

US STRATEGIC COMPETITION WITH IRAN:

ENERGY, ECONOMICS, SANCTIONS, AND THE NUCLEAR ISSUE

BY JORDAN D'AMATO

Anthony H. Cordesman

Arleigh A. Burke Chair in Strategy,

acordesman@gmail.com

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Introduction

American and Iranian tensions over Iran's nuclear programs are part of a broad pattern of competition between the two countries. However, Iran's nuclear program is only one of many interrelated areas in which Washington and Tehran struggle for influence. Energy, economics, trade, and sanctions all interact with the nuclear issue, and with one another, to form one axis of US-Iranian competition. This axis is intersected by a series of bilateral and multilateral issues, interests, and institutions—from energy security and nonproliferation, to arms sales and economic investment, to the IAEA and the UN. Strategic competition between the US and Iran incorporates all of these issues into a broader cycle of preemptive and reactive competition.

Over the past several decades, a pattern has developed in this aspect of US and Iranian competition. As Iran moves forward in areas that could give it nuclear weapons and long-range missiles, the United States reacts with diplomacy, sanctions, and efforts to strengthen US and Southern Gulf forces and deterrent capabilities. Tehran frequently acknowledges Washington's diplomatic efforts and appears to respond to them, but delays ensue and even if promises are made, progress is not. Iran continues to pursue its nuclear program without full compliance with IAEA safeguards, without negotiating tangible agreements with either the US or other members of the P5+1, and with little practical regard to UN sanctions.

Moreover, Iran has sought to counter American and UN sanctions by leveraging its international economic position through its energy exports. This, in turn, helps Iran undermine multilateral support for sanctions. Tehran can offer economic opportunities to nations which skirt or weaken sanctions because other countries voluntarily suspend ties with the Islamic Republic. This effort has had an important impact on China, Russia, and other states who support the

sanctions process. It has delayed and weakened UN efforts, limited the impact of the P5+1 negotiating process, and had a wider impact on other states, including key players like Turkey.

Iran's tactics of delay, denial, and move forward have forced American policymakers to either take a more confrontational approach to nations outside its sanctions regime—sometimes pushing them further towards cooperation with Iran—or to accept a weakening of sanction and pressures on Iran. At the same time, they have led the US to repeatedly make it clear that while it prefers a negotiated solution, it is keeping military options on the table. They also have led the US to increase pressure on other states, to use the UN sanctions process, and to limit all major arms sales and all nuclear and missile-related technology transfers to Iran. Iran has responded by steadily building up its conventionally armed long-range missile capabilities, its capabilities to conduct asymmetric warfare in the Gulf, and its capabilities to respond to any US (or Israeli) attack on Iran; by expanding its ties with Syria and with hostile states as far away as Venezuela; and by using its ties to non-state actors as a potential threat. The end result is that there are no clear boundaries to this aspect of US and Iranian competition: they affect a broad range of diplomacy, competition within the UN framework, sanctions and related economic and arms transfer efforts, energy exports and investment opportunities in Iran, and a wide range of competition in military options.

The interaction between Iran's nuclear programs and US sanctions efforts is the most direct and visible aspect of this competition and as the US continues to employ both carrots and sticks to try to alter Iranian behavior, the pattern continues. Tehran's gradual progress, however, calls into question the efficacy of the American approach. Sanctions and diplomacy have successfully slowed Iran's nuclear development. US actions have not changed Tehran's strategic calculus or the shape of its nuclear and missile efforts.

The US and its allies face Iranian interests that go far beyond any concern with using nuclear power to generate electricity. Many experts agree that Iranian national security interests are built upon two central pillars.¹ Firstly, the Islamic Republic seeks to protect itself from foreign—principally American—interference and attack. Secondly, Tehran attempts to exert military, political, economic, and religious influence commensurate with its ambitions to be a great (regional) power, and major player in world politics. Iran has pursued these objectives by developing its nuclear and missile capabilities, strengthening existing economic ties and its energy sector, undermining US regional influence, and attempting to circumvent US and UN sanctions.

In contrast, the United States aims to bolster its regional allies, contain Iranian influence, and build a global consensus against Iran's ambiguous nuclear intentions. The US has done so by influencing the regional military balance, reorienting missile defenses, and isolating Iran from energy, financial, and commercial markets through sanctions.

What remains unclear, however, is whether and how Tehran's nuclear programs fit into its grand strategic framework, and whether such a framework even exists. The record to date suggests that Tehran does not have some master plan for developing nuclear and missile capabilities, but evolves programs in ways that are driven by combination of ideological, religious, and opportunistic politics and policy. Its leadership focuses on constantly shifting domestic and foreign policy issues. Moreover, while Iran's actions are driven by broad national security goals, Iran's decisions at any given time may be affected by individual personalities or bureaucratic institutions.

¹ Katzman, Kenneth, "Iran: US Concerns and Policy Responses," Congressional Research Service, December 22, 2010, <http://www.fas.org/sgp/crs/mideast/RL32048.pdf>; Katzman, Kenneth, "Iran Sanctions," Congressional Research Service, December 13, 2010, <http://www.fas.org/sgp/crs/mideast/RS20871.pdf>

Background

While much of the current competition is driven by each nation's different national security goals, American involvement in Iranian political life; in its sanctions, its economy, and its energy resources; and in its nuclear, missile, and military program cannot be separated from the historical legacies of US engagement in the Gulf and the broader region. From the Iranian perspective, the CIA and British backed overthrow of Prime Minister Mohammad Mossadeq in 1953, and American support for the Shah, laid the foundation for Iran's current antagonism and suspicion of American motives. From the American perspective, Ayatollah Khomeini's overthrow of the US-allied Shah in 1979, and the subsequent hostage crisis, shaped a climate of hostility through which Iranian actions and intentions are now judged. Both sides harbor both legitimate and exaggerated grievances that have reinforced mutual mistrust. This mistrust now affects every aspect of US-Iranian competition over energy, economics, trade, sanctions and the nuclear issue.

The first major period of US-Iranian competition began in 1979. Bilateral relations hardened between the US and Iran following the Islamic Revolution and the November hostage crisis. In response, President Carter laid out a series of economic sanctions which were intended both to punish Tehran and to change its behavior.² These sanctions targeted Iran's energy sector, its international assets, and its ability to conduct financial transactions. At the same time, the US backed Iraq in the Iran-Iraq war. Iran was unable to counter with effective military and economic pressure on the US and found its most viable response was to prolong the hostage crisis. This strategy focused on countering American priorities. At the time, American foreign policy was

² Sabatini, Richard, "Economic Sanctions: Pressuring Iran's Nuclear Program," Monterey Institute for International Studies, Nuclear Threat Initiative, June 24, 2010, http://www.nti.org/e_research/e3_economic_sanctions_pressuring_iran_nuclear_program.html

more concerned with the geopolitical rebalancing of the Middle East and the hostage situation than Iran's nuclear program.

Iran's nuclear development seems to have largely halted between 1979 and 1984. Despite the Shah's impressive investments in nuclear technical training, foreign enrichment plants, and uranium mines, 1979 marked a pause in Iran's nuclear progress. Much of Iran's nuclear talent fled the country during or after the revolution.³ Moreover, Ayatollah Khomeini opposed Iran's commitment to nuclear technology, and this led to the virtual disintegration of Iran's nuclear power program. Without prospects for nuclear power, Iran continued to rely on its substantial petroleum reserves both for energy and revenue. However, months of disorder had seriously eroded Iran's capacity to collect, transport, and sell its energy resources.

At the same time, internal instability and American sanctions undermined Iran's ability to produce petroleum and conduct international trade. Prior to the revolution in 1978, Iran produced over 5 million barrels of oil per day (bbl/d).⁴ By early 1980, oil production had plummeted to roughly 1.5 million barrels of oil per day (bbl/d).⁵ The devastating economic impacts of this decline, coupled with governmental infighting and military disorganization, helped set the stage for Iraq's invasion of Iran and initial success in the war.

The Iran-Iraq War (1980-1988) opened a new theater for US-Iranian competition. Traditionally, Saudi Arabia, Iraq, and Iran had maintained a tri-lateral balance of power in the Middle East. However, growing tension between Saddam's regional ambitions and Khomeini's religious and revolutionary expansionism triggered Iraq's full-scale invasion of Iran in late

³ "Nuclear Overview," Nuclear Threat Initiative, January 2011, http://www.nti.org/e_research/profiles/Iran/Nuclear/index.html

⁴ Mohamedi, Fareed, "Iran Primer: Oil and Gas Charts," October 26, 2010, <http://www.pbs.org/wgbh/pages/frontline/tehranbureau/2010/10/iran-primer-oil-and-gas-charts.html>

⁵ Mohamedi, Fareed, "Iran Primer: Oil and Gas Charts," October 26, 2010, <http://www.pbs.org/wgbh/pages/frontline/tehranbureau/2010/10/iran-primer-oil-and-gas-charts.html>

1980. Once Iran halted Iraq's invasion and went on the counter offensive in 1982, the United States backed Saddam politically and militarily in order to contain the Islamic Revolution.⁶

The protracted conflict led both Iraq and Iran to attack enemy ports and energy infrastructure in an effort to cripple the other's economy. The damage of such strikes significantly slowed Iran's economic recovery and development. By the end of the war in 1988, Iranian oil exports had only reached some 2.3 million bbl/d. Output was still well below the 5 million bbl/d it had churned out before the Revolution.

Fortunately for the US, increases in Saudi and other OPEC production, and world economic conditions, meant that the fighting and targeting of oil terminals and transport ships had limited effects on the American and international economy. Imported crude oil prices in the US steadily declined throughout the war from record highs in early 1981.⁷ American policy in the 1980s was able to restrain the immediate spread of the Islamic Revolution while undermining Iran's economic, military, and human capital. However, because the US successfully frustrated Iranian wartime objectives, Tehran's long-term strategic calculus shifted significantly.

At the same time, the Iran-Iraq war had unintended long-term consequences. Many analysts believe that Iraqi missile strikes, its use of chemical weapons, and reports of Iraq's nuclear weapons programs during the war revived Tehran's enthusiasm for a nuclear program. Khomeini seems to have reversed course on the nuclear issue in 1984, declaring it to be the only way to secure the Islamic Revolution from its enemies, namely the United States and Israel.⁸ During the late 1980s and early 1990s, Iran pursued this new strategy through a series of nuclear

⁶ Battle, Joyce, "Shaking Hands with Saddam Hussein: The US tilts Towards Iraq, 1980-1984," Reagan's NSSM 4-82, March 1982, <http://www.gwu.edu/~nsarchiv/NSAEBB/NSAEBB82/index.htm>

⁷ "Short Term Energy Outlook – Real Energy Prices," Energy Information Agency, January 11, 2010, <http://www.eia.doe.gov/EMEU/steo/realprices/index.cfm>

⁸ David Albright and Andrea Stricker. "Iran Primer: Iran's Nuclear Program," October 22, 2010, <http://www.pbs.org/wgbh/pages/frontline/tehranbureau/2010/10/iran-primer-irans-nuclear-program.html>

cooperation agreements with Pakistan, Russia, and China in order to modernize its outdated technology.

The US responded by applying diplomatic pressure, along with other Western nations, and focused on countries which aided Iran's nuclear and missile activities. Throughout the 1990s, the United States persuaded Russia and China to cancel plans to sell Iran various nuclear enrichment and energy facilities.⁹ However, Iran made several significant gains—possibly including the acquisition of at least some design data for nuclear weapons and warheads from sources like A.Q. Khan, the founder of Pakistan's nuclear program.¹⁰

These activities were coupled to a much broader Iranian military build-up that included missiles, asymmetric forces, and the support of non-state actors like Hezbollah. At the same time, it became harder and harder for Iran to claim that its actions were all peaceful in character, as some constituted both a potential breach of Iran's international obligations as a signatory member of the 1968 Nuclear Non Proliferation Treaty (NPT) and growing problems for the inspection efforts of the International Atomic Energy Agency.

The US saw these Iranian actions as a growing military challenge to the stability of the Gulf and world energy exports, and reacted accordingly. In addition to diplomatic pressure, the United States passed a new series of sanctions and executive orders throughout the 1990s to halt Iran's nuclear progress. The key provisions imposed by the US include:

- **October 1992: *Iran-Iraq Arms Non-Proliferation Act*** – Focused on stopping the transfer of dual-use items with military applications. Imposed sanctions on any entity that helped Iran develop or acquire weapons of mass destruction or “destabilizing numbers” of advanced conventional weapons.

⁹ David Albright and Andrea Stricker, “Iran Primer: Iran's Nuclear Program,” October 22, 2010, <http://www.pbs.org/wgbh/pages/frontline/tehranbureau/2010/10/iran-primer-irans-nuclear-program.html>; “Nuclear Overview,” Nuclear Threat Initiative, January 2010. http://www.nti.org/e_research/profiles/Iran/Nuclear/index.html

¹⁰ David Albright and Andrea Stricker, “Iran Primer: Iran's Nuclear Program,” October 22, 2010, <http://www.pbs.org/wgbh/pages/frontline/tehranbureau/2010/10/iran-primer-irans-nuclear-program.html>

- **March 1995:** *Executive Order 12957* – Banned any American firm or individual from investing in or developing Iranian petroleum products, not including natural gas.
- **May 1995:** *Executive Order 12959* – Effectively banned all American trade and investment in Iran.
- **August 1996:** *Iran and Libya Sanctions Act* – Enhanced existing legislation and executive orders by sanctioning foreign firms that conducted business with Iran—focusing on its export of oil and gas—in order to maintain a level playing field for American businesses.¹¹

These legislative and executive actions prohibited the export of certain dual-use technologies, imposed sanctions on entities assisting Tehran’s WMD development, banned US participation in Iranian oil projects, and ultimately enforced a unilateral trade and investment embargo on Iran.¹² They also were linked to US efforts to halt major Russian and Chinese arms transfers to Iran, including Chinese support of Iran’s long-range missile programs. Although the circumstances and strategic objectives of American policy had changed since 1979, sanctions still targeted the same set of industries. Iran’s continued dependence on energy exports for income and its lack of an indigenous nuclear technology base shaped the aims of American sanctions. Iran’s nuclear program, however, continued to make progress outside of public view.

