



Time to talk

THE CASE FOR DIPLOMATIC SOLUTIONS ON IRAN

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EXECUTIVE SUMMARY

The prospect of a nuclear Iran causes acute concern not only in the United States and Israel, but also in Europe, the Middle East and most of the rest of the world. This report does not seek to quantify the likelihood of military action against Iran. It argues that the consequences of any possible future military action could be wholly counterproductive as well as highly dangerous. Diplomatic solutions to the Iranian nuclear issue must be pursued resolutely.

Iran's nuclear programme— a cause for international concern?

The Iranian administration insists that its nuclear activities are directed solely towards a civil nuclear power programme. However, many states share the conviction that Iran is dedicated to becoming a nuclear weapons power and that it must not be allowed to develop the capability of producing nuclear weapon materials. The problem is that a fully indigenous civil nuclear power programme involves all the dual-use technology necessary to produce military fissile material.

Iran has enjoyed considerable domestic and some international support for its refusal to relinquish its legal entitlements, including from the Arab League and the Non-Aligned Movement (NAM), but its record of misleading International Atomic Energy Agency (IAEA) inspectors has eroded international confidence in Iran's intentions and its willingness to agree to watertight controls on its nuclear programme.

Since the international community was alerted to Iran's secret nuclear activities in 2002, various diplomatic strategies have been pursued. Despite many setbacks some important progress has been achieved, such as the involvement of the major players (China, France, Russia, the US, the UK and Germany), albeit indirectly in the case of the US, and the formulation of serious incentives to induce Iranian cooperation. Still, many within the US and Israeli administrations remain sceptical that diplomacy can deliver. Accordingly, the military option not only remains on the table but is also a real possibility in 2007.

Though debate has largely centred on Iran's uranium enrichment activities, Iran could also build a nuclear weapon by reprocessing plutonium. To ensure that Iran does not acquire a nuclear weapon capability, both of these routes would have to be blocked. The civil nuclear power reactor in Bushehr is due to be started in September 2007 (nuclear fuel supplied by Russia will be on site from March 2007).¹ Beyond this date, military strikes on Bushehr could unleash nuclear contamination so severe that it is unlikely that such strikes would be undertaken from that point forth. If Bushehr is on the list of targets, these considerations could hasten any plans for military action.

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Consequences of possible military action

A US or Israeli led attack on Iran would likely unleash a series of negative consequences. These might include:

- **Strengthened Iranian nuclear ambitions;**
- **Even greater instability in the Middle East and broader region, especially in Iraq and Afghanistan;**
- **Inflammation of the ‘war on terror’;**
- **Exacerbated energy insecurity and global economic hardship;**
- **Damage to developed and developing economies;**
- **Environmental degradation; and**
- **Civilian casualties.**

IRAN’S NUCLEAR AMBITIONS STRENGTHENED: It is expected that if military action were undertaken it could deepen the resolve of the Iranian regime to become a nuclear weapons power and would likely lead to Iran’s withdrawal from the Non Proliferation Treaty (NPT). The threat of Iran building a nuclear weapon could intensify, possibly prompting further proliferation in the region.

GREATER INSTABILITY: Iran’s links with Hezbollah in Lebanon, Hamas in the West Bank and Gaza as well as Shia constituencies in Iraq, Afghanistan and the Gulf States make regional retaliation against any military attack on Iran likely. UK forces in Iraq and Afghanistan could be particularly vulnerable, with significant losses possible. The notion of a limited engagement in Iran is likely to prove as illusory there as it has in Afghanistan and Iraq.

WAR ON TERROR INFLAMED: An attack on Iran would be perceived by some as an aggression towards the Muslim world, fuelling anti-Western sentiment and giving renewed impetus to extremists at home and abroad.

ENERGY CHAOS: Iran has the world’s second largest hydrocarbon reserves and is currently the fourth largest oil producer. A disruption to the Iranian oil supply could cause havoc in the global oil market. Iranian attempts, or even threats, to attack oil transit through the Straits of Hormuz could send oil prices over \$100 per barrel.

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ECONOMIC DAMAGE: The EU, which is partially dependent on Iranian oil supplies, could feel the squeeze and possibly even experience recession. Inflationary pressure would damage consumer confidence in the EU and the US. In developing countries, a rise in oil prices could cause GDPs to fall, exacerbating poverty and effectively undermining debt relief.

ENVIRONMENTAL DEGRADATION: Military action against nuclear establishments could unleash severe radioactive contamination. Aerial bombardments or sabotage could lead to contamination through oil slicks and oil well fires.

IMPACT ON IRANIAN CIVILIANS: In Iran, the impact of any military action on the civilian population could be acute. The notion that military strikes would be targeted and surgical is ill founded. Iran's nuclear facilities are located near densely populated towns, and those living or working nearby would be at serious risk. It is likely that US war planners would also target military assets beyond the nuclear facilities in anticipation of counterattacks, increasing the risk to civilians.

Military action is not likely to be a short, sharp engagement but could have a profound effect on the region, with shock waves felt far beyond.

Diplomacy is the only viable option

Iran has proved to be a difficult negotiating partner. But it cannot be said that the potential for diplomacy has been explored fully when direct talks between Iran and the US have not taken place. The major obstacle to full negotiations - namely, the requirement that Iran stop enriching uranium before direct talks with the US can begin - remains in place. If concessions are to be won, not only on the nuclear file but also on broader regional issues, there is more work to be done on elaborating the June 2006 package of incentives to address some of Iran's fundamental concerns, particularly in relation to security guarantees. The idea of a 'Grand Bargain' should not be dismissed outright. Real diplomatic options still exist, if a face-saving solution can be found to convince the protagonists to approach the table. The possible consequences of military action could be so serious that governments have a responsibility to ensure that *all* diplomatic options have been exhausted. At present, this is not the case.

The UK government is well positioned to articulate objections to military action. Military action against Iran would work against the interests of the UK. The UK should not lose this opportunity to advocate for direct US engagement; strengthening the hand of reformists inside Iran by being seen to treat it fairly and thereby laying foundations for a more functional relationship with Iran in the future.

INTRODUCTION

This report does not dispute the seriousness of the Iranian nuclear issue, nor the gravity of local, regional and global implications should Iran develop a nuclear weapon capability. It looks at the possible consequences of military action against Iran. As this report demonstrates, those consequences are potentially so serious that complacency about the possible outcomes of a military strike could be perilous.

The organisations affiliated with this report are concerned that arguments for military action against Iran might gain traction before a sober analysis of the consequences of such action has taken place. It does not seek to quantify the likelihood of military action in the near future. It does question the assumption that targeted military strikes against Iran's nuclear installations would effectively set back Iran's nuclear programme in the mid-to-long term.

