

Atlantic Council

US-Iran Reconciliation Under President Rouhani?

Welcome and Moderator:

**Barbara Slavin
Senior Fellow, South Asia Center
Atlantic Council**

Speakers:

**Haleh Esfandiari,
Director, Middle East Program,
Woodrow Wilson International Center for Scholars**

**Robert Einhorn,
Senior Fellow,
Brookings Institution**

**Kenneth Katzman,
Specialist, Middle East Affairs,
Congressional Research Service**

Location:

**1030 15th Street, NW,
12th Floor,
Washington, D.C.**

Time: 9:30 a.m. EDT

Date: Thursday, September 12, 2013

*Transcript by
Federal News Service
Washington, D.C.*

HALEH ESFANDIARI: A friend who likes Rouhani asked me the other day: "Did you see how stylish our new president is?"

Stylish? I hadn't heard this adjective used for Iran's new President, Hassan Rouhani, before. "How come?" I asked "Oh!" my friend said, "he wears a long, dark purple shirt under his cloak."

I checked on the web and indeed she was right. Mr. Rouhani is most elegantly dressed. This exchange reminded me another one I had – on that occasion with a talkative taxi driver, in a cab I was riding in Tehran, very soon after Ahmadinejad was elected President eight years ago. The cab driver told me: "Our new president needs a good tailor. His clothes are hanging on his frame. His jacket is too wide, the sleeves are too long, the cuffs of his trousers drag on the floor." He went on and on about the president's poor taste in clothes. "He doesn't look presidential," he said. "He is an embarrassment to Iran." Little did my interlocutor know that the former President's ill-fitting suits would be the least of the calamities he would visit on Iran.

But Rouhani, barely in his second month in office, has by contrast been welcomed in the West. True, he has been described variously as both bold and cautious; both as straight-forward and cunning; both as part of the ruling elite and a reformer; as reliable and deceptively charming. But generally, he has been welcomed as a moderate who can dramatically reset Iran's relations with the US and the Europe.

It is the contrast with Ahmadinejad that makes Rouhani appear so unusual. For eight years, the Presidential face Iran presented to the world was a populist of mediocre talents, who equated playing the role of enfant terrible with diplomacy, who treated every foreign encounter as a gladiatorial contest, and who squandered Iran's resources and international standing. With Rouhani we have a return to normalcy, experience, and common sense. We should not expect Rouhani to perform miracles. But there is a good chance he set Iran back on a sensible course, to find Iran's way back to normalcy.

Who is Hassan Rouhani? Rouhani is an insider. He has been part of the ruling establishment ever since the inception of the IRI. He has held a string of senior, sensitive posts. But he is also a centrist, and a pragmatist, rather than an ideologue. In fact he has described moderation-the middle road-as the hallmark of his administration. He is intimately familiar with the different centers of powers in Iran, with how the system works. He also knows who in the power structure are his potential friends and who may be his potential adversaries. Both at home and abroad, he knows that politics and diplomacy involve compromises. He knows what concessions he can secure and what concessions he has to make.

If he has been close to the ruling establishment, he also has forged close ties with the currently out-of-favor pragmatists, and reformists among the ruling elite. Former Presidents Rafsanjani and Khatami are among his strongest supporters, and in fact helped him win the presidency. For his cabinet, he has chosen technocrats and men of experience. Many of his ministers served in the Rafsanjani and Khatami cabinets and administrations. These include Mohammad Javad Zarif as Foreign Minister, Mahmoud Vaezi as Communications Minister, Bijan Zangeneh as Oil Minister, and Valiollah Seif as Head of the Central Bank.

He was not able to appoint women to his cabinet, but he did appoint two women vice presidents: Elham Aminzadeh as Vice President for Legal Affairs, and Massoumeh Ebtekar as Vice President of the Environmental Protection Organization. She held the same post under President Khatami. Ms. Ebtekar is a familiar face in this town because she was known as “Mary,” the translator during the hostage-taking. Her English is perfect. She grew up in Pennsylvania and then moved to Iran.

Elsewhere, Rouhani had to make compromises. His highly controversial Minister of Justice, Mostafa Pourmohammadi, has a poor human rights record and was associated with atrocities in the past. Once again, as always, a cleric, Mahmud Alavi, is Minister of Intelligence and Security. Ali Jannati, son of the octogenarian hardline head of the Guardians Council, was appointed as Minister of Culture. The younger Mr. Jannati – younger, I mean, he’s in his 50s – has of course said that conservatism is not built into one’s DNA. And as a first step, he decided to reinstate the House of Cinema as a center where all the actors and directors would gather in Iran, and it was closed down under Ahmadinejad, so he announced yesterday that this center is going to reopen.

Conservatives in parliament rejected Rouhani's choices for the Ministries of Education and also of Science, Research and Technology, although Rouhani turned around and appointed them to two other positions and nominated two caretakers. And the caretakers, among the first decision, was to announce that they will abolish segregation in universities, which was reinstated in Iran a year ago and that it will call back all the professors who had been unjustly either dismissed or sent to retirement.

But we have to look at the important issue, and this is how Rouhani is going to deal with the security agencies and whether he can find a way to rein in the Revolutionary Guards and the Basij paramilitary, who are these days enforcers of political repression in Iran. Indeed, he will need to curtail the influence of these organizations if he is to succeed in pursuing his domestic, and more moderate foreign policy, agenda. For this he would need the full support of the Supreme Leader. How much support and leeway the Supreme Leader will give him remains to be seen.

Signs of both compromise and the opposition that Rouhani is likely to face from the hardliners and the conservative camp are everywhere. Just a few small examples:

- Last week the Assembly of Experts, which is charged with selecting the Supreme Leader and meets twice a year for consultations, invited President Rouhani to address their assembly. But, as if to make a point, they also invited Qasem Soleimani, the commander of the Qods Forces – the foreign operations arm of the Revolutionary Guards – to address the assembly at the same time. As far as I know, this is the first time such an invitation has been extended to a military commander.

- Rouhani and Foreign Minister Zarif have been cautious in their statements on Syria, calling for diplomacy, compromise, and an avoidance of military action. But

Soleimani has described Syria as Iran's red line; other hardliners have warned the US it could face retaliation.

