

Conference Report

THE IRANIAN DILEMMA

CHALLENGES FOR GERMAN AND
AMERICAN FOREIGN POLICY

Washington, D.C.
21 April 1997

American Institute for
Contemporary German Studies
The Johns Hopkins University



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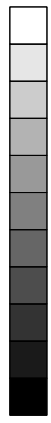
THE IRANIAN DILEMMA
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AND AMERICAN FOREIGN POLICY


Peter Rudolf
Geoffrey Kemp



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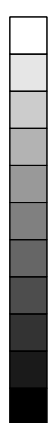
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FOREWORD


On April 21, 1997, AICGS organized a conference on German and American relations with Iran. This program was the second in our continuing series on *German and American Interests: Priorities and Policies*, which examines issues of common concern to Germany and the United States. Given the constant change and unpredictability of global politics today, the German-American strategic partnership requires a clear and objective understanding of how their goals, policies and interests coincide or diverge on specific issues. With this series, AICGS seeks to provide a forum for reaching this understanding.



This conference was organized in cooperation with the Trialogue Program of the Paul H. Nitze School of Advanced International Studies at the Johns Hopkins University and brought together German and American experts and policy officials for an exchange of views and analyses. Dr. Peter Rudolf of the Foundation for Science and Policy in Ebenhausen, Germany, and Dr. Geoffrey Kemp, Director of Regional Strategic Programs at the Nixon Center for Peace and Freedom in Washington D.C., presented and later revised the papers which make up this publication. Dr. Klaus-Peter Klaiber, Head of Policy Planning in the German Foreign Office, and Michelle Dunn of the Policy Planning Division in the U.S. State Department commented on the presentations.



Discussion throughout the seminar focused on determining the most effective measures to achieve a meaningful dialogue with Iran. While Germany and its European Union partners have pursued a policy of “critical dialogue” with Iran, the United States has followed a policy of isolation and containment through the implementation of economic boycotts. The American perspectives focused on the need for penalties to be imposed on Iran for “wrong” behavior, forcing them to accept the consequences of their choices.





Germany and its European partners argue that Iran, with a population of 70 million people, half of whom are fifteen years or younger, is too large a country to ignore. Also, although it has a weak economic base, Iran holds ten percent of the world's oil reserves and has a strong potential for leadership in the Gulf, making its role in the region vital. The European allies have thus sought to bring about reform in Iran through constructive interaction.

The chance that the European Union (EU) will join the U.S. and impose sanctions on Iran appears limited, however, and without a unanimous European approach, Germany sees sanctions as futile. The only way Germany and the other EU nations would consider sanctions now is if they are imposed by the United Nations, but this remains an unlikely prospect. Russia, Japan and Turkey recently signed trade contracts worth several billion dollars with Iran, indicating their preference for trade with Iran rather than sanctions against it. Thus, sanctions remain fragile and easy to circumvent for Iran, which is still one of the most desired trading partners in the Gulf.

The dilemma of dealing with Iran necessitates a clearer understanding of the domestic and foreign policy dimensions for both Germany and the United States. The two foreign policies derive from very different perceptions of Iran. The United States emphasizes the dangers of nuclear proliferation and Iran's attempts to produce weapons of mass destruction, and calls for harsh measures and sanctions. Germany, meanwhile, underscores the potential influence that Iran could have as a regional power in the Persian Gulf, and attempts cooperation rather than coercion.

According to Peter Rudolf, American and German self-perception lies at the roots of these divergent viewpoints of Iran. Where the United States sees itself as a "national security state," Germany considers itself a "trading state." Geoffrey Kemp noted that he finds these outlooks disturbing and fears that they could lead to a deep division between America and its European allies on more than just the Iran issue: "The attitude of European countries—that America will



take care of the military issues and we can do the trade—is dangerous for the overall security of the world-market.”

Whether the European critical engagement or the American critical isolation has been more effective in dealing with Iran remains a subject of contentious transatlantic debate. The gap between German and American perspectives toward Iran may have closed somewhat in the wake of the Mykonos trial verdict in April of this year.¹ The Iranian reaction to the verdict caused Germany and other European Union nations to withdraw their ambassadors from Iran for a period of time. There remains, however, significant disagreement between Europe and the U.S. on the use of boycotts and extraterritorial measures to influence Iran. At the same time, the election of President Khatami in Tehran may lead to new opportunities to engage in dialogue with Iran. Both sides are able to provide a clear and convincing rationale for their actions, clouding the issue further.

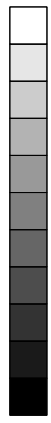


Geoffrey Kemp stated that it is necessary to conceive of new kinds of sticks and carrots that take into account the concerns and needs of the European Union and also achieve the U.S. goal of containment. A combination of the EU’s and U.S.’s policies would be a useful framework, where the U.S. has a lot of sticks but might provide more carrots and the Europeans could wield more pressure.



To accomplish such a joint policy venture it is first necessary to agree on benchmarks, which would both define the policy goals and measure their success. For these benchmarks a three-part agenda of minimum compliance was suggested. First, Iran should recognize the state of Israel and not provide support and funding for radical terrorist groups. Secondly, it should obey international laws and stop its attempts to develop weapons of mass destruction. And finally, it should permit more unannounced on-site inspections of its nuclear facilities by United Nations observers.

Whatever the method used, it is clear that Germany, in the context of





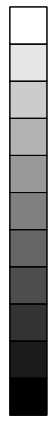
Europe, and the United States must coordinate their policies in order to achieve an outcome which most effectively fulfills the interests of all parties. This coordination would also serve to minimize the impact of domestic politics on foreign policy choices. A critical dialogue between Europe and the United States thus remains an important dimension in dealing with Iran.

We are grateful to the German Marshall Fund of the United States and Lufthansa German Airlines for their support of this program.

Jackson Janes
Executive Director

June 1997

* On April 10, four men were found guilty by a German court for the 1992 killing of three Kurdish dissidents and their translator at the Mykonos restaurant in Berlin. As part of the verdict, the court found that the highest levels of Iran's Islamic fundamentalist government gave orders to carry out the gangland-style slaying. This was the first time Iran's top leadership had been directly linked to the killing of Iranian dissidents by a Western court.





