

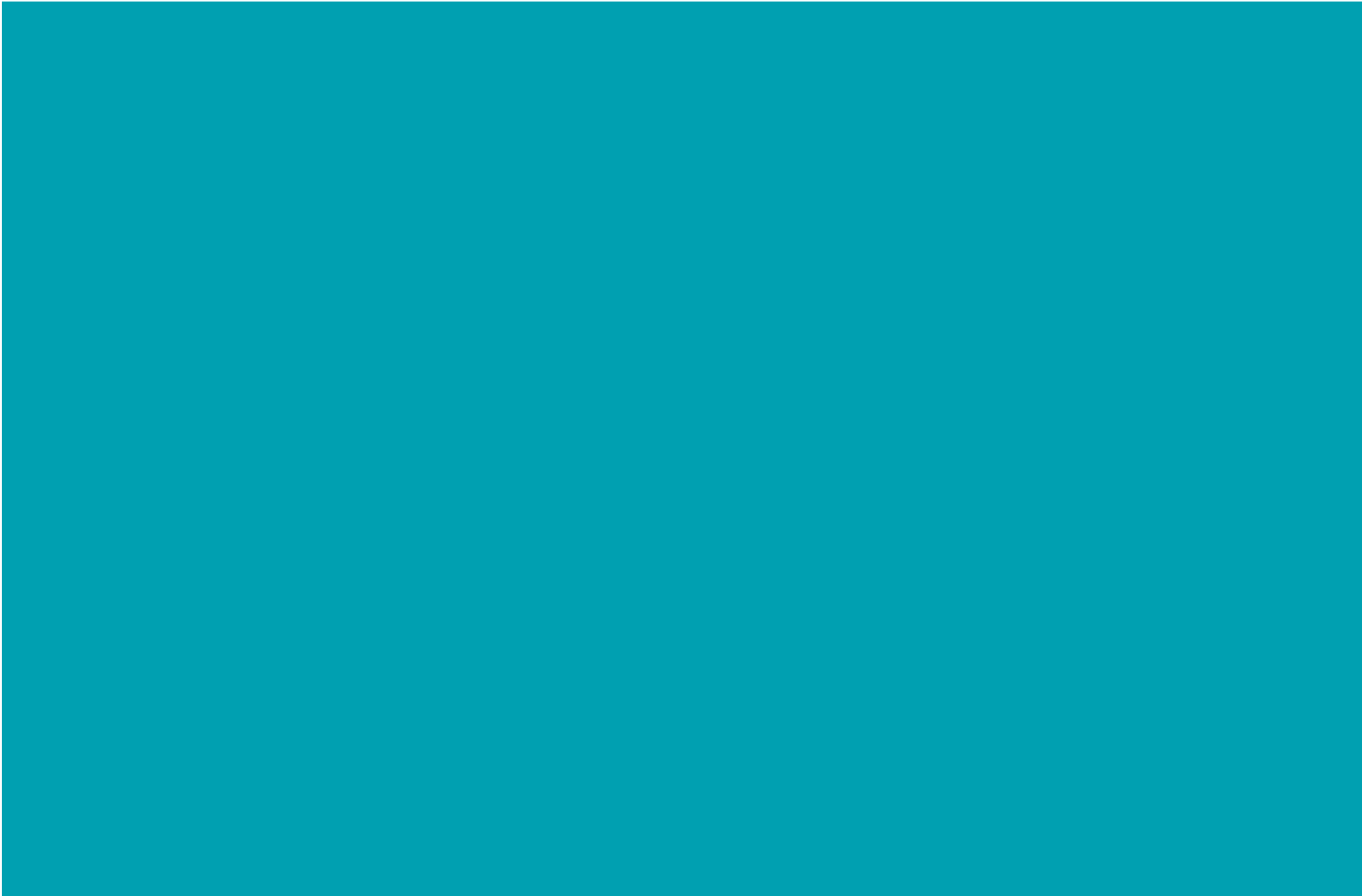


Iran Advisory Group

Meeting Report – May 30, 2014

by Charlotte Beck

The Iran Advisory Group brings together Iranian scholars living outside Iran, U.S. and E.U. current and former officials, and internationally renowned experts. It is co-sponsored by the Heinrich Böll Stiftung and the Stimson Center.



Please note that the summary below reflects the opinions of individual participants rather than the institutional stance of the Heinrich Böll Foundation or the Stimson Center.

