Affecting Iranian Cost Benefit Analysis:
The Impact of Removing Sanctions on Iran’s Natural Gas Industry

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By

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This thesis is dedicated to the professors, classmates, friends and family that supported me during this process, including the staff at Midnight Mug and Gelardin Multimedia Workstation Number Five.

My deepest thanks,

-Justin G. Schulz
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Introduction

“Mr. Secretary, I believe that now is the time for aggressive diplomacy for Iran, including direct U.S. engagement, if for no other reason than to demonstrate to our allies that we are not the problem and put the onus on the Iranians either to engage forthrightly or demonstrate to the world they are the problem and unwilling to do so.”¹

-Senator Joseph R. Biden

Since the 1979 Islamic Revolution, the West’s diplomatic relations with Iran have ranged from problematic to non-existent. During that time, Iran often found itself relegated to the “too hard box,” with political leaders preferring to ignore it when possible.² This is particularly true of the United States whose leadership prior to 2002 preferred a hands-off approach after suffering the burns of the Revolution and the Iran-Contra scandal. The surprising revelations about the progress of Iran’s nuclear program that emerged between 2002 and 2004 necessitated a change in this policy by the George W. Bush administration. Though it fell short of defining a cohesive strategy—waffling between thinly veiled threats of regime change and efforts to engage Iran via European proxies—the Bush administration did take some proactive steps such as “devising novel financial sanctions that caused real pain in Tehran” and advocating for increased international pressure, resulting in four United Nations Security Council resolutions aimed at curtailing Iran’s nuclear ambitions.³ Despite these efforts, the Iranian nuclear issue remains unresolved and atop the list of important issues for the Obama Administration.

Prior to the Obama administration entering the White House, then President-elect

³ Pollack, Which Path to Persia, 3.
Obama indicated during an interview aired on “Meet the Press” that his administration intended to pursue a strategy of persuasion in dealing with the Iranian nuclear issue.\(^4\) Since then, the administration has “adopted a multi-faceted version of this option.”\(^5\) One strength of this strategy is that it serves as a double-edged sword. The first blade is the actual potential to convince Iran to compromise on its nuclear agenda based on the inducements offered. If that fails, the second blade is political cover. As Senator Biden points out in the opening quote, if Iran fails to respond to incentives, the United States and its allies have the political cover to pursue more aggressive strategies, as they will have demonstrated to the world that Iran is unwilling to engage forthrightly. This is the primary strength of the strategy of persuasion because it allows for the logical progression to an alternative strategy, instead of a dead end, if the strategy fails. However, this benefit may only be realized if a good faith effort has been made to negotiate by the persuading party. In the context of the strategy, this means offering both firm negative inducements and substantial positive inducements aimed at altering the cost-benefit analysis of the country to be persuaded. Failing to pursue substantive inducements can lead to situations such as the lead up to the Iraq war where the United States was heavily criticized for turning to war too quickly.

Kenneth M. Pollack, along with of his colleagues from the Brookings institution analyzed this strategy and others, and presented their findings in a new book titled *Which Path to Persia? Options for a New American Strategy toward Iran.* In the publication, they support the idea that substantial and coordinated inducements of both varieties will be


necessary if a strategy of persuasion is to be successful. To date, the United States and its allies have attempted many negative inducements, none of which have been both substantial and coordinated. Attempts at positive inducements have also been unsuccessful and lacking coordination and substance. While President Obama has made improvements in these efforts, it appears that even the current offer by his Administration and its allies will be too small to tip the scales for Iran. This situation begs the question “What else could the United States offer before having to turn to more aggressive strategies or relegating itself to accepting a nuclear Iran?” This paper addresses this question by exploring a more robust inducement wherein the United States Government would agree to relax sanctions on Iran’s natural gas industry, by proxy allowing for the development of Iran’s natural gas infrastructure, as part of an overarching strategy of persuasion aimed at gaining concessions from Iran.

In order to evaluate this question the paper first summarizes the major claims and actions of the United States, Iran, Israel, Europe, Russia and China to date on the Iranian nuclear issue in order to provide the appropriate context. Next it summarizes the theory of persuasion, and the specific conditions, as outlined by Pollack, that the strategy requires for success with Iran. The paper will then move on to describe the specifics of the inducement and the potential for the proposed inducement to affect Iranian cost-benefit calculations by analyzing its potential effects on the Iranian economy and the importance of these effects to Iranian leadership. Next the paper presents a brief discussion about the potential for this scenario to succeed. The paper will conclude with the primary finding: that although such an offer would represent a significant positive inducement, it is unlikely to succeed due to the

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6 Pollack et al., Which Path to Persia, 35.
level of international cooperation necessary to make it effective, and a risky Iranian investment climate. This paper will also include a discussion of potential critiques.

The primary purpose of this paper is to propose and explore the potential for this inducement within the context of the larger problem—in essence to define a new tool for the larger policy community. It does not outline a comprehensive new strategy or make a definitive claim about how the addition of the inducement would alter the specifics of ongoing negotiations. However, it does discuss some potential responses that should be expected and planned for if the inducement were offered. Furthermore, this paper’s focus on positive inducements is not meant to imply that the United States should not engage simultaneously in crafting substantial negative inducements. As will become clear in the paper, providing a comprehensive and balanced set of negative inducements is a critical aspect of the persuasion strategy. This paper constitutes an original contribution to the body of literature because it makes use of the new framework laid out by Pollack, et al, and because of the unique nature of the proposed positive inducement.

**Methodology**

Many points of friction exist between the United States and Iran, including worries and complaints over the country’s determined drive to develop missile technology, its closed political system, its sponsorship of terrorism and its nuclear program. Though all legitimate problems, the core of the Iranian problem for the United States is much larger in scope. Indeed, the real “question facing the United States in the 21st century is that of the birth of the

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7 To the contrary, a new, comprehensive, internationally united approach to negative inducements is one of Pollack’s recommendations and one of President Obama’s current goals. A strategy that focused on exclusively positive inducements is normally referred to as a strategy of engagement. This strategy is persuasion which dictates the use of both positive and negative inducements.
modern Iranian state, its reemergence as a regional power, and its successful and managed integration into the international community." President Obama has demonstrated an awareness of the scope of this issue, and since taking office has made progress toward engaging Iran through a strategy of persuasion that will hopefully lead to a new workable status quo for both countries. This paper will propose a new positive inducement, and its potential place within the Obama strategy in an effort to create a final product that could be inserted directly into the existing strategy framework.

The proposal offered is premised on two assumptions that, for the purposes of this paper, will be treated as fact. First, is the belief that current Iranian positions are negotiable and second is that the Obama Administration is following a policy of persuasion. Without these assumptions, no hope exists for the success of a persuasion strategy because no room for compromise exists when a country such as Iran takes a position that is immovable, and the Obama Administration must first be pursuing persuasion in order for it to succeed. This paper does not attempt to defend the strategy of persuasion, but rather treats the current strategy as workable and offers potential contributions to the current framework.

