

Proceedings of the 2007 Soref Symposium

Iran's 'Unacceptable' Bomb: Deterrence and Prevention in the Age of Terror

MAY 9–11, 2007



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THE WASHINGTON INSTITUTE FOR NEAR EAST POLICY
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EDITOR'S NOTE

These conference proceedings include summaries of presentations and panel discussions. The summaries should not be cited as actual transcripts of speaker remarks. The presentations by Robert Kimmitt and Shimon Peres are included as edited transcripts and may be cited as such.

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RAPPORTEUR'S SUMMARY

David Makovsky
*Senior fellow and director, Project on the Middle East Peace Process,
The Washington Institute*

Dennis Ross
Counselor and Ziegler distinguished fellow, The Washington Institute

Preface

DURING THE FORTY-YEAR Cold War, a strategy of deterrence protected the United States and its allies from the threat of nuclear-armed adversaries. Although the prospect of nuclear conflict was, at times during that period, much closer than it may seem in retrospect, the underlying logic of deterrence—that adversaries share a preeminent rational interest in survival—played a critical role in keeping the peace.

Today, however, just six years after al-Qaeda brought violent, expansionist, radical Islamism to America's shores, Iran's revolutionary leadership seems bent on acquiring nuclear-weapons capability. With its national security policy founded on an ideology that celebrates martyrdom, and a regime that has spoken openly of nuclear exchange, the Islamic Republic poses a profound challenge to deterrence as a strategic concept. President Bush has already declared that a nuclear-armed Iran would be "unacceptable," but what does such a statement mean in practice?

In May 2007, The Washington Institute convened its annual Soref Symposium to address this question. Established in 1988 and named in memory of Helene and Samuel Soref, founding supporters of the Institute, the symposium serves as a vehicle for dialogue and debate on critical issues facing America and its allies in the Middle East. The summaries presented in the following pages detail discussions among a select group of experts and diplomats who, over the course of the conference, evaluated the challenge posed by Iranian nuclear ambitions, assessed the regime's intentions and capabilities, and addressed potential policy responses—including the appropriate roles of deterrence and prevention in protecting our nation, allies, and interests against one of the most vital threats of the twenty-first century.

Robert Satloff
Executive Director



■ *Robert Satloff is executive director of The Washington Institute and author of The Battle of Ideas in the War on Terror: Essays on U.S. Public Diplomacy in the Middle East.*

The Speakers

KURT CAMPBELL is co-founder and chief executive officer of the Center for a New American Security. He is also director of the Aspen Strategy Group and chairman of the *Washington Quarterly's* editorial board. Previously, he served as the Henry A. Kissinger Chair in National Security Policy at the Center for Strategic and International Studies. Dr. Campbell is the former deputy assistant secretary of defense for Asia and the Pacific and the author or co-author of many works, including *Hard Power: The New Politics of National Security* (2006), *The Nuclear Tipping Point: Why States Reconsider Their Nuclear Choices* (2004), and *To Prevail: An American Strategy for the Campaign against Terrorism* (2001).

NEIL CROMPTON is currently Iran coordinator in the British Foreign and Commonwealth Office (FCO). During his long career in the British foreign service, Mr. Crompton has served as head of the FCO's Iraq policy unit, deputy head of mission at the British embassy in Tehran, head of the FCO's Iran section, and senior research officer covering Gulf and Islamic affairs.

MICHAEL EISENSTADT is a senior fellow and director of the Military and Security Studies Program at The Washington Institute. A reserve officer in the U.S. army, he has published widely on regional military and security issues, including prescient articles on the implications of a nuclear Iran. His most recent Washington Institute publication is *Forcing Hard Choices on Tehran: Raising the Costs of Iran's Nuclear Program* (co-authored with Patrick Clawson, 2006).

SAMI AL-FARAJ is president of the Kuwait Center for Strategic Studies and an advisor to the Kuwaiti government on how to prepare for potential nuclear accidents in Iran. He advises the secretariat-general of the Gulf Cooperation Council in a similar capacity. Dr. al-Faraj holds degrees from Oxford and Cambridge universities as well as from Tufts University's Fletcher School of Law and Diplomacy.

CHARLES HILL, a former career minister in the U.S. foreign service, is currently a research fellow at the Hoover Institution and a Brady-Johnson distinguished fellow in grand strategy at Yale University. In his distinguished career of diplomatic service, Mr. Hill served as executive aide to Secretary of State George Shultz and special consultant on policy to the UN secretary-general. Previously, he was chief of staff of the State Department, deputy assistant secretary of state for Near Eastern affairs, and speechwriter to Secretary of State Henry Kissinger.

MEHDI KHALAJI is The Washington Institute's Next Generation fellow, focusing on the role of politics among Shiite clerics in Iran and Iraq. A Shiite theologian by training, he has served on the editorial boards of two prominent Iranian periodicals and is currently completing a doctorate in Shiite theology and exegesis from the Sorbonne in Paris. In addition, he has worked for the BBC's Persian Service and produced for the Prague-based Radio Farda, the Persian-language service of the U.S. government's Radio Free Europe/Radio Liberty. He is the author of two Washington Institute papers, *Through the Veil: The Role of Broadcasting in U.S. Public Diplomacy toward Iranians* (2007) and *The Last Marja: Sistani and the End of Traditional Religious Authority in Shiism* (2006).

ROBERT KIMMITT is deputy secretary of the treasury. Mr. Kimmitt has enjoyed a long and distinguished career in government, including service as U.S. ambassador to Germany, undersecretary of state for political affairs, general counsel to the Treasury Department, and executive secretary and general counsel to the National Security Council. Prior to his current appointment, he served as chairman of Time Warner Inc.'s International Advisory Council and also as that company's executive vice president for global and strategic policy.

DAVID MAKOVSKY is a senior fellow and director of the Project on the Middle East Peace Process at The Washington Institute. He has written widely on Arab-Israeli relations and is co-author, most recently, of the Washington Institute Policy Focus *Lessons and Implications of the Israel-Hizballah War: A Preliminary Assessment* (with Jeffrey White, 2006). Mr. Makovsky also serves as an adjunct lecturer on Middle Eastern studies at the Johns Hopkins University's Paul H. Nitze School of Advanced International Studies (SAIS).

SHIMON PERES is vice prime minister of Israel and a member of Knesset from the Kadima Party. A former prime minister, defense minister, and foreign minister, he has played a central role in the political life of Israel for more than half a century and was awarded the Nobel Peace Prize in 1994.

