

# **Preparing for a Long-term Competition with Iran**

**By**

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## Overview

When it comes to Iran's nuclear program, most U.S. and allied officials are in one or another state of denial. All insist it is critical to prevent Tehran from acquiring nuclear weapons. Yet, few understand just how late it is to attempt this. Iran is now no more than 12 to 48 months from acquiring a nuclear bomb. It lacks for nothing technologically or materially to produce it, and it seems dead set on securing an option to do so. As for the most popular policy options – to bomb or bribe Iran – too few analysts and officials are willing to admit publicly how self-defeating these courses of action might be. As for sanctioning Iran, this may be desirable but will be difficult to implement without the support of all of the world's major nations. They, in turn, are unlikely to be persuaded to follow the lead of the U.S. and its key allies unless they are convinced that the U.S. is willing and able with its friends to act in a meaningful way to limit Iran's freedom of action.

This report is intended to highlight the minimal requirements the U.S. and its key allies must meet in order to do this.<sup>1</sup> It makes five recommendations designed to reduce the potential harm Iran might otherwise do or encourage once it gains nuclear weapons or the ability to have them in a matter of days. These suggestions are intended to prepare the way for a long-term competition (ten years or more) with Iran that should reduce the need to start a hot war with Tehran while increasing the likelihood of the current government giving way to a far less hostile one.

Although all of these recommendations are far less daunting to implement than waging an all out hot war against Iran, none will be easy. To appreciate why we should be willing to attempt them, one need only consider what threats are likely to increase if we take no action as Iran becomes increasingly nuclear ready:

- ***Even More Nuclear Proliferation.*** Iran's claims that it has a legal right to make nuclear fuel and to develop its nuclear capabilities under the Nuclear Nonproliferation Treaty (NPT) will, if unchallenged, encourage its neighbors to hedge their security bets by developing nuclear options of their own. Some (e.g., Egypt, Turkey, Algeria) may do this by emulating Iran's example of insisting they have a legal right to come within days of having nuclear weapons. Others (e.g., Israel) may do so by overtly declaring possession and others still (e.g., Saudi Arabia) may do so by importing nuclear weapons from others (e.g., from Pakistan or China). Such proliferation, in turn, will likely undermine nuclear nonproliferation restraints internationally; strain American relations with most of its key friends in the Middle East; and increase the long-term prospects for nuclear war.
- ***Dramatically Higher Oil Prices.*** A nuclear-ready Iran will be emboldened to manipulate oil prices upward. Iran has already demanded chairmanship of OPEC. It also has threatened to

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1. Much of this material for this report is drawn from an earlier study published last fall, Henry Sokolski and Patrick Clawson editors, *Getting Ready for a Nuclear-ready Iran* (Carlisle, PA: Institute for Strategic Studies, 2005) available at <http://www.npec-web.org/Frameset.asp?PageType=Books&BookID=1757658041>.

seal the Straits of Hormuz. It might also threaten energy commerce by mining oil transit points as it did in the 1980s or by using terrorist proxies, as it has in the past, to threaten the destruction of Saudi and other Gulf state oil facilities and pipelines.

- ***Increased Terrorism Geared to Diminish U.S. Influence.*** With a nuclear weapons option acting as a deterrent to U.S. and allied action against it, Iran would likely feel even more confident to lend support to terrorists operating against Israel, Iraq, Libya, Saudi Arabia, Europe and the U.S. The aim of such support would be to reduce American support for U.S. involvement in the Middle East, for Israel, to deter actions against Iran generally and to elevate Iran as an equal to the U.S. and its allies on all matters relating to Iran's neighborhood.

All of these threats are serious. If realized, they would undermine U.S. and allied efforts to foster moderate rule in much of the Middle East and set into play a series of international competitions that could ultimately result in major wars. Most U.S. and allied policy makers understand this and are now preoccupied with trying to prevent Iran from ever acquiring a nuclear weapons option. As Iran gets closer to securing this option, though, two questionable courses of action -- bombing or bribing Iran -- have become increasingly popular. Neither, however, may prevent Iran from acquiring nuclear weapons and could make matters worse.