In order to do this three important questions will have to be answered—two definitional and one exploratory. The first two questions are, what is the Iranian nuclear issue and what does a strategy of persuasion require? In order to answer these two questions, the paper first contextualizes the problem at hand by summarizing its recent history. Because this paper is written from an American perspective, it first explores how the United States generally views the issue—specifically its fears relating to Iran becoming a nuclear power.

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and what it would like to see Iran do to abate these fears—followed by a brief summary of the steps the United States has taken to attempt to influence Iran and their results. Second, the paper explores the Iranian perspective and Iran’s claim that it has a right to maintain a complete fuel cycle under the NPT. Third, the paper takes a brief look at the roles of Europe, Russia, China and Israel with regard to the Iranian nuclear issue further fleshing out the description of the problem. Next, the paper summarizes Pollack’s argument about what a strategy of persuasion must entail to be successful and couches this strategy within the larger framework of the existing theories describing persuasion. The exploratory question is the question posed in the introduction, what else can the United State offer? In an attempt to formulate a new offer the rest of the paper will evaluate the impact of a plan to selectively remove current US unilateral sanctions that limit investment in Iran’s natural gas infrastructure and industry by analyzing current trends within the Iranian economy and how these trends could be expected to interact with the plan being implemented. The paper finishes with a section that summarizes the effect this proposal would have on Iranian cost-benefit analysis and a discussion of potential critiques of this proposal.

**Perspectives on the Issue: The U.S., Iran, Israel, EU, Russia and China**

*The Position of the United States:* Despite Iranian statements to the contrary, the United States believes that Iran’s nuclear fuel-cycle program is intended for reasons other than peaceful energy production—potentially the production of nuclear weapons or a rapid break-out capability. Additionally, it believes that allowing either of these two scenarios to occur would jeopardize US security concerns. As a result, the United States has taken a

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stance that Iran’s uranium enrichment program should be halted, at least temporarily, in order to assure the world that nuclear armament is not being pursued.10

A nuclear-armed Iran is dangerous and complicates things for the United States in a number of ways. First, Iran’s possession of a nuclear weapon implies the possibility of Iran someday using the weapon against one of its neighbors, American and allied forces operating in the region or potentially providing it to a proxy who could deliver it further abroad. A singular weapon or even a small arsenal under the command of Iran does not prove an existential threat to the United States, nor does it prove a strategic deterrent as possessed by the Soviet Union during the Cold War. However, if deployed, it could cause massive localized damage and disruption—and therefore the threat of a nuclear armed Iran is cause for concern. Second, a nuclear-armed Iran is likely to worry neighbors, and could touch off an arms race across the Middle East as countries try to adjust to the new status quo, decreasing overall stability in the region.11 Third, if not full-scale arms race, an Iran that deviates from the Nuclear Non-Proliferation Treaty by either withdrawing from it or producing a nuclear weapon in the face of opposition from the United States would deal a decisive blow to the treaty and setback hopes of controlling future proliferation. Finally, because a nuclear weapon would provide them with some cover from the fear of invasion, nuclear armament may also encourage Iran to step up other negative behaviors, such as its support for terrorists groups like Hezbollah, and agitation in the region against US policies and directly against US forces.12

Suspicious Activity: There exists little debate on the conclusion that a nuclear-armed

10Katzman, “Iran: US Concerns and Policy Responses”.
12Chubin, Iran’s Nuclear Ambitions, 54.
Iran would represent a net loss for the security of the United States and the world. However, debate does occur among the various interested parties concerning the credibility of claims that Iran is developing a nuclear weapons program, and a great many voices have disputed Iranian motivation for nuclear weapons—no group so loudly as the government of Iran itself. Despite this, and more binding acts like remaining signatories to the Nuclear Non-Proliferation Treaty, the facts of the day are that the “nature, scale, and sequencing of the [Iranian nuclear] program suggests a weapons program.”

First, much of the technology Iran has or has attempted to acquire is unnecessary for civilian nuclear programs or uncharacteristic of global norms. Examples of this include: the heavy water reactor at Arak which is “larger than needed for research but too small to make electricity and just right for producing bomb-quality plutonium” and Iran’s interest in polonium, a material which acts as a neutron initiator in fission bombs.

Second, the dubious circumstances under which Iranian plans to begin the enrichment of Uranium emerged cast doubt on the intentions of Iran from the beginning that have yet to be shaken. The National Council of Resistance of Iran—the political wing of the internationally recognized terrorist group the Mojahideen-e Khalq Organization—initially broke the news in 2002 instead of the announcement coming through more legitimate channels, such as the Iranian State and the International Atomic Energy Agency (IAEA). Iran’s denial of the announcement’s credibility, later admission, and subsequent initiation of its enrichment program, despite international objection, suggests the appearance of first a cover-up and later a state determined to achieve its will despite potential costs. Furthermore,

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13 Ibid., 44.
14 Gary Milhollin, Director of the Wisconsin Project on Nuclear Arms Control, testimony before the Committee on Foreign Relations, US Senate, May 19, 2005. AND Chubin, Iran’s Nuclear Ambitions, 163.
15 Ansari, Confronting Iran, 198.
as a signatory to the NPT, Iranian acquisition of enrichment technology and preparation to utilize it without notifying the IAEA was a legally dubious action. Unfortunately, this move set the tone, and the years between 2002 and the present have been marked by repeated understatements and omissions by the Iranians with regard to the extent and complexity of their nuclear program. These omissions have lead to a disintegration of trust between it the rest of the world, particularly the West, and Iran. This lack of trust sits at the heart of the dispute between the two countries, as both know full well that under the current NPT provisions “states can come within hours of a bomb without violating their agreement.”

Finally, the Iranian insistence upon perfecting the nuclear fuel cycle also points to a weapons program. A complete nuclear fuel cycle allows countries to produce their own nuclear fuel, however it also makes them capable of producing the highly enriched uranium required to construct nuclear weapons. Under normal circumstances, countries without large domestic supplies of uranium or with small nuclear programs, such as Iran, do not feel the need to develop the complete nuclear cycle. This is due to the large expense associated with developing a complete domestic nuclear fuel cycle and the comparatively inexpensive nature of purchasing fuel on the open market where it is readily available from competing sources. Sweden, which has a nuclear energy program with ten reactors on-line, is an example of this norm. Despite this norm and stiff international resistance, Iran, which has an estimated domestic supply of Uranium below what their seven planned reactors would need to operate for a single year and no reactors currently on-line, is pushing ahead with their enrichment program. These conditions lead many to conclude that Iran’s motives for achieving the fuel

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16 Ibid., 5.
17 Chubin, Iran’s Nuclear Ambitions, 26.
18 Thomas W. Wood, Matthew D. Milazzo, Barbara A. Reichmuth, and Jeffrey Bedell, “The Economics of 9
cycle may be other than stated. U.S. demands on Iran have shifted around throughout the years from complete suspension of all nuclear activities to regime change to suspension of enrichment, while allowing for the potential for small-scale nuclear electric energy generation. The current trend is toward the latter and a more moderate stance.