DENNIS ROSS is counselor and Ziegler distinguished fellow at The Washington Institute. He served as special Middle East coordinator in the Clinton administration, director of the State Department's Policy Planning Staff in the George H. W. Bush administration, and director for Near East and South Asian affairs on the National Security Council in the Reagan administration. He is author of *The Missing Peace: The Inside Story of the Fight for Middle East Peace* (2004) and the forthcoming *Statecraft: And How to Restore America's Standing in the World*.

2007 SOREF SYMPOSIUM



The Role of Finance in Combating National Security Threats

The Role of Finance in Combating National Security Threats

Robert Kimmitt

EDITED TRANSCRIPT

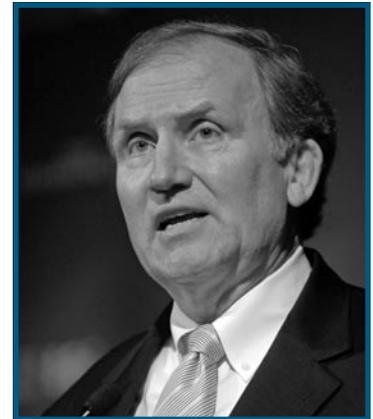
I WOULD LIKE TO DISCUSS with you tonight the new and important role of the Treasury Department in combating national security threats. It is hard to imagine that we would have had a conversation like this when The Washington Institute held its first Soref Symposium event in 1988. It is only in recent years that the challenges of counterterrorism and counterproliferation have moved beyond the traditional province of foreign affairs, defense, intelligence, and law enforcement. Treasury and other finance ministries around the globe have evolved since September 11, and the world of finance now plays a critical role in combating international security threats.

TREASURY TRANSFORMED

In this new era, the Treasury Department is uniquely positioned to help address threats to global peace and security. This evening, I will outline how we have transformed our department in order to detect, disrupt, and, where possible, dismantle illicit financial networks. The Treasury Department has drawn upon its full range of authorities to target state sponsors of terrorism and weapons of mass destruction (WMD) proliferation, in particular the Iranian regime, and we have coupled these domestic actions with coordinated multilateral efforts and engagement of the international financial community.

Our strategy today is notably different than it was during my first tour at the department in the 1980s, when I served as treasury general counsel during the second Reagan term. During those years, the Treasury Department was rarely involved in high-level National Security Council (NSC) discussions—at most, perhaps five or six times a year. Today, Treasury is represented at five or six NSC meetings a month, both on the positive side of our agenda—helping stand up the economy in Iraq, for example—and the punitive side, where we seek to constrain illicit conduct by Iran, North Korea, and others.

To discharge these important responsibilities, the department has developed new organizations and authorities to target key transnational



■ *Robert Kimmitt is deputy secretary of the treasury. Previously, he served as U.S. ambassador to Germany, undersecretary of state for political affairs, and executive secretary and general counsel to the National Security Council.*

“The world of finance now plays a critical role in combating international security threats.”

security threats. In 2003, Treasury created a specific office dedicated to targeting the financial underpinnings of terrorism. The founding of this office marked the beginning of a transformation within the department to leverage existing capabilities to safeguard the financial sector from corrupt activity and play a more strategic role in combating terrorism. The following year, congressional and executive action expanded this effort by creating the Office of Terrorism and Financial Intelligence, or “TFI” for short. TFI’s mission is groundbreaking: it enhances the role of Treasury beyond pure economic and financial matters to include the development of innovative means to combat asymmetric, borderless threats. One of the clearest examples of this innovation at the department is the creation of an in-house intelligence analysis office to bring the knowledge of the intelligence community to bear on the evolving threat of illicit finance. This office, the first of its kind in the world, helps Treasury enhance national capabilities by enabling our analysis of financial networks and infrastructure to be disseminated throughout the intelligence community.

With these expanded capabilities, the Treasury Department is uniquely equipped to address threats to our national security with a wide range of domestic legal authorities. Some of our tools are defensive measures, such as Section 311 of the USA PATRIOT Act, which authorizes Treasury to designate as a primary money laundering concern either a foreign jurisdiction, financial institution, type of account, or class of transaction. Section 311 enables Treasury to impose a range of special measures that U.S. financial institutions must take to protect against illicit financing risks associated with the designated target, including cutting the entity off from the U.S. financial system. Other authorities, such as the International Emergency Economic Powers Act (IEEPA)—which I will discuss further—are more offensive in nature. These authorities are mutually reinforcing: we use both our offensive and defensive authorities to enhance and protect the ability of governments and the private sector to combat threats to the international financial system.

We have also led the effort in the international community to combat illicit financial activity. The Treasury Department’s Office of Terrorism and Financial Intelligence leads the U.S. delegation to the Financial Action Task Force (FATF), a key international organization through which finance ministries, central banks, and regulators meet frequently to share information and best practices and to set global standards for combating terrorism financing and money laundering. FATF works to establish standards to counter illicit financial conduct within the international community, and these standards—which have also been incorporated into the programs of the World Bank and the International Monetary Fund (IMF)—aid countries in developing their own specific anti-money laundering and counter-terrorism financing laws and regulations.

Through FATF’s working groups and regional bodies—which include more than 150 countries—TFI’s typologies have spurred the creation of

new guidance materials and best practices that outline methods for countries to implement counter-terrorism financing and anti-money laundering standards. For example, the United States led international efforts to examine the abuse of nonprofit organizations for terrorism financing purposes, and launched a study regarding the use of cash couriers as a means for moving funds in support of terrorism and other illicit activities. This study led to concrete actions by countries around the world to address the implementation of disclosure and declaration requirements for moving cash across borders.

We also led efforts within FATF to address WMD proliferation by creating a mechanism to target proliferation finance and develop authorities to isolate WMD proliferators and their support networks. Through these efforts, we have worked to broaden the scope of traditional financial regulation to include law enforcement, intelligence, and policy coordination. This multifaceted approach to financial crime creates a broad impact and has resulted in broader adoption of FATF standards—effectively enhancing counterterrorism efforts around the world.

The issue of countering terrorism and proliferation finance is also now firmly on the agenda of other international organizations such as the United Nations and the European Union. At the UN, nearly every Security Council resolution that has been passed since September 11—including all those designed to counter WMD proliferation and terrorism—contains financial provisions, from obligating states to perform enhanced scrutiny of financial transactions to the freezing of assets. In addition to the World Bank and IMF, other major international financial and economic forums, including the G-7, G-8, and Asia-Pacific Economic Cooperation (APEC), are also examining these issues. The G-20, an increasingly influential group of countries that includes China, India, Brazil, Australia, Turkey, Saudi Arabia, South Africa, and Mexico, has also become more involved in combating illicit finance.

