

Iran After the Nuclear Deal

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Executive Summary

With the nuclear accord between Tehran and world powers in force, a chief question is what it means for Iran. The clash between competing visions of the country's future has heightened since the deal. Many, there and abroad, believe it could rebalance domestic politics. It not only has boosted the profile of those who promoted it, but, more fundamentally, it has opened space for new debates in a domestic sphere that was dominated by the nuclear issue for more than a decade. Yet, the political system, with its multiple power centres and tutelary bodies, inherently favours continuity. As its guardians try to quell the deal's reverberations and preserve the balance of power, any attempt by Western countries to play politics within the Iranian system – for instance by trying to push it in a “moderate” direction – could well backfire. If world powers hope to progress on areas of concern and common interest, they must engage Iran as it is, not the Iran they wish to see. To start, all sides should fulfil their commitments under the nuclear deal.

The accord comes at a sensitive moment. Over eighteen months, three pivotal elections are scheduled. February 2016 will see polls for parliament and the Assembly of Experts, whose key mandate is to choose the next supreme leader; in June 2017, there will be a presidential poll. With the supreme leader aging, many wonder if the next Assembly (during its eight-year term) will choose his successor, who could reshape the Islamic Republic's course. President Hassan Rouhani's competitors are concerned that he and his allies will parlay their foreign policy achievements into electoral victories.

Tensions within the Islamic Republic stem in no small part from its blend of popular sovereignty and religious authority. Theocratic forces seek to maintain the dominance of the supreme leader and other tutelary bodies, while republican forces advocate more clout for popularly-elected institutions. Each camp is further split between pragmatists who seek incremental political evolution and radicals who either resist any change or promote revolutionary transformation. The supreme leader – powerful but not omnipotent – maintains stability by accommodating both theocratic and republican trends. But his affiliation with the former makes for a balancing act that is as complex as it is imperfect.

The precariousness of this equilibrium means that policy shifts when pressure from below is accompanied by substantial consensus at the top. The nuclear talks illustrate this. Rouhani's election and the sanctions-battered public's demand for normalcy catalysed the process, but the agreement was not a single man's achievement. Supreme Leader Ali Khamenei had endorsed bilateral negotiations with the U.S. before Rouhani ran for office. He then supported the new president's diplomatic push and kept his opponents at bay. But given the leader's aversion to risk, his support was qualified and did not obviate Rouhani's need for a coalition with other power centres.

The president, who is from the republican camp, brought on board the most important allies: the pragmatic theocrats, who control the unelected institutions. Almost every powerful group had a say in the accord, which reflected a national, strategic decision to turn the page on the nuclear crisis even as concern remains over the world powers' commitment. The establishment appears as determined to imple-

ment the deal as it was to seeing the negotiations through – and largely for the same reason: to resuscitate the economy by removing sanctions, either as envisioned in the accord or by showing that Iran is not to blame for failure.

Rouhani has encountered difficulties in other spheres. He was forced to freeze priorities behind which he could not generate sufficient consensus, including social and political liberalisation. But his economic agenda, aimed at stimulating growth after several years of recession, is likely to move forward, even though it damages entrenched interests that have profited under the sanctions regime.

Everything suggests Rouhani will continue with a prudent approach, and change is likely to be arduous, slow and modest. Though the U.S. and its European allies might nudge him to move faster, there is no way to speed the reform process and many ways to undermine it. Seeking to empower republicans – touted in certain quarters as a potential by-product of the nuclear deal – will not work, as many theorists view that tactic as a stalking horse for regime change.

This does not mean giving Tehran *carte blanche*, domestically or regionally, but issues of concern will need to be addressed judiciously, taking account of Tehran's legitimate concerns no less than its adversaries'. It also means Iranians – notwithstanding the imperfection of their governance system, which many are the first to acknowledge – should determine their country's positions without undue external interference. Trying to shape Tehran's regional calculus through a variety of carrots and sticks is standard foreign policy practice, but trying to shape or short-circuit the decision-making process itself is another matter. As seen in the nuclear deal and now in the economic realm, internal consensus, reached through a credible domestic process, is the only stable basis for progress.

The best option for Western states and Iran is to continue reversing the negative narratives from decades of suspicion and hostility by fully implementing the nuclear accord; creating discrete and non-politicised channels to address other issues of concern or common interest; and, eventually, pushing for regional security architecture that takes account of both Iranian and Arab interests. In the end, Iran and the West may not be able to agree on a range of issues, but trying to game the Iranian system will ensure that they will not.

Tehran/Istanbul/Brussels, 15 December 2015

Iran After the Nuclear Deal

I. Introduction

The nuclear program plays an outsized role in Iran's domestic politics. It unites a broad swathe of the political spectrum – the vast majority of Iranians see it as a matter of national pride and certification of their country's scientific modernity – while, as the perhaps most contentious policy issue in Tehran of recent decades, it divides them as no other. It contributed to the demise of political currents pursuing a more pragmatic foreign policy in 2005, when they failed to reach a durable nuclear settlement with Europe; it then helped catapult some of these same forces back into power in 2013 after their predecessors bungled the continuation of the nuclear talks, which ended with Iran subject to draconian sanctions.¹

Since the Joint Comprehensive Plan of Action (JCPOA) was agreed on 14 July 2015, the broad consensus among Iran's key power centres around ending the nuclear standoff has given way to acrimonious bickering over the country's future. The supreme leader, who backed President Rouhani and kept his detractors at bay, has thrown his support to the other side of the spectrum, which fears that a rapid economic and political opening could unravel the regime – much as Mikhail Gorbachev's *perestroika* precipitated the disintegration of the Soviet Union. Hardliners are flexing their muscles and the anti-American backlash is palpable.

Like all countries, Iran's foreign policy is the extension of its domestic politics. As such, Crisis Group over the years has closely monitored domestic dynamics to identify windows of opportunity for diplomatic progress on the nuclear file and offered solutions that met Iran's core objective as well as those of its negotiating partners. This report assesses the internal implications of the nuclear accord in Iran and, on that basis, makes suggestions for how global powers and Tehran can best engage. A future report will extend this analysis to the foreign policy realm.

¹ Crisis Group Middle East Reports N°18, *Dealing with Iran's Nuclear Program*, 27 October 2003; and N°51, *Iran: Is There a Way Out of the Nuclear Impasse?*, 23 February 2006; and Crisis Group Middle East Briefing N°36, *Great Expectations: Iran's New President and the Nuclear Talks*, 13 August 2013.

II. The Political Context of the Nuclear Talks

The Islamic Republic's governance system mixes popular sovereignty and religious authority.² Republican features are most prominently represented by the popularly-elected president and unicameral parliament.³ A variety of theocratic bodies oversee these, foremost the Office of the Supreme Leader, which has final word on all matters of state. Selecting and theoretically overseeing the leader is the Assembly of Experts, 86 Islamic jurists. Other tutelary bodies supervise the executive and legislature, principally to guard the system's theocratic nature, though they can also intervene on secular matters. Most important of these is the Guardian Council, which vets legislation, ostensibly to ensure its conformity with Islam and the constitution, and the credentials of candidates for elected offices.⁴

Another oversight layer comes in the form of consensus-building and adjudication bodies, which resolve disagreements between elected institutions and unelected tutelary bodies. The Expediency Council arbitrates cases in which the legislature is overruled by a Guardian Council veto.⁵ The Supreme National Security Council (SNSC) functions differently from such bodies in other countries: it is a consensus-building mechanism, with representatives from all government branches and major political factions, that sets major state policies. Its decisions, when backed by the leader, supersede the legislature's laws.⁶ The new "Supreme Commission for the Resolution of Conflicts and Regulation of Relations" is tasked with adjudicating disputes among the government's three branches.⁷

The system's overlapping republican and theological features make it difficult to plot groups along a conventional right/left spectrum. The standard economic axis – from socialist/statist at one end to laissez faire/free market at the other – was relevant in the 1980s and early 1990s, but no longer is; most factions now espouse some version of economic liberalisation. The reformist (اصلاح طلب)-conservative (محافظه کار) dichotomy often used as shorthand to distinguish those who believe in rapid from gradual change respectively, is equally problematic. Former President Mahmoud Ahmadinejad, often labelled a staunch conservative, went considerably further than

² For a detailed description of Iran's political system, see Crisis Group Middle East Report N°5, *Iran: The Struggle for the Revolution's Soul*, 5 August 2002.

³ The president and 290 lawmakers are elected for four-year terms, with the former limited to two consecutive ones.

⁴ The Guardian Council comprises six clerical jurists directly appointed by the supreme leader and six lay jurists appointed by the parliament on suggestion of the head of the judiciary.

⁵ The Expediency Council comprises 44 statesmen appointed by the supreme leader for five-year terms and one relevant official invited to a given session based on the subject. Its constitutional responsibility also includes advising the supreme leader on all matters of state. Established in 1987, it has been headed by former President Akbar Hashemi Rafsanjani ever since.

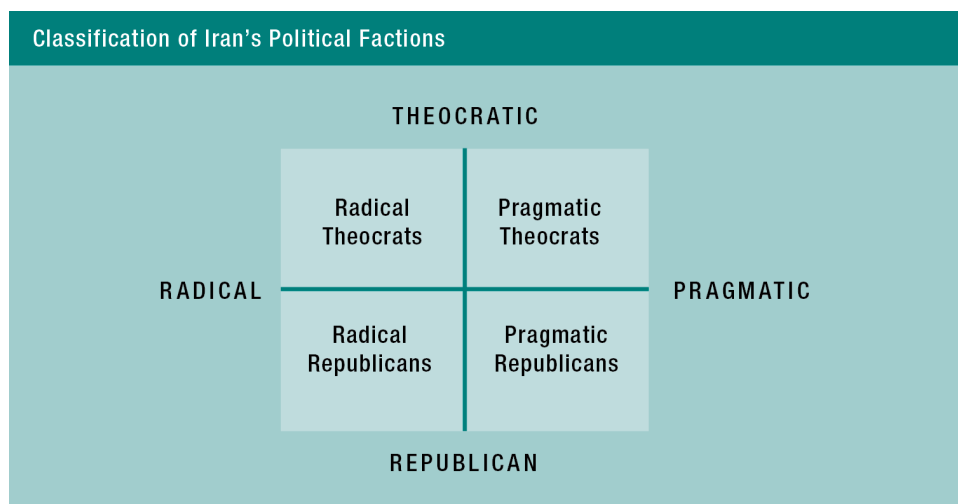
⁶ The SNSC is chaired by the president and includes the heads of the executive, legislative and judicial branches; the chairman, joint chiefs of staff of the armed forces; the head of the planning and budget organisation; two representatives of the supreme leader; the foreign affairs, interior and information ministers; any affected department minister in a session; and the commanders of the Islamic Revolutionary Guards Corps and regular military. Hossein Mousavian, ex-head of its foreign relations committee, noted: "The majority ... is appointed by the president, who also heads the meetings. Thus, its voice is decisive in policymaking. The leader rarely vetoes decisions made by the majority". Crisis Group interview, Washington, 1 July 2013.

⁷ Ayatollah Khamenei in 2011 delegated his adjudicatory responsibility to this five-member committee, led by ex-Judiciary Chief Mahmoud Hashemi Shahroudi, after conflicts between the legislative and executive branches, under then-President Ahmadinejad, reached new heights.

his predecessor, the “reformist” Mohammad Khatami, in transforming executive institutions and reforming the economy, particularly through vast privatisation and ending state subsidies.