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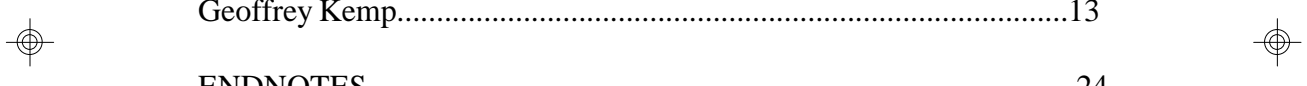
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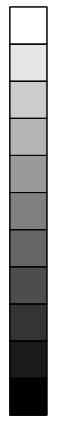
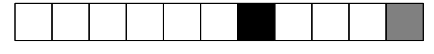
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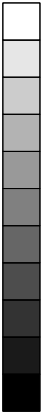
ABOUT THE AUTHORS



Peter Rudolf has been a research fellow at the *Stiftung Wissenschaft und Politik* (Research Institute for International Affairs) in Ebenhausen, Germany since 1988. A former APSA congressional fellow and research associate at Frankfurt Peace Research Institute, he spent the academic year 1991-92 as a research fellow at the Center for Science and International Affairs, Harvard University. In 1989 he earned a doctorate in political science from the University of Frankfurt. He is the author of *Amerikanische Seemachtpolitik und Maritime Ruestungskontrolle unter Carter und Reagan* and co-editor of *Amerikanische Weltpolitik nach dem Ost-West-Konflikt*. He has published numerous articles (mostly in German) on security policy and arms control, U.S. Foreign Policy, transatlantic relations and export controls and international economic sanctions.

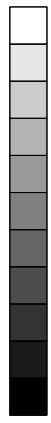


Geoffrey Kemp is the Director of Regional Strategic Programs at the Nixon Center for Peace and Freedom. His current areas of interest focus on the geopolitics of energy in the Caspian Basin and Persian Gulf and U.S. relations in the Middle East, especially with Iran. He received his Ph.D. in political science at M.I.T. and M.A. and B.A. degrees from Oxford University. He served in the White House during the first Reagan administration and was Special Assistant to the President for National Security Affairs and Senior Director for Near East and South Asian Affairs on the National Security Council Staff. Prior to his current position, he was a Senior Associate at the Carnegie Endowment for International Peace. In the 1970s he worked for the Defense Department and served on the faculty of the Fletcher School of Law and Diplomacy. He is also the author or co-author of several books on the Middle East.





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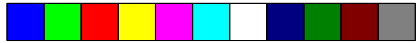
MANAGING STRATEGIC DIVERGENCE: GERMAN-AMERICAN CONFLICT OVER POLICY TOWARDS IRAN

Peter Rudolf

Nowhere is the divergence of foreign policy strategies between the United States and Germany greater than in the case of Iran. For domestic reasons, the United States seems to be almost frozen into a policy of containing and isolating Iran, although within the Clinton Administration, the process of reviewing policy towards Iran seems to have begun very, very cautiously. Even after the Mykonos verdict Germany mentally clings to a policy of constructive engagement, once called “critical dialogue,” then renamed into a policy of “active influence” (*aktive Einwirkung*), now temporarily suspended and in complete disarray.

The two strategic perspectives have rather peacefully coexisted for some time, occasionally colliding, sometimes creating the impression of a division of labor in the western approach towards Iran.¹ For quite a while, Germany could claim that the American policy lacked credibility, since U.S. oil corporations were allowed to sell Iranian oil—not in the United States but abroad. As the Clinton Administration—pressured by Congress—closed this loophole in May 1995 and expanded sanctions to a complete trade embargo, the United States could more credibly call upon Germany to change its policy. And when the Clinton Administration caved in to pressure by Congress and accepted the extraterritorial thrust of the “Iran and Libya Sanctions Act,” the transatlantic conflict was bound to erupt.

But all the controversy about the certainly annoying, but hardly new extraterritorial outreach of American sanction legislation tends to obfuscate the real problem that Iran poses for German-American relations: how to manage diverging and deeply rooted strategic approaches in a way so that, on the one hand, strains in the transatlantic relationship can be minimized and, on the other



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hand, the desired effects upon Iran be better reached than in the current situation. Can the strengths of both approaches be combined in such a way that conceptual weaknesses and transatlantic frictions might be reduced? I think that the answer is “yes.” What is currently needed is a sober transatlantic dialogue about a coordinated strategy towards Iran: a dialogue that requires the self-critical willingness to question the assumptions and illusions the diverging approaches on both sides of the Atlantic rest upon.

The Roots of Diverging Policies

There is no lack of factors that explain why Germany and the United States pursue diverging approaches in dealing with Iran.² German-Iranian relations have traditionally been friendly—at times by far too friendly. German-Iranian relations lack the traumatic events which have negatively shaped the relationship between Washington and Tehran. Whereas in the United States Iran is predominantly perceived as one of the “rogue nations,” the prevailing German view is quite different: Iran is considered to be a regional power essential to regional stability in the Persian Gulf region.

But in my view, most important are the institutional and ideological roots of diverging strategies towards Iran. To exaggerate only a bit: The United States fundamentally remains a “National Security State,” Germany a “Trading State.” For sure, economic interests have always had a prominent place in American foreign policy, and their importance has increased under the Clinton Administration. But when economic and security interests clash, the imperative of national security usually prevails, sometimes even more so in Congress. And this is especially true in the Persian Gulf region where the strategy of “dual containment” implies that the United States acts as the sole balancing power.³ Germany, however, can still be characterized as a “Trading State,” with its security outlook traditionally focused on Europe, although Germany drastically reformed its export control policies under American pressure and now applies





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rather tight controls on items which can be used for the development and production of weapons of mass destruction and missiles. From the American point of view, these controls might not be tight enough, as rather clumsy CIA efforts to obtain information on German firms exporting high technology to Iran seem to indicate.⁴

While economic sanctions have been a favorite foreign policy instrument in the United States—indeed the instrument of choice—since the early days of the republic, in Germany there is a widely shared belief that trade contributes to reducing international tensions and that trade embargoes are ineffective. In addition, different lessons have been drawn from the end of the East-West conflict. In the United States, the end of the Cold War is widely perceived to be a success of containment and a hard line approach. In the prevailing view in Germany, the end of the conflict was rather a result of *détente* and *Ostpolitik*.

