25

²⁶ The Economist, London, 10 June 2010.

²⁷ Ibid. Snow, p. 25

²⁸ The Iran Nuclear Issue: The View from Beijing, Brussels: International Crisis Group Asia Briefing No. 100, p. 15.

²⁹ New York Times, New York, 9 June 2010.

³⁰ Ibid., 8 September 2010.

of the evidence indicates the program is not as they (the Iranians) state, for peaceful purposes only, that there is a military element to it"³¹ can only serve as an example for many similar announcements and declarations. Since the overwhelming majority of UN member states do not want Iran possessing nuclear arms, the U.S. can generate enough support for its view as long as there is only the slightest doubt on Iran's aspirations. Of course, Turkey's and Brazil's stepping out of line in May was infuriating, but Washington – after a short period of frustration – reacted cleverly by offering both countries the chance to join the P-5 + 1 group in the not so distant future.

Secondly, to go ahead with its own interpretation of resolution 1929 in the sense that it just provided a legal basis for individual countries to add or intensify sanctions. Consequently, the U.S. introduced measures in mid-June 2010 that target foreign suppliers of gasoline or refining equipment (Iran is short of refining capacity) and block access to the U.S. financial system for banks doing business with Iran. Other proposals especially discussed in the Republican Party ranged from targeting individuals involved in human rights abuses to making regime change official policy once again.³²

Thirdly, to combat every activity that hampers the previous two. In this regard, even co-members of the P-5 are not excluded. The State Department, for example, has conducted several investigations on Chinese companies doing business in Iran. As early as in 2008, Chinese media speculated that the repeated delay in signing the agreement between the Chinese CNOOC and the Iranian NIOC on development of the North Pars gas field in 2008 was due to U.S. intervention; days before the signing ceremony, the State Department announced it would investigate whether the US-\$ 16 billion gas deal violated U.S. sanctions law.³³ Yet, so far any substantial penalties were not imposed.

The EU-3: From a "shaky candidate" to a true ally

The increased European readiness to enforce tougher sanctions was demonstrated once again immediately after the passing of resolution 1929 on 9 June 2010, when both the U.S. and the EU almost simultaneously announced specific additional sanctions: the former on 16 June, the latter on 21 June 2010. The new European sanctions targeted Iranian shipping

and air cargo companies, imposed visa bans on an extended circle of officials and froze assets linked to the Islamic Revolutionary Guards Corps. They also included trade insurance and financial sanctions (financial transfers above US-\$ 50,000 require prior authorization), and banned new EU investments in Iran's nuclear and gas sectors as well as any technical energy assistance.³⁴

Interestingly enough, the European steps are likely to have a more immediate effect on the Iranian economy, since the U.S. cut off most ties to Iran some three decades ago. While American investment in Iran has therefore dwindled over recent years, the European Union, with 27 member nations, became Iran's largest trading partner until 2009, taking in a third of its exports and selling it billions of dollars in goods and services. Anyway, in combination the European and U.S. sanctions will have – among others – a significant impact on Iran's trajectory as a gas producer in the years to come. According to senior Iranian energy officials, Iran needs a minimum of US-\$ 8 billion in investment in the gas sector, given the fact that some two-thirds of its gas reserves remain undeveloped, particularly in the giant South Pars. The gas field contains roughly half of Iran's gas and is shared with Qatar, which has far outplayed Iran in its exploitation of the reserve. "Over the long term Iran's output of oil and gas will continue to decline without European technology," said Mark Fitzpatrick, director of the non-proliferation and disarmament program at the International Institute for Strategic Studies (IISS) in London. He added that Iran would find it difficult to get insurance since European and North American companies dominate the sector.³⁵

The new EU sanctions obviously illustrate the switch from Europe's previous so-called two-track diplomacy with Iran to an almost entirely one-track coercive diplomacy – very much in line with the U.S. approach. This is all the more remarkable as the U.S. – unlike Europe – does not directly import oil or gas from Iran. Promptly, the Iranian state-controlled media were – after routinely condemning the European subjugation under American domination – smugly asking the question "why the EU has so foolishly and blindly followed the footsteps of the United States, which has no vested economic interests with Iran."³⁶ And indeed, the sanctions will have serious implications for the EU too. The continent receives roughly

³¹ CNN, Atlanta, 1 April 2010.

³² The Economist, London, 11 March 2010.

³³ Dow Jones Newswire, New York, 27 February 2008.

³⁴ The Economist, London, 21 June 2010.

³⁵ The New York Times, New York, 26 July 2010.

³⁶ Islamic Republic of Iran News Agency (IRNA), Tehran, 17 July 2010.

29 percent of Iran's crude oil exports and is increasingly dependent on its gas exports. The sanctions will thus have ripple effects in accentuating Europe's current energy insecurity, reflected in the 27-member EU's wariness of undue dependence on Russia and its frantic search to diversify sources of gas imports. It may well be that the implicit assumption behind the new EU sanctions is the comforting assurance that the energy sanctions will not cripple Iran's ability to export, allowing Europe to continue to benefit. The crux of Europe's dilemma, however, is that sanctions on Iran will inevitably translate into economic, financial and energy losses for the EU. One case in point is the Swiss energy giant EGL, which has signed a US-\$ 13 billion 25-year contract with Iran that almost certainly will be hurt by the new sanctions on Iran's energy sector.³⁷

In addition, Iran has warned that it may switch its energy transactions from the Euro to other currencies, above all the Dirham of the United Arab Emirates. The mere threat of such a move simply adds to the Euro's weaknesses at a critical time when the euro zone is grappling with multiple difficulties in its currency and financial health. And ironically, the EU's decision came only a few days after Turkey signed a US-\$ 1.3 billion pipeline agreement with Iran that calls for gas exports of 2.1 billion cubic feet a day (cf/d) in three years. No surprise then that Ankara was quick in denouncing the EU's sanctions and openly stated it would not honor them.³⁸

Ankara's announcement increased the fear in the European capitals that other countries, especially other P-5 member states, might join Turkey's refusal and might even benefit from that position. For example, the EU clearly stated that it expects China to support tough sanctions against Iran and not let its companies move into the Middle Eastern country's market as European companies pull out. In fact, it was not only the question of moving in, but in staying there. In the above mentioned South Pars field it were the Royal Dutch Shell, Repsol, OMV and Total that had to vacate their position due to the sanctions in favor of the China National Petroleum Corporation as the only remaining foreign company.³⁹

Yet, becoming an economic beneficiary of the European sanctions was only one side of the coin. On the other side, political repercussions emerged. China, and especially Russia, lashed out against the Euro-

pean move calling it "counter-productive", a "disregard for the UN Security Council", and working at cross-purposes with the P-5 + 1 efforts to resolve the dispute over Iran's nuclear program. Russia also "categorically" rejected any attempts to use sanctions against companies and individuals from third countries that are "conscientiously carrying out the demands of UN Security Council resolutions."⁴⁰

Obviously, the European move had fostered the division within the P-5 + 1 into the U.S./EU and the Russian/Chinese camp.

Russia's special interests

Among all the P-5 + 1 member states, Russia has the most intensive relations with Iran: be it only due to the fact that both countries were direct neighbors for most parts of their history. Taking into account the numerous attempts of Russia and the Soviet Union to meddle into Iranian affairs, its overall record in Iran is not the best. In Ayatollah Khomeini's vocabulary, the Soviet Union ranked as the "Little Satan." On the other hand, there were many periods in their common history, when both countries closed their ranks; especially to counter initiatives of third parties. For the last thirty years, the U.S. topped the list of probable candidates to unite against. After the lost war against Iraq in 1988, and Khomeini's death in 1989, Russia became the only – if insufficient – accountable global political power able to help Iran overcome its international isolation and resist the containment politics of the U.S. and its Western allies. Fortunately for the Iranians, in Russia, the old reflexes are still effective. Why should Russia help the Americans in Iran asked Georgiy Mirskiy, one of Russia's best known scholars of International Affairs? "To allow the Americans score points is not in our interest ... if the United States becomes reconciled with Iran, it will be bad for us, and the Americans will push us out of the Iranian economic space. A nuclear Iran is better for us than a pro-American one"⁴¹. Mirskiy may only be a voice in an orchestra but his opinion definitely provides an atmospheric background for the analysis of more real Russian interests.

Russia is Iran's biggest weapons supplier by a wide margin⁴². In addition, it is also Iran's foremost supplier of heavy engineering products and high-tech goods. Russia exported a total of US-\$ 3.3 billion in goods to

³⁷ The Christian Science Monitor, New York, 27 July 2010.

³⁸ Asia Times, Hongkong, 28 July 2010.

³⁹ Bloomberg Businessweek, Washington D.C., 2 September 2010.

⁴⁰ <http://www.eubusiness.com/news-eu/iran-nuclear-russia.5r5>.

⁴¹ Ibid. Katz, p. 63

⁴² Simpson, George L.: "Russian and Chinese Support for Tehran", in: Middle East Quarterly, Vol. 17, No. 2, 2010, p. 67

Iran in 2009⁴³. Lukoil, Russia's largest private oil company, and the Russian gas monopoly Gazprom have signed up to several oil and gas projects in Iran in recent years. Similar to Western competitors, Lukoil has to put up with heavy financial penalties from the sanctions. In March 2010 it announced that it was taking a US-\$ 63 million loss "for the Anaran project in Iran, which was abandoned because of international sanctions."⁴⁴ In contrast to the Europeans, Russia complained several times about the losses after agreeing to sanctions. In comparison with the U.S. "we have a completely different position," lamented Sergej Ivanov, Russia's First Deputy Prime Minister "... we have a trading relationship, and the potential to develop it. We have energy interests, human interests and tourism."⁴⁵ And Alexei Malashenko, geopolitical expert at the Moscow Carnegie Center added that the endorsement of UN sanctions against Iran would involve "painful sacrifices" for Russia that would only partially be offset by the prospect of improved relations with the U.S.⁴⁶

Yet, in general the Russian economic losses are much smaller than those of the Europeans. As mentioned above, in 2009 the Russian-Iranian bilateral trade balance hardly exceeded US-\$ 3 billion. This is a very modest figure compared with Russia's trade with neighboring Turkey, which in 2008 almost reached US-\$ 30 billion. This means that, contrary to widespread views, Moscow has a relatively modest economic interest in Iran. Its trade with Iran is smaller than, say, Iranian trade with Germany. And it is several orders of magnitude behind Iran's economic ties to China, given the East Asian giant's plans to invest many billions of dollars in the Iranian economy.⁴⁷

Thus, it is more a mixture of economic and political interests that determines the Russian course towards the sanctions. Russia's quasi monopoly in the external dimension of Iran's nuclear program can be added to the economic perspective. For instance, Prime Minister Vladimir Putin insisted in March 2010 that his country would fulfill its obligations to complete the prestigious civil nuclear power project in Bushehr, where Russian experts and companies work since the 1990s.⁴⁸ During that decade Iran even played a decisive role in ensuring the survival of the Russian atomic energy industry. At that time, the Bushehr project was one of only four contracts that

⁴³ Ibid. Shenna, p. 354

⁴⁴ <http://www.bbc.co.uk/news/10089746>.

⁴⁵ Financial Times, London, 20 May 2010.

⁴⁶ Ibid.

⁴⁷ http://cns.miis.edu/stories/100523_russia_iran_pikayev.htm.

⁴⁸ Financial Times, London, 19 March 2010.

Russia had on nuclear power plants abroad (along with a fifth reactor under construction in Russia itself).

On the other hand, under article I of the NPT Russia is committed to refrain from facilitating the acquisition of nuclear weapons by a non-nuclear-weapon state. In this matter, Russia's international standing and reputation are engaged. An Iranian inclination to acquire nuclear weapons would be highly embarrassing for Russia since it has so far supplied 80 tons of fuel and technology to the reactor in Bushehr. To minimize the risk of proliferation and to counter international criticism, Moscow has insisted on spent nuclear fuel rods returned to Russia⁴⁹.

This is the main reason for Russia to support the fourth round of sanctions after having eviscerated the three previous sets. When Iran was found in the summer of 2009 to build a hitherto secret uranium-enrichment plant on a military compound outside Oom, Russia began to assume that Iran might indeed have a covert military program. The mistrust increased after two additional Iranian actions: turning down the swap deal negotiated with the U.S., Russia, France and the IAEA by the end of 2009 and starting 20 percent enrichment itself, at its main plant at Natanz, rejecting calls to wait until inspectors were on hand and extra surveillance in place.⁵⁰ Russian disapproval of these Iranian activities was demonstrated, for example, by delays in delivering S-300 air defense systems which were promptly cited in the Iranian media – together with delays in completing Bushehr – as reasons that Tehran should not trust Moscow to further enrich its low-enriched-uranium stockpile and return it in a timely manner.⁵¹

In general, one could conclude that although Russia and China often pursue a very similar policy towards the sanctions regime against Iran in the P-5 + 1, it is history, neighborhood, and the dimension of economic interests that make the difference.

China: the most reluctant tamer

As direct neighbors, one could conclude that the relations between Russia and Iran would be much more intense than those between China and Iran; all the more as China views the Middle East and Central Asia as its "Grand Periphery"⁵² only. In terms of geography, cultural affinity, even military security, the

⁴⁹ Ibid. Shenna, p. 353.

⁵⁰ The Economist, London, 25 February 2010.

⁵¹ Mehr News Agency, Tehran, 16 November 2010.

⁵² Ibid. International Crisis Group Asia Briefing, p. 8.

Middle East and especially the Gulf region, are of minor importance for China. That the region nevertheless became a priority focus of its geo-strategy is due to the fact that the Middle East in general and Iran in particular is key to China's energy security. In 2009, China received 11,4 percent of its crude oil from Iran, making it the third largest supplier behind Saudi Arabia and Angola.⁵³ Beijing's thirst for energy and its vast foreign reserves are an ideal complement to Tehran, which has the world's second-largest crude oil reserves but desperately needs investment to develop them. Iran is one of the few Persian Gulf states that permit foreign companies to engage directly in the exploration and production sectors, making it especially attractive to Chinese investors. In July 2009, China signed a US-\$ 40 billion deal to refine Iranian oil⁵⁴; all in all, China's state-run energy companies have committed investments of US-\$ 120 billion to Iran's energy sector, the Chinese-Iranian its bilateral trade accounts for an estimated US-\$ 25-30 billion annually and has increased six-fold over the last decade⁵⁵. Thus, China surpassed the EU in 2009 to become Iran's number one trading partner. This development became only possible because China's economic interests in Iran go beyond energy, with significant trade taking place in non-hydrocarbon sectors, too. China supplies approximately 13 percent of Iran's total imports, including substantial amounts of machinery and steel.⁵⁶

Iran on its part makes great efforts to keep China's interest alive. The more Chinese companies are embedded in Iran, the more likely China will be to attempt to delay, soften or block sanctions. In "atmospheric" terms, Iran permanently proclaims that both countries share important historical and political affinities, shaped by suspicion towards the West and reinforced by an experience of sanctions and a perception of U.S. interference in their domestic politics. And in more practical terms, Iran does not only underline its importance to keep open the flow of oil from the Gulf area via the Hormuz Strait, but also as a node in the new "Energy Silk Road" connecting the Gulf, the Caspian Sea and Central Asia to China. In this new "Asian Energy Security Grid" China needs Iran in a series of pipelines such as the Iran-Pakistan pipeline and the interconnection between Iran and Turkmenistan, with an eventual direct land link be-

tween Iran and China to bypass the Strait of Malacca, patrolled by the U.S. navy⁵⁷. Simultaneously, strong bilateral relations could also help to counter U.S. influence in the Gulf region and to increase Beijing's strategic leverage there. China and Iran share an interest in balancing U.S. presence in the region, which has been on the rise, particularly since 9/11. Unperturbed by the loaded nuclear debate around Iran, China agreed in May 2009 to construct twenty nuclear reactors in Iran, one to be located close to the border with Iraq⁵⁸.

Altogether, these are the reasons for China's reluctance to pursue further sanctions, insisting that a solution to the nuclear impasse must be sought first and foremost through diplomacy. It emphasizes that as long as Iran honors its Nuclear Non-proliferation Treaty (NPT) commitments not to use nuclear technology for military purposes, it should not be obliged to forgo its rights, including enrichment, under that accord. Beijing is not convinced that Iran has the ability to develop nuclear weapons in the immediate future and therefore does not share the West's sense of urgency about the possibility of a nuclear-armed Iran, despite the risks that this would present to China's long-term interests. Moreover, it does not believe the sanctions proposed by the West will bring about a solution to the issue, particularly given the failure of this approach so far. And while Beijing has stated that it supports a "nuclear-free" Middle East, it does not want to sacrifice its own energy interests in Iran⁵⁹ – much to the pleasure of the Iranian leadership, which attempted to implant exactly this attitude into the brains of Chinese strategists.

Even immediately before the fourth round of sanctions the Chinese foreign ministry declared that China does not intend to support radical sanctions against Iran that could stop its nuclear program. Spokeswoman Jiang Yu stated that Beijing insisted on a diplomatic solution of Iran's nuclear issue, explaining that "dialogue and negotiations" are the most efficient methods.⁶⁰ Thus, when the negotiations for the fourth round of negotiations began, China was able to extract significant concessions from the other P-5 + 1 partners. They included the exemption of Iran's energy and trade sectors from the sanction resolution, the delay of U.S. unilateral sanctions, the exemption of Chinese companies from joining future unilateral sanctions against Iran, and excluding from the forth-

⁵³ „Statistical Review of World Energy“ BP (www.bp.com) June 2009.

⁵⁴ Lin, Christina Y.: China, Iran and North Korea: A Triangulation of Strategic Alliance. Jerusalem: Truman Institute. 2010, p.3

⁵⁵ *ibid.* Shenna, p.344, 345

⁵⁶ *ibid.* International Crisis Group p. 7.

⁵⁷ *Ibid.* Lin, p.4

⁵⁸ *Ibid.* Shenna, p. 355

⁵⁹ *Ibid.*, International crisis group, p. 1.

⁶⁰ Pravda, Moscow, 21 April 2010.

coming resolution Iranian companies and individuals that are relevant to China's economic activities in Iran⁶¹. In the end, it became an open secret that Beijing only supported resolution 1929 after Russia signaled to do so. In that sense, Iran is still not important enough for China to risk a complete diplomatic isolation in the P-5 group, the most influential steering board of international politics.

Beijing tried to overcome this dilemma by reviving its "dual-track" policy of supporting "soft" UN sanctions and continuing its fruitful economic partnership with Iran. In the beginning of August 2010, the Chinese vice-premier Li Keqiang told the visiting Iranian oil minister Massoud Mirkazemi that his government would maintain co-operation with Tehran on existing projects, even after the U.S. had called on Beijing to observe sanctions. "Iran is an important trade partner of China's in western Asia and north Africa and one of the country's main oil suppliers. Bilateral economic and trade co-operation has achieved fruitful results ... China is willing to work hard with Iran, continue to push mutual political trust, and maintain communication, dialogue and co-ordination on important international issues, to maintain regional and global peace, stability and prosperity."⁶² Thus, the "dual-track" policy seemed to be ideal for China since it could secure its energy-related economic connections with Tehran, while simultaneously avoiding conflict with the U.S. and its allies.

Yet, on the other hand, it is exactly this policy that caused the U.S. and the EU to decide to shift gears to unilateral sanctions. Considering China's potential in Iran, Washington and the EU-3 worried that the "dual-track" policy would turn even the fourth round of sanctions into a "toothless tiger". Thus, the unilateral sanctions imposed on Iran have put China in a delicate situation. Although its economic activities in Iran remain relatively secure, due to the aforementioned U.S. concessions to China, Beijing's ability to protect the Iranians has undoubtedly decreased, as has its ability to shape the political and economic environment in preparation for its future economic activities in Iran⁶³.

A Way out?

As proven in the previous chapters, the permanent differences within the P-5 + 1 will prevent a breakthrough in the dilemma of Iran's nuclear program. The common denominator of the group's national interests is so small that excursions from the painfully negotiated course have always to be anticipated. In this standoff unconventional approaches might be the only way to solve the crisis. Although many of Iran's immediate neighbors are also afraid of its nuclear program – not least due to the constant Western warnings – it may be Iran's Muslim neighbors, Turkey, Saudi Arabia and Egypt in particular, that can become the key for a successful diplomatic solution. Regional engagement of Iran by these three regional peers may represent the last diplomatic avenue open to the international community, now that options other than sanctions and military attacks appear to have been exhausted⁶⁴. Such a turn might also help Iran to find a solution to its international isolation. The country has enough reasons to look for such a loophole. Sanctions are already costing Iran roughly a quarter of its potential national output, and are hampering around US-\$ 150 billion of necessary investments in oil and gas upgrades over the next decade.⁶⁵ And even previous sanctions have made Iran's merchants and middle class grumbling at their needlessly provocative president. After the election crisis of 2009 in particular, the Iranian regime is more interested in a face-saving solution of the sanctions dilemma than ever before. Now, it seems as if the international diplomacy has reached a point, where some imagination should be added to the recipe.

⁶¹ Evron, Yoram: "From UN to Unilateral Sanctions on Iran: Political Implications for China", in: *RSIS Commentaries*, No. 105, 2010, p. 2.