Even Iran’s own political vernacular can confuse. Some factions called “extremist” (تندرو), like the ultra-conservative Steadfast Front (جبهه پایداری), do not seek radical change but earn that designation by firm resistance to it. Groups that do pursue radical reform, such as the Participation Front (جبهه مشارکت) under President Khatami, are often called “moderate”, mostly because they espouse a relatively conciliatory foreign policy and fairly liberal social norms. To add to the ambiguity, the “moderate” (میانه رو) label is also used for certain centrist politicians like ex-President Akbar Hashemi Rafsanjani and the incumbent, Hassan Rouhani, whose foreign policies are as conciliatory as the reformists’, but views on socio-political liberties tilt in the opposite direction, though not so far as conservatives’.

Better suited for analysing political groupings is a two-dimensional classification scheme.⁸ The first distinguishes different sources of legitimacy. At one end of the spectrum are theocrats, who deem divine providence, based on the principle of *velayat-e faqih* (the rule of the jurisprudent), the main source of authority in the system.⁹ At the opposite end are those for whom legitimacy is not solely conferred by God, but rather stems from popular will. The second axis pits pragmatists who seek to preserve or only gradually adjust the status quo against anti-status quo radicals who seek either a rapid return to the original principles of the revolution or possess strong revisionist inclinations.¹⁰ Taken together, these axes delineate four political quadrants:



⁸ For more background on the factional landscape, see Mehdi Moslem, *Factional Politics in Post-Khomeini Iran* (Syracuse, 2002); Mehran Kamrava, “Iranian National-Security Debates: Factionalism and Lost Opportunities”, *Middle East Policy* 14, no. 2 (2007): pp. 84-100.

⁹ The concept of an absolute *velayat-e faqih* holds that during the occultation of Shia Islam’s twelfth imam, a *faqih* (Islamic jurist) has custodianship over people on all matters over which the Prophet had responsibility, including governance. The theory was put in practice by Ayatollah Ruhollah Khomeini as the basis of the Islamic Republic’s constitution.

¹⁰ Payam Mohseni has suggested a similar classification based on the theocratic-republican divide on one dimension and the economic left/right divide on the other. In today’s Iran, however, it is hard to find viable political groups that pursue leftist economic policies. See *Guardian Politics in Iran*, Georgetown University (Washington, 2012).

Pragmatic Theocrats strongly subscribe to the *velayat-e faqih* principle, advocate economic liberalisation, espouse conservative Islamic socio-cultural norms, believe in projecting power in the region and see an unavoidable clash of interest between the West and an independent Iran. They are the old guard of the Islamic Republic, which dominates the majority of unelected institutions, such as the judiciary, Guardian Council and Expediency Council. The most prominent political parties in this category include the Society of Combatant Clergy (جامعه روحانیت مبارز), Coalition of Islamic Society (حزب مؤتلفه اسلامی) and Followers of Velayat (رهروان ولایت).

Radical Theocrats also strongly believe in *velayat-e faqih*, but espouse an amalgam of populist, statist and redistributive economic policies to promote equal welfare and social justice, adhere to restrictive Islamic socio-cultural rules and pursue a confrontational foreign policy based on an existential zero-sum battle with the West and maximising Iran's strategic depth in the region. Under the banner of Developers' Coalition of Islamic Iran (ائتلاف آبادگران ایران اسلامی), they held the presidency under Ahmadinejad (2005-2013). They maintain a presence in the incumbent parliament and the Assembly of Experts through the Steadfast Front, the Society of Qom Seminary Teachers (جامعه مدرسین حوزه علمیه قم), Wayfarers of the Islamic Revolution (رهپویان انقلاب اسلامی) and Society of War Veterans (جامعه ایثارگران).

Pragmatic Republicans by contrast emphasise the elected institutions and constitution more than divine authority. They advocate a market economy with state-driven industrialisation, support relative socio-cultural freedom within Islamic norms and espouse regional interdependence, interaction with the West and integration in the global economy. They include former Presidents Rafsanjani and his supporters in Executives of the Iran Construction Party (حزب کارگزاران سازندگی), Khatami and his allies in Association of Combatant Clergy (مجمع روحانیت مبارز) and current President Rouhani and the Moderation and Development Party (حزب اعتدال و توسعه) he founded in 1999. They are – for the most part – advocates of the “China model”, in which economic liberalisation takes precedence over political liberalisation.

Radical Republicans believe most strongly in the people's will, which as expressed in elections they deem the main source of government legitimacy. They contend that the supreme leader's authority ought to be subject to the constitution. They promote a free-market economy, have liberal views on socio-political issues and stress a cooperative regional policy and moderate foreign policy centred on normalising relations with the West. For them, political development toward “religious democracy” (مردم سالاری دینی) takes precedence over economic growth. Factions in this group, such as the Participation Front, Crusaders of the Islamic Revolution (مجاهدین انقلاب اسلامی) and National Trust Party (حزب اعتماد ملی), gained an upper hand in the parliament during Khatami's presidency (1997-2005), gradually lost power in his final years and were purged after they disputed the 2009 presidential election results. Some today are attempting to reestablish themselves under new structures such as the National Unity Party (حزب اتحاد ملت ایران اسلامی), which has more of a pragmatic republican flavour.

These four quadrants are less discrete and bounded affiliations than categories between which officials can move over time. The political coalitions that represent the ideals of the respective quadrants form and often dissolve with each election, as factions recombine to improve their fortunes. Lacking a coherent policy platform or membership beyond their founders, they are little more than vehicles for elite blocs, with shifting alliances based on short-term constellations of interests.

The current political landscape is the product of three decades of metamorphosis, punctuated by sharp changes at certain junctures that reconfigured the political map. Today, in the wake of the nuclear agreement, many believe the system is at the edge of a pivotal electoral sequence that could do just that: reshape the Islamic Republic's nature for decades to come.

The alliance of theocratic parties that consolidated power after the revolution despite economic policy disagreements came apart after Ayatollah Khomeini's death in 1989. Their fragmentation led to the emergence of the two theocratic groups, the pragmatist and radical. The former, advocating stability and reconstruction after a decade of tumult and war with Iraq (1980-1988), won the day and curtailed the latter's revolutionary agenda. Since then, they have maintained control of the country's unelected institutions.

The 1989 constitutional amendments bifurcated the political system, causing serious friction between the office of the supreme leader and executive branch during Rafsanjani's final years as president. The schism came to the surface during the 1997 presidential contest that pitted Khatami (backed by Rafsanjani), who sought to empower elected institutions, against theocrats (led by Ayatollah Khamenei), who sought to concentrate power in the office of the supreme leader. When Khatami was unable to bring change, popular frustration led to the rise of the radical republicans, who won parliamentary elections in 2000.

These groups continue to define the political field. Radical theocrats, hardened by their clash with radical republicans, captured parliament in 2004 and the presidency in 2005 and completely marginalised radical republicans in 2009. But their rule saw the economy grind to a halt and the country teeter on the brink of a military confrontation during the nuclear crisis. That paved the way for the return of pragmatic republicans, led by Rouhani, to the presidential palace in 2013.

Even as presidency and legislature switched hands over three decades, the unelected institutions have prevented any faction from attaining complete dominance. To maintain stability, the system manages, at times with difficulty and great dissatisfaction, to accommodate both republican and theocratic elements even if they lose an election, so long as they play by the pragmatic theocrats' rules. The supreme leader, who in theory is above the fray, maintains this balance. Ayatollah Khomeini did this on a simpler field – the republican current had not yet emerged – by mediating among Islamist factions. But his successor's positioning, at the intersection between pragmatic and radical theocrats, is fraught: "Ayatollah Khomeini was more a balancer than a player. Ayatollah Khamenei is more a player than a balancer".¹¹ This makes for an at times imperfect balancing act, as he strives to maintain his allies' grip on power but can afford neither to eliminate republicanism – to which many of the system's founding fathers and technocrats adhere – nor sanction a drift in their direction.¹²

¹¹ Crisis Group telephone interview, Iranian academic, Tehran, 28 September 2015.

¹² A former Iranian official explained: "As a revolutionary who witnessed the single-party monarchy's collapse, Ayatollah Khamenei deems a certain degree of pluralism necessary for the stability of a

The big question is what happens next. The system's features give rise to a policymaking process that is a function of negotiation and compromise between power centres. But unlike many states with checks and balances, the fulcrum around which the system turns, the supreme leader, has outsized power. With elections looming that could determine the next occupant of that office and pragmatic republicans having recently scored a significant victory with the nuclear deal, many hope, while many others fear, that the Islamic Republic could be headed for another turning point.

III. The Nuclear Talks: A Case Study

The conduct of nuclear negotiations is a study in the functioning of Iran's multipolar and highly factional system. While outside observers often credit Rouhani for the nuclear accord, it was by no means the achievement of a single man and his coterie.

Before seeking the presidency, Rouhani made sure that the supreme leader shared his goal of putting the nuclear issue to rest.¹³ His campaign promise to end Iran's isolation, lift sanctions and resuscitate an economy mired in sanctions, mismanagement and corruption led to his surprise election in 2013.¹⁴ But upon assuming office, Rouhani learned that Ayatollah Khamenei had already endorsed confidential negotiations with the U.S. two years earlier.¹⁵

It is difficult to discern the chief motivation behind the leader's pursuit of talks. While he clearly recognised sanctions' economic harm, it is uncertain whether he believed their cost was no longer sustainable.¹⁶ Regional turmoil – particularly in Syria, which added to Iran's financial burdens – perhaps shifted his priorities.¹⁷ Avoiding polarisation that unaddressed could have risen to levels not seen since 2009 may also have been an impetus.¹⁸ His public pronouncements, however, point to only one calculation: time was ripe for a negotiated solution “because Iran could go to the bargaining table with a strong hand”.¹⁹

From his previous stint as a nuclear negotiator (2003-2005), Rouhani knew he needed backing at the pinnacle of power.²⁰ But Ayatollah Khamenei's support, given his habitual risk aversion and need to balance factional interests, was qualified and apparently calculated to advance his agenda along several fronts. By expressing support for the negotiators and scepticism about the negotiations, the leader kept oppo-

¹³ A close confidant said, “Rouhani told his entourage if the leader is against serious negotiations, I will not run. He then went to see Ayatollah Khamenei. Upon his return, he announced his candidacy”. Crisis Group interview, 25 October 2015.

¹⁴ Stagflation, with an economic contraction near 7 per cent in 2012-2013 and runaway inflation topping 40 per cent, was unparalleled since the worst days of the Iraq war in the mid-1980s. گزارش “رشد اقتصادی در سال 92” [“Report on economic growth in 2013-14”], Central Bank of Iran, 12 August 2014. For more background on Rouhani's election, see Crisis Group Middle East Briefing N°36, *Great Expectations: Iran's New President and the Nuclear Talks*, 13 August 2013.

¹⁵ A senior Iranian official said, “Rouhani was shocked to learn that secret bilateral negotiations between Tehran and Washington had taken place in Oman, where in a volte-face, the U.S. had demonstrated flexibility in accepting a limited-enrichment program on Iran's soil”. Crisis Group interview, Vienna, April 2015.

¹⁶ Describing their impact on ordinary Iranians, the leader called the sanctions “illogical” and “barbaric”. Reuters, 10 October 2012. A former parliament member said, “the leader is [76 years] old. He wants to ensure that the revolution survives after him, and he recognises that cannot happen with a broken economy”. Crisis Group interview, Istanbul, November 2014.

¹⁷ Crisis Group interviews, Iranian officials, Tehran, Vienna, February-November 2014.

¹⁸ “دوقطبی بد خوب، دوقطبی” [“Good polarisation, bad polarisation”], Khamenei.ir, 27 June 2015.

¹⁹ He said, “in any diplomatic negotiations, there are two factors: your assets and your ability to use them as leverage to secure your core interests. Enter with an empty hand and you will lack manoeuvrability.... The ability to produce 20 per cent enriched uranium was one of [our assets] These concrete achievements and our resistance pushed the Americans to conclude that sanctions will not work and they will have to negotiate”. Khamenei.ir, 23 June 2015.

