



U.S. STRATEGIC OPTIONS TOWARDS IRAN:

UNDERSTANDING U.S.—IRANIAN RELATIONS THROUGH IRANIAN DOMESTIC POLITICS

April 25, 2014

The George H.W. Bush School of Government and Public Service
TEXAS A&M UNIVERSITY

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EXECUTIVE SUMMARY

The ongoing nuclear negotiations between the P5+1 and Iran have made greater progress on more substantial issues than any previous talks. This report argues that Iran's unprecedented willingness to negotiate is strongly influenced by two factors: a united P5+1 and more importantly, a convergence of interests among Iran's domestic factions. While there has long been knowledge of the challenges posed by Iran's often-competing factions, no other study pinpoints them as a primary variable in the nuclear negotiations. Based on 50 interviews with high-level Iran experts and government officials and independent research, our study provides a unique framework for understanding the dynamics of Iranian domestic politics and its impact on the efficacy of U.S. policies.

This study considers three scenarios the U.S. could encounter on July 20, 2014, when the current Joint Plan of Action (JPOA) expires: the P5+1 and Iran could sign a comprehensive deal; another interim deal could be reached; or negotiations could break down. The common thread throughout these recommendations is that the U.S. must find a way to capitalize on the factional convergence and avoid undermining it. The U.S. should always negotiate with Iran as a unitary actor, rather than favor certain factions; avoid measures that prompt one faction to undercut another faction; and understand that while not unique in having domestic competition, Iran's political factions have a stronger effect on the success of negotiations than many have realized.

If a comprehensive agreement is reached, we recommend pursuing *limited engagement* that seeks to broaden cooperation with Iran by working on issues that interest all Iranian factions, while also having deterrent threats in place should Iran renege. In the case of another interim deal, we recommend that the U.S. embrace *balanced diplomacy*, which increases the level of positive and negative inducements meant to persuade Iran to reach a comprehensive agreement. This recommendation, which mimics current U.S. policy, should focus solely on nuclear issues, unlike the first scenario. If nuclear negotiations break down, we recommend *coercive diplomacy* that involves gradual pressure, ranging from increased sanctions to authorizing the use of force. The challenge here is credibly threatening Iran without alienating the other P5+1 members or pushing Iran's factions to unite against the United States. In all future negotiations, the U.S. should capitalize on Iranian domestic convergences and engage Iran as a whole.

INTRODUCTION

After more than a decade of failed negotiations, the P5+1 and Iran have agreed upon the Joint Plan of Action (JPOA) that curtails Iran's nuclear program and lays the groundwork for a comprehensive resolution in the near future. While experts and government officials remain skeptical about the final outcome, most agree that this round of talks is unique and presents the best opportunity to overcome a major obstacle in Iran's relations with the international community. This unprecedented level of engagement and commitment to work with the P5+1 begs the question: why now? If the U.S. can better understand Iranian behavior, then it can craft more effective policies in the future.

In previous negotiations, political jockeying among Iranian factions prevented the implementation of a comprehensive agreement on Iran's nuclear program. For instance, in 2009, President Ahmadinejad tentatively agreed to a fuel swap arrangement, framing the agreement as a victory for Iran. However, opposition leaders and even other conservatives sought to undermine Ahmadinejad by criticizing him for making concessions on Iran's low enriched uranium. The Supreme Leader subsequently reversed his support and rejected the deal.¹ Factional discord generally derails Iran's ability to accept a nuclear deal.

It appears this trend of failed negotiations may be turning. In June 2013, Hassan Rouhani won just over 50% of the vote in the first round of the presidential elections.² His widespread popularity, political know-how, and the tacit support of the Supreme Leader provide him with a broad mandate to address the standoff over Iran's nuclear program. In November 2013, the P5+1 and Iran signed the JPOA in which Iran agreed to allow enhanced monitoring, limited enrichment, and suspended construction on reprocessing facilities in exchange for no new

¹ David Sanger, Steven Erlanger, and Robert Worth, "Tehran Rejects Nuclear Accord, Officials Report," *The New York Times*, October 29, 2009, <http://www.nytimes.com/2009/10/30/world/middleeast/30nuke.html>.

² Saeed Kamali Dehghan, "Iran: Hassan Rouhani Wins Presidential Election," *The Guardian*, June 15, 2013, <http://www.theguardian.com/world/2013/jun/15/iran-presidential-election-hassan-rouhani-wins>.

nuclear sanctions and approximately \$7 billion in economic relief.³ The outcome of the negotiations is still uncertain, especially given the divisiveness over Iran's missile program, the duration of IAEA inspections, and the dismantling of the country's enrichment facilities. However, the positive momentum and substantial nature of the talks have led some negotiators to express hope for a quick drafting of a comprehensive deal.

To take advantage of this unique situation, the U.S. must understand what makes this round of negotiations more successful than those in the past. External factors, such as threats and incentives, have had an inconsistent effect on Iranian willingness to change its behavior, which led us to examine the role of internal forces on the country's ability to engage with the international community. Our research reveals a distinct trend: Iran will participate in negotiations under a variety of conditions, but substantial progress on an issue requires a convergence among Iran's domestic factions.

We researched and analyzed policy papers, academic articles, and news reports to identify patterns in Iranian domestic politics, as well as their impact on the United States. After a preliminary analysis, we interviewed approximately 50 U.S. and foreign officials and experts on Iranian domestic politics, the ongoing negotiations, and American foreign policy. While most sources acknowledge Iranian domestic politics as an important factor to consider when forming policy options, few provide a clear analysis of the relationship between the domestic power struggle and the effectiveness of U.S. policies towards Iran. This paper seeks to fill that void. It analyzes the role of Iran's domestic politics in reaching this breakthrough moment and incorporates an in-depth analysis of Iranian factional responses to the nuclear negotiations into a broader discussion that examines which U.S. policies are most effective.

Once the interim agreement expires on July 20, 2014, the P5+1 and Iran will find themselves in one of three different scenarios: (1) a successful comprehensive deal; (2) another interim agreement; or (3) a failure to reach an accord. Based on the probable response to each scenario within Iran, we developed strategic options that have the strongest likelihood of capitalizing on

³ Wendy Sherman, "Assessing the P5+1 Joint Plan of Action with Iran," testimony on December 12, 2013, before the Senate Committee on Banking, Housing, and Urban Affairs. Text from: <http://www.state.gov/p/us/rm/2013/218639.html>.

the current factional convergence and putting the U.S. in a position to successfully engage with Iran.

This paper proceeds as follows. First, it discusses Iran's domestic political scene and the concept of a factional convergence. It then assesses the three potential scenarios the United States could face after July 20, 2014. Each section analyzes the effects of the scenario on Iranian politics and recommends U.S. strategic options based on probable developments within Iran. Finally, the paper concludes by emphasizing that factional convergence underpins any successful negotiations with Iran.