Steps to Influence Iran: In an effort to shape Iranian policy, the United States has attempted numerous political actions against Iran, which have been met with varying degrees of success and failure. Because the United States has not had any formal or direct relations with Iran until very recently, these efforts may be categorized into two distinct camps—unilateral actions and participation with international efforts. Coincidentally, even before Iran resumed Uranium enrichment in 2002, the United States had leveled strict sanctions against it for other grievances. In the mid 1980’s, the United States placed sanctions on Iran in response to the hostage situation that were expanded in the late 1980’s and increased again in 1995 establishing a total U.S. embargo on Iran. In 1996, the U.S passed the Iran-Libya Sanction Act (ILSA) and the Iran-Iraq Arms Non-Proliferation Act (P.L. 102 – 484). ILSA was later renewed when it was signed into law in August of 2001 and today is a far-reaching sanction that threatens to sanction any country who invests more than $20 million annually in the Iranian energy sector, while the non-proliferation act continues to ban the sale of dual use items to Iran. ILSA was renamed the Iran Sanctions Act (ISA) in 2006 as a result of improving relations with Libya.

With diplomatic ties already cut and a virtually complete embargo on all other forms of interaction with Iran, by the time Iran’s uranium enrichment plans became public the United States had few unilateral options left to further punish the country, but a whole new

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set of reasons to keep them in place. Not willing to escalate the conflict to violence, the United States turned instead to rhetoric of regime change and sanctions directed against specific banks and companies within Iran.\footnote{Robin Wright, “Stuart Levey’s War,” \textit{The New York Times}, October 31, 2008. Accessed November 10, 2009. \url{http://www.nytimes.com/2008/11/02/magazine/02IRAN-t.html?pagewanted=1&_r=3}} Though not all sanctions were explicitly designed to stop the development of Iran’s nuclear program, it is worth noting that these strict initiatives did fail to stop Iran from securing the technology necessary to launch their enrichment program, and since its debut have failed to coerce them into halting it.

With the election of President Barrack Obama the timbre changed in Washington. Now famously, in his Nowruz Address President Obama reached out to the people of Iran as well as its government, stating that he desired “engagement that is honest and grounded in mutual respect.”\footnote{Barack Obama, “Videotaped Remarks by the President in Celebration of Nowruz,” March 20, 2009, accessed October 15, 2009. \url{http://www.whitehouse.gov/the_press_office/Videotaped-Remarks-by-The-President-in-Celebration-of-Nowruz/}} Since then further overtures have lead to talks (ongoing at the time of publication) between the five permanent members of the United Nations Security Council and Iran in Geneva with regard to Iran’s nuclear program. Initial reports from the process have it stalling like previous attempts and at the time of this writing no conclusive agreements have been reached, nor has Iran taken any steps toward compliance with the demands of the United States.

Beyond its unilateral activities, the United States has also engaged in international efforts to put pressure on Iran. In some regards it has been successful in this endeavor. Some measures of this success are the continued persistence of IAEA attention in the matter as well as continued and increasingly harsh measures by the United Nations to reign in Iranian activities to include Resolutions 1696, 1737, 1747 and 1835, which called for the suspension...
of Iranian enrichment programs, and 1803, which imposed the first multinational sanctions on Iran for ignoring previous resolutions.\textsuperscript{21} Furthermore, votes from China and Russia in support of Resolution 1803 indicate a growing international consensus with regard to Iran. Growing consensus can be regarded as a victory for the United States because it will likely be needed to resolve the current situation. The United States also eventually agreed to take part in then ongoing negotiations between members of the European Union and Iran in 2005. Though never made officially public, it has been widely reported that America added incentives to the European deal by providing spare parts for Iranian airliners and by agreeing to remove the veto blocking Iran from the World Trade Organization.\textsuperscript{22} Though a novel offer, it was rejected by Iran because for “a country seeking a grand bargain, being offered the technological scraps from the American table was too much.”\textsuperscript{23}

\textit{Iran}: Iran has had a nuclear program for fifty years, dating back to the purchase of its first research reactor from the United States in 1959. The government of Iran has always maintained that its motivations for pursuing the technology are limited to peaceful power generation and nuclear research, stressing that it needs nuclear power for domestic electric generation purposes in order to free up oil and gas for foreign export and to diversify its energy base. Furthermore, Iran asserts that it requires the full fuel cycle in order to avoid dependency on other nations for fuel.\textsuperscript{24} In addition to these claims, Iran has also repeatedly publically renounced the use of nuclear weapons, such as the announcement made by Iran’s

\textsuperscript{22} Ansari, Confronting Iran, 224.  
\textsuperscript{23} Ibid., 224.  
Deputy Foreign Minister for Legal and International Affairs who stated “we consider the acquiring, development and use of nuclear weapons inhuman, immoral, illegal and against our basic principles. They have no place in Iran’s defense doctrine.” As a result Iran claims that world fears regarding their nuclear program amounts to little more than a carefully devised plot to strip them of their entitlements.

This last point has proven interesting and difficult for the international community world to reconcile because it requires an admission that Iran has a basic right to nuclear power under the NPT. Iran’s primary argument in defense of its nuclear program is that it is entitled to it under the provisions of the NPT, and indeed when pursued according to the treaty it is. The NPT consists of a preamble and eleven articles that outline the three main components—non-proliferation, disarmament and the right to peacefully use nuclear technology. Specifically, the Iranians claim that under article four of the treaty they are entitled to enrich uranium. This article reads in part:

“Nothing in this Treaty shall be interpreted as affecting the inalienable right of all the Parties to the Treaty to develop research, production and use of nuclear energy for peaceful purposes without discrimination and in conformity with Articles I and II of this Treaty.”

The Iranians point to this article because the uranium enrichment process is necessary to produce the nuclear fuel required to produce nuclear energy. Because all signatories have the inalienable right to nuclear power article four implies that Iran, and any other signatory country, should be entitled to the right to develop an enrichment process should they desire the use of nuclear energy for peaceful purposes.