²⁰ In his memoir, Rouhani indicated the importance of the leader's support for rebuffing opposition: “Radicals and extremists were isolated and silenced after the supreme leader's strong confirmation of [the 2003 nuclear agreement Rouhani signed with his European interlocutors]”. Hassan Rouhani, *National Security and Nuclear Diplomacy* (Tehran, 2011), op. cit., p. 669.

nents at bay without silencing them.²¹ This restrained the negotiators, reminding them that, as a senior Iranian official said, “they could not go too far too fast”.²² It also strengthened their hand at the talks by constraining their margin of compromise.²³ The leader remained fully apprised of details but kept sufficient distance to deflect blame if they collapsed.²⁴ This same dual approach characterised his direct input to the negotiations: he advocated flexibility even as he publicly drew redlines.²⁵

Given the leader’s subdued backing, Rouhani needed the biggest coalition he could muster behind his diplomacy. Coming from the pragmatic republicans, he knew he could count on their backing. Radical republicans were supportive too, but since they remained politically marginalised, their support was of limited value. The radical theocrats were a lost cause: they categorically characterised his strategy as appeasement of Western foes.²⁶ They also appeared concerned about losing the economic gains many of them had made under the sanctions economy. As an Iranian official put it, “a powerful constituency is making astronomical profits on the back of sanctions. There is a direct correlation between the shortages of medicine and the increased number of Porsches in Tehran”.²⁷

That left the pragmatic theocrats, an especially important constituency because of their supremacy in key state institutions. Rouhani adopted a three-pronged strategy

²¹ In his own words, “I have never been optimistic about negotiating with the U.S. This is not based on an illusion, but informed by experience”. Khamenei.ir, 9 April 2015. Rouhani’s former deputy said, “without the leader’s backing, the Iranian negotiators could not have gone as far as they did”. Crisis Group interview, Hossein Mousavian, Berlin, 9 May 2015. Ayatollah Khamenei frequently expressed trust in Iran’s negotiators and warned against lobbying accusations against them. Kambiz Foroohar, “Iranian Leader Reining in Critics”, Bloomberg, 6 June 2014; “Trying to placate all, Iran’s leader zigs and zags on nuclear talks”, *The New York Times*, 27 June 2015.

²² Referring to the detailed scrutiny of the negotiations in the press and televised debates, a senior Iranian official complained, “no one dared criticise nuclear policies under Ahmadinejad. Six UN Security Council resolutions were simply shrugged off. Now, every word is parsed by everyone”. Crisis Group interview, Vienna, June 2015. Ayatollah Khamenei tweeted in March 2015: “I have already said that I support all Iranian administrations, but I would not give a blank check to anyone”. twitter.com/khamenei_ir/status/579287987017547777.

²³ Crisis Group interview, former Iranian official, Istanbul, April 2015. A British official noted: “The U.S. Congress is a more intractable opponent than hardliners in Tehran, yet [Foreign Minister Javad] Zarif has constantly used the card of ‘I can’t sell this to hardliners back home’”. Crisis Group interview, Montreux, 3 March 2015. Obama played that card as well. “Obama says GOP senators siding with Iranian hardliners”, *The Wall Street Journal*, 9 March 2015.

²⁴ While in one speech he discussed details of the talks (see Haleh Esfandiari, “From Khamenei, Conditions for a Deal on Iran’s Nuclear Program”, *The Wall Street Journal*, 8 February 2015), in another he emphasised only general negotiating guidelines. Khamenei.ir, 9 April 2015.

²⁵ An Iranian official explained, “Ayatollah Khamenei is mostly driven by power dynamics. He understands that a developing country cannot negotiate with six world powers from a position of weakness. Thus, the need for redlines”. Crisis Group interview, New York, April 2015. An article on the leader’s website suggested that the redlines were not “mines” that could not be stepped on, but “means” for reaching Iran’s goals. “Methodology of analysing the nuclear talks”, Khamenei.ir, 31 July 2015.

²⁶ The most ardent among them is the Steadfast Front, with nearly 40 seats in the parliament. An Iranian official called it “Iran’s Tea Party”. Crisis Group interview, Istanbul, January 2015. Rejecting interaction as futile and accusing Rouhani of pursuing compromise, radical theocrats advocate confrontation and resistance.

²⁷ Crisis Group interview, Brussels, September 2014. Without identification of individuals or institutions involved, the term “merchants of sanctions” has become prevalent. “رییس‌جمهور: دلالتان تحریم به” [“President: merchants of sanctions should start looking for a new job”], ISNA.ir, 28 April 2015.

to attract them. First, he tried to persuade them the talks were the best way to relieve sanctions, even if the West proved recalcitrant and diplomacy failed. In this case, he said, there would be a viable Plan B: shift the blame to the West to erode if not end sanctions. This, he convinced them, required a united front in support of diplomacy.²⁸ Secondly, to neutralise resistance of the pragmatic theocrats who remained sceptical, he capitalised on economic malaise by raising expectations about the dividends of a deal ushering out sanctions.²⁹

Finally, to avoid antagonising this decisive theocratic camp, Rouhani largely put off political and socio-cultural reforms – including healing the wounds of the 2009 elections, providing more freedoms to women and fighting endemic corruption – that he had promised during the election.³⁰ It was clear from the beginning that he not only lacked the support of theocrats of all kinds for such reforms, but also that insistence on them would be costly.³¹ A close associate described him as having little real choice: “He can neither fight several fires at the same time nor afford to antagonise other power centres amid negotiations”. The associate deemed his decision wise, as it “preserved elite cohesion at a crucial time”.³²

Rouhani also confined his economic reforms to those that had broad elite support. He brought in competent managers to direct fiscal and monetary policies, which, along with sanctions relief under the 2013 interim nuclear agreement, improved conditions.³³ The government arrested runaway inflation by controlling liquidity,

²⁸ A Rouhani associate noted: “Ahmadinejad’s ‘mad-man strategy’ played into the hands of Iran’s foes. Rouhani’s ‘rational-man strategy’ can, at best, result in a deal or, at worst, negate the narrative that Iran is the inflexible party at fault”. Crisis Group interview, Istanbul, October 2014. The policy had the advantage of creating a cushion for Rouhani in case of failure. As Zarif put it, “everybody [in the system] has taken every necessary measure to make sure we succeed. All Iranians know this. If we fail, [Iranians] will not consider us responsible. They will consider the other side’s excessive demands as a reason for failure”. Reuters, 8 February 2015.

²⁹ “تحریم از بین برود تا از آب خوردن مردم تا مشکلات مالی - بانکی حل شود” [“Sanctions must be removed before people’s problems – from their financial difficulties to drinking water – can be resolved”], *Vatan-e-Emruz*, 8 June 2015. A puzzled U.S. official asked, “what will Rouhani and Zarif do if they fail to deliver after raising expectations so high?” Crisis Group interview, Vienna, 15 May 2014. An Iranian official offered an explanation: “The risk is worth taking. Rouhani has no leverage other than pent-up public demands for translating his popular mandate into elite support for diplomacy”. Crisis Group interview, Vienna, 16 May 2014.

³⁰ “ناطق نوری: روحانی توانایی ورود به موضوع رفع حصر را ندارد” [“Nateq Nouri: Ending the house arrest of former presidential candidates is not in Rouhani’s purview”], BBC Persian, 1 August 2015. “معاون” [“Rouhani’s vice president: we didn’t pursue the issue of women’s presence in stadiums out of respect for the grand ayatollahs”], *ibid*, 1 July 2015. “علنی شدن پرونده های فساد به ضرر نظام است” [“Disclosing corruption cases could harm the system”], *Payam-e-No*, 29 May 2014. The theocrats’ sensitivity on these issues was evident in debates with Rouhani. “Iran’s Rouhani locks horns with hardliners over path to paradise”, *The Guardian*, 3 June 2014.

³¹ In one case, Rouhani’s pursuit of his promise to de-securitise the academic sphere, after years of severe Ahmadinejad repression, resulted in the impeachment of his higher-education minister. Farideh Farhi, “A ministerial impeachment in Tehran”, *Lobellog.com*, 21 August 2014.

³² Crisis Group interview, Istanbul, February 2015. Yet, a political analyst argued, “Rouhani learned the wrong lesson from Khatami’s experience. In fact, the more you retreat, the more your rivals advance”. Crisis Group telephone interview, Tehran, November 2014.

³³ A prominent Iranian economist argued sanctions relief led to an increase in oil exports, car production and imports of intermediate goods, prompting recovery. Crisis Group telephone interview, Djavad Salehi Isfahani, Virginia Tech professor, Tehran, 28 May 2015. An industrialist credited better management: “Internal sanctions, for example, unnecessary red-tape, unwarranted restrictions

presenting a more prudent budget that minimised its own expenditures and wound down or rectified some of Ahmadinejad's deficit-ridden ventures.³⁴ These steps had costs: high unemployment, foregone fiscal or monetary stimulus to the industrial sector and abandonment of many development projects.³⁵ Austerity helped bring the economy back from the brink,³⁶ but two years into Rouhani's term, the delay in sanctions relief, compounded by the fall in global oil prices, necessitated a course change and short-term stimulus package.³⁷

The nuclear negotiations offer a concise illustration of the key features of Iran's political order. The supreme leader is stronger than any other power centre but not omnipotent. He needs to protect his position by guarding the interests of his core constituency, particularly the pragmatic theocrats who dominate unelected institutions. But to ensure system survival, he allows a degree of pluralism, even if at times that risks confrontation. The president can advance his agenda only so long as his goals align with the leader's and he manages, often through compromise, to bring pragmatic theocrats on board. Grassroots pressure can lead to change, but only on issues that can generate a relative consensus at the top.

and unsteady fiscal policies, were as painful as international ones". Crisis Group interview, Tehran, July 2014.

³⁴ Inflation dropped from nearly 45 per cent in July 2013 to slightly above 14 per cent by end November 2015. Central Bank of Iran, cbi.ir/simplelist/13102.aspx. Rouhani tried to reduce the haemorrhaging caused by the cash grants program (about \$15 a month per recipient), initiated under Ahmadinejad's subsidy reform (costing more than \$60 billion between 2011 and 2015). "Iran raises gas prices by 40 percent in subsidy cut", Associated Press, 25 May 2015; "Iran to stop cash handouts to wealthy", *ibid*, 3 August 2015.

³⁵ Overall unemployment was almost 11 per cent in summer 2015, with women and youth rates 19.9 and 23.4 per cent, respectively. "چکیده طرح آمارگیری نیروی کار - تابستان 1394" [Summary of Workforce Statistics - Summer 2015], Iran's Statistical Centre, June 2015.

³⁶ After two years of contraction, the economy grew 3 per cent in FY 2014-2015. "خلاصه گزارش تحولات 1394" [Summary of Iran's economic developments in 2014/15], Central Bank of Iran, 16 June 2015. A member of his economic team said Rouhani was "trying to rescue a cancer patient. He first needs to reduce the fever, then start chemotherapy". Crisis Group interview, Tehran, June 2014.

³⁷ In an unusual open letter, the economy, labour, industry and defence ministers warned Rouhani against letting the economy slide back into recession. Shortly thereafter, the government introduced a six-month economic stimulus package of up to \$10 billion. "Four ministers secretly warn Rouhani about the economy, but why?" *Al-Monitor*, 5 October 2015; "Iran rolls out new stimulus package to boost economy", *Tehran Times*, 18 October 2015.

