CARNEGIE ENDOWMENT FOR INTERNATIONAL PEACE

STRATEGIC ENGAGEMENT WITH IRAN: STEPS FOR THE NEXT U.S. PRESIDENT

WELCOME AND MODERATOR:
JESSICA MATHEWS,
PRESIDENT,
CARNEGIE ENDOWMENT

SPEAKERS:
KARIM SADJADPOUR,
ASSOCIATE,
CARNEGIE ENDOWMENT

GEORGE PERKOVICH,
VICE PRESIDENT FOR STUDIES,
CARNEGIE ENDOWMENT

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JESSICA MATHEWS: Well, I'm not sure who that disembodied voice was, but I guess since everybody is now silent I will begin. I'm Jessica Mathews, president of the endowment, it's a great pleasure to welcome you here today for a discussion of what is clearly one of the most vexing, most difficult, most challenging issues that faces the next president, namely the U.S. relationship with Iran. We have been doing a series of papers called "Foreign Policy for the Next President," there are copies outside, and what we tried to do was to pick the issues that seemed – not to attempt to cover the waterfront, but to pick the issues that seemed to us most salient, most important, most difficult. And this one clearly tops the list, and therefore, rather than doing one piece we've done two.

Karim Sadjadpour has done a piece on the broad U.S.-Iranian relationship and George Perkovich has tackled the U.S.-Iranian nuclear issue. One of the reasons we did this is that it's all too easy, particularly in the nuclear field, to sit and debate that issue in sort of mental isolation. And the broader context of relationships, the countervailing tensions sort of get lost, and as hard as the nuclear issue it is obviously becomes a great deal harder when you think of it in the context of Iraq, Afghanistan, the Israeli-Palestinian issue, energy security, the war against terrorism, all the issues that impinge on and determine the U.S-Iranian relationship. So, with that said, we are very luck to have two people who have thought long and hard and deeply and well on these issues. And so we'll start with Karim, talking more broadly about the relationship, then George, and then maybe a little bit back-and-forth among the two of you, and then open the floor to all of you. Thank you for joining us and Karim, why don't you begin.

KARIM SADJADPOUR: Thank you, thank you all very much for coming. Before I was lucky enough to join Carnegie last year, I used to work with the International Crisis Group, and I was based in Tehran, and I had this lifestyle over a few years where I would be in Tehran six months then I would come back to Washington for six months, and I did this over the course of a few years, and I think it really confused my grandmother. I used to live in the same compound with her in Tehran, and I think she thought I was basically unemployed. So I would come to Tehran for six months – (laughter) – and look for a job unsuccessfully and come back to Washington unsuccessfully and look for a job, and this continued.

And one night we were at her home, and we were – several of my aunts were there, and the pastime of my aunts was to see if they could find a proper wife for me. And my grandmother was 100 years old and usually hard of hearing and would usually tune out of these conversations, but when it came to the subject of my wife she would suddenly tune back in – (laughter) – and that evening she said, how on earth do you want him to find a wife? First he has to find a job before he can find a wife. (Laughter.) And sometimes over the course of these last two, three years, I think there's actually a grain of truth to what she says – not about me finding a wife, but about finding a proper job.

And what I mean by that is that the last eight years, basically during the time of the Bush administration, those of us who have worked on Iran, we really had one argument, basically, that we have to talk to Iran, we have to have dialogue, we have to have engagement. And I think in some ways it's made us a bit lazy, because that's the only argument we've been making, and really I think

the crux of the issue is not whether we should have dialogue, or why we should have dialogue, but how to go about doing so.

And this is what I've tried to lay out in this paper, because I think the devil is really in the details. It's very easy to write an op-ed with the last line saying therefore we need to engage Iran, but I think actually the first line of the op-ed needs to say, we need to talk to Iran and how do we go about doing so? So I think hopefully you'll find some more nuances in my report, and I'm not going to repeat the same ideas, but I thought I would make – just four, five points before handing it over to George.

First, a bit of context here. The Iranian revolution turns 30 around the same time as the next U.S. president is inaugurated in January of 2009, the Iranian revolution will reach its 30th birthday. And I think we can all agree that the last three decades of U.S. policy – and it hasn't just been a U.S. policy of coercion, but whatever we want to call it, a combination of coercion, kind of a passive regime change at times, an attempt at backchannel dialogue at time, has not borne fruit. And I think those of us who work on these issues, whether coming from the right or coming from the left, would all agree that a different approach is in order.

And I think especially the last eight years of the Bush administration, you could make an argument that the Bush administration has made more of an effort than any U.S. administration in the last 30 years to counter Iran's regional influence and to weaken the Iranian government. And I would make the argument that Iran's regional influence today is greater than it's ever been in the last 30 years, and the hardliners within Iran are more powerful than they've ever been in the last 30 years, so another reason for a different approach.

Now, when we're talking about dialogue with Iran, for me it's not really even about Iran, it's about the other major U.S. foreign policy challenges. For me there's five or six things that always come to mind, obviously one is Iraq, another is Afghanistan, another is Arab-Israeli peace, another issue is terrorism, nuclear proliferation, and energy security. When you look at these issues individually, you see that Iran is integral to all of them. Iran is absolutely integral to the futures of Iraq and Afghanistan, given its leverage over Hamas now it's integral to Arab-Israeli peace, given its vast oil resources it's integral to energy security, and its support for Hamas and Hezbollah is integral to the issue of terrorism. So, to think starting with that premise you say that, okay, we can't ignore Iran, if we bomb Iran we're going to exacerbate all these issues, and again we go back to the issue of dialogue. But then how do we go about doing so?

What I call for in this approach is simply an approach of building confidence with Iran, because what I would argue is that the fundamental impediment to some type of an improvement in the relationship is this very deep-seeded mutual mistrust. At the end of the day, the United States doesn't trust that Iran's nuclear intentions are peaceful, it doesn't trust that Iran's regional ambitions are peaceful, and for the Iranian government, they believe that at the end of the day, the U.S. qualms with the Iranian regime is not about Iran's external behavior, it's about the very character of the regime – that the United States can't live with an independent Islamic government in Tehran and therefore the U.S. goal is to go back essentially to a patron-client relationship with Iran which existed during the time of the shah.

So there's this very, very deep-seated mutual mistrust. And that's why I would argue against this approach which you sometimes hear about, which is the grand bargain approach. If I thought it

would work, I would advocate it, but I think after 30 years of deep-seeded mutual mistrust and ill will – you don't take a divorced couple which have been trying to kill each other the last three decades and put them in a room and tell them to make up. You have to have some confidence building and some thawing of tensions initially. And this is what I call for: building of confidence. And I think that we can build confidence on issues where there are overlapping interests. And if you see in the report, I think there's a lot more overlapping interests between the U.S. and Iran than we initially think.

I think on Iraq and Afghanistan there is tremendous overlapping interest. When it comes to the issue of terrorism, I think both sides are opposed to the rise of Sunni Salafist groups like al Qaeda. I think in terms of energy security there's some common interest in terms of Iranian exports to Europe to counter Russian energy leverage over Europe. The one issue I would argue where there's no overlapping interest, and I think it's the fundamental point of contention is the Arab-Israeli conflict. I see both sides being very entrenched with their position. I don't see Iran abandoning its opposition to Israel anytime soon, and certainly the United States will not abandon its support for Israel anytime soon.

But, again, I would argue that we build confidence on these issues where there are overlapping interests and then gradually, ideally, we expand the conversation to encompass the issues where there are real points of contention which are very difficult to solve like the nuclear issue and the Arab-Israeli conflict. Now, for me, for the next U.S. administration, whether its President Obama or President McCain, there's really a fundamental question which I think needs to be pursued, needs to be probed vis-à-vis Iran. And that is why does Iran behave the way it does? Why is Iran's foreign policy the way it is? Is Iran's foreign policy driven by this immutable ideology that was borne out of the 1979 revolution and really is incapable of changing, or is Iran's behavior really a byproduct of its relationship with the United States? Does Iran behave the way it does because the United States behaves the way it does?

And I could answer the question both ways, meaning I could give you examples where I would argue that Iran's behavior is a byproduct of U.S.-Iran relations, and I think a very good example is the way that Iran behaved in Afghanistan during the removal of the Taliban. By all accounts, they played a cooperative role, a constructive role, even according to U.S. officials, and the removal of the Taliban and the formation of the post-Taliban government. But in Iraq, by many accounts, they played a largely unconstructive role, and what was the distinction between those two? Why did they play this constructive role in Afghanistan and an unconstructive role in Iraq? Was it to do with ideology?