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Predictably, Iran also refutes the West’s allegations that it is the belligerent in the disagreement as being unfounded. Instead, Iran turns the idea on its head and claims that it was negligence on behalf of the world, and particularly the United States, with regard to the third pillar of the NPT and the fourth article that forced Iran to create a domestic enrichment program. Specifically in a 2006 memo to the IAEA Iran cited the failure of the United Nations Conference on the Promotion of International Co-operation in Peaceful Uses of Nuclear Energy in 1987, the failure of the Committee on Assurances of Supply in the IAEA to establish internationally recognized principles to assure sustainable nuclear supply, and the failure of the United States to supply new fuel to the Tehran 5 megawatt research reactor following the revolution in 1979.\(^{27}\)

Despite these facts and arguments the IAEA called for the suspension of Iranian enrichment activities in 2003. This occurred after the IAEA found Iran to be in violation of their safeguard obligations for failing to notify the IAEA of its plans to begin uranium enrichment in addition to incomplete reporting with regard to the development of its new facilities. The IAEA has the power to make such demands due to a country’s misconduct without needing to comment on their theoretical rights to the technology. Iran has contested this assertion declaring that the IAEA has wrongfully faulted them and as a result has only complied with this IAEA request in an episodic fashion.

Motivations for a Nuclear Weapon: In light of the evidence indicating the potential for Iranian intent to develop nuclear weapons, it is relevant to consider what their possible motivations could be and what course they may take toward development of a nuclear

weapons program. Numerous theories exist to explain Iran’s motivation for wanting nuclear weapons. These theories—and the appraisal of the extent of Iran’s desire for weapons—cover the full spectrum, with hawks and doves alike taking up equally opposite and extreme positions. Three theories that remain consistent throughout the literature are “prestige and domestic legitimation, regional status, and a greater voice in international relations,” and the more disputed position of providing Iran with a deterrent threat.  

The first three reasons—in this case argued and outlined by Shahram Chubin—all tie into Iran’s continued desire to return to what it perceives as its rightful place as a regional leader and power, with the option to eventually ascend to the world stage. It is argued that lessons of the past—for example the possession of nuclear weapons by all of the permanent members of the Security Council, improved relations between India and Pakistan and the United States following their nuclear announcement, and the continued relevance of North Korea because of its program—have informed Iran’s strategic thinking, creating a belief that a nuclear program is the quickest way to achieve a position of power and relevance in the international community. Furthermore, nuclear technology, like missile technology, represents a significant scientific accomplishment that would signal the technical ascendency of Iran over its neighbors. Whether by design or by accident, Iranian officials also assert that the issue has become linked to their continued regime survival domestically. Though this claim may suffer from hyperbole, the importance of the nuclear program to Iran’s citizens was demonstrated in a recent study that found 84% of Iranians surveyed to believe that

28 Chubin, Iran’s Nuclear Ambitions, 137.
possessing the complete nuclear fuel cycle was very important.\textsuperscript{30}

Some problems exist with the proposal that Iran’s desire for nuclear weapons is being motivated by security concerns or the desire to possess a deterrent threat. First, Iranian relations with its regional partners are relatively stable. It maintains normal relations with Turkey and Pakistan and holds the attention of India and China as a potential source of future energy. Iran cooperates with Russia on many issues and maintains trade in arms and goods, and it is at peace with its Arab neighbors. Finally, Israel, with enough problems of its own, has no desire to provoke Iran into unnecessary conflict. Admittedly, the presence of the United States in both Iraq and Afghanistan should give Iran cause to pause, however the United States was not present in those countries prior to 2001 when Iran decided to initiate its nuclear program. Therefore, it is unlikely that Iran initiated its program out of a desire to create a deterrent threat. However, given the Bush administration rhetoric of regime change and the significant United States presence in the region, the program could have easily picked this motivation up along the way.\textsuperscript{31}

\textit{Other Key Players: India:} Numerous other countries have a vested interest in the outcome of these events, particularly Israel, Europe, Russia and China. By and large these countries share the concerns of the United States on the possible ramifications of Iran actually developing a nuclear weapon. However, they diverge strongly in the level of alarm they show, their willingness to apply pressure to Iran, and their respective appraisals of Iran’s intentions.

Understandably, of all of these countries Israel is the most worried. Due to its small


\textsuperscript{31} Chubin, \textit{Iran’s Nuclear Ambitions}, 16.
size, it could potentially be completely destroyed by a few strategically placed nuclear weapons. Well within the missile range of current Iranian technology, Iranian supported terrorist groups, and under constant rhetorical barrage from Iran’s government, it feels significantly threatened by the Iranian nuclear program and promises attacks against it if a satisfactory diplomatic resolution cannot be achieved. However, in practice this scenario is not very likely as such an attack would bring withering retaliation from Israel and its allies, which should serve as sufficient deterrence against Iran under normal conditions. Furthermore, a probability of detection exists if Iranian’s or their agents attempted to smuggle such a weapon into Israel as opposed to launching it aboard an Iranian missile.

*Europe:* Moving down the scale on the level of alarm, Europe and its leaders agree that Iran should not be allowed to develop a nuclear weapons capability and there is even “remarkably widespread agreement among them that Iran’s nuclear program is meant solely to acquire weapons.”32 Early on Europe showed surprising solidarity in what has been dubbed the EU-3 Approach. Moving without United States’ support it pressured Iran into signing the Additional Protocol to the NPT that required them to submit to more rigorous inspections and the 2003 Tehran Agreement and 2004 Paris Agreement that required them to suspend enrichment while awaiting inspections of their program by the IAEA. Unfortunately, Iran signed but never ratified the protocol leading to problems of enforcement and continued haggling over the definition of suspension with the Europeans after the agreements were signed. Since then, European countries have diverged in their intents, with one group lead by France and Britain pushing hard for more stringent sanctions on Iran, while Germany and a coalition of Mediterranean states argue for an engagement based

strategy.  

Russia: Russia’s involvement with Iran has, since the break-up of the Soviet Union, been rather intimate. During this time it has served as both Iran’s primary arms dealer and overt nuclear advisor—completing work on Iran’s Bushire reactor, and providing training to Iranian engineers. Though Russia has maintained a beneficial economic relationship with Iran, they have at the same time remained opposed to Iranian acquisition of nuclear weapons and their pursuit of the nuclear fuel cycle. Indeed, in 2004 Russia leaders stated that “Russia is categorically opposed to enlarging the club of nuclear states,” and in 2005 that “Our Iranian partners must give up development of nuclear fuel cycle technology.” Due to their conflicting desires to both benefit from their relationship with Iran and to curtail Iran’s nuclear ambitions, Russia has taken a very cautious approach to the issue. They tend to adhere closely to the recommendations of the IAEA, whose non-political reputation provides cover for the Russians, and to tread lightly when forced to action. That being said, Russia’s caution did not stop them from voting to recommend Iran to the National Security Council, nor has it halted continued Russo-Iranian trade.

China: The Chinese relationship with Iran is by far the most pragmatic, and heavily dictated by Chinese interests in continued access to energy resources and economic opportunity. China views their access to energy as a necessary component of their continued development, which they believe is one of the major requirements to maintain their own regime stability. Because Iran is so well endowed with oil and natural gas reserves and because China has the ability to offer diplomatic cover, the two are naturally aligned partners.

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33 Pollack et al., Which Path to Persia, 23.
as long as “Iran is willing to cut the kind of deals with Beijing that make Chinese planners happy.”