⁶² Financial Times, London, 6 August 2010.

⁶³ Ibid. Evron, p.2

⁶⁴ Ibid. Shenna, p.342

⁶⁵ The Economist, London, 3 December 2009.

Iran Sanctions: Repercussions on Arab Gulf States

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Introduction

Iran tried to avoid the fourth package of sanctions imposed by the UN Security Council in June 2010 by taking a surprising and important step to stress the peaceful nature of its nuclear program. It accepted - after negotiations with Turkey and Brazil - the so-called "Tehran Declaration" on May 17, 2010. The Declaration calls for swapping 3.5% of low-enriched uranium (LEU) produced by Iran with 20 percent enriched nuclear fuel on Turkish territories rather than on Iranian territories. This was an issue that Iran had been refusing during the previous rounds of negotiations with foreign countries. It is well known that Iran had previously refused a similar "offer" for a swap to take place in France or even in Russia, its "nuclear friend". It is perhaps this acceptance of a Turkish role instead of a Russian role in the exchange of enriched fuel that caused Moscow's anger at Tehran and led to media attacks between the two countries, especially after Russia's approval of the Security Council's sanctions. Iran thus failed, despite its significant turn to accept the swap to take place outside its territories, to dissuade the "international will" from imposing more sanctions. The Security Council issued its sanctions resolution No. 1929 on June 9, 2010, less than a month after the signing of the Declaration.

The Council resolution reminded the world of three previous resolutions; the reports of the International Atomic Energy Agency (IAEA) regarding Iran's secret Qum enrichment plant and the Teheran Declaration on the deal to swap 20% enriched uranium. The resolution called for "the need to exercise vigilance over transactions involving Iranian banks, including the Central Bank of Iran, so as to prevent such transactions contributing to proliferation-sensitive nuclear activities". It also bans Iran from investing in "sensitive nuclear activities" such as uranium enrichment and reprocessing activities, and activities or technology-related to ballistic missiles. It also banned all States from undertaking such investment in territories under the jurisdiction by Iran. Moreover, the resolution called for freezing the assets of companies affiliated with the Iranian Revolutionary Guards and called upon other states to "exercise vigilance over those transactions involving the IRGC that could contribute to Iran's proliferation-sensitive nuclear activities or the

development of nuclear weapon delivery systems." Additionally, the resolution contains a comprehensive framework for inspecting containers in states and ports and in the sea in case there is information suggesting containers are carrying banned materials, such as traditional weapons and sensitive nuclear materials. Countries will be obliged to confiscate any banned materials found. It also bans countries from "servicing of vessels, to Iranian-owned or -contracted vessels,.... if they have information that provides reasonable grounds to believe they are carrying prohibited items." On financial transactions, the resolution called upon states "to take appropriate measures that prohibit in their territories the opening of new branches, subsidiaries, or representative offices of Iranian banks, and also that prohibit Iranian banks from establishing new joint ventures, taking an ownership interest in or establishing or maintaining correspondent relationships with banks in their jurisdiction to prevent the provision of financial services if they have information that provides reasonable grounds to believe that these activities could contribute to Iran's proliferation-sensitive nuclear activities or the development of nuclear weapon delivery systems."

This package of sanctions was not the first imposed during the course of a complicated and tense relationship between Iran and the United States of America (USA), other major powers (Russia and China) and the IAEA. Three previous resolutions issued in 2006, 2007, 2008 all aimed at forcing Teheran to back away from the enrichment of uranium for fear it might go beyond the peaceful use of energy to building a nuclear bomb, with doubts over such possibility or hints that Iran might be able to obtain nuclear arms sparking concern among world and neighboring countries based on security, strategic and environmental considerations. Such developments have turned the Iranian nuclear program into a major 'threat' at regional and international levels since the new conservatives entered the White House in 2000.

Ever since the US declared war on terrorism in the wake of the September attacks in 2001, and particularly following the invasion of Iraq in 2003, a new phase of tensions emerged with threats of sanctions and military action which turned the Iranian nuclear program into a strategic issue, with regional and international powers disagreeing on how to deal with it.

Iran faced up to political and economic pressures aimed to force the country to halt its nuclear program (a halt to uranium enrichment), by holding on to policy constants, including:

- Rejecting to give up on its right to possess nuclear energy for peaceful means.
- Declining to accept a role by the UN Security Council to resolve problems resulting from its nuclear program and therefore refusing to accept the Council sanctions' resolutions insisting this role be returned to the IAEA.
- Calling for a nuclear disarmament in the entire Middle East region- a call intended to direct attention to Israel's nuclear arsenal.
- Continuing to build its military capabilities and parading them to show its readiness to deter any attack on the country or on its nuclear facilities. Iran also chose to reveal the potential high cost of such a war (threats to close the Strait of Hormuz, a blaze engulfing the entire the Middle East region, strikes against American interests around the world, destruction of Israel), especially with Israel and the United States repeatedly threatening attacks against Iran.
- Trying to show that sanctions are futile and will not change its nuclear or foreign policy. Each time the Council issued new sanctions, the Iranian leader Ahmadinejad called for throwing them out like trash. But at the same time, Iran was making enormous efforts, even with its Russian and Chinese friends, to prevent the new rounds of sanctions, which mainly targeted the financial and oil sectors, from being imposed.

Western fears of Iran's nuclear program were focused on possible risks to Middle East stability and threats to world security. Thus a link was created between Iran's acquirement of its military program and the balance of power with Israel on the one hand, and a power imbalance with the Arabs on the other. Some groups also hinted at the possible danger of the nuclear weapons falling into the hands of 'terrorists'. In spite of this, the political positions and estimations of the USA and other western powers differed on how to deal with Iran and its nuclear program, ranging from direct calls by the American President, Barack Obama for unconditional dialogue, to the exercise of maximum pressures through sanctions to force Tehran to halt its program or enter into negotiations, to questioning the efficacy of the sanctions, of which four packages have failed to bring the program to a

halt (Obama: "No guarantees the sanctions would force Iran to change its behavior" September 26, 2010). Other positions ranged between a fear that sanctions might harm the reform movement inside the country, to readiness for talks with Iran on regional issues where the US is deeply involved, such as those dealing with Iraq and Afghanistan, to accepting a fait accompli (Iran as a nuclear power) and threatening a military strike, while acknowledging the difficulties and grave consequences involved. Such varied and conflicting positions, at a time when Washington faces internal crises and has declared its readiness to withdraw from Iraq and Afghanistan, may have allowed Iran to pursue its nuclear program without fear of consequences that it might not be able to confront.

The varied estimations reflected negatively on Arabs and on Gulf states, in particular, which have been 'concerned' and 'confused' as to how to deal with Iran's nuclear program. If such a program is of a peaceful nature, then it means that Iran has made a scientific, developmental and even political achievement which oil-producing countries were unable to bring about.

Such feelings of concern and confusion are most likely a result of the Arab failure to maintain better ties of understanding with Iran on the one hand, and face up to its growing influence in the region in the aftermath of the fall of the former Iraqi regime in 2003, on the other. These countries do not find that any of the suggested scenarios would allow them to feel "strategically at ease", for despite their willingness to contain the Iranian regime or to do away or limit its power in any possible way, this desire is a source of concern at the same time. For example, if an American-Iranian war breaks out, Gulf States will find themselves in an unenviable position given that if they choose to open their airspace to American forces to attack Iran they will become a party to the war and targeted by Iranian missile attacks. Should they refrain from such action, they will fear failure of the US war against Iran, which, in such case, will become the Muslim world's unrivalled dominant power.

Officials from the Gulf have issued conflicting statements, with some declaring readiness to support a US war against Iran and others declining any participation in such operations. Former Saudi intelligence chief Turki Al-Faisal warned Washington against attacking Iran on the pretext of assuring Israel regarding the peace process with the Palestinians, saying

such attacks will lead to a catastrophe in the region⁶⁶. But if a 'major deal' as described by some parties, is to be concluded between Washington and Teheran, it will mean an American blessing to Iranian influence, as was the case during the reign of the former Shah of Iran, which will not be in the interest of the Gulf States. Hence, the call by some Arab leaders, including the Secretary General of the Arab League, Amr Mousa, for engaging Arabs in any negotiations between Iran and the United States, not only on the nuclear program of the former, but also on other regional issues.

Some Gulf States, such as Kuwait, cite environmental hazards that the Iranian nuclear program might entail, but has not yet decided as to whether they will join other countries working to produce peaceful nuclear energy like Iran. In fact, the Gulf States are concerned over the growing military and nuclear capabilities of Iran at a time when they cannot limit its influence. They are also aware that their large arms deals with the United States and other Western and Eastern countries will not bring about a balance of power with Teheran, a fact that is pushing these countries toward depending more on the US to contain the Iranian influence as generated by its nuclear and non-nuclear power.

Therein lies the dilemma facing Arab states in general and Gulf States in particular as to how to deal with the new round of sanctions. Will they be more useful than previous packages in making Iran abandon its nuclear program? Is it in the interest of these countries to fully abide by the sanctions with the negative economic and political repercussions they might have on relations with Iran should their outcome fail to bring a halt to the Iranian program? Or, would the current sanctions, like previous others, fail to bring any change, either in the relations between the Gulf States with Iran or to the continuation of the Iranian nuclear program, or even in the Iranian economy given statements by Iranian officials saying their country has now started to produce gasoline, which Teheran has been importing and was one of the items subject to sanctions in the UN resolution aimed to exert pressures on Iran?

It may not be easy to follow the impact of sanctions on all Arab countries given that most of them have no substantive economic ties with Iran. In the Arab Gulf region, reports and studies indicate that the Emirate of Dubai, with the most advanced economy in the United Arab Emirates (UAE), is the primary trade

partner with Iran. Iraq, on the other hand, presents the best model when talking about the ties of Arab countries with Iran. The country has been facing a state of political and economic chaos following the fall of the former regime in 2003, as well as multiple-power engagement in the country's affairs and a dominating Iranian presence. Therefore, Iraq and the UAE set the two models in reference to the sanctions and different ways of dealing with them.

Iraq and the Sanctions

It seems that the Kurds of Iraq were among the first to breach the international sanctions imposed on Iran, though each side accuses the other of the breach. Some Kurdish officials have been reported as saying that the transportation of oil to Iran is a legitimate act and that they have not received any instructions from regional authorities to monitor such trade, insisting that "no crude oil has been smuggled into Iran in any way and that only a surplus of their oil products is being exported by specialized companies after charging customs duties and obtaining necessary documents". They insisted that products such as petrol and kerosene were being exported openly via specialized companies and that the regional government received revenues from the sale.

Furthermore, they indicated that crude oil extracted from the Kurdistan region was never transported to other countries, except once by the Kirkuk pipeline and that any talk of oil transportation in tanker trucks to Iran is not true at all. The refineries in the region, they said, operate to refine oil derivatives and have been legally authorized under the Constitution and official licenses from the government. They acknowledged the sale of specific amounts of black oil for specific periods of time to buyers but say that this kind of oil has no market in Iraq; therefore, those buying it transport it to world markets. Such an operation, they maintain, is conducted with official and legal authorization in proper ways and good standing⁶⁷.

Meanwhile, the Kurds accuse Baghdad of turning a blind eye to oil smuggling from the southern regions to the Iranian city of Abadan, stating that nearly one hundred thousand barrels of oil are being transported to Iran daily. At the same time, Kurdish opposition sources blamed Washington for doing nothing although it received information of such violations in the Kurdistan region from the opposition a long time ago, containing evidence that UN resolutions on Iran

⁶⁶ Al-safir newspaper, November 11, 2010

⁶⁷ Al-Naba' Information network, July 29, 2010

are being violated. However, Washington, they said, remained silent on the issue. Sources close to the Iraqi Prime Minister, Nouri Al-Maliki, are concerned that any violation of the sanctions in the north or south of the country will tarnish Iraq's image in the Security Council and impede Iraq's efforts to get out from under UN penalties imposed under Chapter Seven. For its part, the US embassy in Baghdad has voiced concern at the 'thriving' smuggling operations of oil derivatives to Iran, which imports more than 40% of its needs due to the depletion of capacity of its oil refineries.

A report by Reuters on July 24, 2010 indicated tanker trucks corralled into groups of 10 -12 by Kurdish police on the road to the Haj Umran border point, waiting for their chance to transport fuel to Iranian ports or fuel depots. The New York Times also quoted Kurdish Officials on July 13, 2010 as saying that the flow into Iran of hundreds of oil tankers was continuing, each with a truckload of 266 barrels a day of crude and refined oil, across Banjween border point between Iraq and Iran and across two other border points in Kurdistan.

The fact that applying the sanctions is becoming more difficult is due to cooperation agreements, of which nearly 170 have been signed between Iraq and Iran. The volume of trade between the two countries in 2009 was worth 7 billion dollars, with the two sides seeking to develop such ties including facilitating issuance of visas to Iranian businessmen and investors. Iran's former ambassador to Iraq, Hassan Kathami, also spoke of the signing of a landmark free-trade agreement between the two sides which eventually took place in April 2010, making Iraq the second country after Venezuela to sign this agreement with Teheran. Iranian companies are also seeking to organize 12 international exhibitions on reconstruction and oil industries, an indicator of a quality leap in trade ties with Iraq⁶⁸. Meanwhile, Iraq agreed that a pipeline to be built by Iran will carry natural gas to Syria across its territory and will run to reach Mediterranean ports. Following a meeting with Iraq's Minister for Oil, Hussein Shahrastani, the Iranian Deputy Minister for Oil, Jawad Oji, said his country, which owns the second largest reserve of natural gas after Russia, will use its sixth network of trans-border gas pipelines to export the gas supplies at a capacity estimated at 110 cubic meter per day, of which 50 million will be

earmarked for local consumption and the rest will be set aside for exportation⁶⁹.

While Washington expected the sanctions to be implemented, Teheran looked in 2010 to see the value of its exports to Iraq exceeding eight billion dollars, up from six billion dollars in 2009, supported by sales of equipment and materials needed for the reconstruction of Iraq destroyed by the war. Iran is the main trade partner of Iraq and one of the major investors since the US-led invasion of the country that led to the overthrow in 2003 of the former Iraqi regime headed by President Saddam Hussein. Ali Haidari, Iran's Trade Attaché in Baghdad, has said that economic ties with Iraq have been growing since the fall of the Iraqi regime, with the volume of trade jumping ten-fold since 2003. Iran is investing in the construction of electricity plants, schools, hotels, and brick factories as part of the reconstruction of Iraq. Iranian exports to Iraq include building materials, petrochemicals, industrial equipment, food and medical equipment, in addition to liquid gas needed to operate Iraq's electricity stations. Haidari indicated that his country exported 40 thousand vehicles to Iraq in 2010. He said Iraq exports dates, sulfur, leather and any available crops to Iran. Moreover, he said that Iran hopes to sign an agreement to deal to build an export pipeline that extends from Basra in southern Iraq to Iran's Abadan refinery, within a month. Iraq – ranking 3rd among countries with large oil reserves – has earlier signed a series of agreements with international oil companies designed to raise its crude production capacity four-fold to reach 12 million barrels a day. The construction of the pipeline from Basra to Abadan is not a new step; the two countries signed an initial agreement in 2005 but this was not implemented due to the violence in Iraq. According to the agreement, Iraq would export 150 thousand barrels of crude a day through a double pipeline, in return for Iranian supplies of petrol, gas oil and kerosene⁷⁰.

Iraqi businessmen rule out the possibility of a decline in relations with Iran, and expect the next phase to see a better level of economic activity between the two countries, contrary to expectations of others who predict that the sanctions might reflect negatively on Iran's economic presence in the Iraq. Businessmen dealing in trade with Iran have indicated that Iran managed to utilize its capabilities in the years after the developments of 2003, taking advantage of the keenness of some circles inside Iraq to increase the pace of cooperation with Teheran in many sectors.

⁶⁸ UPI, August 11, 2010

⁶⁹ Russia Today, August 16, 2010

⁷⁰ Reuters, April 25, 2010

Thus, Iranian trade volume in Iraq increased to more than 5 billion dollars, according to the Iranian trade attaché who expects the volume to reach 10 billion dollars worth of trade transactions in 2010.

It is noteworthy that such trade exchanges are in Iran's interest, which invests in Iraq's needs for goods and commodities to increase the volume of its exports. The ports of the two countries are busy all year round with a continuous flow of truckloads of Iranian goods for the Iraqi markets. Sami Hameed, President of the Chamber of Commerce in Dyala, a town which lies close to the Iranian border, told Al-Hayat newspaper that Iran will concentrate more on trade with Iraq due to the long borders, stretching across more than 1,450 kilometers between the two countries with multiple border points, in addition to their deep rooted market interests. Iran has also built factories in border areas to facilitate access to its markets. Ragheb Bleibel, President of the Iraqi Businessmen Association, also noted in a statement to Al-Hayat that many Iranian investors turned to Iraqi markets in recent years, taking advantage of available opportunities to develop their investments in the country.

He played down fears that "Iraq might turn into an arena for conflict between the United States and Iran as a result of the sanctions", saying that such a possibility can be bypassed to the extent where circumventing the sanctions themselves might be an easy thing to do. The President of the League of Private Iraqi Banks, Fuad Al-Hassani also announced that branches of Bank Melli Iran and other Iranian banks exist and operate in different parts of Iraq, mainly in the southern region and in Kurdistan. He said "Iraqi authorities will take into account any possible implications resulting from the sanctions imposed on Iran in any transactions related to money transfers".

Al-Hassani pointed out that foreign banks operate in Iraq "in accordance with instructions of the Iraqi Central Bank that laid down specific criteria for foreign banking activities in Iraq, and Iran will be keen to benefit more from the trade method between the two countries based on the direct imbursement system". He did not disregard "considerations and factors make economic and trade ties between the two countries exist without any barriers that may be posed by the international sanctions against Iran"⁷¹.

Some parties see the 'impossibility' of implementing the sanctions from Iraq for the following reasons:

- The Iranian-Iraqi border stretches along for more than 1,000 km between the two countries.
- Iran enjoys full freedom of activity in 11 Iraqi governorates.
- The port city of Basrah lies, in political and military terms, under Iranian control as regards water and trade.
- Iran is free to use the Iraqi territory for trade purposes.
- Iran's traders and military are allowed to enter the autonomous region without entry visas, from which, in turn, they can freely enter Syria and Lebanon.
- Iran is a vast country with a harsh geography and an area three times the size of Iraq.

The Gulf States and the Sanctions

Arab Gulf states appear confused in dealing with and applying the sanctions against Iran. They feel declined to disrespect the UN resolutions on the one hand, and are concerned, on the other, over possible damage that might be inflicted due to the intensive Iranian economic presence, especially in the Emirate of Dubai, which, with its debts amounting to 100 billion dollars, has been facing a, as of yet unaddressed, financial crisis. Gulf States are concerned at the same time that the sanctions may not lead to a change in Iran's nuclear policies and that Teheran will continue building its nuclear program without being deterred. Moreover, there have been fears that, in case of worsening sanctions and Iran failing to back out on its nuclear program, a military confrontation might break out between the two sides in the Gulf region. With such odds, Gulf States including the Emirate of Dubai, do not feel reassured with developments taking place around them and are aware that they might be the first to endure the large cost of the sanctions, given that the UAE are considered the major Gulf trade partner with Iran. Many expect that the sanctions will result in a push toward increased smuggling operations around the region's coasts, expanding the black markets for fuel black and Gulf States getting involved in legal or political problems with the companies exporting gasoline to Iran. There have also been fears that such a situation might get banks and insurance companies, which insure part of the trade exports to Iran, into legal complications with the United Nations, with financial authorities entering a legal battle which might be more difficult than a

⁷¹ Al-Hayat, June 16,201

similar situation they faced when sanctions were first imposed on Iraq. Furthermore, a hostile atmosphere might prevail with risks of a possible war with increasing frictions between the Iranian navy and American forces in the Gulf region. Even with no war breaking out, Iran might resort to intercepting specific commercial ships in reaction to the interception or inspection of its ships headed to its ports. The possible closure of the Strait of Hormuz by Iran adds to such odds and in such event will cause damage to other countries but Gulf States will endure the enormous impact.

It is apparent that the previous round of sanctions against Iran has not affected its trade balance with Gulf States, and that its volume with some of them increased in the past few years⁷². This is attributed to Iran's geographical location near the Gulf States, moderate prices, easy access to licensing procedures, low pressures, when compared to the West, regarding banking transactions and smooth money transfers and financial dealings. The volume of trade between Iran and the member states of the Gulf Cooperation Council (GCC) exceeded 12 billion dollars per annum, with the volume of exports and re-exportation to Iran reaching around 8.5 billion dollars, while the value of Iranian exports to these countries is estimated at 2 billion dollars⁷³. It is noteworthy that Kuwait Central Bank called on banks and other financial institutions on November 11, 2010 to apply the sanctions imposed on Iran, four months after they were imposed by the UN Security Council, but at the same time Qatar called for strengthening relationships with Teheran.