I would argue against that. I think the Afghan war was not prosecuted with the premise of changing the political culture of the Middle East. There was no talk of first Kabul, next Tehran whereas with Iraq war, there was – this was very much part of the prosecution of the Iraq war was about ridding Saddam of WMD on the one hand, but it was also about spreading democracy and changing the political culture of the Middle East. So Iran thought they had a real disincentive to play a constructive role in Iraq.

So I think you see some examples where Iran's behavior is a byproduct of its relationship with the United States, but again, you also see examples where Iranian behavior is driven very much by ideology. And again, a support for radical Palestinian groups and groups like Hezbollah as an example of that, this opposition to Israel as an example of that. But, again, I think that this is the

question that the next U.S. president needs to probe. Why does Iran behave the way it does, and could a different U.S. approach, a different U.S. policy, beget a different Iranian approach?

Now, a few more points – as Jessica mentioned in the introduction, I very much believe that this nuclear issue, the nuclear dispute cannot be resolved in isolation. I think it's really a symptom of this U.S.-Iran dysfunctional relationship; it's not a cause of the mistrust and dysfunction in the relationship. The adversarial relationship was very much entrenched in the '80s and the '90s far before Iran was enriching uranium. So I don't see this nuclear issue being resolved in isolation. I think, you know, George will talk a bit more about that, but simply put, I don't think there's a technical solution. Maybe there was in 2002 and 2003, maybe there was a technical solution at that time. I don't believe this anymore. I believe it's going to require a broader political solution, a broader political accommodation between the two sides.

Another point I want to make is that I don't see the U.S.-Iran-Arab relationship to be a zero-sum game. I should say the dynamics between the United States, Iran, and the Arab world is not a zero-sum game, and the dynamics between the Iranian regime, and the Iranian people, and the U.S. government is not a zero-sum game. What do I mean by that? I think you hear a lot of concern out of the Arab world these days that the next U.S. government, particularly if it's a President Obama, is going to, quote, unquote, "sell out the Arabs and do a deal with the Iranians." And I don't think this is how regional security works. There is really no basis for this. During the time of the shah when the United States and Iran had a very, very friendly cooperative relationship, the U.S. also retained a very friendly relationship with Saudi Arabia and the Gulf countries. So I don't think there's any basis for this; it needs to be like this. And I think it's very possible to have a positive-sum game relationship.

When it comes to the aspirations of the Iranian people for a more democratic government which respects civil society and human rights, I also don't believe that talking to the Iranian government needs to be done at the expense of the Iranian people. On the contrary, I would make the argument that if we enact U.S. policies which aim to facilitate Iran's reintegration into the global economy, which aims to reintegrate Iran into kind of the world of normal nations. I think that actually facilitates political reform in Iran; it doesn't impede political reform in Iran.

And I'd like to invoke this old joke by comedian A. Whitney Brown who once said, "I'm not a vegetarian because I love animals; I'm a vegetarian because I hate plants". And I think about this with regards to engaging the Islamic Republic. I'm not talking about engagement with Iran because I love the Islamic Republic, but on the contrary, because I would like to see its transformation into a government which is more respectful of its people.

Lastly, what I would end on is that I think there's no guarantees that dialogue or engagement with Iran would work for a variety of reasons. And I think one thing I learned upon doing this study of the Supreme Leader Ayatollah Khamenei is that he's no idiot, and he recognizes that at the end of the day– I believe that he believes in his heart and in his mind that the interest of the Islamic Republic, the integrity of the Islamic Republic, are better served in isolation rather than – that the Islamic Republic survives better when it has an adversarial relationship with the U.S. as opposed to an amicable relationship.

I believe that he understands and appreciates the argument that I just made a few seconds ago that if you engage Iran, you bring it back into the world of nations, you reintegrate it into the

global economy, it is going to expedite political reform. I think he understands this argument very well. And I think that for that reason alone, it may be difficult to have some type of successful engagement or at least some type of an accommodation or resolution with Iran as long as Ayatollah Khamenei remains supreme leader.

But what I would argue is that both amongst the people, the overwhelming majority of the Iranian people, would like to see a different relationship with the United States. And even amongst the political elite, when I was based in Tehran and I would be interviewing officials whether reformists or conservative, the vast majority would tell you behind closed doors that of course they recognize this death-to-America culture which came to be in 1979 is now obsolete in 2008. I think the vast majority of them would recognize this.

But you have this entrenched, powerful minority which, whether for political reasons or for economic reasons, I think they survive much better in isolation. An example I give is if you are a 75-year-old cleric and you have a senior post in the Iranian government, and your only education was in the seminaries of Qom 55, 60 year ago, do you really want Iran to open up and be more meritocratic? I don't think you do. I think you see it as a threat to your interests. Or if you are a Revolutionary Guardsmen, you don't have any education beyond high school, but at the moment you're privy to million-dollar oil deals because the Shells and the Totals and the others of the world have pulled out of Iran or are prohibited from doing business in Iran because of sanctions. Do you really want Iran to join the WTO and reform its economy and to open itself up to foreign investment? I don't think you do. I think you see it as a threat to your interests.

And this powerful group, again, they are very much a minority, but I think throughout the years what we've seen is anytime there's been hope for confidence building and dialogue between the two sides, they attempt to torpedo it. They attempt to do something which is going to unravel the entire effort. And I think that for the next president, it's imperative that we not let these spoilers set the tenor for the relationship when there is confidence being built in Iraq, when there is a dialogue taking place in Afghanistan, we will see these individuals trying to do something to spoil it, and, I think, we should not – I think if we respond by severing the dialogue, we've achieved their goals. So I think I will leave it there and turn it over to George on the nuclear issue. Thank you.

MS. MATHEWS: Thanks, Karim, it was terrific. George, you're up.

GEORGE PERKOVICH: Thanks. I want to thank Jessica and Karim for being such a great colleague and all of you for coming. I just want to pick up – I agree with Karim that the nuclear issue can't be resolved in isolation or alone and would further agree that if there is going to be progress on the nuclear issue and/or on the other issues, and there's a long list, the major items of which Karim covered, there – progress is going to have to be co-evolutionary. That isn't to suggest there is a grand bargain. I don't think that's the way these things are going to work, especially with a country like the U.S. and a country like the U.S. with the Congress that we have. You're not going to see a grand bargain, but you can imagine, kind of, reciprocating incremental steps that over time make things a bit better.

That leads to a point that I think we have to either understand or if we already do understand, then say it out loud as a republic or as a community in Washington, which is that neither Iran nor the U.S. has the leverage to get what it really wants on any particular issue or in the relationship. Clearly, when you watch the U.S. presidential debates on many topics including the

economy, the candidates don't want to say what reality is, or that there's really bad news, or that we're not omnipotent and that everything's not going to be ok.

On the issue of Iran, you kind of get that, that they're both – both candidates are going to more or less agree on a position, they've kind of tempered from either side their views, but neither of them seems either, A, to go into detail or, B, to be very realistic, which is to say that whatever course we pursue, it's highly unlikely that the U.S. is going to get major objectives it would have so that the president of the United States is going to be able to stand up anytime in the foreseeable future and say, okay, we've solved these problems with Iran now we're going to go on and live happily ever after.

This is going to be kind of messy and incremental no matter what you do. Now, ideally, I'm getting to the nuclear issue specifically, ideally, the U.S. would have enough political economic power on its own to make Iran stop enriching uranium for a long time if not permanently, which has been the objective. But we don't have that political economic power, certainly on our own. Then ideally, there would be a physically way to eliminate the nuclear facilities and equipment and know-how in Iran that cause so much concern and for which there is no economic need in Iran. Somehow a military strike there would be like switching off the lights without then blowing all the circuits and causing a house fire.

And I say ideally from the standpoint not just of Western interest to be able to have that capacity, but I think also that many of Iran's neighbors, especially the Gulf Arab states, would very much welcome the existence of that capability, that physical capability to stop the Iranian program. And that would be both because it would be comforting to think that you could make it go away, but also because if you had that capability then presumably there would be a lot more leverage in the diplomatic process.