- While the Supreme Leader has downplayed, even dismissed, the economic problems created for Iran by sanctions, and praised the economic achievements of the outgoing Ahmadinejad government, Rouhani and his ministers have been frank about the economic mess they have inherited as a result of Ahmadinejad's misguided policies. And three days ago Mr. Rouhani tweeted – and he loves tweeting – that economic stagnation and sanctions are two main problems which require our immediate attention. Just to give you an anecdote, Mr. Rouhani tries to tweet all the time, so – and I sort of sometimes check what people tweet back. And one of them wrote, it would be so much nicer if he could devote all this time he's tweeting toward the affairs of the country. (Laughter.)

- Ahmadinejad granted lucrative no-bid oil contracts to Revolutionary Guards contracting companies and to other favorites. The new Minister of Oil, Bijan Zanganeh, announced that every oil contract signed in the last eight years is now subject to review.

- Rouhani has taken significant steps to bring foreign policy making and the nuclear negotiations under his control by appointing men he trusts to these sensitive posts. On the nuclear issue, he has made clear he will not give up on what he regards as Iran's right to a peaceful nuclear program. But he has also said the nuclear standoff with the West can be quickly resolved through negotiation. Yet on Friday, the Friday prayer leader in Tehran suggested in his sermon that foreign policy making should be in the hands of the Supreme Leader, not the foreign ministry.

Clearly then, Rouhani has his work cut out for him. We can already see the conservatives lining up to frustrate Rouhani's more moderate agenda, both at home and abroad.

Let me conclude by noting that no matter how stylish, elegant, well-spoken and smart Rouhani proves to be, he must deliver on domestic issues, especially on the economy, if he is to neutralize his opponents.

For the average Iranian, jobs, relief from inflation, better economic prospects, and easing of social restrictions, take precedence over the nuclear issue and foreign policy. Rouhani must have the courage to tell the people that addressing the severe problems that beset the economy will take time, and that, even if relations with the US improve, sanctions cannot be erased with a stroke of Obama's pen. Rouhani must make good on the promise he made in his tweet yesterday that "reports from this government will be based on truth and truth alone not on slogans. People have the right to know the truth."

He also has to be straightforward with the people on the link between the sanctions from which Iran is suffering and Iran's nuclear and regional policies. But – and I'm going to end now – at the same time the international community, I believe, must give Rouhani time help in order for him to show to the people and to his opponents that moderation produces results. Thank you. (Applause.)

ROBERT EINHORN: I'd like to thank the Atlantic Council for inviting me. I'd like to Barbara for her kind introduction. She recalled my showing up at the plane at Andrews with Madeleine Albright in a tuxedo to make me feel underdressed.

I would like to talk a little bit about the nuclear issue and prospects under the new Iranian leadership.

The new leadership clearly has an easy act to follow, and – but I think it's, even without the easy act to follow, it's a very impressive group of people. This new Iranian leadership, I think, is going to present real challenges for the United States and for the West, in many ways greater challenges than its predecessor. The previous leadership, in my view, wasn't genuinely interested in reaching a nuclear deal. I think led, you know, under the leadership of the supreme leader, they were wary of cutting any deal with the United States and the West. I think they were ideologically indisposed to reaching an accommodation with the West. They believed that they could weather the sanctions that had been imposed. I think they had a very unrealistic view of the situation. They felt that the West would eventually develop sanctions fatigue. They thought that they could be successful in finding workarounds, means of circumventing the sanctions. They even peddled the line that the sanctions were good for Iran. Because they would encourage self-reliance, Iran wouldn't have to be dependent on its oil revenues anymore. This was a total self-delusion, but I think it was real to a certain extent.

They resisted all compromise as Haleh has pointed out. Yes, they would accept an agreement; they would accept the P-5 plus one's surrender, but they weren't prepared to reach a true compromise. They would accept a deal on their terms. And I remember back in April, just this past April in Kazakhstan, in Almaty, this – we call it Almaty II, was the second one of these P-5 plus one meetings in Kazakhstan – and the Iranians were responding to a proposal made by the P-5 plus one in February, a confidence-building proposal. But their counteroffer was really a joke. It would not have had any practical impact on Iran's nuclear program.

I'll just give you an example of that. P-5 plus one had talked about suspending all enrichment at this enrichment facility at Fordo and putting it in a state of reduced readiness. They came back and said, we – our counter is we will not increase the number of centrifuge cascades at this Fordo facility. We pointed out that they had already installed 16 cascades, which was the maximum that could have fit into this facility. (Laughter.) And what was the big concession in saying they were not going to increase the capacity? Anyway, that was – that was kind of difficult.

Anyway, there was some value in this uncompromising Iranian approach. As someone who worked very hard for a number of years in trying to build broad international support for sanctions, Exhibit A was always the uncompromising attitude of Iran in the negotiations. We were able to demonstrate that they weren't serious, and this helped us build strong support for sanctions, including countries like China or India, Turkey, South Korea, Japan – all of which cut back very extensively on their purchases of crude oil from Iran, which drove Iranian oil revenues way, way down.

Anyway, this new leadership is very, very different. They're realistic. They're pragmatic. They have no illusions about the economic predicament they're in. They see the

situation really as a – as it exists and as it has been growing. They recognize the economy is truly crippled. It's a term that Secretary Clinton once used. And people ask, you know, come on? Crippling sanctions? It will never happen. Well, it's happened, and the new leadership recognizes it's happened.

And they recognize that the economic predicament is not just a function of the mismanagement of the economy by the previous regime – although that contributed. They recognize that sanctions are crucial. And they can't get – they can't fix the economy without major sanctions relief. So they need to – they need to get rid of the sanctions, and I think they're realistic enough to know they're not going to get rid of the sanctions without reaching an accommodation on the nuclear issue.

So unlike before, unlike the last four and a half years and even beyond, I think there is a real prospect for a genuine negotiation with Iran. But that doesn't mean the likelihood of success is high, only that there will be a negotiation, I think, for the first time. Statements made by President Rouhani and his senior members of his government have been very encouraging, very welcome. Just a couple days ago, I think, Rouhani talked about a win-win solution. He said he thought the nuclear issue could be resolved very quickly. And he and his foreign minister have said that they are prepared to allay all international concerns about the nature of the nuclear program. This is all very positive, but it's not an indication that things are going to be easy. These Iranians are not going to be pushovers in the negotiation.