Iran's Political Factions and the Concept of Convergence

The balance of power among Iran's domestic factions can influence the president's ability to pursue his domestic and foreign agenda. The conservatives, pragmatists, and reformists have each controlled the presidency in the last 35 years, and they compete to maximize their influence in the government. The pragmatists, led by President Rouhani and former President Akbar Rafsanjani, have amassed significant support within the Iranian population, fostering the broadest political coalition in Iran's recent history. Reformists, such as former President Mohammad Khatami and former presidential candidates Mir-Hossein Mousavi and Mehdi Karroubi, are largely excluded from government by the conservative establishment. Reformists' lack of relative power has compelled them to bandwagon with the pragmatists to retain maximum influence in government and policy. Conservatives, while still extremely powerful in the Majlis, the security apparatus, and the unelected revolutionary institutions,⁴ have a momentarily fractured base. Former President Mahmoud Ahmadinejad's economic, domestic, and foreign policies increased the country's international isolation and contributed to this fracture. This division was evident in the 2013 presidential elections when conservatives could not agree on one candidate to support.⁵ The unpopularity of the conservative faction led some of its more moderate members to support Rouhani's coalition, slightly tilting the balance of power in favor of the president and the pragmatists in the case of the nuclear negotiations.

⁴ The revolutionary institutions include the Iranian Revolutionary Guard Corps and the Guardian Council.

⁵ Shirzad Bozorgmehr and Michael Martinez, "Hassan Rouhani is Iran's next president after appealing to tradition, reform," *CNN*, June 15, 2013, <http://www.cnn.com/2013/06/15/world/meast/iran-elections>.

While the Supreme Leader has ultimate constitutional authority, his power is constrained by popular legitimacy. Khamenei and the IRGC's manipulation of the 2009 presidential election followed by the brutal crackdown of the Green Movement cost the Supreme Leader significant political capital. His public fallout with Ahmadinejad during his second term and the fracturing of the conservative faction have put him in a politically vulnerable position. To capitalize on a new opportunity to regain lost power, Khamenei allowed President Rouhani to win the 2013 elections and has since permitted him to pursue an agreement on Iran's nuclear program. A comprehensive nuclear resolution is now within reach because Iran's factions and the P5+1 have converged at the same time around this critical issue.

The convergence around the nuclear issue occurred when Iranian domestic factions saw an opportunity to address their compatible interests by working with the P5+1 to reach an agreement on Iran's nuclear program. This consensus, a product of power jockeying among the factions, is a key requirement for successful negotiations because without it, the domestic power struggle may undermine the Iranian government's ability to cohesively address issues of national interest. Convergence does not guarantee success when negotiating with Iran. Differing interests, priorities, or external threats may prevent productive discussions. However, a U.S. strategy that addresses the Islamic government as a whole, not just the conservatives, pragmatists, or reformists, and takes advantage of the factions' momentary consensus around the nuclear issue has the greatest opportunity of securing a comprehensive agreement with Iran.

The unity of the P5+1 also plays a pivotal role in preventing Iran from undermining the nuclear negotiations. If the P5+1 should fracture, Iran may pursue economic relief through Europe and other eager trading partners, thereby avoiding a restrictive comprehensive deal with the U.S. Russia's threats to use the talks as leverage in its ongoing confrontation with the West over Ukraine could potentially imperil the coalition. By pursuing policies that keep the P5+1 intact, the U.S. reduces threats to the negotiations and increases the likelihood of reaching a mutually acceptable deal.

Scenario A: Comprehensive Deal

OVERVIEW

Consistent and positive progress on the nuclear negotiations may result in a comprehensive agreement by July 20, 2014. This scenario may increase Rouhani's relative power and give the U.S. new opportunities to engage Iran on other issues by capitalizing on convergences among Iranian domestic factions. However, the potential shift in the balance of power could challenge the implementation of a comprehensive deal by fracturing the nuclear convergence. To mitigate the risk of Iran's default on the nuclear deal, the U.S. should employ a form of compliance insurance.

IRANIAN DOMESTIC POLITICS

A comprehensive deal that provides a mutually acceptable resolution to Iran's nuclear program and economic relief to Iranian citizens will impact the power dynamics within Iran. While the final terms of the deal and Rouhani's rhetoric and actions after its signing will shape the conservative establishment's reaction, a deal that allows Rouhani to demonstrate the success of his administration could lead to the following shifts in Iran's political scene.

First, Rouhani's political capital may increase, empowering his administration and the pragmatist faction to attempt their next major project: economic reform. Despite having reduced inflation to its lowest level in two years,⁶ Iran continues to face dismal economic conditions. The price of energy and water has increased 24% and 20% respectively since March 20th, and the government's plans to cut gasoline subsidies and reduce cash handouts will place additional pressure on Iranian budgets.⁷ The impact of Rouhani's economic reforms will test his popularity and political capital, and he will need to demonstrate tangible economic benefits to the Iranian population to maintain a strong standing against the more conservative establishment. If the pragmatists can successfully improve Iran's weak economy, the internal balance of power could tip in favor of the moderate faction during the 2016 Majlis elections.

⁶ Dana El Baltaji, "Iran Inflation Slows to Two-Year Low, Fulfilling Rouhani Pledge," *Bloomberg*, March 30, 2014, <http://www.bloomberg.com/news/2014-03-30/iran-inflation-slows-to-two-year-low-fulfilling-rouhani-pledge.html>.

⁷ Amir Paivar, "Will Iran price hikes fuel discontent?" *BBC News*, April 3, 2014, <http://www.bbc.com/news/world-middle-east-26867987>.

Conversely, the Supreme Leader may seek to diminish Rouhani's popularity by undermining his economic and social policies. After the P5+1 and Iran sign an agreement, the Supreme Leader could seek to improve his position by claiming that he forced the West to acknowledge Iran's right to enrich uranium. However, he may also be wary of Rouhani's rising political capital because it threatens his own power, particularly if the pragmatists gain control of the Majlis and the Assembly of Experts in the upcoming elections.

Recognizing the potential threat to their political influence, conservatives will likely attempt to weaken the pragmatists' influence by criticizing their reforms and undermining their progressive narrative. By increasing the number of executions during the negotiations, the conservative judiciary sent a clear signal that nuclear negotiations do not indicate reform on domestic issues.⁸ Conservative backlash will likely increase in proportion with Rouhani's progress on his campaign promises, testing the strength of the president's coalition. Under these conditions, the nuclear convergence could splinter as the factions maneuver to gain power and shift their priorities away from the nuclear issue to economic and social policies.