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Background

The Iran Advisory Group convened its tenth meeting on May 30, 2014 in Beirut, Lebanon. It brought together experts and policymakers to discuss under Chatham House rules how substantial the changes are that have occurred in Iranian domestic politics under President Hassan Rouhani. The seminar aimed to shed some light on the impact the domestic dynamics have on Iran's regional policy agenda, in particular Iran's relationship with the Levant and the Gulf region.

Introduction

Since President Hassan Rouhani was elected nearly a year ago and negotiations began between Iran and the P5+1, Western governments have tried to assess whether the new presidency has led to a substantive shift in Iran's factionalized political system. As negotiations on the nuclear question continue, will Rouhani and the Foreign Ministry he oversees be empowered to alter Iran's regional policy agenda in the Middle East? With a region in turmoil, what role will Iran play in its neighborhood? In this workshop, we examined the internal dynamics of change in Iran, its contentious regional relations and what Western governments can do to advance regional cooperation and stability while balancing their support for their allies with safeguarding their national interests.

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I. Domestic politics under President Rouhani

a. Shifts in the domestic balance of power

Adopting a cautionary approach, Ayatollah Ali Khamenei supports President Rouhani's policies on the nuclear file as long as he does not lose confidence in their beneficial effects. The Supreme Leader and the hardliners have accepted Rouhani's lead in negotiations on the nuclear issue in order to break Iran's international isolation and relief the economy.

Drawing on historic experiences under former Iranian President Khatami (1997-2005), Rouhani is careful not to evoke a similar backlash by Iran's hardliners. Although parallels between Rouhani and Khatami exist, the analogy between them should not be overstated. While Khatami tried to enforce far-reaching political and social reform, Rouhani merely competes with different factions *within* the regime. He is more conservative than Khatami, and considers himself part of the ruling system. Rouhani's insider status is exemplified by his former posts: He was a member of parliament from 1980 to 2000; served as deputy speaker of the parliament from 1992 to 2000; served as secretary of the Supreme National Security Council from 1989 to 2005 and was a member of the Expediency Council and a member of the Assembly of Experts from 2000 to 2014.

Rouhani and his pragmatist supporters are not as liberal (in the Western sense of the term) as they are often portrayed to be in the West. There is, for example, not necessarily an alignment between their stance on civil rights and the nuclear issue. Further, to alter foreign policy generally evokes less internal resistance than changing domestic policies. This is why Rouhani has been more successful in engaging with the international community than he has been on domestic issues such as Human Rights. The judiciary system, for example, currently headed by Sadeq Larijani and largely independent from the government, uses the soaring number of executions as a means to mark the limits of Rouhani's influence.

b. The state of Iranian civil society

Iranian civil society has been weakened over the past years due to several developments: First, the uprising in 2009 shook the Iranian regime to its core. The regime responded to the unrest with increasingly harsh suppression that ultimately weakened civil society. Second, sanctions led to the impoverishment of large

parts of the population which had a negative impact on civil activism.

Demographic developments in Iran are an important factor in the country's domestic politics. 60 percent of Iran's more than 73 million people are under the age of 30 years old. Judging by its sheer size, the current mid-aged group will be a crucial force to reckon with in the coming decade. The current situation is characterized by an aging top-level political leadership and a post-revolutionary, post-ideological young generation with little appetite to once again pay the high price for popular dissent encountered in 2009/2010.

Especially for the younger generation, ideology has very limited political appeal. The only 2013 presidential candidate who built his campaign on ideology was Saeed Jalili, who according to the official results gained merely 11.31 percent of the overall votes. All other candidates built their platform on the economy because they rightly assumed that ideology would not persuade a large number of voters. One of the participants estimated the number of ideological supporters of the Islamic regime at 20 percent of the population, even though the number is difficult to verify.

c. Iran's economy and the impact of sanctions

It is difficult to draw any general lessons on the effects of sanctions. In most cases, the population under sanctions becomes resilient to the sanctions regime after an extended period of time. Moreover, "sanctions fatigue" eventually causes those imposing sanctions to become inconsequential and inconsistent. In Iran's case, sanctions did not bring the Iranian economy to its knees due to a vibrant informal sector and increasing economic diversification. According to the assessment of one participant, it is a fallacy to believe that sanctions helped Rouhani to become President. Sanctions on Iran never influenced domestic politics to the extent that they could swing an election.