I think the instructions that Iran's negotiating team will get involve three elements. One element is get the sanctions removed; a second element will be, ensure that our peaceful nuclear energy rights, including enrichment, are recognized; and third, pay the smallest possible price in terms of constraints on our nuclear program and especially our future nuclear options. I think that – those will be the instructions. Their instructions cannot be otherwise than that, and we should have no – we should have no illusions there.

And this Iranian team is going to be very skillful. (Inaudible) – Haleh talked about Javad Zarif. Many of you, I'm sure, have dealt with him when he was in New York and even before. He's one of the top diplomats I'd ever seen. And I had occasion to meet with him not as a government official but when I was outside of government. If anything, he's gotten too much praise in the West. But he seems to be clever enough to be able to manage his domestic audience and to get the freedom of maneuvering that will be necessary.

What's been notable – and I think you all, I'm sure, have seen it – is that over the last several weeks and since the inauguration, this Iranian leadership has been waging a very active and skillful public diplomacy campaign; talked about – I mean, both the examples – the Rosh Hashanah greeting, the comment about the massacre of Jews by the Nazis, the agreement to meet with the International Atomic Energy Agency on September 27, the comments by, you know, former Foreign Minister Salehi, head of the Atomic Energy Organization of Iran, about a willingness to accept the additional protocol of the IAEA Code 3.1. And this might be a – (inaudible) – the inspection.

Condemning CW use, the Iranians have been more vociferous at condemning CW use in Syria than Russia has been. The Iranians have said, you know, we don't know who's

responsible, but any use of CW is abhorrent, and we oppose it – (inaudible) – considering the use of chemical weapons against Iran during the Iraq-Iran War.

What Iran is doing – in military terms, you say that Iran is preparing the battlefield. They're preparing the negotiating field, the negotiating table with these public diplomacy efforts.

What are the goals of these public diplomacy efforts? I think they want to show the world that this new team is more reasonable and more flexible than its predecessor. They want the world to give Iran the benefit of the doubt that the Ahmadinejad team never, never deserved. And they want to avoid further sanctions. They've said over and over again, if you want success in negotiations, create the proper environment, and that means an environment without sanctions, without pressure. So they want to convince Europeans and countries all – and the U.S. Congress and countries all over the world that – no more sanctions, no more pressures. They're not calling right away for the rollback of sanctions. They know that that's going to take some effort on their part. But, you know, their message is: No more sanctions, no more pressure.

The key question is, will this very effective, in my view, public diplomacy campaign, this moderate rhetoric be matched by actions, by deeds, especially at the negotiating table? A key issue in this regard is the controversial question of uranium enrichment. President Rouhani, Javad Zarif have made very, very clear that any agreement has to protect Iran's NPT rights, which, in their view – not necessarily in mine, but in their view include the right to enrich uranium. That's going to be the touchstone for them. I think this Iranian team may have a considerable amount of flexibility on enrichment. I don't think this much flexibility, at least on the ability of Iran to have an enrichment program under an agreement. I think that's probably a red line for this – for this regime.

They are apparently prepared to accept greater transparency about the enrichment program. They've talked about this a number of times. Transparency, they suggest, is the solution to the problem. And they have also indicated, in talking about enrichment, that they expect to be governed only by agreed international regulations – by the NPT. In other words, they don't want to be forced to accept restrictions that go beyond the requirements of the NPT that other countries have accepted. I think this will be an important factor.

But here's the problem. The U.S. goal for any agreement will be to avoid, to prevent what we – what we call a breakout capability. Let me explain what that is. A breakout capability is when Iran would amass the enrichment capability, the stockpiles in which – of enriched uranium and such so that if it decided actually to build nuclear weapons, to renounce and abandon current restrictions, kick out the inspectors and go as quickly as possible to build a nuclear weapon, it could do so fast enough that the international community wouldn't have sufficient time to take action against that. That's what we consider to be a breakout capability.

Now, precluding that breakout capability requires much more than transparency. Transparency – you could know on a day-by-day basis, you could have monitors there reported by Iran, you could know that today Iran is abiding by the restrictions, it's not producing highly enriched uranium for a bomb. You could know that with greater transparency. And that's a good thing. But what you wouldn't know is if in the future one day Iran decided to have nuclear weapons, to break out of those constraints, transparency doesn't help you because the inspectors are gone, the cameras are gone. And what do you do then?

You know, Iran would say: We don't intend to do that. We don't want to have nuclear weapons. Given the track record, the international community simply cannot rely on those assurances. And so to preclude this breakout capability, the U.S. and its partners in the P-5 plus one would have to insist on actual restrictions on that enrichment program – restrictions on enrichment capacity, the number of centrifuges, the types of centrifuges in terms of the advanced – in terms of the sophistication of them.

It will have to insist on restrictions on Iran's stockpiles of enriched uranium because if you got a lot of, you know, medium-enriched uranium lying around you can break out and then re-enrich that material to weapons-grade pretty quickly. So it depends how much you've got and whether its located inside of Iran or outside of Iran. In terms of monitoring – you know, right now the IAEA visits the Fordow enrichment facility every week or two, checks the cameras to see whether there has been any funny business going on.

But we need to do much better than that. We need to have a kind of real-time remote hookup so that, you know, the first time Iran broke the seals on any stored material or anything like that, that would immediately go to some monitor in IAEA headquarters in Vienna. We'd know instantly and could react quickly to that. So to be acceptable, any enrichment capability in Iran would require much greater restriction than so far, at least, even Iran's new leadership is prepared to concede.

Now, I hasten to say – I'm not – I'm no longer a government official. I'm not speaking for the Obama administration. I don't believe the Obama administration has taken a decision on whether an agreement can permit an enrichment program in Iran. But what I am confident of is that there won't be an agreement on enrichment unless Iran is prepared to go well beyond the question of transparency to accepting very significant restrictions.