IV. Where from Here?

Now that the nuclear accord is in force, what will its consequences be for Iran's domestic and foreign policies? There is a perception in Tehran that the accord could rebalance politics, both because it is seen as a win for one part of the political spectrum and because it opens new space in a system that had been dominated by the nuclear issue for a decade. Precisely because of the possibility of change, the system's guardians already are trying to dampen the reverberations the deal has caused and reassert the balance of power. That effort is bound to exacerbate tensions over policy matters where the consensus that existed on the nuclear issue is lacking. It could even affect the agreement's implementation.

A. *Walking the Talk*

The leadership handled the internal post-deal debate the same way it managed the negotiations. The leader adopted an ambivalent position that, as a former Iranian official said, "provides enough support for the deal to stand, but not enough for him to become accountable for its potential risks".³⁸ To deflect responsibility, he engaged several power centres in the review and approval of the agreement. In spite of Rouhani's opposition and the 10 August SNSC approval of the accord, Ayatollah Khomeini asked parliament to review it.³⁹ The latter formed a special committee dominated by the radical theocratic minority. Its sessions – televised for the first time – provided a platform for the agreement's critics and its final report enumerated what its shortcomings were in their view.⁴⁰

It took another intervention by the leader's office to get the deal through parliament.⁴¹ After a heated debate, the body passed legislation that allowed the government to conditionally implement it;⁴² the Guardian Council approved the bill the

³⁸ Crisis Group interview, Istanbul, July 2015.

³⁹ "It is not expedient to bypass the parliament, but I have no advice on how the people's representatives should review, accept or reject the agreement". "Iran's supreme leader orders the parliament to vote on the nuclear deal", *The New York Times*, 3 September 2015. Seeking to avoid damaging scrutiny, Rouhani had argued that a parliamentary vote on JCPOA – a voluntary agreement – would add legally binding obligations on Iran that its negotiating partners had avoided taking upon themselves. "Rouhani opposes parliament vote on nuclear deal", Associated Press, 29 August 2015.

⁴⁰ In one session, former nuclear negotiator and prominent radical theocrat Saeed Jalili argued that the agreement forfeited more than 100 of Iran's inalienable rights. "جلیلی: در «برجام» حتی از حقوق تصریح شده در توافق ژنو هم عقب‌نشینی شده است" ["Jalili: In JCPOA there is even retreat from rights underlined in the interim agreement"], Fars News, 7 September 2015. The report – largely seen as one-sided – was criticised even by some committee members. "برجوردی: با گزارش بد کمیسیون برجام، ضربه بدی به کشور" ["Head of Parliament's National Security Committee: the JCPOA committee's unconstructive report gravely harmed the country"], ISNA.ir, 9 October 2015. Full text of report at bit.ly/1MaE8qD.

⁴¹ Reportedly in a meeting between Ali Asghar Hejazi, a senior official in the leader's office, and the heads of the parliament and SNSC, it was decided to push the bill to a vote with neither consideration of 197 of 200 proposed amendments nor additional debate. "حجازی و جلسه شب قبل از تصویب اجرای «برجام»" ["Hejazi and the meeting the night before JCPOA's endorsement"], BBC Persian, 13 October 2015. In response to criticism of his handling of the process, Speaker Larijani said, "the [nuclear] file is not mine; it is the leader's file". "لاریجانی: طرح برجام در کلان کشور هماهنگ شده بود" ["Larijani: JCPOA bill was coordinated at the state level"], IRNA.ir, 18 October 2015.

⁴² Deliberations were so heated that a parliamentarian had a heart attack and another threatened to kill the head of Iran's Atomic Energy Organisation by pouring cement on him and burying him under the Arak nuclear reactor. "Iran parliament approves nuclear deal bill in victory for Rouhani", Reuters,

next day.⁴³ The final element of the approval process was a letter from the leader to Rouhani conditionally approving the SNSC's decision to implement the deal. Reiterating his mistrust of the U.S. and noting that the accord suffers from "ambiguities and structural weaknesses", the leader demanded that the SNSC form an oversight committee.⁴⁴ Akin to his approach during the negotiations, he also drew a sharp red line, threatening to withdraw from the accord should any new sanctions be imposed on Iran, even on a non-nuclear pretext.⁴⁵

During this process, Rouhani was able to preserve the pragmatist coalition in support of the agreement, particularly by portraying it as a national victory, not his own or his camp's. Theocrats, radical and pragmatic, predictably depicted the deal as flawed, a tactic to prevent pragmatic republicans from capitalising on their success to shift the balance of power.⁴⁶ In the words of an Iranian ex-official, "the leader and his allies want the deal – not Rouhani and his allies – to succeed".⁴⁷

These dynamics affect implementation. The leader's endorsement letter conditioned two of Iran's less-reversible commitments under the accord – shipping out its stockpile of enriched uranium and destroying the core of its heavy-water reactor – on the International Atomic Energy Agency (IAEA) in effect closing its investigation into Iran's past nuclear activities during its 15 December special Board of Governors meeting.⁴⁸ While this ostensibly was designed to preserve Iran's leverage ahead of that important milestone, to Rouhani's allies it seemed a ploy to delay completion of Iran's obligations and thus postpone sanctions relief, lest it benefit the republicans in the February 2016 elections.⁴⁹ Radical theocrats went further, temporarily halting the

14 October 2015. The bill, entitled "The Iranian Government's Proportionate and Reciprocal Action in Implementing the JCPOA", passed with 161 votes in favour, 59 against and thirteen abstentions. It requires the government to withdraw from implementing the agreement if world powers renege on their commitments. Full text at 1.usa.gov/1QpSFWi.

⁴³ "In final step, top Iranian council approves nuclear deal", Associated Press, 14 October 2015.

⁴⁴ Full text at english.khamenei.ir/news/2336/Leader-s-letter-to-President-Rouhani-regarding-the-JCPOA.

⁴⁵ He wrote: "In the next eight years, any comments implying the sanctions' structure will remain intact or [new] sanctions will be imposed, at any level and under any pretext, would be a violation of the JCPOA". An Iranian official noted: "Ayatollah Khamenei doubts that the West's sanctions relief commitments are as verifiable as Iran's obligations under the deal. His letter is designed to mitigate that risk. It's pre-emptive". Crisis Group interview, Mostafa Zahrani, director, Institute for Political and International Studies, Brussels, 12 November 2015.

⁴⁶ Sadeq Larijani, a prominent radical theocrat and head of the judiciary, asked, "what is there to be proud of in the deal?" Kasra Naji, "Iran hardliners push back amid fears of change", BBC, 13 November 2015.

⁴⁷ Crisis Group telephone interview, Tehran, 1 November 2015. Most observers view the critical coverage by state television, controlled by the leader, as indicating he approved portraying the deal as weak. Crisis Group telephone interviews, Iranian analysts, August-November 2015. The deeply negative coverage even prompted complaints from parliamentarians. "انتقاد اعضای فرآکسیون اکثریت مجلس" ["Parliament's majority caucus members criticise state television for its critical approach towards the JCPOA"], BBC Persian, 1 November 2015.

⁴⁸ Thomas Erdbrink, "Iran Nuclear Deal Wins Tepid Endorsement From Ayatollah Khamenei", *The New York Times*, 21 October 2015. See the IAEA's "Final Assessment on Past and Present Outstanding Issues regarding Iran's Nuclear Program", GOV/2015/68, 2 December 2015; and the related Board of Governors resolution, GOV/2015/70, 7 December 2015.

⁴⁹ Crisis Group interview, Iranian officials, October-November 2015. "Iran's Rouhani says expects sanctions to be lifted by end-2015", Reuters, 27 October 2015. Sanctions relief is expected to take effect between January and March 2016, once the IAEA verifies that Iran has fully implemented its

process of uninstalling centrifuges until officials made clear that they were removing inactive machines and only later would remove the nearly 9,100 operating centrifuges.⁵⁰

While domestic politics can delay Iran's implementation, they are unlikely to derail it. The establishment appears as committed to carrying out the accord as it was to seeing negotiations through, and for largely the same reason.⁵¹ Republicans and theocrats agree the strategy should remain securing sanctions relief while ensuring that any potential failure is not blamed on Iran.⁵² The durability of this consensus will depend in large part, at least in the short-run, on the economic improvement brought by sanctions relief.⁵³ Most officials and observers agree that so long as the agreement benefits Iran economically and its threat environment is not fundamentally altered – either by another state in its near-abroad acquiring a nuclear weapon or a military attack that might impel it to push for the ultimate deterrent – the leader and pragmatic theocrats will remain supportive.⁵⁴

But impediments in sanctions relief – either procedural snags, as during implementation of the interim agreement in 2014, or deliberate action by a stakeholder to undermine the deal – could quickly erode Tehran's commitment.⁵⁵ Already some in the U.S. Congress are seeking ways to pass new bills to prolong the sanctions' effects.⁵⁶ In parallel, some U.S. states, not bound by executive agreements, have sought to tighten their own sanctions by dissuading foreign companies from investing in Iran.⁵⁷ As

key nuclear obligations under the agreement. The population is unlikely to experience tangible effects before the elections.

⁵⁰ "Iran has stopped dismantling nuclear centrifuges: senior official", Reuters, 10 November 2015.

⁵¹ Iran's recent missile tests violate UN Security Council Resolution 1929, which imposed a binding ban on Tehran's testing of short- and medium-range ballistic missiles. UN Security Council Resolution 2231, which endorses the JCPOA and overrides 1929, does not prevent Iran from testing ballistic missiles but rather "calls upon" Iran "not to undertake any activity related to ballistic missiles designed to be capable of delivering nuclear weapons" for eight years. 2231 will not come into effect until the JCPOA's implementation day, when the IAEA certifies that Iran has met certain commitments under the deal. "Iran statement following UNSC Resolution 2231 endorsing JCPOA", Iranian Ministry of Foreign Affairs, 20 July 2015; Bradley Klapper, "US official: Iran tested another ballistic missile in November", Associated Press, 8 December 2015.

⁵² Crisis Group interviews, Iranian officials, Istanbul, July-August 2015. A senior Iranian official said, "nothing negated negative narratives about Iran more than our commitment to the interim agreement. We will abide by our obligations under the final deal, because if we don't, we can never again win over international public opinion". Crisis Group interview, Vienna, June 2015.

⁵³ Ayatollah Khamenei repeatedly has made this clear: "The reason why we entered into negotiations and made some concessions was to lift sanctions. Now, if sanctions are not effectively lifted, there will be no deal since this will be meaningless". Khamenei.ir, 3 September 2015.

⁵⁴ Crisis Group interviews, Iranian officials, analysts, Istanbul, Vienna, July-November 2015.

⁵⁵ Repatriation of assets to Iran under the interim agreement was delayed by several months, as Swiss banks remained fearful of transactions previously banned by U.S. authorities. Crisis Group interviews, Iranian, European and U.S. officials, Vienna, February-April 2014; Laurence Norman, Nour Malas and Benoit Faucon, "Iran Can't Withdraw Much Oil Revenue Under Interim Nuclear Deal", *The Wall Street Journal*, 6 April 2014.

⁵⁶ For example, the following bills have been introduced: H.R. 3457 would prohibit lifting sanctions until Iran pays judgments against it for acts of terrorism and other purposes; S. 2094 would express the sense of Congress that Iran's Revolutionary Guard Corps meets the criteria for designation as a foreign terrorist organisation and should be so designated by the secretary of state; and H.R. 158 would restrict U.S. visa waiver program for citizens of 38 countries who visit Iran and three other countries.