Even if Germany had no economic interests in Iran, the approach would be different from the American one. Economic interests have certainly contributed to Germany's inclination towards a "soft" approach, but they can hardly explain why the German government clings so much to its old policy. Economic interests are not paramount, but they do play a role although the trade relationship has reached a low point:⁵ From 8 billion DM in 1992, German exports into Iran fell to 2.34 billion in 1995, and 2.2 billion in 1996. Imports from Iran amounted to 1.1 billion last year. Among the 200 countries having a trade relationship with Germany, Iran ranks in position 45 with respect to exports, and in position 49 with regard to imports. Gone are the days when Iran was one of Germany's major trading partners outside of Europe. But for Iran, Germany is still among the most important trading partners; fifteen percent of Iranian imports stem from Germany.

German exports to Iran will not rise quickly. New public (Hermes) export credit guarantees were not in sight even before the Mykonos verdict. The German government did not want to provoke the United States again as in



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February 1995 when—for the first time after the war between Iran and Iraq—Hermes credits up to 150 million DM were extended following agreements about rescheduling Iranian debts. The total risks from Hermes credit guarantees amounted to 6 to 7 billion DM in fall 1996, for which the German government would have to compensate German banks and firms if Iran stopped paying off its debts. The number seems to have gone down to 5.15 billion in spring 1997. In addition, there are between 1 to 2 billion DM in outstanding bank credits not covered by official credit guarantees. And Iran has gone to great lengths to repay its debts. And occasionally it tries to lure German firms with the promise of attractive deals which so far have not yet materialized. But in the view of German industry, Iran remains a potentially attractive market. All in all, 169 German firms are currently represented in Iran, with direct investment being very low (according to official figures: 31 million in 1994), actually much lower than Iranian investment in Germany (in early 1995: 1.378 billion, up from 645 million in 1992). By the way, German firms do not have any substantial investment in the Iranian energy sector—the sort of investment targeted by the “Iran and Libya Sanctions Act.” All in all: In economic terms, Germany is more important to Iran than Iran to Germany. This should give Germany some political leverage.

Thus, there is an economic dimension to the German-Iranian relationship. But economic interests cannot fully account for why Germany has adhered to a policy so much criticized in the United States. And economic interests do not explain why engagement is the widely preferred approach in the German debate about dealing with Iran.

The domestic consensus in favor of engagement has not covered the full spectrum of official relations with Iran, especially not the close relationship with the Iranian intelligence service, which seemed to exist until, in March 1996, a federal court issued an arrest warrant for the chief of Iranian intelligence, implicating him in the Mykonos case. But despite some occasional calls in the



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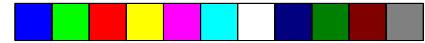
Bundestag to break off diplomatic relations in the course of the Mykonos trial and death threats against German prosecutors by the Iranian clergy, even many German critics believe in the potential value of engaging Iran and have not called for joining the United States in imposing severe sanctions.⁶

For example, Social Democratic members of the *Bundestag* put off a long-planned trip to Tehran in February 1997 as a reaction to the persecution of the Iranian literary editor Faradsch Sarkuhi, who seems to have become victim of a plot, accused of spying for Germany and France. But in general, one wants to keep talking with the Iranian government. Even the Green Party, which has been for quite some time very critical of German policy towards Iran, does not favor an American-style policy of isolation.

The initial reaction in Germany to the Mykonos verdict reflected these basic attitudes. Members of Parliament called for suspending the “critical dialogue” and for reviewing current policy, but against breaking off diplomatic relations.⁷ The first debate in the *Bundestag* on policy towards Iran after the Mykonos verdict clearly showed the broad bipartisan sentiment that the “critical dialogue” has failed—in contrast to the position of Foreign Minister Klaus Kinkel, whose resignation was demanded by the spokesman of the Green party.⁸ The majority of the *Bundestag* asked the government to review relations with Iran and to develop a new concept together with the other members of the EU. The German parliament supports maintaining relations with Iran, but at a minimum level as long as Iran does not change its behavior.

Evaluating Diverging Policies

The transatlantic difference in perspective on how to deal with Iran will not go away although the gap might be narrowing. The United States and Germany are prisoners of the past, both share illusions about the effect of their respective strategies.⁹ In its mixture of economic interests and historically shaped strategic preferences the German approach will continue to differ from the American—



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not so much with respect to the desired ends but with respect to the preferred means and the underlying assumptions.

Both Germany and the United States seek to induce changes in Iranian behavior and have clearly articulated what they expect from Iran as a precondition of improving relations. The German list of expectations—quite similar to the American one—includes a positive attitude towards the Middle East peace process, implementation of the commitment made to the EU not to sponsor terrorism in the Middle East, improvements in the human rights situation, and a halt to all intelligence activities that threaten Iranians living abroad.¹⁰

Surprisingly, nuclear proliferation is missing on this list. From the official German point of view, as presented to the German Parliament last year, there has been no concrete evidence that Iran is engaged in nuclear activities that run counter to its obligations under the Nonproliferation Treaty.¹¹ In a narrow sense, this might still be true since the Iranian nuclear program seems to be in an early phase, with no secret or unsafeguarded installations already in the stage of pilot projects, at least to publicly available information.¹² But the fact that despite intelligence reports to the contrary the German government publicly tends to downplay the nuclear issue is quite puzzling.

But it is at the level of preferred instruments where Germany and United States really part company in dealing with Iran. German policy rests upon the assumption that Iranian behavior can be influenced through communication (for example, through common human rights seminars) and through incentives within an approach that can be characterized as diffuse linkage: The further improvement of German-Iranian relations has been linked with Teheran's living up to the already mentioned expectations, not only in word but in deeds. This linkage is diffuse because neither the incentives have been—at least publicly—spelled out nor specific changes in Iranian behavior have been coupled with specific incentives. Iran has to fulfill as many expectations as possible, then

Germany offers unspecified progress. The time frame for Iranian concession remains open. The threat of sanctions has been missing completely.

Supporters of constructive engagement in the foreign policy community point out that one basic assumption differs from the American one: Whereas the United States seems to have given up on efforts at strengthening moderates in their political struggle with extremists in Iran, German policy still reckons with different political forces in Iran. For proponents of the “critical dialogue”, this policy aims at persuading moderates in Iran that a change in policy is in Iran’s basic self-interest.¹³ The assumption that Iranian moderates still need to be convinced that terrorism hampers developing relations with the West may sound a bit strange. But supporters of the “critical dialogue” do have a point: Keeping open lines of communication forces the Iranian political elite to face the issues unacceptable to the West.

