



Iran Remembers “Made in USA” What if Sanctions were Suspended or Eliminated?

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A senior Iranian banker in Tehran reminisced in late May about the close pre - 1979 US/Iranian relationship when US business was Iran’s leading trade and investment partner followed by Germany and Japan. Today, China has over 20,000 representatives and technicians resident in Iran and overwhelmingly holds that lead position followed by Russia and Turkey. Chinese/Iranian two-way trade was \$50 billion in 2013 while EU, Japanese and US trade was negligible in comparison. According to the banker, the label “Made in USA” is still associated in Iran with quality, innovation and after-sales response, which businesses could count on for long term planning. The Chinese are viewed as too opportunistic and lack the quality products and services that Iran needs to address its safety, environmental, technology and health issues.

Iran’s economy today reminds one of Turkey’s economy two decades ago except that Iran sits on the world’s largest natural gas and 4th largest oil reserves. It has a much more educated population than Turkey with particular strengths in engineering and science and strong English speaking skills. Women last year represented over half of Iran’s 700,000 university graduates and are playing an increasingly important role in the economy.

Iran is facing many challenges. Economic mismanagement, environmental degradation, the legacy offensive rhetoric towards the West by Ahmadi-Nejad and a less than transparent nuclear program over the past decade lead the list. The economy has been seriously affected by the sanctions, inflation is officially 30% and the currency has depreciated by over 40% in the past two years. The sanctions have hit the general public and the independent private business sector hard but ironically they have enhanced the monopoly positions of the old guard represented by state corporations and businesses favored by the Iranian Revolutionary Guards who control the borders for smuggling. The old guard offers a limited number of patronage jobs to loyal followers and its companies are not well managed.

The dilemma which the Supreme Leader faces is the need for new quality jobs for the post Iran-Iraq War generation who are well educated, connected to the outside world through social networks, do not think like their more conservative parents

and are looking to become more engaged in the global world. New private enterprise is producing much-needed quality jobs for Iran and the global economy. This new young generation sees US companies like Apple, Google and Facebook as role models.

How are sanctions helping US business today? The Iranian sanctions have played an important but not the only role in getting the Rouhani Government, elected one year ago, to negotiate seriously with the P5+1 on the Iranian nuclear program. Substantial new trade and investment opportunities are opening up in such industries as oil & gas, mining, medical, agriculture, technology, transport vehicles, infrastructure, environment, energy efficiency, consulting and consumer products. For instance, in aviation, Iran needs to purchase 30 new aircraft immediately and is likely to purchase 40 new aircraft per year for the next ten years. European and Asian businessmen, frequent visitors to Iran, are now assessing these opportunities but American businessmen are noticeable by their absence.

The potential is there for a game-changing economic turn-around and the new Rouhani-led government has many professionals in critical roles who have been through higher education programs in the US and Europe. Iran is already 70% urbanized and the cluster effect is underway. As an example, there are 31 technology incubators with many linked to Iran's universities. Last month an American-led group of technology entrepreneurs and investors spent 10 days visiting five Iranian cities and were surprised to find the high quality and experience in young Iranian start-up technology companies. Iranians feel they can play an important role in the knowledge economy.

Despite the tension between the technocrats in the new Rouhani government and the old guard associated with the previous Ahmadi-Nejad government, Iran is one of the most stable governments in the Middle East. It has wide direct regional influence in countries like Afghanistan, Pakistan, Iraq, Syria and Lebanon and indirect influence in many others. At the same time it is caught in an unwinnable war in Syria and deeply involved in dysfunctional Iraq. But it could replace Turkey, which is backtracking on the rule of law, as an example of an Islamic democracy with a pro-business focus and a growing economy.

European companies, particularly German and French, were able to establish strong business relationships in Iran until sanctions were tightened by the EU, US and UN several years ago. However, with the prospect of a P5+1/Iranian agreement on the nuclear program, European companies have been reestablishing

their Iranian commercial contacts in preparation for a possible agreement. US companies have essentially stayed away from Iran in part due to the confusion on what contact with Iranian business is permitted by US businesses under the US sanctions. US businesses now risk being left behind their European and Japanese competitors in this new potentially fast growing market as Iran reenters the global economy. The “Made in USA” label helps but US businesses will be looking at a more competitive Iranian market than the one it dominated four decades ago. Now is the time for US business to prepare for a possible successful conclusion of the P5+1/ Iranian nuclear negotiations.