Certainly, targeting Iran's nuclear facilities risks leaving other covert facilities and Iran's nuclear cadre of technicians untouched. More important, any overt military attack would give Tehran a casus belli either to withdraw from the Nuclear Nonproliferation Treaty (NPT) or to rally Islamic Jihadists to wage war against the U.S. and its allies more directly. Whatever might be gained in technically delaying Iran's completion of having a bomb option, then, would have to be weighed against what might be lost in Washington's long-term effort to encourage more moderate Islamic rule in Iran and the Middle East; to synchronize allied policies against nuclear proliferation; and to deflate Iran's rhetorical demonstrations against U.S. and allied hostility. Meanwhile, merely bluffing an attack against Iran -- sometimes urged as a way around these difficulties -- would only aggravate matters: The bluff would eventually be exposed and so only embolden Iran and weaken U.S. and allied credibility further.

As for negotiating directly with Tehran to limit its declared nuclear program -- an approach preferred by most of America's European allies and by Russia and China -- this too seems self-defeating. First, any deal the Iranian regime would agree to would only validate that the NPT legally allows its members to acquire all the capabilities Iran has mastered. Second, it would foster the view internationally that the only risk in violating required NPT inspections would be to be caught and then bribed to limit only those activities the inspectors managed to discover.

These downsides all pertain to the recent proposals by Russia to enrich uranium for Iran in Russia. On the one hand, this proposal explicitly recognizes Iran's right to make nuclear fuel and grandfathers Iran's operation of Bushier. On the other hand, it is unclear to what extent, if any, this proposal will result in a permanent suspension of nuclear fuel making activities in Iran.

Rather than trying merely to eliminate Iran's ability to develop a nuclear option (something that may no longer be possible), then, it also would be useful to devise ways to curb the harmful

things Iran might do or encourage as it secures such an option. Taking this approach has the advantage of increasing the credibility of current efforts to prevent Iran from going nuclear and needed to be pursued, in any case, if prevention failed. NPEC has held workshops that have made a number of recommendations in this regard. The most important of these include:

- 1. Increasing the costs for Iran and its neighbors to leave or infringe the NPT by establishing country-neutral rules against violators withdrawing from the treaty and against NPT violators more generally.*
- 2. Reducing Persian Gulf oil and gas production and distribution system vulnerabilities to possible terrorist disruptions by building additional back-up capabilities in Saudi Arabia.*
- 3. Enforcing existing international conventions to increase the size and scope of current multilateral naval and air interdictions in the Gulf.*
- 4. Limiting Iran's freedom to threaten oil and gas shipping by proposing a Montreux-like convention to demilitarize the Straits of Hormuz and an agreement to limit possible incidents at sea.*
- 5. Isolating Iran as a regional producer of fissile material and discrediting Iran's model of nuclear misbehaviors by encouraging Israel to take the first steps to mothball such capabilities and urging Algeria and Egypt to follow suit.*

Would taking these steps eliminate the Iranian nuclear threat? No. Given Iran's extensive nuclear know-how and capabilities, it is unlikely that the U.S. or its allies can deny Iran the technical ability to covertly make nuclear weapons. Yet, assuming adoption of the steps described, it would be far riskier diplomatically, economically, and militarily for Iran to acquire nuclear weapons than is currently the case. More important, taking these steps would leverage the comparative strengths of the U.S. and its friends in a manner that would not only undermine Iran's efforts to divide the U.S. from its allies and to deter them from acting against Iranian misbehavior, but ultimately pressure the current regime to give way to one that is less hostile.. It would not only discourage Iran's neighbors from following Iran's nuclear example, but force a needed reconsideration of what nuclear activities ought to be protected under the NPT (including those Iran has used to justify completing own nuclear breakout capabilities). Finally, it would map a non-nuclear future for the Middle East that might be eventually realized (assuming a change of heart by Iran and others) through verifiable deeds rather than on precise intelligence (which is all too elusive).

### **Background**

When U.S. and allied officials speak of Iran's nuclear weapons program, imperatives are used freely: Iran, we are told, *must* not be allowed to acquire nuclear weapons; the U.S. and its allies *cannot tolerate* Iran going nuclear; a nuclear-armed Tehran is *unthinkable*.

Yet, the truth is that Iran soon can get a bomb option. All Iranian engineers need is a bit more time -- one to four years at most. No other major gaps remain: Iran has the requisite equipment

to make the weapons fuel, the know-how to assemble the bombs; and the missile and naval systems necessary to deliver them beyond its borders. As noted in the NPEC's earlier report (see *Checking Iran's Nuclear Ambitions*) no scheme, including "just in time" delivery fresh fuel and removal of spent fuel from Bushier, will provide much protection against Iran diverting its peaceful nuclear program to compliment its covert efforts to make bombs. Other schemes, such as Russia's proposal to provide Iran with enrichment services, have been hamstrung on Iran's demand to be allowed to "research" enrichment in Iran.<sup>2</sup>

As for eliminating Iran's nuclear capabilities militarily, the U.S. and Israel lack sufficient targeting intelligence to do more than set the program back in any overt bombing run. In fact, Iran has long had considerable success in concealing its nuclear activities from U.S. intelligence analysts and International Atomic Energy Agency (IAEA) inspectors (the latter recently warned against assuming the IAEA could find all of Iran's illicit uranium enrichment activities). As it is, Iran could have already hidden all it needs to reconstitute a bomb program assuming its known declared nuclear plants were hit. More important, the key to Iran's nuclear efforts – its many highly trained nuclear engineers – are likely to survive most military attacks.

