

## CHAPTER 1

# GETTING READY FOR A NUCLEAR-READY IRAN: REPORT OF THE NPEC WORKING GROUP

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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, lacks for nothing technologically or materially to produce it, and 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.

This report, based on commissioned research and 2 years' worth of meetings with the nation's leading experts on Iran, the Middle East, and nuclear proliferation, is intended to highlight sounder policy options. It makes seven recommendations designed to reduce the potential harm Iran might otherwise do or encourage, once it gained nuclear weapons or the ability to have them in a matter of days. The report reflects analysis done at a series of competitive strategies workshops that focused on the next 2 decades of likely competition between America and Iran and what comparative strengths the United States and its allies might use to leverage Iranian behavior<sup>1</sup>.

These workshops identified three threats that are likely to increase following Iran's acquisition of a nuclear weapons option.

**1. Even More Nuclear Proliferation.** Iran's continued insistence that it acquired its nuclear capabilities legally under the Nuclear Nonproliferation Treaty (NPT) would, if unchallenged, encourage its neighbors (including Iraq, Saudi Arabia, Egypt, Syria, Turkey, and Algeria) to develop nuclear options of their own by emulating Iran's example, by overtly declaring possession (in Israel's case)

or by importing nuclear weapons (in Saudi Arabia's case). Such announcements and efforts, in turn, would likely undermine nuclear nonproliferation restraints internationally and strain American relations with most of its key friends in the Middle East.

**2. Dramatically Higher Oil Prices.** A nuclear-ready Iran could be emboldened to manipulate oil prices upward. It might attempt this either by threatening the freedom of the seas (by mining oil transit points as it did in the 1980s, or by threatening to close the Straits of Hormuz), or by using terrorist proxies to threaten the destruction of Saudi and other Gulf state oil facilities and pipelines.

**3. Increased Terrorism Designed to Diminish U.S. Influence.** With a nuclear weapons option acting as a deterrent to the United States and allied action against it, Iran would likely lend greater support to terrorists operating against Israel, Iraq, Libya, Saudi Arabia, Europe, and the United States. The aim of such support would be to reduce American support for U.S. involvement in the Middle East, for Israel, and for actions against Iran generally, and to elevate Iran as an equal to the United States and its allies on all matters relating to the Persian Gulf and related regions. An additional aim of the terrorism that Iran would support would be to keep other nations from supporting U.S. policies and the continued U.S. military presence in the Middle East.

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 policymakers 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, is likely to succeed and could easily 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 NPT, or to rally Islamic Jihadists

to wage war against the United States and its allies more directly. Whatever might be gained in technically delaying Iran's completion of having a bomb option would have to be weighed against what might be lost in Washington's long-term efforts 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—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 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.

Considering these shortcomings, the working group decided that, rather than trying merely to eliminate Iran's ability to develop a nuclear option (something that may no longer be possible), it also would be useful to devise ways to curb the harmful things Iran might do or encourage, once it secured such an option. This approach produced seven recommendations that the workshop participants believed were not receiving sufficient attention currently. These steps, they argued, would increase the credibility of current efforts to prevent Iran from going nuclear and needed to be pursued, in any case, if prevention failed. These recommendations were:

1. Discrediting the legitimacy of Iran's nuclear program as a model for other proliferators through a series of follow-on meetings to the 2005 NPT Review Conference to clarify what activities qualify as being "peaceful" under the NPT.

2. 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.

3. Securing Russian cooperation in these efforts by offering Moscow a lucrative U.S. nuclear cooperation agreement.

4. Reducing Persian Gulf oil and gas production and distribution system vulnerabilities to possible terrorist disruptions by building additional back-up capabilities in Saudi Arabia.

5. 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.

6. Isolating Iran as a regional producer of fissile materials by encouraging Israel to take the first steps to freeze and dismantle such capabilities.

7. Backing these diplomatic-economic initiatives with increased U.S.-allied anti-terrorist, defense, naval border security, and nuclear nonproliferation cooperation.

Would taking these steps eliminate the Iranian nuclear threat? No. Given Iran's extensive nuclear know-how and capabilities, it is unlikely that the United States 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 United States and its friends in a manner that would undermine Iran's efforts to divide the United States from its allies and to deter them from acting against Iranian misbehavior. 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 its 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 dependent 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 United States and its allies *cannot tolerate* Iran going nuclear; a nuclear-armed Tehran is *unthinkable*.