What is certain is that the ramifications of military action are grounds for deep anxiety. The consequences could be devastating not only for millions of Iranians, many of whom do not share the hard-line views of their current government, but also for the prospects of peace in the Middle East; for hopes of stability finally taking root in Iraq; for people living in developing country economies, who could be disproportionately affected by the likely increase in oil prices; for the already strained ecosystem in the Persian Gulf; and for the UK, US and European economies.

Diplomatic options have not been exhausted; several important obstacles to an agreement remain in place. There is still time to explore these options, methodically and meticulously.

The signatories to this report have come together to support those seeking diplomatic solutions to the Iranian nuclear issue. This report focuses on the crucial role that the UK government can play in making diplomacy work. Once the broader implications of an attack against Iran have been comprehended, there can be no option but to step up direct and robust diplomatic engagement, however challenging and frustrating that may be.

SECTION ONE A CRISIS BREWING

1.1 Iran's nuclear programme

Iran is developing an extensive nuclear programme, with the stated goal of becoming self-sufficient in nuclear fuel production. The Iranian regime has the legal right to develop these facilities under nuclear Non Proliferation Treaty (NPT) safeguards as long as it remains in good standing with the IAEA and abides by its safeguards agreement, as specified under Article III of the NPT. However, many members of the international community are deeply concerned that Iran is using this civil nuclear power programme to conceal the development of nuclear weapons, and the Board of the IAEA has used Iran's previous failure to abide by its responsibilities (by developing clandestine facilities) to make demands that it abandon its enrichment and reprocessing activities.

States with nuclear weapons have developed them in conjunction with their civil nuclear energy programmes. It is the view of many international actors, including the US administration, the EU and others, that Iran not only must be held to its legal obligations under the NPT but also must not be allowed to develop a nuclear weapon capability under the guise of its power programme. Iran's 'dual-use' centrifuge enrichment capabilities can supply fuel for nuclear energy and could also produce highly enriched uranium for nuclear weapons.

Under the terms of the NPT and its safeguards arrangements with the IAEA, Iran has the right to enrich uranium. Iran could continue its enrichment activities and remain within its obligations under the treaty until such time as it begins to manufacture nuclear weapons. The Foster criterion, which was flagged as the guiding principle on the meaning of 'manufacture' during NPT negotiations, states:

'Facts indicating that the purpose of a particular activity was the acquisition of a nuclear explosive device would tend to show non-compliance. (Thus the construction of an experimental or prototype nuclear explosive device would be covered by the term "manufacture" as would be the production of components which could only have relevance to a nuclear explosive device.)' ²

The production of highly enriched uranium (HEU) would probably count under this criterion. HEU is used in some unusual varieties of nuclear power reactors, but not those run by Iran. The production of HEU in Iran could realistically be for military purposes only.

In 2002, the National Council of Resistance (NCR) provided evidence of clandestine nuclear activities at Natanz. Following this discovery, IAEA inspectors reported additional secret nuclear activities, a number of which were in contravention of Iran's NPT safeguards agreement. As well as failing to disclose certain activities – including plutonium production and uranium importation, conversion and enrichment – Iran has also misled IAEA inspectors about other activities, adding to doubts as to whether Iran's nuclear programme is being developed for nuclear energy alone.³

In addition to its uranium enrichment activities, it is possible that Iran could develop a nuclear weapon using reprocessing technology and plutonium. It could effect this using used fuel rods from the planned heavy-water research reactor at Arak or the light-water reactor at Bushehr, once it becomes operational in late 2007. The heavy-water reactor would produce plutonium more efficiently.

At the current rate of development, realistic estimates of the earliest possible date for an Iranian nuclear weapon capability vary from late 2008 to 2010, though reports that the nuclear fuel programme is experiencing difficulties and delays could lengthen these estimates considerably.⁴

1.2 Iran's motives for the pursuit of nuclear technology

The nuclear issue has been used to cultivate nationalist feeling in Iran; relinquishing the right to nuclear technology under the NPT would be seen as a national humiliation. Neither reformists nor conservatives appear willing to contemplate such a move. Iran has a history as a regional power, and its nuclear advances serve as a symbol of Iran's political importance and its modernity.

If, as existing states with nuclear weapons argue, such weapons confer status and provide security through 'deterrence,' some factions in Iran might indeed find the prospect of obtaining nuclear weapons attractive. The country is situated in a war-plagued region (five major wars in less than 25 years). When Iraq attacked Iran in 1980, subjecting it to the most extensive use of chemical weapons since the First World War, the international community turned a blind eye. The conflict cost the lives of hundreds of thousands of Iranians and remains a major scar on the national psyche to this day. Iran is located between two regional nuclear weapons powers, Israel and Pakistan,

and is encircled by US military forces in Iraq, Afghanistan, Turkey, Kuwait, Qatar and Kazakhstan. From the Iranian perspective, the United States is a hostile power that, together with the UK, fomented the 1953 coup against the democratically elected Mohammed Mossadeq. Since 2001, the US has labelled Iran part of an 'axis of evil' and has removed the regimes of two neighbouring states: Afghanistan and Iraq. Iran has also observed that the North Korean regime, which has declared that it possesses nuclear weapons, has avoided US military attention (if not similar sabre rattling).⁵

Views among the Iranian political elite are mixed as to whether or not Iran should build a nuclear bomb, although senior religious and political leaders have made public declarations that this is not their intention. One possibility is that Iran is positioning itself to establish a 'virtual' nuclear weapon capability – namely, the ability to manufacture a nuclear device within a short period of time – by virtue of its non-military nuclear technical capabilities and assets. This 'breakout' option would put Iran on a par with a number of 'Non-Nuclear Weapon States' under the NPT, such as Brazil and Japan, which remain in good standing with the international community and the IAEA.

1.3 Recent diplomatic developments

Since Western powers were alerted to Iran's secret nuclear activities in 2002, the EU/E3 – France, the UK and Germany – have been engaged in diplomatic attempts to prevent Iran from developing a full nuclear fuel cycle. The EU/E3-led talks gave rise to hopes of a successful resolution of the situation and were described by former UK Foreign Secretary Jack Straw as 'constructive and critical engagement'.⁶

Some progress has been made over the past three years, but setbacks have also been encountered:

→ **In December 2003**, Iran signed an Additional Protocol (AP) with the IAEA, a move towards giving IAEA inspectors greater investigatory freedom inside the country. While the Iranian government abided by the terms of the AP, the Iranian Parliament refused to ratify it and instead passed a bill in August 2005 instructing the Iranian government to comply only with its basic existing safeguards agreement if Iran was referred to the UN Security Council.