In Iran, sanctions were not effective in terms of their stated goal but they had a negative effect on the population. Sanctions normally hit states less than people, because elites know how to find their way around the sanctions. In fact, the margin of profit for shady elites increases the more the sanction regime strangles the population.

Nevertheless, the positive economic effects in response to the Joint Plan of Action (JPA) reached by Iran

and the P5+1 can already be observed. A positive economic development is crucial for Rouhani and his administration, as their political fate is closely tied to the state of the economy.

II. Iran's role in the Middle East

According to one of the participants, Iran's three main foreign policy objectives are (1) regime survival, (2) national security and (3) regional influence and exporting the Islamic revolution by supporting Islamic movements globally. To boost its national security, Iran primarily aims at becoming the primary regional player in Persian Gulf affairs.

The Rouhani administration is trying to lead a *détente* towards both the West and the South. This policy has its historical roots in the presidencies of Rafsanjani and Khatami. The current administration's opening towards the West centers on the nuclear issue, while the policy towards the South focuses on convincing the Gulf States that Iran does not pose a threat to them.

a. Obstacles and opportunities for a rapprochement between Iran and the GCC

The historic animosity between Saudi Arabia and Iran runs deep and rests on several structural barriers to rapprochement. These obstacles include the different regime types and a stark asymmetry in their regional policy. With varying degrees of intensity, relations between Riyadh and Teheran have been defined by a zero sum mentality for the past three decades.

The Supreme Leader and his inner circle have long believed that the Gulf States act according to U.S. interests. Part of the Iranian policy elite is convinced that the ultimate goal of U.S. policy towards Iran is regime change. Similarly, some Iranian elites assume that Saudi Arabia is too ideologically driven to accept the IRI as a legitimate part of the international community. According to this narrative, the Saudis fail to recognize that there is a degree of continuity in Iran's political system that no President will change. Such voices argue that as long as the IRI's basic state formation is not accepted by the Kingdom of Saudi Arabia (KSA), "deep" rapprochement with the Gulf kingdom remains elusive.

Iran is a Shia regional power by its sheer size and population. Some GCC countries, and KSA in particular, perceive Iran as a threat to their traditional order. Saudi

Arabia and Bahrain refuse to engage with Iran partly because they fear the IRI could undermine the loyalty of their Shiite citizens. On Tehran's part, a rapprochement with the Gulf demands a sensitive approach with regard to the Shiite population in the Arab Gulf states. The Gulf States, on the other hand, need to realize that hostility towards their Shia communities merely serves Iran's ability to meddle in their internal affairs. The more inclusive their approach towards the Shiite population will be, the less will the religious minority be susceptible to Iranian influence.

Despite the historic background of tensions and animosity, most participants agreed that limited rapprochement between Tehran and Riyadh remains possible. Former Iranian President Hashemi Rafsanjani (1989-1997) serves as a positive example for the extent to which individual leadership can bring about a *détente* between Saudi Arabia and Iran. Improved relations between Saudi Arabia and Tehran could potentially have a positive impact on the proxy war in Syria and growing tensions within Lebanon. However, the current path towards rapprochement between Iran and Saudi Arabia does not automatically lead to a shared vision on Syria. Changing the fundamental dynamics underpinning their regional rivalry would require Riyadh and Tehran to enter a process of reconciling the perception of their national interests, which are currently perceived to be at odds with each other.

Political and economic relations between the smaller Gulf States and Iran are rather diverse: Kuwait and Iran, for example, have had positive relations since 1991 and are currently expanding their economic ties, as symbolized by a bilateral nuclear gas deal struck on June 2. Oman and Qatar have a long history of fairly good relations to Iran as well. And while the UAE has had a troublesome relation with Iran in the past, in particular due to the Three Island dispute, their relationship is currently improving. All this indicated that Saudi Arabia might not be able to "hold its own house together" when it comes to confrontations with Iran. According to one participant, most of the smaller Gulf States do not have any interest in a hegemonic power game between Iran and Saudi Arabia. Many GCC states welcomed the election of Iranian President Rouhani but remain skeptical about the depth of change in Tehran. In particular, the influence of the new administration vis-à-vis the hardliners and especially the Iranian Revolutionary Guard Corps (IRGC) are in doubt. While some Gulf States have reacted positively to Iran's charm offensive, many Gulf Arabs still wonder whether

the overtures by Iran's Foreign Ministry symbolize a change in tone and style rather than substance.

b. Iran and the Levant

According to one participant's assessment, we are currently experiencing a semi- Cold War situation in the Middle East in which Saudi Arabia claims regional influence over the Gulf and Egypt while Iran is fighting for its sphere of influence in Syria, Lebanon and Iraq.