But even most supporters of the “critical dialogue” will concede that the policy has not led to any really substantial results. But the same holds true for the American approach. As Madeleine Albright put it smilingly on her first trip to Europe: “Of course, our critical silence doesn’t seem to have accomplished that much either.”¹⁴

Thus, the dispute revolves around the question which strategy promises the best chance of bringing about the desired results. From the beginning, the German approach has lacked any perspective in case that Iran will only make minimal concessions. Since fall last year it has been in disarray although officially the German government stuck to its line until the Mykonos verdict, using the endorsement of the European Union in 1992 as some sort of cover.¹⁵ And the reaction to the Mykonos verdict—expelling four Iranian diplomats, recalling the German ambassador (whose rather quick return was blocked by the Iranian government), and—together with other members of the EU—suspending the “critical dialogue”—do not amount to a drastic response, which, of course, could have provoked hostile Iranian reactions. Since the protest demonstration



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at the German embassy in Tehran last November, the fate of the more than 500 Germans in Iran has been on the minds of policymakers in Bonn.¹⁶ Whether the German government will take further steps after a cooling-down period remains to be seen. A more than symbolic reaction could include striking at the highly developed Iranian intelligence network in Germany, which amounts to an internal security threat.¹⁷ But basically the German foreign ministry will try to put off any fundamental reorientation of relations with Iran. And in contrast to some other areas of foreign policy with a high involvement of the chancellor's office, policy towards Iran has mainly been left to the domain of Foreign Minister Kinkel.

With German policy towards Iran in broken pieces, the question is: Will the American approach be more successful? Although the shift toward a strict policy of containment and sanctions has been the result of domestic politics in the United States, there is some strategic logic to a policy of economic sanctions. In the short term, they reduce money available for "rogue activities;" in the long term, they might contribute to inducing changes in Iranian behavior, as proponents of sanctions believe.¹⁸ Implicitly, economic sanctions against Iran seem to rest on the rational actor model of economic sanctions.¹⁹ According to this model, sanctions will increase the economic and political costs for the Iranian government to a point where it will make concessions driven by the rational interest in maintaining its power. Economically, Iran's vulnerability lies in the energy sector, and American sanctions thus try to undercut Iran's long-term energy strategy which rests upon increasing exports.²⁰

But as the empirical record on economic sanctions demonstrates, even economically very effective sanctions do not necessarily yield the desired political effects.²¹ Instead, they may lead to the "rally around the flag effect," thus playing into the hands of those groups in Iran that instrumentalize the conflict with the West for their own purposes. In the end, we have to be agnostic about

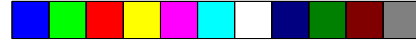
the long-term effects of sanctions. Asked by Congress whether sanctions are likely to influence Iran's behavior over the next three years, the CIA responded in May 1996: "Even in the case of broad multilateral support for sanctions against Iran, however, Tehran would not necessarily alter its policies or behavior, in our judgment."²²

Elements of a Coordinated Strategy

A sober evaluation of the diverging strategies and their probably very limited impact on Iran is needed on both sides of the Atlantic. We simply lack sufficient knowledge based upon past experiences to convincingly answer the question of how to reform and moderate "rogue regimes."²³ Both sides would have to question the ideological elements in their policy towards Iran: Germany its general distaste of economic sanctions and the unfounded reiteration that they will not work, since sometimes they do work; the United States its almost traumatic fixation on Iran as "public enemy No.1."²⁴

Any discussion about an appropriate strategy remains in the realm of plausible speculation. In the end, a division of labor between the American "stick" and the European "carrot" might be a useful approach if it were embedded in a strategy of "conditional reciprocity," as it was developed in general by Alexander L. George some time ago. In such a strategy, economic incentives and other concessions would be linked to specific changes in Iranian policy, which would have to be made clear in advance. Benefits should only be given in response to an actual change in behavior. And they should be designed in such a way that they can be withdrawn. The incentives must be important enough so that at least some groups in Iran get a stake in this process of conditional reciprocity.²⁵

In any case, it would be desirable to develop some very specific and crucial tests²⁶ of whether Iran is willing to play along with internationally accepted norms. Such a test would be extremely important for the nuclear question,



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which is rather downplayed in Germany, but which is of utmost importance to the United States. In this case, the situation seems paradox at first glance: Whereas according to the International Atomic Energy Agency there are no indications of an Iranian nuclear weapons program,²⁷ the United States government is convinced of Iran's ambition to develop nuclear weapons and extremely concerned about the nuclear infrastructure and expertise Russia is providing. What could a test of Iranian nuclear intentions look like? The pivotal point would be Tehran's willingness to accept newly developed, more intrusive inspections by the IAEA, including the application of new monitoring techniques and "no notice" inspections in declared and undeclared facilities.²⁸ Iran's response to such a request—preferably put forward together with Russia—would be an important indication of its nuclear intentions. If Iran fails this test and other tests, the case for containment would become much stronger.

The strategy I have suggested implies a lot of fine-tuning and transatlantic coordination within a long-term process. This may be asking too much, since Congress would have to be involved in this process. But without an attempt at coordinating diverging strategic approaches policy toward Iran will remain a bone of contention in German-American relations.

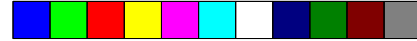


**THE UNITED STATES, EUROPE & IRAN:
THE INGREDIENTS FOR U.S.-EUROPEAN POLICY**

Geoffrey Kemp

The United States and Europe share mutual interests in the security of the Persian Gulf. It is the world's most important source of oil. Unfortunately, it is also a region plagued by conflict and instability. Loss of access to Persian Gulf oil, a precipitate increase in its price, or the massive transfer of oil revenues to anti-western regimes would have profound consequences for the economic well-being and security of the western allies. They also share interests in trade with this region. The increasing demand for consumer goods and various infrastructure projects in the richer Gulf countries are sources of revenue for both European and American companies. Over the long run, a stable and prosperous Gulf could be a very important source of business for western companies. There are major opportunities to develop the energy resources of the region, particularly natural gas. If Iran and Iraq are rehabilitated as a result of political change, they both have huge potential for western investment.