POLICY RECOMMENDATION: LIMITED ENGAGEMENT

Upon reaching a comprehensive nuclear deal, the U.S. will have an opportunity to build upon the success of the nuclear negotiations and work with Iran on other issues of mutual interest. The U.S. government should make an effort to include all Iranian domestic actors in a strategic dialogue to avoid creating perceptions that the U.S. seeks to empower the moderates by engaging with Iran. By applying a policy of limited engagement, the U.S. can work with Iran without interfering with the balance of power. This policy emphasizes positive incentives while also employing a form of compliance insurance. The successful application of this policy would support the execution of the nuclear agreement and enable the U.S. to capitalize on new factional convergences to work with Iran on shared foreign policy objectives.

⁸ Deborah Amos, "Iran's Culture Wars: Who's Winning These Days," *NPR*, April 12, 2014, <http://www.npr.org/blogs/parallels/2014/04/12/301777901/irans-culture-wars-whos-winning-these-days>.

A policy of limited engagement seeks to capitalize on Iranian domestic convergences by proposing bilateral interaction on areas that unite Iran's domestic factions, such as scientific research and regional stability. By proposing engagement on issues that concern all Iranian factions, the U.S. will minimize its interference in the country's domestic politics and enhance the effectiveness of its policies. In 2001, the U.S. benefited from a factional convergence that identified the Taliban as a national security threat. United by a common interest, Iran provided significant intelligence to U.S. and NATO forces in Afghanistan, allowing them to defeat the Taliban.⁹ The U.S. should avoid issues that divide Iran's factions, such as opening a U.S. consular section in Tehran, as this could undermine progress in bilateral relations and endanger the implementation of the comprehensive nuclear agreement. While limited in scope, this policy could pave the way for improved U.S.-Iranian relations.

Under this policy, the U.S. could:

- Work with Iran through trilateral talks on post-2014 Afghan security;
- Engage Iran on the Syria peace process;
- Propose scientific collaboration;¹⁰
- Provide training and resources to improve Iran's natural resource management;¹¹
- Offer economic incentives beyond gradual sanctions removal, such as initiating talks on bilateral economic relations or supporting Iran's accession to the World Trade Organization (WTO);
- Reopen the negotiations on incident-at-sea prevention;¹²

⁹ According to many analysts, we have seen that successful cooperation between the U.S. and Iran is possible and can be mutually beneficial. For example, when the U.S. worked with Iran to defeat the Taliban in Afghanistan in 2001, Iran met with U.S. officials at the Bonn Conference on Afghanistan to establish the Afghan Interim Authority. This cooperation ceased immediately after President Bush gave the "Axis of Evil" speech in 2002. After that speech though, Khamenei changed the negotiators to Mohammad Javad Zarif and his aides. Ambassador Crocker's Iranian colleague told him before leaving the final round of negotiations that Zarif had no authority or power to reach an agreement on prisoner transfers from the IRGC.

¹⁰ Bijan Khajepour, Reza Marashi, and Trita Parsi, "Extending Hands & Unclenching Fists: Reorienting Iran's Outlook After the Nuclear Deal," National Iranian American Council, December 2013, http://www.niacouncil.org/site/DocServer/Extending_Hands_Unclenching_Fists.pdf.

¹¹ Ladane Nasser, "Iran's Minister Calls for Cuts in Water Use as 37 Million at Risk," *Bloomberg Business*, April 15, 2014, <http://www.businessweek.com/news/2014-04-15/iran-minister-calls-for-cuts-in-water-use-as-37-million-at-risk>. The Middle East and Iran's largest lake has shrunk 85% over the past two decades due to drought and increased water diversion for irrigation.

- Moderate rhetoric regarding Iran;
- Formalize strategic dialogue on issues like regional extremist groups, such as Salafis, incorporating all relevant groups within the Iranian government;¹³ and
- Cooperate in intelligence sharing to target local Salafis on the State Department's list of terrorist organizations, such as Jundallah in Baluchistan.¹⁴

Although the U.S. should take steps to deepen cooperation with Iran, it must also address the challenges of ensuring the implementation of the nuclear deal. Iran's lack of transparency in the past calls to attention the need for specific mechanisms that will encourage Rouhani's coalition to support the full execution of the comprehensive settlement. This policy should incorporate options that demonstrate the commitment of the U.S. and P5+1 to apply a certain level of pressure should Iran falter in its compliance with the nuclear agreement.

To secure credibility of these negative consequences, the U.S. could:

- Recommend that the U.S. Congress pass a bill that would reinstate sanctions if Iran reneges on the deal and takes significant steps towards attaining a nuclear weapon;¹⁵
- Press the EU to pass a similar bill to prevent Iran from breaking the agreement; and
- Advocate for a UN Security Council resolution embracing the comprehensive agreement and reinforcing the deal's punitive measures in case of Iran's noncompliance.

These negative inducements should provide a credible threat to hold Iran accountable and the U.S. Congress at bay throughout the duration of the agreement. However, they may also fuel the conservative narrative that the U.S. will not stop at a nuclear deal because it wants to overthrow

¹² Pollack, Kenneth M., Daniel L. Byman, Martin S. Indyk, Suzanne Maloney, Michael E. O'Hanlon, and Bruce Riedel. "Which path to Persia? Options for a new American strategy toward Iran." Brookings Institution Press, 2009, 51, http://www.brookings.edu/~media/research/files/papers/2009/6/iran%20strategy/06_iran_strategy.pdf.

¹³ This was suggested by Iran experts in interviews.

¹⁴ Some reports indicate that the U.S. may be currently participating in intelligence sharing with Iran regarding Salafi extremists in Syria.

¹⁵ Robert Einhorn, "Preventing a Nuclear-Armed Iran: Requirements for a Comprehensive Nuclear Agreement," *Brookings Institution*, March 31, 2014, <http://www.brookings.edu/research/papers/2014/03/31-nuclear-armed-iran-einhorn>.

the Iranian regime.¹⁶ Such backlash could heighten rhetoric against the U.S. and lead to calls for higher levels of enrichment.¹⁷ Nevertheless, substantial incentives could make it clear that the U.S. intends to reciprocate with goodwill actions as long as Iran fully complies with the nuclear agreement.

POLICY IMPACT

Rouhani's strengthened political capital and his interest in a more inclusive policy with the United States¹⁸ make this the opportune moment for the U.S. to pursue greater interaction with Iran. His ability to engage, however, will be determined by his effective navigation of the political system, maintenance of a strong coalition, and framing the cooperation in a way that demonstrates Iran's position of strength.

Rouhani will face numerous obstacles from Iranian hardliners as they try to use U.S. initiatives to affect Rouhani's influence. They will likely interpret U.S. support for greater bilateral interaction as the beginning of a "soft revolution" and warn that U.S. calls for extended cooperation are an attempt to infiltrate and threaten Iranian culture.¹⁹ A move towards an increasingly inclusive policy with the West, while somewhat supported by the Rouhani administration, could stimulate greater friction within Iran's domestic political scene, potentially slowing the implementation of the nuclear agreement and imperiling Rouhani's social and economic reforms.²⁰

¹⁶ Colin Kahl suggested that we should only add pressure if Iran reneges or fails to make progress in the negotiations, but we believe a proactive approach to set up automatic punishments could help deter Iran from backsliding.