Dubai has become the most important center of trade activities outside Iran, over the past few years, and due to its location near the Islamic Republic, the Iranian economy benefits greatly from the economic activity of Iranian companies in the nearby diaspora. Nearly 400,000 Iranians live in the UAE, according to many studies and reports, which means that every tenth citizen in the country is of Iranian origin. In Dubai, for example, every fourth or fifth citizen also originates from Iran. Even when taking into account the number of nationals from the Philippines, Pakistan, India and others, the number of Iranians remains much larger as compared to the native population, which is seen as a demographic problem facing Arab Gulf States in general and is becoming a source of concern for the future.

⁷² Al-Sharq Al-Awsat, February 20, 2010

⁷³ Ibid.

Iranians established companies in Dubai long before the Islamic Revolution took place in their country. More than 8,000 companies have reportedly been launched in the UAE, most of them based in Dubai, which is considered as the best location for businessmen, providing education opportunities for their children in branches of American and Australian universities in the country. Iranians spend large amounts of money in Dubai, with their investments in companies and real estate totalling around 300 billion dollars, which means they own 15% of Dubai's property. Each crisis in Iran contributes to raising the volume of Iranian investments in Dubai. A few days after Mahmud Ahmadinejad won the elections for President in June 2005, nearly 200 million dollars poured into Dubai. According to official UAE economic data, 22% of goods are exported to Iran, but such figures do not include the volume of goods exported to Iran via Jebel Ali free trade zone, where 3,500 registered foreign companies export goods to more than 10 countries, including Iran.

Western businessmen say that a third of the volume of exports via the zone heads to Iran. Western diplomats and other businessmen also speak of trade with Iran booming and that western companies prepare the invoices for the zone's clients while the goods remain packed until they arrive in Iranian territories. In this manner, western companies avoid the boycott, while every businessman emphasizes that the trade taking place does not contradict the sanctions imposed on Iran and that any person can place an order for goods with a well-placed businessman and ship it legally to Iran. Mustapha Al-Ani, Advisor at the Gulf Studies Center in Dubai, explains that "Dubai is the last place in the world to expect to abide by the boycott". However, the United States established the Iran Department in its Public Consulate in Dubai, prior to the imposition of the last round of sanctions was, with the mission of monitoring the process of trade activity with Iran, identifying the types of goods and ties being built with Iranian businessmen. The Dubai authorities, meanwhile, closed the offices of 100 Iranian companies upon the recommendation of the Department on the pretext that some groups have supplied Iran with chemical materials and that others have close ties with the Iranian Revolutionary Guard and act upon instructions from them to obtain specific types of goods. The UAE Central Bank has also requested that its clients halt offering facilities to Iranian companies in accordance with sanctions. As a result, owners of some major transport companies in Dubai say that their business declined by 60% follow-

ing the recent package of sanctions (www.albawaba.com).

The reported closure of 400 Iranian companies in Dubai was not only the result of a violation of the sanctions but was also due to the financial crisis in Dubai where more than 8,200 thousand Iranian companies and corporations run businesses, meaning that thousands of them are still active in the market. But there have been fears in the Emirates of Dubai, Fujaira and Ras Al-Khayma that restrictions on their trade with Iran might cause damage to their economies at a time of an economic slowdown caused by the continuing world financial crisis. The Financial Times quoted remarks by the Chief Police Commander of Dubai, Dhahi Khalfan, reflecting a prevailing, traditional view that the solid trade ties with Iran should be maintained. The newspaper said that some of the UAE banks and companies have complained of vague criteria for abiding by the UN sanctions in their dealings with Iran. It also stated that "companies in Dubai want to abide by UN sanctions but fear economic consequences of unilateral sanctions, which prohibit, for instance, the sale of oil products to Tehran"⁷⁴.

Circumventing Sanctions

Economic cooperation with Iran has become a costly adventure leading to a new phenomenon. In the wake of the series of sanctions against their country, a number of Iranian businessmen began to act as middlemen in deals concluded in the interest of Iran. Thus, nothing has changed and it is "business as usual" as the British continue to say. These businessmen established a system by which they use money exchange and currency transfer firms to carry out their financial dealings in order to avoid the sanctions and bureaucratic snags. It is noteworthy that some western banks which used to deal with big-name Iranian clients before, are bowing to American pressures. A western businessman indicated that the American Western Union Bank took advantage of the gap created by international banks giving in to American pressures and engaged in money transfer transactions. A European banker also noted that the Americans are aware that some American companies ship goods to partners in Iraq, who later transport them to Iran across circuitous routes. Another businessman says that he feels upset because he cannot sell machines to Iran; yet, some American companies

sell the same brand to partners in Kuwait, who later ship them to Iran.

The Iranian economy is still breathing through Dubai, with more of its exports passing through the Emirate. The GCC States want Iran to join a free trade zone to encourage regional cooperation, while Teheran wants to contribute to stability in the region. But Dubai is finding itself between the hammer and the anvil of the boycott, being unwilling, as others, to get involved in a dispute with Washington on the one hand, yet on the other hand looking to avoid losing major trade deals with its neighbor Iran.

In the case of Iraq, the sanctions are not working. In the UAE they have a limited impact, specifically in Dubai, where they will need a long time to be effective under (unconfirmed) pressures that may make the Iranian regime feel the burden of the resulting economic losses. In Iraq, state of affairs range from a weak central government, a strong Iranian economic, political and security influence, to chaos and instability, yet, the US appears unable or unwilling to apply the sanctions from Iraq because Washington does not want the violation taking place in Kurdistan to stop. The US allies need the money, and they don't mind if it comes from the smuggling of oil to Teheran. Washington is also unable to prevent such smuggling operations from the southern region, because it is impossible for Iraqi politicians and traders to halt economic dealings with Iran at a time the political future of most of them rely on a good relationship with Tehran.

An example of Iran's success, is keeping the Iraqi Prime Minister Nouri Al-Maliki in office for another term instead of Eyad Allawi, the candidate preferred by the US, despite the sanctions imposed on Teheran although they appear to be failing in Iraq. Meanwhile, Arab Gulf States are more concerned and confused than Iraq in dealing with the sanctions, given that Dubai is an economic capital with clear international commitments that cannot be neglected, and local banks that cannot evade rules imposed by the UN Security Council nor the monitoring it requires of dealings with Iran. Dubai can also not ignore direct American pressure in this field of economic activity, so the Emirate stopped the business of many Iranian companies involved in transferring money to Tehran. But the issue of the sanctions for Gulf States is a complicated one at economic, political and security levels, since Dubai is witnessing a financial crisis and is not in a comfortable situation to allow it to take strict measures and monitor companies violating laws.

⁷⁴ Al-Wifaq, Iran's international newspaper, August 9, 2010

As mentioned earlier, more than 8,000 Iranian companies and corporations operate in Dubai with most of them transferring money and goods to Iran, which constitutes an obstacle to controlling them or halting their operations, given the negative impact that may have on the UAE economy. On another level, the Gulf States in general do not feel reassured as to the outcome of the sanctions. This because, in spite of international legal protection and a stronger American keenness than before to apply the sanctions, Gulf officials also read and listen to American officials themselves voicing concern that the restrictions may be futile. An American official told Al-Sharq Al-Awsat newspaper that the international sanctions on Iran are not strict but they have a major impact, adding that Washington will exert pressure towards having the Security Council issue a new round of sanctions next year⁷⁵. President Obama has himself conceded that "there are no guarantees the sanctions will work" (September 26, 2010), less than three months after they were imposed by the Security Council. So, how can the Gulf States feel enthusiastic to impose restrictions that may cause damage to their economies and relations with Iran, at a time the American side cannot guarantee their effectiveness?

Moreover, the reluctance of the Gulf States is associated with doubts over the sanctions as regards their effectiveness, not just in economic or political fields but also on Iran's nuclear program. The reason behind the sanctions is to force Iran to back away from its nuclear program, to bring the country to the negotiating table on the program or to limit its influence in Iraq and the Gulf region. These scenarios show that the sanctions may not achieve their anticipated results given that Iran is pursuing its nuclear program and major western powers are declaring their readiness to resume the dialogue with Teheran on its program even before it has announced its agreement to negotiate. Although the US considered the latest sanctions as the harshest, a report in the Foreign Policy magazine of October 8, 2010 said that "Iran has continued intensively to update its oil refining capabilities... and is not only achieving self reliance but has exported petrol for the first time last month". Iran's Minister for Oil, Masoud Mir- Kazemi, has also indicated that "Iran achieved self reliance in petrol needs after raising refining capacities at a rate of 50% within three weeks, producing 17.5 million barrels a day of petrol "⁷⁶, even though one of the articles in

the Resolution on the sanctions prohibits imports of petrol as part of pressures on Iran.

Iran is also continuing to develop its military capabilities under a power imbalance with other Gulf States, which is not easy to rectify even with the large arms deals which the US encourages them to conclude to protect themselves against the 'Iranian threat'. With regard to, what some Arab leaders describe as, the 'gate' to Iranian influence in the region, specifically the Palestinian question and support to the resistance movement, the United States failed to take significant action, in spite of Obama's pledges and visits by his envoys to the Middle East, except for convincing Israel to negotiate with the Palestinians, even though there is no hope for any just settlement. The aim of the negotiations appeared to be restricted to halting Jewish settlement in the occupied Palestinian lands and not to discuss core issues of the Israeli-Palestinian conflict. This means that the Iranian position on the issue will continue to stand out with those who oppose this position are unable to provide alternatives.

It seems that the sanctions imposed on Iran will not be able to deeply impact the country's nuclear program. These sanctions will also not be capable of changing Iran's relations with the Arabs of the Gulf and those of Iraq, Lebanon and Palestine. However, these sanctions do not only cause confusion for the Iranian regime, by restricting its abilities to move and to build contacts, but also those countries who are supposed to abide by them and implement them. They are simply not well aware of the repercussions of these sanctions on the stability and security of their countries.

⁷⁵ Al-Sharq Al-Awsat, August 25, 2010

⁷⁶ Al-Safir newspaper, August 8, 2010

The position of neighboring countries with regards to sanctions on Iran:

An analysis of the positions of Saudi Arabia, Turkey and Egypt

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Ever since the US and its European allies succeeded in passing the UN Security Council sanctions resolution number 1929 - the fourth against Iran - in June 2010, there has been non-stop controversy about the effectiveness of this resolution in forcing Iran to bow to the demands of "5 +1 Group" concerning Iran's nuclear program. In parallel, some international actors – Israel at the forefront - and many other parties are raising doubts on the effectiveness of the policy of sanctions and are demanding the activation of the military option as a decisive and alternative option, under relatively favorable regional conditions which have enabled Iran to resist and consistently refuse to make the necessary concessions. While regional parties have been divided amongst themselves as to whether they perceive Iran as a source of danger and threat – a division which has enabled Iran to gain the legitimacy to act effectively at the international and regional levels to pre-empt and contain the sanctions resolution – Iran's success in implementing a policy of "re-scheduling its crisis" for over one full year after the outbreak of the internal political crisis and giving priority to resolving its internal crisis, has created the necessary internal conditions to face the economic and social repercussions of the new sanctions. It has also created the necessary conditions for the government to absorb these implications through many policies and innovative ways at the level of economic relations and foreign trade, as well as on the level of internal management of the economy. Perhaps this is what encouraged the Iranian Minister of Economic Affairs and Finance, Shams al-Din Hosseini, to deny any significant impact of the sanctions steered by the rise in Iran's non-oil exports by 24% during the last years, its success in exporting 2.5 million barrels of oil per day, and the stock market stability in Iran, while other stock markets are collapsing in countries that are trying to impose sanctions on Iran.

At a very early stage, Iran realized that the sanctions were targeting the political cohesion between the people and the Iranian regime. For that reason, its priority was to contain the internal crisis. The visit of Sayyed Ali Khamenei to the city of "Qom" on October 19, 2010 was a declaration of what some might con-

sider as a reconciliation between the regime and the Hawza (the Shiite seminary) and an attempt to put an end to any kind of rift between the "two pillars of Khomeini's Rule: the regime and the Hawza. The visit has put an end to the dreams of those who were betting that the reformist opposition could succeed in creating a split between the regime and the Hawza, which would have severe negative impact on the regime's legitimacy. It seems that these developments have achieved three important results for Iran. First, the establishment of an internally coherent and powerful front against the fading dream of change of the reformist opposition by the regime's ardor to use the reformists' dream in two ways: 1) possessing stronger capacities to face the repercussions of the sanctions, and 2) restoration of confidence by a renewed call for dialogue on new foundations on the nuclear program with the "P5+1 group (the UN Security Council's 5 permanent members and Germany)", based on the assumption that sanctions have failed in achieving their objectives. The second result is the repeated adoption of a policy of initiatives in Iran's regional relations and its sought to strengthen its relations with the "resistance" front, and to revive the four-party alliance, consisting of Iran, Iraq, Syria and Lebanon. Perhaps Iran's new strategies in Iraq and Lebanon are the best indication of this policy. In Iraq, Iran has been able to support Prime Minister Nouri al-Maliki and insisted that he forms the new government against the US moderate candidate Iyad Allawi. In Lebanon, the Iranian president was able to pay a successful visit to Lebanon. The third result is that Iran was able to impose on the west a review of its sanctions' policy after the failure felt by the west. It is this position that has made Benjamin Netanyahu focus on the need to adopt the military option during his recent visit to the US. Benjamin Netanyahu told U.S. Vice President, Joe Biden, in an interview, held on November 8, 2010 in New Orleans, that "the only way to ensure that Iran will not go nuclear is to create a credible threat of military action against it if it doesn't cease its race for a nuclear weapon".

The US Defense Secretary, Robert Gates, rejected Israeli concerns that it had become necessary to pur-

sue a credible military threat against Iran, stating that "We know that they (the Israelis) are concerned about the impact of the sanctions. The sanctions are biting more deeply than they anticipated ... and were having a "measurable impact,... I disagree that only a credible military threat can get Iran to take the action that it needs to end its nuclear weapons program." He added that "we are prepared to do what is necessary. But at this point we continue to believe that the political, economic approach that we are taking is in fact having an impact in Iran." This deep conviction on the impact of sanctions did not flow from a vacuum. Thomas Delare, Director of the Terrorism Finance and Sanctions Policy of the Economic Bureau of the United States Department of State, had already stressed this fact in a campaign entitled "The Iran Conundrum", launched during the National Council on US-Arab Relations held during its 19th annual Arab-US Policymakers Conference on 21/10/2010. He considered that the sanctions of the US administration have succeeded in strengthening the international sanctions on Iran and to a degree were achieving part of its aims: "bring(ing) home a message of (economic and political) "international isolation." The US Department of State has increased its bilateral and collective consultations with a number of allies, such as Japan and Australia, to impose unilateral sanctions on Iran, similar to those taken by giant oil companies such as "Total" and "Shell" not to invest in Iran. This gap in estimates between Iranians and Americans on the effectiveness of sanctions confirms that there is "a conundrum" on the impact of these sanctions. This leads us to two possibilities: Iran will either be affected by the sanctions and thus driven to accept the conditions of the "5 +1", or one of the following two contradictory alternatives would impose themselves. The first is the activation of the military option, which the Israelis are pushing for and the second is convincing the West of Iran's position and its acceptance to enter into dialogue with Iran, allowing it to enrich uranium within certain limitations that would halt its capacity to become a military nuclear power.

Neighboring countries and the decoding of the mystery

In the context described above, Iran's neighboring countries seem to play a pivotal role. It is clear that countries surrounding Iran are more concerned than others with regard to any decision concerning peace or war. The positions of some of these countries clearly reveal ambiguities with regard to a future decision. It could generally be said that there are two

options for the future, and that both stem from the fact that some countries perceive Iran as a possible threat while others consider it as a potential ally. Neighboring countries have different opinions. However, the majority are against the military option because they know that they will be the first to pay the price of this option. They realize the predicament Washington is currently facing in Afghanistan and the challenges that have forced the US to withdraw from Iraq. This understanding makes neighboring countries skeptical about the results of the military option. However, the sanctions' option too is not supported unanimously. There are divisions with regard to the new sanctions imposed on Iran, not only among the so-called "resistance" countries but also among the "moderate" ones. While some of the moderate countries support the sanctions, we see others reluctant and hesitant in their positions. These two trends are also manifest within the positions of the "Gulf Cooperation Council". In this respect, it is easy to speak about 3 groups. The first includes Qatar and Oman, which are more keen to strengthen their relations with Iran, strongly oppose the military option and are more in support of dialogue and do not see that sanctions would serve a purpose. The second group consists of Saudi Arabia and the UAE, which support the sanctions but are implicitly hesitant and reluctant about the military option. The third group, which includes Kuwait and Bahrain, opposes the military option, is committed to international sanctions and eager to please the US, but also keen not to offend Iran. According to this "mosaic" of varying positions, "the Iran Conundrum" becomes profound and more ambiguous, making it very complicated for US decision-makers to act. This conundrum seems clearer with regard to the three countries covered by this paper, namely Saudi Arabia, Turkey and Egypt, when their positions regarding the sanctions are analyzed.

The positions of these three big countries are very important for US decision-makers as they attempt to plan and solve the "Iran Conundrum" and review the effectiveness of the sanctions' policy, given the weight of these three major countries at the level of regional interaction and at the level of success or failure of the policies of confrontation or dialogue with Iran. The positions of these three countries are very different and provide an extremely clear model of the complexity of regional conditions. While Saudi Arabia, for many reasons, stands firmly with the sanctions against Iran for many reasons, Turkey refuses to abide by them. It has publicly opposed, together with Brazil, the draft resolution containing sanctions, and implicitly refuses to abide by them for reasons of

purely practical Turkish self-interest related to the current, massive economic expansion of economic relations and trade with Iran. Egypt's position is more balanced because it does not have hostile attitudes against Iran's nuclear program. It is mindful of Iran's right to possess a nuclear program and its right of enrichment, but it is not happy with the way in which Iran is managing its nuclear program crisis on the one hand and, on the other hand, it is not happy with Iran's interventions in internal Arab affairs which lead to clashes with Egypt's firm national interests. The difference in positions is further revealed through clarifications in the following sections.

The Saudi position with regard to sanctions against Iran

Saudi Arabia has backed the resolution imposing sanctions against Iran. This was reflected in the division that occurred within the Lebanese Cabinet over Lebanon's vote at the Security Council on the resolution. Fourteen cabinet ministers voted in favor of Lebanon opposing new sanctions on Iran, 14 voted in favor of abstention, while two ministers were absent from the cabinet session. The vote in the 15-member council was 12 in favor, with Lebanon abstaining and Brazil and Turkey voting against. Saudi Arabia continued to support the resolution and expressed its position in various political and diplomatic departments, in spite of Iran's eagerness to maintain peaceful relations with Saudi Arabia, especially after the crisis of the Houthi rebellion in Yemen that was one of the new causes of tension between Riyadh and Teheran. Among the Saudi positions which Iran has tried to contain was the information leaked by the Times newspaper, citing British and U.S. military sources in the Gulf, regarding Saudi Arabia's permission to Israeli planes to fly over its airspace in case of a military strike against Iran. According to this information, the use of an open corridor across northern Saudi Arabia would significantly shorten the distance. The newspaper said that Saudi Arabia had already conducted tests to make sure their own jets aren't scrambled and no one gets shot down. This was all done with the agreement of the [US] State Department." Iran deliberately remained silent with regard to this information waiting for a Saudi reaction. For its part, the Saudi Defense Ministry denied any news on its intention to open its airspace to Israeli military planes to launch strikes against Iranian nuclear facilities, stressing that Saudi Arabia will not be party in any dispute between Iran and any other country and its airspace will not be used by any country to launch a military attack on Iran. An official at the Saudi Defense Minis-

try said that "it is true that there are differences in views between Riyadh and Tehran but Saudi Arabia will never allow anybody to use its land to attack a fellow Muslim country".

Riyadh did not only deny such news, but was also keen to assert its policy of demanding a Middle East free of weapons of mass destruction. This demand, it asserted, applies to Israel as well and Riyadh wants its nuclear program to be put under international supervision. Saudi denial of this news was a source of relief to Tehran. It quickly praised the regional policy pursued by Riyadh. Iranian President, Mahmoud Ahmadinejad, charged Israel and the United States of trying to sabotage relations between Iran and Saudi Arabia, adding that "undoubtedly, the U.S. and the Zionist regime are the enemies of Iran and Saudi Arabia, so they are trying to create a gap between Tehran and Riyadh," referring to recent allegations published by the Times of London. In addition, President Ahmadinejad said, in a meeting with Saudi Ambassador Mohammed Ibn Abbas al-Kallabi, that "Iran and Saudi Arabia should take each other's side given their common religion, outstanding position and common interests and enemies".

The remarks made by Ahmadinejad overshadowed the video message sent via the Internet of Iranian researcher Shahram Amiri, in which he confirmed that he was kidnapped through a cooperative effort of the US and Saudi intelligence services during his visit to Medina in June 2009. In his message, which Iranian security sources said it had obtained through the internet, Amiri added that the American kidnappers had injected him with drugs and took him from Saudi Arabia to the state of Arizona in the USA. This perhaps indicates that Iran relies on these charges against Saudi Arabia in periods of tension. Although Iran seemed to be assured of the Saudi stance with regard to leaks by the Times newspaper, but it still believes that Saudi Arabia is not separated far from the international efforts aimed at imposing sanctions and international isolation, due to Iran's nuclear program which raises serious concern in Riyadh.