I think the good news is those restrictions on capacity, on stockpiling, reports of additional monitoring – all those things can be done without compromising Iran's desire for an advanced, robust civil nuclear program. I think they're compatible. They can be reconciled. But I think it's going to take some hard negotiation. And so it will be interesting to see in the weeks to come whether the Iranian moderate rhetoric will be translated into deeds and whether Iran will recognize that it's going to have to accept restrictions that it's been so far unwilling to accept.

We should begin to know within weeks. It'll be at the U.N. General Assembly. It's coming up soon. President Rouhani's going to be in New York. Javad Zarif will be in New York. There will be plenty of bilateral meetings between Rouhani and – with Zarif – with other countries. Cathy Ashton, high representative of the European Union, will meet with Zarif, presumably to schedule a first meeting of the P-5 plus one with Iran under the new Iranian leadership.

So we should begin to know before long whether there's the real makings for a deal. So far, despite all of the encouraging noises we're hearing from Tehran, we just can't predict. Thank you. (Applause.)

KENNETH KATZMAN: Thank you very much. Let me put down my green tea here. Even if I don't drink it, as long as it's there I'm comfortable. (Laughter.)

So I'm going to talk about Iran sanctions. Increasingly strict sanctions on Iran, which have mainly targeted the energy section and Iran's access to the international financial system, have greatly harmed Iran's economy, but not to the point yet where Iranian leaders have accepted the proposals that Bob Einhorn was discussing might be reconsidered. However, the June 14th election of Hassan Rouhani – he ran on a platform of easing sanctions. This suggests that many Iranians want a compromise on the nuclear issue to achieve an easing of sanctions.

And I think it's important to not just discuss Rouhani but, you know, the structure – he's at the apex, but there's a structure below him – the people that voted for him, the people that gave him this unexpected victory in the election. These are the same people that were on the streets in 2009. This is the Green Movement essentially winning this election.

And they are going to demand things of him. They want an easing of sanctions. They're going to say: We are responsible for your victory. You said you would ease the sanctions. We need to get back to work. We need our economy to improve. And they are going to make demands of him. And I think that is going to affect the negotiations.

Now, the issue is, many are saying: We've put all these sanctions on Iran. Rouhani's victory and the fact that he campaigned on easing sanctions is evidence that these sanctions were successful. I mean, that's what a lot of proponents of sanctions are saying. It's this evidence they may indeed be starting to work.

The others are saying, OK, that may be so, but from now on, you know, Rouhani has made these overtures and we need to test that because perhaps if there are more sanctions imposed now before Rouhani's intentions have been tested, that could undercut Rouhani. The Supreme Leader, other skeptics of negotiations could say: See, we told you, you know, the United States wasn't sincere. So those are the two sides of the argument going forward.

... You know, there's new information that came out about two weeks ago. A U.S. official apparently briefed an Associated Press reporter. Excuse me. I'm going to indulge the green tea right now. Iran is down to 1 million barrels a day in exports. They were about 1 ¼ million for most of this year. They may be down as low as about 1 million barrels per day. That is 40 percent of what they were exporting in 2011. That is a huge amount of money. At a hundred dollars a barrel, if you're losing 1 ½ million barrels a day in exports, you are losing a lot of money.

For a country that is very large population – 75 (million), 80 million, whatever it is – that is a huge – that is just a dramatic loss of money. The United States government maybe takes in, what, 2 trillion (dollars) – 2 ½ trillion (dollars) in revenue. Imagine if all of a sudden next year the U.S. Treasury was only going to take in \$1 trillion in revenue – from 2 and a half trillion (dollars) to 1 trillion (dollars) in revenue, there would be a dramatic depression in the United States. Now, this is huge – this is huge.

The causes of the drop – the European Union has stopped buying oil, and the other customers, Japan, South Korea, and partially in addressing U.S. sanctions, they get an exception; if they cut their purchases of Iranian oil, their banks get to continue to – they get to continue to buy oil without their banks being penalized. So a lot of combination of factors accounting for this drop.

This has caused a sharp drop in the value of the rial; inflation is over 50 percent, and perhaps even more significantly, a lot of Iran's money that it is still earning from oil is locked up in local currency accounts. The Iran Threat Reduction and Syria Human Rights Act of last year required that as of February 2013, you have to pay Iran for oil in local currency. You can't give them dollars or anything convertible, you have to give the currency of the country you're in, which means they can't move any of this money out of those countries, so they have to buy the products of the countries that they're in.

So if Japan is buying oil, they have to buy Japanese products with that money – India the same. India has an agreement that they pay 45 percent in rupees, so Iran has to buy Indian products. And really, there's not enough Indian products to sell, so a lot of this money is just sitting, sitting, sitting. So not only is Iran selling less oil, but it's not able to use even most – a lot of the money that it's owed for this oil.

So the same U.S. official that I quoted who gave these statements to the Associated Press said, out of \$3.4 billion per month that Iran gets from oil, about one and a half billion (dollars) is locked up in those local currency accounts. Iran is trying to mitigate some of the economic and political effects of the sanctions; they're creating front companies, sort of a cat and mouse game as they form front companies, the U.S. fines them and sanctions them, European countries – (inaudible) – sanction them, and then they open another front company. These front companies are all over; some of them are in the UAE; the Treasury Department just sanctioned a few of these the other day.

Basically, in the UAE, there's a lot of Iranian businessmen just – they all have an office in Dubai. They – all the trading houses, all the banking institutions, and they create these front companies to try to get around the sanctions, so it's a cat-and-mouse game to find out what these companies are up to and then sanction them and get them closed.

Sanctions have not compelled Iran, as we said, to absolutely change its position on its nuclear program. There's signs, as Bob said – Bob Einhorn said of, you know, some tentative signals out there that are encouraging, but Iran has not accepted the P-5 plus one proposals to date. Iran is still producing weaponry indigenously. U.N. sanctions – Iran is not allowed to – no one is allowed to sell Iran heavy weaponry, but Iran is making some of its weaponry itself, particularly cruise missiles and short-range missiles.