¹⁷ Parisa Hafezi, "Iranian MPs Propose Bill to enrich uranium to 60 percent," *Reuters*, December 25, 2013, <http://www.reuters.com/article/2013/12/25/us-iran-nuclear-bill-idUSBRE9BO07C20131225>. This happened in January 2014. After Congress threatened to pass a bill that would impose new sanctions on Iran if Iran failed to comply with the JPOA or did not reach a more comprehensive agreement in July 2014. Some Iranian hardliners in Parliament drafted legislation calling for enrichment up to 60% if the bill was passed.

¹⁸ Jay Solomon, "Mideast Turmoil Dominates Gathering of Business Elite," *The Wall Street Journal*, January 23, 2014, <http://online.wsj.com/news/articles/SB10001424052702304632204579338190477829438>.

¹⁹ "Khamenei's Nowruz address highlights Iran's culture war," *Iran Politik*, March 24, 2014, <http://www.iranpolitik.com/2014/03/24/analysis/khameneis-nowruz-address-highlights-irans-culture-war/>. In his annual address in Mashhad, the Supreme Leader warned of foreign "cultural infiltration."

²⁰ Under President Khatami, the U.S. pursued a more engagement-oriented approach with Iran, and hardliners retaliated by closing down newspapers and dismissing reformist leaders. Also, note the rise in the number of executions as Rouhani and Foreign Minister Zarif participated in the nuclear negotiations and in the World Economic Forum in Davos, Switzerland.

If a comprehensive deal is reached, this policy provides the best opportunity for the U.S. to ensure the full implementation of the nuclear agreement while taking advantage of the dynamic convergences within Iran to pursue shared foreign policy goals. The united pressure from the P5+1 prevented the conservatives and the Supreme Leader from undermining the negotiations, and it could help preserve the coalition which allowed Rouhani to sign a comprehensive agreement. Throughout the implementation of the JPOA, the U.S. pressured its allies to uphold the sanctions regime, leaving Iran with few options but to continue negotiating towards a final agreement.²¹ Likewise, this policy pursues a united front of international incentives and warnings that may help maintain a convergence throughout the implementation of the nuclear deal and put the U.S. in an advantageous position when a new convergence occurs.

International Impact

America's allies in the region, particularly Israel and Saudi Arabia, may feel threatened by an increase in U.S. interaction with Iran, which could lead to a rise in cautionary rhetoric. Saudi Arabia, fearing that the U.S. would trade the bilateral alliance for a historic rapprochement with Iran,²² may seek to reassert its dominance in the region and accelerate its own domestic nuclear energy program.²³ However, neither country would risk alienating themselves from the U.S. and endangering their national security by provoking Iran to break the nuclear agreement.

A comprehensive agreement and subsequent U.S. engagement with Iran may induce a surge of European and Asian investment in Iran, potentially strengthening Iran's economy and threatening the gradual withdrawal of sanctions. In February, a French business delegation visited Iran to meet with trade officials, leading Secretary Kerry to warn France that the U.S. would punish French companies if they violated U.S. sanctions.²⁴ If the P5+1 engages too

²¹ Kim Willsher, "US Warns France against business with Iran after trade trip to Tehran," *The Guardian*, February 5, 2014, <http://www.theguardian.com/world/2014/feb/05/us-warns-france-business-iran-trade-tehran>.

²² "Saudi Arabia and the United States: Awkward Relations," *The Economist*, March 29, 2014, <http://www.economist.com/news/middle-east-and-africa/21599767-american-president-and-saudi-king-will-have-unusually-edgy>.

²³ "Report: Saudi Arabia Wants Uranium-Enrichment Capacity," *Nuclear Threat Initiative*, February 14, 2014, <http://www.nti.org/gsn/article/saudi-arabia-reportedly-wants-develop-full-nuclear-fuel-cycle/>.

²⁴ "Update 3—US has warned France about doing business with Iran—Kerry," *Reuters*, February 5, 2014, <http://www.reuters.com/article/2014/02/05/iran-france-delegation-idUSL5N0LA1HK20140205>.

quickly, it would likely weaken the sanctions regime and give conservatives an alternative to compliance with the nuclear deal.

BOTTOM LINE

Limited engagement on areas of mutual interest after a comprehensive nuclear agreement may provide the opportunity for new convergences to form within Iran. The full implementation of the deal, a requirement for significant cooperation in the near future, will require the U.S. to (1) avoid favoring one faction; (2) refrain from expanding cooperation with Iran too quickly; (3) reassure its regional allies without angering Iran; and (4) maintain the unity of the P5+1. Beyond the nuclear deal, the U.S. could increase the success of future engagement with Iran by avoiding interference in Iranian domestic politics and working on issues that interest all factions.

SCENARIO B: INCREMENTAL PROGRESS

OVERVIEW

If the P5+1 and Iran continue to make progress on the nuclear talks but fail to agree on some key issues, they would likely sign another interim deal by July 20, 2014. In this scenario, the U.S. may struggle to maintain the unity of the P5+1 and the strength of the sanctions regime as other foreign policy issues exacerbate the tension among its members.²⁵ Extended negotiations without concrete results may threaten Rouhani's coalition and the convergence around the nuclear issue, making it more difficult to quickly resolve the disagreements over Iran's nuclear program.

IRANIAN DOMESTIC POLITICS

A six-month extension of the interim deal will not initially impact the unity of Rouhani's coalition; however, the suspended sanctions may not generate enough tangible relief to maintain the president's popular support. The factions converged around a shared interest in acquiring sanctions relief, and they saw the nuclear negotiations as an opportunity to relieve some

²⁵ In an interview with Dr. Trita Parsi, he indicated that if a deal is not reached the sanctions regime may not fall apart completely, but it will not remain as it has been during the JPOA. Several European countries have begun expressing dissent on continued sanctions preventing trade with Iran, claiming that the sanctions impact them more than the US Interview with Jack Straw indicated that if the JPOA expires and the P5+1 begins to diverge, Russia and China will likely flake off of the sanctions regime and unless there is strong coalition between the EU and the US, Iran's major trading partners in the EU, namely the UK, Germany and Italy, will peel off of the regime too.

economic pressure while enhancing their own political power. Each faction will continue to prioritize these objectives as long as they can demonstrate favorable and timely progress during the negotiations.