Arthur Sculley, Advisory Council, Network 20/20 June 4, 2014



**Iran's Next Green Revolution:
Turning Catastrophe into Cooperation**

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Iran is facing an unprecedented environmental crisis, with dwindling water resources, rapid desertification, and pollution that chokes its cities. This problem, if left unchecked, threatens not only Iran, but also the stability of the region and U.S. interests therein. This past May, representatives from Iran's Department of Environment recommended areas where they would like to work with experts from the United States on mitigating these environmental threats.

From May 23 to May 31, 2014, a delegation of half-a-dozen members from Network 20/20, an American NGO with ten years of experience building bridges with Iranian counterparts, visited Tehran and Esfahan for a series of meetings on topics of mutual interest arranged through the Foreign Ministry's think tank, the Institute for Political and International Studies (IPIS). The purpose of the trip was to better understand Iran's strategic priorities and identify potential areas for collaboration between Iran and the United States. The delegation's meeting with a large team from the Department of Environment underscored the gravity of Iran's environmental threat and the seriousness with which the Iranians are approaching it. Environmental security is national security, more important than foreign threats or domestic issues, as it affects food security, domestic stability, and economic growth. The severity of the challenges is reflected in the placement of the Department of the Environment ahead of most of the twenty ministries in Iran in status.

During the course of the meeting, the representatives of the Department of the Environment pointed to areas where they would like Network 20/20 to facilitate exchanges within the next six months among a small group of experts from the U.S. and their Iranian counterparts. Specifically, they asked Network 20/20 to foster exchanges between young Iranian and American environmentalists and climate change scientists with a focus on developing Iran's green economy, from improving technology, to strengthening civil society, to instating economic solutions to resource problems. They want support in developing viable paths forward and, in President Rouhani's words, were "...reaching out to innovators and NGO's for solutions based on new technology."

Many Iranians see a clear link between enhancing “human security,” – with its focus on people and the climate they live in – as the key to social development and its corollaries: public health, human rights, the rule of law, and economic development. A U.S.- Iran initiative addressing Iranian environmental threats can be an important step in aiding institutions valuable to the United States. It will also strengthen trust and confidence between Iranians and Americans and is a key element in a more stable and prosperous Middle East and Persian Gulf region.

Why Cooperation Between the United States and Iran on the Environment is a U.S. Priority

Iran’s strategic position, straddling the energy-corridor of the Strait of Hormuz, bordering Iraq, Turkey, Afghanistan, Pakistan, Turkmenistan, Azerbaijan, and Armenia, and situated only a thousand miles from Israel, elevates the threats posed by its environmental degradation to a regional and global level. This point is especially important given the volatile landscape surrounding Iran. The effects of climate change in Iran have already caused internal political unrest and, if unaddressed, threaten to further inhibit the country’s economic and social health and destabilize an already turbulent region. Toxic air, lack of water, and desertification of agricultural lands have the potential to prompt massive movements of populations fleeing to find more sustainable homes and livelihoods. These uprootings caused by a shifting climate can prompt lawlessness, crime, inter-ethnic and sectarian conflict, and terrorism. Such instability has the potential to further ignite the Middle East tinderbox.

The U.S. has long seen a stable Greater Middle East, with its flow of oil and gas, as critical to American national security. The United States sent troops into Iraq and Afghanistan, and helped with the NATO initiative in Libya in large part to maintain stability. Now is the time to protect this investment by joining forces with Iranian counterparts to solve a problem that affects the national security of both countries.

Cooperation of this type directly supports the objectives outlined by the U.S. Department of State. Expanding access to trade, improving food security, promoting the stability of the Middle East, preventing crises and conflict, and promoting the transition to a green economy are among the U.S. government’s top objectives in the coming year.

The Problem: Is the Iranian Plateau Becoming Uninhabitable?

With the rapid desertification of more than two thirds of its agricultural lands, pollution so severe that schools, businesses and government offices must be regularly closed because of dangerously high levels of particulate matter, over 4,000 pollution-related deaths annually in Tehran, and four Iranian cities among the top ten most contaminated cities of the world, it is not surprising that President Rouhani has made protecting the environment a top priority of his administration.

The country's fresh water supplies are unsustainable. With dwindling resources and a population projected to grow to 99 million by 2025, Iranians are depending on underground aquifers that will be exhausted in a few decades. Iran's food supply is endangered because agriculture accounts for 85% of water use while producing only 66% of the nation's food.