Compounding these difficulties is what Iran might do in response to such a strike. After being attacked, Tehran could declare that it must acquire nuclear weapons as a matter of self-defense, withdraw from the NPT, and accelerate its nuclear endeavors. This would increase pressure on Israel (which has long insisted that it will not be "second" in possessing nuclear arms in the Middle East) to confirm its possession of nuclear weapons publicly and, thus set off a chain of possible nuclear policy reactions in Cairo, Damascus, Riyadh, Algiers, and Ankara.

Other possible scenarios are equally worrisome. After being attacked, Iran might appeal to the IAEA, the Arab League, the Non-Aligned Movement, the European Union, and the United Nations to make Iran's nuclear program whole again and, again, use this "peaceful" program to energize and serve as a cover for its covert nuclear weapon activities. This would again put the entire neighborhood on edge, debase the NPT, and set a clear example for all of Iran's neighbors to follow on how to get a weapons option. In addition, as more of Iran's neighbors secured their own nuclear options, Washington's influence over its friends in the region (e.g., Egypt and Saudi Arabia) would likely decline, as well as Washington's ability to protect NATO and non-NATO allies in the region (e.g., Israel and Turkey).

Finally, Iran might respond to an overt military attack by striking back covertly against the U.S., Saudi Arabia, Iraq, or Israel through the support of non-Iranian terrorist organizations.

The ramifications of any of these responses are difficult to minimize.

It should be noted that Iran could take any and all of these actions *without* actually ever testing, sharing, or deploying, nuclear weapons. Certainly, as long as most nations buy Tehran's

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2. For a discussion of how best to reduce the risks associated with power reactors see NPEC's detailed technical analysis Gilinsky et al., *A Fresh Examination of the Proliferation Dangers of Light Water Reactors*, at <http://www.npec-web.org/projects/NPECLWRREPORTFINALII10-22-2004.pdf>,

argument that the NPT's guarantee to "peaceful" nuclear energy gives it and all other members the right to develop everything needed to come within a screwdriver's turn of a nuclear arsenal, Iran might be best served by getting to this point and going no further. Indeed, by showing such restraint, Iran's mullahs could avoid domestic and international controversies that might otherwise undermine their political standing, along with possible additional economic sanctions, and the additional costs of fielding a survivable nuclear force. Meanwhile, as long as Iran could acquire nuclear weapons quickly, Tehran could intimidate others as effectively as if it already had such systems deployed.

None of this, of course, argues for reducing pressures on Iran to curb its nuclear activities. The U.S. and its allies should continue to do all they can to head Iran off including efforts to throttle Iran's "civilian" program. Indeed, if all Washington and its allies do is pressure Iran not to openly acquire nuclear arms, without pressuring Iran to give up its "civilian" nuclear efforts, Iran will easily best them by using these civilian facilities to develop a quick nuclear breakout capability, claiming its entire nuclear program is legal under the NPT, and wielding it diplomatically much as it would if it actually had nuclear weapons.

What should we expect if, in the next 12 to 48 months, Iran secures such a breakout option? If the U.S. and its allies do no more than they have already, we can expect two dangerous developments.

First, many of its neighbors will do their best to follow Iran's "peaceful" example. Egypt, Algeria, Syria, Turkey, and Saudi Arabia will all claim that they too need to pursue nuclear research and development to the point of having nuclear weapons options and, as a further slap in Washington's face (and Tel Aviv's), will point to Iran's "peaceful" nuclear program and Israel's undeclared nuclear weapons arsenal to help justify their own "civil" nuclear activities. Second, an ever more nuclear-ready Iran will try to lead the revolutionary Islamic vanguard throughout the Islamic world by becoming the main support for terrorist organizations (e.g., by supporting Hezbollah and Hamas) aimed against the U.S. and its key regional ally, Israel; its key energy source, Saudi Arabia; and its prospective democratic ally, Iraq .