→ **On 15 November 2004**, the EU/E3 signed the Paris Agreement with Iran, negotiating a voluntary and temporary

suspension of uranium enrichment activities (the process by which both reactor fuel and weapons-grade fissile material can be produced) in return for unspecified economic rewards from the EU. IAEA inspections aiming to verify Iranian compliance with the NPT continued throughout 2005. Iranian leaders became frustrated by the lack of progress in negotiations, and the apparent EU strategy of waiting for the election of a reformist President backfired with the election of Mahmoud Ahmadinejad as the sixth President of the Islamic Republic of Iran in June 2005. The Paris Agreement broke down shortly thereafter.

→ **In August 2005** Iran resumed uranium conversion activities at Isfahan. Days later the EU/E3 made a formal proposal, demanding that Iran stop developing its nuclear fuel cycle and place all its nuclear work under tight safeguards, in exchange for a package of incentives. This offer received an aggressive response, pushing diplomatic efforts to crisis point.⁷ In September, the IAEA Board demanded that Iran cease its conversion activities.

→ **In January 2006**, Iran restarted its enrichment process. The IAEA threatened referral to the UN Security Council if Iran did not stop enrichment immediately. Iran did not comply and, on 4 February 2006, the IAEA referred Iran to the UN Security Council. In response, the Iranian government suspended its observance of the AP, though comprehensive safeguards continue to be in force.⁸

→ **On 8 March 2006**, the IAEA Board report confirmed that Iran had not been sufficiently transparent about its nuclear activities. After three weeks of diplomatic wrangling, on 29 March the UN Security Council issued a non-binding request that Iran cease uranium enrichment within 30 days (i.e. with a deadline of 28 April 2006).⁹

→ **On 11 April 2006**, President Ahmadinejad declared in a televised speech that Iran had mastered the uranium enrichment process: using 164 centrifuges at its Natanz facility, Iran succeeded in enriching uranium to 3.5%, within the 3–5% range required for a civilian nuclear project and far short of the 80–90% enrichment level required for nuclear weapons.¹⁰ (This rate has since been increased to 4.8%.¹¹) The government also announced that Iran had already produced 110 tonnes of enrichment feedstock gas (uranium hexafluoride, or UF₆)¹² and stated its ambition to begin installing 3,000 new centrifuges at Natanz by the end of 2006, as a precursor to industrial-scale enrichment.¹³

Independent experts, such as David Albright and Jacqueline Shire at the Institute for Science and International Security, continue to question the extent of Iran's progress in mastering the enrichment process.¹⁴

→ **On 4 June 2006**, following a meeting in Vienna, the P5+1 countries (the five permanent UN Security Council members and Germany) offered a package of incentives aimed at encouraging Iran to give up its nuclear enrichment activities. This was seen as significant, partly because it had the agreement of the P5 (Britain, France, China, Russia and US) and partly because in it the West had addressed Iranian concerns about security guarantees for the first time. Iran claimed the offer contained 'ambiguities' and, flouting the deadline to respond by the end of July, said it would respond by 22 August. This delay, combined with Iran's continued refusal to cease enrichment, provided grounds for the US and the EU/E3 to secure a UN Security Council resolution in mid-July.

→ **On 31 July 2006**, Security Council Resolution 1696 was adopted. It gave Iran a month in which to comply with IAEA demands to suspend enrichment, reconsider the construction of the heavy-water nuclear reactor at Arak, ratify and implement a stricter inspection regime and cooperate fully with IAEA inspectors. Failure to do so would mean referral of the matter back to the UN Security Council, which could then impose diplomatic or economic sanctions under Article 41, Chapter VII of the UN Charter.

→ **On 22 August 2006**, Iran presented a 21-page response to the P5+1 package, indicating that Tehran was willing to engage in 'serious' and 'constructive' talks but rejecting the unconditional suspension of enrichment as a precondition for negotiations.¹⁵

→ **On 31 August 2006**, the IAEA confirmed that Iran had not met its demand to cease enrichment. Despite US calls for the immediate imposition of sanctions, other members of the UN Security Council appeared reluctant to take further steps. As the EU set down a two-week deadline for Iran to clarify its position, two separate tracks emerged, with the US lobbying for sanctions whilst the EU, China and Russia advocated continued dialogue.¹⁶

→ **On 10 September 2006**, Javier Solana, EU High Representative for Common Foreign and Security Policy, met with Iran's chief negotiator, Ali Larijani, to discuss Iran's response to the P5+1 package. Both men announced that progress had been made and that important ambiguities had been clarified.¹⁷ Ali Larijani was reported to have signalled that Iran would halt enrichment for two months as part of direct negotiations, but Iranian officials later denied the claim¹⁸ and in early October Javier Solana announced that talks had made little progress and that Iran was not willing to suspend uranium enrichment. Following a meeting between the P5+1 on 6 October, the Iran dossier was referred back to the UN Security Council with a view to imposing sanctions under Article 41 of the UN Charter.

→ **On 23 December 2006**, the UN Security Council voted unanimously to impose sanctions on Iran. Following Russian insistence that the resolution contain no reference to the Bushehr reactor and that travel restrictions be weakened, the original EU draft was diluted substantially. Nevertheless, following painful negotiations, consensus was secured.

1.4 US objectives

Since 1980, when US embassy staff were taken hostage in Tehran, the US government has had no direct diplomatic relations with Iran and has applied unilateral economic sanctions. Although 2006 saw an increase in US commitment to diplomacy, Washington continues to remind the world that 'all options are on the table.' Many foreign policy think tanks, such as the Strategic Studies Institute of the US Army War College, have pointed to the gravity of possible consequences of a US- or Israeli-led military attack on Iran.¹⁹ But the White House is sceptical that diplomacy can be made to work, and with long-standing economic sanctions already in place, the US has few sticks left with which to force Iranian cooperation. In an effort to apply additional pressure, in late September 2006 Congress passed the Iran Freedom Support Act, which extends indirect sanctions on foreign firms trading sensitive technologies with Iran and authorises substantial financial assistance to Iranian opposition groups.