But, unfortunately, I would argue, and I think many people in the U.S. military and elsewhere would agree, that the reality is that overt military attacks or coercive regime change are unlikely to succeed against Iran, and even if they did on their limited objective, the implications and consequences in other areas that we care about would be so difficult to manage that in terms of kind of strategy, where you are at the end, probably not worth it. So we're kind of stuck with diplomacy without the kind of coercive backup that you would ideally have to make that diplomacy more successful.

And I think it's almost precisely because that's the case that diplomacy is very challenging, and we have to figure out how to change the psychology of it. And when I say "we," I mean the U.S., the EU3, other European states and kind of maybe a little bit Russia and China and India and others who support the objective but differ very much on the means. I think the psychology right now for reasons that we can unpack is that Iran feels in a fairly good position, and the history over the last few years is the more they hold out, the more they enrich, the more they get offered.

So it's like they have something that we have said is extremely valuable to us and at various points say how much will you sell it for. And of course they are going to say, well, it's not for sale. And so then we kind of go well, we really want it, we have to have this, and so we offer more, and they say no, no sorry it's not for sale. And that's been the dynamic, and then you get arguments amongst the West about you're not offering them enough, offer them more. Or, go get that guy,

he's got a big wallet, bring him in, and we'll, you know, we can offer more. And so the incentives are all wrong in terms of the psychology of the dynamic.

Now, having said that, as oil prices come down that's the biggest thing to change the incentives, so the psychology can begin to change. But again, why would you want to, if oil prices are coming down and bank sanctions are working, it seems to me that you want to kind of keep that kind of pressure on, strengthen that pressure, and again, not be arguing on the other side about what we're still not offering them more when they've shown no sign that they're willing to negotiate actually for the thing that you are seeking.

And so I think the concept that needs to be established amongst ourselves and also with the Iranians is actually that the more they enrich, the less value what we're negotiating for is, the more they enrich, the less they get rather than the way it's been is the more they've gone on, the more they've gotten offered. And so the proposal in the brief, the policy brief, is based on most of these premises. That the military, the more coercive options don't work, you're with diplomacy, but you have to change the psychology, and that Iran has shown no signs of being willing to negotiate on suspension, which is what the demand is.

So in that case, I think you stop chasing around and you say, okay, this is a last offer, and if you don't accept, which we understand you're probably not because you've insisted that you wouldn't accept this midpoint suspension – it's not an endpoint suspension, but a midpoint – but if you do, then the offers are all coming off the table. And we understand you're going to continue enriching, but you're already doing that. But we're not going to offer you any more, and we're not going to keep chasing you around to do something you've made clear to us that you're not going to do.

We're going to go off on and focus on strengthening, if we can, sanctions, or at least maintaining the sanctions that are already in place for the indefinite future. And we're not going to repeat the experience with Iraq, which over time where the sanctions eroded because members of the Security Council undercut each other. We're going to focus on the durability of sanctions, hopefully let private markets, also, given the financial problem, also decide that if you're going to make investments Iran's probably not the ideal place to do it, so try to increase economic pressure while we're withdrawing sanction.

I think it's very important at the same time, and I know this is more controversial, that we actually take force off the table – very unmanly thing to say, but if anyone wants to fight about it, we can go outside. (Laughter.) But take force off the table on the issue enrichment. In other words, the idea of using force to enforce the demand for suspension of enrichment doesn't have international support. And the continuation of kind of intimating those threats, which happens, you know, periodically, I think strengthens the position of the people in Iran that you don't want to strengthen, and it actually kind of weakens the coalition that you need to put diplomatic pressure on Iran.

And there's a further dynamic that one can start to see too, which is very problematic is that there are – I've encountered leaders from other countries recently and analysts in other countries, basically, in the back of their mind but starting to say it loud: Well, the Israelis will bomb them, or you guys will bomb them. And there's a way that lots of people are going to – free-riding on the idea actually that somebody will bomb Iran. They won't come out and say they think it's a great

idea, but there is this kind of view that you guys will solve the problem militarily, and for many, including Iran's neighbors, the ideal thing is that Israel bombs Iran because then you get to humiliate Iran, you get some damage to their nuclear capability, the Israelis get hated even more, you can put more pressure on them to be more of a renegade in the international system, you put more pressure on them to deal with the Palestinians and everything else. So it's kind of a win-win.

Two groups you don't really like that much, the Israelis and the Iranians, kind of suffer in this whole process. And I think that's kind of gotten some folks to kind of step away from the need to participate in the sanctioning and diplomatic process here. Now, at the same time, when I'm talking about taking force off the table, and all the other elements, I think you have to be very clear about the red line of weaponization activities. So if there's ambivalence in the international community about how hard to enforce the question of enrichment, I think the – and this is something the Russian leaders are privately saying – the question, if Iran moves to withdraw from the NPT, if Iran takes steps that are detected that are unambiguously related to weaponization, if new evidence of weaponization emerges, that's different. That is where, in fact where force would be appropriate and authorized.

But to try to get Russia, at least privately, to say in more formal ways what they do say in private that they understand that and that they would be in support of that. That's not going to be easy, but I think that line of weaponization is the one that other major powers actually do think is worth enforcing, or at least we ought to pursue that while we're not in an absolute retreat that's disorganized as would be the case if Iran continues to go forward with enrichment, gets enough LEU that people calculate they already have enough to convert quickly to a bomb. At that point, we'll be in more disarray and in a weaker position to be able to defend the red line of weaponization. Let me say two last things.

One is I don't have many illusions that what I'm suggesting is actually going to be accepted by the governments involved and that may be because it's really stupid what I'm suggesting or it may be because politically it would be difficult to do things like withdraw the incentives and some of the other and take force off the table and so forth. But also some of the alternative proposals that are out there, of kind of negotiating with Iran to accept some form of enrichment with limited number of centrifuges, certain kinds of inspections, and so on. There are various proposals.

I think that in considering those, much more attention needs to be focused on the surrounding steps that Iran would have to take, or should take, to build confidence. And I think that will be very necessary within the U.S. body politic and the Congress. What do I mean by that? Well, if Iran – if somebody is trying to negotiate a deal where Iran does limited enrichment – and there isn't as part of that a communication of confidence building regarding Israel, for example, or Iran's position on Lebanon. That if it's strictly a nuclear issue without dealing with the security concerns that Iran's nuclear activities pose, I don't think that's a good deal, first of all, and I also don't think it's something that's going to be politically acceptable in the U.S. And this kind of goes to what Karim ways saying – you've got to deal with these issues more broadly, and I think that a lot of kind of the nuclear compromises that are out there neglect that broader issue.

Final point is that I think we need to recognize that there's still – that the lever that we have right now is in the IAEA process, that there are a number of questions and issues that Iran has failed to address that the IAEA has identified. And that's where Iran's vulnerability is, and it should continue to be pressed. On the other hand, the international community has not said to Iran, if you

come clean, if you in fact provide the answers to these questions, and you provide these individuals that we want to interview that you're not letting us interview, that we won't use that information that you will have provided as a justification for military attack or further sanctions.

You have to kind of indemnify them for coming clean, and as far as I know, that hasn't been offered to Iran. And so it's very understandable that they would sit and feel like they're in an impossible position where if you provide the answers, first of all, you give them intelligence to better attack you and also you give them the political lever to beat you, and so that's something that's part of this package I think we ought to offer. I'll stop there.

MS. MATHEWS: Thank you and thank you both. Let me just ask one question to kick off this discussion. I know this room is full of expertise on the region and on Iran, and I want to get to you very, very quickly. But on the question that you both described of attempting to improve the broader political relationship between the two countries before you tackle nuclear – (inaudible). George talked about reciprocal or reciprocating incremental steps. Karim talked about maybe working on Iraq, on some of the other issues, Afghanistan, in which there may be overlapping interests. But what about the issue of timing? I mean, by the time you improve the relationship enough to even think about tackling the nuclear issue, according to that formula, would you not have missed the boat and be looking at the world's tenth nuclear power?

MR. PERKOVICH: I think that could well – that could well be the case and/or there may be nothing we can do about that. So the analysis may be right but – it's not that I take comfort from it, but the thought I have about it is that I don't think there's – I'm not aware of evidence, then again I might not be because I don't have the right clearances, but others don't allege that there's an absolute determination of Iran to make nuclear weapons. So that the timing that you're talking about – they are continuing to enrich, so I think that it's very likely that by the time the things we've talked about happen, Iran will have stockpiled enough low-enriched uranium to then allow people to conclude, well, they could make a bomb. But I think the time – there still will be a perception of some time because I don't think that there's any, I don't see any indication that Iran would then make a bomb or would move to make a bomb that quickly. So you would still have time to deal with that issue even if you wouldn't have time to deal with the enrichment question per se.