With strengthened domestic authorities and increased international action, the United States is now much better equipped to address the threats facing a globalized world. The question then remains—how do we use these tools most effectively? When we consider the best use of sanctions, many of us remember all too well Cold War-era sanctions, which often put only moderate pressure on the Soviet Union but resulted in increased tensions in transatlantic relationships. In fact, in 1983, one committee of academics, business leaders, and opinion makers described American economic sanctions against the Soviet Union in this manner: “Two things are of significance above all others: one, they haven’t worked; two, they can’t work.”

To avoid past problems and increase effectiveness, we have developed a smarter, more focused sanctions approach. Specifically, the United States has worked to apply targeted financial pressure to isolate individuals, entities, and regime elements engaged in illicit finance in support

“WMD networks tend to have commercial presences around the world that make them vulnerable.”

“The prospect of an Iranian nuclear bomb is unacceptable, not just to the United States but to the entire world.”

of terrorism or WMD proliferation. These financial measures are aimed not at countries in general, but at specific conduct. Applying effective financial sanctions requires careful economic, legal, and policy analysis to ensure that the measures are calibrated to meet their goals and minimize unintended consequences. The objectives for these measures are to isolate the target and induce it to abandon harmful policies or practices. As *Washington Post* columnist David Ignatius aptly put it, “These new, targeted financial measures are to traditional sanctions what Super Glue is to Elmer’s Glue-All.”

Some of these targeted measures require financial institutions to freeze funds and close the accounts of designated actors, effectively denying these actors access to the traditional financial system. Other measures impose bans on travel or arms transfers, serving to isolate the target. These kinds of measures have several advantages over broad-based sanctions programs. Most important, instead of designating an entire country, they single out those responsible for supporting terrorism, proliferation, and other criminal activities, and such targeted measures are more likely to be accepted by a wider number of international actors and governments.

IRAN

The Washington Institute has continued its excellent, incisive work on the Iranian regime, including during this symposium. The title of your event is precisely correct—the prospect of an Iranian nuclear bomb is unacceptable, not just to the United States but to the entire world community, as evidenced by two unanimously adopted UN Security Council resolutions requiring the Iranian government to cease uranium enrichment. Iran’s unrelenting pursuit of a nuclear weapons capability, combined with its continued provision of financial and material support to terrorist groups, makes the possibility of a nuclear-armed Iran a direct and dangerous threat to the international community.

To address the Iranian threat through deterrence and prevention, the United States has employed a twofold sanctions strategy: utilizing domestic authorities and engaging in international outreach. First, under the IEEPA, which provides broad statutory authority to respond to threats, the president issued Executive Order (EO) 13382 in 2005. This order authorizes the Treasury and State Departments to target key nodes of WMD and missile proliferation networks, including their suppliers and financiers, in the same way we target terrorists and their supporters. A designation under EO 13382 denies the targeted entities access to the U.S. financial and commercial systems and puts the international community on notice about the threat posed to global security. These prohibitions have a powerful effect, as the suppliers, financiers, transporters, and other facilitators of WMD networks tend to have commercial presences and accounts around the world that make them vulnerable to exactly this kind of financial action.

The United States designated the Iranian state-owned Bank Sepah under EO 13382 for providing financial services to Iran's missile program, and this action has had a significant impact. Like other Iranian banks, Sepah engages in a range of deceptive practices in an effort to avoid detection, including requesting other financial institutions to conceal the Sepah name when processing its transactions in the international financial system. Additionally, Bank Sepah has facilitated business between North Korea's chief ballistic missile-related exporter, KOMID, and Iran's Aerospace Industries Organization. KOMID, which has also been designated by the Treasury Department under EO 13382, is known to have provided Iran with missile technology. By cutting off Sepah from the U.S. financial system, we have commercially isolated the institution and made it more difficult for Iran to finance its proliferation-related activities.

Second, we have worked through the international community to build upon our domestic actions. We are most effective when we proceed multilaterally, either with a coalition or with the consensus of the United Nations. Our multilateral efforts have yielded critical success in the fight against proliferation financing, and a key example is the unanimous adoption last month of UN Security Council Resolution 1747, which reaffirms and expands Security Council Resolution 1737 of December 2006. These resolutions target Iran's nuclear and missile programs and, among other requirements, obligate states to freeze the assets of named entities and individuals associated with those programs. Significantly, Bank Sepah was among these entities. The United States has worked with governments and financial institutions around the world to implement the common obligation to freeze the assets and economic resources of all listed entities and individuals, including Bank Sepah and Bank Sepah International.

We have worked closely with our fellow finance ministries and central banks abroad to build consensus on these financial measures, and the effect has been striking: international partners who originally resisted the idea of applying sanctions on Iran have reversed this position and now support pressuring the regime to renounce its support for WMD proliferation and to comply with its international obligations.

This is especially significant because we believe that segments of Iranian society beyond President Mahmoud Ahmadinezhad and the Islamic Revolutionary Guard Corps—including the mullahs, their merchant class backers, and liberalizing forces—understand the high costs of the country's increasing isolation and the need to change its behavior.

ENGAGING THE FINANCIAL COMMUNITY

Our multilateral action to change Iran's behavior is not confined to governments, however. We have engaged in unprecedented outreach to the international private sector, meeting with more than forty banks around the world to share information and discuss the risks of doing business with Iran. We exchange common interests and objectives with the financial

“Instead of designating an entire country, new targeted measures single out those responsible for criminal activities.”

community when it comes to dealing with threats. Financial institutions want to identify and avoid dangerous or risky customers who could harm their reputations and business, and governments want to isolate those same actors and prevent them from abusing the financial system.

We are seeing concrete benefits through this partnership. We have learned that the Swiss bank UBS cut off all dealings with Iran, and Credit Suisse and HSBC have also significantly limited their exposure to Iranian business. A number of other foreign banks are refusing to issue new letters of credit to Iranian businesses. According to the banks, these were business decisions, pure and simple—handling Iran’s accounts was no longer good business. Multinational corporations have also held back from investing in Iran, including limiting investment in Iran’s oil field development.

Further, in a move demonstrating that Iran is feeling the effects of financial isolation, the Iranian government filed a complaint with the IMF—subsequently denied—that U.S. action against Bank Saderat, an Iranian state-owned institution, constituted a foreign exchange restriction.