Yet, the truth is that Iran soon can and will get a bomb option. All Iranian engineers need is a bit more time—1 to 4 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 working group's earlier report (*Checking Iran's Nuclear Ambitions*), no scheme, including "just in time" delivery of 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.<sup>2</sup>

As for eliminating Iran's nuclear capabilities militarily, the United States and Israel lack sufficient targeting intelligence to do this. In fact, Iran long has 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 already could have hidden all it needs to reconstitute a bomb program, assuming its known declared nuclear plants were hit.

Compounding these difficulties is what Iran might do in response to such an attack. After being struck, 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.

On the other hand, Iran could continue to pretend to comply with the NPT, which could produce equally disastrous results. After being attacked, Iran might appeal to the IAEA, the Arab League, the Non-Aligned Movement, the European Union (EU), and the United Nations (UN) to make Iran's nuclear program whole again, and once again, use this "peaceful" program to energize and serve as a cover for its covert nuclear weapons 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 North Atlantic Treaty Organization (NATO) and non-NATO allies in the region (e.g., Israel and Turkey).

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

The ramifications of any of these responses are difficult to minimize. Finally, 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 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 will 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 added 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 United States 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 acquire nuclear arms openly, without pressuring Iran to give up its "civilian" nuclear efforts, Iran will best them easily 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 when, in the next 12 to 48 months, Iran secures such a breakout option? If the United States and its

allies do no more than they have already done, two things. First, many of Iran's neighbors will do their best to follow its "peaceful" example. Egypt, Algeria, Syria, 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 aimed against Washington's key regional ally, Israel; America's key energy source, Saudi Arabia; and Washington's 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 recently to have received sensitive nuclear technology from Libya. Syria, meanwhile, is now interested in uranium enrichment. Some intelligence sources believe Damascus already may be experimenting 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 EU 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), 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 East ally. In July 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 Iranian, Saudi, Egyptian, or other covert nuclear weapons programs? How fair is it for the United States 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 do not recognize Israel, are 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. With Hamas in decline, Iran already has been seen to be increasing its support to groups like Hezbollah in Iraq, Israel, and Lebanon, groups which want to liberate their lands from American and Israeli "occupation." Increasing its aid to these groups 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 United States from striking it militarily.

Beyond this, Iran is likely to increase its assistance to groups willing to risk striking the United States. News reports in August 2004 claimed that Iranian diplomats assigned to UN headquarters in New York were to survey 29 American targets to help terrorist organizations interested in hitting the United States. The aim here appears to be, again, to deter the United States from hitting Iran and to divide U.S. opinion about the merits of backing Israel, or supporting 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 United States and its allies to remove their military forces from Iraq, and thereby allow a government more sympathetic to Iran to emerge.

As for Libya, Iran's Mullahs are concerned about how much Qaddafi might tell the United States 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 at camps in southern Iran; this is an organization Qaddafi expelled from Libya in the late 1990s and the United States expelled from Afghanistan in 2001. 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 is simple: Saudi Arabia has the world's largest reserve oil production capacity (roughly 7 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 the Organization of Petroleum Exporting Countries (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 advanced technology. Iranian progress on these fronts is likely to be fortified by Tehran's offers of oil rights to European states, Russia, and China. This, in turn, will help keep the current regime in power longer, will further reduce U.S. influence in the region, and will make action in the UN Security Council (UNSC) against Tehran far less likely.<sup>3</sup>

Yet, another way Iran could drive up oil prices is by threatening free passage of oil through the Straits of Hormuz or by engaging in naval mining in the Gulf and other key locations, using its surface fleet of fast boats or its smaller submarines as it did in the late 1980s. Iran already has deployed anti-shipping missiles at Qeshm, Abu Musa Island, and on Sirri Island, all of which are in range of shipping through the Strait. 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 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.

## RECOMMENDATIONS

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

What more should the United States 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 United States and its friends must do much more than they are currently to frustrate Iran's efforts to divide the United States, 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 of Iran ever deploying nuclear weapons or of any of its neighbors following Iran's model of "peaceful" nuclear activity by getting the international community to insist on a tougher view of the NPT.
- Make Russia, Iran's key nuclear partner, a willing backer of U.S. and European efforts to restrain Iran's nuclear ambitions, and a backer of nuclear restraint in the Middle East more generally.
- Reduce the vulnerability of Middle Eastern oil and gas production and distribution systems to Iranian-backed terrorist attacks that could significantly increase energy prices.
- Force Iran into choosing between backing free passage of energy commerce in and out of the Gulf or becoming an outlaw in the eyes not just of the United States, but of Europe and Asia.
- 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 produce some result from the upcoming NPT Review Conference in May 2005 to strengthen the NPT and increase its influence.
- French proposals to the EU and the NPT Review Preparatory Committee to make withdrawal from the NPT difficult and EU sanctions likely for any nation that the IAEA cannot find to be in full compliance with the NPT.
- Russia's long-standing interest in securing a nuclear cooperative agreement with the United States to secure Russia's backing to strengthen nuclear restraints internationally.