This belief has caused confusion in Iran's limited expectations from Saudi Arabia, especially after a June 30, 2010 report, which appeared in the French daily Le Figaro. The report claimed that the Saudi King Abdallah said to French Defense Minister Herve Morin: "There are two countries in the world that do not deserve to exist: Iran and Israel." The report was confirmed by French diplomatic and military sources. Interesting in this case is that Le Figaro deliberately published this statement on the morning of a sched-

uled meeting of the Saudi King with President Barack Obama in the White House in Washington (Tuesday, June 29, 2010). During the meeting King Abdullah was very much welcomed by the US President and both exchanged words of commendation and praise, spoke about the importance of the historical relations between the two countries, the Saudi Arabia – US partnership, and common goals. They held talks on a number of files, most notably, peace in the Middle East, Iran and Afghanistan. At the same time, Le Figaro deliberately made a link between the "strong statement" on Iran and Israel, and the news published by the British Times on June 14, 2010 related to a Saudi - Israeli agreement on the use of Israel jet fighters of Saudi airspace to bomb Iran's nuclear sites, although Saudi Arabia has denied this information. The exciting thing about this is that the Le Figaro referred to the timing of King Abdullah's statements on Iran and the report published by the Times newspaper, without indicating that the "link", and not the "timing" of the two issues was made up by the Le Figaro. It did not stop there but also wondered whether the meeting between the US President and the Saudi King will raise these two issues or not?

A link made in such a way by a French newspaper, could be intended to cause offense to King Abdullah's visit to Washington and his meeting with the US President, especially since his strong words did not only target Iran but also Israel, and Israel's existence. This is a very sensitive issue and no one can openly speak about it, especially in the US, in light of the enormous political and pro-Israel media influence. Perhaps the goal was to create a conflict between Saudi Arabia and Iran given that Iran had been able to contain its anger with regard to the report in the Times by accepting the Saudi denial and President Ahmadinejad's subsequent praise of the relations between the two countries. Perhaps the motive was twofold. This would mean that not only Iran and Israel were targeted but also Saudi Arabia. Nevertheless, the issue may not be easily dealt with, especially because there are those in Teheran who are willing to inflate the crisis for many untold reasons. These positions and developments are not far from other negative rejoinders on the regional level between Saudi Arabia and Iran related to the heated regional files of Iraq, Lebanon and Palestine. This especially after statements made by the Iraqi President, Jalal Talabani, on the existing, yet unintentional, convergence of Iranian-Syrian and US views on these three files following Syria's support to Nouri al-Maliki, the candidate supported by Iran and the US, at the expense

of Saudi Arabia's support for Allawi as a candidate to head the new Iraqi government.

Saudi tension in its relations with Iran in these files was directly reflected in in the Saudi position with regard to sanctions but also with regard to the overall repercussions of the Iranian nuclear program, especially in light of the effects of the special visit of the Iranian President Mahmoud Ahmadinejad to Lebanon. This tension was expressed during the seminar organized by the Carnegie Endowment for International Peace on November 4, 2010. Prince Turki al-Faisal, former Head of Saudi intelligence and former Saudi Ambassador in Washington and London attended the seminar. Turki stated during the seminar that "Iran is taking a path which will most probably lead to a war in the Middle East." He called upon Iran to clarify the circumstances surrounding its nuclear program to the international community and the West. However, he also expressed his reservations concerning Washington's revival of the nuclear option to guarantee Israeli's security. Faisal stated that "Although it cannot be denied that Iran has become a nuclear power, which represents a major fundamental threat internationally, claiming that the U.S. must take military action against Iran to push forward the Israeli-Palestine peace process is to attempt to harvest apples by cutting down the tree."

The Turkish position with regard to sanctions on Iran

Turkey's vote against the international sanctions resolution did not emerge from a vacuum, but was the result of growing Turkish - Iranian cooperation and partnerships during the last two years at both the economic and strategic levels, which were developed at the expense of Turkey's relations with Israel, especially after the Israeli aggression on the Gaza Strip (2008-2009). Turkey and Brazil's votes against the resolution imposing sanctions was a response to the US refusal to support the Turkish-Brazilian initiative under which Turkey would facilitate the exchange of 3.5% low-enriched Iranian uranium with 20% uranium from Russia and France. This Brazilian-Turkish initiative was a success and was encouraged by President Barack Obama personally. But Washington, which had reached deals with both Russia and China to support a new resolution imposing sanctions against Iran, flouted the Tripartite Agreement or "Teheran Declaration" concerning the Turkish - Brazilian - Iranian uranium swap," prompting Turkey to not only vote with Brazil against the draft resolution, but also to expand areas of cooperation with Iran and to respond to Iran's cooperation initiatives, particularly in

the area of gasoline and other important areas. In its attempts to circumvent the international sanctions, Iran has attempted to deepen its economic cooperation with Turkey, which could become a significant crack in the system of sanctions. Iran is seeking to take advantage of the tension in US-Turkish relations due to the US' refusal to accept the Tripartite Agreement signed between Ankara, Iran and Brazil, and also the tension in Turkish-Israeli relations over Israel's assault on the "Freedom Flotilla" on May 31, 2010, during which 19 people were killed, among them eight Turks. In this context, Turkey perhaps could become a substitute for some regional powers, which have imposed restrictions on their financial transactions with Iran, especially that Ankara allow Iranian banks suspected of having links to Iran's nuclear program to work inside Turkey. This is considered as an indicator of the growing economic relations between Iran and Turkey and it ensures Iran access to the whole European financial system.

It seems that Iran, in spite of the tightening of restrictions and pressures, is assured that the efforts of the West to persuade Turkey to overlook its economic interests and prohibit the activities of more than 12 Iranian banks listed in the UN and European resolutions imposing sanctions will not be easy. Only Ankara is obliged to implement the UN sanctions and Turkish banks will not be subject to US sanctions because of their dealings with Iranian companies listed in the so-called "black list", except perhaps those Turkish banks operating in the United States. Turkey's decision to sell gasoline to Iran, despite the international sanctions, has highlighted the growing economic relations between the two countries. Turkey has said it would pay Iran more than US\$600 million as payment for gas shipments not used in line with a provision which foresees compensation for unused amounts in the agreement concerning gas between the two countries. Turkey has also started to supply Iran with almost 10% of its monthly needs of gasoline. It sold Iran 1.2 million barrels for US \$121.8 million, which is 25% higher than the market price even before the start of the sanctions. Turkey also depends on around 63,000 barrels of crude oil every day delivered to its refineries from Iran in order for Iran to export around 1 billion cubic meters of gas to Turkey per year. This amount represents a third of Turkey's total consumption. There are many other indicators which suggest that Iran may be planning to offer Turkey attractive deals. Iran can thus get its needs of gasoline by exporting crude oil to its close commercial partners.

Iran's relations with Turkey have gone far beyond trade and also cover the military field. This has raised the concern of both Israel and the United States. Turkey and China have made joint air exercises, which have sparked US protests, especially after Chinese combat tanks crossed through Pakistan and Iran, where they were also supplied with fuel. US protest was based on the fact that Turkey is a member of NATO and yet it is cooperating militarily with Iran. Israel said that a new axis is currently evolving between Turkey, Iran and China, reflected by arms deals between these countries. China is providing Iran with technological information in the field of missiles manufacturing. This development in Turkish-Iranian relations came at the same time as the development of equally important development: the adoption by the Turkish National Security Council of a new political document related to Turkey's national security. For first time ever, Iran and other countries, such as Russia, Syria and Iraq, were excluded from countries considered as posing a possible threat to Turkish national security. But what is more important is the political rapprochement between the two countries, which prompted Iran to talk about "an Islamic Middle East" and a quadruple Iranian-Iraqi-Syrian-Turkish partnership.

An analysis of the political discourse of the Iranian President Ahmadinejad and the Turkish President Abdullah Gül during the 25th session of the Standing Committee for Economic and Trade Cooperation of the Organization of the Islamic Conference (COMCEC) summit held in Istanbul on November 10, 2009, reveal a great deal of conceptual convergence in regard to respective ambitions or roles, especially within the framework of work undertaken inside the Islamic system, be that collectively through the Organization of the Islamic Conference, or bilaterally between Iran and other Islamic countries and Turkey and other Muslim countries. Turkish President Abdullah Gül stressed the need to strengthen cooperation between the OIC countries to reach appropriate solutions to their problems rather than rely on solutions coming from outside, in his opening speech of the "COMCEC" summit. He called for the development of joint cooperation to give the best example of Islamic civilization and the message of peace carried by Islam. The Iranian President Mahmoud Ahmadinejad demanded the development of mechanisms of peaceful cooperation among Islamic countries to create a new and more just and stable world and to take the initiative to improve the future of the Islamic world instead of waiting for the imposition of external agendas. There was a keen joint Turkish – Iranian

effort to bring about a movement of Islamic advancement worthy of Islam and Muslims, and concern over the importance of self reliance instead of relying on other countries in finding solutions to the problems and crisis facing Islamic countries. In addition, there was an emphasis on giving priority to solutions and to internal Islamic mechanisms.

Does this mean that there are real opportunities for establishing an Iranian-Turkish axis or a Turkish-Iranian strategic partnership that could establish new alliances and conflict maps in the Middle Eastern region? This question opens wide the door for dozens of sub-questions concerning the common interests between Iran and Turkey, and to what extent these interests could prevail over the disagreements and competition between the two, with some of these reaching conflict level? Has Turkey become a priority for Iran these days and why? Has Iran become a priority for Turkey and why? The importance and centrality of Turkey's interests with the West, the US first, Europe second and Israel third, should be taken into consideration. These interests express themselves through economic and strategic alliances and partnerships in conflict with the temptations of convergence of Turkey with Iran, particularly in light of the depth of the differences between the three parties of the United States, the European Union and Israel, and Iran.

It should be borne in mind that the visit of the Iranian President Mahmoud Ahmadinejad to Istanbul and the fact that he headed his country's delegation at the COMCEC summit, less than two weeks after the visit to Teheran the Turkish Prime Minister, Recep Tayyip Erdogan. Given that Erdogan put forward "more revolutionary" ideas from the perspective of a transformation in Turkish-Iranian relations and a convergence in the ideas related to the tasks expected to be carried out by Islamic countries as exchanged between the Iranian and Turkish Presidents, make these questions more complicated, especially in the knowledge that Erdogan's ideas were very warmly welcomed by the Iranian leaders, particularly by the Supreme Leader Ali Khamenei and President Mahmoud Ahmadinejad. Erdogan, who was warmly greeted in Iran on the October 27, 2009, was keen, prior to his arrival in Teheran, to condemn the Western policy towards Iran's nuclear program, and defended Iran's right to possess a peaceful nuclear program. He also warned against any punitive policy against Iran for which the Iranian people will pay the price, similar to the price paid by the Iraqi people.

With the hospitality he received, and economic and trade agreements signed, Erdogan was able to boast of what was achieved. He spoke about the six-fold increase in trade volume, reaching US\$12 billion and which is expected to reach US\$20 billion by 2012. This volume, he said, exceeded all the expectations from Turkish-Iranian relations. He then stressed that "Iran and Turkey are the axis of stability in the region," and said that "international players have failed in achieving world peace." "It is no longer possible to dictate solutions to the region's problems from outside the region" reiterated Erdogan.

The visit stressed three main ideas of great importance. First, Iran and Turkey have become the axis of regional stability. Second, international players have failed in achieving peace and stability, by which is meant that the US-Israeli system of leading the Middle East imposed on the region 2 decades ago, and specifically after the Kuwait liberation war of 1991, has currently resulted in a regional vacuum which needs to be filled. And third, Iran and Turkey are the two forces most suitable to fill the vacuum because it is no longer acceptable that outside parties manage the affairs of the region.

The significance of these ideas becomes clearer if we take into consideration the messages that Erdogan was keen to relay to the two traditional allies of Turkey, the United States and Israel, a few days before going to Teheran. Especially after Turkey's cancellation of Israel's participation in the most important annual air maneuvers with NATO and the United States, known as "Anatolian Eagle, the closure of Turkish airspace for Israeli jet fighters, Turkey's support of Iran's right to nuclear technology for peaceful purposes and considering any military action against Iran" an act of madness", and Erdogan's harsh criticism of US and Israel's policies against the Palestinian people. Erdogan's ideas raise important questions about the nature of Turkey's regional role, bearing in mind Turkey's current crisis related to the suggested missile shield proposed by NATO which Turkey is supposed to host. If Turkey accepts this offer under pressure of its allies and decides to fulfill its obligations toward NATO, it will be one of its most important members, and also in a position of confrontation with Iran as well as Syria. The new emerging alliance is still fragile and placed within the context of a regional partnership and on the level of ideas and aspirations. All this supports the existence of "the Iran Conundrum" and the limitations of Turkey's obligations towards the West and towards Iran in particular, specifically in light of new information on Turkey's readiness to host the proposed Teheran meeting with the

"5 +1", aimed at renewing the dialogue which was interrupted following the adoption of the resolution imposing sanctions. The success of this dialog can provide Turkey with an opportunity to address its conundrum of complex obligations towards the West and Iran.

The Egyptian position with regard to sanctions on Iran

Egypt did not want to be a direct party in support of the resolution imposing sanctions on Iran. It didn't want either to be in a position to oppose it or to express reservations against it for many reasons, most notably because the Egyptian position regarding Iran's nuclear crisis is extremely complicated. In spite of all the apparent hostilities between Cairo and Teheran, which appear and disappear from time to time, Egypt has never officially stated that it considers Iran a potential threat, particularly in light of Iran's nuclear program. There could be some regional conflicts on issues seen by Egypt as of extreme and specific importance for its national obligations, but, in general, the Egyptian strategic perception of Iran has not reached the level where it describes Iran as a potential threat. If we add to that Egypt's direct and indirect interest in the success of Iran's quest towards becoming a peaceful nuclear state, Egypt's aspirations to possess a peaceful nuclear program, and the limited economic and trade relations between the two countries, Egypt's position becomes more ambiguous. This ambiguity stems from the fact the sanctions are not a major issue on Egypt's national agenda in its relations with Iran. However, Egypt's obligations with regard to the international resolution, and toward the US, are always fixed but do not ignore two matters. First, Egypt stands against the idea of Iran becoming a military nuclear force, given that then

"Arabs will find themselves naked ", as stated by the Egyptian Foreign Minister Ahmed Abul Gheit in a joint press conference with his Polish counterpart Radoslaw Tsykorsky (September 30, 2009). It also prefers a Middle East free of nuclear weapons, be it Israeli or Iranian. Second, Egypt recognizes that Iran is pursuing a dangerous regional policy, which it needs to abandon. This is why Egypt prefers a western policy of dialogue with Iran and opposes the military option, and it is keen to ensure a stable relationship with Teheran characterized by "friendliness."

Perhaps this was the reason that prompted Egypt to sign, only five months after the adoption of the resolution that imposed sanctions, a limited air cooperation agreement that allows Iran to operate flights between the two countries following a break extending for many years dating back to the tensed relations between the two countries from 1979 onwards. Egypt, on the one hand, considers that this step does not contradict the resolution, and, on the other hand, that it is just a preliminary step, which still requires activation according to the clarification made by the Egyptian Civil Aviation Minister, Ahmed Shafik, in response to international protests on the conclusion of the agreement. He explained that the agreement reached is "a general framework for cooperation between the two countries. If there is a move towards implementing that framework, it is necessary to sit and sign again. The agreement is commercial and not political." These clarifications show the real Egyptian position with regard to the sanctions. They reveal that Egypt is committed to any international agreements, but that it may not have a real interest in rushing into a confrontational relationship with Iran given all the mystery that surrounds Iran and specifically the West's relations with Iran.

Impacts of a Closure of the Strait of Hormuz on the World Energy Market

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The world economy might face a state of uncertainty and panic if the dispute between Iran and the United States over the Iranian nuclear program escalates and conditions worsen with threats to close off the Strait of Hormuz and block maritime navigation in the waterway. Should the situation deteriorate, it might result in the actual closure of the Strait causing a disruption of supplies, soaring oil and gas prices across the world, in addition to a sharp increase in maritime freight rates and shipping and insurance costs.

The Strait of Hormuz - the Most Congested Waterway

The Strait of Hormuz is a narrow waterway connecting the Arabian Gulf in the north with the Gulf of Oman in the south. The Strait is 55 km wide at its narrowest, with several water passages, each 2-3 km wide, separated by small islands. Oil and gas tankers crossing the Strait face hazards of humidity and dust which cause obstacles during loading operations or at the exit point to the Gulf of Oman. Countries overlooking the Gulf are: Kuwait, Iraq, Saudi Arabia, Qatar, Iran, Bahrain, the United Arab Emirates (UAE) and Oman. Nearly 90% of their oil exports are transported to South-East Asia, Europe and the United States of America (USA), which means that oil tankers carry 17 million barrels per day (b/d) making up 30% of global consumption. This leads to sustained heavy traffic across the Strait, since the Gulf region produces a third of the world crude, contains half of the world oil reserves and 30% of natural gas reserves.⁷⁷ Hence, the important significance of the Strait of Hormuz with regard to oil and gas supplies and trade.

The Military Situation in the Strait of Hormuz

The geo-strategic importance of the Strait of Hormuz is considered a high priority by NATO member countries, including the United States. They keep an open eye on any Iranian positions regarding the waterway, given that the Islamic Republic maintains a strong

⁷⁷ Manbar Alrai, "Hormuz Strait, the Gulf Life Artery under Iranian Threat", August, 3rd, 2010, <http://www.manbaralria.com>.

presence in the area and controls seven of eight islands there, which provides the country with a political edge allowing it to direct threats or facilitate traffic along the Strait. Moreover, the Iranian navy has easy access to means of communication, and moves freely in the waters of the Gulf with several of its bases lying in Bandar Abbas, Boushahr and Shah Bahr ports.

The Combined Task Force (CTF 150), composed of special units from the USA, Britain, France, Canada, Germany and Pakistan, is stationed in the Gulf and the waters of the Strait with a mission to protect the safety of navigation, specifically in the Hormuz waterway. The CTF command rotates among these countries once every six months. A US navy force from the American coast guard carries out regular patrols in the Gulf and the Strait. Its task commenced at the start of the US occupation of Iraq in 2003 and later grew into a permanent presence in 2004⁷⁸.

A Return to Recent History

Conclusions can be inferred from the Iraq-Iran war, which lasted eight years (1980-1988), regarding possible scenarios in the case of a halt to maritime navigation in the Strait and exit of oil tankers to the outside world. Iraq was the first to open fire in the war and bombard ships carrying military supplies to Iran across the Strait of Hormuz. Iran responded by attacking ships transporting similar supplies to Iraq and Arab countries supporting it (specifically Kuwait and the United Arab Emirates). In May, 1981, the situation expanded into Iraqi air and missile attacks against oil tankers headed to load crude from the Iranian island of Kharj, or on their way out of the Strait into the Indian Ocean. Such attacks led to a long war between the two sides known as the 'oil tankers war'⁷⁹.

On May 30, 1982, Iraq launched air missile attacks on the Turkish Atlas tanker, which was transporting Iranian oil from Kharj Island, causing extensive damage to the ship. On December 18, 1982, Iraq launched an

⁷⁸ Anthony H. Cordsman, "Iran, Oil and the Strait of Hormuz", Center for Strategic and International Studies CSIS-March 26th, 2007.

⁷⁹ The Robert Strauss Center for International Security and Law, "About Persian Gulf Threats", www.strausscenter.org/index/2007-2008

Exocet missile attack on a Greek tanker on its way out of the Strait with its Iranian oil shipment.

In 1984, the Iranian navy forces began retaliating with artillery fire from military ships against tankers carrying Iraqi oil, but no significant damage was inflicted due to lack of missiles on the Iranian side. In February 1985 Iraqis managed to sink the first Liberian tanker, named Neptunia, which was transporting Iranian oil and sailing out of the Strait.

Iran was able later to obtain Chinese Silk Worm missiles, which posed a real threat to ships carrying Iraqi or Kuwaiti oil. In November 1987 the exchange of fire between the two countries against oil tankers came to a halt when US and Russian flags were raised on Kuwaiti tankers.

In 1988, the war came to an end because the two sides were affected by heavy losses and were unable to meet the extremely high costs posed by the persistent need for a continued flow of oil required to sustain the economies of the two nations economies. The 'tankers war' resulted in 55 tankers out of 239 hit, damaged or sunk, indicating that the fighting failed to stop oil tankers from loading crude and entering or exiting the Strait, and that during eight years the oil market was able to absorb the impact of the war and deal with the state of confusion that affected the maritime navigation in the Strait of Hormuz.

The tankers market went down by 25% and insurance rates increased, which led to Iran having to sell its crude to meet the rising costs of insurance and maritime freight, under a pressing need to support the living costs of its people.

