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IRAN AND ITS STRATEGIC ROLE IN THE PERSIAN GULF

Policy Options for the United States

ON APRIL 2, 1998, THE BAKER INSTITUTE HELD A SEMINAR ON "IRAN AND ITS STRATEGIC ROLE IN THE PERSIAN GULF AND CASPIAN BASIN." THE FOLLOWING REPORT DRAWS ON THE DISCUSSION AMONG FIVE PANELISTS—BRUCE RIEDEL, SPECIAL ASSISTANT TO THE PRESIDENT AND SENIOR DIRECTOR FOR NEAR EAST AND SOUTH ASIAN AFFAIRS, NATIONAL SECURITY COUNCIL; CHRIS KOJM, INTERNATIONAL RELATIONS COMMITTEE, UNITED STATES HOUSE OF REPRESENTATIVES; JOSEPH LEBARON, DEPUTY DIRECTOR FOR NORTHERN GULF AFFAIRS, U.S. DEPARTMENT OF STATE; DR. HOOSHANG AMIRAHMADI, PROFESSOR, BLOUSTEIN SCHOOL OF PUBLIC POLICY, RUTGERS UNIVERSITY, AND PRESIDENT, AMERICAN-IRANIAN COUNCIL, INC.; DR. R. K. RAMAZANI, PROFESSOR, UNIVERSITY OF VIRGINIA; AND MR. VAHAN ZANOYAN, PRESIDENT, THE PETROLEUM FINANCE CO. THE REPORT ALSO CONTAINS EXCERPTS FROM A SPEECH BY STUART EIZENSTAT, U.S. UNDER SECRETARY OF STATE FOR ECONOMIC, BUSINESS AND AGRICULTURAL AFFAIRS. AMBASSADOR EIZENSTAT SPOKE AT THE BAKER INSTITUTE ON THE CLINTON ADMINISTRATION'S INTERNATIONAL SANCTIONS POLICY.

THE POLICY RECOMMENDATIONS CONTAINED IN THIS REPORT ARE THOSE OF THE BAKER INSTITUTE AND MAY NOT REFLECT THE VIEWS OF THE SEMINAR PARTICIPANTS.

Introduction

No single event since the eruption of the Iranian revolution in 1979 has had such profound impact on Iran's domestic politics and foreign policy as the landslide election of Mohammed Khatami as president of the republic in May 1997. This event and others, such

as the protest against the incarceration of the secularly oriented Tehran mayor Gholamhossein Karbaschi, reflect the potentially irreversible dynamics of change in Iranian society.

But it would be a mistake to view this process as beginning with the election of Mohammed Khatami. Rather, the shift toward nationalism and economic reconstruction and away from Pan-Islamism and theocratic priorities as the unifying force of Iranian society began in the late 1980s with the death of Khomeini and the end of the eight-year war with Iraq. Under a platform initiated by then President Hashemi Rafsanjani, Iran began inching toward a more pragmatic foreign policy that continues today. Khatami's election is a continuation and expansion of this process.

The Strengthening of Civil Society

Paralleling evolution in the political realm has been the rise of a civil society in Iran. Civil society includes nonstate actors or groups that contribute to social and economic development or that may, in the course of such pursuits, bolster individual citizens capabilities in the political arena to protect themselves from the arbitrary exercise of state power. In Iran, the growth of civil society has introduced a more pluralistic approach toward national culture and politics.

The Iranian population became increasingly frustrated with the corruption, inflation, and unemployment experienced throughout the 1980s. Dissatisfaction among women and the young was particularly acute. Pressure is mounting for greater social freedoms. The election of Khatami not only confirms this trend but demonstrates that the shift may be ac-

celerating faster than previously understood.

A new openness is emerging in contemporary Iranian society. Public debate of social and political issues that was previously suppressed is reemerging. Once-taboo subjects for public discourse are finding their way to the spotlight.