Early in 2004, senior Saudi officials announced they were studying the possibility of acquiring or "leasing" nuclear weapons from China or Pakistan (this would be legal under the NPT so long as the weapons were kept under Chinese or Pakistani "control"). Egypt earlier announced its plans to develop a large nuclear desalinization plant and is reported to have recently received sensitive nuclear technology from Libya. Last year, at the NPT Review Conference it threatened to leave the treaty if Israel did not voluntarily disarm. Syria, meanwhile, is now interested in uranium enrichment. Some intelligence sources believe Damascus may have experimented with centrifuges. And Algeria is in the midst of upgrading its second large research reactor facility, which is still ringed with air defense units.

If these states continue to pursue their nuclear dreams (spurred on by Iran's example), could Iraq, which still has a considerable number of nuclear scientists and engineers, be expected to stand idly by? And what of Turkey, whose private sector was recently revealed to have been part of the A.Q. Khan network? Will nuclear agitation to its south and its repeated rejection from the European Union cause Turkey to reconsider its non-nuclear status? Most of these nations are

now friends of the United States. Efforts on their part to acquire a bomb under the guise of developing “peaceful” nuclear energy (with Latin American, Asian, European, Russian or Chinese help), though, will only serve to strain their relations with Washington.

With such regional nuclear enthusiasms will come increased diplomatic pressure on Israel, an undeclared nuclear weapons state and America’s closest Middle Eastern ally. In July of 2004, the IAEA’s Director General and the major states within the Middle East urged Israel to give up its nuclear arms in proposed regional arms control negotiations. Israel’s understandable reluctance to be dragged into such talks or to admit to having nuclear arms now will not end these pressures. If Israel has a secret nuclear arsenal, Arabs argue, why not balance it with an Iranian, Saudi, Egyptian, or other covert nuclear weapons programs? How fair is it for the U.S. and Europe to demand that Middle Eastern Muslim states restrain their own “peaceful” nuclear ambitions if Israel itself already has the bomb and is publicly arguing that it will not be “second” to introduce nuclear weapons into the region? Wouldn’t it make more sense to force Israel to admit it has nuclear weapons and then to demand that it give them up in a regional arms control negotiations effort (even though once Israel admits it has weapons, many of its Muslim neighbors, who still don’t recognize Israel, are only likely to then use Israel’s admission to justify getting nuclear weapons themselves)?

This then brings us to the second likely result of Iran becoming ever more nuclear-ready: A more confident Iran, more willing to sponsor terrorist organizations especially those opposed to Israel and the current government in Iraq. Iran has already been seen to be increasing its support to groups like Hezbollah in Iraq and Lebanon and Hamas in Palestine who want to liberate their lands from American and Israeli “occupation”. Increasing this aid certainly would help Iran take the lead in the Islamic crusade to rid the region of Zionist – American forces and thereby become worthy of tribute and consideration by other Islamic states. Also, bolstering such terrorist activity would help Tehran deter Israel and the U.S. from striking it militarily.

Beyond this, Iran is likely to increase its assistance to groups willing to risk striking the U.S. Media reports in August of 2004 claimed that Iranian diplomats assigned to UN headquarters in New York were to survey 29 American targets to help terrorist organizations interested in carrying out terrorist strikes in the U.S. The aim here appears, once again, to deter the U.S. from hitting Iran and to divide U.S. opinion about the merits of backing Israel and any other anti-Iranian measure or group.

A nuclear-ready Iran is also likely step up its terrorist activities against Iraq, Libya, and Saudi Arabia. Iran already is reported to have several thousand intelligence agents operating in Shia regions of Iraq and is actively contributing to community associations there. Meanwhile, there are nearly a dozen terrorist organizations operating within Iraq now employing Hezbollah in their groups’ names. As in the case of earlier Iranian penetration of Lebanon, these efforts will enable Iran to scout, recruit, and control terrorist operatives. The aim here will be to pressure the U.S. and its allies to remove their military forces from Iraq and, thereby allow a government more sympathetic to Iran to emerge in Iraq.

As for Libya, Iran’s Mullahs are concerned about how much Qaddafi might tell the U.S. and the IAEA about what illicit nuclear technology Iran might have gained from Libya, Pakistan and

others. Recent, unconfirmed reports indicate Iran has been arming the Libyan Combat Islamic Group – an organization Qaddafi expelled from Libya in the late 1990s and that the U.S. expelled from Afghanistan in 2001 -- at camps in southern Iran. If true, these reports suggest how Iran might try to leverage Qaddafi's behavior.