Nevertheless, despite these obvious common interests, the United States and Europe do not always see eye-to-eye on the management of Gulf affairs even as the region lurches from one crisis to another. The high point in recent cooperation was the Gulf War when the coalition put together by President Bush operated with great unanimity—even the Soviet Union was on board. Nevertheless, the European Union benefits from the U.S. security presence in the Gulf and although there are quarrels over arms sales to the Arab Gulf countries, there is consensus that without the U.S. presence, the Gulf would be highly unstable and oil supplies could be threatened. It was unrealistic to believe that this coalition could survive the uniqueness of the 1990-91 crisis. Furthermore, Britain, France, Germany, Italy and other Europeans have all




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pursued their own different interests and objectives in the region and take different stands on various components of EU Gulf policy. On no issue is this divergence as apparent as with the case of Iran.

The differences between the United States and Europe over Iran policy concern means not ends. The U.S. dual containment policy towards Iran, announced in 1993, was supplemented in 1995 by the imposition of a unilateral trade embargo, essentially ending all U.S. commercial relations with Iran. Then, in 1996, legislation was signed giving the President authority to impose a range of penalties on foreign companies who invest in Iran's energy industry in excess of 40 million dollars. Penalties could include denial of access to the huge U.S. market. The Iran-Libya Sanctions Act (ILSA) was initiated by New York Senator Alfonse D'Amato and has been greeted with hostility by the European Union. However it appears to have had some effect in deterring investment by foreign companies in Iran's oil and gas projects. The EU has threatened to retaliate against U.S. companies doing business in Europe if the new law is ever enforced. If European companies are penalized, a more serious confrontation will be unavoidable. Since such a polarization would play into the hands of Teheran, a major diplomatic effort is needed to prevent it from happening. This will require compromise by both sides of the Atlantic.

Despite quarrels over ILSA, the European countries agree with the United States that Iran's behavior has to change. The EU policy of engaging Iran in a "critical dialogue" was initiated at Edinburgh in December 1992. There were five areas where the EU wanted Iran to change its behavior: terror; weapons of mass destruction; the Arab-Israeli peace process; human rights; and international law. These are consistent with U.S. objectives. The purpose of the critical dialogue was to keep channels open and influence the moderates in Teheran. Americans are skeptical this dialogue has achieved any meaningful results. Each European country has a different spin on the definition of "critical dialogue" and although this term is now increasingly criticized in Europe—it is



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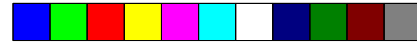
neither critical nor a dialogue—there is skepticism that economic sanctions will change Iranian behavior in the five designated areas.

The decision of the Berlin Appellate Court on April 10, 1997 finding the Iranian leadership ultimately culpable for the murders of Iranian Kurdish dissidents at the Mykonos restaurant in Berlin in 1992 led the EU to suspend its critical dialogue with Iran and withdraw its ambassadors from Teheran. On April 29 the EU Court of Foreign Ministers agreed on the following:

- confirmation that under the present circumstances there is no basis for the continuation of the critical dialogue between the European Union and Iran;
- the suspension of official bilateral ministerial visits to or from Iran;
- confirmation of the established policy of European Union member states not to supply arms to Iran;
- cooperation to ensure that visas are not granted to Iranians with intelligence and security function;
- concertation in excluding Iranian intelligence personnel from European Union member states.

It is important that Europeans and the United States use the Mykonos case to try to resolve their differences to avoid an escalation of rhetoric and mutual trade sanctions over Iran. What is required is a high profile and sustained diplomatic initiative by the United States and Europe to reach an agreed agenda on how to achieve realistic changes in Iranian policy, in exchange for an eventual ending of the American isolation of Iran.

One way to set the agenda and determine benchmarks for Iranian behavior is to use the “good-cop, bad-cop” method. The essence of the good cop/bad cop technique is that both cops have the similar objectives of enforcing the law. The good cop nurtures the subject, seeking his or her friendship. He relies on pleasantries and small but kind gestures, while warning the subject that it is much better to cooperate otherwise he or she will be turned over to the bad cop. The bad cop, on the other hand, uses threats and intimidation and unpleasantness



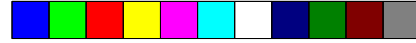
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to achieve cooperation. However, both cops understand the limits of their respective approaches: In the last resort, the good cop has to enforce the law and must be prepared to draw his gun. Likewise, the bad cop must respect the constitutional rights of the subject and behave within the law. In other words, the good cop/bad cop policy involves a mixture of carrots and sticks.

How would this approach work in the case of a U.S.-European initiative on Iran? Clearly the roles are preordained: the Europeans would play the good cop, and the U.S., the bad cop. Europe would use its access and influence with Iran to persistently and firmly make the argument that unless Iran complies with certain standards and changes its behavior on specific issues, it will not be able or willing to act contrary to the policies advocated by the bad cop. This means that Europe would be prepared to consider tougher measures—the sticks—including economic sanctions, against Iran more in line with those proposed by the United States if, after a specific period of time, Iran refused to comply.

In return, if Iran does comply the United States would be prepared to offer carrots and soften its hard line policy towards Iran. This could include loosening its economic sanctions and opposition to Iranian attempts to raise equity in the concessionary capital markets.

In order for such an approach to work several ingredients are necessary. First, a high level initiative by senior U.S. and European diplomats is required to formulate and agree upon a common policy, including better coordination and interpretation of intelligence data on sensitive issues. The agenda would focus on the five areas of Iranian behavior the U.S. and Europe agree need to be changed—terrorism, peace process, weapons of mass destruction, human rights and international law. Such an initiative will be doomed from the start if the level of participation is restricted to middle rank officers. Although they are highly competent and knowledgeable in the field, the subject is of sufficient importance to warrant very high level engagement. Inevitably, this will require the United States to take the lead since it is unlikely that any one European Union



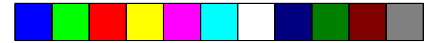
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country will wish to be out in front of the others. The possible exception could be Germany, where there is more willingness to reassess Iranian policy than in France or Italy (Britain, Denmark and Holland have always been skeptical of the Iranian regime and the critical dialogue). For the United States, this means involvement at the under secretary level or the appointment of a special envoy to deal specifically with Iran and probably Iraq.