Magazines such *Payam-e-Emrooz* and *Kiyan* have dedicated issues to such controversial topics as U.S.–Iran relations and the role of the clergy in politics. Widely covered stories of embezzlement scandals involving high-ranking government officials and the rights of women are two topics now receiving unprecedented levels of critical coverage.

Between 1979 and the mid-1990s, there was virtually no check on government or clerical power. Now, decentralization of power has allowed opposition voices to seep into the cracks. Some top Iranian government officials have left their posts to join the ranks of nonstate associations. The emergence of new factions is not based on the ideological foundations of the past, but on the need to construct independent bases of power.

Print media and journalistic professional associations are well-developed inside Iran and are playing an increasingly political role, according to Dr. Hooshang Amirahmadi. Educational institutions are also multiplying, and popular movements and professional associations are on the rise. Finally, the attitudes of youth are changing, with an increasing number of young Iranians demanding not only a better material life but also greater social and political freedom. “The political elite sensed this subterranean unrest, exhibited only at times by rallies and other expressions of frustration and alienation, and applied the safety valve of allowing a truly free presidential election,” noted Dr. R. K. Ramazani.

The opening of Iranian society will by no means proceed without opposition from hard-line politicians. In a speech in May 1998 in the holy city of Qom, for example, the commander of Iran’s Islamic Revolution’s Guards Corps, Major General Yahya Rahim Safavi, condemned the expression of liberal dissent inside Iran as “threatening Iran’s national security” and promised to “root out antirevolutionaries wherever they are.”

A key bellwether mark for future trends will be the parliamentary elections of 2000, which will act as

referendum on the policies of Khatami.

Pragmatism: At Home And Abroad

In many aspects of society, pragmatism is taking root from decisions made by Khatami all the way down to the Iranian citizen. Economic interests are competing increasingly with religious dogma as the cornerstone of Iran’s pursuit of relations with its neighbors.

Following in the footsteps of Rafsanjani and former oil minister Gholamreza Aghazadeh, Khatami has delivered more opportunities to optimize Iran’s economic potential, offering Caspian countries the option of using Iranian territory to reach oil and gas markets and opening up more lucrative oil and gas fields offshore and inside the country to equity investment by foreign firms. This move away from economic isolationism shows all the signs of a society looking to return to the international fold.

Iran’s foreign policy toward the Persian Gulf and Caspian Basin regions is becoming more pragmatic, and Tehran is working hard to improve relations with its Arab neighbors and the Muslim peoples of the Caspian region.

Iran’s primary strategy is to befriend the Arab states of the Gulf Cooperation Council (GCC) and “dissipate the suspicions created over the last twenty years” while still supporting UN sanctions imposed on Iraq, according to Ramazani.

With the aim of creating an atmosphere of trust between Iran and the GCC states, Iranian foreign minister Kamal Kharrazi’s first foreign travel in 1997 included GCC capitals, partly in anticipation of the meeting of the Organization of the Islamic Conference (OIC) in Tehran.

Iran’s focus within the GCC has been on Saudi Arabia. Crown Prince Abdullah went out of his way at the OIC summit to praise Khatami and Iran’s historic contributions to civilization. Tehran and Riyadh have launched a process of confidence building first signaled by an official two week state visit by Iran’s former president Rafsanjani to Saudi Arabia in early 1997. The two nations have created a joint cooperation commission and expressed interest in promoting private sector activities in each other’s economy and have agreed that the dispute between Iran and the

United Arab Emirates over Abu Musa and the two Tumbs be settled by peaceful means. Iran has lifted visa requirements for Saudis visiting Iran, and Saudi foreign minister Sa'ud al-Faisal has invited President Khatami to visit his country. A real shift in foreign policy is reflected by Khatami's letter to Yasir Arafat backing whatever peace settlement that the Palestinians and Israel find mutually acceptable.