⁵⁷ In a letter to President Obama, fifteen governors vowed to keep state-level sanctions. Andy Sullivan, "As their prospects dim in Washington, Iran deal foes take fight to states", Reuters, 8 September

a senior Iranian diplomat put it, “a quid pro quo diplomatic process could easily give way to an escalatory tit for tat”.⁵⁸

The supreme leader’s oft-repeated pessimism about the West’s commitment to the accord and his reluctance to unequivocally endorse it have laid the groundwork for blaming Rouhani and pragmatic republicans more broadly for any hitches with sanctions relief.⁵⁹ Rouhani understands that economic recovery requires a calm post-deal environment, necessitating successful implementation, which is not possible without the cooperation of other power centres.⁶⁰ This could constrain the president’s ability to push policies in other realms, unless he builds new coalitions or gains the strong backing of the leader.

B. *An Electoral Crossroad*

The next major test will be the twin elections of the Assembly of Experts and parliament on 26 February 2016. Both pragmatic and radical theocrats seemingly are concerned they will enable Rouhani, Rafsanjani and the pragmatic republicans to capitalise on the nuclear deal. Should they capture a bigger representation in the Assembly of Experts, they would gain greater influence in the selection of Ayatollah Khamenei’s successor, thus in determining the country’s future direction.⁶¹ One of its radical theocratic leaders warned: “The current balance in the Assembly is sound but [pragmatic republicans] want to disturb it. They know they are unable to form a majority in the Assembly, but creating a powerful minority would be a victory for them”.⁶²

The Guardian Council is expected to employ even stricter filters than usual to prevent such an outcome.⁶³ No less worrying for theocrats is the risk that radical republicans, dubbed “seditionists” by the political establishment and marginalised after the 2009 election, might engineer a comeback in the shadow of pragmatic republicans. The powerful secretary of the Guardian Council, Ayatollah Ahmad Janati,

2015; Todd Richmond, “Wisconsin lawmakers propose Iran business prohibition”, *Christian Science Monitor*, 15 November 2015.

⁵⁸ Crisis Group interview, Istanbul, September 2015. Articles 25 and 26 of the JCPOA underscore the U.S. government’s responsibility to prevent state-level or new Congressional sanctions from depriving Iran of the full benefits of sanctions relief.

⁵⁹ A former member of parliament said, “this is not the end. The system could hold the agreement and its implementation as a Sword of Damocles over Rouhani’s head for years to come, the same way he was blamed for a decade for the first nuclear agreement he signed with the West in 2003”. Crisis Group telephone interview, Tehran, 21 July 2015.

⁶⁰ An Iranian official noted: “It doesn’t take much imagination to forecast what happens if the Revolutionary Guards practice strategic incompetence in providing access to the IAEA to inspect a suspect military site. All hell breaks loose”. Crisis Group interview, Istanbul, July 2015.

⁶¹ Crisis Group telephone interviews, former Iranian officials and political analysts, Tehran, January-June 2015. A political analyst said, “the Assembly of Experts’ election could be the most consequential in the history of the Islamic Republic. Losing control there could lead to regime transformation”. Crisis Group interview, Vienna, 29 June 2015. “هشدار دبیر شورای نگهبان در مورد تصرف مجلس” [“Warning of the Guardian Council’s secretary against plans to seize the Assembly of Experts”], BBC Persian, 30 March 2014.

⁶² “می خواهند احمد خاتمی در خیرگان رأی نیاورد” [“They want Ahmad Khatami to acquire no votes for the Assembly of Experts”], Mehr, 7 November 2015.

⁶³ Crisis Group telephone interviews, former Iranian officials and political analysts, Tehran, January-November 2015. In the 2006 Assembly elections, the Guardian Council disqualified 70 per cent of 493 registered contenders. In some provinces (eg, Lorestan and East Azarbaijan), the number of approved candidates was equal to the allocated seats.

with close ties to both radical and pragmatic theocrats, repeatedly has warned against this.⁶⁴ His concern is not unfounded. Some radical republicans have tried to create new parties and front candidates with views closer to those of pragmatic republicans.⁶⁵ Another tactic would be to flood the field with less-known republican-leaning candidates, making mass disqualification impractical, though the Council already has promised to bar unknown candidates.⁶⁶

Rouhani would only be affected by the Guardian Council's strictures should its application of disqualification criteria be so zealous that not only radical republicans but also his pragmatic republican allies are barred, leading to an uncooperative parliament that obstructs his agenda and threatens his re-election in 2017.⁶⁷ This explains Rouhani's unprecedented questioning of the Guardian Council's role in vetting candidates.⁶⁸ Too, the election will be a referendum on his popularity, since he is an incumbent up for re-election in the Assembly of Experts – where the Guardian Council will probably employ an even stricter filter – as well as that of other prominent members of the republican camp, including his mentor, Rafsanjani, and Hassan Khomeini, a grandson of the Islamic Republic's founder and a pragmatic republican.⁶⁹

Rouhani's electoral campaign will face mundane challenges as well. His factional base lacks extensive organisational capacity and the government, charged with administering elections, is required to remain non-partisan.⁷⁰ From the president's perspective, the minimum bar for claiming success will be what Amir Mohebian, an influential political strategist, called a "friendlier parliament".⁷¹ That relatively modest goal could be achieved, if radical theocrats, especially those affiliated with the Steadfast Front – who have no accomplishment other than obstructing the government's plans – were weakened.⁷²

⁶⁴ "Janati: Sedition is our redline", Fars News, 20 May 2015. "جنتی: فتنه، خط قرمز ماست"

⁶⁵ Najmeh Bozorgmehr, "Iran's reformists cautiously optimistic about new parties", *The Financial Times*, 25 May 2015.

⁶⁶ A former radical republican politician called the latter option the "tsunami strategy". Crisis Group telephone interview, Tehran, 21 July 2015. "دولت و وزارت کشور نمی توانند به جریان خاصی گرایش داشته باشند" ["The government and interior ministry should remain nonpartisan"], ISNA.ir, 30 May 2015. Vague criteria, such as faith in Islam or loyalty to the principle of *velayat-e faqih*, allow for disqualifications based on dubious pretexts. In the last two parliamentary elections, the Guardian Council barred almost one in three contenders.

⁶⁷ Crisis Group telephone interviews, Rouhani adviser, Tehran, July 2015; Nasser Hadian, Tehran University professor, Istanbul, 13 July 2015.

⁶⁸ He said, "the Guardian Council is the supervisor, not the administrator of the elections. The Council is the eye and cannot function as the hand. Vetting is the responsibility of election management councils [organised by the interior ministry] who will not qualify one faction and not the other". President.ir, 19 August 2015. Rouhani's comments elicited harsh pushback from the leader and other power centres. Arash Karami, "IRGC head warns Rouhani", *Al-Monitor*, 20 August 2015.

⁶⁹ A former official noted: "Image matters. Low votes cast for Rafsanjani and Rouhani could publicly discredit them". Crisis Group interview, Istanbul, April 2015. "Khomeini's grandson to enter Iranian politics", *Agence France-Presse*, 10 December 2015.

⁷⁰ Rouhani's Moderation and Development Party never evolved into a full-fledged political organisation. A political analyst said, "it is hard for the people to reward the president by supporting a specific candidate with unspecific ties to him". Crisis Group telephone interview, Tehran, February 2015. "دست‌اندرکاران امور اجرایی و نظارتی از اعلام‌نظر درمورد نامزدهای انتخاباتی منع شدند" ["Electoral administrators and supervisors are banned from opining on candidates"], *Tasnim*, 27 October 2015.

⁷¹ He added: "Rouhani's best bet is to transform the [republican-theocratic] dichotomy into a [pragmatic-radical] duel". Crisis Group telephone interview, Tehran, 5 August 2015.

⁷² A few members of the Steadfast Front instigated the majority of 10,000 questions and legal notices that the parliament issued to Rouhani and his cabinet in the past two years. "تعداد سوالات و تذکرات"

Ayatollah Khamenei has his own electoral priorities. As a former Iranian official put it, “he wants neither a redux of the 2000 takeover of both the legislature and executive branches by the [republicans], nor the 2009 polarisation and controversy over tainted elections”.⁷³ He also appears keen to ensure that the rival, republican vision promoted by Rafsanjani does not gain momentum in the Assembly of Experts;⁷⁴ the next parliament is relatively pluralistic; and there is high turnout, to reaffirm the system’s popular legitimacy.⁷⁵

It seems certain that theocratic forces close to the supreme leader will retain control of the Assembly of Experts. Parliamentary election results, however, are notoriously hard to predict, since the contests, unlike the presidential one, are local affairs in most districts, minimally affected by national politics and foreign policy. Most analysts foresee a pragmatic theocrat majority, with a strong showing by pragmatic republicans, a small minority of radical theocrats and possibly an even smaller group of less controversial radical republicans.⁷⁶ However, Rouhani would still have cards to play. As president, he could dispense largesse in the next parliament and craft a new republican bloc.⁷⁷

C. *Two Roads Diverge*

The broad consensus about moving past the nuclear crisis that unites pragmatic theocrats and republicans is not reflected in any other policy matter. The republicans favour integration into the global economy and more pluralistic politics at home; theocrats, while not opposing economic liberalisation, fear that a rapid opening could render the country vulnerable to outside influence and bring about a political liberalisation that eventually weakens their grip on power.⁷⁸

Rouhani subscribes to the former view, that the economy cannot thrive in isolation, and economic interdependence would deter outside coercion.⁷⁹ By contrast,

بهارستانی ها به 10 هزار رسید” [“The parliament’s questions and notices reach 10,000”], IRNA.ir, 21 June 2015. The Steadfast Front has begun mobilising for the elections and coalescing with likeminded groups. “مثلث پر ابهام” [“The opaque triangle”], *Hamshahri*, 19 October 2015.

⁷³ Crisis Group interview, Istanbul, April 2015.

⁷⁴ Some analysts predict an uphill battle for Rafsanjani in the Assembly of Experts election, evidenced by his defeat for the Assembly’s chairmanship in March 2015 and corruption charges against his family. Crisis Group telephone interviews, Tehran, June 2015. “Iran hardliner Yazdi picked to head Assembly of Experts”, BBC, 10 March 2015. “Son of former Iran president Rafsanjani submits to jail term”, Reuters, 9 August 2015.

⁷⁵ Average turnout in parliamentary elections since 1979 is 60 per cent.

⁷⁶ Crisis Group interviews, Tehran, Istanbul, Rome, September–November 2015.

⁷⁷ Average incumbency is 29 per cent in the parliament, nearly 85 per cent in the Assembly of Experts. In the 2012 parliament elections, 35 per cent of first-time lawmakers were independents. Often they join one of the political blocs after assuming office.

⁷⁸ An Iranian scholar noted that in contrast to pragmatic republicans’ preferred “China Model”, pragmatic theocrats pursue Vladimir Putin’s “Russia Model”, based on “securitising the state and the economy to prevent a U.S.-supported regime change” while “introducing limited privatisation and liberalisation intended to largely benefit the regime’s loyalists”. Mohammad Ayatollahi Tabaar, “Iran’s Russian Turn”, *Foreign Affairs* (online), 12 November 2015.

⁷⁹ He said, “in today’s world, no country can solve its problems and reach its goals alone. If we act correctly, we will arrive at such a point that isolating and sanctioning Iran will be impossible”. President.ir, 2 November 2015. An adviser to the president said, “Rouhani believes the stronger Iran’s economic ties to other countries are (including through joint ventures), the less vulnerable it will be to sanctions”. Crisis Group interview, Vienna, July 2015.