Other important shifts took place in relations between the United States and Iran. In 2002, the Bush Administration signaled a major escalation in US-Iranian strategic competition. By labeling Iran a part of the “Axis of Evil” and outlining a doctrine of preemptive military action, President George W. Bush reframed the American threat assessment of Iran’s nuclear program.¹³

¹¹ Sabatini, Richard, “Economic Sanctions: Pressuring Iran’s Nuclear Program,” Monterey Institute for International Studies, Nuclear Threat Initiative, June 24, 2010,

http://www.nti.org/e_research/e3_economic_sanctions_pressuring_iran_nuclear_program.html

¹² Sabatini, Richard, “Economic Sanctions: Pressuring Iran’s Nuclear Program,” Monterey Institute for International Studies, Nuclear Threat Initiative, June 24, 2010,

http://www.nti.org/e_research/e3_economic_sanctions_pressuring_iran_nuclear_program.html

¹³ “Bush State of the Union Address,” CNN, January 29, 2002,

<http://edition.cnn.com/2002/ALLPOLITICS/01/29/bush.speech.txt/>; “President Bush Delivers Graduation Speech at West Point,” Office of the Press Secretary, June 1, 2002, <http://georgewbush-whitehouse.archives.gov/news/releases/2002/06/print/20020601-3.html>

Tensions increased further in August 2002, when the US confirmed reports of a clandestine Iranian enrichment facility at Natanz and a heavy water reactor at Arak. The International Atomic Energy Agency (IAEA) began inspections of the Iranian nuclear facilities the following February. However, the new tone of US-Iranian competition prompted increasing anxiety within the international community about Iran's nuclear aspirations.

The growing evidence that Iran was actively pursuing a nuclear weapons program led to steadily more serious US and international efforts to negotiate limits to Iran's nuclear program that began in October 2003. These efforts initially appeared to make some progress. France, Germany, and the United Kingdom (the "E3"), concluded an agreement with Iran to suspend its nuclear enrichment, implement the Additional Protocol of its IAEA safeguards agreement, and fully comply with the IAEA investigation. In exchange, the IAEA did not refer Iran to the UN Security Council.

Tehran, however, reneged on its agreement, continuing some enrichment activities late in 2003, and began to openly display a pattern of "negotiate, delay, and move forward." The E3 and Iran signed a second agreement in November of 2004, only to be disappointed in August 2005 when Iran restarted uranium conversion under the newly elected President, Mahmoud Ahmadinejad. Iran's January 2006 decision to resume work on centrifuges at its Natanz enrichment facility prompted the IAEA to refer Iran to the UN Security Council. Tehran responded by publically renouncing the Additional Protocol it had committed to in 2003.

By 2006, the rough contours of Iran's strategic competition with the US became far clearer. At the same time, they became far broader in scope, to include competition within the UN, for Russian and Chinese influence, and a growing role by America's key European allies – Britain, France, and Germany. American pressure on Iran was now international and focused

primarily on changing Iran's nuclear program and its support for terrorist groups. UN sanctions and inspections became a key aspect of the competition although the US continued unilateral sanctions on investment in and development of Iran's natural energy resources. The US also increasingly targeted Iran's financial sector and its ability to conduct international trade.

Iran's pattern of behavior, on the other hand, indicated an increasingly recalcitrant attitude towards meaningful compromise. Iran did display a periodic willingness to engage in discussions over its nuclear program. It did not, however, demonstrate that that willingness could translate into any real change in its pursuit of its nuclear goals. Between 2003 and 2006, Iran's strategy seems to have been: negotiate in order to buy time and exploit division in the international community, all while making progress on its nuclear program.

Major Shifts in US and Iranian Competition from 2006 Onwards

The growing focus on the UN led the evolution of American strategic competition with Iran to take on a new dimension in mid-2006. The United Nations imposed its first regime of sanctions on Iran. Iran had resumed uranium enrichment and abandoned the Additional Protocol, and Iran's nuclear and missile programs appeared increasingly threatening to the international community. As a result, Iran was unable to avoid a United Nations ultimatum in July—to grant the IAEA full access to its nuclear activities and halt enrichment or face multilateral sanctions. The UN declaration to Iran was seen as a major diplomatic victory for the United States. However, the difficulties in expanding international support for American efforts remained serious, and Iran continued its tactics of “negotiate, delay, and move forward.”

American efforts to organize multilateral sanctions were slowed by the difficulty of determining the nature of the threat posed by Iran's "peaceful" nuclear program. Several factors slowed the pace of this process. There was no clear dividing line between the development of nuclear energy and nuclear weapons, many nations had strong trade and energy ties to Iran, and other states opposed what they saw as a US nuclear monopoly.

Efforts to interpret Iranian nuclear actions and intentions were further complicated by three layers of uncertainty:

- First, components of nuclear weapons have both civilian and military applications. This makes the task of distinguishing offensive from peaceful nuclear technology problematic. Furthermore, this gives potential nuclear weapons states a significant degree of plausible deniability.
- Second, the ambiguous boundary between civilian and military nuclear development allows even a peaceful nuclear energy program to pose a latent, but immense, strategic threat.
- Finally, Iran's record of defiance and its failure to cooperate with the IAEA and the United Nations undermines the global credibility of its leadership. This is especially true with respect to the professed goals of its nuclear program. These three factors create an atmosphere in which Iran's provocative actions and rhetoric both generate and vindicate the perception that Tehran is seeking a nuclear weapon.

Iran also continued to show considerable skill in adopting tactics that limited the progress of American attempts to create multilateral sanctions. Tehran's behavior alternated between confrontational and conciliatory approaches to American diplomacy and sanctions and used

these constant shifts in its political posture as a diplomatic tool to buy time. This tactic was often successful but had its costs. The more that Tehran delayed the imposition of sanctions and went on with its programs, the more support grew for increasingly stringent measures against Iran. The end result was that the United States was able to get enough support for the UN Security Council to pass both Resolution 1696 and Resolution 1737 in 2006.

Iran responded by expanding its use of other tactics that went far beyond the nuclear dispute, however. On the Iranian side, Tehran used ongoing foreign investment in its energy sector as well as purchases of its raw energy resources to undermine sanctions. Iran also sought to leverage its economic relationships, trading status, and imports to counter American influence. Finally, the Islamic Republic became increasingly vocal in denouncing sanctions as illegitimate for legal and humanitarian reasons in order to erode multilateral cooperation against its nuclear program.

These aspects of the struggle between Iran and the US played out in a variety of ways during 2006:

- **January 10, 2006:** Iran removes United Nations seals at the Natanz uranium enrichment facility amidst fears that possible UN economic sanctions against Iran could lead to a disruption of the country's oil exports.¹⁴
- **February 4, 2006:** The International Atomic Energy Agency (IAEA) votes to refer Iran to the United Nations Security Council over that country's nuclear program.¹⁵
- **March 15, 2006:** the United Nations Security Council releases a Presidential Statement, calling on Iran to cooperate with the IAEA.
- **April 2006:** Iranian President Mahmoud Ahmadinejad responds in a speech discussing Iran's possession of a second uranium enrichment facility with P-2 centrifuges.

¹⁴ "Current Monthly Energy Chronology," Energy Information Agency, January 2007, http://www.eia.doe.gov/cabs/MEC_Past/2006.html

¹⁵ "Current Monthly Energy Chronology," Energy Information Agency, January 2007, http://www.eia.doe.gov/cabs/MEC_Past/2006.html

- **May 8, 2006:** Iran responds to this offer in a letter to President Bush, in which it blamed American foreign policy for the troubles of the world. The letter briefly referenced the nuclear issue and did not address the demands of the international community.¹⁶
- **May 31, 2006:** The Bush Administration offers to join the nuclear talks only if Iran first suspends its uranium enrichment.¹⁷
- **June 2006:** Sinopec (China) signs an agreement with Iran to jointly develop the Garmsar oil bloc for \$20 million.¹⁸
- **June 6, 2006:** EU representative Javier Solana formally presents the P5+1 offer of incentives or possible sanctions to Iran.¹⁹
- **July 2006:** Iran awards a contract to expand and upgrade the Arak Refinery to a consortium of Sinopec (China) and JGC (Japan) for \$959 million.²⁰
- **July 14, 2006:** Oil prices reach an annual peak at \$78.40 USD per barrel, a 24% increase since the beginning of 2006.²¹
- **July 31, 2006:** The Security Council votes 14-1 (Qatar voting no) for U.N. Security Council Resolution 1696, giving Iran until August 31, 2006, to fulfill long-standing IAEA nuclear demands to suspend enrichment and reprocessing activities. UNSCR 1696 also places a ban international transfer of nuclear and missile technologies to Iran and freezes the foreign assets of twelve individuals and ten organizations involved with the Iranian nuclear program.²²
- **July 2006:** The Security Council demands Iran's submission to full verification by the IAEA in order to assuage concerns regarding its continued engagement in sensitive nuclear activities.²³

¹⁶ "Chronology of Key Events Related to the Implementation of IAEA Safeguards in Iran," The James Martin Center for Nonproliferation Studies, 16 June 2006, <http://cns.miis.edu/stories/060120.htm>

¹⁷ Katzman, Kenneth, "Iran: US Concerns and Policy Responses," Congressional Research Service, December 22, 2010. <http://www.fas.org/sgp/crs/mideast/RL32048.pdf>

¹⁸ Katzman, Kenneth, "Iran Sanctions," Congressional Research Service, December 13, 2010, <http://www.fas.org/sgp/crs/mideast/RS20871.pdf>

¹⁹ Katzman, Kenneth, "Iran: US Concerns and Policy Responses," Congressional Research Service, December 22, 2010. <http://www.fas.org/sgp/crs/mideast/RL32048.pdf>

²⁰ Katzman, Kenneth, "Iran Sanctions," Congressional Research Service, December 13, 2010, <http://www.fas.org/sgp/crs/mideast/RS20871.pdf>

²¹ "Current Monthly Energy Chronology," Energy Information Agency, January 2007, http://www.eia.doe.gov/cabs/MEC_Past/2006.html

²² "Security Council Demands Iran Suspend Uranium Enrichment by 31 August, or Face Possible Economic, Diplomatic Sanctions," Department of Public Information, United Nations, 31 July 2006

²³ Sabatini, Richard, "Economic Sanctions: Pressuring Iran's Nuclear Program," Monterey Institute for International Studies, Nuclear Threat Initiative, June 24, 2010, http://www.nti.org/e_research/e3_economic_sanctions_pressuring_iran_nuclear_program.html

- **August 2, 2006:** In response to the UN Security Council vote on Resolution 1696, President Mahmoud Ahmadinejad declares Iran will not bow to “the language of force and threats” and that “the Iranian people see taking advantage of technology to produce nuclear fuel for peaceful purposes as their right.”²⁴
- **August 22, 2006:** Iran offers vague proposals of engagement with the West without suspending enrichment. President Ahmadinejad vows to ignore UNSCR 1696 and continue enrichment.
- **September 2006:** Iran and NorskHydo of Norway sign a contract for \$49 million to develop the Khorramabad oil block.²⁵
- **September 6, 2006:** the Treasury Department bars U.S. banks from handling any indirect transactions (transactions with non-Iranian banks that are handling transactions on behalf of an Iranian bank) with Iran’s Bank Saderat, accused of providing funds to Hezbollah.²⁶
- **September 28, 2006:** With the backing of the P5+1, chief EU negotiator Javier Solana tries to arrange a temporary enrichment suspension by Iran, but talks end without agreement.
- **December 2006:** Iran and China finalize negotiations over an agreement to develop the North Pars Gas Field. Including gas purchases, China National Offshore Oil Company pledges some \$16 billion for the project.²⁷
- **December 27, 2006:** The Security Council adopts UN Security Council Resolution 1737 unanimously. It demands enrichment suspension by February 2007. It also prohibits the sale—or financing of such sale—of technology that could contribute to Iran’s uranium enrichment or heavy-water reprocessing activities. It requires U.N. member states to freeze the financial assets of 10 named Iranian nuclear and missile firms and 12 persons related to those programs.²⁸

If 2006 marked the first serious multilateral sanctions on Iran, it also highlighted the fact that many members of the international community still did not agree with the American threat assessment. American policy-makers had already imposed a total trade and investment ban on

²⁴ “Nuclear Overview,” Nuclear Threat Initiative, January 2011, http://www.nti.org/e_research/profiles/Iran/Nuclear/index.html

²⁵ Katzman, Kenneth, “Iran Sanctions,” Congressional Research Service, December 13, 2010, <http://www.fas.org/sgp/crs/mideast/RS20871.pdf>

²⁶ Katzman, Kenneth, “Iran Sanctions,” Congressional Research Service, December 13, 2010, <http://www.fas.org/sgp/crs/mideast/RS20871.pdf>

²⁷ Katzman, Kenneth, “Iran Sanctions,” Congressional Research Service, December 13, 2010, <http://www.fas.org/sgp/crs/mideast/RS20871.pdf>

²⁸ United Nations Security Council Resolution 1737, http://www.iaea.org/newscenter/focus/iaecairan/unsc_res1737-2006.pdf

Iran and barred any US participation in Iranian oil projects. UN sanctions demanded the suspension of enrichment and banned the financing or transfer of certain dual-use, missile, and nuclear technologies. American legislation had completely cut off some Iranian banks from the US economic system. UN resolutions had frozen assets of only a handful of individuals and companies. Throughout 2006, Iran's nuclear program clearly appeared more dangerous to Washington than it did to the UN Security Council.

Moreover, the American strategy of using international support to contain and reverse Iran's growing nuclear program faced an inherent tradeoff between short and long-term goals. The US required broad international action against Tehran in order to change Iranian behavior. However, by incorporating more countries, the US increased the difficulty of building strong and successful sanctions. This gave Iran more time to pursue its objectives while the US worked to compromise on sanctions that suited a coalition of interests. The US end goal of stopping Iran's nuclear program conflicted with its short term attempts to broaden its base of international support.

In end result was that Iranian policy did not change. The Islamic Republic was able to enrich nuclear material and develop its missile capabilities at a cost acceptable to its leaders. It concluded billions of dollars worth of energy deals with countries ranging from China, to Norway, to key US allies like Japan. On balance, the strategic landscape of US-Iranian competition in 2006 favored Tehran.

Competition in 2007

Despite UN sanctions, the basic structure of US-Iranian competition did not change in 2007. American successes were largely offset by Iranian energy deals and military acquisitions.

American and Iranian positions remained largely unchanged. Moreover, the US created considerable confusion by issuing a National Intelligence Estimate (NIE) that seemed to indicate Iran might have halted its nuclear weapons program – a problem compounded by the fact that the US did not provide any broad public analysis of Iran’s programs and often provided little or superficial additional data in its discussions with other states.

The United States did enhance its military presence in the Gulf, and secured European Union cooperation with the basic tenants of American sanctions. However, Iran bolstered its military deterrent capabilities and was able to continue to expand its economic presence in global energy markets. Neither side made significant diplomatic efforts to compromise any aspect of their key goals in order to build confidence or move towards a negotiated solution.