Under Resolution 1747, Iran is not allowed to export any arms, but it's obviously giving substantial weaponry to Mr. Assad in Syria, keeping him afloat over there. So they're not – sanctions have not forced Iran to comply with that stipulation. And sanctions do not – have not directly affected Iran's repression of dissent or the human rights situation in Iran. Now, that

might change under Mr. Rouhani – and we can discuss that in the Q-and-A – but anyway, to date, sanctions have not decreased Iran’s monitoring of the Internet, censorship of the Internet or ... repressive measures yet.

Some in Congress believe that economic pressure on Iran needs to increase. There is some pending legislation – H.R. 850, which has a provision in it that would, as a goal, try to reduce Iran’s oil exports another 1 million barrels a day within one year. So if they’re already at 1 million and you reduce another 1 million, they’re basically scraping close to zero. The – what I mentioned is, right now, if you are reducing your purchases of Iranian oil, you have an exception from sanctions. What this provision would say is, to keep your exception, you have – you have to dramatically reduce purchases of Iranian oil.

Currently, to have an exception, you have to significantly reduce purchases of Iranian oil. This provision, were it to be enacted, you would have to dramatically cut purchases of Iranian oil. There’s no specific definition of what is dramatic. Is dramatic 25 percent? Is it 50 (percent)? So that’s something up in the air.

Now, I was asked to talk a little about, you know – so I presented what sanctions have done. So let’s say – let’s say there is – let’s say there is a – you know, a deal on the table. Let’s say something looks good. Iran is willing to stop 20 percent enrichment, you know, things that have been talked about, accept the (Additional) Protocol, and let’s say there’s something that looks interesting – Iran obviously wants the sanctions relief, you know. We’ve all – everybody – there’s no – no one – (inaudible) – Iran is not going to demand sanctions relief in exchange for something.

You know, I think – (inaudible) – I said, yes, you know, the Iranian people need to understand, sanctions would not be, you know, just erased in one day. True, but if you look at the way the sanctions work, the president – the executive branch still has a lot of discretion on how to apply the sanctions. Now, you know, lifting sanctions and application of sanctions are two different things. Lifting of sanctions, you – there are fairly high standards – some of these laws would be – you know, it would – certifications are required that are quite high standards.

For example, the Iran Sanctions Act, which is basically the core of oil sanctions on Iran right now. To end that sanction – to terminate that sanction’s application to Iran, you have – the president will have to certify that Iran is out of the WMD business, is off the list of state sponsors of terrorism and poses no threat to the U.S. or its allies – and its allies. Very, very difficult standard to certify. All those three have to be together. It’s and, and, and, not or, or, or. So very difficult.

But, you know, if you look at the way these things work, a lot of the sanctions are in effect by executive order. The president issues an executive order; he can repeal his executive order. He can amend his executive order. A lot of the sanctions are subject to administration writing – regulations as to how the sanctions work. So for example, the restriction that the United States cannot trade with Iran – there is basically a ban on trade, but there is a humanitarian exception. You can still trade with Iran for humanitarian goods – purposes. Food and medicine is allowed, and the Treasury Department just three days ago amended the

regulations, basically saying, if you are providing goods and services to a nongovernment organization working in Iran for disaster relief, for environmental conservation or human rights and democracy, which is another – (inaudible) – under the humanitarian rubric, you don't need a license. You can sell those goods for those purposes, and you don't need a Treasury Department license for that export. You have to report to Treasury what you're doing after the fact, but you do not need a license.

So even before (there is) a nuclear deal, there started to be some wiggling of the way the sanctions are being applied. And this is because the administration has a lot of discretion over how to apply these sanctions. I mentioned, you know, to have an exception to be able to still buy Iranian oil, you have to be significantly reducing your oil purchases from Iran. But the administration basically gets to decide what's significant or what's not significant. China and India – you know, there's questions. Have they really, significantly reduced their purchases from Iran or not? But they've both gotten exceptions three times, because you need it every six months – they've gotten it every time.

So, you know, as I said, each time an entity is sanctioned by the Treasury Department, where they say, this entity is money-laundering, this entity is conducting proliferation activity – the Treasury Department can say, we talked to that company, they promised to get out of this business and the sanction on that entity could be lifted. And, in fact, two foreign banks under the CISADA law – Comprehensive Iran Sanctions, Accountability, and Divestment Act of 2010 – two banks have been sanctioned for conducting significant transactions with Iran's – with blacklisted Iranian banks. One of them was an Iraqi bank. U.S. Treasury Department talked to the Iraqi bank; the Iraqi bank – it was called the Elaf Islamic Bank – the bank promised to get out of the business of dealing with Iran, the sanction was lifted on the Elaf Islamic Bank.

So these – you know, the question is, you know, what would Iran accept? You know, if Iran offers, we're going to do this, this and this, can the – would the administration then say, well, we will use our discretion, you know? That's the issue. Another example – the Iran Sanctions Act, which I mentioned, which penalizes, sanctions companies that are investing in Iran's energy sector – in other words, if you sign a deal with Iran to drill for oil and gas, you can be sanctioned. There's all sorts of deals that have been signed, and some of them have been implemented.

The CISADA law of 2010 created the so-called Special Rule, whereby if that oil company pledges to the United States to wind down its business in Iran, no sanctions would be imposed. There's been six or seven companies that have gotten this Special Rule exemption – Total, ENI of Italy, INPEX of Japan, Royal Dutch Shell. So that's another possibility.

So I guess my point is there's a lot of discretion, and these are some considerations that I'm sure could factor in if we get to the point where there's a deal that looks attractive to the administration of the new – (inaudible).

Thank you. (Applause.)

MS. SLAVIN: Thanks a lot. I think that's a great way to tee up the discussion. And I'm going to go very quickly to your questions, but I just wanted to start.

When I was in Iran, I noticed that there was less hostility toward Americans this time than there was during my previous trip. And I'm not sure if that was because in August of 2012 people were told to stay away from foreigners, if they were just in a bad mood because it was still President Ahmadinejad, but I noticed a change this time. People seemed much more friendly, much more open.

What do you think, Haleh, are the expectations of Iranians for some kind of improvement in U.S.-Iran ties? Do you think that that's really necessary for them, or are they mostly interested in some sort of economic relief?