And last year the Organization for Economic Cooperation and Development (OECD) raised the risk rating of Iran, reflecting this shift in perceptions and indicating its sense of the inherent risk in doing business with Iran. Governments should not subsidize via export credit programs the country risk created by Iran’s illicit behavior. The good news is we have seen a sharp decrease in export credits from countries such as Germany, France, and Japan. We expect that the OECD’s higher risk rating will contribute to a continued downward trend in export credits to Iran.

In addition, Iran recently announced that it has reallocated its foreign reserves out of dollars. This raises the important point that while a growing number of banks have cut off Iranian business in dollars, they have not yet done so in other currencies. Regardless of the currency, the core risk with Iranian business remains the same: when dealing with Iran it is almost impossible to “know your customer.” Since banks cannot be certain that parties are not involved in illicit activity—and such conduct is not limited to one currency—scaling back dollar business reduces the problem but does not eliminate it.

In spite of our various successes, some have asked if further measures should be considered to increase pressure on Iran. Members of Congress are considering a number of legislative options, including application of U.S. sanctions to the business activities of foreign subsidiaries of American companies; mandatory divestment from companies doing business with Iran; and having the government “name and shame” firms—both domestic and foreign—that do business with Iran. While these proposals are certainly well intended, they could have significant counterproductive policy implications. Our shared goal is to pressure the Iranian regime to change its behavior, and the best way to achieve this objective is to keep the focus on illicit conduct and maintain as broad an international coalition as

“According to several foreign banks, handling Iran’s accounts is no longer good business.”

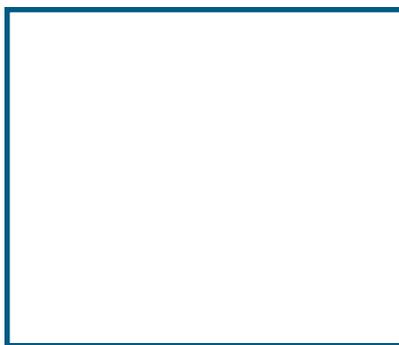
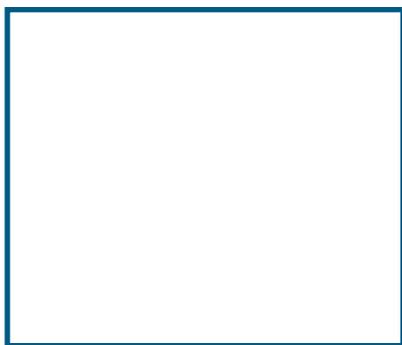
possible. Yet many of these proposed measures may be seen by our allies as extraterritorial U.S. government action and could affect our ability to obtain their cooperation on mutual action with respect to Iran.

You might recall the history of this debate. In the 1990s, for example, we were concerned about the commitment of our allies to put pressure on Iran through the imposition of sanctions. The European Union, in turn, argued that some measures under consideration were an inappropriate extension of U.S. law. In recent years, as discussed earlier, our economic sanctions strategy has evolved into a more targeted and conduct-based approach. Along with our international outreach, this has helped to build a coalition of partners with a shared goal of putting as much pressure as possible on the Iranian regime to change its behavior. As Mike Jacobson pointed out in a recent Washington Institute PolicyWatch, our economic sanctions against Iran are intended to engage, not confront, our allies. We must be careful not to turn this successful effort into a debate that would engender transatlantic friction and turn the focus away from Iran's illicit conduct. Sanctions have the most comprehensive impact when applied cooperatively and collectively.

In closing, let me make clear that the Treasury Department's objective is to employ the most effective methods to dissuade the financing of dangerous activities, and especially Iran's nuclear ambitions. After thirty years of experience in national security policy, I have come to the conclusion that the most effective sanctions meet the following criteria: they are carefully targeted at illicit conduct; they are multilateral in scope; and they engage financial and business institutions as well as foreign governments. Any additional sanctions proposals should be judged against these criteria to ensure maximum effectiveness in deterring Iran's dangerous behavior. We look forward to continuing to work with all who support this goal, including The Washington Institute.

“Governments should not subsidize the risk created by Iran’s illicit behavior.”

2007 SOREF SYMPOSIUM



Special Address by Israeli Vice Prime Minister Shimon Peres

Special Address by the Vice Prime Minister of Israel

Shimon Peres

EDITED TRANSCRIPT

THE FOLLOWING ARE *edited extracts from an exclusive on-camera interview with Israeli vice prime minister Shimon Peres, conducted by David Makovsky, director of The Washington Institute's Project on the Middle East Peace Process. The interview was broadcast to participants at the Soref Symposium.*

Q: Can Israel live with an Iranian nuclear bomb?

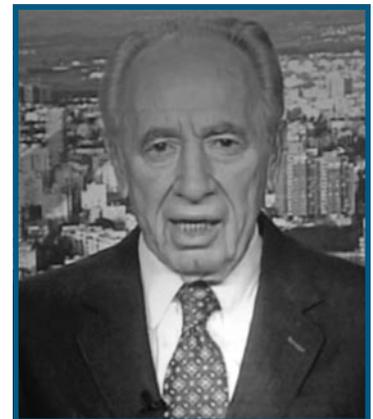
Peres: If the Iranians continue to do three things simultaneously—develop nuclear weapons, be a center of terror, and be fanatical in their ambition to run the entire Middle East—eventually the three will mix and nuclear bombs may fall into the irresponsible hands of terrorists. Then it will be a problem for the rest of the world. The world cannot live with terrorists obtaining nuclear capacity, and sooner or later the world will take action. However, I do not believe that Israel has to be a volunteer or pioneer in that endeavor.

What are the regional consequences for Israel if the United States decides to leave Iraq?

The war did not start because of Israel, and I am not sure that its aftermath will affect Israel much. It will be more of a problem for the Arab world if Iraq disintegrates and becomes three different entities. That would cause great problems for the Arab world, for Turkey, for Iran, and for Syria. There are many other confrontations in the Middle East that do not have any effect on Israel, such as conflicts in Algeria, Sudan, Somalia, and elsewhere. Not every conflict in the Middle East begins with Israel or relates to Israel. So there is very little that we have to do in the case of Iraq.

Do you think there is potential for war with Syria? Or, alternatively, do you believe it is important to open up a channel of communication and perhaps work toward peace with Damascus in the near term?