Second, benchmarks would be established based on expectations of what changes in policy the Iranian regime is realistically likely to consider. The benchmarks would focus on practical steps that the Iranian regime could contemplate if they wished to improve relations with the United States and the West. In view of the unexpected results of the Iranian presidential election on May 23, 1997, when the moderate Mohammed Khatemi easily defeated the Mullah's candidate Ali Akbar Nateq-Nouri, possibilities for Iranian compromise might be improved. For instance, in the context of the peace process, the benchmarks would include the public acceptance by the Iranian regime of the Oslo process, Arafat and the PLO as the interlocutors for the Palestinians. The Iranians should also accept the principle that peace between Israel and the Arabs is beneficial for the region, including for Iran itself.

They would also have to end their vitriolic rhetoric against Israel which has included comments welcoming the assassination of Israeli Prime Minister Rabin and support for suicide bombings against Israelis in Tel Aviv and Jerusalem. While not ideal, such steps are not out of the question. Ideal benchmarks would include full recognition of Israel, the end of support for Hezbollah, Hamas, and Islamic Jihad and participation in regional multilaterals. Since this is unlikely to happen in the foreseeable future, focusing on the possible benchmarks rather than the ideal benchmarks is the preferred approach.

Another benchmark concerns terrorism, and again one must separate the ideal from the possible. The most practical suggestion would be for Iran to stop arms shipments with Hezbollah. This would have to be coordinated with Syria




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who also controls Hezbollah's activities in Southern Lebanon. However, it would not rule out financial or political support for Hezbollah, and, therefore, it might be more palatable to the Mullahs if they were of a mind to make concessions to the West. Similarly, it would be possible for them to reduce funding for Hamas and Islamic Jihad without giving up support for such operations. Likewise, they could cool their rhetoric and cooperation with dissidents in the Arab Gulf. This would be an important step to reassure our Arab allies that the United States is concerned about their security as well as the security of U.S. forces and Israel.

On the matter of weapons of mass destruction, the ideal goal would be for Iran to abandon all nuclear power and research programs, cancel its CW and BW weapons programs and limit its SSMS to 150 kilometers. However, this will not happen regardless of what regime is in power in Teheran until the more divisive issue of Iraq's nuclear weapons and the broader problems of arms control in the region have been addressed. Nonetheless, Iran might be prepared to accept more open-ended IAEA challenge inspections and enhanced IAEA monitoring of its nuclear facilities. Iran could ratify the CWC, which they have said they would do, and could cancel the No-Dong agreement with North Korea which is of great concern to Turkey, Israel and Saudi Arabia. Iran could also cancel remaining nuclear reactor deals with China and Russia and abandon attempts to acquire enrichment or reprocessing capabilities. These are options which would be highly desirable from the western point of view, but would require a lot of carrots which will be discussed in the following paragraphs. Nevertheless, these are not totally unrealistic objectives given the experience we have had with previous aspiring nuclear powers, including North Korea, South Africa, Brazil and Argentina. It must be acknowledged, however, that these issues get to the very heart of Persian nationalism and no matter who is in charge in Teheran, the issue of regional security cannot be decoupled from specific initiatives on weapons of mass destruction. When





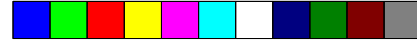
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discussing arms control with the West, Iran consistently points to Israel's capabilities as the benchmark. Nevertheless, in view of the huge costs of going ahead with a weapons of mass destruction program, both economically and politically, Iranian politicians know that if the price were right, this might be an issue that they would be willing to negotiate.

With respect to human rights and international law, there are three areas where Iran could improve its policies, should the Mullahs so desire, without a great deal of trouble. First it could remove the fatwa on Salman Rushdie—though the political costs of doing this within their own domestic politics are far from negligible. Second, it could permit the Bahais more freedom than they have currently. Things have improved for the Bahais since the early days of Khomeini, but it remains an issue that arouses great concern in the Bahais community and their supporters in Europe and the United States. Finally, it could release many political prisoners including artists and writers who have been held in clear violation to their human rights and in contravention of international norms.

A time frame for Iranian compliance would be agreed upon, as well as a methodology for assessing compliance. To test the Iranian willingness to consider these benchmarks, a series of carrots and sticks in the form of incentives must be presented for Iran to change its policies. The sticks are numerous. First, the EU can increase its diplomatic and political isolation of Iran. This has psychological and cultural implications, and although the Iranian leadership may be stoic and scathing about relations with Europe, it is very important to them. While, in the last resort, Iran may seek Asian options to avoid contact with Europe and the United States, most Iranians know that their future is dependent upon relations with the West and that, for the foreseeable future, the East can be no substitute.


Stepping up a notch, the United States and the Europeans could clearly use the stick of forging a more united policy to ultimately include economic sanctions



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if warranted. There are certain conditions under which the Europeans would undoubtedly be prepared to apply economic sanctions. For instance, if the evidence against Iran for direct involvement in the Khobar Towers bombing which killed 19 Americans was overwhelming, Europe might be prepared to go with the United States to the UN Security Council to vote for sanctions. While this might be vetoed by China and Russia, it would put the West in the advantageous position of forcing Russia and China to show their hand by explicitly supporting a country accused of terrorism by a majority of UN Security Council members. Other sticks could include a more specific American decision to link North Korean negotiations on food and energy supplies to the termination of the Iranian North Korean arms arrangements, particularly the No-Dong program. The West could bring the Rushdie case before the United Nations and the World Court and make the issue into a greater cause celebre than it already is. There could be intensified use of the Voice of America and other media outlets to broadcast to Iran. It is known that the Mullahs are particularly sensitive about outside broadcasts be they in Farsi, or be they TV beamed from satellites showing programs such as “Bay Watch.” This can be intensified given the dominance that the United States and the West have in this technology and the particular vulnerabilities of the Mullahs to such activities. In the last resort, the Iranians must be prepared for political, economic and military reprisals if they are directly implicated in terrorism against American and European citizens and show no sign of ending support for terrorist activities in the region. While this should be a last resort, the Iranians must be under no illusion that the West, particularly the United States, would be prepared to engage in such action should the conditions warrant.