MS. ESFANDIARI: My sense is that the two are connected. I mean, once again, economic relief does not make – they decide to improve relations with the United States. And this has been there for ever since the first day of the Islamic Republic. The Iranian people are very much interested in having very good relations with the United States. And I think the reason is that – some for personal reasons, because they have – you know that there is a large Iranian community in the United States, and the visa issue has been for the last 30 years a big problem. You know, you can't come and visit your relatives. And so that's number one.

Number two, I think there are a lot of young people who would like to come and study in the United States, you know, and again, they have not been able to, except in the last year there has been an easing up on visas. I mean, interestingly enough, I have had visits by young students here coming and saying, I couldn't believe it, I got a four-year multiple visa in Dubai to come and study at this and that university.

But I just think that Iranians are sick and tired of this in-your-face, you know, politics that the previous administration – the Iranian administration of Ahmadinejad pursued. But they also believe that having access to nuclear know-how for peaceful purposes is their right. So if they would – if Mr. Rouhani could find a way to convince the people to be a bit more patient, we are moving towards that, and if what Ken said this morning is music to their ears, that you can remove the sanctions much easier than the people expect, so then that would – they would welcome.

But on the whole, they would welcome a rapprochement with the U.S. They are tired of this animosity and

MS. SLAVIN: Bob, you participated in these fruitless P-5 plus one negotiations. The Iranians talked directly to every delegation but the American one. Did you get a sense of why that was? Was it just to make a political point, to annoy you, to score points at home? And would you expect, first of all, that there will obviously be direct conversations now? And isn't that really a prerequisite to getting a deal?

MR. EINHORN: There actually was – there were 45 minutes of bilateral discussions between the U.S. and Iran. It was in October 2009 in Geneva, was the first P-5 plus one round of the Obama administration. There was about three hours of sterile debate at the multilateral table. Then Undersecretary Bill Burns went to Saeed Jalili, head of the Iranian team, and said, hey, why don't we just have a chat? And a few of us moved into the next room and spent about 45 minutes together, and in that period, the Iranians explicitly accepted our proposal at the time, which is a significant proposal. It was to take 75 percent of their enriched uranium, move it out

of their country in exchange for the provision of fuel assemblies for their research reactor in Tehran.

It was an explicit agreement. I stayed afterwards and went down with their deputy. And it was clear they accepted. But within two weeks, Jalili returned to Tehran and it became domestically unmanageable for him to sustain this deal, so they walked it back. And there was never again a bilateral exchange for the remaining period, all the way until the Almaty 2.

I think for Jalili personally, he found that meeting with the U.S. bilaterally was not career-enhancing – (laughter) – and there was nothing really to be gained, and, you know, the ideological aversion to dealing with the United States and all the rest of it. So that didn't happen.

It's clear it's going to happen now. It's clear it's going to happen now. President Obama and Secretary Kerry have all said, you know, we're happy; we would meet directly with the Iranians. The Iranians have come very close to saying that they're prepared to do that. Javad Zarif has said that, well, you know, it depends if the American side has the political determination, and so forth. So it's going to happen.

And I think that's a good thing. I think it's been recognized by America's P-5 plus one partners that if there's to be a deal, the only way you're going to get it is through U.S.-Iranian direct contacts. It's not as if the others are unimportant. They are. The European Union has a lot of skin in the game. Their oil embargo is what led to this, you know, precipitous decline in Iranian oil revenues. So they have a stake. You know, the Russians have a major stake in this and they've got influence in Tehran. They've got credibility in Tehran and they can play a critical role.

So – but I think all of them recognize that breaking the ice, getting something going will require the United States and Iran to sit down and talk directly. I think if those two governments can come up with something worthwhile, they need to take it to the P-5 plus one. They need the approval of these partners for a variety of reasons. A solution requires new Security Council resolutions. You know, now their resolutions, the sanctions and all that, are imposed by a Security Council resolution. You need new resolutions to amend that. And you have the P-5 permanent members of the Security Council are part of the P-5 plus one. So you need that buy-in. That's very important.

So anything that was worked out bilaterally would have to be taken to the P-5 plus one and to the broader international community. Countries in the Middle East, the Gulf Arabs included, have a tremendous stake in this. So it's very, very important. Even though it may begin bilaterally, it's got to broaden, and you need wide international support. But it's recognized that U.S.-Iran direct talks are probably indispensable.

MS. SLAVIN: Last question, for you, Ken. The sanctions that have had the most draconian impact on the Iranian economy are the banking sanctions. What flexibility does President Obama have, or OFAC, Treasury have in terms of easing the sanctions on the Central Bank or getting Iran back into the SWIFT monetary system for transactions? Is there any leeway there without congressional action?

MR. KATZMAN: Well, the SWIFT action was basically something that SWIFT undertook because the EU asked them to. The EU decided to expel them from SWIFT, and

SWIFT, though I think it's privately run, expelled them. But not every bank; it's just blacklisted Iranian – that's sort of a myth, you know. Not every – the Iranian banking system was not frozen out of SWIFT; it's just the ones that are under sanctions. So the ones that are still transacting and the humanitarian transactions are still in it.

You know, banking – you know, as I said, there were some banks that were sanctioned under CISADA and then were removed for stopping the offending activity. So again, there is flexibility, but obviously a broader lifting of that sanction would probably require some real, verifiable deal and then an implementation testing period.

MS. SLAVIN: But the executive branch could do that without Congress.

MR. KATZMAN: They can do some things, but not a full – no, a full lifting would require changing the law that authorized that sanction to begin with.

MS. SLAVIN: OK. Your turn. Wait for the mic, say who you are.

Scott Peterson, Christian Science Monitor, our visitor from Istanbul, who covers P-5 plus one talks for a living.

Q: Thank you very much. Bob, I have two questions for you about the kind of state of play on the nuclear talks. Your point very much taken that the Iranians come back with, you know, really kind of facetious, often, counterproposals for talks (before ?) the P-5 plus one. But what do you think the P-5 plus one should do to sweeten the deal with Iran? I ask this because I have yet to hear either an American or a European diplomat tell me that if they were Iran, they would actually accept this deal, that it's a good enough deal to be offered.