The Situation on Both Sides

It is most likely that Iran, on the one hand, and the NATO Alliance along with Japan, China and India, on the other hand, are not willing to see the Strait blocked and maritime navigation disrupted, because any stoppage or interruption of the transportation of oil across the waterway is bound to cause heavy and immediate damage to the world economy which has been suffering from a global financial crisis. But a closure of the Strait of Hormuz may not be ruled out, should the situation 'explode' between Iran on the one hand, and the United States and Israel on the other hand, with the latter feeling concern about Iran's nuclear program. The USA and NATO are expected to be fully prepared for any military operations with Iran, within the framework of careful military, political and economic calculations and in full cooperation with Israel and the Arab Gulf States.

As for Iran, its economy relies for 85% on oil exports with 2.6 million barrels exported daily through the Strait. The country also imports around 400 thousand barrels of gasoline to meet daily needs due to the inefficiency of its refineries⁸⁰. Therefore, it is in the interest of Iran to protect the safety of navigation in Hormuz, but other considerations may figure high such as the ideological factor, the image of the Islamic Republic and abidance by the principle of sacrificing everything precious to safeguard its values.

Iran will use the following weapons when and if it decides to close off the Strait of Hormuz⁸¹:

- Sea mines with estimates showing that Iran possesses nearly 2000 mines. Iran showed high proficiency in using sea mines in 1986 to sink tankers in the Strait. The cost of a single mine does not exceed 1,500 US dollars
- Missiles that can be fired from land launch platforms or fast-moving boats to hit tankers.
- Frigates, a number of which are owned by Iran.
- Kilo diesel submarines, three of which are owned by Iran and that operate in the Hormuz waterway.

The precision and accuracy of missile guidance systems was still at a medium level in Iran before new information emerged indicating that the newly developed 'Kawthar' missiles had gained a high level of precision, and that therefore any navy boats will come under heavy hostile fire launched either from artillery, ships or military helicopters. However, Iran owns a small number of submarines with lower capability than those owned by the other side and are in need of modernization. Iranian Russian-made torpedoes have never been used in any confrontation but they have been enhanced and named 'Hoot'.

The Stakes

The odds are high that Iran might close off the Strait in any military confrontation with the United States and its allies. The closure might be carried out with the use of mines and suicide operations by booby-trapped boats hitting giant oil tankers, such as the VLCC and the ULCC tankers, which each have a capacity of 200,000 and 320,000 tons, respectively. It is most likely that Iran's navy will not engage directly with the American navy or the CTF-150 force due to an inequality of power especially after the 1988 'Op-

⁸⁰ Ibid.

⁸¹ Cordsman, Ibid

eration Praying Mantis' in which Iran lost half of its navy forces, which were hit hard by the American navy supported by its air force.

Furthermore, it is likely that Iran will halt its oil exports to create a crisis in the world market by interrupting the maritime navigation in the Strait, and sabotage oil installations in Gulf States, particularly in Bahrain due to the presence of the US fifth fleet command on its territory⁸². Iran might also respond if the USA and Israel launch a missile attack on its 'Boushahr' nuclear reactor, similar to the strike that hit Iraq's Osirak reactor in 1981.

Various Consequences of a Closure of the Hormuz Strait on the Energy Market

Confusion is expected to engulf the energy market around the world should military operations erupt in the Strait of Hormuz, bringing to a halt or paralyzing navigation. Immediate, concurrent consequences will appear due to the sensitivity of the oil industry and its quick response to different kinds of changes, whether in the technology of the industry, or in the political, economic and military developments surrounding its environment. Operations in oil wells in countries overlooking the Arabian Gulf and the Strait, including Iran, might be reduced because oil extraction requires equipment, drills, a special kind of cement, pipes, land and sea platforms, spare parts, human resources, machines and means of transport, which might all be reduced as a result of any halt of maritime navigation and supplies.

Changes can all immediately affect the different components of the oil market. The USA, for example, needs 13 million barrels of oil a day, including 2.2 million that are transported through the Strait, and any shortage would be considered a threat affecting its daily needs of crude necessary for transport, industry, and operating electricity plants, etc. It is expected that the price of a barrel of oil might jump to a minimum of 400 dollars and could reach 600 dollars⁸³. Global daily consumption of crude is currently estimated between 84.66 million barrels and is expected to rise to 97 million barrels a day in 2015 and to 118 million barrels in 2030. These quantities include 75 million barrels from the member states of the OPEC organization, which is positioned as the

main player for oil producing countries. Nearly 75% of OPEC production is transported from countries overlooking the Arabian Gulf and the Strait of Hormuz. Tankers carry nearly 17 million oil barrels and 3.5 cubic feet of natural gas a day out of the Strait. Any possible shortage in such quantities, even for a day, would raise their price immediately and countries would be compelled to withdraw quantities from their strategic and trade reserve if the standstill in exports continues for a longer period of time.

Any shortage in reserves would also raise the prices⁸⁴. Data concerning reserves is usually considered important with regard to a balance in price. When the USA releases its monthly reserve bulletin, it immediately reflects on the price of crude oil, either by increasing when reserves go down, or decreasing when they go up. If any closure of the Strait takes place in a period unfavorable for reserves, such as an increased demand during summer (the time when reserves are built up for winter), the volume of crude oil withdrawn by all countries will increase, leading to higher prices. The US federal reserve of crude oil and crude oil products might reach 4.4 million barrels per day, and, when adding the reserves of other industrial countries, is estimated at 8.5 million b/d, the total amount will stand at 13 million b/d, which is 4 million barrels less than the volume of crude oil exported via the Strait to the oil market⁸⁵.

Furthermore, oil and oil product reserves do not always maintain the same level. They may stand at 13 million barrels in one month, go down to 5 million barrels two months later and reach half a million after three months. It is worth mentioning that past historical experiences have shown that a decision to release reserves cannot be taken immediately, but may take at least a week to be made (during which the price might go up), because politicians fear wasting reserves since this may make them accountable before parliament and public opinion. The idea of building strategic reserves emerged with the establishment of the International Atomic Energy Agency (IAEA) in the period following the so-called 'oil shock' of 1973. The Agency's mission was to create a system for an exchange of supplies among member countries during any crisis, but the system did not prove to be efficient. Its effect in terms of meeting the needs of all its members at the same time is still limited in the event

⁸²Summary of a study prepared by Simon Henderson, Director of Gulf and Energy Policies Program at Washington Institute for Near East Policy, under the title "Will the Hormuz Strait Prevent a Strike against Iran". <http://www.alukah.net/culture/0/03223>

⁸³ Manbar Al-RAi, *ibid*

⁸⁴ Strauss, *ibid*

⁸⁵ *ibid*

of any major crisis, such as the closure of the Strait of Hormuz.

Impacts on the Oil Tanker Market and Pipeline Projects

Following a closure of the Strait of Hormuz, a sudden rise in maritime freight rates might occur, affecting oil tankers crossing the Red Sea and the Indian Ocean on their way to the Gulf region. Maritime navigation will not come to a complete halt. However, all oil buyers within this geographical bloc will work towards the swift shipping and transportation of any available quantities of oil, with the element of risk playing a major role for them, and the owners of the tankers, in a bid to take advantage of the situation. Nearly 18% of the number of tankers in the world oil market, operate in the Gulf region, entering and exiting the Strait. A closure of the waterway for more than a month will lead to a halt of journeys of the tankers and a decrease in maritime freight rates as a result of decreased demand. Such a situation may raise the question as to whether the existing pipelines can compensate for the interruption of tanker movement. A look at the following overview of pipelines will provide the answer to this question.

Pipelines	Daily Transport Capacity
Petroline Pipeline carrying oil from the Gulf region to Yanbu' on the Red Sea, across Saudi Arabia	5 million b/d - currently at half capacity
Old TAPLINE Pipeline	50 thousand b/d
IPSA Pipeline	1.65 million b/d
Iraq-Turkey Pipeline	300,000 b/d
Iraq-Syria-Lebanon Pipeline	700,000 b/d

The total transport capacity of these projects now stands at around 5 million barrels b/d, so, it cannot compensate for the 17 billion barrels of oil transported daily by tankers via the Strait⁸⁶. Therefore, the pipelines are not sufficient. A further issue concerning the commercial maritime transport market shows that a closure of the Strait will affect the movement of containers carrying goods to Jabal Ali free zone in the UAE, ranked third after its counterparts in Singapore

⁸⁶ *ibid*

and Rotterdam in Holland. Unemployment may result along with a decrease in the number of Asian expatriates working in the shipping and unloading industry in Jabal Ali, an issue that might incur negative impacts on the economies of these countries.

The maritime insurance market will emerge as the biggest winner, with a boom and rise in risk insurance premiums resulting within a few hours from any disturbance in traffic through the Strait of Hormuz, especially given that insurance covers oil tankers crew, the vessel's body and oil cargo. However, the insurance market usually sets prices below a specified ceiling, so that crude oil prices do not rise and cause immense damage to consumers, or a loss within the insurance market, given that oil buyers and ship owners can agree on covering one or two items of the insurance coverage rates, leaving other items to be incorporated in a special agreement between them in the event of compensating for losses resulting from strikes against tankers⁸⁷.

Expectations and Maneuvering in the Case of a Closure of the Strait of Hormuz

This part tackles the situation of fuel market if the trait is closed when one tanker or more is interrupted and the possible military responses and exchange of fire by the two sides. It is most likely that prices of crude oil and natural gas, as well as insurance, will rise sharply in the event of a closure of the Strait. The immediate result would be a state of panic that might hit the world and continue, at least, throughout the first month, after which the oil market will start to adapt itself to the situation. However, a state of confusion, caution and disturbance will prevail among the various parties in the oil market.

Ship owners have instructions that maritime navigation and movement of oil tankers should stop if any crisis or turmoil erupt, until they receive directives from two US and British offices on ways to deal with the navigational situation. The first office belongs to the American navy and is located in Bahrain and the second is based in Dubai and belongs to the British navy. Both are charged with assisting the movement of oil tankers in the Strait, ensuring continuity of their movement, whether individually or in groups, and ways to provide them with escort guards upon entering or leaving the Strait.

⁸⁷ *ibid*

Gas tankers must also abide by directives to stop their movement in case of any crisis because of the special nature of gas cargoes that, unlike oil tankers, are likely to explode. Should a fire or explosion hit a gas tanker, the area where it is positioned will turn into an inferno with flames spreading along a land area of a square mile. If such a tanker is moving close to a beach, the blaze will reach installations nearby and cause heavy damage. Plans have been made to tow any oil tanker if it has been hit or damaged to one of two dry docks in Dubai where ships are repaired. OPEC owns one dock and the Government of the Dubai the other. In both, repairs can be made to 40-50 oil tankers every six months, but both are fully occupied and it might be difficult to repair more than five tankers. Priority may be given to those with minor damage or those whose maintenance can be undertaken within a short time.

OPEC pre-empted all possible scenarios of attacks against Iran with its threats to halt exports of crude oil thereby depriving the world market of the vast quantities it produces⁸⁸, by declaring that the Organization might not be able to compensate for any expected shortage in oil reserves if Tehran moves ahead with its threats. OPEC has thus taken precautionary measures to deal with any complete halt to Iranian oil shipments, indicating that a partial compensation can be made by pressuring Saudi Arabia to pump out an extra quantity of one and half million b/d. Although such a maneuver is feasible, it would paralyze shipment of crude oil from Saudi ports, such as Ras Tanoura, which lies on the Arabian Gulf. Oil tankers will also have to wait for weeks in a long queue at Yanbu' port on the Red Sea until they get permission to enter, berth, load the crude and leave the port.

Another fact that adds to the caveats guiding OPEC's work is that it is difficult to verify the available additional oil quantities because oil producers tend to keep their oil production, figures concerning extra amounts and those of confirmed and potential oil reserves a secret. Such data are protected under strict confidentiality measures. Most oil producing countries also hide information relating to the situation of its oil industry infrastructure, the volume of investments in this sector and geological and seismic data of each oil well or field, treating all of these as state secrets that must be safeguarded with the utmost level of caution and safety. Insurance companies estimate that the 'risk' premium can be confined

within a reasonable range if the Strait is well secured by military means, while ensuring constant naval patrols and surrounding tankers with escorts upon entering and leaving the waterway.

A full analysis indicates that Iran cannot close off the waterway to interrupt the navigation or the entry and exit of tankers, but for a few days or a period not exceeding two weeks at the maximum, even if Tehran chooses to be hostile towards all of its neighbors in such a way⁸⁹. Losses will be greater on the Iranian side, given that the country relies on ships crossing the Gulf for its food resources, as well as its need for oil revenues and daily quantities of gasoline, especially in light of a possible fierce American response which would strike and destroy Iranian oil installations with US warplanes, targeting oil fields, pipelines, refineries, land platforms and export ports with serious consequences that might aggravate the suffering of the Iranian people.

No party has a significant interest in seeing a halt to the navigation and tanker traffic in the Strait, because they all seek stability of oil supplies. Therefore, should any party resort to a closure of the waterway, and even if Iran made such a move, maritime navigation will most likely be interrupted only and not halted, with traffic slowing down, some passages closed off and the flow of vessels weakening.

When taking the fear factor into consideration, historical experience referring to the strikes against tankers during the Iraq-Iran war, will prove that it will be 'neutralized' within a few days after the incidents. Military hostilities will not prevent ship owners, insurance companies and personnel on board the tankers from working, heading to danger zones, sailing on, shipping and unloading oil, because any peril has a price and is therefore worth the risk that might be taken in such a situation. Interests of oil-producing Gulf States and international oil companies which carry out oil extracting operations and obtain shares of oil produced should also be considered, since the cost of extracting oil per barrel in Gulf countries does not exceed five dollars and is considered the cheapest in the world. Therefore, we think that international companies will fiercely defend continued navigation in the Strait without long interruptions that might cause heavy losses to the oil trade, particularly given that any closure of the waterway by sinking tankers will require at least a few months for these to be sal-

⁸⁸ Mohammad Al-Oafi, "Elaf", Emirates Economic Forum, "The Closure of Hormuz Strait will Interrupt One Fifth of the Oil Trade Exports".

⁸⁹ Cordsman, *ibid*

vaged, and then clean up and re-open the area for business.

The US has developed an alternative plan in the event of a closure of the Strait for a whole year, which involves the launch of a joint project with member states of the Gulf Cooperation Council to construct a pipeline that extends from the Fujairah Emirate (geographically evading the Strait), crosses the Arabian Peninsula and ends at the Saudi Ras Tannoura port on the Red Sea. The pipeline's capacity is estimated at 1.5 million b/d. Construction might be completed within 6 months⁹⁰.

Conclusion

It is most likely that a full closure of the Hormuz Strait will not take place in the event of any military operations in the Gulf region, given that all parties, including Iran, will not accept a total halt to oil supplies from the region. However, a partial closure or interruption might take place in the event of initiation of military operations and is expected to be accompanied by skyrocketing oil and insurance prices, confusion in the oil tanker market and the oil trade and industry.

Two important observations must be referred to in such a situation. The first⁹¹ indicates that despite the media escalation between Iran and US, the latter has agreed, following strong opposition, to include Iran in the Nabucco pipeline project designed to pump gas from the Caspian region to Europe. Iran will gain millions of dollars in profits by pumping its natural gas via this vast project, the construction of which will begin in 2012. This means that the US seeks to calm the situation and pave the way for 'energy' diplomacy to play a role in the current dispute. The other observation⁹² is that Iran's escalation is characterized by propaganda, which often makes the language of its threats less than serious. For example, the Iranian media spoke repeatedly about halting oil exports during the second Palestinian uprising and Israel's recent war on Lebanon but no halt to - or a reduction of - Iranian oil exports was put in place at any time.

⁹⁰ Daniel Brumberg and others, "Iran, Energy and Geopolitics" working papers, Energy Forum, James Baker, Rice University, May, 2008. www.rice.edu/national_media/iran.pdf

⁹¹ Walid Khadouri, "Washington and Tehran, Oil Diplomacy", Al-Hayat newspaper, May, 10th, 2009

⁹² Walid Khadouri, "Consequences of Iran's Oil Threats", Al-Hayat newspaper, January, 1st, 2006.

Military strike against Iran's nuclear facilities: Features, challenges and impact

Safwat Al Zayyat, Former senior official of Egypt's General Intelligence and member of the Egyptian Council of Foreign Affairs.

There is no military option in a conflict separate from a comprehensive strategy which employs other tools, such as diplomacy or containment in its various dimensions, to achieve the desired end by each party to the conflict – an end that emphasizes the national security or the enhancement of national interests. I argue that the parties to the conflict concerning Iran's nuclear program, the United States of America and Israel, may reach a decision to launch a military attack against Iran's nuclear facilities, at a given point in the development of the conflict. The two parties are well aware of the enormous mistakes that they have made during the past two decades when they erroneously believed that their clear military superiority over their opponents justified the unilateral use of military force to achieve their desired goals. The current US predicament in Iraq and Afghanistan, and the Israeli failure in Lebanon in 2006 are clear examples of these mistakes. These examples - in particular – will cast their shadows over any future decisions to be taken by the two countries regarding the use of force against the Islamic Republic of Iran. It is the ultimate aim of both the US and Israel to completely put an end to Iran's nuclear program or restrict it in a way that deprives Iran from acquiring nuclear capabilities that may enable it sometime in the future to develop nuclear weapons. The US has a leading role in the management of this conflict, not only by virtue of being a superpower in the existing international system, but also by virtue of its deep involvement in the Middle East in particular and in the Islamic world in general, in the wake of the events of September 11, 2001.

The strategy of the US with regard to Iran's nuclear program

It is possible to form an idea with regard to US strategy in relation to Iran's nuclear program, especially for the period since Obama's administration came into power in early 2009, and what is likely to happen in the foreseeable future, within the context of three stages:

The first phase: soft diplomacy

The new US administration has adopted an approach of direct dialogue with Iran in an effort to reach agreement on the future of its nuclear program, an approach which recognizes Iran's right to peaceful use of nuclear energy in return for a number of commitments and procedures which guarantee that Iran will not be able to possess in the future nuclear capabilities which would enable it to develop nuclear weapons. To achieve this purpose, the US administration has temporarily abandoned the pre-condition imposed by the Bush administration stipulating that Iran should suspend its ongoing uranium enrichment activities. It has also allowed for a number of delays in starting the dialogue as proposed by the Iranian government. It seems that the US administration was very optimistic about this initiative, although it considered that its failure would be an opportunity to hold Iran responsible for the failure and mobilize the international community for a next, less tolerant, phase towards Iran's approach. This has already been brought about, if we review the following events:

1. With the start of the 5+1 meetings with Iran on October 1, 2009, the US, Russia and France, or the so-called "Vienna Group" offered Iran an exchange deal covering low-enriched uranium. The exchange would entail Iran shipping 75% of its stock of low-enriched uranium (LEU) to Russia and then to France to be treated within a year's time so as to produce high-enriched uranium fuel rods required by Teheran's nuclear research reactor to produce radioactive isotopes. The US Administration's objective behind this deal, in particular, was to reduce Iran's stockpiles of low-enriched uranium to a level that would not allow it to produce a nuclear explosive device for a period of time, during which negotiations could lead to a final agreement concerning arrangements to prevent Iran from acquiring nuclear capabilities that would enable it to develop nuclear weapons (the period was estimated to be approximately 5 months – the period during which Iran could

again reach a stock level of 1,200kg, which is enough to produce one nuclear explosive device).

2. Iran has sought to improve upon the conditions of the "Vienna Group" offer in a manner that would allow it to maintain a higher stock level and to accelerate the exchange process. However, the Vienna Group refused Iran's demands. This has prompted Iran to announce that it will unilaterally start enrichment of uranium to a 20% level needed for Iran's research reactor. On February 7, 2010, Turkey and Brazil prepared another draft offer for the exchange of nuclear fuel on May 17, 2010.
3. With doubts raised after the three-party "Teheran Declaration," especially with regard to the stock level of low-enriched uranium remaining in Iran, the fate of the 20% high-enriched uranium that Iran has started to produce, and Iran's continued nuclear activities on all levels (an increase in the number of centrifuges, further development of their quality, continued enrichment by 20%, and the building of reactors), the US now possesses solid grounds to move into its second phase of its strategy of confrontation.

Second stage: coercive diplomacy

The US has launched the second phase of its strategy to stop the Iranian nuclear program through the issuance of Security Council resolution 1929 on June 9, 2010, which tightens sanctions on Iran. This phase is still ongoing until now and is characterized by two parallel tracks. The first is the path of collective international sanctions in accordance with the relevant Security Council resolutions, as well as the unilateral sanctions based on initiatives taken by certain individual countries, or jointly by a number of countries, as sort of additional sanctions to strengthen the international sanctions. The second is the path of negotiations that has continued from the previous phase, with an emphasis on the offer of the "Vienna Group" to exchange nuclear fuel and forcing Iran to halt its nuclear enrichment activities until a final agreement has been reached through which the international community seeks to guarantee that Iran will not possess nuclear capabilities which would enable it to develop nuclear weapons in the future. In this context, the achievement of the goal of this phase remains linked to two basic dimensions. The first is the effectiveness of such collective and additional unilateral sanctions in changing the political behavior of the Iranian regime. The second is the extent to which the Iranian regime is capable of

adapting to the sanctions and of continuing its current approach with regard to its nuclear program.