Iran also has a history of supporting terrorist activity in Saudi Arabia. Although only roughly 10 percent of Saudi Arabia's population is Shia, this sect constitutes an overwhelming majority of the population living in Saudi Arabia's key northern oil-producing region. Any terrorist action anywhere in Saudi Arabia, though, tends to raise questions about the general viability of the Saudi regime and the security of the world's largest oil reserves. Historically, after a major terrorist attack in Saudi Arabia, markets worry, the price of oil increases, and Iran's own oil revenues, in turn, surge upward. The reason why is simple: Saudi Arabia has the world's largest reserve oil production capacity (still several million barrels a day).

Damage Saudi Arabia's ability to ramp up production or to export what it can produce (or merely raise doubts about the current Saudi government's continued ability to protect these capabilities) and you effectively cripple the world's capacity to meet increased demand for oil internationally. Terrorism in Saudi Arabia, in short, provides Iran with a quick, effective way to manipulate international oil prices. This cannot help but garner Iran greater leverage in getting OPEC to support its long-ignored calls to increase oil prices. It also will help Iran garner increased European and Asian regard for its calls for more financial support, investment, and high technology. Iranian progress on these fronts, is likely to be fortified by Tehran's offers of oil development rights to European states, Russia, India, and China. This, in turn, will help keep the current regime in power longer (since it thrives on corruption and central planning, both of which require ever larger amounts of cash), further reduce U.S. influence in the region and make action by the UN Security Council against Tehran far less likely.

Yet another way Iran could drive up oil prices is by threatening the free passage of oil through the Straits of Hormuz or by engaging in naval mining in the Gulf (by its surface fleet of fast boats or with its smaller submarines) and other key locations (as it did in the late 1980s). Iran has already deployed anti-shipping missiles at Qeshm, Abu Musa Island and on Sirri Island, all of which can target shipping that passes through the Straits of Hormuz. It has also occupied and fortified three islands inside the shipping lanes of the Strait of Hormuz – Abu Musa, The Greater Tunbs and the Lesser Tunbs. Given that one-fifth of the world's entire oil demand flows through the Straits (as well as roughly a quarter of America's supply of oil) and that no other nation has fortified its shores near Hormuz, an Iranian threat to disrupt commerce there would have to be taken seriously by commercial concerns (e.g., insurers and commodity markets) and other nations. Most recently, Iran explicitly threatened to seal the Straits of Hormuz if the UN Security Council should act to sanction its nuclear behavior.

Iran itself, of course, has no other way to export its own oil and gas but through the Straits. Nearly half of its government operations are funded from these energy exports. Also, roughly 40 percent of its domestic gasoline is refined in India. Iran has hedged against possible closure of the straits, though, by building its cash reserve to allow it to continue government operations for at least a year. Closure or interference with traffic through the Straits, meanwhile, would have an even more dramatic effect on America's economy and that of its close allies. According to one

estimate, disruption of energy flows through the Straits for 90 days could lower U.S. gross domestic product by 4 to 5 percent and increase unemployment to 7 percent. The political fallout from such economic setbacks could be severe.

### **Recommendations**

What are the chances of Iran of credibly making these threats? If the U.S. and its friends do little more than they already have, the odds are high enough to be worrisome.

What more should the U.S. and its friends do? Ultimately, nothing less than creating moderate self-government in Iraq, Iran, and other states in the region will bring lasting peace and nonproliferation. This, however, will take time. Meanwhile, the U.S. and its friends must do much more than they are currently to frustrate Iran's efforts to divide the U.S., Israel, and Europe from one another and from other friends in the Middle East and Asia and to defeat Tehran's efforts to use its nuclear capabilities to deter others from taking firm action against Iranian misbehavior.

This is a tall order, one that will require new efforts to:

- Significantly increase the diplomatic costs to Iran of ever deploying nuclear weapons as well as to any of its neighbors that might following Iran's model of "peaceful" nuclear activity, by getting the international community to insist on a tougher view of the NPT;
- Reduce the vulnerability of Middle Eastern oil and gas production and distribution systems to Iranian-backed terrorist attacks that could significantly increase energy prices.
- Increase U.S. and allied air and naval presence in and near the Gulf to assure enforcement of existing and possible future international interdiction requirements
- Force Iran to choose between backing free passage of energy commerce in and out of the Gulf or becoming an outlaw in the eyes not only the U.S., but of Europe and Asia as well.
- Strengthen U.S. and allied support of Israel by cooperating on a positive Middle Eastern nuclear restraint agenda that Tel Aviv could pace by deeds (rather than negotiation) and highlight the problem of large nuclear facilities located in Iran and the Middle East more generally.