And on second – the second question, how does the U.S. expect Iran to engage deeper into this process, if so far, the Obama administration and also the Europeans, to some degree, have not yet made their own determination about whether or not enrichment is possible at any level inside Iran or under other circumstances? I'm just trying to – I know that the Iranians see these both in blockages that appear to, you know, make it sound like the P-5-plus-one also has to kind of make some decisions before things get too much further forward.

Thanks.

MR. EINHORN: I can answer both of those questions together. I think the most productive way ahead is for neither the P-5-plus-one side nor the Iranian side to come to the resumed talks with a fixed proposal, here's our new proposal, and, you know, chiseled in stone, here are the eight points, this is what it is. I don't think that would be a useful way to start.

I think – well, things are not – it's not a totally fresh start; you can't forget what happened before. We should see this as a – you know, a new opportunity. And we should sit down and explore what's possible. Sure, we have starting points, the P-5-plus-one, there's the proposal they've made at Almaty one, you shouldn't walk away from that.

But it should say, look, let us know what you think. You don't think sanctions relief is sufficient? OK, we're prepared to do more sanctions relief. But you've got to do more in terms

of constraints, as well. We noticed you've been making progress on your plutonium production reactor; we noticed you've been introducing some advanced centrifuges. Well, maybe let's put those on the table too; we're prepared to put it on the table for the sanctions relief. Let's talk about that.

So I think that's the best way to proceed, to have a very frank give-and-take about what each side really is seeking in these negotiations, rather than to lock each side into a point proposal and fight for that proposal for six more months, explore more flexibly and see whether there's a meeting of the minds.

MS. SLAVIN: OK, lady in the front here. (Off mic.)

Q: This question is for Mr. Katzman. I'm – (name inaudible) – with NIAC, National Iranian American Council.

Since the American sanctions are not as easily as you mentioned, can be lifted – we had a discussion at Woodrow Wilson Center about a month ago, a gentleman who went through detailed analysis of these sanctions, there were 18, 19 of them, the congressional sanctions, they need to go through the Congress, and as we all know, it's going to take forever, and I'm sure the Iranians also are quite aware of that.

Can we somehow ease the sanctions, the European sanctions somehow and participate in that to give Mr. Rowhani room to maneuver so we won't push him toward the hardliners?

Thank you.

MR. KATZMAN: Well, as I outlined, yeah, I mean – I was addressing some of the short-term flexibility that the administration has in applying sanctions. If the Iranians are going to demand outright repeal of Iranian sanctions, probably, that would – you know, as I – as I outlined, you know, that – there are higher standards. And it's – it takes more work to do that, yes. But as I'm saying, you know, there are ways to signal to Iran, as a – as an interim, in terms of getting at least, an interim agreement.

MR. : (Something about that ?)

Q: (How about ?) the European sanctions? Are they easier to be lifted than the American sanctions?

MR. KATZMAN: Well, you know, the EU sanctions have generally followed – you know, when we've applied the sanctions, they've applied very similar sanctions. So I think it's actually easier for them to do it, because I think a lot of those were imposed administratively – and would, I think, be easier to retract if the Europeans wanted to do that.

MR. EINHORN: Can we just make that a political point? I mean, technically, decisions by the EU, 27 out of 28 new decisions have to be taken by consensus. But as Kenneth points out, there's some administrative things that can be done.

But this – this is a basic political point, and that is if the negotiations are making progress, things look like, you know, they're going in the right direction, the Iranians are prepared to make real concessions, then it's going to be easier for the administration politically to use its discretionary authority under executive orders. And it might even be easier for the Congress to agree to revise or even repeal certain laws.

But it will depend on the product. If it's credible, it will – there will be more flexibility. There will be more leeway. If it doesn't look credible, it's going to be hard to peel back the sanctions.

MS. SLAVIN: (Inaudible.)

Q: The Iranian minister of health announced today that the shortages of medicine inside Iran is three times as much what the figures that were given previously. So would it be possible, at least as a gesture, to expand that humanitarian, you know – existing the – you know, possibility of sending – and more medicine, or allowing the Iranians to have access to more – buying more medicine?

MR. KATZMAN: Early in this year, there was a Treasury Department announcement that they had put a lot of medical equipment under general license that previously, when you needed a specific license for, now, you can sell. There were diagnostic machines – I'm forgetting exactly what it was – breast cancer and – (cross talk) – dialysis – yeah. So that's one thing.

But – and the administration – there are no sanctions on food and medical sales. And (indeed, we do) sell. Now, the banking system is difficult, because basically, European banks, particularly, have decided, well, anything to do with Iran, even if it's a permitted sale, we just no longer get involved with it. So I think the administration is trying to educate banks in Europe and elsewhere that, you know, if it's an approved sale, non-licensed sale, then please, go ahead and get involved with that, because there's no restriction on doing so.

MS. SLAVIN: Yeah, the Treasury Department actually came out with an advisory in August telling foreign pharmaceutical companies and food exporters that they could get the money from the hard currency that's piling up in Tokyo and New Delhi and in Istanbul and South Korea and so on, and that they – this was specifically where they should go to get paid for selling food and medicine.

However, the collapse of the rial has led to medicine being much more expensive now in Iran. It's also led to a lot of hoarding of ingredients, so I heard a lot of complaints – people simply can't afford the medicine, even when they can find it. And I went to one pharmacy in south Tehran and there were shortages of inhalers for asthma, which is a big problem in Iran because of pollution. There were shortages of injected antibiotics for really severe infections and there were shortages of medicine for hemorrhoids, for some reason.

So I reported this back to the Treasury Department, and I'm not sure what they can do about that. But it's going to take a long time for Iranians to have easy access to medicine, because the sanctions, particularly on the banks, really interrupted the normal trading patterns between particularly Western pharmaceutical companies and Iran.

Did you have a question? Wait for the microphone and say who you are.

Q: David Laylin – I'm associated with the Persian Wildlife Foundation and – (off mic) – visa work with NGOs in Iran and directly with government administration, involved mostly with natural resource conservation management.

We were instrumental in getting the – (off mic) – session, and I spent two hours yesterday at the State Department – (inaudible) – office there – working on some projects and they said – (inaudible) – on a general license now. And I said, well, that's not – I mean, we just get money; we take it to the bank? Well, no. And then, you know, it's a lot better if you write a letter to oh, that person, make sure he – (inaudible). And then I said, OK, we're working on a project; we'll probably raise about \$200,000. I said, how do we get that? I mean, I can't put that in my pocket and carry it to Iran. He said, well, you know, that's a problem still. (Scattered laughter.)