- **January 10, 2007:** President George W. Bush announces an increased US military presence in the Middle East in tandem with the Iraq “troop surge.” The US sends a second aircraft carrier group into the Gulf, extends the deployment of Patriot anti-missile batteries, and increases intelligence sharing with Gulf allies.²⁹
- **January 2007:** Russia completes the delivery of 30 Tor M1 anti-aircraft missile systems, worth over \$1 billion, to Iran.³⁰
- **January 2007:** Royal Dutch Shell (Netherlands) and Repsol (Spain) sign a contract worth an estimated \$4.3 billion for the exploration and development of phases 13 and 14 of the South Pars natural gas field.³¹
- **February 27, 2007:** The EU adopts Common Position 2007/140, officially implementing UN Security Council Resolution 1737 within the EU.³²
- **February 2007:** Iran signs a project management contract with Spain’s Socoin, and a \$320 million contract to construct liquefied natural gas (LNG) and liquefied petroleum

²⁹ Katzman, Kenneth, “Iran: US Concerns and Policy Responses,” Congressional Research Service, December 22, 2010, <http://www.fas.org/sgp/crs/mideast/RL32048.pdf>

³⁰ Katzman, Kenneth, “Iran: US Concerns and Policy Responses,” Congressional Research Service, December 22, 2010, <http://www.fas.org/sgp/crs/mideast/RL32048.pdf>

³¹ Katzman, Kenneth, “Iran: US Concerns and Policy Responses,” Congressional Research Service, December 22, 2010, <http://www.fas.org/sgp/crs/mideast/RL32048.pdf>

³² Sabatini, Richard, “Economic Sanctions: Pressuring Iran’s Nuclear Program,” Monterey Institute for International Studies, Nuclear Threat Initiative, June 24, 2010, http://www.nti.org/e_research/e3_economic_sanctions_pressuring_iran_nuclear_program.html

gas (LPG) storage facilities with South Korea's Daelim at Tombak Port. Iran's Central Bank approves \$900 million total to be spent for the LNG project.³³

- **March 2007:** The Security Council unanimously adopts Resolution 1747 after Iran breaks the February 21 deadline for enrichment suspension set out by UNSCR 1737. UNSCR 1747 demands that Iran suspend enrichment by May 24, 2007.³⁴ (CRS, Iran: US).
- **March 19, 2007:** South Korea's Daelim and Germany's Uhde and Lurgiwin sign a contract to upgrade Iran's Esfahan refinery.³⁵
- **April 23, 2007:** The EU adopts Common Position 2007/246, banning the trade of listed nuclear and missile relevant technologies with Iran, restricting training and financing the possible development of Iran's uranium and plutonium activities, preventing transfers of conventional weapons and military equipment to Iran, and banning member states from establishing new grants, financial assistance, or loans to the government of Iran.³⁶
- **June 26, 2007:** Riots break out in response to Iran's new gasoline rationing program. EIA estimates that Iran is the world's third largest gasoline importer, importing roughly 190,000 bbl/d in 2006.³⁷
- **July 2007:** Iran and the Turkish Petroleum Company (TPAO) initialize a contract for \$12 billion to develop phases 22, 23, and 24 of the South Pars gas field, to transport Iranian gas to Turkey and Europe, and to build three power plants in Iran.³⁸
- **July 2007:** Belneftekhim of Belarus and Iran sign a contract for \$450 million to develop the Jofeir Oil Field.³⁹
- **August 2007:** Iran signs an agreement with the IAEA to clear up outstanding questions on past nuclear activities, indicating some willingness to cooperate. It does not, however, comply with the UN demands outlined in Resolution 1747.⁴⁰

³³ Katzman, Kenneth, "Iran Sanctions," Congressional Research Service, December 13, 2010, <http://www.fas.org/sgp/crs/mideast/RS20871.pdf>

³⁴ Katzman, Kenneth, "Iran: US Concerns and Policy Responses," Congressional Research Service, December 22, 2010, <http://www.fas.org/sgp/crs/mideast/RL32048.pdf>

³⁵ Katzman, Kenneth, "Iran Sanctions," Congressional Research Service, December 13, 2010, <http://www.fas.org/sgp/crs/mideast/RS20871.pdf>

³⁶ "Nuclear Overview," Nuclear Threat Initiative, January 2011, http://www.nti.org/e_research/profiles/Iran/Nuclear/index.html

³⁷ "Current Monthly Energy Chronology," Energy Information Agency, January 2008, http://www.eia.doe.gov/cabs/MEC_Past/2006.html

³⁸ Katzman, Kenneth, "Iran Sanctions," Congressional Research Service, December 13, 2010, <http://www.fas.org/sgp/crs/mideast/RS20871.pdf>

³⁹ "Belarus might join project to extend Odessa-Brody pipeline to Poland," Interfax, November 8, 2007, <http://data.minsk.by/belarusnews/112007/57.html>

⁴⁰ Katzman, Kenneth, "Iran: US Concerns and Policy Responses," Congressional Research Service, December 22, 2010, <http://www.fas.org/sgp/crs/mideast/RL32048.pdf>

- **September 28, 2007:** The P5+1 and the EU release a joint statement pledging further sanctions if there is no progress in implementing the August 2007 agreement.
- **November 30, 2007:** EU representative Javier Solana and Iranian negotiator Sayid Jallili meet to discuss the August 2007 agreement. Solana and the IAEA indicate that Iran's efforts "fell short" and describe the interaction as "disappointing."⁴¹
- **November 2007:** the US releases its annual National Intelligence Estimate with some surprising and some not-so-surprising findings. Among them are:
 - "Iranian military entities were working under government direction to develop nuclear weapons" until fall 2003, after which Tehran, "halted its nuclear weapons program... primarily in response to international pressure."
 - Tehran is "keeping open the option to develop nuclear weapons" and any decision to end a nuclear weapons program is "inherently reversible."
 - Iran "probably would use covert facilities—rather than its declared nuclear sites—for the production of highly enriched uranium for a weapon."
 - "Iran has the scientific, technical and industrial capacity eventually to produce nuclear weapons if it decides to do so," and therefore "only an Iranian political decision to abandon a nuclear weapons objective would plausibly keep Iran from eventually producing nuclear weapons—and such a decision is inherently reversible."⁴²
- **December 9, 2007:** Sinopec (China) finalizes a \$2 billion contract with Iran to develop the Yadavaran oil field.⁴³
- **December 2007:** SKS Ventures (Malaysia) and Iran sign a contract for \$16 billion to develop the Golshan and Ferdows onshore and offshore gas fields as well as a LNG plant.⁴⁴
- **December 2007:** Russia agrees to sell Iran the S-300 air defense system, its most advanced system available for export, in a deal worth an estimated \$800 million.⁴⁵

Competition in 2008

⁴¹ Katzman, Kenneth, "Iran: US Concerns and Policy Responses," Congressional Research Service, December 22, 2010, <http://www.fas.org/sgp/crs/mideast/RL32048.pdf>

⁴² Kerr, Paul, "Iran's Nuclear Program: Status," Congressional Research Service, December 29, 2009, <http://www.fas.org/sgp/crs/nuke/RL34544.pdf>

⁴³ Katzman, Kenneth, "Iran Sanctions," Congressional Research Service, December 13, 2010, <http://www.fas.org/sgp/crs/mideast/RS20871.pdf>

⁴⁴ Katzman, Kenneth, "Iran Sanctions," Congressional Research Service, December 13, 2010, <http://www.fas.org/sgp/crs/mideast/RS20871.pdf>

⁴⁵ Katzman, Kenneth, "Iran: US Concerns and Policy Responses," Congressional Research Service, December 22, 2010, <http://www.fas.org/sgp/crs/mideast/RL32048.pdf>

US strategic competition with Iran intensified significantly in 2008 as a result of several trends. On the one hand, the rise and fall of energy prices in 2008 influenced Iranian and American bargaining power, respectively. On the other hand, American efforts to isolate Iran from financial and energy markets did see increasing success. These two dynamics framed American and Iranian efforts to outmaneuver each other. However, neither side gained a clear advantage.

The United States did offer Iran an enhanced incentives package, but it also concluded a missile defense deal with Poland and the Czech Republic that was directed at dealing with the potential threat from Iran's long range missiles. It deployed naval forces and provided additional support to the Southern Gulf states in an effort to counter Iranian rhetorical threats to the Strait of Hormuz. It also effectively denied all Iranian banks direct access to the American economy or currency.

Iran, in turn, continued to pursue its nuclear program, rejected the P5+1 incentives package as oil prices soared, attracted long-term investment in its energy sector, and developed its naval capabilities near Hormuz. Iran was, however, unable to counter American-led economic measures. A dramatic fall in oil prices slowed commercial activity and investment in Iran, and American sanctions had a growing impact on Iran's economic well-being.

Once again, a summary chronology helps clarify the escalating nature of US and Iranian competition:

- **January 2008:** Secretary of State Condoleezza Rice states that the US does not consider Iran to be a “permanent enemy”.⁴⁶
- **February 2008:** Iran launches a research rocket into space, suggesting improvements in its missile technology and a growing threat of Iranian ICBMs.⁴⁷

⁴⁶ Katzman, Kenneth, “Iran: US Concerns and Policy Responses,” Congressional Research Service, December 22, 2010, <http://www.fas.org/sgp/crs/mideast/RL32048.pdf>

- **February 2008:** PGNiG of Poland signs a contract with Iran for \$2 billion to develop the Lavan offshore natural gas field.⁴⁸
- **February 2008:** With Iranian cooperation “on an ad hoc basis and not in a consistent and complete manner,” the IAEA verifies that Iran’s declared nuclear facilities and materials have not been used for military purposes, according to IAEA Director General Mohamed ElBaradei’s report. However, the report states that “confidence in the exclusively peaceful nature of Iran’s nuclear programme requires that the Agency be able to provide assurances not only regarding declared nuclear material, but, equally importantly, regarding the absence of undeclared nuclear material and activities in Iran.”⁴⁹
- **February 2008:** Tehran tells the IAEA that it would implement its Additional Protocol “if the nuclear file is returned from the Security Council” to the agency. Most experts regard the pledge as disingenuous and an effort to undermine sanctions.⁵⁰
- **March 3, 2008:** UN Security Council Resolution 1803 is adopted by the Security Council by a vote of 14-0 (Indonesia abstaining). The resolution bans the sale of virtually all dual-use items to Iran, authorizes the inspection of all Iranian air and sea cargo for WMD-related goods, calls for—but does not require—a ban on financial transactions with Iran’s Bank Melli and Bank Saderat, and sanctions an additional 12 Iranian entities for their involvement in Iran’s nuclear or missile programs. Significantly, however, the resolution also states the P5+1’s continued willingness to resolve their issues with Iran through negotiation based on the June 2006 proposals.⁵¹
- **March 2008:** In a deal with more than \$15 billion, Switzerland’s EGL agrees to purchase a set amount of Iranian natural gas per year for 25 years through a Trans-Adriatic Pipeline to be completed by 2010. The US criticizes the deal as sending the “wrong message” to Iran.⁵²
- **April 2008:** Treasury Officials state that the US has convinced over 40 banks to halt financing exports to Iran or processing dollar transactions for Iranian Banks. Kuwaiti banks have reportedly promised to abstain from all transactions with Iranian accounts.⁵³

⁴⁷ Katzman, Kenneth, “Iran: US Concerns and Policy Responses,” Congressional Research Service, December 22, 2010, <http://www.fas.org/sgp/crs/mideast/RL32048.pdf>

⁴⁸ Katzman, Kenneth, “Iran Sanctions,” Congressional Research Service, December 13, 2010, <http://www.fas.org/sgp/crs/mideast/RS20871.pdf>

⁴⁹ Kerr, Paul, “Iran’s Nuclear Program: Status,” Congressional Research Service, December 29, 2009, <http://www.fas.org/sgp/crs/nuke/RL34544.pdf>

⁵⁰ Kerr, Paul, “Iran’s Nuclear Program: Status,” Congressional Research Service, December 29, 2009, <http://www.fas.org/sgp/crs/nuke/RL34544.pdf>

⁵¹ Katzman, Kenneth, “Iran: US Concerns and Policy Responses,” Congressional Research Service, December 22, 2010, <http://www.fas.org/sgp/crs/mideast/RL32048.pdf>

⁵² Katzman, Kenneth, “Iran Sanctions,” Congressional Research Service, December 13, 2010, <http://www.fas.org/sgp/crs/mideast/RS20871.pdf>

⁵³ Sabatini, Richard, “Economic Sanctions: Pressuring Iran’s Nuclear Program,” Monterey Institute for International Studies, Nuclear Threat Initiative, June 24, 2010, http://www.nti.org/e_research/e3_economic_sanctions_pressuring_iran_nuclear_program.html

- **April 2008:** Iran applies to change its observer status into full membership at the Shanghai Cooperation Organization.⁵⁴
- **April 2008:** Croatia's INA signs a contract to develop Iran's Moghan 2 onshore oil and gas field in a deal worth between \$40 and \$140 million.⁵⁵
- **April 2008:** Oman enters negotiations with Iran, pledging \$7 billion to co-finance developments in Iran's Kish gas field and build a pipeline between Iran and Oman.⁵⁶
- **May 2, 2008:** At a meeting in London, the Bush Administration expands the June 2006 incentives package for Iran.⁵⁷
- **May 5, 2008:** Ambassador Ali Asghar Soltanieh, Iran's permanent representative to the IAEA, presents plans for the Arak Heavy Water Reactor, claiming its purpose is to replace the outdated Low-Enriched Uranium (LEU) fueled Tehran Research Reactor (TRR). However, the Arak Reactor's spent fuel will contain plutonium better suited for nuclear weapons than that of its LEU counterpart in Tehran, raising proliferation concerns.⁵⁸
- **May 2008:** The IAEA requests further information on nuclear related procurement, production, and research activities conducted by entities linked to Iran's military and defense establishment. Iran offers no immediate response.⁵⁹
- **June 3, 2008:** Supreme Leader Ayatollah Khamenei declares that Iran is opposed to nuclear weapons "based on religious and Islamic beliefs as well as based on logic and wisdom." He adds that, "nuclear weapons have no benefit, but high costs to manufacture and keep them. Nuclear weapons do not bring power to a nation because they are not applicable. Nuclear weapons cannot be used."⁶⁰

⁵⁴ Katzman, Kenneth, "Iran: US Concerns and Policy Responses," Congressional Research Service, December 22, 2010, <http://www.fas.org/sgp/crs/mideast/RL32048.pdf>

⁵⁵ Katzman, Kenneth, "Iran Sanctions," Congressional Research Service, December 13, 2010, <http://www.fas.org/sgp/crs/mideast/RS20871.pdf>

⁵⁶ Katzman, Kenneth, "Iran Sanctions," Congressional Research Service, December 13, 2010, <http://www.fas.org/sgp/crs/mideast/RS20871.pdf>

⁵⁷ Katzman, Kenneth, "Iran: US Concerns and Policy Responses," Congressional Research Service, December 22, 2010, <http://www.fas.org/sgp/crs/mideast/RL32048.pdf>

⁵⁸ Kerr, Paul, "Iran's Nuclear Program: Status," Congressional Research Service, December 29, 2009, <http://www.fas.org/sgp/crs/nuke/RL34544.pdf>

⁵⁹ Kerr, Paul, "Iran's Nuclear Program: Status," Congressional Research Service, December 29, 2009, <http://www.fas.org/sgp/crs/nuke/RL34544.pdf>