How might these goals be achieved? First, by exploiting or leveraging:

- The desire of all nations to strengthen the NPT and increase its influence.
- Oil producers' and related insurers' anxieties to increase the security of Saudi oil production and distribution systems to possible terrorist attacks.
- Iranian, Gulf Cooperation Council and international support for enforcing existing international conventions to interdict illicit drug trade, slave trade, transit of international terrorists, and smuggling.

- Tehran's desire to secure multinational guarantees to enhance Iran's security.
- Israel's clear regional lead in advanced nuclear capabilities.

In specific, these levers could be exploited by taking the following steps:

1. ***Establish country-neutral rules for IAEA and NPT violators.*** The US and its allies should build on France's recent proposals that the UNSC adopt a set of country-neutral rules for countries that the IAEA Board of Governors has found to be in noncompliance with their IAEA safeguards obligations or the NPT. Such resolutions, which both the IAEA Board of Governors and the UNSC could consider, might stipulate that:
  - a. Countries that the IAEA cannot find to be in full compliance with their IAEA safeguards obligations cannot receive nuclear assistance or exports from any other country until the IAEA Board of Governors by unanimous accord gives them a clean bill of health.
  - b. Countries that the IAEA had found to be in noncompliance should be forced to accept more intrusive inspections and be banned from making nuclear fuel for a period of at least a decade.
  - c. In accordance with international law, countries that withdraw from the NPT without first addressing their previous violations remain responsible for violations committed while still a party to the Treaty.
  - d. A state that withdraws from the NPT must return or dismantle all nuclear facilities, material, equipment and technologies it has acquired from any third country before its withdrawal.
  - e. Any state that withdraws without first returning the nuclear assets it has acquired from abroad or that is found in violation of the NPT should be considered to be a threat to international security, i.e., an international outlaw, that can be subjected to international sanctions.

The idea in passing these resolutions would be to make it clear to both Iran and its neighbors that violating the NPT will have consequences for their nuclear programs. Diplomatically, this will help the U.S. and its allies identify and treat Iran and North Korea in a country-neutral manner, not as an equal in negotiations, but as legally branded violators of the NPT.

In Iran's case, action can and should be taken outside of the UN and the IAEA. In specific, the U.S. and other like-minded nations should encourage the European Union, and short of this, the governments of Italy, Germany, and France, to threaten to sanction Iran's nuclear misbehavior by withholding their exports of machinery and materials to Iran, which comprise the vast majority of all Iranian imports. In fact, the continued flow of machine tool and material exports from these three nations are critical to the maintenance of Iran's economy. Iran also relies heavily on outside refiners to refine

Iranian oil for domestic use. Other economic leverage points should be identified and weighed for possible selective sanctions application.

2. **Reduce the vulnerability of Saudi oil production and distribution system by building additional capacity.** In a study conducted for NPEC by energy researchers at Rice University, two key vulnerabilities in the Gulf oil production and distribution system in Saudi Arabia were identified. The first is an Iranian threat, which Iranian officials actually made in February of 2006, to choke off energy supplies to the U.S. and its allies by closing the Straits. Such a threat, Rice analysts argue, could be significantly reduced by upgrading and complimenting the trans-Saudi Arabian Petroline, which would allow 11 million barrels a day to be shipped to ports on the Red Sea. This could be done with technical upgrades to the trans-Saudi Arabian line and by bringing the Iraqi-Saudi pipeline (Ipsa-2) back on line (see map below).



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To do the later would require an agreement with Baghdad. The cost of the entire project is estimated to cost \$600 million. Assuming the worse – a complete closure of the Straits of Hormuz – this bypass system is estimated to be capable of reducing the economic impact to the U.S. to a loss of only 1 percent of gross domestic product. This figure could be reduced even further if additional pipelines were built from Abu Dhabi to ports in Oman and a plant was constructed in one of the GCC states to manufacture oil anti-drag agents. These could be introduced into existing pipelines to increase capacity by as much as 65 percent. There are a number of ways in which these projects might be financed. Given the high price of oil and the large revenue streams high prices now generate, the best time to finance such construction is today. The second vulnerability that the Rice researchers identified is the major oil processing facilities located at Abqaiq. In February of 2006, Al Qaeda terrorists made a failed attempted to truck bomb a portion of this facility. Were terrorists to knockout these facilities (most probably through an air attack), the loss could be as high as several millions of barrels a day of production. Work needs to be done to detail how best to reduce this vulnerability but, again, the time to address these concerns (and finance their fixes) is now, when oil prices are high. In the longer run, of course, the steady rise in energy prices are likely to produce both increased conservation and new alternative sources of energy that will reduce U.S. and allied reliance on Gulf oil and gas.