MR. SADJADPOUR: I would agree with George and then what I would add is that I think trying to ascertain what is the impetus for Iran's nuclear ambitions. I think this is a question that we need to probe. Is Iran pursuing the nuclear bomb because they want to dominate the Middle East and threaten Israel? Or is Iran's nuclear ambitions driven by a sense of insecurity vis-à-vis the United States? I don't know the answer to that question, but I don't actually think we've fully probed that question. I think that when you try to build confidence on the other issues, it could be that you simultaneously influence their nuclear calculations. If they say actually, we want to work with you – we, the United States, want to work with you in Iraq and Afghanistan, we don't want to change the government, maybe recalibrate the nuclear situation – the nuclear ambition.

MS. MATHEWS: Okay, that's what I thought. We have microphones so please identify yourself and I'll take three if we can, and then we'll start. Right there and then – let's take the clump right there.

Q: My name is – (inaudible) – from – (inaudible) – Magazine. But while we are talking about the nuclear file and so on and if there will be a big bargain or not Iran is still consolidating its

hold on Syria, Lebanon, Hamas, Gaza, so I mean even the Gulf countries are frightened from the big, you know, deal, and they are having to deal themselves with Iran. So what does that leave the United States with? I mean –

MS. MATHEWS: Okay.

Q: My name is – (inaudible) – and I am representative of Free Life Party of Kurdistan in Iran. Let us not fool ourself. Iran, they are plan – (inaudible) – the Supreme Leader, his plan, which is that God ordered him to detonate the nuclear bomb. And he is, Iran is buying time – (inaudible) – years. Iran will obtain the materials to make nuclear bomb or to make a – (inaudible) – bomb. So the time is closing and the – (inaudible) – president – (inaudible) – should move very fast on this issue. The worst – (inaudible) – last 28 years.

This issue – second issue is the – (inaudible) – the Iranian people. The never supported the – (inaudible) – inside Iran. And if they looked at Iran, Iran is – (inaudible) – not – (inaudible) – of religious, radical religion, and terror. The minorities are three million Kurds, 18 – (inaudible) – Azeris, three-and-a-half billion al Awazis, four million Baluchistanis – (inaudible) – of the peoples of Iran. They are treated like second-class minorities, but – (inaudible) – Iran.

MS. MATHEWS: Okay.

Q: They're treated like second class, and – (inaudible) – those people, they need help. If we need democratic change of Iran, we should help those people, and Western democracies they should move very fast. Iran is going –

MS. MATHEWS: Okay, I –

Q: To take the material to make the bomb.

MS. MATHEWS: Thank you. We have so many questions that I want to urge people to be as concise as they can. There are so many hands I want to get to as many as I can. Good.

Q: Charles Ferguson, Council on Foreign Relations, I'll just try to get right to the question, this is to George. So, George, I know you've been tracking the U.S.-India nuclear deal, now it's going to go through, what do you think is going to be the impact of that deal in Tehran? Could you – I know what you're saying about incentives, kind of pulling back, there's a certain logic and psychology to what you're saying. I think I agree with you, but you know ultimately what we're going to be able to offer Iran, some type of India deal. We need to recognize the Iranians don't have a lot of uranium like the Indians didn't have a lot of uranium. The Iranians don't have a fuel fabrication facility. They say they would like, you know 20,000 megawatts of nuclear power, the only way they're going to get that is through us, through the Americans, French, Russians, et cetera.

And then my final, related question is about energy security. Can you bring energy security into this – maybe this question is to Karim. You know, India and Iran have been talking about a natural gas deal. There's also interest in natural gas deal through the Nobuko Project to connect that part of the world to Eastern and Central Europe. Thank you.

MS. MATHEWS: Thank, you, Chuck. Okay, why don't we tackle these three?

MR. SADJADPOUR: First question about Iran's regional influence. It's a very interesting question, and I think for the Iranian government it's always been more important to them how they're perceived in the broader Arab and Muslim world than even how their own population perceives them. And they're very proud of these polls which are taken which ask Arabs which leaders in the Middle East do they most admire, because most often Hasan Nasrallah of Hezbollah is number one, Ahmadinejad of Iran number two, and Khaled Mashaal of Hamas number three. So the Iranians are very proud of the way there – their influence in the broader Middle East.

Now, an interesting anecdote. Last year I was at one of these Track 2 discussions and I was talking to deputy foreign minister – Iranian deputy foreign minister. And I relayed to him a message which Shiite-Lebanese friend of mine once asked me. He said, think of all the money Iran has spent over the years on Hezbollah and Hamas. Since their inception a quarter of a century ago, we can argue that upwards of a billion dollars has been spent, at least, on Hezbollah and Hamas. And think about how many Lebanese Shiites Iran could have educated to become doctors and lawyers and engineers instead of sending arms and artillery to southern Lebanon. How many Lebanese Shiites could they have educated to become professionals and how much better off would that community be now, and likewise Palestinians?

Instead of arming Hamas, how many Palestinians could they have educated to become doctors and lawyers and engineers, and how much better off the Palestinians would be now? And his response to me was very telling, he said what good would that have done for Iran? I said what do you mean and he said do you, had we educated them to become doctors and lawyers and engineers, they're going to come back to south Lebanon and to Gaza and fight Israel? Of course not, they're going to stay doctors and lawyers and engineers. And it kind of crystallized for me, that moment, that, to use kind of a crude analogy, Iran is kind of – Iran is to the Middle East what Al Sharpton is to the African-American community.

Iran can be the champions of the downtrodden and the alienated and the dispossessed, but they know they can't be the champions of the upwardly mobile. When I lived in Beirut, my Shiite white-collar friends, engineers and doctors and lawyers, were not sympathetic to Iran and Hezbollah, but the Shiite taxi-drivers and others were quite sympathetic. So I think Iran very much recognizes that they thrive when the region is in the throes of tumult and carnage and chaos. And I think that, from the U.S. perspective, I think if we want to drain the swamp – and I think counter Iran's soft-power in the region we're going to have to create a region in the broader Arab world in which I don't think there exists this same sense of alienation and dispossession et cetera. It's not going to be a one- or two- or three-year process. I think it's going to be a longer-term process, but again I think as long as there exists this sense of alienation and dispossession, Iran's ideology resonates.

Second – on the second point about Iran, ethnic minorities and oppression, et cetera. I'm very sympathetic to the issue of human rights and oppression in Iran, but what I would argue is that the Iranian government is an equal-opportunity oppressor. They've imprisoned and killed far more Persian Shiites throughout the years, even per capita, than I think they have other ethnic minorities. I myself come from a background where my mom is Azeri, but what I would kind of push back against the question is the notion that Iran is simply this kind of concocted entity, that it's a post-Ottoman entity which was carved up on a cocktail napkin by Winston Churchill.

On the contrary, Iran has 2500 years history as a nation-state, I would argue whether you're Azeri, whether you're Persian, even Kurds, others, I think feel a strong attachment to the soil of Iran. They certainly don't feel a strong attachment to this current Iranian regime, but I am confident that one day when there is a more progressive, tolerant government in Tehran, I think that many Iranians, whether they're ethnic minorities or religious minorities, would feel an attachment to the place.

Lastly, just on Charles' question on energy security. I've always thought that one – you could call it a tactic, but one policy which hasn't really been tested, at least publicly, is to counter Iran's assertion that it can't be dependent on outside sources of fuel because this is something that Iranians always use, especially in public forums. They say, we have to enrich our uranium domestically, because we cannot be dependent on outside countries.

We can't trust anyone, and in the past we've been burnt and we have to be totally self-sufficient. I've always thought that a tactic which could be used, at least in public, is to say, okay Iran. You can't trust us, why don't you take five year's worth of uranium. Here you go, stockpile it, sit on it, and this I think really undermines this notion that they have to enrich uranium – (inaudible) – because you say well, you have five years' worth of it, why do you have to insist on doing it now, just sit on this for a couple years until we resolve the issue.

MS. MATHEWS: You mean fabricated fuel or –

MR. SADJADPOUR: I think just – you know, what's used at the Bushehr Reactor, essentially –

MS. MATHEWS: Right, so you mean fuel rods.