Ayatollah Khamenei and his theocratic allies believe that since Western and specifically U.S. economic influence could be a means of infiltration, autarky is safer.⁸⁰ In the deal's wake, these diverging visions appear on a collision course: Rouhani desires to build on his achievement to effect further transformation, while the leader seeks to reassure his core theocratic constituency that the nuclear accord was a narrow transaction that will not alter Iran's fundamental orientation.⁸¹

The most critical clash likely will be in the economic arena. The establishment, broadly speaking, has tried to find common ground around the Expediency Council's "Vision 2025" plan – which outlines a roadmap for the country's economic, political, social and cultural developments, aiming to make Iran the region's premier knowledge-based economy within a decade – and the leader's doctrine of "A Resistance Economy", which defines a path for increasing domestic production, decreasing reliance on oil revenues, boosting non-oil exports and encouraging private sector-led growth.⁸² Each camp interprets these guidelines its own way. The differences are bound to deepen with the lifting of sanctions, which disrupts vested interests and poses questions about priorities. Undoubtedly, the government will face opposition from those who, having benefitted from sanctions, dread an economic opening.⁸³ The multitude of semi-state companies – in many cases affiliated with radical and pragmatic theocrats who used their positions to control trade channels⁸⁴ – are likely to try to preserve privileges by hindering economic reintegration or ensuring they are its principal beneficiary.⁸⁵

⁸⁰ Ayatollah Khamenei said, "the only solution to the country's economic problems is to employ [Iran's] infinite domestic capacities, not to pin hopes on the lifting of sanctions". Khamenei.ir, 9 February 2014. After the deal, he warned: "The [U.S.] thought this deal would open up Iran to their influence. We blocked this path and will definitely block it in the future. We won't allow American political, economic or cultural influence in Iran". Khamenei.ir, 17 August 2015.

⁸¹ The discord is evident in the two men's pronouncements. Since the deal, Rouhani has repeatedly qualified it as a springboard for "constructive interaction with the world", while the leader has emphasised continuity in Iran's support for its regional allies and opposition to the U.S. and Israel. President.ir, 3 April 2015; Khamenei.ir, 18 July 2015.

⁸² Bijan Khajehpour, "Decoding Iran's 'resistance economy'", Al-Monitor, 24 February 2014.

⁸³ In a turnabout, Rouhani tried to reassure these stakeholders that the deal would not come at their expense. "روحانی: کاسبان تحریم نگران کساد شدن دکانشان نباشند." ["Rouhani: Merchants of sanctions should not fret for their business"], ISNA.ir, 12 October 2015.

⁸⁴ Ahmadinejad's massive transfer of state-owned assets to semi-governmental organisations created complex conglomerates, with shadowy ownership structures, affiliated with charitable foundations, the Revolutionary Guards and pension funds, among others. Kevan Harris, "Iran's political economy under and after the sanctions", *The Washington Post*, 23 April 2015.

⁸⁵ Crisis Group interviews, Iranian officials and analysts, Istanbul, Vienna, April-October 2015. Examples are multiplying. Currents close to the Revolutionary Guards tried in recent months to stymie a high-tech entrepreneurship conference and prevent handover of a few upstream gas projects to Chinese firms and arrested an Iranian-American businessman who formerly helped foreign firms enter the Iranian market. "برج چگونه به دشمن خدمت می‌کند؟" ["How [i] Bridge serves the enemy"], *Vatan-e-Emruz*, 4 May 2015; "حلقه کرسنتی‌ها برای زنگنه استیضاح تحفه می‌آورد" ["The 'Crescent Circle' gifts Zanganeh with impeachment"], *Javan*, 13 June 2015; "Iranian-American Executive Arrested in Iran", *The Wall Street Journal*, 29 October 2015. But as an Iranian entrepreneur put it, "the Revolutionary Guards is anything but monolithic. Some segments see opportunities in an open market, while others only see threats". Crisis Group interview, Istanbul, April 2015.

Another key question will be how to direct the resources sanctions relief provides.⁸⁶ A powerful segment of the theocratic camp with close ties to the bazaar and traditional merchant class favours strengthening the currency to reduce the price of imports.⁸⁷ The government fears the inflationary consequences of that approach, its effects on domestic industries and potential to encourage excessive consumption, which could turn a potential economic boom into a bust.⁸⁸ It prefers to retain the assets in sovereign-fund accounts to boost investments.⁸⁹ Interest groups are lobbying hard on both sides. Some of these funds could be channelled to advance regional policies, though so far, there is little domestic debate over how sanctions relief might affect security policy. An Iranian official expressed a commonly heard sentiment among the foreign policy establishment – “What determines our regional policy is not money but our threat perception”⁹⁰ – but with regional tensions high, much remains unclear about what, if anything, the infusion of cash will mean for Iran’s regional posture.⁹¹

Implementing much-needed structural reforms in this contentious environment will be difficult – and made more difficult still by the unrealistically high public expectations of rapid economic recovery with the lifting of sanctions, what a prominent Iranian entrepreneur called “the great unshackling”.⁹² A substantial economic dividend likely will be slower to materialise than expected, as many foreign firms and financial institutions remain hesitant to re-engage Iran, given continuing risk and market-entry barriers.⁹³ Nevertheless, economic recovery is likely to remain a higher priority than other campaign promises – such as opening the system to great-

⁸⁶ According to the central bank, Iran’s foreign-exchange assets abroad amount to \$107 billion, of which \$29 billion can be promptly repatriated. “جزئیات پول‌های بلوکه‌شده ایران در نامه سیف به روحانی” [“Details of Iran’s frozen assets in Saif’s letter to Rouhani”], Fars News, 20 July 2015.

⁸⁷ Crisis Group interview, member of Tehran’s chamber of commerce, Istanbul, July 2015.

⁸⁸ Rouhani promised there would be no repeat of 2005-2013, when “Iran’s \$720 billion [oil revenue] was spent on imports, leaving the country’s major challenges unresolved”. President.ir, 30 June 2015. An Iranian economist said, “Rouhani’s dilemma is whether to demonstrate the dividends of the nuclear agreement quickly or take the high road to prosperity and reintegrate into the global economy as a nation of producers rather than consumers”. Crisis Group telephone interview, Djavad Salehi Isfahani, Virginia Tech professor, Tehran, 28 May 2015.

⁸⁹ A central bank deputy governor said, “the money will help [boost] confidence in our finances”. Quoted in “Iran’s Central Bank plans for unfreezing of overseas funds”, *The Wall Street Journal*, 28 September 2015.

⁹⁰ Crisis Group interview, Istanbul, April 2015.

⁹¹ Iran’s military spending in 2014 is estimated at \$15 billion, much less than Saudi Arabia’s \$80 billion and the five other Gulf Cooperation Council states’ \$35 billion. Anthony Cordesman, “Military Spending and Arms Sales in the Gulf”, Centre for Strategic and International Studies, 28 April 2015.

⁹² Crisis Group interview, Athens, 4 June 2015. Rouhani’s failure, so far, to extract tax from previously tax-exempt semi-governmental organisations affiliated with the clerical establishment and Revolutionary Guards is a case in point. “قانون‌شکنی شبه دولتی‌ها” [“Semi-governmental organisations’ breach of law”], *Hamshahri*, 29 June 2015. He also contends that as long as there is smuggling – estimated at \$25 billion – it will be impossible to implement a resistance economy. President.ir, 19 April 2014.

⁹³ Crisis Group interviews, Iranian and Western entrepreneurs, London, Istanbul, New York, April-November 2015. “A convoluted legal structure, complicated bureaucracy, rampant corruption and difficulty of finding reliable partners and competent general managers will create barriers for foreign firms’ entry into Iran”, Crisis Group telephone interview, Bijan Khajehpour, executive director, Atieh International Consulting, Vienna, 27 May 2015. Rouzbeh Pirouz, “Lift the crippling sanctions Iran has imposed on itself”, *The Financial Times*, 20 July 2015.

er political participation and rolling back the securitised environment that emerged under Ahmadinejad – given both Rouhani’s record and the theocratic hostility on the political and socio-cultural fronts.

That the leader appears to have sided, unsurprisingly, with his own theocratic base since the nuclear deal will encourage the president to pursue a narrow agenda. To maintain internal balance, the leader has impeded him from advancing political reform, loosening the Guardian Council’s grip on the elections, de-securitising the domestic sphere and relaxing socio-cultural restrictions.⁹⁴ “As soon as Rouhani started flexing his muscles in the wake of the nuclear deal”, an Iranian academic said, “the supreme leader cut him down to size”.⁹⁵ The security apparatus cracked down, arresting journalists, activists, dissidents and Iranian-American dual nationals.⁹⁶ Rouhani’s mainly rhetorical pushback has been and is likely to remain fruitless.⁹⁷ While none of this excludes the possibility of him making incremental progress on specific issues by building new coalitions in backroom negotiations, he is unlikely to do anything to jeopardise his economic priorities, where he has the best shot at success.⁹⁸

There is a similar if ultimately less consequential divide on foreign policy, especially, but not only, concerning the regional dimensions of Iran-Saudi competition. Republicans, favouring further improvements in relations with the West and regional de-escalation, advocate a cautious approach and reduction of regional tensions.⁹⁹ Theocrats, wary of what they see as a concerted effort to contain and undermine Iran, back a muscular stance to reassure allies and deter adversaries.¹⁰⁰ The balance between these positions within the foreign policy apparatus shifts frequently. The return of professional diplomats – forced into early retirement after radical theocrats took power in 2005 – and their competent handling of the nuclear dossier under Foreign Minister Javad Zarif have helped restore foreign ministry influence in the SNSC.¹⁰¹ Representing republican viewpoints, the ministry at times can counterbalance the SNSC’s lingering militarism, which was dominant under Ahmadinejad.

⁹⁴ In a clear retort to Rouhani, Ayatollah Khamenei said, “the Guardian Council’s oversight in the elections is approbatory and effective; this is their legal and rational right. Objections [to the Council’s role] are gratuitous”. Khamenei.ir, 9 September 2015. The leader also criticised Rouhani’s cultural policies: “Some people have mistaken cultural work in universities for mixed concerts and camps”. Khamenei.ir, 11 November 2015. Warning that the enemy’s “economic and security infiltration is not as important as intellectual, cultural, and political infiltration”, he empowered the intelligence branch of the Revolutionary Guards to monitor threats. Khamenei.ir, 16 September 2015.

⁹⁵ Crisis Group interview, Rome, October 2015.

⁹⁶ Arash Karami, “IRGC head warns of ‘sedition’ post-nuclear deal”, *Al-Monitor*, 2 November 2015; “In Iran, a deal and then crackdown”, *The New York Times*, 6 November 2015.

⁹⁷ “Iranian President Rouhani criticizes hardliners’ crackdown on media”, Reuters, 8 November 2015. “Rouhani knows the game and is aware of his inability to frighten the ‘deep state’ with these rhetorical feints, but his constituents expect him to at least speak out and reveal his discontent”. Crisis Group telephone interview, Iranian academic, Tehran, 10 November 2015.

⁹⁸ In Rouhani’s own words, “Some issues in this country need consensus of other branches and officials”. *The Financial Times*, 29 November 2013.

⁹⁹ An Iranian official said, “we should be careful not to climb out of the nuclear hole only to be pushed into another trap in the region”. Crisis Group interview, Istanbul, April 2015. Rouhani said, “for years, the economy has subsidised foreign and domestic policies. Now is the time for politics to subsidise the economy”. President.ir, 5 January 2015.

¹⁰⁰ An Iranian official noted: “The concern within some circles in Iran is that Saudi Arabia, Turkey, Qatar and others might see Iran’s need for calm after the deal as a window of opportunity to push for gains in the region’s zero-sum games”. Crisis Group interview, Istanbul, April 2015.

¹⁰¹ Crisis Group interviews, Iranian officials, Tehran, March and July 2014.