⁶⁰ Kerr, Paul, "Iran's Nuclear Program: Status," Congressional Research Service, December 29, 2009, <http://www.fas.org/sgp/crs/nuke/RL34544.pdf>

- **June 14, 2008:** EU envoy Javier Solana presents the recently amended incentives package to Iran. Days before the rely deadline, Ayatollah Khamenei states that Iran will “continue with its path” of nuclear development.⁶¹
- **July 18, 2008:** Oil prices drop by more than \$18 over one week to \$128.88 per barrel from the all-time peak of \$147.27 set on July 11. The price decline is triggered by a 3 million barrel increase in US crude stocks, falling US demand, and growing tensions between the US and Iran.⁶²
- **July 19, 2008:** The Bush Administration sends an emissary to Geneva to negotiate Iran’s suggested six week “freeze for freeze” in which the P5+1 would freeze further sanctions efforts and Iran would freeze any expansion of uranium enrichment (though not suspend enrichment outright). Iran did not accept the “freeze for freeze” by the extended deadline, August 2, 2008.⁶³
- **July 2008:** Iran asserts that it can close the Strait of Hormuz if it wishes. Joint Chiefs Chairman Mullen responds that US forces could quickly reopen the waterway.⁶⁴
- **July 2008:** General Electric upholds its promise, made in February 2005, to seek no new business in Iran and it reportedly winds down preexisting contracts in July 2008. GE was selling Iran equipment and services for hydroelectric, oil, and gas operations.⁶⁵
- **July 12, 2008:** Total and Petronas, the original South Pars investors, pull out of a deal to develop LNG export capability at Phase 11 of South Pars, saying that investing in Iran at a time of growing international pressure over its nuclear program is “too risky.”⁶⁶
- **August, 2008:** the EU adopts Common Position 2008/652, requiring member states to inspect air and sea cargo to and from Iran and to “exercise restraint [and] continued vigilance” in financial commitments with Iran and its banking sector.⁶⁷
- **August 2008:** The Bush Administration reaches an agreement with Poland and the Czech Republic to establish a missile defense system to counter Iranian ballistic missiles. Russia

⁶¹ Bowley, Graham, “Despite Call to Halt, Iran Says It Will Continue Its Nuclear Program,” The New York Times, 31 July 2008, <http://www.nytimes.com/2008/07/31/world/middleeast/31iran.html>; “Nuclear Overview,” Nuclear Threat Initiative, January 2011, http://www.nti.org/e_research/profiles/Iran/Nuclear/index.html

⁶² “Current Monthly Energy Chronology,” Energy Information Agency, January 2009, http://www.eia.doe.gov/cabs/MEC_Past/2008.html

⁶³ Katzman, Kenneth, “Iran: US Concerns and Policy Responses,” Congressional Research Service, December 22, 2010, <http://www.fas.org/sgp/crs/mideast/RL32048.pdf>

⁶⁴ Katzman, Kenneth, “Iran: US Concerns and Policy Responses,” Congressional Research Service, December 22, 2010, <http://www.fas.org/sgp/crs/mideast/RL32048.pdf>

⁶⁵ Katzman, Kenneth, “Iran Sanctions,” Congressional Research Service, December 13, 2010, <http://www.fas.org/sgp/crs/mideast/RS20871.pdf>

⁶⁶ Katzman, Kenneth, “Iran Sanctions,” Congressional Research Service, December 13, 2010, <http://www.fas.org/sgp/crs/mideast/RS20871.pdf>

⁶⁷ Sabatini, Richard, “Economic Sanctions: Pressuring Iran’s Nuclear Program,” Monterey Institute for International Studies, Nuclear Threat Initiative, June 24, 2010, http://www.nti.org/e_research/e3_economic_sanctions_pressuring_iran_nuclear_program.html

voices strong opposition, based on the belief that the missile defense system would be used to neutralize Russian capabilities.⁶⁸

- **August 18-20, 2008:** The IAEA meets with Iran to discuss documents indicating that Iranian entities conducted studies related to nuclear weapons development—such as testing missile reentry vehicles capable of delivering nuclear warheads, uranium conversion, and detonating conventional explosives used in nuclear weapons.⁶⁹
- **September 27, 2008:** The UN Security Council responds by adopting Resolution 1835. The resolution calls on Iran to comply with previous resolutions. No new measures are passed largely due to a split in Russia-US relations over the August 2008 crisis between Russia and Georgia.⁷⁰
- **October 2008:** Iran announces that it is building several new naval bases along the southern coast, including at Jask, enhancing its capability to threaten the entry and exit point to the Strait of Hormuz.⁷¹
- **November 6, 2008:** The Treasury Department extends U-Turn restriction to all Iranian banks (“U-turn” transactions, meaning transactions with non-Iranian banks on behalf of an Iranian bank).⁷²
- **November 2008:** The Deputy Minister of the National Iranian Oil Company warns that Iran requires roughly \$145 billion in new investment over the next 10 years to build a thriving energy sector.⁷³
- **December 2008:** American threats of sanctions cause Reliance Industries Ltd. (India), one of Iran’s key gasoline suppliers, to cease new sales of gasoline to Iran.⁷⁴
- **2008:** Japan significantly reduces its participation in developing Iran’s Azadegan oil field. Japan’s absence, however, is offset quantitatively, though not qualitatively, by increased involvement of China, Malaysia, and Vietnam.⁷⁵

⁶⁸ Katzman, Kenneth, “Iran: US Concerns and Policy Responses,” Congressional Research Service, December 22, 2010, <http://www.fas.org/sgp/crs/mideast/RL32048.pdf>

⁶⁹ Kerr, Paul, “Iran’s Nuclear Program: Status,” Congressional Research Service, December 29, 2009, <http://www.fas.org/sgp/crs/nuke/RL34544.pdf>

⁷⁰ Katzman, Kenneth, “Iran: US Concerns and Policy Responses,” Congressional Research Service, December 22, 2010, <http://www.fas.org/sgp/crs/mideast/RL32048.pdf>

⁷¹ Katzman, Kenneth, “Iran: US Concerns and Policy Responses,” Congressional Research Service, December 22, 2010, <http://www.fas.org/sgp/crs/mideast/RL32048.pdf>

⁷² Katzman, Kenneth, “Iran Sanctions,” Congressional Research Service, December 13, 2010, <http://www.fas.org/sgp/crs/mideast/RS20871.pdf>

⁷³ “Firms Reported in Open Sources as Having Commercial Activity in Iran’s Oil, Gas, and Petrochemical Sectors,” Government Accountability Office, March 23, 2010, <http://www.gao.gov/products/GAO-10-515R>

⁷⁴ Katzman, Kenneth, “Iran Sanctions,” Congressional Research Service, December 13, 2010, <http://www.fas.org/sgp/crs/mideast/RS20871.pdf>

⁷⁵ Katzman, Kenneth, “Iran Sanctions,” Congressional Research Service, December 13, 2010, <http://www.fas.org/sgp/crs/mideast/RS20871.pdf>

American economic measures targeting Iran's energy and banking industries did gain growing international momentum by the end of 2008. Moreover, the IAEA's complaint that Iran was obstructing its investigation helped legitimize American calls for Iran to act or invite further sanctions. Support for broad, multilateral sanctions on Iran looked increasingly likely. The means to impose sanctions to achieve American objectives appeared attainable. The probability that sanctions would change Iran's nuclear intentions, however, remained less certain.

Competition in 2009

A new US Administration, and a deeply flawed Iranian election, did not radically change this situation in 2009, although Iran's political stability did come under serious question for the first time since the revolution that had exiled the Shah in 1979. President Obama did begin a fresh diplomatic initiative with Iran. This approach consisted of a series of public appeals by the President to reinvigorate diplomacy between Washington and Tehran; a rejection of the previous Administration's negotiating tactics and preconditions; an extension of ongoing unilateral trade and investment sanctions; and a willingness to wait for Iran to recalibrate its interests and lay the groundwork—domestically and internationally—for diplomacy.

Iran responded with unclear and sometimes contradictory actions and words; attempts to strengthen its economic position through international contracts with its energy sector; but continued efforts to develop its nuclear program and capabilities. Nowhere was this more evident than in the discovery of an Iranian clandestine nuclear facility near Qom. The existence of the Qom facility raised serious questions about the nature of Iran's nuclear program. Whether or not the Qom facility contradicted Iranian claims of its "peaceful" nuclear intent, it dramatically increased suspicions and mistrust.

- **January 2009:** CNPC (China) signs a contract for \$1.75 billion to develop Iran's North Azadegan Oil Field.⁷⁶
- **February 4, 2009:** President Obama meets with the P5+1 in Germany for the first time after his inauguration. Obama reverses the Bush Administration's longstanding policy (between 2003 and 2008) requiring Iran to suspend uranium enrichment before the United States joins multilateral nuclear talks. Obama also recommitments the US to the existing "two track" strategy of incentives and sanctions.⁷⁷
- **February 2009:** Iran launches a satellite on a Safir-2 rocket, causing the Pentagon to react with concern because of the "dual-use capabilities... which could be applied toward the development of long-range missiles."⁷⁸
- **February 23, 2009:** Iran forms a joint venture with a Turkish firm to export 35 billion cubic meters of gas per year to Europe.⁷⁹
- **March 15, 2009:** President Obama issues a formal one year extension of the US ban on trade and investment with Iran.⁸⁰
- **March 21, 2009:** On Norwuz, or Persian New Year, President Obama delivers his first public message to Iran, stating that the United States "is now committed to diplomacy that addresses the full range of issues before us, and to pursuing constructive ties among the United States, Iran, and the international community." Obama invites Iran to attend the March 31, 2009, conference on Afghanistan in the Netherlands.⁸¹
- **March 2009:** A Chinese-led consortium signs a contract for more than \$8 billion to develop and supply liquid natural gas from phase 12 of Iran's South Pars gas field.⁸²
- **April 9, 2009:** President Mahmoud Ahmadinejad asserts during a speech that "those who accumulate nuclear weapons are backwards in political terms."⁸³

⁷⁶ Katzman, Kenneth, "Iran Sanctions." Congressional Research Service. December 13, 2010.

<http://www.fas.org/sgp/crs/mideast/RS20871.pdf>

⁷⁷ Katzman, Kenneth, "Iran: US Concerns and Policy Responses." Congressional Research Service. December 22, 2010. <http://www.fas.org/sgp/crs/mideast/RL32048.pdf>

⁷⁸ Katzman, Kenneth, "Iran: US Concerns and Policy Responses." Congressional Research Service. December 22, 2010. <http://www.fas.org/sgp/crs/mideast/RL32048.pdf>

⁷⁹ Katzman, Kenneth, "Iran Sanctions." Congressional Research Service. December 13, 2010.

<http://www.fas.org/sgp/crs/mideast/RS20871.pdf>

⁸⁰ Katzman, Kenneth, "Iran: US Concerns and Policy Responses." Congressional Research Service. December 22, 2010. <http://www.fas.org/sgp/crs/mideast/RL32048.pdf>

⁸¹ Katzman, Kenneth, "Iran: US Concerns and Policy Responses." Congressional Research Service. December 22, 2010. <http://www.fas.org/sgp/crs/mideast/RL32048.pdf>

⁸² Katzman, Kenneth, "Iran Sanctions." Congressional Research Service. December 13, 2010.

<http://www.fas.org/sgp/crs/mideast/RS20871.pdf>

⁸³ Kerr, Paul, "Iran's Nuclear Program: Status," Congressional Research Service, December 29, 2009,

<http://www.fas.org/sgp/crs/nuke/RL34544.pdf>

- **April 2009:** Though Khamenei generally seems to favor Ahmadinejad's reelection, he is publicly neutral in the 2009 campaign.⁸⁴
- **May 2009:** Iran and Armenia inaugurate a natural gas pipeline between the two, built by Gazprom of Russia.⁸⁵
- **May 2009:** Leon Panetta, Director of the Central Intelligence Agency reaffirms the 2007 NIE's assessment that Iran halted its nuclear weapons program but is keeping its options open.⁸⁶
- **June 4, 2009:** In his Cairo Speech, Obama acknowledges that the United States had played a role in the overthrow of Mossadeq, and that Iran has the right to peaceful nuclear power if it complies with its responsibilities under the NPT.⁸⁷
- **June 5, 2009:** The IAEA reports that Iran has accelerated its nuclear enrichment and remains uncooperative with the agency's efforts to determine the nature of Iran's nuclear program.⁸⁸
- **June 12, 2009:** Iran's disputed presidential election returns Mahmoud Ahmadinejad to the Presidency, but launches the "Green Movement."⁸⁹
- **June 17, 2009:** In response to IAEA documents implicating Iranian entities in potentially conducting studies related to nuclear weapons development—including testing missile reentry vehicles for delivering nuclear warheads, performing uranium conversion, and detonating conventional explosives used in nuclear weapons—Iranian officials claim the documents are not authentic. ElBaradei reports to the IAEA that "there is enough in these alleged studies to create concern in the minds of our professional inspectors."⁹⁰
- **June 18, 2009:** Britain announces it has frozen a total of \$1.59 billion in Iranian assets.

⁸⁴ Katzman, Kenneth, "Iran: US Concerns and Policy Responses." Congressional Research Service. December 22, 2010. <http://www.fas.org/sgp/crs/mideast/RL32048.pdf>

⁸⁵ Katzman, Kenneth, "Iran Sanctions." Congressional Research Service. December 13, 2010. <http://www.fas.org/sgp/crs/mideast/RS20871.pdf>

⁸⁶ Kerr, Paul, "Iran's Nuclear Program: Status," Congressional Research Service, December 29, 2009, <http://www.fas.org/sgp/crs/nuke/RL34544.pdf>

⁸⁷ Katzman, Kenneth, "Iran: US Concerns and Policy Responses." Congressional Research Service. December 22, 2010. <http://www.fas.org/sgp/crs/mideast/RL32048.pdf>

⁸⁸ William J. Broad and David E. Sanger, "Iran Has Centrifuge Capacity for Nuclear Arms, Report Says," The New York Times, June 6, 2009; Director General of the International Atomic Energy Agency, "Implementation of the NPT Safeguards Agreement and relevant provisions of Security Council resolutions 1737 (2006), 1747 (2007), 1803 (2008) and 1835 (2008) in the Islamic Republic of Iran," June 5, 2009, www.iaea.org; "Iranian Nuclear Expansion Complicates Monitoring, IAEA Report Says," Global Security Newswire, June 8, 2009, www.nti.org.