Non-coalition members, although critical of the Rouhani administration, have respected a tacit directive by the Supreme Leader to give Rouhani the political space to pursue an agreement on Iran's nuclear program. Some Iran scholars have expressed concern that Rouhani and his negotiating team have oversold the benefits Iran will reap by negotiating a nuclear deal with the P5+1, so if the negotiations stagnate, conservatives may inflame popular discontent over the government's failure to provide economic relief by criticizing Rouhani's foreign and domestic agenda.²⁶ The Supreme Leader could also use the stalled talks to direct more resources and institutional support towards the implementation of his resistance economy policies.²⁷

Although the factions in Iran have converged on the nuclear issue, they face significant domestic pressure to deliver economic relief. If the negotiators cannot demonstrate a political and economic benefit for continuing negotiations, Rouhani's coalition may diminish, threatening any eventual realization of a comprehensive agreement.

POLICY RECOMMENDATION: BALANCED DIPLOMACY

The mounting tension within Iran after an extension of the JPOA could disrupt the factional convergence around the nuclear issue if technical disagreements substantially delay the negotiations. To prevent stagnation, the U.S. should pursue a policy that demonstrates its resolve in reaching a nuclear agreement by applying a policy of balanced diplomacy. By increasing Iran's potential rewards and punishments and avoiding discussions on peripheral topics, the U.S. could preserve and motivate the convergence to quickly negotiate a comprehensive deal.

Under this scenario, the U.S. should threaten to apply more forceful pressure if Iran stalls in the nuclear talks or violates the JPOA, and it should offer new incentives beyond those expected in the final agreement if Iran signs a nuclear deal. It is crucial for the U.S. to amplify both the

²⁶ Arash Karami, "Long lines for subsidized food stir controversy in Iran," *Al-Monitor*, February 3, 2014, <http://iranpulse.al-monitor.com/index.php/2014/02/3803/long-lines-for-subsidized-food-stir-controversy-in-iran/>.

²⁷ The resistance economy is the Supreme Leader's plan "to build domestic capacity and reduce Iran's vulnerabilities to sanctions and external shocks." Some of the key objectives are listed here: Bijan Khajepour, "Decoding Iran's 'resistance economy'," *Al-Monitor*, February 24, 2014, <http://www.al-monitor.com/pulse/originals/2014/02/decoding-resistance-economy-iran.html#?v=1362363401000%252525253F>.

potential benefits and costs of Iranian behavior. A policy of balanced diplomacy should include an explicit framework with a clear timetable that allows Iranian leadership to maneuver and sell the deal within Iran's political labyrinth.²⁸ This dual-track strategy provides effective signaling of clear options that encourage Iran to move beyond the interim agreement and sign a comprehensive deal.

Maintaining a factional convergence around the nuclear issue is a key component of reaching a long-term agreement. This balanced approach could effectively preserve this fragile union by strictly focusing discussions on Iran's nuclear program. While U.S. foreign policy objectives may overlap with some Iranian interests, engagement beyond the nuclear issue during the negotiations may threaten the realization of a comprehensive agreement. Hardliners may use other areas of engagement to provoke new tensions with the U.S. and with other factions which may disrupt the nuclear negotiations. Focusing solely on the nuclear issue would decrease the likelihood that domestic politicking will disrupt the nuclear negotiations.

While implementing this policy, the U.S. should actively engage the other members of the P5+1 to maintain a unified front throughout the interim agreement. Although Russia's recent actions in Ukraine threaten this coalition, the U.S. should continue to pressure all members to comply with UN and U.S. sanctions against Iran. A united approach to negotiations would preserve the sanctions regime, increase the pressure felt in Tehran, and minimize loopholes that could provide Iran with alternatives to negotiating.

During this interim phase, the U.S. should avoid punitive measures that are not associated with the nuclear issue because such actions could be easily politicized within Iran.²⁹ Iranian conservatives could retaliate against certain actions, such as U.S. congressional sanctions on Iran or human rights accusations, potentially undermining the Rouhani administration and derailing

²⁸ Historically, when U.S. administrations have pursued policies of linkage, they have led to unclear expectations and consequences, which empowered the conservative narrative in Iran. A majority of the expert interviews conducted as research for this report have advised against policies of linkage or pursuing an encompassing grand bargain.

²⁹ Applying new sanctions when both sides are in compliance with the JPOA would likely fuel the conservative narrative that the US will always find some reason to punish Iran. In this scenario, it is important to address how to punish Iran for non-nuclear bad behavior. They must still be held accountable for actions that violate the international norm. Maybe we could give intelligence to our allies to punish Iran when it misbehaves (e.g. U.S. shared intel with Israel to interdict ship full of Iranian arms destined for Syria).

the negotiations.³⁰ The U.S. should make each threat or incentive contingent on specific behaviors related to the nuclear issue, providing Iran with clear expectations throughout the discussions. This quid pro quo approach worked successfully in 1991, when Iran secured the release of American hostages in Lebanon in exchange for a UN investigation that led to formally blaming Iraq for starting the Iran-Iraq War.³¹

Positive inducements could include:

- Explicit acceptance of Iran's right to enrich for peaceful, civilian purposes;³²
- Economic rewards beyond the expected lifting of sanctions, such as support for Iranian accession to the WTO;
- Cooperation on scientific research; and
- Inclusion of Iran on multilateral regional security conferences on issues, such as extremist groups and counter-narcotics in Afghanistan.³³

Negative inducements could include threats of:

- New sanctions that blacklist the entire Iranian energy sector and specific non-Iranian companies that are largely owned by sanctioned Iranian institutions or individuals;³⁴

³⁰ Upon hearing of the release of the recent UN human rights report Speaker Ali Larijani on 18 March 2014 that by critically bringing up the unapproved issue of human rights "American and UN officials must know that they will be the cause of breaking up [nuclear] negotiations and should not say that Iran has left the negotiations table." A ranking member of the National Security and Foreign Policy Commission said that a group of MP's would study a proposal to stop the negotiations after the European Parliament passed a resolution condemning Iranian human rights. "Parliament Speaker Calls EP's Anti-Iran Resolution Imprudent," *FARS News Agency*, April 5, 2014, <http://english.farsnews.com/newstext.aspx?nn=13930116001101>.

³¹ There are instances in which quid pro quo does not produce a positive outcome. However, under the right conditions, such as a factional convergence, it is more likely to succeed.

³² According to expert interviews, sticking points in the nuclear negotiations include the dismantling or repurposing of the Arak facility, the inspection and verification regime, the length of the deal (Iran wants shorter 3-5 years, conservatives in Iran prefer 1-2 year deal, and the US is pushing for 20-25 years), and the increments for sanctions to be lifted. On enrichment rights, there have been mixed signals, the US seems hesitant to acknowledge that Iran has "rights" to enrich but indications are that Iran may get their way on this front in a final deal. See: "US ex-diplomat: Sherman has acknowledged Iranian enrichment rights," *Islamic Republic News Agency*, February 23, 2014, http://www.irna.ir/en/News/2648977/Politic/US_ex-diplomat__Sherman_has_acknowledged_Iranian_enrichment_rights.