Some within President Bush's circle of close advisors believe that only regime change in Iran can guarantee a long-term solution to the threat of a nuclear-armed Iran. However, the twin strategies of aggressive regime change and keeping Iran nuclear-free are in conflict. It is widely recognised that attempts to induce regime change through external force are unlikely to succeed,²⁰ and it is expected that a foreign attack of any kind would increase nationalist feeling, further bolstering the regime.²¹

Reformists, democrats and human rights activists (both within and outside of Iran) argue vehemently that Iran's governmental system and disregard for fundamental human rights must change. But many opposed to the current regime – such as Shirin Ebadi, the 2003 winner of the Nobel Peace Prize – believe that the possibility of a military attack represents a disaster for their cause:

'Respect for human rights in any country must spring forth through the will of the people and as part of a genuine democratic process. Such respect can never be imposed by foreign military might and coercion ... [which would] vitiate popular support for human rights activism.'²²

Transition must be cultivated from within, supported by Iranian openness towards a wider world. Indeed, one aim of the EU's period of 'constructive diplomacy' with Iran was that, by encouraging a more outward-looking regime, it was hoped that a stronger process of democratisation could occur.²³

2007 is the penultimate year of President Bush's second term and it is reported that he feels duty-bound to stop Iran's nuclear programme.²⁴ With little faith in diplomacy, the use of US military force remains a possibility, since Bush believes it unlikely that a Republican or Democrat successor will have the 'political courage' to undertake a military strike. If the US administration is working according to the most pessimistic estimates that Iran could develop a nuclear weapon capability by the end of 2008, these two factors may place great pressure on the President either to contemplate military action before he leaves office or to give the green light to Israeli strikes.

1.5 The importance of Israel

The importance of Israel's role cannot be overestimated. Iran and Israel point the finger of suspicion at one another, and each perceives the other to be a significant security risk to its own territory. The election of Mahmoud Ahmadinejad in June 2005 led to a hardening in the Iranian stance on the nuclear issue and against Israel. President Ahmadinejad's public denial of the Holocaust and widely reported comments that Israel should be 'wiped off the map,' compounded by Iran's support of armed militant organisations in Gaza, the West Bank and Lebanon, gave credence to Israeli concerns.

For its part, Israel has maintained an undeclared nuclear weapon capability since the 1960s and has not signed the NPT. Alongside the US, it has the best-equipped armed forces in the region, with top of the range military hardware supplied by the US and Europe as well as produced domestically. Given the level of its perceived vulnerability, Israel is committed to remaining the only nuclear-armed power in the region, a position it defended by force in 1981 by launching air strikes to destroy the Osirak nuclear reactor in Baghdad, Iraq, even though evidence of a linkage between Osirak and a nuclear weapons programme was slight. Within Israel, there is widespread domestic support for preventing Iran from realising a nuclear weapon capability by any means.²⁵

Following the eruption of violence between Israel and Hezbollah in July 2006, the US accused Iran of enabling the conflict by funding and supplying arms to Hezbollah.²⁶ Attention was refocused on Iran's growing influence and ability to foment instability in the region. The US and Israel argue that this influence prevents engagement with Iran and necessitates a harder line on its nuclear programme.²⁷

1.6 What form would any possible military action take?

The principal aim of military action against Iran would be to destroy or, at a minimum, substantially set back its alleged nuclear weapons programme. It is likely that this would be attempted through air strikes; US commitments in Iraq and Afghanistan, together with Israel's recent experience in southern Lebanon, mean that there is no serious public consideration of a ground offensive. Potential targets for US or Israeli air strikes include not only Iranian nuclear facilities and missile delivery systems but also more general defence infrastructure, especially air defence systems, in order to paralyse Iran's capacity to defend against attack and to mount counterattacks. Some have also suggested that military strikes could deliberately target scientific and technical personnel, who may take longer to 'replace' than physical infrastructure. Some of these individuals are based in cities – for example, at university research laboratories in Tehran²⁸ – which means that the risk of civilian casualties would increase in the event of such attacks.

While all or some of these targets could be attacked, it is more likely that initial strikes would concentrate on actual and suspected nuclear facilities involved in uranium production and enrichment and plutonium separation research. However, due to the amorphous nature of Iranian nuclear facilities, their dispersal across the country and their subterranean design, it is unlikely that the US or Israel could achieve the aim of significantly setting back Iran's nuclear programme through one targeted strike. While an article by Seymour Hersh in *The New Yorker* suggested that nuclear 'bunker busters' might be used against underground targets, it is also possible that an attack would take the form of a sustained conventional bombing campaign over at least four to five days.²⁹

Some US generals have also warned that Iranian retaliation to a single air strike could draw the US into a longer conflict.³⁰ For example, Iran could send Revolutionary

Guards into Iraq to attack coalition forces. The notion of a limited and quick engagement with Iran is likely to prove as illusory there as it has in Afghanistan and Iraq.³¹

Foreign Office lawyers have advised that UK support for military action against Iran, by the US or Israel, without the express authority of the United Nations would be illegal.³² Whatever the scale and nature of military action, it is likely to make any future diplomacy or rapprochement an extremely difficult and distant prospect.³³

1.7 The role of the UK

It is highly unlikely that the UK would play any active role in military strikes against Iran. However, public endorsement from the UK would be important to the US. Without UK support, there are three reasons the US might be reluctant to act itself or to endorse Israeli-led strikes. Firstly, military action may have a disproportionate impact on UK forces in southern Iraq, and could have wider implications: a decision to go ahead without UK support could affect a long-standing alliance of importance to the US. Secondly, the inability to count on support from an ally that has so often stood 'shoulder to shoulder' with the US in the past could undermine support from other countries abroad, public support within the US and support within the Bush administration itself. Thirdly, if military action is to have any chance of success, it will depend upon international support for the United States, after military action, in isolating Iran; such international support would have to include the UK.

The UK has pledged its commitment to finding a diplomatic solution. Continued and explicit UK support for EU diplomatic efforts to resolve the Iranian nuclear question has strengthened the hand of those within the Bush administration keen to see the negotiations given a real chance and, ultimately, could encourage direct US participation. Though EU-led initiatives are important, they cannot make critical headway unless the US comes to the table with a balanced package of incentives. The UK government has a crucial role to play in helping facilitate that process and should preserve flexibility in its own diplomatic strategies.

SECTION TWO

THE IMPACTS OF POSSIBLE MILITARY ACTION

2.1 Negative consequences

A US- or Israeli-led attack on Iran would likely unleash a series of negative consequences. These might include:

- Strengthened Iranian nuclear ambitions;
- Even greater instability in the Middle East and broader region, especially in Iraq and Afghanistan;
- Inflammation of the 'war on terror';
- Exacerbated energy insecurity and global economic hardship;
- Damage to developed and developing economies;
- Environmental degradation; and
- Civilian casualties.

These are discussed in more detail below.