Iran's policies towards Syria are mainly motivated by two factors: (1) the role of Syria in strengthening Hezbollah as a deterrent towards Israel and (2) the fact that Syria is Iran's only loyal state ally in the region. Iran's support for Assad is based on pragmatic calculations rather than ideological commitment. One participant argued that Teheran might be willing to drop Assad if the price for supporting him becomes too high. Specifically, Tehran could agree to give him up (as long as part of the ancient regime survives) in exchange for (1) a comprehensive nuclear deal with the P5+1 and (2) recognition of Iran as a defining and indispensable power in the region. As part of the contingency plan made in Teheran for a time after Assad, the participant argued, Iran has already started to lay the grounds for a "Syrian Hezbollah".

Iran has consolidated its power in Lebanon and in Syria through Hezbollah. Hezbollah is a key political actor in Lebanon today. While the current political vacuum in Lebanon is not new, Hezbollah now for the first time does not wait for a green light from Assad to move ahead. The power dynamics between Assad and Hezbollah have flipped, with Hezbollah now being the stronger party.

The savior status Hezbollah had earned through its war with Israel in 2006 was damaged significantly when Nazrallah decided to side with Assad in Syria's civil war. Though Hezbollah has lost a lot of support domestically and in the region since 2011, its influence over the Lebanese Shia community remains strong. The second large Shia party in Lebanon, Amal, takes a very low profile on the war in Syria. Hezbollah has become "powerful by default", partly due to the inability of the March 14th movement to reach out to the Shia community.

While most participants agreed that Hezbollah and Iran are two sides of the same coin, some disagreement arose on the degree of Hezbollah's autonomy from Tehran. One participant argued that Hezbollah is completely on the payroll of the Iranian regime and not allowed to gain

any form of economic autonomy. Another participant argued that Hezbollah's primary goal is gaining domestic power in Lebanon- a goal for which it need financial and military support from Iran. All participants agreed that Hezbollah's strategy towards Syria is based on pragmatic rather than ideological calculations. Prospects for Lebanon's domestic stability were seen as rather gloomy, particularly with regards to the sectarian tensions fueled by the war in Syria.

The fight against Sunni extremists, however, could serve as a unifying factor across the political spectrum. Both Hezbollah and Iran fear the empowerment of Sunni jihadists in Syria and Iraq. In Lebanon, the March 14th movement does not want Sunni jihadists taking over either, as they are perceived as a threat to the current Sunni leadership.

The U.S. and Europe should provide the framework for Iran to turn from a potential spoiler into a constructive member of the international community. Inviting Iran to the negotiation table in Geneva does not guarantee successful negotiations. Not including Iran in the regional deliberations, however, guarantees that the crisis will not be solved.

III. Iran's relations with the West

a. Nuclear negotiations

As much as the current negotiations between Iran and the P5+1 are about technical issues, they also depend on psychology. The perception of strength and weakness are crucial in determining the outcome as well as the support for the deal. One participant argued that to every deal there are three essential parts: (1) the terms of the deal, (2) perceptions of the deal and (3) rumors around the deal. Both Rouhani and Obama have to show that they are not weakened by the negotiated outcome. Preparing for the public defense of the deal is therefore critical for both parties. The challenge for the negotiating parties is to create win-win situation for all sides in order to allow each participant to successfully sell the deal at home.

Lifting sanctions, most participants agreed, is a crucial aspect for Rouhani and Zarif to win the support they need in Tehran in order to sign a deal. The Western negotiating parties, however, face a critical dilemma: U.S. President Obama wants to lift sanctions but is unable to do so due to the resistance he faces in Congress. The Europeans for their part *can* lift part of the sanctions but have not yet

figured out whether they want to (especially without U.S. backing).

Another critical aspect for Rouhani and Zarif relates to special rules for Iran under the Nonproliferation Treaty (NPT). According to one participant, no Iranian politician will accept special rules for Iran for a decade or so to come. Such an arrangement might be helpful to sell the deal to a Western audience, but it is not acceptable for the Iranian public. It will be crucial for the negotiators to find a way to feed in Iran's past behavior without raising the perception of punishing the IRI.

