

Iran Country Outlook

- **Presentation for
The Changing Geopolitics of Natural Gas conference
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Iranian Politics: Rules of the Game

- Regime security is highest priority; everything else is negotiable.
- Internal discord is the norm, not the exception
- Decisions reflect consensus among insiders
- The regime has survived it all and worse
- Only insiders matter
- Strength is power
- Iran is not immutable
- Expect the unexpected



Iranian Politics: Current Trends

- **Erosion of the inner circle of the power structure**
 - » Post 2009 unrest narrowed the base of the regime considerably
 - » Traditional regime constituencies such as clerics and merchants disgruntled
 - » Decisionmaking has become more dysfunctional as institutions break down
- **Rise of new power centers**
 - » Revolutionary Guard amassing political and economic clout
 - » Young neoconservatives increasingly assertive (ala Ahmadinejad)
 - » Radical clerics pressing for pure Islamic government
- **Opposition remains a modest threat to regime stability**
 - » Divided over leadership and strategy
 - » 2009 candidates Musavi, Karrubi in virtual detention
 - » Former presidents Khatami, Rafsanjani are down but not out



State of the Economy

- **Persistent economic problems may threaten stability**
 - » Unemployment
 - » Inflation
 - » Transparency and corruption
- **Sanctions increase cost, inconvenience**
 - » US financial restrictions
 - » UNSCR regime
 - » EU and other new restrictions on investment
- **Subsidy reform program represents a huge gamble**
- **Budgetary battles continue**
 - » Epic spending during the oil boom
- **Patterns of trade and investment shifting**
 - » Away from traditional European partners, heavy Asian orientation



Iran's Approach to the World

- **Iranian leaders view the world as implacably hostile toward their regime and their interests**
- **...and believe the best defense is a good offense.**
 - » Aversion to compromise on critical security issues, such as the nuclear program.
- **Iran won't play fair**
 - » Iran rejects constraints of int'l law or diplomatic protocol. Iran will exploit every opening, pursue duplicitous, contradictory agendas, play capitals against each other, engage in pressure tactics to advance its aims
- **Iranian foreign policy is pragmatic and opportunistic**
 - » Iraq, Afghanistan, Lebanon and now the Arab spring
- **Iran sees itself as ascendant**
 - » See above



Iran's Future Prospects

Scenario	Signposts	Likelihood
Continuity (Bifurcated authoritarianism)	<ul style="list-style-type: none"> • Stable 2012, 2013 election outcomes • Managed succession • Economy stabilized 	High
Militarized theocracy	<ul style="list-style-type: none"> • IRGC takes direct role in governance • Precipitant such as instability 	Uncertain /low
Republican redux	<ul style="list-style-type: none"> • Rehabilitation of Green leadership 	Low
Revolution	<ul style="list-style-type: none"> • Bouazizi-like incident • Shifts in posture of Rev Guard 	Moderate/Low
Implosion	<ul style="list-style-type: none"> • Precipitant such as military strike • Co-ethnic insurgency in Af/Pak, Iraq 	Low



Iran's Key Uncertainties

- Succession(s)
- Factional conflict among regime insiders
- State of the opposition / 'Green Movement'
- Economic conditions
- International environment



Impact on Gas Development

- **Aging oil sector generates massive reinjection needs**
- **Sanctions create severe limitations on financing, technology**
 - And increase domestic consumption and demand
 - However, subsidy reform may curb growth in energy demand
- **Regional politics complicate prospective pipeline options**
- **Iranian system, terms, and negotiating style also present a major deterrent**



Iran's Future & Gas Development

Scenario	Impact on Energy Sector	Likelihood
Continuity (Bifurcated authoritarianism)	<ul style="list-style-type: none"> • Sanctions, international tensions remain • Continued mismanagement of energy sector 	High
Militarized theocracy	<ul style="list-style-type: none"> • Sanctions, international tensions remain • Investment climate likely deteriorates 	Uncertain /low
Republican redux	<ul style="list-style-type: none"> • Mixed signals: some improvements but episodic setbacks on sanctions, approach to the world 	Low
Revolution	<ul style="list-style-type: none"> • Sanctions will progressively wither • Investment regime should improve 	Moderate/Low
Implosion	<ul style="list-style-type: none"> • State breakdown precludes effective management of energy sector 	Low