2.2 Impact on Iran's nuclear programme

Iranian planners have studied Israel's attack on Iraq's Osirak reactor in 1981 and have dispersed nuclear sites around the country³⁴ and sited many in or near densely populated cities. Many sites are well hidden, some buried deep underground; it is believed that the Natanz plant has over 18 metres of concrete and soil above its roof.³⁵

The US House of Representatives Subcommittee on Intelligence Policy recently criticised US intelligence agencies for having inadequate information on Iran's nuclear programme.³⁶ (Its report drew sharp criticism from the IAEA for being erroneous and misleading in its account of Iranian nuclear progress.³⁷) Some independent analysts concur that Western intelligence services lack sufficient information regarding the locations of Iranian nuclear facilities to ground confidence in military strikes.³⁸

Senior military figures at the Pentagon are reported to oppose military action at this time and to have warned that a bombing campaign against Iran would not be successful in destroying Iran's nuclear programme.³⁹ It is widely agreed that covert facilities and key personnel could survive air strikes.⁴⁰

Paradoxically, a military strike against Iran would probably engender a greater determination within Iran to develop a nuclear 'deterrent,' thereby undermining its intended purpose. Israel's destruction of Osirak, a reactor that may

well have had no military application, initiated a renewed effort by Saddam Hussein to develop a nuclear weapons programme. In Tehran, a diversity of views concerning an Iranian nuclear weapon exists at present. A nationalistic and defensive response to military strikes could silence opposition to nuclear weapons⁴¹ and shore up support for the regime.

If Iran did choose (following air strikes) to pursue a nuclear weapon capability, it is expected that this renewed effort would be concealed from the international community and IAEA inspectors. In late April 2006, Iran warned that it would stop cooperation with the UN and hide its nuclear programme in the event of a US attack.⁴² In September 2006, the Iranian Parliament's Foreign Policy and National Security Committee put forward a bill to block access to IAEA inspectors if sanctions were imposed.⁴³ Most analysts believe that Iran is genuine in its threat to withdraw from the NPT in the event of an attack.⁴⁴ This would remove the international community's ability to monitor Iran's nuclear programme, and the knock-on effects could be considerable: the treaty would be further weakened, potentially leading to increased nuclear proliferation in the region.

2.3 Effects on Middle East stability

Beyond the probable impact on Iran's nuclear programme, grave repercussions may be expected for the Middle East in the event of military action in Iran. Over the past five years, Iran's status as a regional power has increased.⁴⁵ Long-standing Iranian links to Hamas in Gaza and the West Bank, Hezbollah in Lebanon and Shia groups in Iraq, along with the presence of significant minority Shia populations in Saudi Arabia and other countries, could lead to severe destabilisation throughout the Middle East. From an economic perspective, Iran is a lynchpin for global energy security. An attack on Iran, a primary producer of oil with influence over the Straits of Hormuz, could lead to a further global increase in oil prices.

Impact on Iraq

A military attack on Iran by the US or Israel is likely to provoke a strong Iranian response in Iraq, threatening US, UK and other coalition forces and further jeopardising hopes of stability. Iran has a keen interest in the outcome of the Iraq conflict, due to both its own history of war with its neighbour during the 1980s and its cultural links and sympathies with the majority Shia living there. Many Iraqis and Americans believe Iran's links to Iraqi Shia pose a grave threat to stability in Iraq. Iran is already thought to have several thousand intelligence agents operating in the Shia region of Iraq, and despite initially refraining from overtly manipulating the Iraqi Shia, Iran has widely and increasingly been accused of arming and inciting Shia insurgents.⁴⁶ A decision to activate insurgent units could lead to an escalation in ethnic violence and push Iraq further down the road to bloody civil war.⁴⁷

Both the US and Iranian governments share an interest in stability in Iraq, but each sees the other as a fundamental obstacle to improved security. In May 2006, proposed talks between the US and Iran on Iraq were cancelled. Many analysts, including Fred Halliday of the London School of Economics, saw this cancellation as a grave mistake, believing that any solution to Iraq must involve Iran.⁴⁸ The recent sidelining of the Baker-Hamilton report, a key recommendation of which was to engage with Iran directly on Iraq, illustrates further the rejection of a policy of direct negotiation.

In mid-April 2006, Iranian Revolutionary Guard General Yahyah Rahim Safavi warned of attacks against US troops in Iraq in the event of conflict with the US,⁴⁹ and analysts have warned that Iranian Revolutionary Guards could move across the border to launch direct attacks on coalition forces.⁵⁰ Anticipation of such a move could motivate US bombing raids on Revolutionary Guard facilities close to the Iran/Iraq border, extending the sphere of military action. Iran claims to have a resource of 10 million young men to draw upon,⁵¹ and a US military attack could galvanise the willingness of those young men to fight for their country.⁵² In the words of one Pentagon advisor, 'If [the US attacks Iran], the southern half of Iraq will light up like a candle.'⁵³

The majority of Britain's 7,200 troops are stationed in this southern region of Iraq.⁵⁴ One senior US military official has warned that British troops, especially those stationed in Basra,

could come under overwhelming attack in the event of a US/Iranian conflict.⁵⁵ The UK could then be drawn into a land-based confrontation with Iran that could result in major losses.

Further potential responses

As well as fuelling insurgency activity in Iraq, Iran could threaten to use its influence in other areas of the wider Middle East, including key sites for oil production and transportation.

ISRAEL/PALESTINE: Iran has threatened direct attacks on Israel in the event of a military attack on Iranian territory,⁵⁶ which it could effect using ballistic missiles, conventional weapons and asymmetric capabilities.⁵⁷ It is possible that Iran could exert influence over Hamas to catalyse conflict in the West Bank and Gaza, undermining attempts, for example by the UK government, to reinvigorate the Middle East peace process.

AFGHANISTAN: Iran has links with the Northern Alliance and Shia groups in Afghanistan, and Iranian officials have threatened retaliation against US forces in Afghanistan should the US attack Iran.⁵⁸ Not only could NATO forces (including British troops) become targets, but NATO's overall mission in Afghanistan could lose important allies and become bogged down by increased resistance.

LEBANON: In the event of a military attack on Iran, it is expected that Hezbollah could open a second front, mounting sustained attacks on Israel. Though the recent war in Lebanon may have temporarily weakened Hezbollah's offensive capacity, Hezbollah's stature and confidence appear to have increased dramatically.

With the potential for the eruption or escalation of conflict in Afghanistan, Iraq, Lebanon, Israel and the West Bank and Gaza, the threat US or Israeli military attacks on Iran pose to broader Middle East stability cannot be overemphasised. From the perspective of the UK government, and particularly the Prime Minister, it could cripple attempts to find a solution to conflict in the Middle East and undermine EU efforts to become a broker for stability in the region.

2.4 Military action may lead to more terror attacks in the West

The West often accuses Iran of being a state sponsor of terrorism. Prominent figures such as former US Defense Secretary William Perry have warned that military action in Iran could lead to a backlash of ‘Tehran-sponsored terror attacks.’ In June 2006, UK intelligence agencies also warned that Iran could launch attacks⁵⁹ on British targets if there was an escalation of tensions between the two countries.⁶⁰

Although Iran has an uneasy relationship with the al-Qaida movement, there is no doubt that another Western attack on an Islamic nation would intensify anti-Western and anti-American feeling, and groups like al-Qaida could capitalise on this sentiment.⁶¹ The recent conflict in Lebanon generated support for Hezbollah from both Shia and Sunni communities. Similarly, some might perceive any military attack against Iran as an attack on the Islamic world. Though it is impossible to predict where terrorist attacks may occur, involvement in – or support for – military action against Iran might push a country higher up the list of potential targets. It could certainly have a huge impact on inter-community relations throughout the West.