Eventually there must be a channel of communication with the Syrians, but right now there are other burning problems on the agenda. Number



■ *Shimon Peres, vice prime minister of Israel, has played a central role in the country's political life for more than half a century. He was awarded the Nobel Peace Prize in 1994.*

Sooner or later
the world will
take action
on Iran, but
Israel does
not have to be
a pioneer in
that endeavor.

one is the future of Lebanon. Will Prime Minister Fouad Siniora remain and hold Lebanon together as a more or less democratic, pluralistic country? Or will Hizballah topple him? Currently, Syria is supporting Hizballah with weapons and money. How can one then talk about peace? Also, the United States has several serious demands concerning Syria's involvement in Iraq. We will not move without the United States—we have to work together. I believe this is vital for the balance of power and the process of peace.

How would you stop the flow of arms from Syria to Lebanon?

There is no need to create another UN resolution—rather, there is a need to implement the existing resolution. There is a strong UN force presence in Lebanon, and it need only go a bit deeper to stop the flow of arms. Hizballah came out of the last war completely defeated, in my judgment—not in terms of the story of the war, but in the results. Hassan Nasrallah is so logical about Israel that we do not understand why he is not equally logical about Hizballah. That is, he “praises” Israel for trying to draw a lesson from the war, but he could stand to draw some lessons of his own. What did he achieve with this war besides blood, disappointment, and tragedies? Why did he go to war in the first place?

In your view, what is the role of potential engagement between Israel and the Arab League?

I believe we have to try and move on three parallel but disconnected tracks at the same time. First is negotiations with the Palestinians. We agreed to the creation of a Palestinian state, to handing over most of the West Bank, and we could have made peace. However, Palestinians are divided between Hamas and Fatah, and Hamas has not allowed Fatah to move. Nevertheless, we have to continue and avoid putting this track on hold.

Second, there is the original Arab-Israeli track. Whether it is the Saudis or the Arab League, we are ready to sit with them. The problem is that the Arab League has to decide unanimously, and many members will not agree to negotiate with us because they do not recognize the state of Israel.

Third, and perhaps most promising of all, is the economic track. Politics is about borders, and it is very difficult to conclude negotiations about borders in the current atmosphere. Economics, however, is about relations. Europe did not change its borders, it changed its relations. As a result, we now have a united Europe, which is totally different from the Europe that existed throughout the previous thousand years.

What is the way forward for Kadima as a party?

You don't run a government by polls. You read the polls, but they are not the deciding factor. The fact is that the coalition headed by Kadima has a very impressive majority in the parliament, including three or four no-confidence slots in which I believe the result was 60 against 8. I don't think

anybody wants elections, especially given Kadima's majority. Those are the facts that should guide our behavior.

Did you think the Winograd Report was fair to the government?

This is a nice aspect of Israeli culture. Once we have a war, no matter whether we win or we lose, we have an investigating committee. We like that—it is not so bad to go over all the events and see where mistakes were made. I don't know of any war that has proceeded without mistakes. War itself is a great mistake, but it's a mistake that produces more mistakes. In any war you investigate, you will inevitably be shocked by the number of mistakes made. War is a competition of mistakes—those who make the fewest win.

It is also very strange that the government appointed an investigating committee to investigate the government itself, knowing full well that the verdict would not be very complimentary. Perhaps that is part of democracy; I don't believe it is a failure of democracy, in any case. I believe the process is fair—an example of a free country judging itself.

If you had to give Secretary of State Condoleezza Rice advice regarding the Israeli-Palestinian political horizon, what would you tell her?

First of all, I very much appreciate her recent visit to the Middle East. It helped maintain hope for peace under disappointing conditions, and that is something. Sometimes maintenance is a form of advancement, a form of progress.

We shouldn't let the Palestinian dialogue stop. We have to keep an attentive ear to what the Saudis and the Arab League are saying. It's not yet an orchestra, but it's new music in the Middle East. Over the past 100 years, we have never heard important Arab leaders like the king of Saudi Arabia say that the time for a strategy of war is over, and the time for a strategy of peace has come.

The most promising track for Arab-Israeli engagement is the economic track.



Understanding Iranian Intentions and Capabilities

Understanding Iranian Intentions and Capabilities

Mehdi Khalaji, Sami al-Faraj, and Neil Crompton

SUMMARY

MEHDI KHALAJI

IT IS COMMON PRACTICE to divide Iran's decisionmaking apparatus into two parts: decisions made by the elected part of the government and decisions made by nonelected authorities. The elected part has always been the focus of Western hopes, as it was with the elections of Ali Akbar Rafsanjani and Mohammed Khatami as president in 1989 and 1997, respectively. Rafsanjani ran on promises of economic reform; Khatami, of political reform. But the 2005 election of President Mahmoud Ahmedinezhad, who ran on an ambitious religious agenda, made the West anxious.

However, the core of Iran's decisionmaking process is the nonelected part of the regime—more specifically, Supreme Leader Ali Khamenei, who has the final word on both internal and diplomatic issues. For the last ten years, the West has paid too little attention to Khamenei, relying instead on the elected part of government—especially its diplomats—to open negotiation channels with Iran. To date, this method has failed. Khamenei does not tolerate independent contact between diplomats and Westerners. He sees himself as the final decisionmaker.

Khamenei's religiosity must be understood—namely, the extent to which religiosity plays a role in his decisionmaking. Khamenei is a politician first, an ayatollah second. He is the state's supreme leader and commander-in-chief of the armed forces. He is not motivated by religion; rather, he justifies his political decisions with religious arguments. For Khamenei, the Islamic texts are open to interpretation and theology is a product of society. Some of the implications of this fact are disturbing. For instance, Khamenei has announced that weapons of mass destruction (WMD) are prohibited by Islam. But this could change: what is outlawed can be made legal again by reinterpretation. In principle, there are no fixed principles.

Khamenei is the final decisionmaker in Iran. This means that Ahmedinezhad is not especially influential, though he has some say. Khamenei holds his position for life, and he has an inflexible personality. Yet he is pragmatic. He thinks of the survival of the regime above all else. Khamenei



■ *Mehdi Khalaji is The Washington Institute's Next Generation fellow. A Shiite theologian by training, he is the author of the recent Institute paper *Through the Veil: The Role of Broadcasting in U.S. Public Diplomacy toward Iranians* (2007).*

nei is ready to override *sharia* (Islamic religious law) if the interests of the regime are threatened; indeed, the regime's founder, Ruhollah Khomeini, stated flatly that any principle of Islam could be set aside if necessary to preserve the Islamic Republic. Khamenei is ready to compromise about God's existence if necessary for the security of the regime.