If a comprehensive deal will be struck by either July 20th or after an extension of the JPA until December 2014, the road ahead is likely to remain rocky and the political climate fragile. If the monitoring and compliance regime breaks down, and the U.S. sees clear signs of weaponization in Iran, Obama will face increasing pressure for military action.

With the upcoming U.S. mid-term elections, Republicans have taken up Foreign Policy as one of their core campaign issues. Democrats are therefore in general on the defensive when explaining their Foreign Policy actions. Further, the domestic political environment is extremely polarized. Foreign Policy has not often been as pivotal of an issue as it currently is (one of the signs being that the "iron-clad commitment" to Israel increasingly questioned in Washington). In the U.S., domestic politics have only rarely eluded Foreign Policy decisions. In order to have real influence, however, domestic opinion on Foreign Policy issues must align with the White House.

b. Iran- U.S. relations beyond a nuclear deal

One participant argued that Khamenei wants to move relations with the U.S. from a "dysfunctional non-relationship" to a "functional non-relationship". Rouhani and his supporters, on the other hand, want to go one step further. While participants agreed that the U.S. and Iran are unlikely to turn into allies anytime in the foreseeable future, there are several transnational challenges that offer room for cooperation: They range from stabilizing Afghanistan, Iraq and Syria to environmental issues and combating terrorism.

There was widespread agreement amongst the participants that there is no direct link between a possible nuclear deal and Iran's foreign policy in the region. However, even if Iran does not actively change its regional

policies in response to a deal, the agreement is likely to have a regional impact. A comprehensive agreement will have both political and strategic implications.

The trickiest challenge posed to U.S. diplomats is how to influence Tehran's calculations regarding Iran's national interests and its respective policies. Though the scope for U.S. influence on Iran's assessment of its interests is rather limited, the U.S. and its partners can build a framework of incentives and disincentives which factors in the complex relationship between Iran's domestic and foreign policy. In the absence of economic sanctions tied to the nuclear issue, the U.S. will have little leverage over Iran though. Possible incentives could arise in the area of trade and safety at sea.

While the current U.S. administration has invested a lot of political capital to work towards a comprehensive agreement with Iran, there is very little planning under way for a strategy to engage Iran beyond a nuclear deal. While the U.S. administration does not seek confrontation with Tehran, there is a broad consensus across the political spectrum not to rule out any options to prevent Iran from acquiring nuclear weapons until full compliance with a potential comprehensive agreement is ensured. While some believe that a negotiated agreement with Iran is the most sustainable way to prevent the IRI from "going nuclear", considerable disagreement exists on how to best achieve such a deal. Ultimately, there is not a lot of light between these different fractions though. If a nuclear deal is struck between Iran and the P5+1, the relationship between Iran and the U.S. might start to resemble the U.S.-Russian relationship when it began to turn from a non-relationship to a somewhat functioning relationship by reaching mutual arms control agreements. This historic example shows, however, how difficult it is to link cooperation on specific arms control agreements to other issues such as regional policy.

c. Iran- EU relations beyond a nuclear deal

While the European Union is developing an increasingly distinct profile on foreign policy issues, the relationship between the EU and Iran has largely been shaped by member states' bilateral ties to Iran in the past.¹ Traditionally, the EU approach towards Iran differs from the U.S. approach by putting greater emphasis on Human Rights, political freedoms, minority rights and women's

¹ European member states, of course, tailor their foreign policy according to their own specific interests. Some of EU member states have strong historical and economic ties to Iran.

rights. Between 2002 and 2004, for example, the EU and Iran held four rounds of a bilateral Dialogue on Human Rights.

While the EU and the U.S. have increasingly synchronized their stance towards Iran since 2010, their respective approaches differ in style and emphasis, particularly with regards to the possibility of engaging Iran beyond the nuclear negotiations. There are, for example, currently plans under way to open a European embassy in Tehran by the end of 2014. Further, the European Parliament adopted a Resolution on the EU strategy towards Iran (2014/2625(RSP)) in early April, including areas such as sanctions relief, Human Rights and regional issues. The response from Iranian hardliners to the respective resolution by the European Parliament was very harsh.

The Iran delegation of the Parliament is roughly split between two groups, one of which is heavily lobbied by the MKO (Mojahedin-e-Khalq, an Iranian opposition movement in exile that advocates regime change in the IRI). In December 2013, an official delegation of European Members of Parliament embarked on their first official visit to Iran in seven years. The hardliners in Iran were quite confident in their encounter with the MEPs. The visit made apparent that Human rights issues remain the Achilles heel of the Iranian government.