There is some pull and push between the camps. In May, the pragmatic republican-dominated SNSC reined in the theocratic-dominated Revolutionary Guards Corps, which had provocatively sent humanitarian aid directly to Yemen amid Saudi military intervention.¹⁰² After the nuclear deal, Zarif has become increasingly engaged in diplomacy to resolve the Syrian crisis, even as the Revolutionary Guard has deepened its military engagement there.¹⁰³

But given the regional turmoil, active proxy wars in Syria, Iraq and Yemen and the Islamic State's expansion in Iran's vicinity, the practical distance between the camps on foreign policy is limited. Disagreements evaporate when it comes to the country's "forward defence", which uses proxies in the Levant to deter a direct attack on the homeland, a strategy that neighbours view as expansionist meddling. On such matters, republicans and theocrats tend to function symbiotically, not antagonistically.¹⁰⁴

The overall balance between the camps, and therefore the future of the system writ large, depends significantly on which camp succeeds in setting the national agenda and on perceptions – especially the supreme leader's – of the strategic environment. On one issue he has already made his position clear. Convinced that the U.S. has not abandoned its regime-change strategy, he has shut the door on further bilateral engagement with Washington, even where there may be common interest – though he has left it open for multilateral engagement.¹⁰⁵ For now, he appears to prefer a future that, at least to the extent possible given today's turmoil, looks much like the era pre-dating the nuclear crisis, when Iran had cordial ties with Asia, significant trade with Europe, a fine-tuned enmity with the U.S. and strong allies in the "axis of resistance" (including Iraq, Syria, and Lebanon). This will likely compel Rouhani to seek less ambitious foreign policy objectives.¹⁰⁶

¹⁰² Crisis Group interview, senior Iranian official, Istanbul, May 2015. "Yemen-bound Iranian ship diverted to Djibouti", Al Jazeera, 22 May 2015.

¹⁰³ Hossein Bastani, "Iran quietly deepens involvement in Syria's war", BBC, 20 October 2015.

¹⁰⁴ Crisis Group interviews, Iranian officials, April-August 2015. An official noted: "The leadership was furious with the Revolutionary Guards' record last year. They underperformed by not predicting the fall of Mosul in Iraq and then overreacted, eliciting the ire of Iraq's Shiite clerical establishment about Iran's role there. But the government couldn't really afford to reprimand them, as they were also the ones who had to push the Islamic State away from Iran's borders". Crisis Group interview, Istanbul, August 2015.

¹⁰⁵ Characterising the proponents of improving relations with Washington as either "ignorant" or "insouciant", the leader said: "What is forbidden is negotiating with the U.S., because of its numerous downsides and no benefits". Khamenei.ir, 7 October 2015.

¹⁰⁶ Crisis Group interviews, Iranian officials, Vienna, Istanbul, January-October 2015. Ali Shakhani, a prominent pragmatic republican and secretary of the SNSC, offered one such modest goal: "The nuclear agreement could push Iran and the U.S. to behave in a way that they do not use their energy against each other". *The Financial Times*, 17 December 2014.

V. Conclusion: First, Do No Harm

Many in the West have high hopes about the nuclear accord's possible positive knock-on effects.¹⁰⁷ Yet, Rouhani's record, an approach more cautious than audacious, prioritising economic recovery, and the system's multi-layered nature herald gradual change at best. Some could find the temptation to try to expedite this evolution hard to resist. Already, they have started nudging Iran to improve its human rights record or alter regional policies.¹⁰⁸ Clumsy pressure is sure to backfire. Even more misguided would be an attempt to empower what they see as "moderate" forces, even if not assertively.¹⁰⁹

The perception of a Western preference for republicans over theocrats, which contributed to the backlash against the former in the past, has raised hackles since the nuclear agreement.¹¹⁰ Though the Iranian polity is anything but unitary, the West should treat it as such and avoid taking sides in an internal debate that outside actors repeatedly have proven unable to manipulate successfully.¹¹¹ Even rhetorical expression of such an intention could broaden the fear, already ascendant among theocrats, that the ulterior motive in signing the nuclear deal was to transform the nature of the regime.¹¹² By the same token, sudden and highly politicised pressure in related areas, such as Iran's support of militant groups in the Levant or its human rights record, could give credence to suspicion, prevalent among both pragmatic and radical theocrats, that the nuclear crisis was merely a first step in coercing and containing Iran, and the West will now pursue that goal in other areas.¹¹³

¹⁰⁷ Crisis Group interviews, U.S. and European officials, Vienna, Brussels, London, The Hague, Berlin and Rome, January-November 2015.

¹⁰⁸ "After nuclear deal, Iran must now focus on human rights – UN expert", UN, 15 July 2015; Gernot Heller, "Germany says Iran must improve Israel relations for closer economic ties", Reuters, 19 July 2015.

¹⁰⁹ An ex-U.S. official wrote: "Assuming a nuclear agreement is successfully implemented, the U.S. must take advantage of that time to contain Iran's regional ambitions, encourage political change in Iran". Gary Samore, "Is the Iran nuclear deal good for the U.S.?", *Time*, 18 June 2015.

¹¹⁰ Zarif's use of this argument, more as a negotiating tactic, backfired. He said "[in 2005] our attempts at openness were rebuffed by the EU.... At that time, people rewarded us for our failure by electing a different type of president to office which went on for a good eight years and gave me early retirement. So now that I'm back from the dead, I think it is important to be careful about the type of message the international community, and particularly the West, is sending to Iran". Council on Foreign Relations, 17 September 2014. "گره زدن پرونده هستم‌ای به رقابت‌های جناحی؟" ["Tying the nuclear dossier to factional rivalries?"], *Raja News*, 26 September 2014.

¹¹¹ A scholar noted: "In the past three decades, whoever the West identified in Iran as moderate and tried to empower eventually lost power". Crisis Group telephone interview, Mohammad Ayatollahi Tabaar, Texas A&M University, Houston, 31 August 2015. In March 2000, U.S. Secretary of State Madeline Albright took the unprecedented step of admitting Washington's role in the 1953 coup that overthrew a popular Iranian prime minister but also distinguished between Iran's elected and unelected leaders. Her questioning of the political system closed the door on any opportunity for a thaw in relations in Bill Clinton's presidency. See Kenneth Pollack, *The Persian Puzzle* (New York, 2005).

¹¹² Ayatollah Khamenei warned: "The goal of the enemy's soft war against us is to transform the nature of the Islamic Republic, even if its façade remains untouched". *Khamenei.ir*, 12 October 2015.

¹¹³ The leader said, "it is said that sanctions and pressures are the price that we paid for our nuclear achievements. This is not true, because even if the nuclear crisis did not exist, they would make other excuses Even if the issue of human rights is resolved, they will find another excuse. Therefore, the only way is to proceed on our path of progress with resolve and to resist their bullying". *Khamenei.ir*, 4 April 2014. Indeed, both supporters and critics of the nuclear deal in Washington

Reversing the legacy of more than three decades of hostility between Tehran and the West will be neither simple nor quick. The next step should be concrete measures to address the dual negative narratives that continue to poison mutual perceptions, the JCPOA notwithstanding. The West remains suspicious of an ambitious regional power that it perceives as both arsonist and fire brigade in the region. Iranians see the West, loathe to live with an independent, prosperous Islamic Republic, as seeking to undermine it. Proper fulfilment of both sides' commitments under the nuclear accord, especially those related to nuclear restrictions, transparency measures and sanctions, would go a long way to negate this narrative and build trust¹¹⁴ – though this could prove difficult given efforts to sabotage the agreement in the U.S. Congress and the hard-to-dispel chilling effect of the sanctions regime. Similarly, proper fulfilment by Tehran of its commitments is crucial to begin reversing the perception among many in the West that Iran will carry out its obligations only until it finds an opportunity to cheat.

To mitigate this challenge, the European Union (EU) should publish clear guidelines for businesses interested in re-engaging in Iran. More importantly, it should revive its 1996 law protecting EU companies from extra-territorial U.S. sanctions in case of an unwarranted re-imposition by Congress or the next president.¹¹⁵ It also can provide tax cuts and customs benefits to encourage resumption of trade. The U.S. treasury department should launch a campaign – on par with what it did from 2010 to 2013 to dissuade countries and companies from trading with Iran – to clarify sanctions relief technicalities and reassure companies fearful of overstepping redlines on remaining sanctions. Any possible shortcomings should be quickly redressed through dedicated coordinators and the Joint Commission, created under the JCPOA. That approach would have the added benefit of strengthening the EU and U.S. in demanding equally diligent commitment by Iran to respect the limits on its nuclear fuel cycle activities and provide IAEA access to monitor the purely civilian nature of its nuclear activities.

Secondly, the EU, representing the West, should establish a quiet, non-politicised channel for dialogue with the Iranian government on matters of joint interest.¹¹⁶ After the nuclear deal, Iran and the EU agreed to regular high-level talks on a host of issues, including regional developments and human rights.¹¹⁷ These are set to begin shortly

suggest pivoting to target human rights and Iran's regional policies. See Sam Frizell, "Hillary Clinton Strikes a Hawkish Tone Defending Iran Nuclear Deal", *Time*, 9 September 2015; Ray Takeyh, "Congress Can Still Make a Difference on Iran", *Politico*, 20 October 2015.

¹¹⁴ Ayatollah Khamenei said, "in 2003 to 2004, the Islamic Republic accepted in negotiations with the Europeans to suspend enrichment. Consequently, we lost two years; but it turned out to be beneficial to us. Why? Because it became clear that retreat, suspension of enrichment, delaying and shutting down will not resolve the issue, because the other side has ulterior motives". Khamenei.ir, 4 November 2013.

¹¹⁵ Council Regulation (EC), no. 2271/96, Protecting against the effects of the extra-territorial application of legislation adopted by a third country, and actions based thereon or resulting therefrom, 22 November 1996. "France says U.S. must give EU firms guarantees on Iran sanctions", Reuters, 10 November 2015.

¹¹⁶ The EU's approach in 2014 by meeting human rights activists and passing a resolution in the European Parliament condemning human rights violations in Iran was counterproductive. See Lyse Doucet, "Ashton visit to Iran sparks cooperation and controversy", BBC, 12 March 2014; Saeed Kamali Dehghan, "European parliament angers Iran with human rights resolution", *The Guardian*, 7 April 2014.

¹¹⁷ European External Action Service, 28 July 2015.

and ought to be pursued with the utmost seriousness. Both sides would be able to use the forum to raise issues of concern.

Thirdly, regional issues: the West no doubt will continue to give diplomatic and military support to Iran's regional foes to alleviate concerns over what it views as a bid for hegemony. But they should do so knowing that a post-deal arms race, particularly one that exacerbates the existing conventional weapons imbalance, is more likely to empower those in Tehran who advocate doubling down on their forward defence posture of supporting proxies and other asymmetric means of deterrence. It would be more helpful for Iran and its six partners in the nuclear deal to double down on regional diplomatic engagement. The Vienna talks on Syria are a good first step, but the track record is not encouraging. Any calming of violence in Syria, Iraq, Yemen and beyond would be welcome, but ultimately, sustainable stability requires an inclusive regional security architecture, as improbable as that seems for now.¹¹⁸ The process that has started in Vienna should continue, regardless of its outcome, to lay the groundwork for this goal.

Iran's political system favours continuity over change. The nuclear agreement showed that the state's policies change only when there is pressure from below and consensus at the top. Outside actors cannot hasten the process by investing in one part of the political spectrum – particularly in pragmatic republicans. No policy shift is possible without the backing of the supreme leader and the pragmatic theocrats more generally. An attempt to do so, especially at such a sensitive time in Iran's electoral cycle, would produce the opposite of the intended result.

Tehran/Istanbul/Brussels, 15 December 2015

¹¹⁸ Crisis Group suggested one such regional solution to address the Syrian crisis. See "Statement on a Syrian Policy Framework", 27 April 2015.