⁸⁹ Katzman, Kenneth, "Iran: US Concerns and Policy Responses." Congressional Research Service. December 22, 2010. <http://www.fas.org/sgp/crs/mideast/RL32048.pdf>

⁹⁰ Kerr, Paul, "Iran's Nuclear Program: Status," Congressional Research Service, December 29, 2009, <http://www.fas.org/sgp/crs/nuke/RL34544.pdf>

- **June 2009:** Iran refuses to allow IAEA officials to conduct an inspection of the Arak heavy water reactor.
- **July 9, 2009:** A G-8 summit statement proposes late September 2009 as a time by which the P5+1 would expect Iran to attend new talks and offer constructive proposals, or face “crippling sanctions.”⁹¹
- **August 2009:** President Obama sends a letter to Iran’s leadership expressing his Administration’s philosophy in favor of engagement.⁹²
- **August 2009:** Sinopec (China) signs a \$6 billion contract to upgrade and expand Iran’s Abadan refinery, and build a new refinery at Hormuz.⁹³
- **September 2009:** Sensing pressure, Iran offers “to enter into a dialogue [with the P5+1]... in order to lay the ground for lasting peace.” The proposal only briefly addresses nuclear issues and does not explicitly mention Iran’s nuclear program. However, the P5+1 consider it a sufficient basis to negotiate with Iran in Geneva in October.⁹⁴
- **September 17, 2009:** The Obama Administration reorients its missile defense program to focus on ship-based systems, rather than Poland and Czech-based systems. Some see this as an effort to win Russia’s support for additional sanctions on Iran.⁹⁵
- **September 21, 2009:** Tehran provides some details about a previously undeclared nuclear enrichment facility near Qom to the IAEA in a letter. Tehran’s explanations for the facility’s size, secrecy, and location on an Iran Revolutionary Guard Corps (IRGC) military base are met with considerable skepticism. Regarding the concealment of the base, Iranian officials assert that their obligations to the IAEA did not previously require them to disclose it.⁹⁶
- **September 25, 2009:** American, French and British leaders publicized information on Iran’s Qom facility. President Obama states that “the size and configuration of this facility is inconsistent with a peaceful [nuclear] program.”⁹⁷
- **September 2009:** Petroleos de Venezuela SA takes 10% stake in a venture to develop the South Pars gas field for \$760 million.⁹⁸

⁹¹ Katzman, Kenneth, “Iran: US Concerns and Policy Responses.” Congressional Research Service. December 22, 2010. <http://www.fas.org/sgp/crs/mideast/RL32048.pdf>

⁹² Katzman, Kenneth, “Iran: US Concerns and Policy Responses.” Congressional Research Service. December 22, 2010. <http://www.fas.org/sgp/crs/mideast/RL32048.pdf>

⁹³ Katzman, Kenneth, “Iran Sanctions,” Congressional Research Service, December 13, 2010, <http://www.fas.org/sgp/crs/mideast/RS20871.pdf>

⁹⁴ “Iran Nuclear Program Proposal,” ProPublica, <http://www.propublica.org/documents/item/iran-nuclear-program-proposal>

⁹⁵ Katzman, Kenneth, “Iran: US Concerns and Policy Responses.” Congressional Research Service. December 22, 2010. <http://www.fas.org/sgp/crs/mideast/RL32048.pdf>

⁹⁶ CRS, Iran’s Nuclear Program: Status, 12.29.09

⁹⁷ Katzman, Kenneth, “Iran: US Concerns and Policy Responses.” Congressional Research Service. December 22, 2010. <http://www.fas.org/sgp/crs/mideast/RL32048.pdf>

- **September 28, 2009:** Iran test fires several Shahab-3 missiles in advance of the October 1 meeting with the P5+1.⁹⁹
- **October 1, 2009:** Iran and P5+1 resume talks in Geneva, and set further talks for October 19 in Vienna. In the Geneva round of negotiations, Iran agrees to IAEA inspections of its Qom facility and, in principle, to send 1,200 kg of LEU to Russia for further enrichment and then to France for fuel fabrication.¹⁰⁰
- **October 12, 2009:** The British government freezes ties with Bank Mellat and Islamic Republic of Iran Shipping Lines for its involvement in Iran's nuclear program.¹⁰¹
- **October 19-21, 2009:** Iran and the P5+1 draft a "fuel swap" agreement to address IAEA and UN concerns about Iran's stockpile of LEU as well as its Qom enrichment facility. Iran later rejects this deal and proposes to conduct the exchange in phases—a proposal which the US and the IAEA dismiss as "inconsistent" with earlier negotiations.¹⁰²
- **October 25-29, 2009:** The IAEA inspects Iran's Qom facility.
- **October 2009:** The Treasury Department sanctions Bank Mellat in Malaysia.¹⁰³
- **October 2009:** South Korea's G&S Engineering and Construction signs a contract for \$1.4 billion to build a Gas Sweetening Plant and develop the South Pars gas field. The firm later abrogates the contract under pressure from the South Korean and American governments.¹⁰⁴
- **November 10, 2009:** Tehran publically acknowledges that it has agreed to "accept the essential elements" of the fuel supply proposal "but has also sought modifications to the formula."¹⁰⁵

⁹⁸ Katzman, Kenneth, "Iran Sanctions." Congressional Research Service. December 13, 2010.

<http://www.fas.org/sgp/crs/mideast/RS20871.pdf>

⁹⁹ Katzman, Kenneth, "Iran: US Concerns and Policy Responses." Congressional Research Service. December 22, 2010. <http://www.fas.org/sgp/crs/mideast/RL32048.pdf>

¹⁰⁰ "Nuclear Overview," Nuclear Threat Initiative, January 2011,

http://www.nti.org/e_research/profiles/Iran/Nuclear/index.html

¹⁰¹ Sabatini, Richard, "Economic Sanctions: Pressuring Iran's Nuclear Program," Monterey Institute for International Studies, Nuclear Threat Initiative, June 24, 2010,

http://www.nti.org/e_research/e3_economic_sanctions_pressuring_iran_nuclear_program.html

¹⁰² "Nuclear Overview," Nuclear Threat Initiative, January 2011,

http://www.nti.org/e_research/profiles/Iran/Nuclear/index.html

¹⁰³ Sabatini, Richard, "Economic Sanctions: Pressuring Iran's Nuclear Program," Monterey Institute for International Studies, Nuclear Threat Initiative, June 24, 2010,

http://www.nti.org/e_research/e3_economic_sanctions_pressuring_iran_nuclear_program.html

¹⁰⁴ Katzman, Kenneth, "Iran Sanctions." Congressional Research Service. December 13, 2010.

<http://www.fas.org/sgp/crs/mideast/RS20871.pdf>

¹⁰⁵ Kerr, Paul, "Iran's Nuclear Program: Status," Congressional Research Service, December 29, 2009,

<http://www.fas.org/sgp/crs/nuke/RL34544.pdf>

- **November 18, 2009:** Foreign Minister Mottaki states that Iran will not ship its LEU to another country for further enrichment.¹⁰⁶
- **November 20, 2008:** A P5+1 joint statement expresses disappointment with Tehran's failure to help schedule another meeting or respond positively to the Tehran Research Reactor proposal.¹⁰⁷
- **November 26, 2009:** ElBaradei tells the IAEA that absent further Iranian cooperation, the agency's investigation has "effectively reached a dead end." Tehran has not cooperated with the agency since ElBaradei's September 2008 report.¹⁰⁸
- **November 27, 2009:** The IAEA passes a resolution stating that Iran's failure to declare the Qom facility was "inconsistent with" its IAEA safeguards agreement. The report stops short of citing Iranian actions for "formal noncompliance." The IAEA states, however, that the discovery of the Qom facility "reduces the level of confidence in the absence of other nuclear facilities and gives rise to questions about whether there are any other [undeclared] nuclear facilities under construction in Iran."¹⁰⁹
- **November 2009:** Daelim of South Korea and Tecinmont of Italy sign an agreement for \$4 billion total to develop Phase 12 of Iran's South Pars gas field.¹¹⁰
- **November 2009:** ElBaradei's report to the Security Council and the IAEA indicates that Tehran continues to defy UN demands by continuing work on both its uranium enrichment program and heavy-water reactor program. Iranian officials maintain that Iran will not suspend enrichment.¹¹¹
- **December 16, 2009:** The Treasury Department announces that Credit Suisse will pay a \$536 million settlement to the United States for illicitly processing Iranian transactions with US banks. Following the announcement, Credit Suisse pledges to cease doing business with Iran.¹¹²

¹⁰⁶ Kerr, Paul, "Iran's Nuclear Program: Status," Congressional Research Service, December 29, 2009, <http://www.fas.org/sgp/crs/nuke/RL34544.pdf>

¹⁰⁷ Kerr, Paul, "Iran's Nuclear Program: Status," Congressional Research Service, December 29, 2009, <http://www.fas.org/sgp/crs/nuke/RL34544.pdf>

¹⁰⁸ Kerr, Paul, "Iran's Nuclear Program: Status," Congressional Research Service, December 29, 2009, <http://www.fas.org/sgp/crs/nuke/RL34544.pdf>

¹⁰⁹ "Implementation of the NPT Safeguards Agreement and relevant provisions of Security Council resolutions 1737 (2006), 1747 (2007), 1803 (2008) and 1835 (2008) in the Islamic Republic of Iran," IAEA Board of Governors Report, 16 November 2009

¹¹⁰ Katzman, Kenneth, "Iran Sanctions." Congressional Research Service. December 13, 2010. <http://www.fas.org/sgp/crs/mideast/RS20871.pdf>

¹¹¹ Kerr, Paul, "Iran's Nuclear Program: Status," Congressional Research Service, December 29, 2009, <http://www.fas.org/sgp/crs/nuke/RL34544.pdf>

¹¹² Katzman, Kenneth, "Iran Sanctions." Congressional Research Service. December 13, 2010. <http://www.fas.org/sgp/crs/mideast/RS20871.pdf>

- **December 28, 2009:** President Obama shifts further toward public support for the “Green Movement” by saying, in regard to the unrest in Iran, “along with all free nations, the United States stands with those who seek their universal rights.”¹¹³

Competition in 2010

US-Iranian competition escalated again in 2010, but without a basic change in the tactics of either side. Negotiations continued with little practical effect, and Iran continued to move towards the capability to produce nuclear weapons, while steadily improving its long-range missile designs and technology. The IAEA made no meaningful progress vis-à-vis Iran after the summer of 2008, and its inspection capabilities were increasingly restricted. Tehran largely refused to cooperate with the IAEA, the UN, and the international community. At the same time, Iran made diplomatic moves to manipulate the “fuel swap” deal, it suspended and reengaged in P5+1 talks, all while enhancing its missile and conventional forces, and continuing to expand its nuclear program.

American and multilateral sanctions were strengthened, and increasingly were affecting Iran’s energy, finance, and commerce revenue flows. Though reliable data on Iran’s economy is incomplete at best, there is anecdotal and circumstantial evidence that indicates that sanctions are having a meaningful effect. Whether those economic impacts will translate into major changes in Iran’s actions, however, remains unclear.

- **January 2, 2010:** Iran warns the West that it has one month to accept Iran’s counterproposal to the October 2009 nuclear fuel deal. Iran threatens that it will begin enrichment to 20% and produce its own fuel if the P5+1 refuses to sell Iran TRR fuel directly or to swap Iran’s LEU stockpile for HEU fuel in small, ongoing transfers.¹¹⁴

¹¹³ Katzman, Kenneth, “Iran: US Concerns and Policy Responses.” Congressional Research Service. December 22, 2010. <http://www.fas.org/sgp/crs/mideast/RL32048.pdf>

¹¹⁴ Dareini, Ali Akbar. “Iran Issues Nuclear Deadline.” Newsday. January 3, 2010.

- **January 12, 2010:** Tehran University nuclear physics professor Masoud Ali Mohammadi is killed in a motorcycle bomb explosion outside his home. Conflicting reports are released about his involvement in Iran's nuclear program. Iranian officials blame the US and Israel but there is speculation that Mohammadi's connections to the Green Movement could have caused his death.¹¹⁵
- **February 2010:** CNPC of China signs a \$4.7 billion contract with Iran to develop Phase 11 of the South Pars gas field. Drilling is expected to begin as early as March 2010.¹¹⁶
- **February 2, 2010:** The American intelligence community's Annual Threat Assessment states that Iran, "is keeping open the option to develop nuclear weapons in part by developing various nuclear capabilities that bring it closer to being able to produce such weapons, should it choose to do so."¹¹⁷
- **February 3, 2010:** In an interview aired on state television, President Ahmadinejad asserts that "there is no problem" if Iran signs "a contract to give 3.5% enriched uranium and receive 20% enriched after four or five months."¹¹⁸
- **February 8, 2010:** Iran sends a letter to the IAEA, stating that it will enrich its part of stockpile of LEU to 20%. Iran claims no responsibility for its decision to enrich. Rather, Iran holds the international community responsible for failing to provide it with fuel for the TRR.¹¹⁹
- **February 10, 2010:** The US and other nations respond by proposing to help Iran purchase medical isotopes on the international market.¹²⁰
- **February 12, 2010:** On the 31st anniversary of the Iranian Revolution, President Mahmoud Ahmadinejad announces that Iran has produced 20% enriched uranium and that Iran can enrich material to higher levels.¹²¹
- **February 23, 2010:** The EU reports that new sanctions on Iran's energy and financial sectors are being written. For the first time, EU sanctions may target the entire Iranian economy.¹²²

¹¹⁵ Katz, Yaakov, "Mystery Surrounds Assassination of Iranian Nuclear Scientist," The Jerusalem Post, January 13, 2010; Borzou Daragahi and Ramin Mostaghim, "Iran Physicist Killed in Blast Outside of his Home; Officials Blame the West, but Friends Say He Was Government Critic Assassinated by Hard Liners," The Los Angeles Times, January 13, 2010

¹¹⁶ "CNPC in Gas Deal, Beefs Up Tehran Team—Source." Reuters India, February 10, 2010.

¹¹⁷ Katzman, Kenneth, "Iran: US Concerns and Policy Responses." Congressional Research Service. December 22, 2010. <http://www.fas.org/sgp/crs/mideast/RL32048.pdf>

¹¹⁸ "Western Powers Voice Skepticism over Iran Uranium Offer," The Guardian, February 3, 2010

¹¹⁹ Daragahi, Borzou, "Iran to Boost Enrichment; Ahmedinejad Tells Atomic Agency to Process Uranium to a Higher Purity," The Los Angeles Times, February 8, 2010.

¹²⁰ Kessler, Glenn, "Iran Gets Offer on Medical Isotopes; U.S. Unveils Deal Aimed at Halting Tehran's Push to Produce Reactor Fuel," The Washington Post, February 10, 2010.

¹²¹ Alan Cowell and Michael Slackman, "Iran Boasts of Capacity to Make Bomb Fuel," The New York Times, February 12, 2010

¹²² Schlamp, Hans-Jürgen, "EU Plans Massive Sanction Against Iran," Der Spiegel, February 23, 2010.