Furthermore, U.S. sanctions against Iran leave it a marketplace free of US competition allowing the Chinese immense opportunity for trade and investment. Despite the advantages, this relationship does have its limits and China has some concern over the direction of the Iranian nuclear program as demonstrated by their vote to refer Iran to the Security Council.

This concludes the summary of the key positions, beliefs and actions of the United States, Iran, Israel, Europe, Russia and China with regard to the Iranian nuclear program. As is now clear, lacking a smoking gun to point to, the debate coalesces around a culture of suspicion, name calling, and conclusions based on circumstantial evidence. The fundamental argument is the conflict between the desire of the United States and most of the World for Iran to halt its uranium enrichment (at least until its intentions and the scope of its program can be verified) and the desire of Iran to continue its program, which it asserts its legal entitlement to in occasionally belligerent ways. Many interpret Iran’s continued enrichment as a daily victory for the country, but the United States and its allies are marching closer to the kind of unified front required to tighten the noose around Iran.

Regardless of the merits of the United States’ and the Worlds’ beliefs about Iranian intentions, the relevant fact is that they are firm enough in them to be willing to act on them—the result of this being the ongoing efforts to convince Iran to change its course of action. The next portion of this paper will explore the ongoing efforts of the Obama administration from a theoretical perspective—emphasizing Pollack, et al’s definition of and requirements for a persuasion strategy.

35 Pollack et al., Which Path to Persia?, 26.
The Requirements of Strategic Persuasion

*Which Path to Persia*: In their book Pollack et al. point out that “countries do not make peace as a favor to one another; they do it out of a cold calculation that it serves their interests.” Normally these interests are not perfectly aligned and it becomes necessary that one country change its policies or that the dispute be resolved through compromise. This process either occurs out of a mutual desire for resolution or because one country or group has enough influence over the other to compel it to act. This may be achieved through a variety of means ranging from total war to more subtle engagement policies. Pollack enumerates nine such options in *Which Path to Persia* that he feels are the most credible options before the United States with regard to Iran. These are:

1. Diplomatic Options
   a. Persuasion
   b. Engagement

2. Military Options
   a. Invasion
   b. Air Strikes
   c. Allowing or Encouraging an Israeli Military Strike

3. Regime Change
   a. Supporting a Popular Uprising
   b. Supporting Iranian Minority and Opposition Groups
   c. Supporting a Military Move Against the Regime

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36 Pollack et al., *Which Path to Persia*, 50.
4. Deterrence
   
a. Containment

These approaches all differ, with varying requirements, methodologies, problems and potentials to succeed. As previously discussed, this paper works from the assumption that the Obama administration is pursuing a strategy of persuasion, and as a result the paper will discuss that strategy exclusively. The other strategies are named here to inform the reader of the scope of Pollack’s considerations and to provide the reader with some idea of the alternatives that are being considered.

**Persuasion:** At its simplest, the strategy of persuasion is “an attempt by policy makers in state A to force … the policy makers in state B to comply with demands of state A.”\(^3^8\) It achieves this by utilizing both positive and negative inducements simultaneously to convince B that changing its behavior in the desired way would be both “its most rewarding and least harmful course of action.”\(^3^9\) In other words, persuasion succeeds when B calculates that avoiding the costs placed on it for defying A and accepting the benefits offered by A suits its interests more than pursuing the rewards of the behavior A is trying to discourage and accepting the costs of defying A—leading it to chose to comply with A’s demands. This process of weighing the two options is commonly referred to as a cost-benefit analysis. This type of strategy is most effective when A possesses leverage over B’s pressure points and is therefore able to increase the difference between compliance and defiance by offering up rewards and punishments specific to B’s critical interests. Within the context of the Iranian nuclear issue this amounts to “simultaneously offering Iran a series of compelling rewards for


\(^3^9\) Pollack et al., *Which Path to Persia*, 50.
giving up its nuclear program…and threatening to impose harsh penalties on Iran for refusing to do so.”40 An implicit ultimatum is therefore inherent within a strategy of persuasion: “change your ways and you will be rewarded; don’t and you will be punished.”41 The use of positive inducements differentiates persuasion from the closely related strategy of compellence which utilizes negative inducements exclusively in an attempt to alter the status quo.

An important consideration to bear in mind when designing such a strategy is that the cost benefit calculations occur at two levels: internationally and domestically. Robert Putnam referred to this phenomenon as a two level game.42 In the game, B engages at two levels: internationally with A and domestically with its own interests groups, bureaucracies, population, etcetera. In the case of negotiations with Iran as laid out by Pollack, the game is even more complex, with A consisting of a necessarily unified front including the world’s major powers—implying negotiations among themselves as well as between each of those country’s governments and their respective domestic constituencies—in addition to the two level game between it and Iran and Iran and its domestic constituency. The result is a multi-level game of extreme complexity.

Colloquially, persuasion has been termed a “carrot and stick” approach. It is inappropriate to refer to the strategy of persuasion in this way because it leads to the inference that B is a donkey (or some other type of beast of burden) that will respond instinctively and without thinking to a stimulus properly applied to its centers of pleasure or

40 Pollack, Which Path to Persia, 35.
41 Ibid., 35.
pain, thereby oversimplifying the decision before B. The resulting mental image is both insulting and inaccurate, with the potential to lead to dangerous miscalculations.

First, no nation is ever so simple. Unlike the one track donkey, nations are rife with competing domestic concerns, internal ideologies, myths and cultures that affect decision making. Additionally, structural limitations, unknown ulterior motives, and a slew of other unknowns factor into every decision. These factors establish B as a complicated actor and expose the illegitimacy of any belief held by A that its actions will necessarily result in the consequence it intends—a donkey always goes for a carrot, but a state does not. Therefore, to model B as a donkey implies a simplicity that may result in a miscalculation by A or an inflated expectation of results. More accurately, persuasion is not a strategy of rewarding and punishing a state for its behavior, but a way for A to manipulate the world such that B more fully comprehends A’s position—what it wants and to what lengths it is willing to go to attain it—that B may make a decision based on an accurate expectation of potential benefits and conflicts resulting from its actions. In this way it reduces some of the ambiguity inherent in international relations and allows for a more methodical and measured approach in an otherwise anarchic system.

Furthermore, the choice before A is not simply carrot or stick, but rather a choice between two deals, with country B attempting to choose the better of the two. It is possible in a persuasion game that A may be able to offer something intrinsically more valuable to B than what was originally sought after. This could in theory tip B’s cost-benefit calculus without A even introducing a stick. This is typically referred to as a strategy of engagement—a strategy that employs only positive inducements.