MR. SADJADPOUR: Yeah, fuel rods.

MS. MATHEWS: Right.

MR. SADJADPOUR: And, you know, Georgian – and Jessica can talk about the degree to which this is a proliferation risk, but I've always thought that this is an argument which could kind of undermine – undermines Iran's insistence that it needs to enrich indigenous fuel.

MR. PERKOVICH: On that one, I know that years ago on a Track 2 discussion, one of the Americans proposed that to the Iranian side of – well, you know we'll send you 10 years worth of fuel bundles for the reactor and they're not interested. I mean we're trying to find – we're trying to solve a problem that actually isn't their problem –

MS. MATHEWS: That they don't want to solve, right –

MR. SADJADPOUR: Right, because they don't want to –

MR. PERKOVICH: But you call their bluff, but you call their bluff and we continue to do that and that's being done and then it doesn't – it, you know, it's worth doing but I don't think it gets at the fundamental.

MR. SADJADPOUR: Right.

MR. PERKOVICH: Just, quickly on Charles, the U.S.-India deal doesn't help in a number of ways, but I think the biggest one is that with those Iranian leaders or influentials who favor the defiance course still, let's stick to our guns and keep pushing, they do bring up the Indian model. They say, well, look, India tested and then within two years the sanctions were off and you get used to it. Well, India's you know a big country and everything else but Iran's the biggest country in the Persian Gulf, it's a valuable region and so the Americans and everybody else will have to get over it over time.

I think that's more the analog that comes up. You know, they also argue about the discrimination – you're prepared to do this for India and they have nuclear bombs but not for us, but that argument actually doesn't work legally or in detail but it's politically compelling, so in any case this isn't helpful but I, you know. On the 20 – I mean this kind of goes – I mean they say they want 20,000 megawatts. That also is a complete fantasy that has no chance ever – well not ever, but no chance of being implemented because – for a variety of reasons. I mean no one's – India's not going to get 20,000 megawatts in the time that they're talking about either. So it's, again that's just rhetoric and it's – you know, shouldn't be taken seriously because they don't take it seriously. It's a fantasy.

On the pipeline issue, I have advocated for a long time that I don't think we should oppose a pipeline going from Pakistan to India for a lot of strategic reasons. My discussions with Indian government officials at a high level is that the issue – if they could get a good deal on the pipeline and what they want in security – they'd do it, whether the U.S. likes it or not, so it isn't that. It's that there are so many questions about the pipeline – security in Pakistan, but a bigger one is that – like everyone else, they can't stand negotiating with the Iranians. That there's a price problem, and so when you talked to those who've been in the meetings they just say, these guys just drive us nuts, we'll never get a deal. But we'll keep talking, and then the Iranians want to have a press conference to say, we're running around the sanctions and everything else, and we say no, no, no, no, this is about price pallets, not about anything else.

There is one thing that we ought to explore, and it picks up on what Karim said about are there little incremental steps we could take to build confidence? And the idea of an intrasection, for example, that the U.S. would seek to open in Iran is an example of that. I got another example, an e-mail from an old high – a guy I played baseball with in high school, who happens to – he had a mortgage in Arizona like people have that he couldn't afford anymore, so instead of going under he actually has gone to Afghanistan to do construction work. (Laughter.) And he sent me an e-mail, he says he's out in Herat, and he said this is ridiculous.

He's overseeing these big construction projects, he says, we're buying materials that are so expensive, they're ridiculously priced, and you can get them for the tiniest fraction of the price across the border in Iran, they'll deliver the next day, and they're the natural neighbors and confrere of the people here, but we can't do that, we got to import the stuff from god knows where and it takes a lot longer and he says – can't you do something about this, you're in Washington. (Laughter.) Dear Charlie. And – but that's an example of the kind of thing where we have a shared interest in Afghanistan, specifically perhaps in Herat, and we might be able to – as an incremental step.

MS. MATHEWS: Okay, let me go back to – let me reach across the aisle, as the saying goes. Right here, on the aisle? Yes, yes, just reach for the –

Q: Judd Harriot (ph), independent documentary filmmaker. Is there a sanction which would really break their back? I understand that if we sanctioned all financial transactions from their central bank; that would really be a buster.

MS. MATHEWS: Thank you. Who else, there in that region, go right ahead.

Q: (Inaudible) – VOA, Persian Service. My question goes to, mostly Karim's comment about the supreme leader not willing to come up with negotiation because he thinks isolation helps Iran's – serves better. So don't you think it works as a most important obstacle for coming up with a kind of deal – since, bearing in mind that supreme leader has the last say on foreign policy of Iran?

MS. MATHEWS: I saw one way in the back.

Q: Jim Lobe, Inter Press Service. I had a question that was a report that came out a month ago by the Bi-Partisan Center on Iran and what the U.S. should do, or what the new administration should do. It recommended among the very first steps that the new president should take is to build up U.S. military forces in Iran, and some of the signatories to that report, such as Dennis Ross, are looked to as fairly significant in the Obama campaign. There were other people more associated with the McCain campaign. I wondered if you had reviewed that report, and whether you think that particular recommendation would elicit a favorable response?

MS. MATHEWS: Okay, right here.

Q: (Inaudible) – Hudson Institute. I was in Russia last week, and after yelling with each other over Georgia et cetera, we tried to think about where we might be able to see some progress in the future, and Iran always – you know, it always pops up as a possibility. And the bargain we all hoped for, for the longest time was that there would be some arrangement which the Iranians would let Russian enrich their fuel or they have a joint enrichment center, something like that, and we would just sort of hold our nose and just accept that this is better than any other option. It sounded to me, from what you were saying, that option has probably passed, it's probably OBE at this point, overtaken by events, so I was wondering if you thought about other ways we might be able to involve the Russians, insofar as we think about where we could have some kind of positive agenda in the future in our relationship.

MS. MATHEWS: Okay, great. Let's start with that.

MR. PERKOVICH: I'll work up from Richard's question. I actually think that the – Russia's vital to a diplomatic strategy, as everyone knows. But I think there's a real – and the Russians really don't want Iran to have a bomb, and they don't really like the Iranians much. Or other Muslims for that matter. And it comes out when you have these private discussions. And that's part of the issue, they kind of go, these guys can't build the bomb, they're Muslims. (Laughter.) And so it's – that's part of the problem.

But, I think there's – Russia's biggest strategic interest is not having the U.S. and Iran patch up things with each other because Russia has – you know, it had a position in the Middle East, the

Soviet Union had a position in the Middle East that it basically lost incrementally. It got kicked out of Egypt, then Syria fell down, and then it got kicked out of Iraq after the '91 war, and it was out. Iran's the way that it's back in right now, and it's actually not a bad position, it's the biggest country, it's got great potential and everything else.

Just like a number of Arab leaders or intellectuals worry at some point that the U.S. and Iran will make up, and kind of dump the Arabs, the Russians have to be concerned that at some point U.S.-Iranian relations go back to the – some way in which they were before, but at least is very positive, and then you have to say, well are the Iranians going to prefer Russian goods to American goods, or what's Russia's position going to be? So that, from a Russian point of view, you want to solve the nuclear issue somehow, genuinely, but you don't want U.S.-Iranian relations to get very good.

So I think that's part of a tendency of – it causes ambivalence, I think. And so I don't have the solution to how you make them un-ambivalent, or what they could do even with ambivalence that would be sufficient to push Iran, but I think we have to come to terms with the competitive nature of that relationship and how much they really mean it when they want more multi-polarity in the world and everything else, and Iran's an example of where that is.

Real briefly, on the question of build up military force. I haven't read the report, there are other people here who are much more expert on those issues. I don't know if they actually said build up military forces in Iran or around Iran. I think there's some ways of expressing containment and deterrence that actually would be effective and are worth doing, including missile defenses in theater. And also, what I was saying and what I would say about – kind of the limited potential utility of force being on the table and so on – that applies to, kind of, overt large-scale force. I think there are a number of things that can and should be done covertly that would be smart and wouldn't have the political downside of kind of, Dick Cheney standing on an aircraft carrier saying, you know, we're here and we're going to threaten you, which is what we tend to do. We tend to do things out loud, which don't get – which don't really register on Iran, but the stuff that's done quietly and not talked about I think does register.