- **March 8, 2010:** The US is reportedly making overtures to the Gulf states and several Asian nations to secure support for further sanctions on Iran.
- **March 15, 2010:** President Obama formally extends the US ban on trade and investment in Iran for one year.¹²³
- **March 20, 2010:** President Obama makes his second Norwuz (Persian New Year) addresses to Iran. In contrast to his first speech, Obama was critical of Iran's rejection of American diplomacy. While American officials did not indicate overt support for military action or regime change, no option was explicitly "taken off the table."¹²⁴
- **April 6, 2010:** The US releases its 2010 Nuclear Posture Review which significantly narrows the conditions under which the US would use nuclear weapons. These new limits, however, do not apply to countries in violation of the NPT—such as North Korea and Iran.¹²⁵
- **April 13, 2010:** During the Nuclear Security Summit in Washington DC, President Obama holds bilateral meetings with key nations to build support for upcoming UN Sanctions on Iran. China reportedly agrees to implement sanctions which "promote a diplomatic way out of a nuclear standoff."¹²⁶
- **April 18, 2010:** President Mahmoud Ahmadinejad calls for action against Israel's nuclear weapons program and demands that the IAEA suspend America's membership "due to its threats to use nuclear weapons against other countries." Most experts interpret this as a reference to the US Nuclear Posture Review.¹²⁷
- **April 21, 2010:** Under Secretary of Defense for Policy Michelle Flournoy says that military action against Iran's nuclear program is "off the table in the near term."¹²⁸
- **April 2010:** A memo from January 2010 by Secretary of Defense Robert Gates' is leaked. The memo asserts that the US has not developed options beyond sanctions to deal with a nuclear Iran. Gates later clarifies that the memo was intended to stimulate thinking in the White House, not to be alarmist.¹²⁹

¹²³ Katzman, Kenneth, "Iran: US Concerns and Policy Responses." Congressional Research Service. December 22, 2010. <http://www.fas.org/sgp/crs/mideast/RL32048.pdf>

¹²⁴ Katzman, Kenneth, "Iran: US Concerns and Policy Responses." Congressional Research Service. December 22, 2010. <http://www.fas.org/sgp/crs/mideast/RL32048.pdf>

¹²⁵ Nuclear Posture Review Report, Department of Defense, April 2010; David Sanger and Peter Baker, "Obama Limits When U.S. Would Use Nuclear Arms," The New York Times, April 5, 2010.

¹²⁶ Steve Holland and Jeff Mason, "Obama Presses Iran, Gains Nuclear Summit Pledges," Reuters, April 13, 2010

¹²⁷ "Iran Condemns U.S. As 'Nuclear Criminal,' Pushes for Global Disarmament," Cybercast News Service, 19 April 2010

¹²⁸ Katzman, Kenneth, "Iran: US Concerns and Policy Responses." Congressional Research Service. December 22, 2010. <http://www.fas.org/sgp/crs/mideast/RL32048.pdf>

¹²⁹ Katzman, Kenneth, "Iran: US Concerns and Policy Responses." Congressional Research Service. December 22, 2010. <http://www.fas.org/sgp/crs/mideast/RL32048.pdf>

- **May 17, 2010:** Iran, Turkey, and Brazil sign the “Tehran Declaration”—a fuel-swap agreement in which Iran would send 1,200 kg of its low-enriched uranium (LEU) stockpile to Turkey and receive 120 kg of fuel for the TRR by May 2011.¹³⁰
- **May 18, 2010:** The United States rejects the “Tehran Declaration” because it acknowledges Iran’s right to enrichment and it does not transfer sufficient LEU out of Iran to preclude it from making a nuclear weapon, should it decide to do so. Secretary of State Hilary Clinton announces that the P5+1 have reached a consensus on a new regime of sanctions.¹³¹
- **June 2010:** Joint Chiefs Chairman, Admiral Mike Mullen, warns that it would be “incredibly dangerous” for Iran to achieve nuclear weapons capability, while continuing to emphasize the serious consequences of military action.¹³²
- **June 2010:** The Shanghai Cooperation Organization (SCO) denies Iran full membership by adopting rules that prevent any nation under UN Security Council sanctions from being a member. Some experts see this as an example of the success of American attempts to isolate Iran.¹³³
- **June 8, 2010:** Iran attends a regional summit with Turkey and Russia. Some analysts argue that this demonstrates the failure of American attempts to isolate Iran.¹³⁴
- **June 9, 2010:** The UN votes 12-2 (Turkey and Brazil against, Lebanon abstaining), to approve UNSCR 1929. The resolution makes travel bans for Iranians named in all previous resolutions mandatory, it authorizes countries to search and destroy Iranian cargo suspected of containing illegal items, it prohibits countries from accepting Iranian investment in uranium mining, nuclear-related technologies, and nuclear-capable ballistic missile technology, it bans the sale of heavy arms and urges restraint in the sale of light arms, it requires countries to prevent their companies from conducting business with Iran if that business could contribute to WMD activities, it calls for—but does not require—countries to stop Iranian banks from opening in their domestic market and to stop their banks from opening in Iran if either case could contribute to Iran’s WMD activities, and it set up a panel to assess the effect of previous resolutions.¹³⁵
 - Ahmadinejad calls the new sanctions a “used handkerchief that should be thrown in the dustbin” and that they were “not capable of hurting Iranians.”¹³⁶

¹³⁰ Reynolds, Paul, "Iran Signs Nuclear Fuel-Swap Deal with Turkey," BBC Monitoring, May 17, 2010; "Nuclear Fuel Declaration by Iran, Turkey and Brazil," BBC Monitoring, May 17, 2010.

¹³¹ Katzman, Kenneth, "Iran: US Concerns and Policy Responses." Congressional Research Service. December 22, 2010. <http://www.fas.org/sgp/crs/mideast/RL32048.pdf>

¹³² Katzman, Kenneth, "Iran: US Concerns and Policy Responses." Congressional Research Service. December 22, 2010. <http://www.fas.org/sgp/crs/mideast/RL32048.pdf>

¹³³ Katzman, Kenneth, "Iran: US Concerns and Policy Responses." Congressional Research Service. December 22, 2010. <http://www.fas.org/sgp/crs/mideast/RL32048.pdf>

¹³⁴ Katzman, Kenneth, "Iran: US Concerns and Policy Responses." Congressional Research Service. December 22, 2010. <http://www.fas.org/sgp/crs/mideast/RL32048.pdf>

¹³⁵ Katzman, Kenneth, "Iran: US Concerns and Policy Responses." Congressional Research Service. December 22, 2010. <http://www.fas.org/sgp/crs/mideast/RL32048.pdf>

¹³⁶ "UN Votes for New Sanctions On Iran Over Nuclear Issue," BBC Monitoring Middle East, 9 June 2010

- **June 29, 2010:** In response to new UN sanctions, Iran delays nuclear talks with the P5+1 until late August. Ahmadinejad states that postponing the talks is “a punishment for them [the P5+1] so they will learn the protocol of talking to other nations.”¹³⁷
- **July 1, 2010:** President Obama signs a new round of unilateral sanctions on Iran, targeting Iran’s imports of refined petroleum products and isolating Iran from the international banking system.¹³⁸
- **July 6, 2010:** Saeed Jalili, Iran’s chief nuclear negotiator, sends a letter to Catherine Ashton, the EU’s foreign affairs chief, stating that Iran might participate in nuclear talks as early as September.¹³⁹
- **July 11, 2010:** Ali Akbar Salehi, the head of the Iranian Atomic Energy Organization, claims that Iran has produced 20 kilograms of 20% enriched uranium.¹⁴⁰
- **July 27, 2010:** The EU imposes major new sanctions on Iran as a result of the authority granted by UNSCR 1929. The new EU measures include a ban on export credit, credit guarantees, and investment in and supplies to Iran’s energy sector. Many experts believe that the addition of EU sanctions to the existing US and UN measures will have significant impacts on Iran.¹⁴¹
- **July 2010:** Khatem ol-Anbiya, a contracting business run by the Iranian Revolutionary Guard Corps, pulls out of an agreement to develop the South Pars gas field. The deal had been valued at \$2 billion. The business cites expanded US and international sanctions as the reason for its decision.¹⁴²
- **August 5, 2010:** The State Department releases its annual report on international terrorism for 2009. Iran “remained the most active state sponsor of terrorism” due to its affiliations with the Qods force and the Revolutionary Guard.¹⁴³
- **August 16, 2010:** Ali Akbar Salehi states that Iran will begin construction on the first of 10 new enrichment facilities in early 2011. All 10 will be built inside mountains.¹⁴⁴

¹³⁷ Erdbrink, Thomas, “Iran's Ahmadinejad Faults Sanctions, Delays Nuclear Talks Until Late August,” The Washington Post, June 29, 2010

¹³⁸ “US Slaps Iran with Toughest Sanctions Ever,” USA Today, July 3, 2010

¹³⁹ “Iran Sets Conditions to Resume Talks But Has No Plans to Stop Uranium Enrichment,” Xinhua News, July 7, 2010

¹⁴⁰ “Iran Claims 44 Pounds of Higher-Enriched Uranium,” NTI Global Security Newswire, 12 July 2010.

¹⁴¹ Katzman, Kenneth, “Iran: US Concerns and Policy Responses.” Congressional Research Service. December 22, 2010. <http://www.fas.org/sgp/crs/mideast/RL32048.pdf>

¹⁴² Katzman, Kenneth, “Iran: US Concerns and Policy Responses.” Congressional Research Service. December 22, 2010. <http://www.fas.org/sgp/crs/mideast/RL32048.pdf>

¹⁴³ Katzman, Kenneth, “Iran: US Concerns and Policy Responses.” Congressional Research Service. December 22, 2010. <http://www.fas.org/sgp/crs/mideast/RL32048.pdf>

¹⁴⁴ Black, Ian, “Iran Outlines Plans for New Uranium Plants,” The Guardian, August 16, 2010

- **August 16, 2010:** President Ahmadinejad pens legislation which requires continuous production of nuclear fuel for the TRR; restricts cooperation with the IAEA to the minimum levels allowed under the NPT, and mandates retaliation on any country which inspects Iranian cargo—as is required by UNSCR 1929.¹⁴⁵
- **August 21, 2010:** Iran is scheduled to begin loading fuel into the Bushehr reactor, in what will be Iran's first operating nuclear power plant.¹⁴⁶
- **September 2010:** Japan and South Korea each announce that they will impose sanctions on Iran in line with those recently passed by the EU.¹⁴⁷
- **September 6, 2010:** The IAEA releases a report on Iran. Highlights include Iran's failure to comply with Security Council resolutions 1696 (2006), 1737 (2006), 1747 (2007) and 1803 (2008); and Iran's de-designation of two experienced IAEA inspectors. The report criticizes Iran for its actions against the inspectors, claiming that it "hampers the inspection process and detracts from the Agency's ability to implement safeguards."¹⁴⁸
- **September 22, 2010:** Russian President Dimitri Medvedev bans the transfer of the S-300 Air Defense system to Iran, on the grounds that it is against UNSCR 1929. This decision breaks an existing contract between Russia and Iran to sell the S-300.¹⁴⁹
- **September 21-24, 2010:** In anticipation of the UN General Assembly meeting, President Ahmadinejad boasts that American and international sanctions are having only limited effects on Iran, and warns that any American military action against Iran would result in a conflict more expansive than World War II. Ahmadinejad asserts that "there is no alternative" to returning to nuclear talks.¹⁵⁰
- **September 22, 2010:** The P5+1 meets in order to bring Iran back to negotiations.
- **September 2010:** Tensions escalate between Ahmadinejad and his conservative opponents—primarily Ali Larijani, chairman of the Iranian Parliament. Larijani warns that the Majles has the power to impeach the President.¹⁵¹

¹⁴⁵ Sheikholeslami, Ali, "Iran Enacts Law Mandating Enriched-Uranium Production; More Plants Planned," Bloomberg, August 16, 2010.

¹⁴⁶ "Iran to accelerate its nuclear programs - spokesman," BBC Monitoring Middle East, August 21, 2010; David Batty and Agencies, "Iran Begins Loading Fuel at Its Bushehr Nuclear Reactor," The Guardian, August 21, 2010; Peter, Tom A, "Iran's Bushehr Plant to Produce Nuclear Power in Weeks," The Christian Science Monitor, August 22, 2010.

¹⁴⁷ Katzman, Kenneth, "Iran: US Concerns and Policy Responses." Congressional Research Service. December 22, 2010. <http://www.fas.org/sgp/crs/mideast/RL32048.pdf>

¹⁴⁸ "Implementation of the NPT Safeguards Agreement and Relevant Provisions of Security Council Resolutions in the Islamic Republic of Iran," IAEA Director General Report to the Board of Governors, September 6, 2010

¹⁴⁹ Katzman, Kenneth, "Iran: US Concerns and Policy Responses." Congressional Research Service. December 22, 2010. <http://www.fas.org/sgp/crs/mideast/RL32048.pdf>

¹⁵⁰ Katzman, Kenneth, "Iran: US Concerns and Policy Responses." Congressional Research Service. December 22, 2010. <http://www.fas.org/sgp/crs/mideast/RL32048.pdf>

¹⁵¹ Katzman, Kenneth, "Iran: US Concerns and Policy Responses." Congressional Research Service. December 22, 2010. <http://www.fas.org/sgp/crs/mideast/RL32048.pdf>

- **September 26, 2010:** President Ahmadinejad states that Iran will consider ending its high purity enrichment in exchange for nuclear fuel for the TRR. Ahmadinejad also claims that Iran is willing to schedule a time to resume talks with the P5+1, indicating that October would be a potential time to meet.¹⁵²
- **September 27, 2010:** Iranian officials acknowledge that more than 30,000 computers have been infected by the Stuxnet computer virus, including systems at the Bushehr nuclear facility. The virus targets industrial control systems, specifically those designed by the German firm Siemens, on which the Bushehr facility relies.¹⁵³
- **September 30, 2010:** The State Department reports that Royal Dutch Shell and Repsol have ended negotiations with Iran and are pulling out of existing contracts to develop Phase 13 and 14 of the South Pars gas field.¹⁵⁴
- **October 4, 2010:** Ali Akbar Salehi attributes the setback in starting up the Bushehr reactor to a “small leak”, and denies that the Stuxnet virus played a role in the delay. Salehi states that the leak has been fixed.¹⁵⁵
- **October 9, 2010:** Foreign Minister Manouchehr Mottaki declares that “the end of October or early November is a good time for talks between Iran and five-plus-one.” However, he asserts that such talks must be conducted within the framework of the May 2010 Tehran Declaration—issued by Brazil, Turkey, and Iran. Iran had last met with the P5+1 in October 2009 in Geneva.¹⁵⁶
- **October 20, 2010:** Ali Akbar Salehi claims that Iran has produced 30 kilograms of 20% enriched uranium, up from 20 kg in July.¹⁵⁷
- **October 26, 2010:** Iran announces that it has begun loading fuel rods into the Bushehr reactor.¹⁵⁸
- **October 29, 2010:** The Iranian Supreme National Security Council sends a letter to Catherin Ashton stating Iran is willing to enter into comprehensive talks with the P5+1

¹⁵² "Iran Out to Do a Nuclear Bargain," Sunday Telegraph [Australia], September 26, 2010

¹⁵³ Thomas Erdbrink and Allen Nakashima, "Iran Struggling to Contain 'Foreign-made' 'Stuxnet' Computer Virus," The Washington Post, September 27, 2010

¹⁵⁴ Katzman, Kenneth, "Iran Sanctions." Congressional Research Service. December 13, 2010. <http://www.fas.org/sgp/crs/mideast/RS20871.pdf>

¹⁵⁵ "Iran Blames Bushehr Delay on 'Small Leak,' Not Virus," Reuters, October 4, 2010; Young, William, "Iran Denies Malware Connection to Nuclear Delay," The New York Times, October 5, 2010

¹⁵⁶ "Iran 'Ready' for Nuclear Talks," Al-Jazeera English, October 10, 2010; "Text of the Iran Brazil Turkey Deal," The Guardian, May 17, 2010

¹⁵⁷ Dareini, Ali Akbar, "Iran reports higher amount of enriched uranium," Associated Press, October 20, 2010; "Iran Claims 66 Pounds of Higher-Enriched Uranium," NTI Global Security Newswire, October 20, 2010.