2.5 Economic impacts of military action

Perhaps one of the least discussed consequences of a US/Iranian conflict is the potential economic impact, particularly on developing countries.

Military action in Iran could lead to an increase in the price of oil

Iran is the world’s fourth largest oil exporter and holds 10% of the world’s proven oil reserves.⁶² Whilst it is unlikely that Iran would completely close exports of oil, since 80–90% of its export earnings come from oil,⁶³ threats to production could have a dramatic impact on the sensitive oil market.⁶⁴

Over the summer months of 2006 the price of oil rose to an unprecedented \$77 a barrel, largely as a result of tensions caused by the Iranian diplomatic crisis.⁶⁵ In the event of a military attack on Iran, tensions could spill into the oil market, and some analysts predict that the price could rise to over \$100 a barrel.⁶⁶ The government of Saudi Arabia has warned that the price of oil could triple.⁶⁷

GULF STATES: Analysts agree that Iran could incite paramilitaries in Gulf States such as Saudi Arabia, Kuwait

and the United Arab Emirates to sabotage oil export facilities, creating instability and impacting oil prices.⁶⁸

THE STRAITS OF HORMUZ: Forty percent of the world’s shipments of oil – over 21 million barrels a day – pass through this 30-mile-wide strait.⁶⁹ If the Iranians could threaten shipping passing through the straits, through effective mining operations or the use of missiles and torpedoes, this could impact drastically on the world economy. The US Navy has pledged to keep the straits open in any scenario,⁷⁰ but this might be more complicated than defending against conventional naval attacks, as was seen in 1988 during the Iran/Iraq war when many Western navies were involved in its defence. The US administration believes that Iran has over 700 small landing sites along its Persian Gulf coastline from which it could apparently launch waves of attacks on oil shipments and US naval ships.⁷¹ There is also a possible threat of short-range missiles being launched from Iranian islands in the Persian Gulf (Abu Musa, the two Tunbs or Larak). Even if the US could ensure continuous transportation of oil through the straits, the threat of attack could have a significant impact on oil prices.⁷²

Impact on developing countries’ GDPs

The impact of this rise in oil price could be felt most by developing countries, especially those in sub-Saharan Africa. Increases in the price of oil cause increases in interest rates, thus globally increasing debt repayments, which is particularly problematic for heavily indebted countries. The International Energy Agency (IEA) has shown that non-oil-producing developing countries are particularly hard hit by high oil prices because they are more reliant on imported oil and use oil less efficiently.⁷³ According to the IEA, non-oil-producing developing countries use twice as much oil per unit of economic output as do Organisation for Economic Cooperation and Development (OECD) member countries.⁷⁴

The IEA has calculated the direct impact of a \$10 oil price increase on developing nations’ GDPs. It has shown that in the year following a \$10 oil price hike, the GDPs of:

- Asian countries drop on average by 0.8%;
- Highly indebted countries drop on average by 1.6%; and
- Sub-Saharan states drop on average by 3%.

As a general rule, countries with the lowest GDPs spend the lowest proportion of their spending on health. So there would be a risk that a 3% fall in GDP might even result in deeper cuts in health spending at a time when globally 1,400 mothers die every day in childbirth.

Increased oil prices could also affect Europe

EU economies would undoubtedly also suffer from increased oil prices and might even be pushed into economic recession, as happened in the mid-1970s and early 1980s. The inflationary effect of a rise in oil prices could precipitate a rise in interest rates, denting consumer confidence and reducing consumption and, therefore, GDPs.

Iran also holds the world's second largest reserves of natural gas. A rise in gas prices could compound the threat of recession in Europe.

2.6 Impact on the environment

The environmental consequences of war are often ignored. Warfare affects many aspects of the environment, most importantly land use, water supply, air quality and the balance of ecosystems, with knock-on effects for human populations. Ordinarily, environmental damage is caused by bombardments, waste from toxic munitions and inappropriate land use. Three main environmental risks can be identified with regard to military action in Iran:

- Radioactive contamination;
- Contamination from oil slicks; and
- Oil well fires.

Radioactive contamination

A US or Israeli attack on Iran could lead to severe radioactive contamination caused by the bombing of nuclear establishments. A military strike against the nuclear reactor at Bushehr once it is operational would have such severe consequences for the whole Persian Gulf that they are hard to contemplate.

Contamination from oil slicks

Iran suffered significant environmental damage during the Iran/Iraq war, which exacerbated the already stressed

ecosystem in the Persian Gulf. During the Iran/Iraq war, one oil spill at Nowruz created an oil slick 1,000 kilometres (over 600 miles) long, extending the entire length of the Gulf. That one spill released three times as much oil as the Exxon Valdez accident.⁷⁵ In August 2006, the Israeli bombing of the Jiyeh power station in Lebanon, south of Beirut, caused an estimated 10,000 to 15,000 tonnes of fuel oil to pour into the Mediterranean Sea.⁷⁶ It is possible that attacks on Iranian oil facilities or on vessels passing through the Straits of Hormuz could cause similar spillages.

Oil well fires

Oil well fires started by aerial bombardments or sabotage could also have serious long-term consequences for the region. In 1991, during the first Gulf War, retreating Iraqi forces set fire to 736 Kuwaiti oil wells.⁷⁷ The oil wells burned for over nine months and the resulting smoke blocked out much of the light of the sun, causing the average air temperature in the region to fall by 10°C.⁷⁸ Oil, soot, sulphur and acid rain descended as far as 1,900 kilometres (1,200 miles) away, vegetation and animals were poisoned, water was contaminated and affected populations suffered respiratory problems.⁷⁹ The burning oil fields released almost half a billion tons of carbon dioxide, the principal greenhouse gas.⁸⁰

Though it is impossible to draw a direct analogy between the 1991 Gulf War and an attack on Iran, those experiences do illustrate the potential extent of environmental damage should oil spills occur. During the Gulf War, oil spills resulted in the contamination of over 10 million cubic metres of soil. A major groundwater aquifer and two-fifths of Kuwait's entire freshwater reserve are still polluted today.⁸¹ The World Resources Institute reported that over four million barrels of crude oil were poured into the Persian Gulf, turning beaches black, wiping out more than 25,000 birds and driving millions more away.⁸² Over 1,500 kilometres (930 miles) of coastline were affected.⁸³

With agriculture supplying nearly one-fifth of Iran's GDP and employing nearly a quarter of the population,⁸⁴ damage to crops and land could be devastating. The poisoning of water supplies could also have a significant impact on a country that already suffers major water shortages.