MR. SADJADPOUR: On Russia, I agree with George, and in my time speaking to Russians and visiting Moscow I came back with a very cynical understanding of Russian interests vis-à-vis Iran. I think for three or four reasons I don't see Russia having a real interest in seeing this U.S.-Iran dispute resolved anytime soon. I think, first of all, as long as this issue remains unresolved the risk premium of oil prices remains high, which benefits Russia. As long as Russia continues to kind of sit on the fence and not take a definitive side, both sides will continue to covet it.

So the debate in Washington is, what incentives can we offer Russia to get it on board, and the debate in Tehran as well, can we continue to entice the Russians with to make sure that they support our position. As George said, and I think this is a very important point, I don't think that the Russians want to see a U.S.-Iran rapprochement. I think that Iran could be a major challenger to Russia in the European oil and gas markets, and they don't want to see Iran coming out of its self-inflicted isolation.

And lastly I would agree with George, in that I think Russia certainly does not want to see a nuclear-armed Iran, but I think what keeps Russian leaders up more at night is opposing this perceived uni-polar world order than preventing a nuclear-armed Iran. I think preventing a nuclear-

armed Iran is certainly a priority but I would say it takes a backseat to opposing this perceived uni-polar world order.

When it comes to – I would like to combine this question – the question about sanctions and Jim's question about military buildup, because I think there's a fundamental premise here, there's a belief that Iran – the Islamic Republic can only take decisions under duress. That if you look at this regime's track record the last 30 years, they've only made one real major decision, and that was to end the Iran-Iraq war in 1988. Even that, they made the decision probably five years too late, but it was done at a time of tremendous duress. Oil prices were very low, the country was – it was just an incredibly war-weary population facing major economic hardship, and I think there's something to that.

I think there's something to that argument that this regime, for a variety of reasons, structurally, ideologically, it takes decisions only under duress. I think the problem with that though is that they're not going to face this existential angst anytime soon, like they were in 1988. As long as oil prices remain as high as they are and you know you have Chinese demand, Indian demand, and now you have tremendous Iranian leverage throughout the Middle East. So I don't see other sanctions or military intimidation bringing the regime to its knees. I don't think there's a silver bullet, either in the sanctions context or the military context, which is going to fundamentally bring the regime to its knees.

Now, I think these are important, I would say – economic origin is one element, an important element I think in sending a signal to Tehran that belligerence is not going to reap rewards. But I see– there's one, there's a bit of a contradiction here as I see it in that the short-term tactics and the long-term policy are at loggerheads. What do I mean by that? I think in the short-term it's essential that we send the signal to Tehran that President Ahmadinejad's belligerent behavior is not going to reap rewards. How do you do that? I think sanctions are one useful tool. But I think, over the long term, as I said earlier, I think you have elements within this regime which only survive in isolation, which actually benefit from isolation and sanctions. So I think you're not going to really expedite or facilitate political reform anymore – you can't – sanctions are not a policy you can hang your hat on. They may be a useful tactic in the short term, but over the long term they're not going to bring about change.

Lastly, on the question about the Supreme Leader and his worldview, et cetera. This is my own take on him that – again, he's not an idiot, I think he – I saw a lot in common between him and Fidel Castro in many ways in the sense that I think – also I think Castro also appreciates the fact that the U.S. embargo has played a decent role in helping him retain his personal status quo and Cuba's status quo. And I think Khameini understands that Iran – I would argue that for Khameini there's three real pillars left, three symbolic pillars left of the revolution. It's not about – (in Farsi) – death to America – (in Farsi) – death to Israel, and the hijab for women. And if you get rid of these pillars, then what's left of the Islamic Republic?

And so I think that, this is my own personal take about him, but I think what we need to do is really smoke that out, and really see for sure. And if we probe his intentions, either two things will happen: A, maybe he has a change of heart and I'm wrong, or, B, maybe I'm right but at least we show to the Iranian people and to the international community who have always blamed the United States for not reaching out to Iran, we show – listen. The impediment to an improvement in U.S.-Iran relations is not the United States, it's the supreme leader. And I think pressure is going to build

on him, both domestically amongst the political elite and amongst the people that – you're the obstacle to this, and we want to see change.

MS. MATHEWS: I just want to mention that Karim's comments on the supreme leader come from a long study of his – what, 15 or 20 years worth of his sermons, and a study that was published by Carnegie recently that I commend to those of you who haven't seen it. Okay, next round. All right, why don't we start here in front and then we'll go right back to these next four rows.

Q: Hi, I have a question to Mr. Sadjadpour, I'm working for – (inaudible) – considering your experience in Iran, how do you perceive the efficacy of Iran democracy forming?

MS. MATHEWS: Okay, and next to – yeah.

Q: Abner Cohen (ph). A question to George. Just to understand you clearly, do you actually accept nuclear-capable Iran, knowing that the – that the line between – you tried to make a distinguish between enrichment and weaponization. Actually, this is quite opaque and quite blurry. So in fact once you do that, it will be – and you tried to make the point that weaponization would really face the real action. I mean, once you accept nuclear-capable Iran, then the slippery slope towards weaponization is actually quite undermined. So what's your, actually, what bottom line and how do you actually defend it?

MS. MATHEWS: Let me just add to that, George, and maybe put a slightly different point on it; is a weaponization red-line enforceable in any way? All right. Then, I saw – (inaudible) – go ahead.

Q: Greg Thielmann, Senate Intelligence Community, I just wanted to, maybe add another little twist to Abner's point on the enforceability of that dividing line between weaponization and simple enrichment. Let's say the U.S. intelligence community said tomorrow that there – it believed, with a moderate level of confidence, that Iran was – had resumed its weaponization effort. If you put military option back on the table, would that create any kind of different dynamics than the reasons, George, you said it should be taken off the table right now, with regard to the strengthening of hardliners in Iran and with regard to either gaining or losing the help of other countries, like Russia, that we need in order to have a chance of success with Iran?

MS. MATHEWS: Okay, James, did you want to – okay, go ahead.

Q: James Acton from the Carnegie Endowment. I felt that this – and I mean this in a nice way – was a bit like watching the presidential debate last night in that each of the speakers had different plans and they weren't necessarily engaging with one another's plans. So can I ask the two speakers how you think your plans interact with one another, specifically, if you do what George wants, of making our last offer, then cutting off negotiations, trying to tighten sanctions, can you then also do what Karim wants, of negotiating with them on everything else, apart from the nuclear issue and starting a broad range of dialogue? Can you do those two things at once, do you think?

MS. MATHEWS: Okay, I'm going to take one more in the back right there – to your right – yeah.

Q: I'm with AIPAC. Karim, in an earlier presentation here at Carnegie, and you again stressed it here today, the importance of not strengthening president Ahmadinejad as Iran heads toward elections. Could you explain how you balance the effort to engage the Iranians in the near term with the strong need to make sure that Ahmadinejad is not seen as profiting by his policies at this juncture?

MS. MATHEWS: Okay, let's turn to – well, you go ahead.

MR. SADJADPOUR: Very good questions. That last question – what I advocate is continued – and when I mean continued, the Bush administration has already crossed that red line, in terms of having discussions with Iran in Baghdad, having discussions with Iran about Afghanistan – and I would continue in that realm. I would do it quietly. I wouldn't make any grand overtures to Iran before Iran's presidential election. And I don't – this is a controversial point, which others would disagree with me – but I actually wouldn't commence nuclear negotiations with Iran; I would continue building confidence in those other realms.

And, you know, privately, if the conversations are going well, maybe you expand it, privately, to encompass the nuclear talks, but, again, any grand gestures to Iran before June of 2009, when Ahmadinejad is up for presidential election, I fear that we rehabilitate him, and my belief is that – so he's certainly not the most powerful individual in Iran, but if there's one thing he's shown, it's that the institution of president in Iran is not a negligible institution – it controls many ministries and controls the budget. So I think as long as he and his team are around, it's infinitely more difficult to reach some type of a resolution.

On kind of George and I and John McCain and Obama, the interaction between us, I was thinking that, actually, my report, in some ways, is a prelude to George's report, in some ways. What I mean by that is, it kind of reminds me of this old adage, to paraphrase Winston Churchill, that if you're 30 and don't call for dialogue with Iran, you have no heart. If you're 50 and still call for dialogue with Iran, you have no brain – (laughter) – going back to what he said about being liberal and conservative.