³³ Not separate bilateral led talks on issues of contention, simply allowing Iran to have a seat at the table.

³⁴ There is considerable debate on if additional sanctions could even be productive; work completed by Meghan O'Sullivan suggests that "sanctions only rarely cause a major shift in the targeted state's behavior" (Unthinkable p. 153) Libya is often the example used of when sanctions persuaded a country to forgo its nuclear weapons program but there are three problems with applying that to Iran now 1) Iran watched NATO remove Qaddafi after he gave him his nuclear pursuits 2) Libya's nuclear program was not as expansive, as advanced nor as well funded as Iran's

- Increased interdiction of ships entering Iranian ports; and
- A U.S. Congressional bill that would reinstate sanctions if Iran reneges on the interim deal, fails to sign a comprehensive agreement, or takes significant steps towards attaining a nuclear weapon.

This policy places equal weight on incentives and pressures to raise the overall cost Iran would face if it fails to reach a comprehensive agreement. It provides clear rewards for signing a nuclear agreement and complying with its implementation, and it signals credible threats should Iran renege on the JPOA or fail to resolve the international's concerns over its nuclear program.

POLICY IMPACT

Balanced diplomacy offers Iran clear benefits that address the interests of all factions, which may help to preserve the convergence until the P5+1 and Iran sign a final deal. Iran has consistently demanded that the international community recognize its right to enrich, so incorporating language that explicitly acknowledges Iran's enrichment rights into the comprehensive agreement could motivate Iran to compromise on other issues. The policy's strict focus on the nuclear negotiations may also limit additional discord within Iran, allowing negotiators to continue to work with the P5+1 on addressing international concerns over the number of centrifuges, level of enrichment, and duration of inspections.

The conservative faction may claim that this policy, which potentially threatens Iran's economic stability, proves that the U.S. wants to undermine the Islamic Republic. They may continue to criticize Rouhani for negotiating with the U.S., but they would likely focus their attacks on domestic issues, such as cracking down on reformist newspapers, to undermine his popular support. The Supreme Leader could issue another list of red lines, warning government officials not to succumb to a bad deal simply to secure an explicit right to enrich.³⁵

and 3) Iran is more populous (majority supportive of nuclear enrichment) and wealthier than Libya. Additionally, only so many sanctions can be applied before they affect more harm than good and “[w]e are rapidly approaching that point with Iran, if we have not passed it already.” (*Unthinkable* p. 157)

³⁵ According to AEI's Iran Tracker, the Supreme Leader spelled out six red lines: 1. Nuclear scientific movement must not cease or slow down whatsoever. 2. Iranian negotiators must insist on continuing nuclear research, expansion, and progress. 3. No one has the right to bargain regarding nuclear achievements, and no one will do this. 4. Officials must have prejudice regarding nuclear achievements. 5. Our country's negotiators must not allow any

International Impact

A policy of balanced diplomacy may make Saudi Arabia and Israel, who would prefer more coercive measures, anxious. However, as long as Iran continues to negotiate, neither country would pursue aggressive actions that could cause the international community to blame them for disrupting the nuclear negotiations. Israel sees a unified P5+1 as an effective way to maintain pressure on Iran, so they are unlikely to increase hostilities as long as Iran continues to seriously negotiate.³⁶

If negotiations drag on for too long, a schism may form between the U.S. and the other members of the P5+1, weakening the sanctions regime. Recent reports indicate that Russia and Iran have made progress on a \$20 billion deal that exchanges oil for industrial goods,³⁷ which, if implemented, could violate the JPOA.³⁸ As negotiations persist, the U.S. faces the risk seeing similar deals emerge. This policy seeks to minimize this threat by applying adequate pressure on Iran without alienating our P5+1 coalition. To soften the economic effect of the new sanctions on key allies, the U.S. could offer conditional waivers on the purchase of certain Iranian products. If the P5+1 fractures, which may occur if Russia continues to pursue its aggressive campaign against Ukraine, the U.S. would have less ability to freeze Iran's trade with the West. Iran could seek to exploit this division by pursuing new trade relations and negotiating a separate nuclear deal with Europe, Russia, or China.

BOTTOM LINE

If the P5+1 and Iran renew the JPOA, the U.S. should strive to preserve the nuclear convergence to successfully reach a comprehensive agreement. A policy of balanced diplomacy could signal

bullying from the opposing side. 6. Relations between the International Atomic Energy Agency and Iran must be standardized and non-extraordinary. April 15, 2014.

³⁶ Israel has not condemned Russia over Crimea in order to maintain Russian cooperation on issues that interest Israel, such as Syria and Iran.

Barak Ravid, "US officials angry: Israel doesn't back stance on Russia," *Haaretz*, April 13, 2014, <http://www.haaretz.com/news/diplomacy-defense/premium-1.585333>.

³⁷ "Russia, Iran Make Headway on \$20Bln Oil-for-Goods Deal," *The Moscow Times*, April 4, 2014, <http://www.themoscowtimes.com/business/article/russia-iran-make-headway-on-20bln-oil-for-goods-deal/497364.html>.

³⁸ Diane Barnes, "Senators Press for Sanctions Threat Over Iran's Oil Sales," *Nuclear Threat Initiative*, April 7, 2014, <http://www.nti.org/gsn/article/senators-press-new-sanctions-threat-over-irans-oil-sales/>.

to Iranian decision-makers that the benefits of continuing to negotiate outweigh the high costs of renegeing or failing to reach a final deal, while also maintaining the unity of the P5+1. Under these conditions, this policy gives the U.S. the greatest chance of moving Iran towards a final agreement.

SCENARIO C: NO DEAL

OVERVIEW

Despite optimistic expectations to the contrary, the P5+1 and Iran may face the least desirable outcome on July 20, 2014: failed negotiations. The nuclear discussions could break down for several reasons: the imposition of new U.S. sanctions, the fracturing of the P5+1, or an inability to resolve disagreements over Iran's nuclear program.³⁹ In this scenario, Iranian conservatives may gain greater control of government institutions, weakening Rouhani's coalition, threatening the factional convergence around the nuclear issue, and imperiling Iran's quick return to the negotiating table.

Failed negotiations may also threaten the unity of the P5+1, giving Iran the opportunity to drive a wedge between the U.S. and the other members. A collapse in negotiations would not adversely affect President Rouhani's ability to reach out to Europe or Asia, but it may deeply and perhaps irreparably harm his ability to deal with the U.S.⁴⁰ Regionally, collapsed negotiations would heighten the sense of insecurity within Saudi Arabia and Israel, making them more prone to aggressive posturing towards Iran.