Pollack et al., Which Path to Persia, 50.
As laid out by Pollack, the goal of this policy is to “convince the government of Iran to change its behavior on issues of critical importance to the United States…not to try to change the government of Iran.” To achieve the goal of the policy, Pollack lays out numerous steps that must be taken and requirements that must be met. First, the Obama administration must overcome the Bush legacy of threatening regime change. This is necessary because the threat of regime change creates a non-starter for Iran. So long as regime change remains on the table the Iranian government feels existentially threatened by the United States government. A nuclear weapon is the one weapon that has the potential of protecting their regime from a U.S. invasion. As a result, in a scenario where they believed regime change to be a significant threat, the last thing they would do would be to give up their capability to create their only hope for defense. It may even encourage an attempt to break out, following a North Korean model. Additionally, doing so is illegal because the United States has already promised Iran not to pursue Iranian Regime change in the Algiers Accords. Next, the USFG must also stop eschewing diplomatic bargains and refusing to offer meaningful positive incentives. This is necessary because diplomatic bargains and meaningful positive incentives are precisely what the process requires and what positive inducements are meant to be. Without opening the doors to diplomatic bargains and meaningful incentives the hope for the success of a persuasive strategy is dead before it can even be started. If these three things can be achieved, the government of the United States must also “erect a broad international commitment to a set of powerful sanctions on Iran to

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44 Pollack et al., *Which Path to Persia*, 32.
45 Ibid., 32.
47 Pollack et al., *Which Path to Persia*, 32.
punish it for noncompliance.” This is necessary because after three decades of sanctions, the United States has virtually no ties to Iran it could threaten to cut. The pressure on Iran must come principally from other members of the international community—particularly Iran’s leading trading partners in Europe, Russia, China, India and elsewhere.\footnote{Pollack et al., 32.}

With regard to negative inducements, the United States can encourage economic sanctions—such as embargoes on the sale of refined oil products to Iran, and non-economic sanctions, such as embargoes on arms sales and travel visas to foreign countries for Iranian citizens.\footnote{Ibid., 35.} The text stresses the need for solidarity with regard to these sanctions as well as the need to have them clearly outlined up-front and attached to triggers based on definable Iranian activities, such as Iranian withdrawal from the NPT, so that they can serve as a firm basis for those in Iran who favor non-proliferation to argue from, to discourage Iranian attempts at haggling with them, and attempts from the signatory countries to water them down.\footnote{Pollack, Which Path to Persia, 40.} They must also be constructed in a way so as to allow for them to be gradual in their application, for as Thomas Schelling points out in his seminal text \textit{Arms and Influence}, “It is the threat of damage, or of more damage to come, that can make someone yield or comply.”\footnote{Ibid., 46.}

With regard to positive inducements, the text specifies four categories from which the United States may choose to create its offering to Tehran: nuclear energy and technology, security guarantees, political incentives, and economic inducements.\footnote{Pollack, Arms and Influence, (Yale University Press: September 10, 1967), 3, 82.} Nuclear energy and technology incentives would likely include a compromise on Iran’s nuclear ambitions similar to what has already been offered—a deal that would allow Iran to operate technology like

\begin{footnotes}
\item Pollack et al., 32.
\item Ibid., 35.
\item Pollack, Which Path to Persia, 40.
\item Ibid., 46.
\item Thomas Schelling, \textit{Arms and Influence}, (Yale University Press: September 10, 1967), 3, 82.
\item Pollack et al., 37-40.
\end{footnotes}
light water reactors while suspending their enrichment program. Security guarantees would need to come primarily from the United States and Israel, from whom Iran perceives its largest physical threat, and political incentives from the United States and other world powers in terms of greater international inclusion and relations. Economic inducements would likely involve including Iran in the World Trade Organization, settling outstanding disputes over frozen assets and normalizing trade relations with the United States.

To date, the United States has not been able to persuade the Iranians to change course. This means that the cost-benefit balance, from the Iranian perspective, still favors the pursuit of its original objectives. In order to alter this calculation, the United States therefore needs to increase negative inducements, increase positive inducements or both. As outlined by Pollack the best way to increase negative inducements is to form a broad international commitment to a carefully constructed sanctions regime. Though details of the sanctions would need to be agreed upon and enforced by all the participating countries to be effective, if such an agreement could be achieved it would act to reduce the mitigating effects that continued trade with and investment in Iran by other major countries has on current U.S. sanctions already in place.54 This would constitute a significant negative inducement and is widely accepted as both the most likely and most appropriate next step in terms of advancing the negative inducements on Iran. What more should be done with regard to positive inducements is less clear and more contentious. The remainder of this paper will be dedicated to examining a new economic inducement.

Describing the Inducement

Many positive inducements have been proposed and even offered to Iran in recent years. These plans and offers range widely from increasing cultural understanding by offering student visas to allowing Iran to join the World Trade Organization. Though these plans answer relevant needs when measured against the domestic costs perceived by Iran of compromising on their nuclear program they fall short. This sentiment is echoed by the Council of Foreign Relations Science and Technology Fellow Charles Ferguson who claims that Iran will “have to be offered something incredibly richer [in terms of inducements].”

In an effort to design such an inducement this paper proposes and tests the following positive inducement: President Barack Obama should create a special allowance within the ISA legislation that grants foreign companies the right to invest specifically in Iran’s natural gas industry and create a new Executive Order to amend Executive Order 12959 granting the same to companies based in the United States. Doing so would allow foreign companies that were previously discouraged from investing in Iran’s natural gas industry by the ISA and allow US companies that were blocked from doing so by EO 12959 to invest in Iran. Though creating the legal space for this investment is by no means an assurance that it will occur, it is reasonable to believe that it might and reasonable to believe that the resulting economic upswing in Iran would be substantial and in Iran’s interest. This proposal is administratively possible because the ISA’s legislation includes a special allowance authorizing the President to “waive sanctions…if doing so is important to the U.S. national interest,” and because inherent in the office of the President is the power to cancel or amend all previous executive

http://www.cfr.org/publication/10590/what_sanctions_mean_for_irans_economy.html#p8
orders.\textsuperscript{56} Enacting this plan is therefore theoretically within the power of President Obama. The following pages will outline how such a gesture could potentially act as a great inducement to Iran due to the potential for it to generate new sources of wealth, revenue and energy for the country.

**A Point of Leverage**

Though buoyed up in recent years by recordsetting crude oil prices, the Iranian economy suffers from large structural flaws and weaknesses that threaten both the prosperity of the nation and potentially, the stability of the regime. These weaknesses include a government budget almost exclusively dependent on oil revenues, enormous and increasing subsidies on refined oil products that threaten to bankrupt the central government, decreasing crude oil production levels, and a dearth of foreign investment. Attempts have been made to alleviate these issues through reform, but the government of Iran has not been successful in affecting the changes necessary. Though by no means a panacea, an infusion of new investment and the potential wealth and external revenue generated by a developing natural gas industry would alleviate some of the stress associated with these systemic weaknesses and would generate new opportunities within the Iranian economy. This would allow Iran to continue without the need for immediate reform—creating space for the debate as well as allowing more time for the necessary changes within its economy.