Iran's public outreach to the GCC puts an official stamp on years of building economic relations. Iran's first step in taking a more pragmatic international position came after the start of Rafsanjani's second term as president, when Iran began relying more heavily on UAE city states for trade and banking services. The meteoric rise in activity at the Jabel Ali free trade zone in Dubai is partly associated with Iran's desire to use it as a go-between in purchasing oil service equipment and other goods.

To the north, Iran's diplomacy has taken a decidedly pragmatic turn, evolving from full-scale Islamic proselytizing in 1991 to a hard-core commercial approach today. Iran and Russia are linked in a battle to lure the Caspian Region's energy infrastructure to go through their respective territories. Iran is interested in the economic and political development of its northern neighbors, not only because of its interests in the stability of these neighbors, but also because it is conceivable that the region could provide a large market in the future for Iran's non-oil exports, according to Ramazani.

The Potential for Improved U.S.–Iranian Relations

As Iran develops into a more pluralistic society and an increasingly pragmatic international player, a window is opening for an improvement in U.S.–Iranian relations. U.S. government officials have made clear their willingness to enter into an authoritative government-to-government dialogue without preconditions. But such a dialogue can only proceed constructively with the understanding on both sides that the strategic interests of Iran and the United States are likely to differ in certain respects, regardless of the trends inside Iranian society.

Certain key Iranian priorities appear unlikely to

change in the near future.

- Iran, as a regional power, will continue to work to extend its influence in the Persian Gulf and abroad and to seek equality in international dealings; its interests discourage any foreign military presence in the region.

- Iran will remain acutely aware of its influence over the Strait of Hormuz.

- Iran as an Islamic nation will want to preserve its unique heritage and may increasingly revitalize nationalistic sentiment. It will uphold its territorial integrity and enhance its defensive capabilities. Tehran's strategic military goals will be defined by the capabilities of regional states such as India, Pakistan, Iraq, and Israel.

- As a regional power, Iran will seek to develop weapons of mass destruction and means of delivery.

The U.S. maintains bilateral relations with many countries like Iran with whom its interests diverge on some important issues and could benefit from improved relations with Iran. Iran and the U.S. have some major interests in common that could be tapped as a starting point.

Bruce Riedel told an audience at the Baker Institute that the U.S. government remains “interested in sitting down face to face with the Iranian leadership to discuss all issues of concern to both states.” He praised efforts to “strengthen the rule of law” inside Iran and added that the U.S. has no preconditions for such dialogue. “We only insist that the dialogue be authoritative—that is government-to-government.”

Riedel noted, however, that serious issues regarding Iran's policies still need to be addressed. U.S. concerns include: 1) Iran's aggressive acquisition program to develop weapons of mass destruction and long range ballistic missiles; 2) Iran's support for terrorist organizations; 3) Iran's support for violent opposition to the Middle East peace process. “In any future dialogue with Iran, we will want to discuss these issues. And we will continue to discourage other countries from engaging with Iran as a normal partner until we all see changes in Iran's behavior.”

Riedel commended Iran's more moderate declaratory policy toward the Palestinian National Authority and the more flexible approach it took in agreeing to an IOC resolution supporting the Oslo peace process accords. He also noted that the U.S. and Iran have

many shared interests such as the unrestricted flow of energy from the Persian Gulf, peace in Afghanistan, the containment of Saddam Hussein of Iraq, and the promotion and maintenance of political stability in Central Asia and the Caucasus.