2.7 Impact on civilians

Discussions regarding the humanitarian consequences of military action often concentrate on the immediate casualties that occur during an attack. Collateral Damage Estimation (CDE) is now an integral part of military planning. Terms such as 'surgical strike' and 'precision-guided munitions' give the impression that a highly targeted campaign can hit specific targets and spare the local population. However, over 7,000 civilians died in the 2003 'Shock and Awe' air campaign against Iraq, despite the use of precision-guided bombs in nearly two-thirds of strikes.⁸⁵

Given the proximity of Iran's nuclear facilities to populated areas, it is unlikely that collateral damage would be limited to staff and visitors at the facilities. And if, as anticipated, military support facilities are targeted to minimise the prospects of Iranian retaliation, the number of civilian deaths is likely to increase, as many factories and munitions storage sites are located in urban environments.

As discussed previously, a military strike against the nuclear reactor at Bushehr once it is operational could have drastic acute and long-term health impacts. While the range and severity would depend on the containment structure of the reactor, the method of attack and how long the reactor had been active, any radiation leak would have a chronic and debilitating impact on the health of civilians. If a strike occurred before the reactor was completed, Russian engineers and technicians could be at risk, with obvious diplomatic implications.

SECTION THREE DIPLOMATIC OPTIONS

3.1 Development of negotiations

Following the Paris Agreement of November 2004, proposals and counterproposals have travelled back and forth between European and Iranian negotiators.⁸⁶ Washington has avoided becoming directly involved in negotiations but did agree to endorse the most recent P5+1 proposals, which centre on the cessation of uranium enrichment as a precondition for negotiations.

For their part, it is clear that Iranian proposals made in 2005 emphasized a broad regional security approach, including action against terrorism (indicated by a stated willingness to rein in the violent actions of Hamas and Hezbollah and to see to their disarmament and integration into the political structures of Palestine and Lebanon), further agreement to reinforce respect for sovereignty and national security, and technical and economic cooperation. Throughout, Iranian negotiators have claimed the right to develop nuclear fuel-cycle technologies and have made clear their intention to resist demands that they abandon ambitions in this area.

3.2 The June 2006 proposal

The key elements of the P5+1 proposal include:

- The willingness of the United States to sit down directly with Iran;
- Recognition of the Isfahan uranium conversion plant;
- An international fuel-cycle centre in Russia involving the Iranians;
- Establishment of a five-year fuel-bank/buffer stock exclusively for use by Iran;
- Affirmation of Iran's inalienable right to nuclear energy for peaceful purposes;
- An energy partnership between Iran, the EU and other willing partners;
- A new political forum to discuss security issues, involving Iran and other regional states, the US, Russia and China; and
- Trade and investment incentives.⁸⁷

The June package represented a genuine attempt to address some of Iran's interests, though it only hinted at some of Iran's more fundamental concerns. For example, regarding security guarantees, the package talks only of 'dialogue and cooperation on regional security issues.'⁸⁸

As expected, Iran's counterproposal of 22 August rejected preconditional suspension of enrichment activities. The IAEA's deadline for Iran to suspend enrichment by 31 August 2006 passed, and Iran remained defiant. Following the expiry of this deadline two tracks emerged, with the US sustaining pressure at the UN for sanctions whilst key EU member states

pursued continued negotiations. In early October, a standstill in talks led to an increase in pressure to apply sanctions under Article 41 of the UN Charter. On 23 December 2006, following painful negotiations, the UN Security Council voted unanimously to impose sanctions on Iran.

3.3 National perspectives

The outcome of policy choices in **Washington** will be a key determinant of the future of this dispute. Polls indicate that only 14% of Americans believe diplomatic measures can now stop Iran from acquiring nuclear weapons⁸⁹ but that 59% of Americans support negotiations even if Iran refuses to suspend enrichment.⁹⁰

How long the Bush administration will pursue the path of diplomacy remains unclear. The Democrats' victory in the mid-term elections of December 2006, coupled with the immediate replacement of Donald Rumsfeld with Bob Gates as Secretary of Defense, has reduced the likelihood of US-led military action in the short-term. However, with increasing Israeli pressure and mounting speculation that an Israeli-led strike is viable, those within the US administration who are petitioning for continued diplomacy may find themselves on increasingly weaker footing.

If no additional efforts are made to engage, there is a danger that uncompromising demands for the unilateral suspension of uranium enrichment will back the US and the EU into a corner. Diplomacy will fail because it has not been given a real chance to succeed. If public opinion crystallises around the belief that Iran has rejected a generous and acceptable proposal, commitment to further diplomacy will be even less likely. But any genuine attempt to find non-military solutions to this conflict must include an assessment of the situation from the Iranian perspective. A suspension of enrichment without concrete and well-defined incentives leaves the Iranians with nothing.

Several high-profile figures within the US political establishment have called for direct US-Iranian unconditional negotiations. These include former national Security Advisor Zbigniew Brzezinski,⁹¹ former US Defense Secretary William Perry,⁹² and former Secretaries of State Henry Kissinger⁹³ and Madeline Albright.⁹⁴

Iran set out its objectives in opening negotiations with the United States clearly in its Spring 2003 proposal, made soon after President Bush declared victory against Iraq.⁹⁵ It requested:

- An end to the US's hostile rhetoric towards and interference within Iran;
- An end to all US sanctions against Iran;
- The achievement of a fully democratic government in Iraq, support for war reparations and respect for legitimate Iranian interests within Iraq;
- Access to nuclear and chemical technology and biotechnology for peaceful purposes;
- Recognition of Iran's legitimate security interests within the region; and
- A clampdown on anti-Iranian terrorist organizations, especially the Mujahedin-e Khalq (MKO).

Iran believes it has a strong negotiating position that has not been recognised by the US administration or European governments. The current situation represents an enormous opportunity for Iran to normalise its relations with the West and gain some significant economic and security guarantees. These are tangible benefits that Iranian moderates recognise only too well.

On the other hand, the pursuit of nuclear technology and perhaps a nuclear weapon capability has an enormous appeal for the more uncompromising factions represented by Mahmoud Ahmadinejad and Ayatollah Khamenei. Some within these groups see the possession of nuclear weapons as a clear deterrent to US and Israeli aggression as well as the defining capability for Iran to be the leading regional power.