SAMI AL-FARAJ

KUWAIT HAS MUCH EXPERIENCE with attacks from Iran's Islamic regime. Few in the West recall that Iran hit Kuwaiti and Saudi oil tankers in the tanker crisis of 1986–1987, during the Iran-Iraq War. Iran could repeat this tactic in another crisis. Iran has a history of using terrorism against Kuwait, including sponsoring attacks on important buildings in Kuwait during the 1980s. Given this history, Iranian capabilities and intentions are taken very seriously around the Gulf.

Iran's intentions toward its neighbors in the Persian Gulf are to spread its model of government—namely, an Islamic republic, rather than a traditional or constitutional monarchy—and to change the balance of power in Iran's favor. In addition, Iran has terrorist and guerrilla cells operating in Iraq and inflicting damage on U.S. forces there. These Iranian-sponsored cells are similar to those that long inflicted damage on the Israeli army in southern Lebanon. Kuwait is home to at least 65,000 Iranian expatriates, so secret Iranian cells could very well be working in Kuwait City.

Kuwait City falls within the range of the shortest and most outdated missiles in Tehran's arsenal. Kuwait's population is highly concentrated, living on only 12 percent of the country's already small territory. American forces in Kuwait are making use of two-thirds of the country's land; those forces could be a prime target for Iranian attack in a crisis, which would bring Kuwait into the conflict from the beginning.

Furthermore, the Gulf is a closed sea where environmental factors are important. The Gulf's currents flow counterclockwise. In case of a nuclear accident at Iran's Bushehr nuclear plant, southern Iraq and the whole of Kuwait City, including all of Kuwait's six desalination plants, will be in danger. Iran refuses to provide any information on what it is doing; therefore Kuwait has no way to control what is coming from the Iranian side. Even aside from the technical competence of the Iranian nuclear program, the region in question is prone to damaging earthquakes. Any Iranian nuclear accident would endanger three million people in Kuwait, two million of whom are expatriates who speak 128 languages. It would be a very complicated task to warn the population in the event of an emergency.

Because of the 2006 Lebanon war and the attempt by Iran to change the balance of power in the region, there has in practice been a rapprochement between Israel and the Gulf Cooperation Council countries (Saudi Arabia, Kuwait, the United Arab Emirates, Bahrain, Oman, and Qatar), Egypt, and Jordan. The Iranian threat is not theoretical but actual for its neighbors in the region. This is why it is necessary to plan for the worst-



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case scenario. The Lebanon war was a wakeup call that it may not be possible to stop Iran without some type of coercive response. The United States needs to demonstrate that it will use force as a last resort if Iran does not accept the conditions laid out in the framework of negotiations about Iran's nuclear program.

NEIL CROMPTON

FROM THE BRITISH PERSPECTIVE, Iran is the single biggest foreign policy challenge of the next few years. The stakes are very high if Iran were to acquire nuclear-weapons capability. A WMD arms race in the Middle East could cause irreparable damage to the Non-Proliferation Treaty and the idea of a rules-based nonproliferation system. It would also cause significant damage to the authority and credibility of the UN Security Council.

Iran's nuclear aspirations are a great challenge to the West. But Iran does not want to be seen as a pariah state and does not want to be isolated. This means that international censure is an effective point of leverage with Iran.

It is not necessarily clear that there are distinctions between the pragmatists and the ideologues of the regime in terms of the nuclear program. But the pragmatists are more concerned about what that policy might mean for Iran's longer-term survival, and so they are open to persuasion. To persuade Iran to change course, the West needs to convince a number of Iranian constituencies that the cost of pursuing their current nuclear policy is too high. This can be done by offering the pragmatists a way out with a face-saving negotiated solution.

Ahmadinezhad today is in a worse position than six months ago. Diplomatically, the adoption of UN Security Council Resolution 1737 was a real shock to the regime in Tehran. The U.S.-led military operations against Iranian influence in Iraq and the deployment of an additional carrier battle group to the Persian Gulf have sent well-calibrated messages to the Iranian establishment. Ahmadinezhad's populist economic policies have caused considerable inflation and have not raised Iran's low average incomes. There is also a financial squeeze as Western banks pull out of Iran and western European governments reduce their export credit exposure.

The international community needs to stick with its two-track approach of offering Tehran incentives and penalties. International consensus is important and should be maintained with creative diplomacy. The international community should be prepared to apply further sanctions if necessary to persuade the Iranians to change course. But while the international community should be robust on substance, it should also be flexible in its approach to the Iranians. Channels of communication should remain open. The international community should keep testing Iran for its interest in doing a deal because that in turn influences the debate inside Iran.



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2007 SOREF SYMPOSIUM



Deterrence and Prevention as Strategic Concepts

Deterrence and Prevention as Strategic Concepts

Charles Hill, Kurt Campbell, and Michael Eisenstadt

SUMMARY

CHARLES HILL

THE AMERICAN STRATEGIC community is undergoing a conceptual crisis today. Unlike the Cold War era, with its well-defined notions of prevention and deterrence, the current environment is marked by non-state actors operating without a return address or the accompanying fear of mutually assured destruction. Therefore, deterrence may not be the sole or preferred solution to the Iranian impasse.

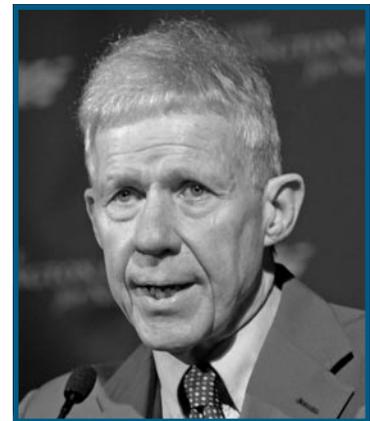
Preemption, although a necessary tool protected by the UN Charter, is widely considered a last-resort measure in the confrontation with Iran. In its place, prevention has shaped the U.S. discussion over how to deal with international crises—specifically, it is the approach Washington is relying on with regard to Iran and North Korea. Prevention was also the preferred U.S. strategy in the run-up to the war in Iraq. That approach entailed assembling a broad international coalition that would build on past UN Security Council resolutions in order to inflict greater pain on the Iraqi regime.

Ultimately, however, this Security Council “ladder approach” is inadequate for prevention because it depends on the concept of collective security, the centerpiece of the international system. Although collective security works in some cases, it has proven inadequate for confronting major international crises. This explains the U.S. decision to move unilaterally against Iraq. Prior to 2003, a coalition had been established to level sanctions against the Iraqi regime. When the time came to take action against Iraq, however, the international community was hesitant.