Meaning that I think that – where I come from, it is that there's going to be a new president; we're starting from a blank slate. Let's see if we can actually cooperate with Iran – have a constructive relationship – change the last 30 years of enmity. I'm not being naïve or overly idealistic, but I say, let's see if we can try to do away with this bad blood, I think especially if we do have a President Obama, there's an opportunity there. If it doesn't work – if we've taken a realistic and genuine shot at it – I think then, I would hand it over to George's report and say – well, essentially that's the title of his report, "Iran Says No – Now What?" So that's how I see the dynamics between our two reports.

In terms of Iran's democracy – someone asked – I've always said that I take my cues from Iranian democratic activists. I don't pretend to be a democratic activist within Iran, and I am very sensitive to their difficulties and their plight, and I listen to what they have to say. And I think, across the board, the vast majority of them would argue that, at least in the current context – in the context of this very adversarial relationship – open and outward U.S. support for democracy, whether it's rhetorical support or whether it's monetary support, is counterproductive. And there are serious costs for those individuals in Tehran who are trying to further the cause of democracy, and when they get plucked out of the streets and imprisoned, there's very little the U.S. can do for

them. So I would simply defer to those individuals in Iran who are working on these issues, and I think, overwhelmingly, their belief seems to be that U.S. funding and U.S. support, at least in the context of the current relationship between the Bush administration and the Islamic Republic, is counterproductive.

Just one last point on the military option and the threat of military force. Three or four months ago, there was a quote from Shaul Mofaz – then, Israeli deputy prime minister – who vowed that Israel should attack Iran. And that quote sent oil prices up $11 a barrel. And I did the math, and an $11-per-barrel increase over the course of one year is an additional $10 billion annual revenue for Iran, which is about 10 years' worth of support for Hezbollah and Hamas. So I would simply argue that, in trying to counter Iran's nuclear ambitions by threatening military force, I think we make, actually, their pursuit of a nuclear program less costly, because they can work to throw more money into this, because the risk premium of oil prices remains high, and it makes it less costly – their support for groups like Hamas and Hezbollah, et cetera. So I actually agree very much with George, in that I think that military threats, and certainly military action, is incredibly counterproductive.

MR. PERKOVICH: Briefly, on James's point about, is there a contradiction: I don't think so at all. I think, actually, if you take the two together, that's actually the best strategy – let me explain what I mean. But having said that – (inaudible) – and I had lunch with a friend, who's a very accomplished diplomat from a major, non-aligned country, who read this and he said, you know, I understand what you're doing – and it's funny – he says, but your government will do it so horribly and incompetently that it's going to make things much worse. (Laughter.)

But what he meant by that is – the premise of what I'm saying is – actually, that you don't raise your voice and you don't pull offers off the table in high dudgeon or with threats, but you just say, all right, well, we hear you. You're not going to stop and we understand that; it's your choice. There are going to be consequences, because these resolutions are legal and they matter and there's a reason behind them and it's not just us – the rest of the world is scared, too. But we hear you, you've done your thing, and now we're going to go off and do our thing. But we're also prepared to talk with you about other stuff. I mean, I don't think it's that difficult. It's totally consistent to say, there's a dead end, but over here, we have stuff we have to do. We're not giving up our principles and our demands on the dead end, so that's why we're continuing the sanctions – you know, you should understand that – but over here, we have other interests and we're prepared to support them.

Now, maybe the Iranians say, no, but that's where we are right now, so you haven't lost anything, but I think, if you can do it in a way that is, kind of, the way they do business and the way other people do it, which is kind of in a calm, low-voiced way without, you know, Congress out there hammering and other people out there hammering, you might have a better chance. But I certainly don't see them as mutually exclusive.

On the big question that Abner asked about – you know, if you accept the nuclear capability, et cetera – look, I've been arguing about this for a long time – like 15 years, depending on how you count it – and can make the argument against enrichment in Iran as well as anybody can. So when you say, do I have to accept it, well, I mean there's a really long list of stuff I don't accept – Darfur, Russians throwing journalists out windows, kids without health care – I mean, there's a whole list of things that you don't accept – domestically and internationally – but at some point, you do a calculation and you say, well, can I stop it? Or can I stop it at a price that I'm willing to pay to stop

it? And I think that's the issue here; it's not acceptable, but it's, you know, what are my other options?

Now, the enrichment and weaponization line – of course it's blurry. My concern is, they've already crossed – or are very close to having crossed – the enrichment line. And if you don't rally the rest of the world to say, okay, here are going to be the consequences if you cross other lines, then we're going to be ill-prepared and the people that we need – including the Russians – in order to actually have consequences for another line are just going to, when they cross that line, they're going to shrug, too. So I'm trying to talk about, while there's still some ambiguity about whether we'd be making a concession to say, let's enforce this line, I would try to trade that to lock people in, firstly.

Secondly, yes, we know it's blurry, but we know there are some things that they might do that actually wouldn't be blurry, and it would be nice to be clear that there are consequences for them, which, right now, we're not. So, for example, if they withdrew from the NPT while they're not in compliance – they haven't satisfied the IAEA – that's not blurry. But right now, it's not clear whether there would be any consequences to that, and we haven't negotiated and worked with the other members of the Security Council to say, now, while it still means something, can we agree what the consequences would be there.

We can argue, as the gentlemen from the intelligence community did – and he's absolutely right – I mean, there's always, you know, moderate confidence and things will be more or less ambiguous, and on those items, I think it is very hard, as we know from experience now, to get other actors whom we need to support things like military action. It helps, I mean the more intelligence you have, it helps, but, again, it's possible that we actually could get clear intelligence, or they could break out. There could be a discovery of a clandestine facility where they're doing enrichment: That would be clear. And so, let's be prepared and let's mobilize people that if you get that kind of clarity, what the consequences would be. And, by the way, if you don't discover a clandestine facility and they're still relying on all the facilities that we know, then the line is actually not so blurry, because you're still – you're observing – and there's a way to give yourself warning. So I would say, on this issue, don't let ambiguity and the lack of perfect clarity paralyze you from doing the things – preparing to do the things where you would have clarity.

And the military action that I talked about in the report would be – I think we should be very clear that – it would be directed at activities and facilities that would violate the U.N. resolution. So it wouldn't be a regime-change kind of thing, or the thing that others are worried about the U.S. really would intend: This is the occasion to, you know, go an take care of the Revolutionary Guards and so on. The idea would be, it would be enforcing activities and actions that are already designated as, in essence, illegitimate by the international community. Now, that might not solve all of the capability problems we have to address, but it would solve some of them, and at least it stays within the bounds of enforceability that you could then – that would strengthen your argument with the other members of the Security Council that you're just trying to enforce the Security Council.

MS. MATHEWS: Okay, I think we have time for one more round. We'll start here and move back. We'll try to get – it's coming. Or he's going to go over there first.

Q: May I? Uh, Joe D. Thomas, CRDF. I'm interested that both of you were very skeptical about a grand bargain, but both of you want to change the psychology of the relationship. Are you

also skeptical about a grand gesture? It seems to me that if you try to do this with trench warfare, from the bottom up in diplomacy, there are so many players who will sabotage it that it'll grind to a halt or it'll take forever. But if, you know, there's a Kissinger-to-China, Sadat-to-Jerusalem moment to change the psychology on both sides, is that something you would consider?

MS. MATHEWS: Okay, next?

Q: Oh. If, a year from now –

MS. MATHEWS: Will you just introduce yourself?

Q: Excuse me, I'm Benjamin Tour (ph), retired Foreign Service officer and independent analyst. If, a year from now, U.S. and Iranian negotiators at a fairly high level are about to enter into fairly broad-ranging talks, what would be the top three priority issues that each side should or would bring up in these negotiations in, perhaps, their opening statements?

MS. MATHEWS: Okay, bring it forward if you would – right behind you.

Q: I have the feeling we –

MS. MATHEWS: Introduce yourself.

Q: I'm sorry, Kerry Mitchell from the Mitchell Report, and I'm attracted to Karim's sort of Mies van der Rohe, less-is-more in this case, but I'm interested in the devil-in-the-details part of it. And the two prior questions sort of get at this, but what I'm wondering about is, if you say, on the one hand that the grand bargain is off the table, nukes are off the table, sanctions remain – what one, two or three things is it possible that we could start talking about with some hope that something gets done?

MS. MATHEWS: Good question. Okay, was there another hand here that – oh, okay, go ahead in the back.