The effectiveness of existing sanctions: It could be said that there are conflicting indications on the effectiveness of the existing sanctions. Some are positive when seen from the perspective of the breadth and the diversity of sanctions, as well as its clear focus on activities that impact Iran's nuclear, economic and military fields, while others are negative when seen from the perspective of the limits of cooperation expected from other international forces in this field. Among the most prominent "conflicting" positive indicators is that resolution 1929 contains unprecedented punitive measures, most important among which are those preventing Iran from external investments in sensitive sectors related to its nuclear program and the development of ballistic missile systems. Moreover, the resolution has limited Iran's conventional military capabilities by banning the supply of many types of major conventional weapons (Russia relied on this ban on September 23, 2010 to stop the sale of the long-range S-300 air defense system to Iran), and expanding the freezing of activities of financial institutions and Iranian companies and individuals linked to both the nuclear and missile program and the Revolutionary Guard through the issuance of approved international lists. The resolution also expanded the scope of inspection on suspected ships entering or leaving Iran, including a ban on providing logistical services to these ships in ports. Among the measures taken is the formation of a monitoring committee composed of international experts to activate and implement the resolutions imposing sanctions (similar to what happened in the case of Sudan and Ethiopia).

Likewise, there were the additional, unilateral sanctions by some countries and regional and international groups - not included or agreed upon by the Security Council - mainly targeting the energy sector (both Russia and China opposed to inclusion of such sanctions in resolution 1929) and other economic sectors. These sanctions were initiated by the US, Australia, the European Union, Canada, Japan and South Korea. Most prominent among its contents are the reduction of Iran's ability to import oil derivatives, such as gasoline and jet fuel, given the fact that although Iran is the fourth largest producer of oil in the world it is still importing about 40% of its gasoline needs due to its limited refining capacity. Moreover, these unilateral sanctions have banned new investments, technical assistance or technology transfer in the fields of oil refining and gas liquefaction and imposed more restrictions on financial insti-

tutions and insurance companies in order to complicate Iranian trade and lift insurance cover of goods transported from and to Iran by sea and air, depriving it from the use of many ports and airports in many countries.

As for the negative indicators, they can be highlighted as follows: the position of both Russia and China in preventing the inclusion of Iran's energy sector in the 1929 resolution and the continuation of investment and trade in this area between Iran and these two countries; the position of both Russia and China against additional unilateral sanctions imposed by countries and international regional organizations outside the framework of the sanctions regime adopted in the UN Security Council; Russia's step of starting procedures related to the operation of the Bushehr nuclear reactor on August 21, 2010 after more than one decade of deliberate slowdown; the slowdown in the implementation of resolution 1929 by not forming the committee of experts, as indicated by the Chairman of the Committee on Implementation of Sanctions established pursuant to resolution 1737 during the Security Council's meeting, and the absence of reports from the majority of United Nations Member States on the extent of their commitment to the sanctions and the non-inclusion of oil imports of Japan and South Korea from Iran in the list of additional sanctions imposed by countries on Iran (Iran represents the fourth largest source of oil for both countries with its supply reaching 10% of their total oil imports). In general, the extent of the effectiveness of the sanctions is still not clear given the conflicting positive and negative indicators outlined above and because not enough time has passed to ascertain their impact.

The ability of the Iranian regime to adapt to sanctions: Teheran's political discourse seems to implicitly admit that these sanctions are slowing down the completion of the program although they were not able to stop it. It also illustrates that Iran will not change its current nuclear policies regardless of the intensity and diversity of the sanctions imposed on it. The Iranian position can be understood in this context by the political flexibility it usually enjoys when facing external pressures. This hypothesis is supported by the following considerations:

- The Iranian regime, since the outbreak of the Islamic Revolution in Iran, has been constantly operating under sanctions and has learned to find alternatives and to reduce the damage.

- The nuclear program has the support of Iranian public opinion and is also approved by the leaders of the reformist camp who took part in shouldering its responsibilities in earlier periods. Thus, the sanctions system mobilizes people in support of the regime and enhances its position.
- The Iranian regime has taken several measures in advance to reduce the effects of the ban on the import of petroleum products, especially gasoline, by raising the level of refining capacity and setting up an effective quota system.
- The Iranian regime and its supporting institutions, such as the Revolutionary Guards, will be least affected by any ban on imports of Iranian oil derivatives, as compared to the Iranian people whose hostility towards countries imposing the ban will rise, first and foremost the US.
- Iran is a state - a nation - which possesses natural and demographic resources. It also possess a geo-strategic depth which provides it with vast power to resist the sanctions, especially because the results of similar sanctions imposed on Iraq, North Korea and even on India and Pakistan were very humble.

Possible outcomes of the coercive diplomacy phase

Based on the preliminary, conflicting results at the time of the preparation of this paper of the effectiveness of the recent international and unilateral sanctions on Iran, and the political discourse of the different parties involved in the crisis stressing the need for another round of negotiations - with a focus on reconciling the offer of the Vienna Group and the "Teheran Declaration" related to a nuclear fuel swap - towards reaching a final agreement on the program, which would eliminate, on the one hand, all doubts among Western nations concerning the military dimension of the program, and on the other hand, guarantee Iran's right to use nuclear technology for peaceful purposes, the expected results of this phase range from success in reaching a compromise solution or failure, which would mean that the parties to the crisis would have to seek alternatives.

A compromise solution to the crisis

Within this scenario, Iran would be allowed to acquire and use nuclear technology for peaceful purposes (including low-enrichment activities) and sanctions against it would be lifted, in exchange for a number of commitments to be made and fulfilled by Iran - in writing (which will ensure that, in essence, Iran will be prevented from acquiring nuclear capabilities that would enable it to develop nuclear weapons in the future). These may include:

- The transfer of enriched uranium to a third country for conversion into fuel rods that are difficult to be re-converted into their original level of enrichment.
- Limits on enrichment levels so as not to exceed appropriately low levels limit of nuclear fuel that is, up to a level of 5% enrichment only.
- A stop on buying uranium ore from abroad.
- The transfer of spent fuel from electricity producing reactors to a third country.
- Ratification of the Additional Protocol to the Nuclear Non-proliferation Treaty - NPT, to ensure the seriousness of the work of the UN International Atomic Energy Agency in all known and potential sites of Iran's nuclear facilities.

The failure of coercive diplomacy

The US could come to the conclusion at a certain time (perhaps in the second half of 2011) that coercive diplomacy tools have failed in urging the Iranian regime to abandon its nuclear program. Based on this assumption, 3 options will strongly present themselves to the US administration at that time:

First: the use of a limited military option_which entails a limited military strike against certain targets, i.e. limited bombing in order to achieve two goals simultaneously:

1. Prevent or hinder Iran for a certain period of time from possessing nuclear capabilities which would enable it to develop nuclear weapons.
2. Increase pressure in parallel with the existing system of sanctions to force Iran's negotiators to accept a consensual solution to the crisis.

Second: the use of an expanded military option: This option depends on an expanded military campaign (similar to Operation Desert Storm against Iraq and the allied force against Serbia), targeting the political and economic establishments and military installa-

tions of the state and the facilities of the nuclear program, in order to achieve three objectives:

- The removal of as much as possible of the facilities of Iran's nuclear program and its traditional and non-traditional military defense capacity.
- Forcing the Iranian regime to completely abandon its nuclear program under the pressure of economic and military losses resulting from successive military campaigns.
- The creation of the internal conditions to change the regime in Iran and to allow reformist members, more moderate and closer to the West, to obtain power. This option is difficult to achieve within the short and medium term for many internal and external considerations that impress themselves on American decision-makers. Most important are:
 - o Expanded military action requires the deployment of a large number of ground forces on the Iranian borders to strengthen the credibility of the air campaign. These forces are currently not available to the U.S. military.
 - o US military involvement in both Afghanistan and Iraq, and the absence of a clear vision to do away with these fronts in a manner which would provide the US with the conditions required for it to devote its time to the Iranian front.
 - o The public mood, which opposes the use of military force abroad, as witnessed over the past two decades.
 - o The harsh US financial crisis and its approach to reduce the federal budget deficit, with one of the top tools being to cut military spending.

Containment strategy: This strategy is based on admitting the difficulty of stopping Iran's nuclear program either through negotiations or through a limited or expanded military intervention and thus accepting a nuclear Iran. In this case, the US will again adopt the strategy of containment, which it previously adopted during the era of the Soviet Union, through measures that include:

- The use of US strategic and tactical military capabilities to deter Iran from any use of nuclear capabilities it will possess in the future against the US or its allies in the region, whether through the threat or the actual use of these capacities (this re-

quires establishing declared red lines which Iran should respect).

- Developing the military capabilities of US allies in the region qualitatively and quantitatively. This would provide these allies with a conventional superiority in facing Iran and provide the operational and appropriate environment for the rapid deployment and use of US conventional military capabilities.
- The continued imposition of punitive measures aimed at undermining the economic and military structures of Iran in the long term.
- Scaling down Iran's foreign relations with the other countries in the region and with all countries of the world in order to reduce Iranian influence at local, regional and international levels.
- The measures may not rule out the well-calculated use of military force in the event of a crisis and when Iran attempts to override the red lines set by the US.

The aim of these and other measures is to convince the Iranian regime of the futility of its possession of nuclear weapons, due to, on the one hand, its inability to use them, and, on the other hand, the high cost that it incurs because of it. In the future, this would lead to an increased level of rational strategy in Teheran resulting in the voluntary abandonment of its possession of nuclear weapons. In this paper, the first option of limited military action, which is the most probable among the three, will be discussed, while the option of containment is not within the scope of the paper. However, before doing so it is important to identify the Iranian approach in dealing with the nuclear program and the crisis with the West.

Iran's nuclear program strategy: Examining the strategic approach in the existing nuclear program crisis requires dealing with four interrelated dimensions, which include the notion of a military nuclear capacity, the Iranian motives for acquiring nuclear capabilities, the process of building these capacities and finally the military-political approach in managing the crisis.

The notion of Iran's nuclear capacity

Although Iran does not seek to acquire immediate operational nuclear weapons, but it seeks to acquire a number of capabilities necessary to develop nuclear weapons within a relatively short period of

time, in a manner that makes its aspiration clear to the world without the need to explicitly announce it. This is known as constructive ambiguity. These capacities include the following:

- The ability to produce fissile material, i.e., low-enriched uranium in a sufficient quantity to manufacture at least three nuclear explosive devices (Iran currently possesses about 2.8 tons of such material sufficient to produce one nuclear explosion device within the framework of its nuclear fuel cycle).
- The capacity of lifting a low level of enrichment to a high level enriched uranium, i.e., to 90% as soon as a political decision is taken (Iran has this capacity because it is capable, of producing the quantity needed for the first nuclear explosive device, during a 6-month period).
- The ability of converting the enriched material into solid form and to manufacture a nuclear explosive device. Iran has this capacity because it is capable to develop the second and third explosive devices within a period of 12 months, following the development of the first nuclear explosive device during a 6-month period. Thus, Iran needs a period of one year after a political decision is taken to develop nuclear weapons until it possesses 1 explosive device and it can even possess 3 nuclear explosive devices within a minimum of two years.
- The ability to develop a warhead for a missile or airborne atomic bomb with an explosive effective capacity (reaching up to several ten kilo tons) and weighing up to about 1,000 kg. This may require an additional period of time ranging from two to three or more years. Thus, in order for Iran to possess effective nuclear warheads, a period of four to five years is required from the moment of taking the political decision to do so.
- Iran has the ability to develop a ballistic missile capable of carrying the above mentioned warhead. It seems that Iran will be able to develop a ballistic missile capable of carrying a warhead weighing 1,000 kg with a range of up to 2000 kilometers, during a time period between three to five years from now (Iran currently has the Shahab -3 M, which can carry warheads weighing 1,000 kg for a range of 1,100 kilometers only, while it is speeding up the completion of the Sajeel missile - 3 with solid fuel, which can carry a warhead weighing 1,000 kg for a range of 2,000 kilometers, to become operative during this period).

Motives behind the acquisition of nuclear capabilities

The Iranian regime is aware of a number of reasons justifying its need to acquire nuclear capability which would enable it - if necessary - to develop nuclear weapons, as an effective tool in facing risks known to the regime, including:

- Direct military invasion of two states - east and west of Iran, the resulting removal of their ruling regimes, and the deterioration of security conditions and living conditions.
- The continued US military presence surrounding Iran from the west (Iraq and the Gulf states), and from the East (Afghanistan), and North (Caspian Sea basin countries), as well as the US naval presence in the Gulf of Oman, the Arabian Sea and Indian Ocean.
- The limited conventional military capabilities to provide self-defense for the national security of the state in the face of threats by big powers.
- The increased military build-up of the Arab states in the Gulf on the qualitative level in a manner that threatens the regional and international status that Iran aspires to occupy.
- The Shiite community in particular, lacks a nuclear power, while many other religions and sects already possess such.

Iran's approach to building its nuclear capabilities

Iran relies on a set of rules that govern the process of developing its main infrastructure, which enables it to take a political decision regarding its nuclear weapon industry within a short period. These rules include:

- The provision of a legal cover through the pretext of possessing a nuclear fuel infrastructure to produce the fuel required for nuclear reactors generating electricity (Iran announced plans to generate 20 thousand megawatts of civilian nuclear reactors which require the provision of between 250-300 tons per year of low-enriched uranium. This requires the establishment of 10 plants for uranium enrichment, similar to the existing uranium enrichment plant in Natanz).
- Spreading the infrastructure of the program in a way that reduces the level of damage sustained in the event of a military attack or an act of deliberate

sabotage. Therefore, the locations were distributed as follows:

- o Locations for the mining of the uranium ore and milling it to produce uranium oxide (yellowcake) in the areas of Sagand, Narigan, Zarigan and Yazd.
- o The Nuclear Technology Center in Isfahan, where there is a uranium conversion facility, which converts the yellowcake into uranium hexafluoride (UF₆), a material which feeds the production of fissile material in the enrichment plant of Natanz (it will also be responsible for the production of fuel rods from the fissile material, which is converted back to it to feed the electric power generation reactors).
- o The uranium enrichment facility in Natanz, which enriches the material coming from Isfahan to the level of low-enriched uranium (3.5% of uranium-235) through central gas centrifuges (about 8,600 centrifuges are installed in Natanz, 4,000 of which are allocated for enrichment and produce an average of approximately 1,200 kilograms of low-enriched uranium per year. This provides approximately 20-25 kilograms of highly enriched uranium, i.e., enough to produce one nuclear weapon, noting that the total capacity of the station when completed will reach 54,000 centrifuges).
- o A heavy water nuclear reactor in Arak. It is a research, development and training facility, also used for producing radioisotopes with a capacity of 40 MW.The heavy water is used in the cooling process and directly depends on natural uranium (the factory for the production of heavy water is almost completed. The reactor, which is supposed to start operating in 2014, is currently about to be completed.)
- o The light-water nuclear reactor plant in Bushehr, which is dedicated to the production of electric power with a capacity of 1,000 MW. It is fed by the low-enriched uranium fuel rods coming from Russia. Loading procedures started on August 21, 2010 (the used nuclear fuel rods will be returned back again to Russia).
- o The Nuclear Research Center in Teheran, the headquarters of the Presidency of the Iranian nuclear program.

The structure of the Iranian nuclear program suggests several possible paths for the production of

fissile material used in the production of nuclear weapons, including:

- High-enriched uranium, which can be produced at the enrichment facility in Natanz, based on the current stock of low-enriched uranium as a feed for centrifuges that could be re-assembled for the high-enrichment phase.
- Plutonium-239, the other fissile material used in the development of nuclear weapons, which Iran can obtain in two ways:
 - o Processing spent nuclear fuel rods in the reactor at Bushehr (about 500 kg of plutonium-239 can be extracted per year, a quantity which is enough to develop 60 nuclear weapons, similar to what was used against the Japanese city of Nagasaki).
 - o The plutonium-239 production by the heavy water reactor in Arak (8 kg of this fissile material can be produced yearly, a quantity with is sufficient to develop one nuclear weapon).
 - o The adaptation by the Iranian regime in order to face a preemptive countermeasure attack. The Iranian regime understands full well the lessons of the Israeli bombardment of the Iraqi nuclear reactor in 1981. It is also aware of US military capabilities, its superiority and its direct presence on the other side of its borders. Thus, it is taking a number of measures to reduce the levels of damage to its nuclear program components if exposed to pre-emptive strikes by Israel or the US. Most prominent among these procedures are:
 - The establishment of secret facilities parallel to some of the key components of the program (the discovery of a secret uranium enrichment facility near the city of Qom, south of Tehran in September 2009).
 - Many of the program elements were designed in the form of separate units that can be split and moved quickly to other alternative sites, or to tunnels, caves and other fortified facilities.
 - The launch of a protection program for the key elements of the nuclear program, especially in Natanz and Isfahan, with the support of North Korea's expertise. The most important activities of this program are:

- o Underground halls and tunnels with thick concrete walls and layers of dirt.
- o Making use of the natural terrain of mountains and rocky slopes as entrances and exits for the fortified facilities.
- o Building networks of tunnels to connect the operation spaces under ground, which depend on the thick separation walls.

In a recent study by the Center for Strategic and International Studies in Washington, the area of the fortified underground facilities in Natanz was estimated at approximately 646,000 square feet allocated for the major enrichment halls and 95,000 square feet of for the separation of the uranium plant complex (to destroy such fortified spaces requires 50 bombs of the GBU-28 type of 5,000 pounds, to be carried by a force of 25-50 combat aircraft model F-15E or equivalent).

Iranian political-military approach

In the management of its nuclear program crisis, Iran relies on a number of rules that govern its behavior in the political and military spheres in facing the US and its allies. These are:

- Maintaining nuclear capabilities on edge without lifting it to the stage of developing a nuclear weapon until the appropriate conditions are present. In the meantime, it continues to make the necessary technological preparation to reduce the time required to develop the weapon when a political decision is taken to do so.
- The exercise of brinkmanship policy in negotiations with international parties; through calculated and periodic firmness and retreat with the aim of gaining the time required to strengthen its nuclear capabilities, and the erosion of red lines laid down before in order to reach an international agreement which guarantees Iran the opportunity to reach the brink of nuclear status.
- The use of a military strategy based on asymmetric deterrence, which is beyond the conventional modest military capabilities of Iran taking into consideration the ban imposed on arms imports. This asymmetric deterrence depends on the following pillars:
Ballistic missile systems, which provide the ability to reach the heart of neighboring countries and the US military bases in the region as well as Israel.

The *development of an unconventional marine capacity* which targets enemy warships and merchant vessels transiting the Gulf and the Strait of Hormuz; in order to impede navigation in the Gulf and close the Strait for a period of time so as to influence the world economy. Iran relies on three pillars in building these capacities:

First: the anti-ship missile systems on mobile platforms deployed on land and on naval patrol boats.

Second: the mining of sea lanes and straits by using traditional boats, submarines and small fishing vessels.

Third: a large fleet of small, armed speedboats tasked to perform suicide operations (similar to the Japanese kamikaze suicide attacks during World War II) against naval and merchant ships.

According to a study issued by the Robert S. Strauss Center for International Security and Law in the summer of 2008, the period of time required to launch a sea/air military campaign to secure sea traffic navigation through the Hormuz Strait, so as to confront Iranian threats, is between 5-16 weeks (depending on the scenarios regarding the nature of the Iranian tactics).

The limited US military option

Since the objectives of this option is to prevent or hinder for a certain period of time Iran's acquisition of nuclear capabilities that would enable it to develop a nuclear weapon and to increase pressure on it to reach a compromise solution to the crisis through negotiations, it is possible to conceive the dimensions, features, constraints and implications of this option as follows:

The US will mainly rely on its air force with missile strikes from the sea in support and in accordance with the development of the situation. The Iranian response to the strike may carry the potential of expanding the strike to contain and limit the impact of Iran's response. This will include new bombing targets and will prolong the planned period for the accomplishment of the task.

Bombing targets

A. Set of initial targets:

- Facilities for the production of fissile material;
- The uranium enrichment facility in Natanz;
- The uranium conversion facility in Isfahan (center of nuclear technology).
- The heavy-water reactor IR-40 in Arak.
- The uranium enrichment facility (under construction) in Qom.
- The research, development, production, storage of ballistic missiles facilities in the vicinity of the targeted facilities producing fissile material (7 facilities in the vicinity of Natanz, Isfahan, Arak, and Qom).

B. Additional set of goals:

In this case, the focus will be on the retaliation of forces that Iran will use to punish the US and its allies in the region (without reaching the level of an expanded military option, which includes a longer list of military and civilian targets), which includes a number of targets:

- The conventional and non-conventional elements of sea power along the Iranian coast and in the deep seas.
- The short and medium range ballistic missiles platforms.
- The air bases, the locations of deployment of major air defense systems, command and control centers and communications and battle management associated with them.

Capacities to implement the task:

A. The capacities exclusively needed to achieve the primary bombing aims (considering that the additional bombing tasks are only an option, and, moreover, could be undertaken with military sources that were used in the initial phase), is based on the use of special munitions to target deep and fortified sites which the US certainly possesses and the need to avoid the excessive killing of staff working in these facilities. The implementation force for this task could be estimated as follows:

- Uranium enrichment facility in Natanz: 7 B-2A bomber planes (each is provided with 8 GBU-28

bombs and is to depart from Missouri in the US or from Diego Garcia in the Indian Ocean).