- Oil producers' anxieties to increase the security of Saudi oil production and distribution systems from possible terrorist attacks.
- Tehran's desire to secure multinational guarantees to enhance Iran's security and increase its access to critical European high technology imports.
- Israel's clear regional lead in advanced nuclear capabilities.
- Europe's desire to play an active role in promoting nuclear nonproliferation in the Middle East.

Specifically, these levers could be pulled by taking the following steps:

**1. Clarify what is peaceful under the NPT.** The United States and other like-minded nations should use the occasion of the NPT review conference in May 2005 to convene a series of follow-on meetings dedicated to reevaluating under what circumstances specified forms of nuclear power should be considered to be "peaceful" and thus protected by the NPT. These meetings should take into account the latest information regarding the spread of covert centrifuge and reprocessing technology, bomb design, and the availability of separated plutonium and highly enriched uranium. In addition, they should raise the questions of what nuclear materials and activities can be safeguarded in a manner that will detect potential violations early enough to achieve the IAEA's and the NPT's goal of "preventing diversion of nuclear energy from peaceful uses to nuclear weapons or other nuclear explosive devices." This set of international gatherings, which should meet periodically in anticipation of the next NPT review conference in 2010, should also evaluate how increased use of free market competitions and private financing could help identify uneconomic, suspect nuclear activities. These meetings could be held under IAEA or UNSC auspices. If this proves to be impractical, though, the United States and other like-minded nations should proceed on their own (much as the Proliferation Security Initiative was promoted) to hold these meetings with as many like-minded nuclear power and large nuclear research reactor-capable nations as possible.

**2. Establish country-neutral rules for NPT violators.** The United States and its allies should build on France's recent proposals that the UNSC adopt a set of a country-neutral rules for dealing with NPT violators, such as Iran and North Korea, which would stipulate that:

- a. countries that reject inspections and withdraw from the NPT without first addressing their previous violations must surrender and dismantle their large nuclear capabilities (i.e., large research and power reactors and bulk handling facilities) to come back into compliance. Until the UNSC unanimously agrees to drop this ban, violators would lose the right to acquire nuclear technology under the NPT (a ban against exporting such help to these nations would be imposed), and international financial institutional support for major projects within their borders would be suspended.
- b. countries that violate their safeguards obligations under the NPT and that the IAEA cannot find to be in full compliance should no longer receive nuclear assistance or exports from any other country until the IAEA Board of Governors is able to unanimously give them a clean bill of health.
- c. countries that build new, large nuclear fuel-related facilities that cannot be justified economically and monitored in a manner that can assure timely warning of diversion of enough nuclear material to make a bomb, should not receive nuclear assistance or exports from another country until the IAEA Board of Governors is able to unanimously agree that the project in question is economically imperative or capable of being safeguarded to provide timely warning of potential diversions.

The idea in passing these resolutions would be to make it clear to both Iran and its neighbors that violating the NPT as Iran or North Korea have done will have consequences for their nuclear programs and for continued international financial institution support. Diplomatically, this will help the United States 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 addition, the United States should encourage the EU, and short of this, the governments of Italy, Germany, and France, to threaten to sanction Iran's nuclear misbehavior by holding up their exports of machinery and materials to Iran, which make up a vast majority of all the imports Iran takes in. The continued flow of these exports is critical to the maintenance of Iran's economy.

**3. Offer Russia a U.S. nuclear cooperative agreement.** To help secure the support for these resolutions from Russia, the United States should offer Moscow a nuclear cooperative deal that Moscow has long sought. This deal would allow Russia to store U.S. origin spent fuel from Asia and Europe and pocket 10 to 20 billion dollars in revenues from this business. For nearly a decade, U.S. progress on this deal has been stymied in the United States because of Russian unwillingness to drop its nuclear cooperation with Iran. Russia, meanwhile, insists that its cooperation with Iran is peaceful. Moscow has made it clear, however, that it would suspend its nuclear cooperation with Tehran if asked to do so by a resolution of the IAEA or the UNSC. If the country-neutral rules described above were passed, Russia would not have to announce that it was permanently dropping nuclear cooperation on Bushier, only that it was temporarily suspending nuclear cooperation with Iran as required by the resolution. Any resumption of Russian-Iranian nuclear cooperation that violated the resolution, however, would jeopardize continued U.S. consent to send additional U.S. origin spent fuel, which should continue to require case-by-case approval by Washington (as is normally the case) under any nuclear cooperative agreement the United States strikes with Russia.