Q: I've got the – (inaudible). As you know, Russia has been working with Iran on building nuclear power plants, Bushehr in particular, and has hope of building other plants in Iran. To what extent does this program complicate our working with Russia to try to come to some sort of acceptable arrangement with Iran?

MS. MATHEWS: Okay. Last question, okay, go right ahead – right there.

Q: Thank you, I'm Renald Sales (ph) from the French Embassy. If I may play the devil's advocate with Karim's presentation about Tehran – (inaudible). What I'm – maybe just a couple of remarks – I think that America should understand that it has, of course, a card in its hands that is going to be able to be played next year, but it should not overestimate this card. I mean, the Iranians have been living, for 30 years as you yourself said, without you guys. They have actually drawn legitimacy from the fact that you don't speak to them. And I think that – sorry, I just want to read my notes – What does America have to offer, exactly, to Iran? I think it's mainly a question of legitimacy. Iran is already having relationships with more than half of the countries around the

world. What is it expecting from the biggest power in the world? Some kind of sactuarization of the regime? A kind of final legitimacy?

But beyond that, having a dialogue on the whole range of issues that you were mentioning – Iraq, Afghanistan, Hezbollah – they might realize very quickly that you are – you, Americans – are in a more demanding position on all these issues than they are. I mean, Iran is already a very influential country in its neighborhood – in the region. These guys hold the streets of Beirut and proved it through one of their proxies; they are extremely influential in Afghanistan; they hold many leverages in Iraq. So why would they be interested in a dialogue on Iraq, on Afghanistan, on Lebanon?

The other thing is – and this is the risk I see in your approach, Karim – if you take the nukes off at the start and start talking about all these issues, they might realize – the Iranians – they might realize in the end that, when, at last, you narrow the dialogue on the nuke issue, they have been legitimized already because you have been talking about all these issues, and they might actually get everything, which is continue the program, but also have a dialogue with America on all the other issues. That's what worries me.

MS. MATHEWS: Thank you. Okay, who would like to begin?

MR. PERKOVICH: On Joe's thing about the grand gesture and Kissinger with China – I don't know – all I know is, Kissinger went to China after the results had already been negotiated, secretly, through the channel started by Pakistan and so on. And I think that's the case here – let's assume that Obama wins – I don't want to jinx it. (Laughter.) That – because he said he would have a dialogue – there's going to be a lot of preparation and secret emissaries going to the Iranians to say, well, what kind of gesture can we get, because we can't come home empty-handed. So I think the answer to your question is, I don't know what the effect would be, but that in any case, before the gesture would be lots of negotiations, too, would be my sense. So, in any case, you're still in negotiations with the Iranians, which is the difficult part.

On the top three issues, which was kind of the same question in a way, at least the way that I filtered it. I think that the nuclear issue can't be ignored, so it always has to be there, but if it's in the context of Iran's ongoing enrichment, then at least some kind of discussion about steps Iran could take to reassure people of its intentions vis-à-vis Israel – in other words, that it's deterrable and it doesn't have the idea that it's going to wake up and nuke somebody would be part of the discussion. Afghanistan would be the next on my list, because the interests there are much more overlapping, I think. And then, the third would be something that the government under Khatami did want to work on – and it's partly an answer to the French Embassy, too – Iran has this – it knows its neighborhood is surrounded by Arab states that are ambivalent about Iran's power and purpose and identity and so forth, and that's a strategic challenge – historical challenge for Iran.

One of the things that Khatami wanted to do was to create sort of a regional framework to kind of build confidence and the idea of, live and let live. We'll figure out how to do this. That's very difficult, and it's arguably impossible for the states in the region to do without big-power kind of mediators and guarantors and people you can go to for sort of balancing, so there's both an interest – a wary interest – on the part of Iran for some kind of regional forum and process. And I would argue that the U.S. and others in Europe have an interest in trying to figure how to bring that about, and so that's also a way, I think, that would be a priority that they wouldn't just say no to at the beginning of the discussion. I'll stop there.

MR. SADJADPOUR: On the grand bargain versus the grand gesture, I hear this often times in both – we need a Nixon-to-China approach toward Iran. One major distinction where maybe the analogy doesn't fit – is that the Chinese had reached an internal consensus that they wanted an amicable relationship, or they wanted rapprochement with the United States whereas I don't think the Iranians have necessarily reached that internal consensus. And, again, I think the dangers of a grand gesture before Ahmadinejad's election is that you redeem him in the eyes of the people. I think that if there's a different president in June – you know, maybe Khatami comes back or there's a conservative who's interested in an amicable relationship with the United States – then I would support it.

If nothing less than showing to the world and to the Iranian people that it was Iran who refused this grand gesture and the United States was actually interested in having this relationship. But, again, I think the timing is key, and I wouldn't take it as a foregone conclusion that Iran's leadership wakes up in the morning and says, how can we have a different relationship with the United States. I think that plenty of them do, but at the very top – meaning the leader – I'm not sure if that's necessarily the case.

What are the issues which the United States would discuss when and if they come to the table? I think that the overwhelming U.S. gripe with Iran is Iran's position toward Israel – that's my own interpretation. And if you look at these three issues, terrorism, the nuclear program and support for radical groups, they're all related somehow to Israel. I mean, Iran poses and existential threat toward – or is perceived to pose an existential threat – a nuclear-armed Iran – toward Israel, not the United States. And, you know, what a nuclear-armed Iran would mean for Iran's support for Hezbollah, Hamas, et cetera. So that would be the primary U.S. talking point that Iran would need to change, and I think this would have to happen if there's going to be any type of an accommodation – Iran would have to change its approach toward Israel.

And I think, from the Iranian perspective, they would say that they perceive the United States as an existential threat – and it's not a military threat – but they believe the United States wants to overthrow the regime via, quote, unquote, a "soft revolution," or "velvet revolution." So that, I think would be the first thing the Iranians would discuss.

Now, again, how would we go about doing this? I said sanctions should remain, and how should – again, I think it goes back to the issue of timing and I wouldn't send any signals to the Iranians that Ahmadinejad's approach is bearing fruit. I think we have to be very sensitive to the internal debates within Iran, because what the hard-liner in Iran believe, is that when they took a moderate approach, under Khatami, it projected weakness – that when we talked about a dialogue of civilizations, what we got was the Axis of Evil, and now we're denying the Holocaust and threatening Israel, but we're being offered incentives which weren't on the table during the Khatami era.

So this is the lesson that is being learned, and Tehran – I think we need to make it clear to them that that's not the case, and again, going back to these – to commencing the discussion on areas of overlapping interest, just very briefly on Russia, we've spoken about Russia before, but there was an interesting op-ed in the Wall Street Journal last week by my friend Valinas (ph), who said, you know, all of the talk these days is about getting Russia to help us versus Iran, and he proposed,

why don't we get Iran to help us versus Russia? (Laughter.) That's an interesting way to think about this.

Lastly, on Renald's point, what does America have to offer Iran? Listen, I'm very sympathetic to this point as well, but what I would simply say is that – Iran is a great paradox in some ways, because from the outside, things look really well. Right, it's got this great leverage in Iraq and Afghanistan, Lebanon, et cetera, but the paradox is that there's this real rot. Internal malaise. I mean this is the only population – only major oil producer in the world whose population claims a worsening of economic conditions the last few years. This is a real achievement, when you think about it – (laughter) – that, you know, tripling of oil prices and the Iranians complain that their economic lot has gotten worse.

So I think that, at the end of the day many Iranians understand that Iran will never realize its full potential, and will never emerge from isolation as long as its relationship with the U.S. remains adversarial, and I think we simply have to try it out. You may be right, Renald, that at the end of the day they will reject it, they will refuse, they will drag their feet, but again I think we haven't really tested that out. The Europeans may have tested it out, but I don't think a U.S. administration has tested it out, and if that ends up being the case, again, let's call the Iranian's bluff and show to the world that they're the impediment in an improvement in the relationship, not the United States.

MS. MATHEWS: Thank you. Before I close, I want to just take a moment to introduce the distinguished director of the Carnegie Middle East Center, who is based in Beirut, Paul Salem, who is here with us, since he's not always in Washington, and has – (applause) – done an amazing job of building the center in the region. This has been a fabulous audience. I don't think I can remember a session with more interesting questions. Two fabulous speakers, so please join me in thanking them, and thank all of you.

(Applause.)

(END)