- Uranium conversion facility in Isfahan: 5 aircraft fighters F-18 E/F Super Hornet (each plane to carry one GBU-27 bomb and is to take off from aircraft carriers in the Arabian Sea).
- To secure the existing strike force: 24 aircraft fighters F-18 E / F Super Hornet (equipped with arm systems for air fights and means to strike the air defense system of the enemy).

The available capacities: The capacities needed as estimated (proposed), constitute only a modest part of the overall military capabilities of the US, which possesses global deployment capacities required in the appropriate time and place to support capacities at global and regional levels.

On a global level: The estimate included a possible capacity – usually preferred by the US – to send strategic bombers of the B-2A Stealth model from their bases in the US directly to the Gulf region, or perhaps from its main base of Diego Garcia in the Indian Ocean.

At the level of territorial deployment: two carrier strike groups can provide the required combat aircraft proposed for the assault force and the support force, and provide preparedness to implement the rest of the routine tasks of the group carriers, as well as readiness to meet the expansion requirements of additional bombing targets (each aircraft carrier is on average provided with an air wing consisting of about 80 combat aircraft). In addition, a large number of cruise missiles is available to the carrier strike group, which can be used to strengthen the capacity of the assault force or as a substitute when there is an operational necessity in case of unfavorable conditions for the use of combat aircraft.

Constraints of a limited military strike

The effectiveness of strikes depend on the extent to which they achieve their objectives and is assessed based on four elements: the quality of intelligence that can be collected to check all targeted nuclear sites; the ability to hijack the Iranian airspace; the capacity of the munitions used; and eventually the link between material damage and capacity damage (where it is more important to inflict damage on capacity than material).

From the perspective of these four elements the major constraints for a limited military strike which

may be undertaken by the US, can be summarized as follows:

- The lack of adequate intelligence on the components of Iran's nuclear program and the lack of details on each of the targeted sites by the military strike, considering the:
 - A. Closed nature of the Iranian regime and its dependence on degrees of successive levels of confidentiality in the management of the State in general and the nuclear program in particular.
 - B. There are a number of underground sites, making it difficult for monitoring, follow-up and analysis of the components and functions and the degree of fortification of these sites.
 - C. Flexibility available to the regime in moving and re-deploying sensitive machines between locations, and even outside of these locations as a result of the fragmented design adopted by the regime.
 - D. The reliance on air power and missile strikes to launch limited military strike without amassing sufficient ground forces directly on the Iranian border or near these borders as a potential threat, would make the strike lose much of its credibility.
 - E. The possibility of a secret nuclear program parallel to the targeted one: (as revealed in September 2009 by the facts regarding the enrichment facility in Qom).
 - F. The failure to achieve a sudden strategic shock in launching a strike because the timing will be framed within the context of stalled negotiations or when differences among the international parties and Iran become more serious. This will provide Iran with a prior notice and degree of preparedness.
 - G. The possibility of an Iranian response in retaliation in a manner that would not only require the need for additional acts, but would also open the door for an all-out confrontation, for which the US administration currently can not afford.
 - H. The bombing targets are located in populated areas and where there are other economic activities (with the exception of the Natanz plant), which means that there will be civilian casualties as well as other secondary damages. This may raise severe local, regional and international objections.

The effects of a limited military strike

The effect of a military strike should be examined in the context of a comprehensive US strategy through which Iran's nuclear program crisis is managed. In this case, the effectiveness of such a military strike lies in its ability to achieve the identified objectives and to generate a favorable political environment to resolve the crisis with better terms from the perspective of the US and its allies. The earlier analysis of US military capabilities and a restriction of the primary military operations to a limited number of groups of bombing targets on the one hand, and, on the other hand, the means available to Iran through its conventional military capabilities to face this strike (especially its obsolete air defense systems which does not provide the minimum internal integration required), indicate that the military strike would succeed in inflicting damage to Iran's nuclear program that will obstruct its operation for a period ranging from one to three years. This is the time required by the US to accelerate a political process with increased pressure through which it could permanently deprive Iran from acquiring nuclear capabilities that would allow it to develop nuclear weapons.

The cost/benefits analysis of this strike from the perspective of the three main parties in this conflict, the US, Iran and Israel, provides a visualization of the effects of the strike for now and in the foreseeable future.

1 – The United States:

In return for the major achievement of hindering Iran's nuclear program for a period ranging from one to three years, the list of costs that the US will be required to deal with will include:

- A. Preparedness to face extensive Iranian reprisals ranging from taking Western hostages, direct or indirect military operations (by Iran's allies) in Iraq, Afghanistan and Lebanon, in addition to the blocking of oil production and export in the Gulf (all of which represent new burdens on the US military owing to its excessive expansion and ongoing involvement in the region for more than a decade).
- B. Freezing of the multilateral diplomatic process with the launch of the US unilateral military action - which might not be approved by Russia, China, and perhaps some European parties. Thus, what will follow is a unilateral process by the US, which

lacks the tools of incentives and disincentives of those international parties who oppose the strike.

- C. Confronting an Iranian regime which is more inflexible in its positions and demands, not only because of the increasing international sympathy as a country that was attacked, but also, and more importantly, because of the support of Iranian public opinion based on the national nature of the nuclear program on the one hand, and, on the other hand, the material and moral damage of the attack.
- D. The growing feelings of hatred against the US among the peoples of the region and in the entire Islamic world, especially in those countries where the US has vital interests, such as Saudi Arabia and Pakistan. This will reflect negatively on the so-called US war against terrorism.

2 - Iran:

In addition to the high cost paid by Iran as a result of the military strike by delaying for a certain period of time the development of its nuclear program, a number of benefits will be gained that will allow Iran a margin of political maneuvering the country could very skilfully use.

- A. A united public opinion in support of the regime at home and the concrete weakening of reform movements. This will strengthen the regime's grip on power and supports its position in the diplomatic confrontation with the US, which will follow the strike.
- B. The regime will gain more legitimacy and acceptance on the international and regional levels and thus the impact of the siege and international and unilateral sanctions will start to diminish (on condition that Iran's regime does not get involved in retaliatory acts beyond those targeting the offending party).
- C. Creating the legal basis to justify the withdrawal from the Nuclear Non-proliferation Treaty - NNPT (Article X of the Treaty), and the strategic justifications for launching a process to develop nuclear weapons as a national priority.
- D. The collapse in the multilateral diplomacy weighing heavily on the Iranian nuclear program's negotiator. This will make Iran confront only one party: the US, which doesn't possess as many punitive tools as those available to the rest of the international parties.

3 – Israel

The list of benefits for the Israeli seems to be prominent in light of the following considerations:

- A. The success of the US military strike in hindering Iran's nuclear program for a period of time will relief Israel from the burdens of a military act that it should have performed itself.
- B. Making the US carry the moral and financial burden of unilaterally ending Iran's nuclear power, not only with regard to US security interests but also with regard to its status and international image.
- C. Obliging the US to contain the possible negative impact of the military strike, which would entail more political and military support for Israel, which it can always utilize well.
- D. More solidarity between Arab regimes who wish to end Iran's nuclear program and who secretly welcome a military strike against Iran.

However, these short-term advantages will not end Israel's concerns regarding the existence of the nuclear program. It will still have to wait for the results of the political process to follow the strike in order to takes its next steps. In general, the results of a limited US strike against Iran's nuclear facilities will limit its capacities for a period reaching up to 3 years. A rational Iranian response will take advantage of the military strike to its benefit by withdrawing from the NPT and launching a secret process of developing nuclear weapons. This would be brought about by postponing any direct acts of retaliation and accepting a parallel negotiation process with the US in order to reach a soft political deal which would allow Iran to preserve its nuclear power in one way or another. During this time, Israel will continue to live in fear while waiting for the results of the negotiation process upon which its will build its next steps: either to accept the results or to prepare for direct military action against Iran's nuclear program.

The Israeli military option

Israel, unlike its US ally which, first and foremost, sees Iran as a threat to its national interests, understands that a nuclear Iran - an Iran with capacities to develop nuclear weapons during a short period of time, or an Iran which actually possesses a nuclear weapon - represents a threat to the existence of the Israeli state. Israeli leadership also recognizes that it has very limited military capabilities to face the Ira-

nian threat compared to those of the US. Thus, the timing of a military action against Iran is always linked to the feasibility and credibility of the US efforts in facing Iran's nuclear program. If we consider the cost of a military action – in case it is taken and implemented – within the framework of US-Israeli relations, specifically in terms of the burdens that the US will have to shoulder the moment it takes such a decision and implements it, and if we consider the above analysis of the US military option, the Israeli military option can be analyzed, within the limitations of this paper, in the following main condensed scenarios:

The military option

Israel may take a decision to launch a military strike against Iran, after analyzing the costs and benefits of possible options, in the following three cases:

1. If the international parties participating in the negotiation process with Iran reach a "soft" deal that allows Iran to possess nuclear capabilities that would give it "brink" status; and thus would be able to violate the agreement and develop nuclear weapon within a short period of time if the conditions become appropriate to do so.
2. If negotiations with the US on the multilateral or the unilateral levels fail in reaching an agreement to stop Iran from acquiring nuclear capacities, and if Israel becomes convinced that the US does not have any intention to use the military option against Iran.
3. If Israel becomes certain that Iran is close to possessing nuclear weapons and US and international efforts to confront this from happening are slow, despite of the negotiation process and international and unilateral pressure.

In any of these three cases, Israel understands that the US will not give it the green light for military action for US practical and strategic reasons.

The difference between the US and the Israeli military options

Based on the previous analysis of the features of a possible US military strike, and the fact that the objectives of an Israeli military action will not surpass those of the US, as in paralyzing the nuclear Iran file for a certain period of time and providing the necessary conditions for a political process to follow that will lead to depriving Iran from possessing nuclear

power, we can infer the main differences between the two options:

1. Israel may be able to take a strategically surprising step by implementing a military strike, given the nature of the Israeli decision-making process and the possibility of striking outside the context of the existing international consensus on how to solve the crisis with Iran.
2. Israel will minimize its bombing targets to the first set of targets of the US military option (it is expected that Israel will stop after bombing one target), and will implement only one strike given the limitations of Israel's military capacities and the geographic distance between the bombing sites.
3. In reaching the bombing goals, the Israeli combat strike will have to fly through the air space of several neighboring countries via one of the following three paths:
 - A. **The northern path:** Flying over the Syrian-Turkish borders in a direction from the west to the east for a distance between 2,400 and 2,600 kilometers to reach the center and the west of Iran. Given previous experience (bombing the Syrian facility in Deir Al Zour in the autumn of 2007), this path is considered the longest of the three paths but also the most suitable for a combat strike.
 - B. **The center path:** Flying over Jordan and Iraq for a distance between 1,500 and 1,700 kilometers to bomb Iran. This path is considered to be the shortest of the three.
 - C. **The southern path:** Flying over the Jordanian-Saudi borders through Kuwait or Iraq for a distance between 1,200 and 1,900 kilometers. Israel has previously used this path in shelling the Iraqi nuclear plant at Osirak in June 1981.
4. Israel will not only cause material damage to the nuclear program of Iran, but the strike will lead to a large number of casualties among the staff working in the program.
5. Innovative Israeli solutions of some operational problems facing the implementation of the strike may lead to the use of military facilities available in Iran's neighbouring countries (Iraqi Kurdistan, Azerbaijan, Saudi Arabia) through secret or coerced agreements regarding military facilities in Iran's neighbouring countries.
6. In any way, the US will manage the political and military consequences of the Israeli strike (which means that the US military would have to deal with the additional bombing targets and face

Iran's retaliatory response in the Gulf and, in particular, in the Strait of Hormuz).

Features, challenges, and impact of an Israeli military strike:

Features of the strike

Based on what has been said about the features of a US strike and taking into consideration the common goals behind its implementation, given the limited Israeli capabilities compared to those of its US counterpart and considering the Israeli desire to inflict maximum human casualties in the cadre of the Iranian nuclear program, it is possible to imagine the features of the Israeli strike to be as follows:

- A. Israel's reliance on its air force in carrying out one sudden strike against the main facilities of the nuclear program, which are the three plants of Natanz, Asfahan, and Arak (several strategic studies and analyses suggest the likelihood of using Israeli Ballistic missiles in bombing these plants where it is estimated that 44 Ariha-3 missiles with traditional heads would carry out the mission).
- B. Building on the size of ammunition required to carry out the US shelling mission, and taking into consideration using ammunition of great penetration capabilities (GBU-28 bombs weighing 5,000 pounds, or GBU-10 bombs weighing 5,000 pounds).
- C. Considering that the current Israeli air force capabilities which would enable it to carry out distant missions (as in the Iranian nuclear case) include:

A strike force: composed of fighter planes designed to operate at long and distant ranges due to special equipment, namely:

 - A fleet of 25 F-151 fighter planes.
 - 3 fleets of F-16 fighter planes consisting of 102 planes.
 - Support force
 - Refuel: 10 Tankers planes (KC-707 & KC130H).
 - Early warning and electronic war: 5 G-550 planes equipped for electronic intelligence missions (ELINT) and airborne early warning.
 - Unmanned aerial vehicles designed for distance surveillance and intelligence - Eitan, Heron & Hermes 900.
- D. The air strike could be carried out as follows:
 - A strike against nuclear plants.

As such, Israel will be able to carry out one air strike only and will not be able to repeat it.

- A strike against the Natanz nuclear activation plant: a force of 20 F-15 fighter plane and 30 F-16 fighter planes (each carrying a GBU-28 bomb).
- A Strike against the Asfahan uranium transformation plant: a force of 6 F-16 plane fighters (each carrying one GBU-28 bomb)
- A strike against the Arak heavy water reactor: a force of 6 F-16 fighter planes (each carrying a 28-GBU bomb).
- Logistical support to back the combat strike force could be made up of 16 additional F-16 fighter planes to accompany the strike force and provide the necessary defense duties.

The main obstacles to the Israeli strike against Iran's nuclear power plants (with respect to what has been previously mentioned about the US strike) are as follows:

- Inadequate detailed intelligence about the components of the Israeli bombing goals that would enable accurate identification of strike targets.
- Difficulties in currently using the north route (deterioration of existing relations with Turkey) and in using the center route (US control over Iraqi airspace and the position of the regime in Jordan).
- A one-time air strike capability only due to Israeli's limited air force capacities (especially in Israeli's ability to refuel during flight)
- The inability to clearly assess the repercussions of the strike (Israel in this case may rely on the spread of commandos and unmanned flights in the Kurdish enclaves in Iraq or Azerbaijan).
- Israel takes into consideration the possibility of well-timed, extreme missile strikes by Hezbollah and Syria on Israeli command and control bases, in order to obstruct the return of strike aircrafts from their mission, and make use of the available time through this strike to inflict maximum losses on the Israeli side.

Effects of the strike

Given the assumption that Israel will resort to pre-emptive military action against Iran's nuclear program without US approval, Israel's inability to launch long military operations so as not to have to face Iran's responses, and because Israel's aim is to obstruct Iran's program for a period of time during which it could make arrangements that would deprive Iran from acquiring nuclear capabilities, the cost/benefit analysis of the strike from the point of

view of the three major parties concerned may provide a vision of its impact, for now and in the future.

- Israel:** In return for a possible success in obstructing Iran's nuclear power programs for a period of time, the list of costs that Israel will face upon completion of the strike include:
 - US reactions that may include imposing specified sanctions on Israel directed towards imposing a new regional world order that would deprive Israel from many strategic advantages that it is currently enjoying (such as the monopoly on nuclear weapons), against the backdrop of direct US involvement in containing the consequences of a strike that was launched without taking into consideration US interests and roles.
 - Unilateral and international sanctions that might be imposed by foreign countries against the backdrop of its pre-emptive military action, human losses and material damage, which will lead to wider isolation of Israel.
 - The growing popular rejection of Israel in the Arab and Islamic worlds within the framework of regional binaries.
 - Growing hatred in Iran towards Israel and less calls by Iranian reformists for a more balance approach in the Arab - Israeli conflict.
 - Unfavorable political reactions from countries whose skies were used by the Israeli force to and from Iran to strike Iranian targets.
 - Israel may lose its persuasive role over the US and also over other international parties who are negotiating with the Iranians over its nuclear program.
 - The retreat in the role and influence of Arab countries seeking to develop normal relations with Israel, in favor of Arab countries which oppose these normal relations as well as in favor of Arab resistance movements.
 - Iran would regain its former regional acceptance by Turkey and by other Arab countries, which would lead to new solid positions against Israel.

B. The United States: All the practical US policy considerations relating to the obstruction of a nuclear program of a "sponsoring terrorism" country by another country, for a certain period of time – an act which would allow the US to take a deep breath and re-arrange its position in a troubled region of the world – seem positive from the perspective of the US national interests - despite the tensions that will rise in the relations with Israel. In this regard, it is important to note that the US became, and is still, involved in this region of the world without having

an exit strategy to preserve its security and interests. However, there are some costs to be paid by the US. These are:

- The fear of expected acts of retaliation by Iran in more than one place at a time when the US military is suffering from chronic stress for which it has had the time to find solutions for.
- Rising levels of hatred and rejection towards the US in the Arab and Islamic world based on doubts that the US was involved in the Israeli strike.
- Failed attempts in ending the US impasse in Afghanistan, and in reaching arrangements concerning the situation in Iraq, because of the moral and financial support the rebel movements in the two countries will receive from Iran and other Arab and Muslim countries.
- Diminishing solidarity between parties involved in international negotiations with Iran over its nuclear program. This is due to the fact that the rules governing negotiations will be breached because of the difficulty involved in assessing the results of the strike but also because Iran will have a more solid position. This position will arise from internal as well as regional support and Iran will acquire legitimacy as a country subjected to an attack with no international legitimacy.

C. **Iran:** The list of the costs that Iran will incur includes all of the financial damages and losses of human cadres working in its nuclear program. This will delay the timetable set for the completion of its program. In addition, the status of the military force will deteriorate as a result of its failure to prevent the strike, or as a result of large damage to its military force. On the other hand, the list of benefits depends on the nature of Iran's response to the strike. The list includes:

The gradual response approach: The Iranian regime understands the importance of time very well. It understands the importance of being the country that has been attacked in an illegitimate manner. It could take advantage of this by freezing its membership to the Nuclear Non-Proliferation Treaty (NNPT) but also in initiating the development of its nuclear weapon, and readiness to develop its capacities and those of its allies for retaliatory responses, while waiting for more suitable political conditions. In this case, the benefits include:

- Strengthening Iran's negotiating position against the US and the rest of the international parties,

thus enabling it to reach a soft deal that allows Iran to maintain its nuclear capabilities in accordance with its ambitions.

- Increased acceptability in the Arab and Islamic world based on growing public opinion support against the aggression on Iran.
- Strengthening the regional anti-Israel axis, which includes Iran and Syria, in addition to Arab resistance movements associated with them. In addition to the possibility of having Turkey join in with its regional and international weight. This will give Iran an important degree of strategic maturity.
- Re-building of its nuclear program supported by the lessons learnt from the strike, but also with vast popular support that gives this program national priority over other issues.

The immediate response approach

In this case, the Iranian regime will directly launch a series of retaliatory responses, which could take the form of two approaches:

- Limiting the response to Israel only by firing precisely calculated missile strikes so as to display the persistence of Iran's military capabilities. This will undermine Israel's morale much more than inflicting serious military impact (there is plenty of literature which talks about the use of Syria and Hezbollah's military capacities to open new fronts of war with Israel).
- Expanding the scope of response to include the US and western interests in the Gulf, especially targeting oil installations and supply lines in the Gulf and the Strait of Hormuz. This option will negatively affect Iran. It will deprive it from using options under the list of the gradual retaliation approach but may also lead to an expanded US military response that would go beyond military goals and target its economic and political institutions, in order to compel Iran to halt its military acts of retaliation and fully end its nuclear program.

Observers of Iran's responses since the creation of the Islamic revolutionary system throughout the critical crises faced by the regime during the last few years of the Iran-Iraq war (1980-1988) and the first two Gulf wars, and its high level of strategic rationality, would suggest that the regime in Teheran will adopt the option of a gradual response.

Obama and Iran: The Failure of Inadequate Diplomacy

Trita Parsi, Founder and president of the National Iranian American Council and an expert on US-Iranian relations, Iranian politics, and the balance of power in the Middle East

The conflict between the United States and the Islamic Republic of Iran has haunted the Middle East for more than three decades. Their inability to communicate and collaborate with each other has further complicated other existing problems in the region, including in Iraq and in Afghanistan. And Washington's long-standing policy of seeking to sanction and isolate Iran has in and of itself become a cause for instability due to Iran's efforts to make that policy costly for the US by actively augmenting Washington's regional challenges.

In these past three decades, both sides have rarely missed an opportunities to miss an opportunity. In the words of Ambassador John Limbert, one of the 52 American diplomats held hostage in Iran and Deputy Assistant Secretary of State under President Barack Obama, "[The Iranians] always zig when we zag." When one is ready to dialogue, circumstances in the other country disables it from coming to the table.