**4. Reduce the vulnerability of the 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 to close 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. To do the later would require an agreement with Baghdad. The cost of the entire project is estimated to be \$600 million. Assuming the worst—a complete closure of the Straits of Hormuz—this bypass system is estimated to be capable of reducing the economic impact to the United States 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. There are a number of ways in which these projects could be financed. Given the high price of oil and the large revenue streams high prices are now generating, the best time to finance such construction is now.

The second vulnerability Rice researchers identified is the major oil processing facilities located at Abqaiq. If terrorists were to attack these facilities, the loss could be as high as several million 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 is 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.

**5. Call on Iran to agree to a Montreux Convention to demilitarize the Straits of Hormuz and an agreement to limit possible incidents at sea.** One of the constant complaints of Iranian diplomats is that the United States and other major powers are unwilling to negotiate directly with Iran to guarantee its security. Certainly, the United States is loath to negotiate directly with Iran's representatives for fear that this would give its current revolutionary government greater support than it otherwise would have. More importantly, 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 negotiations 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 for the Straits of the sort in place for the Dardanelles and an incidents at sea agreement like that the United States secured with the Soviets during the Cold War would be in Iran's interest. An agreement regarding Hormuz could assure multipower 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 ultimately (after initial sounding talks with key European nations) would entail negotiations with the United States.

On the other hand, such an agreement would also be in the interest of the United States and its allies. It would require Iran to demilitarize all of the islands and coast it has fortified with artillery and antishipping missiles near or adjacent to the Straits. 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.

**6. 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, and place the reactor's mothballing under IAEA monitoring. At the same time, Israel should announce that it is prepared 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 United States. It should make clear, however, that Israel will only take this additional step when at least two of three Middle Eastern nations (i.e., Algeria, Egypt, or Iran) 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 1 to 3 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 three mentioned above) 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 do not 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.

**7. Back these diplomatic-economic initiatives with increased U.S.-allied anti-terrorist, defense, naval, and nuclear non-proliferation cooperation.** A key derivative benefit of pursuing the proposals described above is their potential to frustrate Iran’s efforts to divide the United States from its friends and to deter them from acting against the worst of what Iran might do. Specifically, it would be useful to:

- *Have the United States canvass the EU, 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 dismiss it. To help determine its prospects for success, the United States 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, Germany, and other EU nations see the proposal as a positive step that other Middle Eastern nations should be encouraged to follow? Would they be willing to announce that they would be prepared to 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.

- *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, nuclear export and import interdictions, and reopening the Straits under a variety of "seizure" scenarios. The exercises should be conducted with as many other interested Gulf and non-Gulf nations as possible.
- *Increase international cooperation to help Iran's neighbors secure their borders against illicit commerce and illegal immigration.* 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 illicit strategic weapons-related imports or leakage. This effort should be made an integral part of President Bush's Proliferation Security Initiative.

- Consider ways to share the benefits of turn-key missile defense and reconnaissance systems in the Middle East in a manner that would avoid compromising these systems. The utility of missile defense and reconnaissance cooperation with friendly nations is clear enough. The dangers of sharing more than one are less obvious but no less real.<sup>4</sup>

As noted in the overview, none of these proposals can guarantee Iran will not go nuclear. Assuming the United States 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 importantly, they will go a long way toward frustrating Iran's efforts to divide and deter the United States and its major allies from taking firm actions against the misdeeds Iran would otherwise be tempted to do once it becomes nuclear 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 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.

## ENDNOTES - CHAPTER 1

1. For background, see *Checking Iran's Nuclear Ambitions*, Carlisle, PA: U.S. Army War College, 2004, at <http://www.npec-web.org/pages/checkiran.htm>.

2. For a discussion of how best to reduce the risks associated with power reactors see NPEC's detailed technical analysis, Victor 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>.

3. The current Iranian regime thrives on corruption and central planning, both of which require ever larger amounts of cash.

4. For a detailed discussion of these issues and how best to manage them, see NPEC's commissioned research, "Missile Nonproliferation and Missile Defense" and "Controlling Unmanned Air Vehicles: New Challenges," at [http://www.npec-web.org/published/hl\\_761.pdf](http://www.npec-web.org/published/hl_761.pdf) and <http://www.npec-web.org/projects/uavs.pdf>, respectively.