¹⁵⁸ Chick, Kristen, "Iran loads fuel rods into Bushehr nuclear power plant," The Christian Science Monitor, October 26, 2010; "Iran Starts Fueling Bushehr Reactor," NTI Global Security Newswire, October 26, 2010

after November 10. Iranian officials assert, however, that the topics of negotiation should not focus exclusively on nuclear issues.¹⁵⁹

- **November 2, 2010:** Ambassador Ali Asghar Soltanieh, Iran's representative to the IAEA, rejects a revised fuel swap deal which the P5+1 had organized since October. The deal is not formally sent to Tehran. The proposal required Iran to send 4,400 pounds of LEU—more than two thirds of its stockpile—out of the country, to ensure that the remaining material would not be a sufficient quantity to build a bomb. Moreover, the proposal reportedly required Iran to end its high purity enrichment and give up its stock of 20% enriched uranium.¹⁶⁰
- **November 29, 2010:** One Iranian nuclear scientist is killed and another is injured in two separate a bomb blasts. President Ahmadinejad accuses American and Israeli intelligence agencies of the two attacks.¹⁶¹
- **December 6, 2010:** Iran and the P5+1 meet in Geneva to resume negotiations on the nuclear issue. Both sides reiterated their concerns—the P5+1 seeking assurance that Iran's nuclear program is peaceful and Iran looking for international sanctions to be lifted. No agreement was reached, but another round of talks was scheduled to be held on January 21 in Istanbul, Turkey.¹⁶²

After early 2010, Iran did attempt to counter American actions by reshaping the diplomatic terms of engagement with the US and the international community. Iran tried to restructure key aspects of the October 2009 “fuel swap” agreement and then blamed the P5+1 and the US for the failure to reach an agreement. Tehran used this contention of obstructionism to justify enriching uranium to 20% to produce its own fuel for the TRR. The timing of Iran's announcements, however, indicates that it is likely Iran did not wait for the “fuel swap” to fail before beginning enrichment to 20%.

¹⁵⁹ "Iran Accepts Invitation to Nuclear Negotiations," NTI Global Security Newswire, October 29, 2010; "No Indication of Iranian Nuclear Strategy Shift, Diplomat Asserts," NTI Global Security Newswire, November 3, 2010

¹⁶⁰ "Iran Rejects New Uranium Exchange Terms," *NTI Global Security Newswire*, 2 October 2010; Dahl, Fredrik, "Iran Envoy Dismisses Tougher Terms for Atom Fuel Swap," Reuters, 2 November 2010; Sanger, David E, "Obama Set to Offer Stricter Nuclear Deal to Iran," *The New York Times*, 27 September 2010; "Nukes Proposal Tougher on Iran," *The Australian*, 29 October, 2010; "Updated Iran Uranium Plan Circulated to China, Russia," *NTI Global Security Newswire*, 5 November 2010.

¹⁶¹ "Bombs Strike Iranian Atomic Experts, Killing One," NTI Global Security Newswire, November 29, 2010; Dareini, Ali Akbar, "Iran blames Israel after nuclear scientist killed," Associated Press, 29 November 2010.

¹⁶² "Nuclear Overview," Nuclear Threat Initiative, January 2011, http://www.nti.org/e_research/profiles/Iran/Nuclear/index.html

As it came under increasing international pressure, Iran sought to balance its strategic goals against growing support for new sanctions. Following talks with Turkey and Brazil, Iran touted a breakthrough in a new “fuel swap” agreement. On May 17, the three nations announced an agreement largely analogous to the October 2009 “fuel swap” proposal of the P5+1. Iran agreed to ship some 1,200 kilograms of low enriched uranium (LEU) to Turkey in exchange for 120 kilograms of 20% enriched uranium to power the TRR. However, the May 17 “Tehran Declaration” was met with considerable skepticism on the part of the P5+1 and the United States.

The US rejected the agreement for four primary reasons:

- First, the “Tehran Declaration” explicitly recognized Iran’s right to enrichment, a right the US rejects.
- Second, whereas 1,200 kg of LEU represented 80% of Iran’s stockpile in October 2009, by May 2010 it was only 50% of Iran’s total LEU. The difference is significant. Leaving 50% of Iran’s LEU in country would provide the Islamic Republic enough material to build a nuclear weapon, if the LEU were enriched.
- Third, the agreement did not address Iran’s decision to enrich uranium to higher purity levels, or its stockpile of those materials.
- Finally, the United States and many other nations suspected the “Tehran Declaration” was an attempt to derail a coming vote for new UN sanctions.¹⁶³

Iran made it clear that it had not abandoned any aspect of its strategy of “negotiate, delay, and move forward” in its competition with the United States. Rather than engaging the US or the P5+1 directly through negotiation, Iran continues to seek to shape the terms of negotiations to favor its own position. Tehran does this in several ways. It exploits its ability to send different

¹⁶³ David E. Sanger and Michael Slackman, “U.S. Is Skeptical on Iranian Deal for Nuclear Fuel,” The New York Times, May 17, 2010, http://www.nytimes.com/2010/05/18/world/middleeast/18iran.html?_r=1

messages to different audiences while maintaining one official position. Tehran frequently uses a variety of voices to send conflicting signals—from the IRGC, the Foreign Ministry, or the Supreme Leader. It exploits divisions within the UN Security Council—especially between China, Russia, and the US. Iran has also sought to shift the locus of diplomatic action to more favorable grounds—as was evident in Iran’s fuel swap negotiations with Brazil and Turkey. Each of these tactics plays into Tehran’s broader strategy of bringing in other nations to circumvent American and P5+1 efforts on sanctions and negotiations.

Nonetheless, the US made progress in spite of Iran’s efforts. The P5+1 opposed the Iran-Brazil-Turkey “fuel swap” arrangement and moved forward with the fourth round of UN sanctions on Iran. United Nations Security Council Resolution 1929, passed on June 9, 2010, laid the foundation for a broad-based international effort to deal with Iran’s nuclear program. UNSCR 1929 provides the legal justification for member states to impose penalties on Iran for its noncompliance with the IAEA.

The Resolution sought to limit or help end Iran’s nuclear program in a variety of ways: by banning transfers of heavy weapons to Iran, banning Iranian ballistic missile activities, prohibiting Iranian investment in nuclear technologies, sanctioning affiliates of the Revolutionary Guard, and, for the first time, it formally emphasized the potential links between Iran’s energy sector and its nuclear ambitions. According to Stuart Levey, the Under Secretary for Terrorism and Financial Intelligence, UNSCR 1929 provided the tools and the language which “call upon member states to prevent all financial services, which includes banking, insurance, and reinsurance, if there are reasonable grounds to believe that such services could—I

underscore could—contribute to Iran’s nuclear or missile programs.”¹⁶⁴ UNSCR 1929, however, does not require member states to do so.¹⁶⁵ It stops short of mandating sweeping energy or financial sanctions on Iran. While the US and the EU can point to the authority of the UN, they cannot oblige any member-states to enforce the optional financial and energy related provisions.

Looking Ahead: 2011 and Beyond

American efforts to change Iran’s strategic calculus now rely largely on a dual approach to sanctions. On the one hand, the US seeks to disrupt Iran’s energy sector through measures which target it directly. On the other, the US works to isolate Iran’s economy and obstruct its ability to conduct financial transactions. Nonetheless, sanctions are only one way which the United States seeks to affect Iran.

The United States is making broad efforts to contain Iran by exerting direct and indirect military pressure on it, by enhancing diplomatic and economic relations with other Gulf countries, by building up the military capabilities of its allies, by working to negotiate an Arab-Israeli peace, and by developing regional military and political cooperation. In addition to these efforts, the US is working to undermine Iran’s ability to use political and economic influence, ties to other governments, influence in Iraq and Lebanon, and non-state actors to shape the region. All of these factors play a role in constructing a strategic framework within which the United States pursues its interests vis-à-vis Iran.

There are many ways in which the United States exerts pressure through this framework. American military presence is one such way. Aside from the 5th Fleet and deployed soldiers in

¹⁶⁴ “Treasury Under Secretary for Terrorism and Financial Intelligence Stuart Levey Remarks at the Center for Strategic and International Studies,” US Treasury Department Office of Public Affairs, September 20, 2010, http://csis.org/files/attachments/100920_Levey_CSIS_Remarks.pdf

¹⁶⁵ Katzman, Kenneth, “Iran Sanctions,” Congressional Research Service, December 13, 2010, <http://www.fas.org/sgp/crs/mideast/RS20871.pdf>

Iraq and Afghanistan, the United States maintains a substantial military presence in the region. The 5th Fleet Headquarters is located in Bahrain, and the US has two major bases in Kuwait, one major air base and one pre-positioning base in Qatar, and two contingency bases in Oman. This visible reminder of American power serves as a constant warning for Iran.

American pressure on Iran is likewise multiplied by frequent arms deals with allied Gulf countries. Between 2005 and 2009, the United States sold nearly \$37 billion worth of weapons and military equipment to Gulf nations, including Saudi Arabia, the United Arab Emirates (UAE), Bahrain, Qatar, Oman, and Kuwait.¹⁶⁶ Sales have included Patriot PAC-3 missiles, AMRAM missiles, UH-60 Black Hawk helicopters, F-16 fighter jets, M1A2 Tanks, and, more recently, a possible deal has been reached on the Theater High Altitude Area Defense System (THAAD).¹⁶⁷ In 2010, the United States negotiated a \$20 billion arms package with the Gulf States as part of the Gulf Security Dialogue. Additionally in 2010, Saudi Arabia finalized an enormous arms deal with the United States totaling over \$60 billion over the next 10 years.¹⁶⁸ Massive Gulf investments in American military equipment and training can change both the perceived and real military balance in the region.

The Israeli military threat remains another source of military pressure on Iran – although it is also a wild card that can threaten the US with a massive degree of military escalation if it become a card that Israel actually plays. The United States routinely and publically states that, with respect to Iran, “no options can be taken off the table.” Israel, however, has been far more vocal about the possible use of force against Iran. Moreover, Israel has made it clear that it

¹⁶⁶ Chick, Kristen, “How Arms Deals are Shaping the Mideast,” Christian Science Monitor, October 6, 2010, <http://www.csmonitor.com/World/Middle-East/2010/1006/How-arms-deals-are-shaping-the-Mideast>

¹⁶⁷ Grimmet, Richard F, “Conventional Arms Transfers to Developing Nations, 2002-2009,” Congressional Research Service, September 10, 2010, <http://www.fas.org/sgp/crs/weapons/R41403.pdf>

¹⁶⁸ Mulrine, Anne, “Blockbuster US Arms Sale to Saudi Arabia: Will it Deter Iran?” Christian Science Monitor, September 21, 2010, <http://www.csmonitor.com/USA/Military/2010/0921/Blockbuster-US-arms-sale-to-Saudi-Arabia-Will-it-deter-Iran>

considers Iran to be a possible existential threat. The United States uses this perception to its advantage by asserting that it cannot stop an Israeli preemptive strike. American pressure on Iran, however, is directed not only through military cooperation and arms deals but also sanctions of Iran's energy and financial sectors.

Iranian natural energy resources have become a critical area of competition and a double-edged sword for both Washington and Tehran. Iran's reserves rank among the highest in the world—third in global proven oil deposits, second in natural gas deposits, and fourth in production of crude oil.¹⁶⁹ These substantial natural resources fundamentally structure both the national economy and the government's revenue. Oil export revenues account for more than 20% of Iran's Gross Domestic Product, roughly 80% of Iran's foreign-currency earnings, and more than 60% of its budgetary revenue.¹⁷⁰ Because it presents substantial benefits to the Iranian economy, Iran's energy sector is as much a vulnerability as a strength. This presents a set of distinct challenges and opportunities for United States and Iran.

Deep Iranian deposits of oil, natural gas, and other stored energy resources can financially sustain the Iranian government and economy for years, if not decades, to come. However, in order to do so, these resources must be extracted, processed, transported, and ultimately sold on global markets. Each stage of this process presents an opportunity to pressure Iran's economic lifeblood, and, by extension, its nuclear program.

American sanctions target Iran's energy sector and its revenue generating capacity. The Comprehensive Iran Sanction, Accountability, and Divestment Act (CISADA), signed into law

¹⁶⁹ "Firms Reported in Open Sources as Having Commercial Activity in Iran's Oil, Gas, and Petrochemical Sectors," Government Accountability Office, March 23, 2010, <http://www.gao.gov/products/GAO-10-515R>

¹⁷⁰ Katzman, Kenneth, "Iran: US Concerns and Policy Responses." Congressional Research Service. December 22, 2010. <http://www.fas.org/spp/crs/mideast/RL32048.pdf>; Katzman, Kenneth, "Iran Sanctions." Congressional Research Service. December 13, 2010. <http://www.fas.org/spp/crs/mideast/RS20871.pdf>; Economist Intelligence Unit - Iran Data, The Economist, October 2010

on July 1, 2010, incorporates a wide range of economic and energy related measures.¹⁷¹ Because Iran is dependent on gasoline imports for 25% to 35% of its consumption, the legislation imposes penalties on firms that invest more than \$20 million in Iran's petroleum (oil and gas) sector, or that sell Iran more than \$1 million of gasoline, or equipment to import or refine gasoline.¹⁷² Of the top eleven companies providing gasoline to Iran in 2009 all but four—two owned by China, one by Russia, and one by Kuwait—ended gasoline sales to Iran in anticipation of CISADA's passage.¹⁷³ More recently, three more of Iran's major energy suppliers—Royal Dutch Shell of the Netherlands, Japan's Inpex Corp and Italy's EniSpA—announced that they are ceasing investment in Iran.¹⁷⁴ The State Department estimates that American efforts in recent years have prevented an estimated \$50 to \$60 billion of upstream energy projects in Iran.¹⁷⁵

American sanctions have also constrained Iran's gasoline production and refining capacity. Currently, Iranian refineries can only fulfill 58% of local gasoline demand, which itself relies on support in the form of heavy state subsidies.¹⁷⁶ Gasoline and gasoil imports cost the government between \$5 and \$7 billion annually.¹⁷⁷ These costs are expected to rise as major insurance companies providing coverage for Iranian gas (and other) shipping, exit the market.