3. ***Increase U.S. and allied air and naval presence in and near the Gulf to assure enforcement of existing and possible future international interdiction requirements.*** One of Iran's strategic objectives that the U.S. and its allies should deny Tehran is to force the U.S. and its coalition partners out of the Persian Gulf region. Iran is counting on a withdrawal of U.S. forces from Iraq to be the watershed for such a withdrawal. Instead of scaling down their presence in the Gulf, though, the U.S. and its key allies can and should build up their naval and air presence to enforce existing international conventions covered under the UN Law of the Sea against the trade in slaves, drugs, international terrorists, and smuggling. Iran, itself backs the enforcement of such conventions. More important, the U.S. and a long list of allied nations have backed the naval enforcement of such conventions for some time. Task Forces 150 and 151, for example, have been operating in and near the Gulf since 9/11 and have boarded 20 more vessels and queried over 1,000 or more a month. These task forces have included the participation of naval vessels from nations as far a field as New Zealand and from key nations within NATO. NATO, in turn, is increasing its naval and air interdiction cooperation with GCC states under the NATO Istanbul Cooperation Initiative. The GCC states, who lose up to \$22 billion to smuggling a year and have little desire to be on U.S. or international drug or slave trade lists, are keenly interested in stemming such trade. Much of this illicit trade comes from Afghanistan and Pakistan through such Iranian ports as Bandar Abbas. Some of it is supported by elements of Iran's Revolutionary guards.

4. *Call on Iran to agree to a Montreux Convention to demilitarize the Straits of Hormuz and an agreement to limit possible incidents at sea.*<sup>3</sup> One of the constant complaints of Iranian diplomats is that the U.S. and other major powers are unwilling to negotiate directly with Iran to guarantee its security. Certainly, the U.S. is loath to directly negotiate with Iran's representatives for fear that this would give its current revolutionary government greater support than it otherwise would have. More important, after having been disappointed so many times, Washington officials are rightly skeptical that Tehran is serious about reaching substantive agreements. The Council on Foreign Relations recently highlighted this problem in a report on Iran, which eschewed attempting any grand bargaining with Tehran. Several of America's key European allies and other influential interest groups, however, are inclined to negotiate, if at all possible, incrementally. This suggests that the pressure for talks will persist and that, in some fashion, they will continue. Where should such talks be focused? One sensible area, which unlike nuclear and human rights matters (where it is in Iran's interest to hide its hand or lie and where negotiating with Iran would only lend greater legitimacy to the current regime's bad policies), is demilitarizing and guaranteeing free passage through the Straits of Hormuz and agreeing to naval standards of behavior in and around the Gulf. Securing a Montreux-like agreement of the sort in place for the Dardanelles for the Straits and an incidents-at-sea agreement, such as the U.S. secured during the Cold War with the Soviets, would be in Iran's interest. An agreement regarding Hormuz could assure multi-power guarantees to prevent any foreign nation from closing the straits (through which nearly all of Iran's own oil exports flow). It would require submarines -- including U.S., Israeli, French and British special forces vessels -- to surface before entering or exiting the Straits. It would ultimately (after initial sounding talks with key European nations) entail negotiations with the U.S. On the other hand, such an agreement would also be in the interest of the U.S. and its allies. It would require Iran to demilitarize all of the islands and coast it has fortified near or adjacent to the Straits with artillery and anti-shiping missiles. It would give additional international legal grounds for military action against Iran if it should threaten to close the Straits (by moving Iranian military systems beyond an agreed demilitarized zone, the agreement would help give timely warning of Iranian efforts to cheat and allow superior allied air and reconnaissance capabilities a clear shot at identifiable ground or sea movements). Finally, it would serve as a confined, limited set of talks the progress of which could be used as a barometer of Iranian seriousness in negotiations generally. Similar benefits could be secured with an incidents-at-sea like agreement with Iran that might include provisions to restrict any nation's ability to covertly mine key waterways in or near the Gulf. These international interdiction efforts could easily be combined with efforts to

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3. Material in this section draws heavily from an NPEC-commissioned study by Michael Knights, "Martine Interdiction in the Gulf: Developing a Culture of Focused Interdiction Using Existing International Conventions," released February 7, 2006 available at <http://www.npec-web.org/Frameset.asp?PageType=Single&PDFFile=slides050908PlanBforIran&PDFFolder=Presentations>.