IRANIAN DOMESTIC POLITICS

The failure to reach an agreement would likely shift the balance of factional power within Iran, potentially undermining the convergence that allowed Rouhani to address international concerns regarding Iran's nuclear program. While the impact on the Rouhani administration depends on

³⁹ Although the Supreme Leader would benefit from a breakup of the pragmatist coalition, he would be risking his own political capital by deliberately throwing off the domestically popular negotiations. It is more likely that Khamenei would wait for the U.S. to make a mistake or for the P5+1 to fracture, according to an Iran expert.

⁴⁰ Interview with Reza Marashi.

the reason for the collapsed talks as well as his ability to realign himself with the Supreme Leader, this scenario could lead to the following reverberations in Iran's domestic politics. The Supreme Leader and the conservative establishment may try to marginalize President Rouhani because he stapled his legitimacy and popularity to resolving the standoff over Iran's nuclear program.⁴¹ The breakdown of negotiations could weaken Rouhani's political capital and influence, diminishing his ability to implement economic and social reforms. In an attempt to maintain relevance, he may voice greater support for the conservative position to try to retain some political power.⁴² Moderate conservatives, who have supported Rouhani thus far, may reassess their political standing and realign with the conservative establishment, jeopardizing Rouhani's coalition and temporarily diminishing the factional convergence required to reach a nuclear agreement.

The factional balance of power could shift in favor of the conservatives and Khamenei through the reunification of the conservative base. The conservative Guardian Council may attain enough leverage to more effectively limit candidacies for the upcoming Majlis and Assembly of Experts elections to members of the conservative faction, which would further consolidate their control of the government. Iran has traditionally been dominated by a conservative establishment wary of relations with the U.S., so the reunification of this faction may reinvigorate an antagonistic foreign policy towards the United States, which may ultimately obstruct U.S. attempts to resolve regional issues.

POLICY RECOMMENDATION: COERCIVE DIPLOMACY

⁴¹ A discernible trend can be established with Iranian Presidents: when Iranian presidents do not accomplish their campaign goals, Khamenei, either by force or by necessity, undermines them, depending on whether he assesses that those initiatives could threaten him or the regime. Rafsanjani's economic plans were intended to bring long term growth to Iran. The initial success of the First Five Year Plan (FFYP) threatened the conservatives' economic interests. When the final part of his FFYP failed to increase growth and instead increased unemployment, Khamenei undermined him through the conservative Majlis' oversight powers so Rafsanjani couldn't implement his Second Five Year Plan (SFYP) on time. This move allowed the conservative establishment to gain greater control of the Iranian government. Similarly, when Khatami's reforms began to spark more international interest in cultural exchanges in Iran, Khamenei and the conservatives sidelined him through the Majlis elections, isolating and disenfranchising his base.

⁴² In 2009, after Ahmadinejad failed to establish a fuel swap agreement with the West, Mousavi, a reformist, took a very hardline approach, advocating not to negotiate with the U.S. He hoped to sway moderate conservatives to support him to retain relevancy because he had initially advocated for engagement on the nuclear issue with the West.

If the negotiations collapse, the U.S. government could face the possibility of returning to a hostile relationship with Iran. In this scenario, the U.S. should avoid any action that would interfere with the domestic political repercussions of the failed negotiations. Rather, the U.S. should implement a policy that pressures the whole Iranian government to eventually return to the negotiating table. This heavy-handed approach seeks to coerce Iran to reengage without alienating our partners in the P5+1.

Coercive diplomacy has governed past U.S. strategies towards Iran with a mixed record of success and failure. After the revelation of undeclared nuclear facilities, including Arak and Natanz in 2003, Iran agreed to negotiate with the EU-3 to avoid referral to the UN Security Council. After receiving threats of new sanctions and promises of technological cooperation, Iran signed the Paris Agreement in November 2004.⁴³ Most recently, in 2013, the increased pressure of sanctions exacerbated the effects of Iran's mismanaged economy, leading President Rouhani to promise economic reforms, beginning with the removal of sanctions connected to Iran's nuclear program.⁴⁴ Despite the domestic power struggle that will likely take place immediately after a failed agreement, the long-term costs of isolation and economic sanctions may provide enough pressure for Iranian policymakers to negotiate after the balance of power is restored.

This policy steadily increases pressure on Iran while guaranteeing some economic relief if Iran returns and makes progress on the negotiations. Potential options to pressure Iran include:

- Reinstating suspended sanctions;
- Blacklisting additional components of Iran's energy sector;
- Labeling Iran a "zone of proliferation concern;"⁴⁵
- Targeting Iranian development joint ventures outside of Iran if the government is a substantial partner or investor in the joint venture;
- Placing greater emphasis on interdicting arms and funds flowing to and from Iran;

⁴³ "Nuclear," *Nuclear Threat Initiative*, last updated November 2013, <http://www.nti.org/country-profiles/iran/nuclear/>.

⁴⁴ William Luers, Priscilla Lewis, and Iris Bieri, "Strategic Options for Iran: Balancing Pressure with Diplomacy," *The Iran Project*, 2013, 28.

⁴⁵ Stephen J. Hadley, "Eight Ways To Deal With Iran," *Foreign Policy*, February 19, 2014, http://www.foreignpolicy.com/articles/2012/09/26/eight_ways_to_deal_with_iran

- Expanding U.S. military assistance and cooperation with regional states, including larger arms sales and joint exercises;
- Passing an executive order that implements some of the sanctions listed in the Iran Nuclear Weapon Free Act of 2013;⁴⁶ and
- Recommending that Congress give the president authorization to use military force should Iran move towards producing a nuclear weapon.⁴⁷

Strategic alternatives to coercive diplomacy could include more substantial military threats or precision military strikes on Iranian nuclear facilities. However, military action would likely rally the factions behind the conservatives, who have said that Iran needs a nuclear weapon to prevent such attacks, potentially accelerating the race to attain a nuclear weapon.⁴⁸ The U.S. could use these options if Iran crosses predetermined “red lines.”

POLICY IMPACT

If Iran Withdraws from the Negotiations

If Iran is responsible for a breakdown of the negotiations, a policy of coercive diplomacy could create the conditions that would persuade Iran to return to the negotiating table. The probable disruption of the balance of power within Iran, however, would alter the priorities of Rouhani’s coalition, reducing the broad interest in swiftly addressing the nuclear program. Until the factional balance of power is restored, the U.S. may see little impact of applying greater economic and political pressure.

By increasing the pressure on Iran, the U.S. may inadvertently strengthen the conservative narrative. The conservatives would likely disparage the U.S. for not treating Iran like other non-nuclear weapon states and threaten to retaliate against new economic sanctions. This rhetoric may temporarily reunite the conservative establishment, allowing them to exert more control over Iran’s foreign and domestic policy. However, deliberate actions, such as blatantly violating

⁴⁶ Einhorn, “Preventing a Nuclear-Armed Iran.”