Taking action against Iran in the face of similar hesitancy would be detrimental to the United States. This fact highlights the ongoing erosion witnessed in traditional notions of collective security, deterrence, and prevention.

KURT CAMPBELL

THERE IS A TENDENCY to view concepts used during the Cold War nostalgically—to recall them as clear, durable, and easily applied.



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Although such certainty did not really exist during the conflict with the Soviet Union, some of the era's theories can still be usefully applied to the current strategic environment.

The central conundrum raised by Iran's activities is the fear that the regime would use nuclear weapons without provocation. Other concerns include the instability associated with countries that have recently acquired nuclear weapons; the prospect that Tehran would make nuclear technology or materials available to other actors, either deliberately or unknowingly; and the uncertain regional response to Iranian and North Korean nuclearization.

Notwithstanding bombastic comments from Iran's leadership and the difficulty of deciphering its rhetoric, the United States cannot risk underestimating the regime's intentions. Iran's ongoing activities, combined with the situation in Iraq, present the United States with enormous challenges in a worrisome strategic environment.

Indeed, the U.S. invasion of Iraq may be Washington's greatest foreign policy mistake in recent memory. Despite the significant domestic turmoil that resulted from Vietnam, for example, the United States was able to regain its strategic position in Asia within five years. This is unlikely to be the case in the Middle East, given the serious opportunity costs of the Iraq war. These costs include the alienation of allies who should be supporting the United States but do not, as well as the potential for U.S. military overreaction against Iran given the recent blunders in Iraq. The Iraq situation could also constrain Washington's ability to confront Tehran, which now has greater leverage than the United States on the Iraq issue.

In light of these problems, the next president will need to understand the limits of U.S. power and, perhaps, consider the Cold War concept of coexistence. Washington should also put forth a richer diplomatic effort toward Tehran, largely in order to foster division within Iran's ruling coalitions and provide the United States with additional openings. With Iran banking on being isolated and preparing itself accordingly, the United States should make every effort to show the international community that it is willing to explore all options. On a larger scale, the next president will face a new strategic environment dominated by two major issues: the growing trend of Islamic fundamentalism and the rise of China.

MICHAEL EISENSTADT

PREVENTION AND DETERRENCE are not mutually exclusive concepts. In the case of Iran, the benefits of prevention would likely be short-lived, making it a nonviable alternative to deterrence—the default option for dealing with a nuclear-armed adversary.

A prevention-based approach to the Iranian nuclear issue would entail acceptance of significant near-term risks, including the possibility that preventive action would not achieve its intended policy goal; the likelihood of retaliatory terrorist attacks that would kill hundreds, if not thousands;



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the potential disruption of oil shipments from the Persian Gulf; and the possibility that preventive measures would make a stable deterrent relationship more difficult to achieve.

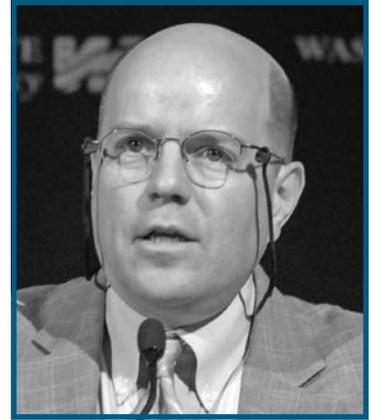
Moreover, simply implementing a prevention-based strategy would raise a number of challenges. On the domestic political front, the White House would most likely fail in any effort to obtain a joint resolution from Congress sanctioning preventive military action against Iran. Alternatively, if the president were to consult with only a few congressmen prior to an attack, public support for the action would likely be lost. Target intelligence is another challenge. Detailed, accurate intelligence is a *sine qua non* for preventive action, but the intelligence community's track record with regard to weapons of mass destruction is, at best, mixed.

Time is a critical factor in assessing prospects for successful prevention. For example, is the intelligence picture getting better or worse with the passage of time? Is there an optimal moment to strike Iran's nuclear facilities? The U.S. military also needs the right tools if it seeks to target buried, hardened facilities. Some have argued that such structures cannot be destroyed without resorting to nuclear weapons, but the military is currently testing a massive conventional penetrator that may be able to do the job.

As for deterrence, an approach based on that concept entails several deferred risks, including Iranian sharing of nuclear technology, the wider nuclearization of the region, and the possibility that a catastrophic deterrence failure could lead to the deaths of tens or hundreds of thousands. In this regard, it is instructive to look at the impact that nuclear weapons acquisition has had on the conduct of states in the past. According to one school of thought, such acquisition induces prudence and caution, with the Cold War serving as a prime example. But the Cuban Missile Crisis shows how close the nuclear superpowers were to all-out war, with luck playing a major role in defusing a potentially catastrophic situation.

Others maintain that acquiring nuclear weapons induces aggressive behavior and complicates deterrence. Such is the case with Pakistan—after testing a nuclear device in 1998, the country launched an attack on Indian-held Kashmir in 1999 and provided safe haven to militants responsible for attacking the Indian parliament in 2001. Indeed, deterrence cannot eliminate the potential for miscalculation by Iran's leadership. Given the tepid U.S. action against Iran in the past, the regime likely believes that it can get away with aggressive actions without incurring significant risks. This fact could lead Tehran to take reckless risks.

Overall, the risks and uncertainties associated with both prevention and deterrence suggest that the United States should redouble its efforts to achieve a diplomatic outcome to the Iranian nuclear situation. Otherwise, it will be left with unpalatable options that rely on military measures.



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2007 SOREF SYMPOSIUM



Israel after Winograd: Politics, Policy, and Prognostications

Israel after Winograd: Politics, Policy, and Prognostications

David Makovsky and Dennis Ross

SUMMARY

DAVID MAKOVSKY

SEVERAL IMPORTANT ISSUES have arisen in the wake of the recently released Winograd Report on the summer 2006 Israel-Hizballah war. The first and most pressing is Prime Minister Ehud Olmert's political survival, given the report's highly critical account of the war's origins and initial handling.

Olmert has chosen to stand his ground, refusing to resign despite the report's more negative contentions. His quest to remain Israel's leader has been influenced by several factors: his own political party (Kadima), the tides of public opinion, and the opposition party (Labor). Regarding Kadima, the party's bylaws were drawn up largely to protect its founder, Ariel Sharon, so no mechanism was drafted to oust a sitting leader. Therefore, Olmert did not have much difficulty quelling the Kadima mini-revolt that broke out in Winograd's wake. The prime minister was also unfazed by a mass public demonstration that occurred around the same time, given that his favorability rating was in the low single digits even before the report.