Implementation of this proposal would allow Iran to more effectively exploit its vast reserves of natural gas and to potentially realize the benefits just described. The benefits—reducing the stresses associated with weaknesses within the Iranian economy, the creation of

\textsuperscript{56}Katzman, “The Iran-Libya Sanctions Act.”
new opportunities within Iran’s economy, and allowing more time for the Iranian
Government to reform the Iranian economy—all lead to a more stable and profitable Iran.
All of these benefits are of significant interest to Iran, and providing them the proposed
inducement would represent a significant positive inducement to Iran as part of a persuasion
strategy.

**Weaknesses:** The government’s disproportionate dependence on oil revenue is Iran’s
first economic weakness. The state currently derives approximately 80% of its annual budget
from export of crude oil which also accounts for roughly the same percentage of annual
exports. In bumper years this leaves Iran swimming in cash, but it also leaves it exposed to
budget shortfalls during times of reduced prices. To combat this Iran maintains an Oil
Stabilization Fund, essentially an emergency cash box for the government, which it pays into
during times of high prices and withdraws from to make up for shortfalls during low prices.
Though in theory this fund works well, in practice it fails as it is routinely “ransacked to pay
for energy subsidies and gasoline imports.” This practice “exposes Iran to significant
economic risk, given the volatility of international hydrocarbon prices.” This ghost has
come to visit in 2009, as falling oil prices “mean that Iran can no longer rely on its own
resources for the major investments needed to sustain oil production and meet increased
domestic demand for gas and electricity.” Barring foreign investment, this leaves Iran in a
situation of either having to accept decreasing oil production, further reducing their income,

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57 “Iran: Country Profile 2008,” *The Economist Intelligence Unit*, published on-line at www.store.eiu.com,
accessed October, 28 2009, 19.
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or failing to meet domestic demands.

Iran’s decreasing oil production is largely a product of decaying infrastructure and the maturation of the oil fields from which Iran currently extracts most of its oil. Most of Iran’s oil production infrastructure was constructed over thirty years ago under the Shah, when Iran’s oil production last peaked at 6.0 million barrels per day. Since then, wear and tear and mismanagement has lead to a degradation of Iran’s physical infrastructure. Also, since 2005, depletion rates have exceeded exploration and development rates due to increasing costs and lack of Iranian expertise coupled with international reluctance to invest in Iran. This decrease in overall availability of oil has also negatively impacted overall production levels.

The domestic demands within Iran are largely a product of an extensive program of government subsidies on many daily goods with subsidies on energy making up the lion’s share. Some estimates claim these subsidies account for as much as 15-20 percent of Iran’s GDP, including annual imports of gasoline around $4-5 billion per year. As a result of these depressed prices for fuel and recent high oil prices more cars are on Iranian streets than ever before, increasing the demand for fuel, and increasing the expense to the government, which is forced to supply it. This reality places more stress on the government system of subsidies at a time when the government of Iran is ill-prepared to cope with it.

One potential solution to these emerging problems for Iran is to attract foreign investment which could be used to supplement its budgetary shortcomings. However, FDI

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62 Ibid., 69 – 71.
63 Sullivan, “The Self-Inflicted Vulnerabilities of Iran’s Economy.”
64 Sullivan, “The Self-Inflicted Vulnerabilities of Iran’s Economy.”
for Iran has become increasingly hard to come by in recent years with the Economist Intelligence Unit predicting a fall from US$900 million in 2008 to only US$500 million in 2009.\(^{65}\) This dramatic decrease is highlighted when viewed in comparison to neighbors like Egypt and Turkey, who received $11.6 and $22.0 billion in FDI in 2008.\(^{66}\) Attribution is difficult due to the complex nature of Iran, but experts primarily cite a lack of investor confidence in Iran as the reason for the low initial levels and recent decrease.\(^{67}\) This lack of confidence is derived from a number of sources including Iranian laws put in place following the 1979 coup that severely restrict the abilities of foreign companies to own Iranian interests, the sanctions placed on it by the United States and the United Nations, and the larger global economic downturn.\(^{68}\) With investment resources being perceived as increasingly scarce in the depressed world economy, companies are less willing to make risky investments in Iran.

Though Iran is for the moment still enjoying relative economic stability, 2010 is projected to be a tougher year financially as it is forced to deal with shrinking government budgets due to decreased production levels and the reduced price of crude on the market plus growing demands on these more limited resources from its population. In similar situations, many countries, particularly those like Iran with large labor and natural resources, turn to foreign investment to provide the required capital. However, as already discussed, this investment has by and large not been forthcoming in Iran. What the result of these conditions will be is yet to be seen, but for a President elected on a populist agenda reducing

\(^{67}\) Beehner, “What Sanctions Mean for Iran’s Economy,”
\(^{68}\) Ibid., 34.
government spending to cover its budget shortcomings is unlikely to sit well domestically.

The Benefits of Natural Gas Development: In addition to oil, Iran also possesses the world’s second largest reserves of natural gas behind Russia. Their current proven reserves are 940 trillion cubic feet—an amount equivalent to 15.5 percent of the world’s total reserves.\(^6^9\) Due to its significant reserves of natural gas and current high levels of demand for the commodity projected to only increase over the next thirty years, Iran stands to benefit greatly from trade in natural gas.\(^7^0\) Because Iranian natural gas rights are owned by the government of Iran, it would be the first to benefit from these sales abroad. This new influx of money would help to diversify and increase the government’s sources of revenue alleviating some of the issues associated with its current oil dependence, shrinking production levels, increased subsidy expenditures, and falling oil prices. Furthermore, developing Iran’s natural gas industry would create new jobs in Iran as the industry grows and make more natural gas available to generate electricity. This is important because its use would replace domestic use of oil for electric generation, leaving more oil available for export. Achieving these economic gains, thereby relieving existing problems within Iran, is the primary advantage of the proposed inducement. It would achieve this by helping Iran to overcome the traditional obstacles described below which have kept it from becoming a major natural gas exporter.

In light of what Iran’s stands to gain through the exportation of natural gas it is logical to expect Iran to be a world leader in the trade. However, unlike Russia, which has a lucrative trade in exporting natural gas to much of Europe, Iran currently exports only three


percent of the natural gas it produces with the remaining 97% being sold domestically at subsidized prices, reinjected into the oil wells to facilitate the extraction of more oil, or literally burned off as a waste product in a process known as flaring—all of which generate little to no income.\textsuperscript{71} Iran’s low production and export levels are largely due to Iran’s underdeveloped natural gas extraction and transportation infrastructure which limits both its ability to produce marketable gas and to export it to foreign markets.