¹⁷¹ Katzman, Kenneth, "Iran Sanctions." Congressional Research Service. December 13, 2010.

<http://www.fas.org/sgp/crs/mideast/RS20871.pdf>; P.L. 111-195

¹⁷² Katzman, Kenneth, "Iran: US Concerns and Policy Responses." Congressional Research Service. December 22, 2010. <http://www.fas.org/sgp/crs/mideast/RL32048.pdf>; Katzman, Kenneth, "Iran Sanctions." Congressional Research Service. December 13, 2010. <http://www.fas.org/sgp/crs/mideast/RS20871.pdf>

¹⁷³ Vitol, Trafigura, and Glencore of Switzerland, Total of France, Shell of the Netherlands, Reliance Industries of India, and Petronas of Malaysia have all ended sales of gasoline. Lukoil of Russia resumed gasoline sales after briefly stopping them in April. CNPC and ZhenHua Oil of China now provide Iran with more than 1/3 of its total oil imports. Katzman, Kenneth, "Iran Sanctions." Congressional Research Service. December 13, 2010.

<http://www.fas.org/sgp/crs/mideast/RS20871.pdf>; Country Analysis Briefs – Iran, Energy Information Agency, January 2010, <http://www.eia.doe.gov/emeu/cabs/Iran/Full.html>; "Factbox: Foreign Companies stepping away from Iran," Reuters, September 23, 2010, <http://www.reuters.com/article/idUSTRE68M1Q120100923>

¹⁷⁴ Jay Solomon and Marc Champion, "US Envoy to Meet with Iran's Neighbors," The Wall Street Journal, October 19, 2010

¹⁷⁵ Zarate, Juan. "Beyond Sanctions," National Review, September 20, 2010

¹⁷⁶ Ebel, Robert, "Geopolitics of the Iranian Nuclear Energy Program," Center For Strategic and International Studies, March 2010, http://csis.org/files/publication/100312_Ebel_IranNuclear_web.pdf

¹⁷⁷ Ebel, Robert, "Geopolitics of the Iranian Nuclear Energy Program," Center For Strategic and International Studies, March 2010, http://csis.org/files/publication/100312_Ebel_IranNuclear_web.pdf

German insurance giants Munich Re, Allianz, Hannover Re, as well as Britain's Lloyds of London—Iran's primary insurer—have all ended their business with Iran as of July 2010.¹⁷⁸

Nonetheless, on September 18, 2010, Iranian Oil Minister Massoud Mirkazemi asserted that the Iran had moved towards full energy self-sufficiency. Mirkazemi claimed Iran had halted importing gasoline and “no purchase has been made of petrol since last month.”¹⁷⁹ On December 1, 2010, Undersecretary of State, Bill Burns reaffirmed this statement, saying, “until last July... Iran imported roughly 130,000 barrels per day of refined petroleum products. In October, that figure had dropped by 85 percent to 19,000 barrels per day.”¹⁸⁰ It seems more likely that this is due to pressure from Washington rather than initiatives by Tehran. American sanctions have had meaningful impacts on Iran's energy sector in 2010. By forcing foreign firms to choose between the Iranian and the American market, the US has further tightened sanctions on the Islamic Republic.¹⁸¹

The United States has increasingly focused on isolating Iran economically. American sanctions target Iran's financial and commercial system. In doing so, the US hopes to obstruct Iran's connections to international markets and dismantle the means by which it conducts economic transactions. This makes sense given the composition of Iran's GDP. Industry—which incorporates Iranian petroleum and petrochemical products—comprises 45.2% of Iran's GDP. Services—which includes banking and trade-related services—account for 43.9% of its GDP.¹⁸²

¹⁷⁸ Katzman, Kenneth, “Iran: US Concerns and Policy Responses.” Congressional Research Service. December 22, 2010. <http://www.fas.org/sgp/crs/mideast/RL32048.pdf>; Katzman, Kenneth, “Iran Sanctions.” Congressional Research Service. December 13, 2010. <http://www.fas.org/sgp/crs/mideast/RS20871.pdf>

¹⁷⁹ Agence France-Presse III/Google News, Sept. 18

¹⁸⁰ Krause-Jackson, Flavia, “Sanctions Cost Iran \$60 Billion in Oil Investments, Burns Says,” Bloomberg, December 1, 2010, <http://www.bloomberg.com/news/2010-12-01/sanctions-cost-iran-60-billion-in-oil-investments-burns-says.html>

¹⁸¹ Katzman, Kenneth, “Iran Sanctions.” Congressional Research Service. December 13, 2010. <http://www.fas.org/sgp/crs/mideast/RS20871.pdf>

¹⁸² CIA World Factbook, Iran

It is unlikely that sanctions on only one portion would have a significant impact on either Iran's economy or its strategic decision-making.

Drawing upon an arsenal of legislative bans and sanctions, the United States employs conduct-based measures to restrict the economic activities of Iranian companies and individuals. In practice, this has meant directing international attention towards the illicit practices of a variety of Iranian official and semi-official entities. In particular, the US has focused on banks and commercial subsidiaries of military, intelligence, and militia organizations. With ever-narrowing access to international financial institutions, the Iranian economy should gradually deteriorate.

US-led sanctions on Iran's financial and commercial system are designed to expose Iran's misleading practices in order to strengthen global support against its illicit financial activities. This creates a self-reinforcing cycle. The more that Iranian entities attempt to avoid American sanctions, the worse their reputation becomes, thereby increasing the pressure on public and private financial bodies to disassociate themselves from Iranian transgressors.¹⁸³ This is especially true for governments, "since the reputation of their financial sectors often depends on such cooperation against illicit activity."¹⁸⁴

As of early 2010, at least 80 major banks have committed not to finance exports to Iran or to process dollar transactions for Iranian banks, according to Treasury and State Department officials. Among those that have pulled out of Iran are Credit Suisse and UBS (Switzerland), HSBC and Barclays (Britain), Commerzbank, Dresdner Bank, and Deutsche Bank (Germany),

¹⁸³ "Treasury Under Secretary for Terrorism and Financial Intelligence Stuart Levey Remarks at the Center for Strategic and International Studies," US Treasury Department Office of Public Affairs, September 20, 2010, http://csis.org/files/attachments/100920_Levey_CSIS_Remarks.pdf

¹⁸⁴ "Treasury Under Secretary for Terrorism and Financial Intelligence Stuart Levey Remarks at the Center for Strategic and International Studies," US Treasury Department Office of Public Affairs, September 20, 2010, http://csis.org/files/attachments/100920_Levey_CSIS_Remarks.pdf

Société Générale and Le Crédit Lyonnais (France) and even the National Bank of Fujairah, based in Dubai.¹⁸⁵ This is only some of the evidence that sanctions are having a significant impact on Iran's economy, although not necessarily on its nuclear program.

Sanctions have also indirectly impacted Iranian monetary policy. US sanctions on Iranian banks have altered the availability of foreign currency. The exchange rate of the Iranian rial, in turn, has suffered. On September 29, 2010, Iran's currency plummeted in value, when Iranian banks temporarily stopped the sale of dollars and euros.¹⁸⁶ The Iranian rial fell 22% against the dollar in its first major fluctuation in years. Currency market traders blamed overseas banks for limiting the availability of foreign currency due to new restrictions.¹⁸⁷ Even some Iranian officials privately acknowledge the impact of American sanctions. Mojtaba Vahidi, a former top-level manager who served in Iran's finance and industry ministries for more than 20 years, observed that "the economic crisis [that Iran is] witnessing today is a direct result of the sanctions—and Iranian officials who say otherwise are fooling themselves."¹⁸⁸

The costs of trading with Iran have also risen substantially as a result of the US and UN sanctions. In the last year, costs associated with Iranian trade have increased by an estimated 10% to 30%, according to outside figures.¹⁸⁹ Official numbers from the Iran's Trade Commission paint a less dramatic rise. Nonetheless, they still concede that sanctions have

¹⁸⁵ Loeffler, Rachel L, "Bank Shots," Foreign Affairs, April 2009,

<http://www.foreignaffairs.com/articles/64822/rachel-l-loeffler/bank-shots>

¹⁸⁶ Fassihi, Farnaz, "Iran's Economy Feels Sting of Sanctions," The Wall Street Journal, October 12, 2010, <http://online.wsj.com/article/SB10001424052748703735804575535920875779114.html>

¹⁸⁷ Fassihi, Farnaz, "Iran's Economy Feels Sting of Sanctions," The Wall Street Journal, October 12, 2010, <http://online.wsj.com/article/SB10001424052748703735804575535920875779114.html>

¹⁸⁸ Fassihi, Farnaz, "Iran's Economy Feels Sting of Sanctions," The Wall Street Journal, October 12, 2010, <http://online.wsj.com/article/SB10001424052748703735804575535920875779114.html>

¹⁸⁹ Loeffler, Rachel L, "Bank Shots," Foreign Affairs, April 2009,

<http://www.foreignaffairs.com/articles/64822/rachel-l-loeffler/bank-shots>

slowed the pace of trade and increased trade costs for Iran between 5% and 10%.¹⁹⁰ In response to growing international pressure, Japan and South Korea—two of Iran’s largest trading partners—recently announced that they will enforce existing sanctions on the Islamic Republic and specific Iranian entities. This is only possible, however, due to the wide authority granted to UN member states by a series of United Nations Security Council Resolutions aimed at isolating Iran from the global economy in order to bring it into compliance with the IAEA.

Yet it is far from clear that sanctions will change Iran’s behavior. Effectiveness requires sustained and widespread cooperation. The danger always exists that one nation or a group of nations will instead seek individual gain. Sanctions provide the opportunity to take advantage of the significant economic openings created by political restrictions on business and commerce.

Iran has attempted to persuade several countries to do just that. Of chief concern to the United States is the uncertain role which Russia and China will play in supporting or undermining sanctions in the medium and long term. Whether they will continue to collaborate with the United States depends largely on whether Russia and China continue to view the sanctions as serving their own national interests. Similarly, the efficacy of the sanctions themselves is contingent the degree to which they impact decision makers and change their calculations of Iran’s self-interest.

Those calculations are based on Iranian threat perceptions. Iran views itself as a major Gulf power and this shapes its short and long-term strategic objectives. Primarily, Iran seeks to prevent foreign nations from influencing either its regional strategic environment or its domestic political system. This effort incorporates military, economic, and political dimensions.

¹⁹⁰ Ilias, Shayerah, “Iran’s Economic Conditions: US Policy Issues,” Congressional Research Service, April 22, 2010, <http://www.fas.org/sgp/crs/mideast/RL34525.pdf>

Iran's tactics and actions are based on this set of interests. Iran continues to develop its nuclear program and its ballistic missile systems for their deterrent, power projection, and status building capabilities. Likewise, it seeks to deter any foreign military presence—namely the US 5th Fleet and deployments in Iraq and Afghanistan—by developing its military and its asymmetric war fighting capabilities. Short, medium, and long-range ballistic missiles compensate for Iran's relative lack of airpower and defense. The development of Iran's asymmetric threat capacity and its support for non-state actors such as Hezbollah and the al-Qods Force provide Iran the ability to pressure targets far beyond its borders.

Iran has also made diplomatic overtures to convince other Gulf states that their economic, political, and security interests are better served by cooperation with Tehran than with Washington. The way in which Iran's message is expressed is as significant as the message itself. Iranian rhetoric posits Tehran's goals in the language of regional security, mutual cooperation, and decreased reliance on foreign intervention.

Iranian diplomacy takes on different characteristics when negotiating about its nuclear program. Iran typically attempts to reshape the conditions of diplomatic talks before it begins to engage the other participants. It does this in several ways. Iran loosens diplomatic restraints and expectations placed on it by manipulating global opinion. Rather than shifting between positions, however, Tehran takes advantage of its ability to express different messages to different audiences. By speaking through multiple voices—such as the IRGC or different levels of ministry officials—Tehran weaves a net of expectations and statements which it can accept or deny during negotiations as it sees fit.

When faced with the threat of multilateral sanctions, Iran frequently attempts to bring countries more sympathetic to its interests into negotiations. Iran has also sought to change the

location of negotiations to more diplomatically hospitable grounds—as in the most recent round of P5+1 talks, held in Istanbul. Finally, Iran frequently makes conciliatory gestures in order to weaken international cooperation on sanctions. These actions rarely pose any threat to the continued pursuit of Iran’s strategic objectives. Iran’s recent decision to let several foreign ambassadors tour its nuclear facilities is one such example.

Even given the growing body of data on the impact of sanctions in Iran, it is difficult to trace the link between cause and effect. Many experts believe that Tehran’s recent activity indicates that it has begun to feel the economic consequences of sanctions. However, there is little proof that this has resulted in an Iranian shift in policy or perceptions of its nuclear program. Rather, the current consensus is that American and UN sanctions have not yet produced a demonstrable change of Iranian leaders’ view of their nuclear program or their commitment to continue to pursue it.¹⁹¹

While the US will enter yet another round of P5+1 talks with Iran on January 21, 2011, prospects are dim for any sort of meaningful breakthrough. Neither side has expressed a willingness to grant any concessions on key disputes. Diplomacy with Iran has not typically yielded significant benefits for the United States. It has, however, provided Iran with more time to develop its nuclear program. This does not mean that diplomacy is useless. It means that diplomacy must be coupled with efforts to engage Iran on a full range of issues and not simply its nuclear program. The United States must offer Iran a credible alternative to the current state of relations in order to meaningfully change the current strategic environment.

As the US continues to search for a solution to its diplomatic and military issues with Iran, competition is likely to intensify. The structure of this competition will depend on several

¹⁹¹ Katzman, Kenneth, “Iran Sanctions.” Congressional Research Service. December 13, 2010. <http://www.fas.org/sgp/crs/mideast/RS20871.pdf>

variables including global economic trends and energy prices, the impact of sanctions on Tehran's strategic calculus, the character of the incoming US Congress, and Sino-American and US-Russia relations. American policy makers must continue to balance diplomatic, economic, and military options to engage Iran. Nonetheless, until the United States is able to change Iran's strategic objectives, it is unlikely that the Islamic Republic will act against its own national interests.

It is not possible to predict how Tehran's strategic calculus will change in response to ongoing multilateral sanctions. It is clear, however, that both the United States and Iran have conflicting political and geostrategic interests which drive competition over regional resources and influence. Given that these interests are vital for both powers, US strategic competition with Iran over the nuclear issue, economics, and energy resources is likely to continue in the near future.