According to the World Bank, the damage from desertification, pollution and lack of water amounts to 5-10% of Iran's GDP. By comparison, international sanctions have shrunk Iran's GDP by about one and a half percent. That said, the sanctions have stalled purchases of environmental improvement products such as emissions controls for cars and prevented payment of fees to technical experts. Scientists note that U.S. policies—both sanctions and the war in Iraq—have contributed to increased air pollution problems. To make up for lost imports, Iran was forced to produce domestic gasoline for cars with 10% times the level of contaminants of imported fuel. And according to the Iranian Meteorological Organization, both the U.S. invasion of Iraq and the Iran-Iraq war (when the U.S. supported Iraq) flattened the earth into dust and dried tidal flats, thus increasing the number and volume of contaminated sandstorms and dust into Iran. The particulate matter from dust and emissions can penetrate the lungs and has been linked to increases in cancer, in addition to asthma and heart problems.

With Iran losing topsoil twenty times faster than it is formed, annual per capita water availability dropping from 7,000 cubic meters per person in 1956 to a projected 1,300 cubic meters per person in 2020, and a growing population with increasing demands on finite resources, it is within the realm of consideration that large swaths of Iran could become uninhabitable within a generation.

The Challenges

With a specific article in the constitution dedicated to environmental conservation, Iran fortunately has the will to tackle these problems. However, Iran still faces many challenges in greening its environment, from physical to political.

Inadequate infrastructure and policies top the list. Inefficiencies from leaky pipes to poor irrigation to wasteful power generation create enormous losses in water and energy. Pricing policies—or the lack thereof—further encourage waste by valuing water and other resources below market rate, if putting a price on them at all. City dwellers are accustomed to unlimited water for their lawns. Supervisory agencies like the Iranian Environmental Protection Organization, lack the necessary power to enforce environmental guidelines.

International sanctions have complicated matters. Iran cannot participate in regional research projects that rely on international grant money, stymieing environmental progress not only for Iran but also for its neighbors. Nor can Iranian scientists easily participate in international conferences that allow for the exchange of climate change expertise and information on green energy solutions that have worked in other parts of the world. And Iran's goal of increasing energy from renewable resources to 7000 MW by 2015 cannot move forward when the dedicated bank account for funding the country's environmental facility for renewable initiatives is frozen. When sanctions are lifted, Iran will be able to purchase environmental improvement products, have easier access to higher quality refined gasoline, and work with climate change and management experts to assist government agencies in drafting and monitoring policies.

However, Iran does not want to wait to tackle these challenges. The UN's development program has been assisting the Department of the Environment in its Forest, Rangelands, and Watershed organizations. The government is taking steps to price water, particularly for agriculture, and has started a public awareness campaign. Furthermore, the government is better enforcing active laws and policies about conserving ground water. In addition, President Rouhani has made efforts to reduce pollution by improving the quality of the petrol and easing off on government subsidies for gasoline. In addition, he is planning support for additional initiatives to reduce greenhouse gas emissions and air pollution.

Next Steps

Given Iranian interest in continuing to work with Network 20/20, we propose facilitating the exchange of 10-12 Iranian and American experts to discuss how Iran and the United States can exchange expertise and address Iran's air pollution, desertification, and water scarcity threats. Together we will prepare an agenda for the meeting based on Iran's priority concerns: air pollution; protecting water resources; and desertification.

In response to specific interests expressed in our Tehran meeting in May, we have already identified and spoken with experts about:

- Enhancing U.S.-Iran cooperation on climate change and clean energy
- Strengthening Iranian environmental governance by sharing best practices and engaging with civil society groups
- Fostering public/private partnerships to increase building efficiency, prepare for public health impacts of climate change, and explore the advantages of renewable energy to increase energy productivity.

In addition, Network 20/20 can provide information to government officials, media and the public in both countries about the steps Iran is taking to address climate change.

We are also prepared to support a plan floated by think tanks and interest groups for a U.S.-EU- Iran Science Summit in Tehran to bring together a group of the best and brightest scientists on a range of non-controversial issues.

The irreversible degradation of large swaths of the lands in the Middle East and around the Persian Gulf is a priority national security issue for the United States, given the danger of increased turbulence and instability in the region. Many argue that the civil war in Syria owes much to the extended drought conditions that existed for the past decade, driving millions of small farmers from the countryside to the cities where they were unable to earn a living.

Countries—like the United States—that have business and security interests in a stable region will collaborate with others and rise to meet environmental challenges. Promoting Iran's green economy puts the United States in a leadership position and squarely on the side of regional peace and prosperity.