- a. Increase the level and tempo of allied naval exercises in an around the Persian Gulf. These exercises should emphasize mine-clearing, protection of commercial shipping, and interdiction exercises particularly in or near the Straits. The exercises should be conducted with as many other interested Gulf and non-Gulf nations as possible.
- b. Increase international cooperation to help Iran's neighbors secure their borders against illegal immigration and illicit trade. One of the key problems facing Iran's neighbors (especially Iraq and Turkey) is the threat of terrorists and illicit nuclear imports and exports transiting into and out of their territories. Cooperative efforts to secure these borders could be made a part of a larger international effort to help European and other states protect their borders and shores as well against unwanted nuclear imports and leakage. This effort should be made an integral part of President Bush's Proliferation Security Initiative.

**5. Encourage Israel to initiate a Middle East nuclear restraint effort that would help isolate Iran as a regional producer of fissile materials.** Israel should announce that it will unilaterally mothball (but not yet dismantle) Dimona. At the same time, Israel should announce that it would be willing to dismantle Dimona and place the special nuclear material it has produced in "escrow" in Israel with a third trusted declared nuclear state, e.g., the U.S. It should make clear, however, that Israel will only take these additional steps when at least two of three Middle Eastern nations (i.e., Algeria, Egypt) follow Israel's lead by mothballing their own declared nuclear facilities that are capable of producing at least one bomb's worth of plutonium or highly enriched uranium in one to three years. Israel should further announce that it will take the additional step of handing over control of its weapons usable fissile material to the IAEA when

- a. All states in the Middle East (i.e., the two mentioned above, plus Iran) dismantle their fissile producing facilities (large research and power reactors, hexafluoride, enrichment plants and all reprocessing capabilities).
- b. All nuclear weapons states (including Pakistan) formally agree not to redeploy nuclear weapons onto any Middle Eastern nation's soil in time of peace.

Such arms restraint by deed rather than negotiation should avoid the awkwardness of current Middle Eastern arms control proposals that would have Israel enter into nuclear arms talks with states that don't recognize it and have it admit that it has nuclear weapons – a declaration that would force Israel's neighbors immediately to justify some security reaction including getting bombs of their own.

To assure Iran does not exploit this offer to divide Europe from the US and Israel, it would be helpful to have the U.S. canvass the European Union, international financial institutions, and other nations about their willingness to back an Israeli nuclear restraint initiative of the sort described above. Clearly, it will make little sense for Israel to

launch a nuclear restraint initiative, if other key nations merely dismissed it. To help determine its prospects for success, the U.S. ought to talk with its key allies in Europe and elsewhere to gauge their willingness to back the proposal described. Would the United Kingdom, France and Germany and other European Union nations see the proposal as a positive step that other Middle East nations should be encouraged to follow? Would they be willing to announce that they would be prepared provide any Middle Eastern nation that matched Israel's actions help in funding non-nuclear energy systems and smaller research reactors (that cannot make a critical weapon's worth of material in anything less than a decade)?

Construction of these facilities might begin once dismantlement commenced. Would international financial institutions, meanwhile, be willing to announce that they would put on hold further loans to states that subsidize or invest in uneconomical large research, desalination, or power reactors and other nuclear bulk handling facilities in the Middle East? If so, Washington should consult with Israel and, assuming Israel's willingness to proceed, announce that America will use existing U.S. cooperative threat reduction efforts to commence securing escrowed Israeli nuclear material and converting this material into appropriate storable form on a schedule that Israel will set?

As noted in the overview, none of these proposals can guarantee Iran will not go nuclear. Assuming the U.S. continues to stick by its key friends in the Middle East, though, these measures will give Iran and its neighbors much greater cause to pause in further violating the NPT. More important, they will go a long way to frustrate Iran's efforts to divide and deter the U.S. and its major allies from taking firm actions against the misdeeds Iran would otherwise be tempted to do as it becomes more nuclear weapons-ready. Finally, and most important, these proposals if implemented, are much more likely in the near-term to restrain Iran's nuclear enthusiasm and that of its neighbors than any effort merely to bargain over Tehran's nuclear capabilities or to try to bomb them. In the end, however, only Iran's eventual transition to more moderate self-rule will afford much chance for lasting, effective nonproliferation. Until then, the suggestions noted above are our best course.