There was general agreement amongst the participants that despite the potential for friction, the EU should make an effort to renew its Human Rights dialogue with Iran. While not having changed the domestic situation over night, one participant argued, the persistent EU Human Rights dialogue in the 1990s significantly contributed to an internal discourse on Human Rights in Iran (reaching as far as the scholars in Qom). The formalization of ties between the EU and Iran- such as in form of a Trade Agreement or formal Political Dialogue Agreement- is contingent on Iran's compliance with a potential nuclear deal, and the challenging process of re-building trust with the international community. Prior to discussing any kind of formalization of ties, however, the EU and the U.S. will have to deliver on lifting sanctions if Iran complies with a comprehensive agreement. Going well beyond economic incentives, possible EU cooperation with Iran stretches from fighting drug trafficking to stabilizing Iraq and Afghanistan.

Tailored to Europe's distinct historical relations, interests and leverage towards Iran, EP resolution (2014/2625(RSP)) calls for the EU to pursue "a more

independent policy towards Iran, while coordinating with allies and partners". The recent European Parliament elections in late May 2014 increased the influence of both the left and right fractions in the parliament. Regardless of the shift in the make-up of the European Parliament, however, the new EP will continue to focus on engaging Iran on Human Rights and regional issues, particularly Syria.

IV. Conclusions

Limits to Rouhani's influence: Rouhani's overtures towards the West and the Gulf are generally recognized as positive steps. However, how much influence the Rouhani administration has over Iran's regional policy remains subject to debate. The resistance Rouhani faces internally is starkest in the realm of domestic politics and Human Rights. Khamenei has so far adopted a "wait-and-see-approach" towards Rouhani's policies.

Rapprochement between Iran and Saudi Arabia?: There are deep historical barriers to a far-reaching rapprochement between Iran and Saudi Arabia. Major obstacles for an improved relationship include (1) the different regime types, (2) the asymmetry in their regional policy, (3) concerns by some Arab Gulf States that Iran could undermine the loyalty of their Shiite citizens. Nevertheless, limited rapprochement between Riyadh and Tehran is possible and could potentially have a positive impact on the regional proxy wars in Syria and Lebanon.

Iran's relations to the small GCC states: The smaller Gulf States each have very particular relations to Iran, partly defined by close economic ties. The recent weeks have seen several high-level visits between Iran and some of the Gulf States (Oman, Qatar, Kuwait and UAE). These signals suggest that Saudi Arabia is struggling to push for a hawkish common GCC policy towards Iran.

Iran's policy towards Syria: Participants agreed that preventing Syria from falling into the Western/Saudi camp is one of Iran's key regional interests. Iran's support for the Assad regime derives less from ideological commitment to Assad than from pragmatic considerations. Participants disagreed, however, on whether Iran's unwavering support for Assad is likely to change in the foreseeable future. While some argued that Iran would be willing to give up Assad in exchange for keeping the ancient regime in place, others argued that

the belief in Assad's centrality to his regime's survival make a change in Iranian policy unlikely.

Flipped power dynamics between Assad and Hezbollah: Hezbollah no longer requires permission from Assad for its actions and has become more confident both domestically and in Syria. It is now a (arguably *the*) key force in Lebanon despite a loss of popular support resulting from Hezbollah's role in Syria's civil war. Lebanon as a whole is increasingly affected by sectarian tensions fueled in Syria.

Nuclear negotiations: The U.S. administration and the Rouhani administration are in the same position of having to prove at home that the negotiations do not leave them weaker than before. As perceptions of the deal will critically influence its acceptance and sustainability, it is important to create a win-win scenario for all negotiating parties.

Linkage: Caution is in order regarding a positive spill-over effect from the nuclear talks to other issues of concern (particularly Human Rights and Iran's regional policy). A positive linkage is not self-evident and needs to be actively pursued by all sides. Nevertheless, increasing confidence-building between Iran and the international community bears the potential for further cooperation in other areas.

Strategic planning for "the day after" a nuclear deal: The U.S. administration seems to be reluctant to engage in strategic planning for "the day after" a possible nuclear deal. European policy-makers, in contrast, are eager to engage Iran on issues beyond the nuclear file, in particular on Human Rights and Iran's role in Syria. Possible areas for cooperation include stabilizing Afghanistan and Iraq, safety at sea, and trade.

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