To make matters worse, opportunities for dialogue have been few and short-lived. And few if any of the efforts had an explicit and public strategic dimension. The outreach that has existed has tended to be periodic, tactical and covert.

In this regard, the outreach of the Obama administration to Iran breaks the pattern. Only twenty minutes into his term, President Obama reached out to Iran and the Muslim world, declaring in his inaugural address, "we will extend a hand if you are willing to unclench your fist."

The address was followed by an intense policy review led by the National Security Council. Its aim was to, within the new strategy towards Iran, identify the most effective ways to materialize the President's desire to find a new relationship with Iran.

The first steps included the creation of an atmosphere conducive to the success of negotiations. After 30 years of mutual demonization, expecting that diplomacy could be successful without changing the atmosphere was naïve. Furthermore, since trust and confidence between the two countries was in short supply, improving the atmosphere was also important as a trust building measure.

To signal the administration's sincerity, a considerable overhaul of the language used by the United States in addressing Iran was undertaken. Terms such as "carrots and sticks," which the Iranians had shown strong aversion towards and which was deemed culturally insensitive, quickly disappeared from administration's vocabulary.

Then, on March 20, President Obama spoke directly to the Iranian government and people on the occasion of the Iranian New Year, Newroz. Expressing his respect for the Iranian nation and civilization, while recognizing the Iranian government, Obama signalled a vision for a new, constructive relationship between the two countries in a video address.

"I would like to speak clearly to Iran's leaders," Obama said. "We have serious differences that have grown over time. My administration is now committed to diplomacy that addresses the full range of issues before us, and to pursuing constructive ties among the United States, Iran and the international community. This process will not be advanced by threats. We seek instead engagement that is honest and grounded in mutual respect."

Obama's historic message was received with enthusiasm among the Iranian population. The reaction from the government was different, however. Within 24 hours, Khamenei gave a 40-minute speech in the city of Mashhad that criticized the Obama administration's approach towards Iran while reciting a laundry list of Iranian grievances towards the US. But towards the end of the speech, an opening to the US was presented, but only after questioning America's intentions and Obama's control over the US's foreign policy.

"We do not have any record of the new U.S. president," Khamenei told the worshippers in Mashhad. "We are observing, watching and judging. If you change, we will also change our behavior. If you do not change, we will be the same nation as 30 years ago."

Suspicious in Iran in regards to America's ultimate goal with the diplomatic outreach – was it nothing more than a more sophisticated approach to defeat the Islamic Republic – as well as Iran's sense of vul-

nerability vis-à-vis the US (in spite of its bluster and aggressive rhetoric), prevented the Iranians from issuing a categorically positive response to Obama.

In addition, Iran had just entered its political season with the upcoming Presidential elections. The Obama administration was well aware that the political space it enjoyed in Washington for a diplomatic solution with Tehran would not last long. Pressures for a quick nuclear breakthrough or sanctions – particularly from Congress – was already visible by May 2009. Time wasn't on the administration's side, but beginning the engagement prior to the elections carried the risk of accidentally benefitting Mahmoud Ahmadinejad.

Ultimately, the decision was to continue to signal America's interest in diplomacy on a variety of issues without pressing further until after the elections. The expectation was that by June 13, 2009, the day after the Iranian Presidential elections, clarity would exist in Iran about the future leadership and direction of the country.

But once again, Iran proved its ability to bewilder America through its unpredictability.

In spite of a massive last-week surge in support for Ahmadinejad's primary opponent, former Prime Minister Mir Hossein Mousavi, a centrist who ran on a reformist ballot, Iranian TV announced only a few hours after the closing of the polls that the incumbent President had won a landslide victory of 62.5% of the votes.

Disbelief among Mousavi's millions of supporters quickly turned to anger. And the Ahmadinejad government had predicted a backlash against their voter fraud. Consequently, immediately after State TV announced Ahmadinejad a winner, intelligence forces sacked the head quarters of Mousavi and other opposition figures and arrested their first and second circle of leaders and officials in order prevent any challenge to the election result.

But public anger against the stolen election was larger than what the Ahmadinejad government seemed to have expected. In spite of the arrests, Mousavi remained defiant and refused to accept the official election result. And three days after the elections, Iran saw the largest street protests in Tehran since the mass demonstrations that brought in the Islamic Republic 31 years earlier. An estimated 3 million Iranians took to the streets with a very simple demand – "Count my vote!" But the demands of the protesters were met with violence and increased repression.

The fraudulent elections were followed by months of street protests, massive human rights violations and infighting within the Iranian government that came to threaten the very existence of the regime.

What supporters of the Islamic Republic hoped would be a popular affirmation of the regime's legitimacy and popular support through massive participation in the elections, quickly turned out to become the most significant political crisis of the Iranian theocracy – a crisis that critics of the Iranian theocracy argue defeated both the regime's Islamic and its Republican features. What was left of a regime that once could present a veneer of democratic features in an otherwise repressive system was now nothing more than a regime that ruled from the barrel of a gun. Ultimately, at least in the short run, brute force enabled the regime to restore its authority, but only at the expense of its legitimacy.

For Washington, the election crisis presented numerous challenges. On the one hand, images of mass demonstrations in Iran increased pressure at home for Obama to abandon engagement and come to the active aid of the Iranian opposition in order to achieve regime change in Iran. On the other hand, momentums for sanctions in Congress grew considerably as a result of the election fraud with the aim of short cutting diplomacy and replacing it with sanctions and confrontation. As a result, the already limited political space and time for diplomacy was further lessened, both due to a hardening of the political atmosphere in Washington and to the political paralysis that had overtaken Iran.

The Obama administration decided however to stay the course and keep the door open for diplomacy. Several factors contributed to this decision. First, the administration recognized that however desirable regime change in Iran might appear, the opposition *in Iran* – as opposed to Republican elements in Washington – did *not* welcome American aid. Second, even if a decision was made to actively assist the opposition, America's *ability* to accurately caliber the effects of its intervention in Iranian affairs left much to be desired. Obama recognized that a mere desire to help did not necessarily translate into an ability to help. Third, there was a lack of confidence that an opposition victory necessarily would lead to a different nuclear posture by Iran. And finally, the President's campaign promise to bring home US troops from Iraq and end the war in Afghanistan would be rendered significantly more difficult to fulfill unless some sort of a Modus Vivendi was found with Iran.

Still, as the Iranian government was at war with itself and its population, Obama had no choice but to patiently wait for the Iranian crisis to resolve itself. In the meantime, much needed time was lost.

The Israeli government and its supporters in Congress had pressured the Obama administration to limit diplomacy to maximum twelve weeks, with a deadline for a breakthrough by October 2009. Instead, as it so happened, diplomacy began in earnest on October 1, 2009 at a historic meeting in Geneva between the Permanent members of the United Nations Security Council, Germany and Iran.

On the table was a proposal to create confidence between the US and Iran while creating a win-win for the two sides. Iran's medical reactor in Tehran, the Tehran Research Reactor, was running out of fuel. Iran had sought to purchase fuel for the reactor on the open market, but the Obama administration had another idea in mind: Iran would provide 1,200kg of its stockpile Low Enriched Uranium (LEU) for further enrichment in Russia and the creation of fuel pads in France for Iran's reactor, to be delivered approximately a year after Iran gave up its LEU. That way, Iran would get fuel for its reactor while Iran's breakout capability – its ability to build a nuclear bomb using its LEU stockpile – would be pushed back approximately nine to twelve months.

The proposal, which had the full backing of the IAEA Director General Mohamed EL Baradei, was positively met by the Iranians at first. But as a second round of discussions began in Geneva three weeks later, major hurdles had emerged. As a confidence building measure, the proposal was remarkably one-sided in the Iranian view, unless the swap of LEU for fuel pads would be instantaneous. Furthermore, by dividing the delivery of the LEU into three shipments, the likelihood of any foul play by the Great powers would be reduced, the Iranians argued.

But Washington wasn't impressed. The non-proliferation value of the swap would be defeated unless the 1,200kg of LEU was shipped in one shipment. And perhaps more importantly, the creation of the political space and time that the administration desperately needed to elevate its diplomatic strategy to include issues beyond the nuclear dispute would not take place unless Iran's breakout capability was considerably pushed, which in turn required that Iran's LEU stockpile was significantly reduced at once, rather than in increments.

At the end of the talks, on October 22, it appeared Iran was on the brink of compromising. And the initial

signals from Tehran seemed positive with Ahmadinejad declaring victory. But ultimately, no clear response was given from Iran as infighting within the Iranian elite paralyzed the government.

Two months later, the Obama administration officially activated the pressure track. Rather than focusing on creating a diplomatic breakthrough, the Obama administration's attention was now turned towards quickly getting the strongest possible UN Security Council sanctions resolution, and then use that resolution to push other countries to adopt their unilateral sanctions beyond what the Security Council had required.

While it initially was expected that a resolution would be agreed upon sometime in February or March, stiff resistance from Russia, China as well as Turkey and Brazil who held rotating seats on the Council, threw back the administration's plans for months.

By mid-May, an agreement was found between the Permanent members of the Security Council on a new sanctions resolution. But before news of the agreement had been made public, months of Turkish and Brazilian diplomacy paid off – against all odds, Iran finally agreed to Washington's terms for the fuel swap – 1,200kg, in one shipment, with the fuel pads being delivered twelve months later. The twist was that the LEU would be held as an escrow in Turkey throughout this period, giving Iran the right to return it to its soil if the agreement was violated by the Western powers.

Rather than welcoming the deal, Washington's swiftly rejected it and announced the decision to impose sanctions in order to pressure "Iran to come to the table." 1,200kg of LEU was no longer sufficient, Washington argued, since Iran's stockpile of LEU had grown over the months. Furthermore, Iran had begun enriching uranium to 19.75%, which both Washington and several of the Permanent Council members condemned. The terms of October 2009 simply weren't acceptable in May 2010, the argument read.

What complicated matters was that a letter from President Obama to the Brazilian President Lula da Silva dated April 20, 2010 – only a four weeks before the Turkish Brazilian breakthrough – was leaked which showed that Obama had encouraged the Brazilians to get Iran to agree to shipping out exactly 1,200kg of LEU and not more.

"For us, Iran's agreement to transfer 1,200 kg of Iran's low enriched uranium (LEU) out of the country would build confidence and reduce regional tensions by substantially reducing Iran's LEU stockpile,"

Obama wrote Lula. "I want to underscore that this element is of fundamental importance for the United States."

Obama's failure to capitalize on the Brazilian-Turkish breakthrough showed that once the pressure track was activated, Washington's focus shifted exclusively towards sanctions and interest in diplomacy was more or less lost.

Furthermore, it showed how decreasing domestic political space could force the Obama administration to make decisions contrary to its stated goals, absent significant political will and perseverance. Pressure for punitive measures rather than diplomatic solutions had overwhelmed the administration.

Still, much indicates that the administration has not abandoned its declared objective of reaching a diplomatic breakthrough with Iran. But for such a breakthrough to occur, greater political will and space – and persistence with diplomacy – will be needed in both in Washington and in Tehran. Part of the reason Turkey and Brazil succeeded where the Permanent

members of the Security Council had failed may be attributed to the fact that between October 2009 and May 2010, Brazil and Turkey spent more time discussing matters with Iran than did the entire P5+1 combined.

Furthermore, the next to complete absence of trust between the US and Iran must be addressed head on. The utilization of mediators who can inject trust into this process may be needed. Washington has thus far shown little interest in and support for mediators. But the utilization of states such as Turkey, who are both trusted by the West and who enjoy a strong rapport with the Iranians, should be seriously considered.

Comments on the paper by Trita Parsi

Geopolitical dimensions of a US-Iranian agreement

by Al-Sharq Centre for Regional and Strategic Studies

In these short remarks, Al-Sharq Centre for Regional and Strategic Studies will attempt to briefly comment on Trita Parsi's paper and shed light on the US-Iranian drive for reaching agreements. The purpose is to broaden our understanding of the new logical basis underpinning the foundations of regional and international alliances in general, and the US-Iranian agreements in particular. Alliances are not built on ideological backgrounds as such, but rather on their ability to secure the national interests of the allied parties in a deep-reaching manner, and therefore transcend ideologies. In the case of the relationship between the US and Iran, it seems that US interests are at the heart of the problem rather than the ideologies of Teheran or Washington. In this regard, geography and oil play an important role in influencing US global interests. For some time, US-Iranian relations have been characterized by ups and downs. Not a single week would pass without signs of tension and/or reprieve - leaving the world puzzled and unable to understand the directions of relations between the two. This commentary will attempt to briefly answer two questions: why does Iran occupy

this very important status from a US perspective? What are the limitations of any agreement from an Iranian perspective?

To have its own interests preserved, and on behalf of other countries, Teheran tends to obstruct the implementation of the new Middle East project. This makes Iran of particular importance in US strategy. The US and the Iranian projects for the region confront each other but neither of the two has been able to neutralize the other, nor has either of them been able to neutralize the other's allies. Despite growing signs of tension between the two countries and the possibility that emerges from time to time of a military action against Iran's nuclear facilities, it is theoretically not possible to exclude that Teheran and Washington may reach mutual understandings which would allow Iran to play an important regional role, provided US interests in the region are secured. The two countries have distinct historical relations extending from 1953 - the year of the coup against the nationalist Iranian leader Muhammad Musaddeq - until 1979, the year of the Iranian revolution. During

this period, Iran's regional interests were, to a large extent, in harmony with those of the US. Relations between the two during this phase were a model for other international and regional power relations.

In the US global context, Iran processes three key strengths:

1. Iran has the capacity to block China's access to the energy resources in the Gulf

Iran occupies a central place amongst China's priorities due to a combination of geographical and geopolitical factors as well as its importance for securing its energy imports. The latter factor has been amongst Chinese national security priorities at least since 1993, when China became a net importer of energy resources. Iran is a large producer of energy resources, and, at the same time, a large market for Chinese products - a market China needs to be able to sustain the high rates of development that form the basis of China's current economic model. The alliance with Iran facilitates China's mission in entering the Middle East with its important status in global strategies and also ends China's isolation from this region of the world. From the Chinese national security perspective, Iran possesses many unique advantages. Its population constitutes only 1% of the world's population, but it controls 10% of the world's proven oil reserves and is the fourth-largest oil producer in the world. In addition, Iran possesses 16% of proven natural gas reserves worldwide, which makes it the second largest gas producer in the world after Russia. Because Iran produces 6.2 million barrels of oil per day, and consumes only 3.6 million barrels, the remaining 2.6 million are exported to China, whose emerging economy is in much need of it. With its oil reserves reaching 130 billion barrels, Iran is expected to maintain its current level of production for a period of 40 years. Given that its natural gas reserves amount to 27 trillion cubic meters, Iran is also capable of producing 500 billion cubic meters of natural gas annually for a period of fifty-five years.

2. Iran forms a geographical barrier preventing Russia from access to open water.

Since the beginning of the rule of former President Vladimir Putin in 2000, Russia has sought to create strategic allies in various buffer zones, or «resistance walls» against American influence in the world. Within this scenario, China in East Asia and India in South Asia are currently the most important allies of

Moscow in the world. Similarly, Iran occupies an important position as Moscow's sole partner in the Middle East, the Gulf and Central Asia. Russian geopolitical perspectives are basically founded on the conflict it deems inevitable between land and marine supremacy. Throughout the nineteenth century until the first quarter of the twentieth century, Czarist Russia held army supremacy, while Great Britain held naval supremacy. After the end of World War II, the US established itself as the leader of the West in the political sense, and the supreme marine force in the geopolitical sense. As for Russia, with its army supremacy, it cloaked itself with the mantle of the Soviet Union to confront naval forces led by the US. As such, the two geopolitical poles entered into the global struggle of the twentieth century. Within Russia's geopolitical views the demise of their army supremacy is considered a mere temporary phenomenon. It considers that Russia will re-initiate its continental mission, taking into account all geopolitical factors that were overlooked by Tsarist Russia and the former Soviet Union, and achieve victory in the end. In order to establish the founding concepts of new Russian geopolitics on the ground, Russia has to create new geopolitical axes: the western Moscow – Berlin axis, the eastern Moscow – Tokyo axis, and the southern Moscow – Teheran axis. This latter axis gives Russia (the biggest country in terms of its geographical area) an outlet to the open waters across the Gulf. This is a very important geopolitical objective, which Moscow has been pursuing for centuries but has been unable to achieve, either through the Indian Ocean, the Bosphorus, the Dardanelles Straits and not even through the Strait of Gibraltar.

3. Connecting the oil-rich Caspian Sea which is closed by the Gulf and open through the Iranian territories

This will thus ease the integration of oil wells geographically under the US control in a way that could pressure consumers in Europe, China and Japan in an unprecedented way.

Limitations on reaching an agreement from an Iranian perspective

The presumed political agreement between the US and Iran is based on a US approval of a leading regional role for Iran in return for Iranian compromises on a regional level, an important change in Iran's foreign policy with regard to its hostility towards Israel and acceptance of the leading position of the

US in the world. In fact, Iran does not need the help of Washington to extend its influence in the region. It has already done so through its regional alliances under heavy US military presence and without US approval. However, neither Iran, nor any other regional power in any geographic area, can play a regional role recognized internationally without the green light from the US. It is true that Iran's excellent regional cards enable it to block US projects. Teheran illustrates this on a daily basis through its use of a remarkable mixture of investment in US confusion and zigzag methods and shrewd strategies in the geographic area stretching from western Iran to the occupied Palestinian territories. However, in spite of all this power, decision-makers in Teheran, who always aspire to play a regional role, are aware more than anyone else of the limitations imposed on them by global powers that impede Iran's historic aspirations and prevent them from reaching above a certain ceiling.

Perhaps Iran's excellent regional cards are enough to hinder US aspirations in the region but they are not sufficient to secure a regional role without reaching an understanding with Washington. Moreover, its regional influence will not be translated into recognized regional interests without reaching a broad understanding with Washington. It is believed that the most important Iranian conditions for a settlement with the US are the following:

1. Recognition of the legitimacy of the existing Iranian regime (an essential Iranian demand).
2. An end to all forms of U.S. sanctions and hostile actions against Iran.
3. The release of Iranian assets frozen in US banks.
4. Respect for "Iranian national interests" in Iraq (an influential role).
5. Respect for Iran's right to unrestricted access to nuclear technology until it possesses full peaceful nuclear technology (similar to the Japanese model).
6. Recognition of Iran's legitimate security interests in the region (the recognition of its regional role).
7. Gradual negotiations until both sides reach an agreement acceptable to the two parties (immediate normalization of relations between Washington and Tehran).

The Israeli component of the US-Iranian agreement

Many factors have played a role in delaying a US-Iranian agreement. Among these reasons is the Israeli component. Israel was keen to hinder any

relations between Tehran and Washington fearing that its own interests will be affected. Thus, it could be seen that regional competition between Iran and Israel has weakened the US politics in the ME. For its part, Iran has countermined the efforts of reaching resolutions between the Arab countries and Israel because this will lead to a new ME under an Israeli leadership with marginalized role of Tehran and its interests in the region. Similarly, Israel has attempted to weaken all attempts for reaching a US-Iranian understanding, and these attempts have never stopped, with the interference of European and Asian parties, because Tel Aviv sees in this a threat to its position in the region. The Israeli hostility to an Iranian role in the region has become sharper with Iraq's defeat in the Second Gulf War due to the prevailing imbalances in favor of Iran at that time. Thus, Tel Aviv has attempted to broaden the concept of the "Encirclement Theory" created by Ben Gurion which stresses the importance of a strategic Israeli cooperation with countries surrounding the Arab world such as Iran, Turkey and Ethiopia. According to the new expansion of the concept India has become the new encirclement country instead of Iran.

Iran has been keen to separate between the Iranian-US relations on the one hand and the Iranian-Israeli competition on the other. Close geopolitical interests between Iran and the US seems clear but also the regional competition between Tehran and Tel-Aviv is clear too. Under the darkest conditions Tehran has been able to competently use various secret channels of dialogue with Washington to influence trends calling for escalating confrontation by some parties from within the US administration. One could almost say – with some confidence – that the major obstacle to a political agreement between Washington and Tehran is Tel Aviv and the US military industry. The party who support reaching a settlement with Tehran is a segment of the US oil lobby group who is always keen to control the Iranian oil and to have a more easy transport of Caspian Sea oil. In short, the settlement with Iran is more linked to internal US factors and the balance of power between the different interest groups. It is not only linked to the Iranian party who is seeking a settlement that ensures its regional leadership of the region.

This does not imply that an understanding between Iran and the US is inevitable or that it will happen in a short period of time. It means that such an understanding has a deep and significant impact on US global interests, and therefore is one of the scenarios

put forward which cannot be excluded based on ideological factors. Many other factors will play a role in Washington's decisions as well, such as the internal US balance of power, the immunity of the Iranian regime against international pressure, regional factors relating to Washington's alliances with various regional powers, and most importantly, the new shape of the region's map should a US-Iranian agreement be concluded.

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Al Sharq Center for Regional and Strategic Studies (Cairo, Egypt) and the Rosa Luxemburg Foundation (Palestine Office) cooperate in the promotion of local viewpoints and concepts for the issues within the Arab and Islamic worlds, and in the promotion of taking them into account, internationally.

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