The Clinton administration may have improved leeway to make overtures to Tehran given signs of change inside the U.S. Congress. There is increasing interest on the part of members of Congress to travel to Iran, and there was a notable absence of criticism to President Clinton's response to Khatami's historic CNN overtures. But the administration's decision to waive sanctions against European, Russian, and Asian companies seeking to invest in the Iranian oil and gas sector was greeted with mixed reaction from Capitol Hill. The decision, taken for national security reasons, penalizes U.S. energy firms while creating advantages for foreign competitors. The U.S. maintains sanctions against Iran under the Iran and Libya Sanctions Act, commonly known as ILSA. The administration waived implementation of ILSA sanctions against Russian and European energy firms, citing such national interests as U.S.–Russian nonproliferation cooperation and maintenance of the coalition to bring Iraq into compliance with UN resolutions on weapons of mass destruction. U.S. secretary of state Madeleine Albright, in announcing the waivers, noted that the U.S. and European Union would work together to step up efforts “to prevent dual-use technology transfers where there is a risk of diversion to weapons of mass destruction” and “to develop better controls over intangible technology transfers.” She also stated that the U.S. would remain closely engaged with Russia to stem transfers of missile technology and other dual-use technologies.

Congress continues to introduce new sanctions legislation, leaving the Administration with an uphill struggle in devising a coherent sanctions strategy towards Iran and many other nations.

Secretary Albright, in announcing the ILSA sanctions waivers, made clear that the U.S. still opposes the construction of oil and gas pipelines from the Caspian Basin through Iran. U.S. undersecretary of state for economic, business, and agricultural affairs Stuart E. Eizenstat asserted at the Baker Institute that to allow U.S. companies to ship Caspian crude through Iran “makes no sense whatsoever from an

energy security point of view” because such shipments would thereby not diversify supply away from the volatile Persian Gulf. “We want Caspian energy to diversify world energy supplies. The United States, as a matter of policy, strongly opposes any pipeline across Iran,” Eizenstat concluded. However, consideration of a Western route that would extend from Baku, Azerbaijan, through Iran to Turkey would provide leverage against Russia's significant political influence over most other available Caspian export routes. Such a route would still meet energy security concerns by avoiding the volatile Persian Gulf.

Policy Recommendations

- The U.S. should develop a more nuanced and sophisticated approach to its relations with Iran. The U.S. administration should formulate its policy toward Iran in a coherent regional framework that takes into consideration U.S. interests in the Middle East, Central Asia, South Asia, China, and Russia. While encouraging people-to-people contacts, the U.S. should take the initiative and actively pursue a carefully orchestrated, direct dialogue with Iran. Iran's national security interests in its regional setting must be acknowledged as part of this process to promote a meaningful and constructive exchange and eventual resolution of differences.
- The administration should keep as a priority and actively engage in diplomatic efforts for enhanced international cooperation towards comprehensive nonproliferation of nuclear weapons and other weapons of mass destruction. This will improve the prospects of dealing with Iran's specific efforts.
- It should be recognized that a multilateral sanctions regime against Iran that specifically targets military and dual-use technologies and equipment that have a clear and specific relationship to the development of weapons of mass destruction would be more effective than the current unilateral blanket economic sanctions imposed by the U.S. Congress and administration.
- The administration should work with Congressional leaders to introduce new legislation that would create clearer, more comprehensive parameters for the use of economic sanctions as a tool of foreign policy. Such legislation should include sunset provisions that

require a cost-benefit review and affirmed renewal of all specific sanctions legislation every year. Such a process will make it more difficult for special interest groups to hold ineffectual or outdated open-ended sanctions in place.

- The U.S. should continue to press other nations to take appropriate steps in response to continued Iranian support for international terrorism.

- The U.S. should express a willingness to consider construction of a major oil and gas export route from Baku through Iran to Turkey for Caspian Basin resources if a U.S. dialogue with Iran makes headway in resolving differences. Such flexibility would conform with Washington's desire to facilitate export routes for Caspian energy especially should Russia thwart export flows via routes under its influence. It would also signal to Tehran that the U.S. would be willing to recognize Iran's regional economic role should progress be made on key issues. The U.S. should not support a route through Iran to the Persian Gulf.

- The U.S. administration and Congress should permit U.S. energy companies to initiate discussions about investments in Iran's oil and gas sector to be implemented only after sanctions are lifted. Such discussions would reduce the clear advantage European and Russian firms now enjoy in Iran while potentially facilitating progress in a U.S.–Iranian official dialogue.

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