As for carrots, there are many things that can be done to help Iran. Since the United States has the toughest policy, most of the carrots are in the American hands. To begin, the United States could amend the Iran-Libya Sanctions Act to make it easier to remove sanctions on foreign companies that

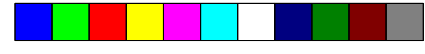


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do business with the Iranian oil industry. The U.S. could lift many of its unilateral sanctions against Iran, which include a boycott on virtually all items of trade. The United States could lower its opposition to Iranian borrowing rights in concessionary financial markets. This is particularly important in the context of energy investments, which Iran desperately needs to modernize and develop its oil and gas industry. Iran has a narrow window of time in which to do this and the United States and the Europeans can play on Iranian needs for investment to offer the carrot, together with the support for Iranian participation in pipeline routes, including those across Iran from Central Asia to the Indian Ocean. The United States could also, at a lesser cost, reduce the rhetoric in dealing with the Iranian regime and stop referring to them as a rogue state. While this may not seem important, it does have relevance in the context of improving the overall atmosphere, and would be considered a confidence building measure.

While these steps alone will not mollify the most severe critics of Iran, they would certainly be a significant step forward. Within the structure of this list, the components of a deal could be made. However, it must be stressed that this approach will come to naught if it is clearly demonstrated that the Iranian government has been behind recent terrorist incidents, especially the Khobar Towers bombing of Americans in Saudi Arabia. If there is overwhelming proof of Iranian involvement at the official level, then the United States and its European allies will have to take very tough measures together, although unilateral American action may be necessary. On the positive side, the Iranian election suggests that there is huge disillusionment with the conservative Mullahs and that the new Iranian leadership may appreciate that the time has come for a moderation of anti-Western policy.

A more coordinated agreement between Europe and the United States—indeed all the G-7 countries—should stress to Iran the huge opportunity costs it is incurring by continuing unacceptable behavior on terrorism, peace, weapons of mass destruction and human rights. Such an initiative would have



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great clout with Japan and could not be ignored by either Russia or China. The alternative—U.S.-European widening divergence and conflict over Iran—is a recipe for a disaster that will benefit no one except the extremists.



ENDNOTES

¹. For an interpretation in terms of an “international division of labor” see Patrick Clawson, “U.S. Goals towards Iran – Will Comprehensive Sanctions Help?,” U.S. Congress. House, Committee on International Relations, Subcommittee on International Economic Policy and Trade, *U.S. Sanctions on Iran: Next Steps*, Hearing, May 2, 1995, 104th Congress, 1st Session, Washington: GPO 1995, pp. 88-95 (89).

². See Michael Brenner/Wolfgang F. Schlör/Phil Williams, *German and American Security Policies: Strategic Convergence or Divergence*, Sankt Augustin: Konrad-Adenauer-Stiftung 1994, pp. 65-78; Charles Lane, “Germany’s New Ostpolitik,” *Foreign Affairs*, Vol. 74, No. 6 (November/December 1995), pp. 77-89; Patrick Clawson, “What to Do about Iran,” U.S. Congress. House, Committee on International Relations, *U.S. Policy toward Iran*, Hearing, November 9, 1995, 104th Congress, 1st Session, Washington: GPO 1996, pp. 111-121.

³. See Anthony Lake, “Confronting Backlash States,” *Foreign Affairs*, Vol. 73, No. 2 (March/April 1994), pp. 45-55; on the evolution of this policy, see Geoffrey Kemp, *Forever Enemies? American Policy and the Islamic Republic of Iran*, Washington: The Carnegie Endowment for International Peace 1994, pp. 6-9; for critical views, see F. Gregory Cause III, “The Illogic of Dual Containment,” *Foreign Affairs*, Vol. 73, No. (March/April 1994), pp. 65-66; Edward G. Shirley, “The Iran Policy Trap,” *Foreign Policy*, No. 96 (Fall 1994), pp. 75-93.

⁴. See Matt Marshall, “German Officials Confirm CIA Agent Visits,” *The Wall Street Journal Europe*, March 17, 1997, p. 2.

⁵. See Peter Ziller, “Ein “mustergültiger Schuldner”,” *Frankfurter Rundschau*, November 26, 1996, p. 4; Gregor Schmitz, “Milliardenschulden und der ‘Mykonos’-Prozess,” *Rheinischer Merkur*, November 29, 1996, p. 15; “Teheran lockt mit Milliarden,” *Frankfurter Rundschau*, January 30, 1997, p. 1; “Gespannte Beziehungen,” *Frankfurter Rundschau*, 11.4.1997, p. 4; “Mykonos-Urteil wird den Rückzug der Exporteure aus dem Iran beschleunigen,” *Süddeutsche Zeitung*, April 12, 13, 1997; “Irans Handelsüberschuß ist im vergangenen Jahr spürbar gesunken,” *Frankfurter Allgemeine Zeitung*, April 14, 1997, p. 15; for a detailed analysis of economic relations, see Javad Kooroshy, “Die wirtschaftliche Dimension der deutsch-iranischen Sonderbeziehung,” *Blätter für deutsche und internationale Politik*, Vol. 42, No. 1 (January 1997), pp. 66-73.

⁶. Despite controversy about the role of human rights in German-Iranian relations and the differing views on intelligence relations, the consensus in favor of engagement has been broad. See, e.g., the debate in the *Bundestag* on May 9, 1996 (*Deutscher Bundestag, Stenographischer Bericht*, 104. Sitzung, Plenarprotokoll 13/104, pp. 9206-



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9218). Even the sharpest and most polemical attack against the “critical dialogue” in the German debate ended in a rather lukewarm recommendation to heighten the pressure on Tehran. See Arthur Heinrich, “Zur Kritik des ‘Kritischen Dialogs.’ Der Sonderweg Bonn-Teheran,” *Blätter für Deutsche und Internationale Politik*, Vol. 41 (May 1996), pp. 532-543.

⁷. See “Den ‘kritischen Dialog’ überprüfen,” *Frankfurter Allgemeine Zeitung*, April 11, 1997, p. 3.

⁸. See the debate on April 17, 1997 (*Deutscher Bundestag, Stenographischer Bericht*, 13/169, pp. 15267-1528); “Kinkel: Die Politik des kritischen Dialogs mit Iran ist nicht gescheitert,” *Frankfurter Allgemeine Zeitung*, April 21, 1997, p. 2.