And then so, even though – I mean – (Mr. Katzman) – as you've said, these things have been put out as being possible; the nitty-gritty – and actually, you're getting it done. Implementing, it's not that easy.

MR. KATZMAN: Well, I think that when they – when they issued this licensing decision the other day, there was this specific wording in there on the announcement saying, and to those of you in the banking industry, these transactions are allowed, and banking for these transactions are allowed. So they're trying to get that message out.

Now, I appreciate that it's still difficult and you know, many banks and companies have basically written it off; they want nothing to do with Iran and I understand that. But I mean, I think it's just going to take time for the administration to convince the banking industry that, you know, committed transactions and financial transactions, incident to those sales, are permissible and should be undertaken.

MS. SLAVIN: The gentleman here with the yellow tie.

Q: My name is Cornelius Adebahr; I'm an associate fellow with the German Council on Foreign Relations, recently moved to Berlin – I'm sorry, from Berlin to Washington. (Scattered laughter.) I spent two years before that in Tehran on the – (inaudible) – for the British embassy to the elections this June. And I see that as an improvement. Other than that, on the exact prospects of the Iranian presidency, I'm as cautious as the speakers were.

So basically, my question is more about this town, whether Washington is ready to engage in negotiations to the extent that there won't be a deal on the U.S. terms. I think the

event led today is very helpful in this. But I'm wondering whether this is already a common sense within the administration.

And to finally get to the Syria into this debate, does the current stance on Syria, they're not – (inaudible) – does this help or hinder a compromise with Iran?

Thank you.

MS. SLAVIN: I think, Bob, you're best placed – (inaudible) – to say – (off mic) –

MR. EINHORN: Yeah, there's been lots of speculation in the last week or two about whether a military strike against Syria would be positive or negative, in terms of Iran, deterring Iran and so forth, whether the absence of a strike would send a certain signal of weakness and reduce – you know, there's a lot of speculation.

I think there's a new issue that deserves attention now, and that's whether success or failure in this current diplomatic effort on Syrian CW would have an impact on prospect for negotiations with Iran.

And imagine this scenario. We – the international community, the U.S., Russia, U.N., Syria – pursue this diplomatic opening, work very hard to see whether it's possible to put a credible, prompt, you know, verification approach in place to control Syrian chemical weapons, work really hard, but you know, the Syrians in the end showed bad faith. They weren't really interested doing this. The Russians were unable to deliver the Syrians. We took three months, four months, and all that happened in that period was Syria stepped up its efforts to repress its own people, maybe even used gas again.

All right. Imagine that scenario. What would be the implications for Iran diplomacy? I think they would be very, very negative.

If there were the prospects of a deal, I think the American public, the American Congress would say, oh, you've got to be kidding. You know, you're going to – conceivably the Russians could try to push such – you know, such a deal. They'd say, look what happened last time. You know, the Syrians weren't serious. Do you think the Iranians are serious about diplomacy? They're just going to play this out. They're going to play for time and advance their nuclear program just the way the Syrians did on the – on the CW. I think they would be very negative. They'd be very negative for the prospects of the U.S.-P-5 plus one-Iran negotiations. I think they would spill over into U.S.-Russia negotiations, because Russia would be seen as complicit.

On the other hand, if you had a good deal, if this – if this resulted – if the current efforts resulted in the end of Syria's CW program, verifiably, credibly and quickly, with the absence of military action, I think this could have very positive implications on prospects for diplomacy and willingness to take a risk on diplomacy in the case of Iran.

So for me, that's the most relevant Syria issue today.

MS. SLAVIN: Yeah, I would agree, and I think this actually gives the Iranians even more of an incentive to use their leverage on Assad, to make sure that he actually follows through with this – with this promise, because it's not just Russian credibility that's on the line; it's Iranian credibility that's on the line. And so this very much bears watching. (The opportunity, exactly ?) – (inaudible).

Q: Hi. Hugh Grindstaff. I can't really see anything getting done. I mean, it's a very rosy picture of Rouhani and Iran, but as long as Hezbollah is out there, as long as Hezbollah is in Syria, as long as Hezbollah is fighting against the rebels, I cannot see Congress even thinking about having any action at all to make sanctions go away. I mean, Hezbollah is actually the military arm of – an external military arm of Iran. And how – well, what – how do you all see Hezbollah?

MS. ESFANDIARI: I thought I gave you a less rosy picture of Rouhani, and I said he's just a normal politician. But because there has been an absence of normalcy in Iran, therefore he looks like someone who is extraordinary. But he's not. That's how a politician should be.

My sense is that the supreme leader is not going to compromise immediately on Hezbollah. He's going to give leeway to Rouhani and his nuclear team. Let them start negotiating. Let's see what the other side is going to offer, because the supreme leader's attitude has always been, even if we give an inch, they will come back to us and say, well, fine, thank you for that, but we need a mile from you.

So he has been very skeptical, and I think he's given maybe six months to a year to Rouhani and his team to see what they can achieve.

If Rouhani comes back with something very tangible that is acceptable to various factions in Iran, then he can start dealing with Iran's foreign policy in the region. For example, Zarif went to Iraq last week. He met with the prime minister, not – (I will say president ?), but no, with the deputy – vice president and so on – but the most important visit he had was with Ayatollah Sistani, Ayatollah Sistani, who had refused to meet with President Ahmadinejad when he went to Iraq. So that was a big step.

So my sense is that Hezbollah is the prerogative still of the supreme leader, and the Revolutionary Guard. But Rouhani and Zarif and his foreign policy team are trying to find a way out of it, but it has to be step by step. It won't – we shouldn't expect that they will stop supporting Hezbollah, they will stop supporting Hamas. It can't happen, because there are other center of powers in Iran; (he has to think of)

MS. SLAVIN: I'm afraid we've actually gone over time. So I want to thank our speakers very much, encourage you to stay and ask questions, if you have any further questions, and please come again to the Atlantic Council. Thank you. (Applause.)

(END)