⁴⁷ Einhorn, “Preventing a Nuclear-Armed Iran.”

⁴⁸ Based on an assessment of the military option, Stephen Walt concluded, “It is hard to be confident that military pressure on Iran will yield a positive diplomatic outcome. See: Stephen Walt, “What Would Alex George Say About Coercing Iran?” *Foreign Policy*, March 14, 2014, http://www.foreignpolicy.com/posts/2013/03/14/coercing_iran_what_would_alex_george_say.

the JPOA, that incur economic and political penalties would likely lead to domestic unrest, potentially weakening the conservatives' and the Supreme Leader's long-term political capital.⁴⁹

A policy of enhanced pressure could cause Rouhani to lose some power relative to the conservatives. His administration guaranteed economic relief, but new sanctions would further cripple the country's economy. As a result of U.S. pressure and the domestic discord, he may readjust his focus from negotiating for sanctions relief to implementing a resistance economy to better align with Khamenei and maintain his political relevance. Rouhani's coalition and the convergence of Iranian factions may temporarily diminish as the factions realign with their base to address the effects of the new sanctions. This shift in priorities could prevent Iran from returning to the negotiating table for meaningful discussion until power returns to the pragmatists.⁵⁰

If U.S. Actions Derail the Negotiations

If the United States causes the breakdown of the nuclear talks by imposing new sanctions during the interim agreement, for example, and then penalizes Iran for leaving the negotiations, the conservative narrative against the U.S. would gain significant credibility.⁵¹ Moderate conservatives would reunite with more extreme members of their faction, and the conservatives would have a higher probability of marginalizing the pragmatists and gaining control over governmental institutions. Rouhani could lose substantial political capital, threatening the unity of his coalition and preventing him from reentering negotiations with the P5+1. Moreover, the convergence around the nuclear issue would likely diminish, preventing Iran from engaging with the P5+1 over its nuclear program in the near future.

⁴⁹ The populace could portray the conservatives as an impediment to Iran being a normal state in the international community. Unrest may ensue and weaken Khamenei's political capital if he responded forcefully as he did in 2009 during the Green Movement.

⁵⁰ Increased sanctions, as well as other diplomatic methods which emphasize pressure more than relief, could have long term effects on the political power of Khamenei and the conservatives. Their power may be limited, such that neither Khamenei nor the conservatives could affect the 2016 elections. The conservatively controlled government could see a shift favoring pragmatists and reformists after elections because Khamenei would be forced to include more diverse choices among the factions to prevent further loss of political capital.

⁵¹ Just as in the 2003 negotiations, where Iran made the necessary concessions with the EU3 (the United Kingdom, France, and Germany), the current negotiations are just another example of the U.S. not wanting to negotiate.

While new sanctions may eventually drive Iran back to the negotiating table, the U.S. would likely confront more conservative negotiators or powerless representatives of the Iranian government.⁵² In 2005, after rejecting new demands on Iran's nuclear program, Khamenei replaced Rouhani with Ali Larijani and then Saeed Jalili as nuclear negotiators, leading to an escalation in the number of Iranian centrifuges. Renewed negotiations would be less likely to produce meaningful results, and the U.S. could return to its tense relationship with Iran.

International Impact

Coercive diplomacy would help to reassure our regional allies that the U.S. will not allow Iran to acquire a nuclear weapon. By applying significant pressure on Iran, the U.S. may prevent Israeli military actions that could handicap the formation of a new convergence to work with the P5+1 after the Majlis elections in 2016.⁵³ However, while pressure would be viewed favorably among many of our regional allies, it could threaten the unity of the P5+1 and endanger the sanctions regime. To mitigate the rupture and thereby prevent Iran from trying to negotiate a separate agreement that does not meet U.S. demands, the U.S. should offer diplomatic and economic incentives to the P5+1.

BOTTOM LINE

If Iran does not reach a comprehensive agreement with the P5+1, coercive diplomacy would help the U.S. to pressure Iran without meddling in factional politics. Pressure *may* induce a return to the negotiating table; however, without appropriate economic incentives, this policy could strengthen the conservative faction and diminish the consensus on the nuclear issue. Ultimately, the failed negotiations and the impact of new sanctions will disrupt the balance of power within Iran, forcing the U.S. to wait until a factional convergence reemerges to address international concerns about Iran's nuclear program.

⁵² Negotiations with the Iranians about Taliban prisoner transfers prior to the "Axis of Evil" speech were going so well that they were talking about other shared issues. After that speech though, Khamenei changed the negotiators to Mohammad Javad Zarif and his aides. Authorities said that Zarif had no authority or power to reach an agreement on prisoner transfers from the IRGC.

⁵³ Israel has reportedly budgeted nearly \$3 billion for a first strike against Iranian nuclear targets, indicating its willingness to attack Iran if necessary. Barak Ravid, "Netanyahu Orders IDF to Prepare for Possible Strike on Iran During 2014," *Haaretz*, 19 March 2014, <http://www.haaretz.com/news/diplomacy-defense/1.580701>.

CONCLUSION

Analysis of historical and current Iranian behavior clearly demonstrates that its domestic politics impacts the effectiveness of U.S. policies. Former U.S. policies towards Iran have often sought to empower individual factions, leading to failed initiatives and worsening relations. Research and experience have shown that a factional convergence is a necessary factor for successful bilateral and multilateral negotiations with Iran. By focusing on the shared interests among Iran's factions and engaging Iran as a whole, the U.S. will likely experience greater progress in its relations with Iran. This report provides domestic factional analysis and policy options that will allow the U.S. to effectively engage Iran on shared objectives.

If the P5+1 and Iran reach a comprehensive agreement, *limited engagement* would allow Washington to work with Tehran on issues that interest all Iranian factions to ensure the implementation of the deal and to capitalize on new convergences to achieve U.S. foreign policy objectives. If the P5+1 and Iran sign another interim agreement on July 20th, the U.S. should signal its intention to reach a comprehensive deal by increasing Iran's potential rewards and penalties, depending on its progress throughout the negotiations. *Balanced diplomacy* would maintain the convergence by increasing each faction's incentive to quickly reach a nuclear deal. If talks break down, *coercive diplomacy* could help the U.S. to pressure Iran without interfering in the country's domestic politics, which may influence Iran to eventually return to the negotiating table and continue progressing towards a comprehensive agreement.

In July 2014, the U.S. will face a pivotal moment in its relationship with Iran. The current convergence within Iran gives the U.S. a unique opportunity to alter the course of a 35-year long period of animosity. The U.S. should develop a nuanced understanding of Iranian convergences and utilize this framework to craft the most effective policies.