Many Iranians, conservatives and reformists alike, are also upset by what they see as a lack of international recognition of their country's contribution to the overthrow of the Taliban in Afghanistan in 2001. Despite clear cooperation within Afghanistan itself, the US rebuffed offers of negotiation with Iran, and instead President Bush surprised the Iranian leadership by labelling Iran as a member of the 'axis of evil' in his 2002 State of the Union address. From the perspective of many Iranians, the US's tacit support of Israeli and Pakistani nuclear weapons programmes and its recent agreement to supply nuclear-armed India with nuclear technology is blatant hypocrisy and is illegal under the NPT.

After the splits caused by the invasion of Iraq in 2003 and the war in Lebanon in 2006, EU/E3-Iranian negotiations are widely seen as a test case for a unified and effective European foreign policy. The **EU** initially viewed Iran's

temporary suspension of enrichment in November 2004 as a success, but Iran stresses that it was a voluntary Iranian initiative on which the EU failed to capitalise.⁹⁶ The EU/E3 saw the resumption of Iranian enrichment operations in August 2005 as an affront to their position and hardened their stance. Opposition to military action is currently widespread, though key leaders (notably Tony Blair and Angela Merkel) have refused to rule it out, believing the threat to be an important negotiating tool.

The UK government shares many of the US's concerns about Iran and agrees that preventing Iran from developing a nuclear weapon is a strategic priority. In 2006, then Foreign Secretary Jack Straw said that an attack on Iran would be 'inconceivable.' Shortly afterwards, in a cabinet reshuffle, Margaret Beckett replaced Straw as Foreign Secretary. Since taking up office, Beckett has reiterated that the goal of the UK and the EU is to solve the Iranian nuclear issue through diplomatic means, but she has questioned whether Iran is serious about negotiations⁹⁷ and has stopped short of repeating Straw's comments that military action was inconceivable.

Russia and **China** are anxious to prevent Iran from acquiring nuclear weapons. Russia, in particular, is fearful of the expansion of Islamic extremism. They both have strong interests in spoiling any durable rapprochement between Iran and the West that would undermine their current and future interests in Iran.

Russia is committed to finishing the Bushehr reactor and supplying it with fuel rods for start-up in 2007. It has also invested heavily in the Iranian oil industry's infrastructure. With an increasingly adversarial relationship with the US and Europe, inflamed by the imposition of US sanctions in 2006 on two state-owned Russian companies for violation of the Iran-Libya Sanctions Act (ILSA), the chances of Russian support for increasingly tougher measures appear remote.⁹⁸

Inevitably, China's growing hunger for energy largely determines its foreign policy towards Iran and the Central Asian states to the north, and Chinese government officials have consistently called for a negotiated resolution of the dispute. Chinese diplomacy has focused on avoiding its own isolation, shying away from confrontation with the US in a manner that could harm relations but remaining open to joint opposition with Russia.

3.4 Alternative solutions

The route to a solution starts with identifying what each party ultimately hopes to achieve. Despite the US administration's rejection of the term, a resolution to the current standoff could well take the form of a 'Grand Bargain,' with elements of the June 2006 proposal further developed through unconditional talks. This would involve addressing a range of security, economic and energy-related questions, as part of a process of normalisation in US-Iranian relations. Given the clear indication that military strikes would be counterproductive and highly damaging to US interests, the US may conclude that its objective of regime reform in Iran could be better achieved by puncturing Ahmadinejad's demonisation of the US through engagement.

The P5+1 would be wise to give proper consideration to Iran's August 2006 counterproposal. Though apparent breakthroughs in the Iranian nuclear programme (for example, Ahmadinejad's inauguration of the heavy water production plant at Arak on 26 August 2006⁹⁹) give the impression of urgency, there is time to talk. Most experts, including those within the US Defense Intelligence Agency and the IAEA, do not believe Iran can create a nuclear weapon before 2009 or 2010 at the earliest.¹⁰⁰

The UK should operate on two tracks: supporting EU initiatives and working with the US administration to broker direct engagement with Iran. Flexibility, aimed at closing off the easier routes to developing nuclear weapons while ensuring remaining sensitive activities (such as limited enrichment) are closely scrutinized through rigorous inspections, could open up more palatable options for engagement in the future. Efforts to achieve these goals could be assisted by the explicit identification of those technologies that present the greatest threats of proliferation and an agreement on this analysis.

Iran's negotiators will most likely seek more detailed and specific security guarantees. As recommended in the Baker report, engaging with Iran on broader regional security issues could potentially be favourable. More than economic incentives, security cooperation has the potential not only to undermine Iranian ambitions for a nuclear weapon programme, but also to provide an opportunity to discuss Iranian support for radical groups in Iraq, Lebanon and Palestine and perhaps to achieve concessions there as well. Recent events in Lebanon and its growing influence in Iraq and Afghanistan have raised Iran's status, and the Iranian leadership is looking for some acknowledgement of this. The idea of a 'Grand Bargain' cannot be rejected outright.

Recommendations

Even according to the worst-case scenario, there is time for further diplomacy. This time should be used to build confidence between the negotiating partners, helping to break cycles of mutual hostility, and to develop Iranian interests in established and potential political and economic relationships with the international community. The possible consequences of military action could be so serious that governments have a responsibility to ensure that *all* diplomatic options have been exhausted. At present, this is not the case.

The UK has a role to play in catalysing this process, mediating between EU member states and the US. Through continued, genuine commitment to the diplomatic process, the UK can indicate that it is willing to treat Iran fairly in negotiations, which would strengthen the hand of moderates within Iran and send an important signal to the Iranian people.

The diplomatic track is clearly fraught with difficulties. But as long as fundamental obstacles remain in place – such as preconditions concerning the suspension of Iran's enrichment activities – the potential of diplomacy cannot fully be tapped. Diplomatic strategies are most likely to progress if the UK government and other key parties agree:

- To either remove preconditions for negotiations or find a compromise that allows both the US and Iran to move forward without having to concede on their respective red lines;
- To seek direct negotiations between Iran and the US;
- To prioritise proposals and demands by assessing the security risks associated with the different technologies being developed by Iran (i.e. enrichment and reprocessing) and to agree to this assessment within the UN Security Council – Iran's plans to use reprocessing technology should be addressed promptly;
- To develop the proposals offered by the P5+1 on 6 June 2006 in return for tighter inspections and a commitment from Iran to abandon all ambitions towards reprocessing (as offered by the Iranians in 2005);
- To explicitly address mutual security guarantees for the US, Israel and Iran.

The UK has an important role to play in fostering a climate of pragmatism. It is recommended that the UK government continue to give full backing to the diplomatic process whilst directly addressing the need for full and direct negotiations between Iran and the US administration. The time available should be used to build confidence on both sides, and the UK has a crucial role to play in supporting that process. Only through direct US-Iranian engagement can an agreement be found and the potentially devastating consequences of military action be avoided.

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