Public pressure will influence the Labor Party, however, and Olmert would be wise to pay heed to the opposition's actions, especially in light of upcoming primary elections. One of the two leading contenders for the top Labor post is Ami Ayalon, who has pledged not to remain in a government headed by Olmert. Yet that decision would probably not be his to make even if he is victorious against former prime minister Ehud Barak. Instead, it would be up to Labor's Central Committee, whose members may not wish to take a hard stance against Olmert given their traditional fear of the political unknown—specifically, the possibility that Labor's departure from the Olmert government could trigger new elections. Labor is fully aware that Likud leader Binyamin Netanyahu holds a large lead in the polls, and the party may therefore view early elections as a potential debacle of major proportions. Indeed, Olmert has frequently invoked the specter of Netanyahu's ascendancy in order to maintain coalition cohesion and his own survival.



■ *David Makovsky is director of The Washington Institute's Project on the Middle East Peace Process and an adjunct lecturer on Middle Eastern studies at the Johns Hopkins School of Advanced International Studies.*

In light of these factors, it is safe to assume that Olmert will weather the current crisis. All bets are off, however, if the second part of the Winograd Report—slated to cover topics that the first installment did not, namely, the weeks following the war's first few days—explicitly calls for Olmert's removal when it is released in the coming months. In that scenario, the prime minister could be forced out when the summer parliamentary recess concludes in October. The alternative of early elections could be as disastrous for Kadima as for Labor. A relatively new party, Kadima lacks the institutional and historical roots of its main rivals. Therefore, if it were forced into early elections without clear leadership, its prospects as a ruling party would likely be extinguished.

Apart from its potential political consequences, the Winograd Report sought to address the unsettled policy debate inside Israel regarding how to handle Hizballah provocations. Specifically, there are two ways to view the Israeli government's summer 2006 failures. The first school of thought argues that Israel failed to launch an effective military offensive to eliminate Hizballah as a force in southern Lebanon. The Winograd Report, however, sides with the second school of thought, which argues that victory in this sort of guerrilla warfare was unattainable from the start, given the lack of clear fronts. Instead, Israel needed to define more attainable objectives of retaliation for Hizballah attacks and kidnappings, with the military adjusting its strategy accordingly.



■ *Dennis Ross, The Washington Institute's counselor and Ziegler distinguished fellow, served as special Middle East coordinator in the Clinton administration and as director of the State Department's Policy Planning Staff in the George H. W. Bush administration.*

DENNIS ROSS

ONE OF THE MOST IMPORTANT outcomes of the Winograd Report was not so much a diagnosis of the Israeli government's specific strengths and weaknesses, but rather an overall criticism of its failure to establish an objectives-based decisionmaking system for situations like the conflict with Hizballah. In the run-up to the summer war, Prime Minister Olmert was under constant media barrage due to the upsurge in rocket attacks, kidnappings, and other deadly incidents carried out by both Hamas and Hizballah. This pressure, coupled with his staff's failure to counsel him otherwise, fueled the prime minister's fear of being perceived as a weak leader of a weak country and ultimately led him into war.

In examining the process by which Israel entered the war, then, one should not focus solely on whether the goal of utterly crippling Hizballah was achievable. The more glaring problem lies in the fact that the government set no clear objective for the war other than to show the people and the world that Israel was acting in the face of attacks.

At least two possible objectives could have been established for the conflict, both of which were already supported by leaders within the government. One objective might have been to punish Hizballah for its actions and use this retaliation as a warning to other hostile actors. Such a measure might have taken the form of a brief, targeted mission, which would have been relatively easy to execute because Hizballah was

already on the defensive in Lebanon. From a military standpoint, the mission would have aimed at affecting only Hizballah and its assets, not Lebanon's infrastructure.

Another possible objective could have been to clear Hizballah out of the area south of the Litani River, and then demand that an international force be deployed to enforce peace and stability in that area. Initially, Olmert chose not to pursue this objective due to the high financial costs and casualty rates associated with using ground forces.

Instead, because of its indecision, the government ended up pursuing a hodgepodge of all these objectives, entering the war with the goal of punishment, then attempting to push Hizballah out of the South, and then finally working to eliminate Hizballah's status as a state-within-a-state entirely. This constant shifting of objectives based on new developments highlighted Israel's lack of leadership during the war, and its need for a guiding governmental hand in the process. For example, the government should have tapped into the political aspects of the crisis by calling on the United States (its chief ally) and Saudi Arabia (a key regional critic of Hizballah) to marshal international pressure in its favor, among other things.

Viewed from another perspective, the real question raised by the Winograd process is not whether the government will implement the report's suggestions on correcting specific decisions. Rather, the real question is how Israel will reform the decisionmaking process at its roots, implementing more decisive responses to situations such as the rising tensions with Syrian forces at the Golan border, or the constant violence in Gaza. The latter situation has the potential to evolve into something similar to southern Lebanon during the lead-up to the Hizballah war. At present, if such an explosive situation were in fact to emerge in Gaza, the Israeli government would be in the same bind it faced last summer: strongly believing that it cannot afford to appear weak, but lacking the system necessary to establish clear objectives.

Olmert's challenge is to prove that he is up to the task of fixing the problem he created. Although giving him room to do so is a good idea in theory, it would be a major risk for Israel to take, given that the country is surrounded by real security threats in Syria, Lebanon, and Iran. Most important, the Israeli government believes that Iran will develop a nuclear weapon by 2008, and at this point, Israel is not capable of handling such a threat. This pressure to act decisively may be the determining factor in the prime minister's survival.

Olmert will also likely attempt to make himself an indispensable figure on the Palestinian peace front. If that proves true, two factors need to be considered. First, Israel cannot expect an "all-prize, no-penalty" approach during peace negotiations. Second, the results of the Labor Party primary election will have a major effect on Israel's orientation. If Ehud Barak wins, then Israel will most likely move to the Syrian political track. If Ami Ayalon wins, however, his interests will likely take precedence—namely,

The real question raised by Winograd is how Israel will reform the decisionmaking process at its roots.

focusing on the Palestinian issue and examining the reality of a two-headed government run by Hamas and Fatah. Regardless of that election, the most important task for Olmert's government is to put its own objectives under intense scrutiny.

In Washington, the administration is currently divided on how to treat the vulnerable Israeli government. The State Department wants to push the Israelis harder, while the White House views the government's present condition as a paralyzing weakness. The State Department is winning that debate at the moment, but it needs the support of both Israel and Arab states, and ultimately the White House.

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