Appendix A: Map of Iran



Appendix B: About the International Crisis Group

The International Crisis Group (Crisis Group) is an independent, non-profit, non-governmental organisation, with some 125 staff members on five continents, working through field-based analysis and high-level advocacy to prevent and resolve deadly conflict.

Crisis Group's approach is grounded in field research. Teams of political analysts are located within or close by countries at risk of outbreak, escalation or recurrence of violent conflict. Based on information and assessments from the field, it produces analytical reports containing practical recommendations targeted at key international decision-takers. Crisis Group also publishes *CrisisWatch*, a twelve-page monthly bulletin, providing a succinct regular update on the state of play in all the most significant situations of conflict or potential conflict around the world.

Crisis Group's reports and briefing papers are distributed widely by email and made available simultaneously on the website, www.crisisgroup.org. Crisis Group works closely with governments and those who influence them, including the media, to highlight its crisis analyses and to generate support for its policy prescriptions.

The Crisis Group Board of Trustees – which includes prominent figures from the fields of politics, diplomacy, business and the media – is directly involved in helping to bring the reports and recommendations to the attention of senior policymakers around the world. Crisis Group is co-chaired by former UN Deputy Secretary-General and Administrator of the United Nations Development Programme (UNDP), Lord Mark Malloch-Brown, and Dean of Paris School of International Affairs (Sciences Po), Ghassan Salamé.

Crisis Group's President & CEO, Jean-Marie Guéhenno, assumed his role on 1 September 2014. Mr Guéhenno served as the UN Under-Secretary-General for Peacekeeping Operations from 2000-2008, and in 2012, as Deputy Joint Special Envoy of the United Nations and the League of Arab States on Syria. He left his post as Deputy Joint Special Envoy to chair the commission that prepared the white paper on French defence and national security in 2013.

Crisis Group's international headquarters is in Brussels, and the organisation has offices or representation in 26 locations: Baghdad/Suleimaniya, Bangkok, Beijing, Beirut, Bishkek, Bogotá, Cairo, Dakar, Dubai, Gaza City, Islamabad, Istanbul, Jerusalem, Johannesburg, Kabul, London, Mexico City, Moscow, Nairobi, New York, Seoul, Toronto, Tripoli, Tunis and Washington DC. Crisis Group currently covers some 70 areas of actual or potential conflict across four continents. In Africa, this includes, Burkina Faso, Burundi, Cameroon, Central African Republic, Chad, Côte d'Ivoire, Democratic Republic of Congo, Eritrea, Ethiopia, Guinea, Guinea-Bissau, Kenya, Liberia, Madagascar, Nigeria, Sierra Leone, Somalia, South Sudan, Sudan, Uganda and Zimbabwe; in Asia, Afghanistan, Indonesia, Kashmir, Kazakhstan, Kyrgyzstan, Malaysia, Myanmar, Nepal, North Korea, Pakistan, Philippines, Sri Lanka, Taiwan Strait, Tajikistan, Thailand, Timor-Leste, Turkmenistan and Uzbekistan; in Europe, Armenia, Azerbaijan, Bosnia and Herzegovina, Cyprus, Georgia, Kosovo, Macedonia, North Caucasus, Serbia and Turkey; in the Middle East and North Africa, Algeria, Bahrain, Egypt, Iran, Iraq, Israel-Palestine, Jordan, Lebanon, Libya, Morocco, Syria, Tunisia, Western Sahara and Yemen; and in Latin America and the Caribbean, Colombia, Guatemala, Mexico and Venezuela.

Crisis Group receives financial support from a wide range of governments, foundations, and private sources. Currently Crisis Group holds relationships with the following governmental departments and agencies: Australian Department of Foreign Affairs and Trade, Austrian Development Agency, Canadian Department of Foreign Affairs, Trade and Development, Danish Ministry of Foreign Affairs, Dutch Ministry of Foreign Affairs, European Union Instrument for Stability, Finnish Foreign Ministry, French Ministry of Foreign Affairs, Irish Aid, Principality of Liechtenstein, Luxembourg Ministry of Foreign Affairs, New Zealand Ministry of Foreign Affairs and Trade, Norwegian Ministry of Foreign Affairs, Swedish Ministry of Foreign Affairs, Swiss Federal Department of Foreign Affairs, and U.S. Agency for International Development.

Crisis Group also holds relationships with the following foundations: Adessium Foundation, Carnegie Corporation of New York, Henry Luce Foundation, John D. and Catherine T. MacArthur Foundation, Koerber Foundation, Global Dialogue, Open Society Foundations, Open Society Initiative for West Africa, Ploughshares Fund, Robert Bosch Stiftung, Rockefeller Brothers Fund, and Tinker Foundation.

December 2015

Appendix C: Reports and Briefings on the Middle East and North Africa since 2012

Israel/Palestine

Back to Basics: Israel's Arab Minority and the Israeli-Palestinian Conflict, Middle East Report N°119, 14 March 2012 (also available in Arabic).

The Emperor Has No Clothes: Palestinians and the End of the Peace Process, Middle East Report N°122, 7 May 2012 (also available in Arabic).

Light at the End of their Tunnels? Hamas & the Arab Uprisings, Middle East Report N°129, 14 August 2012 (also available in Arabic).

Israel and Hamas: Fire and Ceasefire in a New Middle East, Middle East Report N°133, 22 November 2012 (also available in Arabic).

Extreme Makeover? (I): Israel's Politics of Land and Faith in East Jerusalem, Middle East Report N°134, 20 December 2012 (also available in Arabic and Hebrew).

Extreme Makeover? (II): The Withering of Arab Jerusalem, Middle East Report N°135, 20 December 2012 (also available in Arabic and Hebrew).

Buying Time? Money, Guns and Politics in the West Bank, Middle East Report N°142, 29 May 2013 (also available in Arabic).

Leap of Faith: Israel's National Religious and the Israeli-Palestinian Conflict, Middle East Report N°147, 21 November 2013 (also available in Arabic and Hebrew).

The Next Round in Gaza, Middle East Report N°149, 25 March 2014 (also available in Arabic).

Gaza and Israel: New Obstacles, New Solutions, Middle East Briefing N°39, 14 July 2014.

Bringing Back the Palestinian Refugee Question, Middle East Report N°156, 9 October 2014 (also available in Arabic).

Toward a Lasting Ceasefire in Gaza, Middle East Briefing N°42, 23 October 2014 (also available in Arabic).

The Status of the Status Quo at Jerusalem's Holy Esplanade, Middle East Report N°159, 30 June 2015 (also available in Arabic and Hebrew).

No Exit? Gaza & Israel Between Wars, Middle East Report N°162, 26 August 2015. (also available in Arabic).

Egypt/Syria/Lebanon

Lebanon's Palestinian Dilemma: The Struggle Over Nahr al-Bared, Middle East Report N°117, 1 March 2012 (also available in Arabic).

Now or Never: A Negotiated Transition for Syria, Middle East Briefing N°32, 5 March 2012 (also available in Arabic and Russian).

Syria's Phase of Radicalisation, Middle East Briefing N°33, 10 April 2012 (also available in Arabic).

Lost in Transition: The World According to Egypt's SCAF, Middle East/North Africa Report N°121, 24 April 2012 (also available in Arabic).

Syria's Mutating Conflict, Middle East Report N°128, 1 August 2012 (also available in Arabic).

Tentative Jihad: Syria's Fundamentalist Opposition, Middle East Report N°131, 12 October 2012 (also available in Arabic).

A Precarious Balancing Act: Lebanon and the Syrian conflict, Middle East Report N°132, 22 November 2012 (also available in Arabic).

Syria's Kurds: A Struggle Within a Struggle, Middle East Report N°136, 22 January 2013 (also available in Arabic and Kurdish).

Too Close For Comfort: Syrians in Lebanon, Middle East Report N°141, 13 May 2013 (also available in Arabic).

Syria's Metastasising Conflicts, Middle East Report N°143, 27 June 2013 (also available in Arabic).

Marching in Circles: Egypt's Dangerous Second Transition, Middle East/North Africa Briefing N°35, 7 August 2013 (also available in Arabic).

Anything But Politics: The State of Syria's Political Opposition, Middle East Report N°146, 17 October 2013 (also available in Arabic).

Flight of Icarus? The PYD's Precarious Rise in Syria, Middle East Report N°151, 8 May 2014 (also available in Arabic).

Lebanon's Hizbollah Turns Eastward to Syria, Middle East Report N°153, 27 May 2014 (also available in Arabic).

Rigged Cars and Barrel Bombs: Aleppo and the State of the Syrian War, Middle East Report N°155, 9 September 2014 (also available in Arabic).

Lebanon's Self-Defeating Survival Strategies, Middle East Report N°160, 20 July 2015 (also available in Arabic).

New Approach in Southern Syria, Middle East Report N°163, 2 September 2015 (also available in Arabic).

North Africa

Tunisia: Combatting Impunity, Restoring Security, Middle East/North Africa Report N°123, 9 May 2012 (only available in French).

Tunisia: Confronting Social and Economic Challenges, Middle East/North Africa Report N°124, 6 June 2012 (only available in French).

- Divided We Stand: Libya's Enduring Conflicts*, Middle East/North Africa Report N°130, 14 September 2012 (also available in Arabic).
- Tunisia: Violence and the Salafi Challenge*, Middle East/North Africa Report N°137, 13 February 2013 (also available in French and Arabic).
- Trial by Error: Justice in Post-Qadhafi Libya*, Middle East/North Africa Report N°140, 17 April 2013 (also available in Arabic).
- Tunisia's Borders: Jihadism and Contraband*, Middle East/North Africa Report N°148, 28 November 2013 (also available in Arabic and French).
- The Tunisian Exception: Success and Limits of Consensus*, Middle East/North Africa Briefing N°37, 5 June 2014 (only available in French and Arabic).
- Tunisia's Borders (II): Terrorism and Regional Polarisation*, Middle East/North Africa Briefing N°41, 21 October 2014 (also available in French and Arabic).
- Tunisia's Elections: Old Wounds, New Fears*, Middle East and North Africa Briefing N°44 (only available in French).
- Libya: Getting Geneva Right*, Middle East/North Africa Report N°157, 26 February 2015. (also available in Arabic).
- Reform and Security Strategy in Tunisia*, Middle East/North Africa Report N°161, 23 July 2015 (also available in French).
- Algeria and Its Neighbours*, Middle East/North Africa Report N°164, 12 October 2015 (also available in French and Arabic).
- The Prize: Fighting for Libya's Energy Wealth*, Middle East/North Africa Report N°165, 3 December 2015.
- Spider Web: The Making and Unmaking of Iran Sanctions*, Middle East Report N°138, 25 February 2013 (also available in Farsi).
- Yemen's Military-Security Reform: Seeds of New Conflict?*, Middle East Report N°139, 4 April 2013 (also available in Arabic).
- Great Expectations: Iran's New President and the Nuclear Talks*, Middle East Briefing N°36, 13 August 2013 (also available in Farsi).
- Make or Break: Iraq's Sunnis and the State*, Middle East Report N°144, 14 August 2013 (also available in Arabic).
- Yemen's Southern Question: Avoiding a Breakdown*, Middle East Report N°145, 25 September 2013 (also available in Arabic).
- Iraq: Falluja's Faustian Bargain*, Middle East Report N°150, 28 April 2014 (also available in Arabic).
- Iran and the P5+1: Solving the Nuclear Rubik's Cube*, Middle East Report N°152, 9 May 2014 (also available in Farsi).
- The Huthis: From Saada to Sanaa*, Middle East Report N°154, 10 June 2014 (also available in Arabic).
- Iraq's Jihadi Jack-in-the-Box*, Middle East Briefing N°38, 20 June 2014.
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