⁹. For critical discussions of the American approach, see Fawaz A. Gerges, “Washington’s Misguided Iran Policy,” *Survival*, Vol. 38, No. 4 (Winter 1996-97), pp. 5-15; Sharam Chubin, “U.S. Policy Towards Iran Should Change—But It Probably Won’t,” in: *Survival*, Vol. 38, No. 4 (Winter 1996-97), pp.16-18.

¹⁰. Foreign Minister Klaus Kinkel on May 9, 1996 1996 in the *Bundestag*, in: *Deutscher Bundestag, Stenographischer Bericht*, p. 9218.

¹¹. “Konkrete, belastbare Hinweise auf nukleare Anlagen oder Forschungsaktivitäten, die nicht mit dem Status Irans als Nichtkernwaffenstaat im Sinne des Vertrags über die Nichtverbreitung von Kernwaffen übereinstimmen, liegen der Bundesregierung nicht vor. Mehrere Inspektionen der IAEO ergaben ebenfalls keine diesbezüglichen Hinweise.” So the German government in response to questions from the German parliament. Antwort der Bundesregierung auf die Große Anfrage der Abgeordneten Amke Dietert-Scheuer, Dr. Helmut Lippelt, Gerd Poppe, weiterer Abgeordneter und der Fraktion BÜNDNIS 90/DIE GRÜNEN, Iran-Politik der Bundesregierung, Drucksache 13/3483, January 16, 1996, p. 15.

¹². “Based on the information presented in this report, Iran does not currently possess the requisite nuclear infrastructure for the indigenous production of fissile material in the amounts necessary for the production of nuclear weapons.” Greg J. Gerardi and Maryam Aharinejad, “An Assessment of Iran’s Nuclear Facilities,” *The Nonproliferation Review*, Vol. 2, No. 3 (Spring/ Summer 1995), pp. 207-213 (211); in addition, see Sharam Chubin, “Does Iran Want Nuclear Weapons?,” *Survival*, Vol. 37, No. 1 (Spring 1995), pp. 86-104; David Albright, “An Iranian Bomb?,” *Bulletin of the Atomic Scientists*, Vol. 41, No. 4 (July/August 1995), pp. 21-26.

¹³. Udo Steinbach, “Ist der Iran das Reich des Bösen?,” *Der Überblick*, Vol. 42, No. 2 (June 1996), pp. 30-32.



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¹⁴. Quoted in Jim Hoagland, "As Europe Looks 'South,' America Watches a Wider Screen," *International Herald Tribune*, March 6, 1997, p. 8.

¹⁵. See the interviews with Foreign Minister Klaus Kinkel in *General-Anzeiger*, February 15./16, 1997, p. 3, and *Frankfurter Rundschau*, February 5, 1997, p. 5.


¹⁶. See Udo Ulfkotte, "Planspiele für eine Botschaftserstürmung," *Frankfurter Allgemeine Zeitung*, December 27, 1996, p. 3.

¹⁷. On Iranian intelligence activities in Germany, see the report of the *Bundesamt für Verfassungsschutz* (responsible for counterintelligence) that was made public by the court dealing with the Mykonos case. The report was published by the *Frankfurter Rundschau*, March 28, 1995, p.6.

¹⁸. "We recognize that economic pressure takes time, but we are convinced that making Iran pay a price for its unacceptable activities is the best way to convince the Iranian leadership that it is in their country's best interest to abandon these policies." Peter Tarnoff, "Containing Iran," U.S. Congress. House, Committee on International Relations, *U.S. Policy toward Iran*, p. 48



¹⁹. On the logic of economic sanctions, see William A. Kerr and James D. Gaisford, "A Note on Increasing the Effectiveness of Sanctions," *Journal of World Trade*, Vol. 28, No. 6 (December 1994), pp. 169-176.



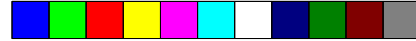
²⁰. See Andrew Rathmell, "Iran's Liquid Lifeline," *Jane's Intelligence Review*, Vol. 7, No. 9 (September 1995), pp. 411-414.

²¹. See Gary Clyde Hufbauer/Jeffrey J. Schott/Kimberly Ann Elliott, *Economic Sanctions Reconsidered: History and Current Policy*, Washington: Institute for International Economics, 2nd Edition 1990.

²². U.S. Congress, Senate, Select Committee on Intelligence, *Current and Projected National Security Threats to the United States and Its Interests Abroad*, Hearing, February 22, 1996, 104th Congress, 2nd Session, Washington, D.C.: GPO, 1996, p. 84.

²³. See Alexander L. George, *Bridging the Gap: Theory and Practice in Foreign Policy*, Washington: United States Institute of Peace Press 1993, pp. 45-60 (Chapter 4: "Reforming Outlaw States and Rogue Leaders").

²⁴. Thomas W. Lippman, "For Christopher, Iran Is Public Enemy No. 1," *Washington Post*, May 8, 1995, p. A4.



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²⁵. George, *Bridging the Gap*, p. 56, only speaks about the leadership and the population. But in countries with at least limited interest group politics, incentives and sanctions should be designed in a way that important groups might be addressed and activated. On the role of incentives and how they work, see in general William J. Long, "Trade and Technology Incentives and Bilateral Cooperation," *International Studies Quarterly*, Vol. 40, No. 1 (March 1996), pp. 77-106.

²⁶. In general, see George, *Bridging the Gap*, p. 54.

²⁷. See Udo Ulfkotte, "Teheran sieht die Vorwürfe der Europäer mit Unverständnis," *Frankfurter Allgemeine Zeitung*, May 9, 1996, p. 9.

²⁸. For this proposal, see David Albright, "The Russian-Iranian Reactor Deal," *The Nonproliferation Review*, Vol. 2, No. 3 (Spring/Summer 1995), pp. 49-51; on newly developed safeguards, see Richard Hooper, "Strengthening IAEA Safeguards in an Era of Nuclear Cooperation," *Arms Control Today*, Vol. 25, No. 9 (November 1995), pp. 14-18.



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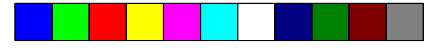
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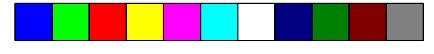
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