This relatively poor performance is not an indication of apathy or ignorance on behalf of the Iranians, but actually the result of years of concerted efforts on their behalf in the face of difficult international conditions. As a recent RAND study point out, “the Iranian government sees natural gas as an important means of diversifying away from the country’s current dependence on oil for export and government budget revenues.”\textsuperscript{72} To this end, they have invested heavily in their natural gas industry; increasing output fifteen fold between 1980 and 2006.\textsuperscript{73} During this time, they moved from capturing none of the gas produced in association with oil extraction to roughly 90%, and eventually moved on to seeking out disassociated gas fields, the largest of which is the South Pars field, which it shares with Qatar.\textsuperscript{74} These investments allowed Iran to replace some of its domestic oil consumption with natural gas—the share of gas in domestic energy consumption rose from 26 percent in 1991 to 46 percent in 2001; over the same period, the share of oil declined from 64 to 47 percent—which in turn allowed Iran to export more oil on the international market.\textsuperscript{75} However, all of this effort has met with little success beyond the domestic market due

a number of international forces. First, when most countries were developing their natural
gas industries during the 1980’s, Iran was embroiled in a devastating war with Iraq. The war
sapped funds from the economy, leaving no room for new development projects. The years
immediately following the war were dedicated to rebuilding its crude oil production
capacity—placing natural gas on the back burner. Once investment in the gas industry
picked up, Iran often had to reinvent the wheel with regard to many of its capabilities, due to
an inability to attract companies willing invest in and thereby share their technology with
Iran.

Beyond these difficulties with creating a production capacity, Iran also faces
geographic, political and technical limitations with regard to the export of its natural gas.
Geographically, it is isolated from its potential largest markets in Europe, Asia and the
United States. This necessitates the transport of its natural gas across either land or sea to get
it to market. The only economically feasible way to transport across land is via pipeline.
Despite expressed European desire to have a natural gas alternative to Russia and growing
demand in China and India, getting the gas there is difficult because the pipeline that would
deriver it would need to go across Pakistan to reach India—something the Pakistanis are in
no hurry to allow—or across Afghanistan to reach China, which remains a risky proposition
due to ongoing security concerns in the country. Plans to extend a pipeline to Europe have
been in the works for a number of years via an extension of the pipeline which opened
between Iran and Turkey in 2002 into Greece. Once in Greece, the gas would be deliverable
across Europe. However, an ongoing dispute between Turkey and Iran over volume and
pricing of the gas as well as a lack of commitment from European investors has stalled the
The alternative to overland transport via pipeline is oversea transport on board a liquid natural gas cargo ship. Natural gas can be liquefied through a process that reduces the naturally occurring gas to a liquid that is approximately 1/600th its original volume. This allows many more British thermal units (the industry standard unit of energy) to be transported aboard a single ship, achieving an economy of scale that makes the venture profitable. Such scale is not possible if the gas remains in its natural gaseous form or even in a compressed gas form—about 1/100th its original volume. Theoretically, this option would be ideal for Iran to export its natural gas, as it would be able to safely export gas directly to India and East Asia without having to negotiate with its neighbors. Were relations between the United States and Iran to thaw, exports to the US market are even feasible, as demonstrated by the history of LNG imports from Iran’s near neighbors, Egypt, Oman and Qatar to the U.S. Unfortunately, for Iran this is also not an option. To build the facilities required to liquefy natural gas Iran would need “a major Western oil partner to provide the technical and management expertise.” For reasons already discussed, such as US sanctions and the poor climate for foreign investment in Iran this has not yet and is unlikely to occur.

President Obama offering and Iran accepting the proposed inducement has the potential to dramatically increase the scope and profitability of Iran’s natural gas industry. First, allowing Western oil and gas companies to invest in Iran without the threat of sanctions from the United States decreases their individual risk, and therefore increases their likelihood

76 Keith Crane, “Iran’s Political…Vulnerabilities,” 71.
78 Keith Crane, “Iran’s Political…Vulnerabilities,” 72.
of doing so. This investment would bring with it the expertise in off-shore drilling required by Iran to, for instance, fully exploit the South Pars field—expanding their production capacity. As Iranian production capacity increases, it would logically drive down the cost of Iranian natural gas, perhaps making it more competitive with Russian prices. Because a competitor with Russian supply would benefit Europe in terms of reducing Russia’s monopoly power on the market, this would likely increase pressure and enthusiasm to build pipelines linking Iran and Europe through Turkey and Greece. Though it is unlikely to have much effect on the security situation in Afghanistan or Pakistan’s calculations, it also opens up the opportunity for Western investors to supply Iran with the technology necessary to construct a LNG production capacity. Iran’s interest in such a venture has already been demonstrated by its joint efforts with China to achieve this capacity, though currently they remain unsuccessful. As a result of all the benefits Iran stands to gain were this proposal enacted it is therefore likely that Iran would view this proposal as a significant positive inducement from an economic perspective in line with the requirements put forth by Pollack.

Final Conclusions and Critiques

Conclusions: At its core, the claim made by the inducement is that developing a more robust natural gas industry within Iran aligns with Iranian national interest. Bearing in mind the dramatic challenges faced by Iran today as a result of major systemic problems within the Iranian economy, the case has been made that increasing state revenue as a way to relieve and offset the stresses resulting from these problems—the proposed product of natural gas exports—is indeed within Iran’s national interest. Therefore, barring other complicating factors, this proposal would function as a significant positive inducement as Iran would
desire the investment and the investment would be delivered.

The next level of the claim is that the proposed inducement would bring about this change in the Iranian economy. This is more circumspect due to the complicated calculus that companies and countries must navigate. As previously stated the United States simply allowing for the space for this investment to occur does not mean that it will. Even with these barriers removed, Iran still presents a negative investment climate as discussed due to its difficult laws with regard to foreign investment and poor track record. If the private companies judge the risk to be too high despite the US efforts encouraging their investment, Iran will at the end of the day realize no benefit. In such a situation Iran would be likely to renege on any promises made in exchange for this positive inducement as the inducement failing to deliver would again alter their cost benefit analysis.

The next level of the claim is allowing for the potential that such an inducement could escape bureaucratic death in one of the many layers it would need to penetrate to become reality. This will be revisited later in the critiques section, and it will suffice for now to say that the system of government with the United States would likely make such an offer very difficult to make. Lastly, the strategy recommends that no such positive inducement be offered without the corroboration of a strong negative inducement. In this case, as laid out by Pollack, a unified, international sanctions regime. For reasons of competing interests, such a regime will be difficult to construct and harder to maintain—though recent progress has been made in this regard with stronger rhetoric emerging from within the Kremlin and Beijing.

In final conclusion, when viewed through a more comprehensive lens such an offer would not represent a significant positive inducement because of its low probability of success due to the extent of international cooperation necessary to make it affective and a
risky Iranian investment climate. Both Iran and the rest of the world are likely to recognize this reality, and not embrace the potential of the situation as a result. This would create a self-fulfilling prophecy turning the United States’ well intended efforts into an empty gesture.

Critiques: This proposal as it has many moving parts and therefore many potential points of failure. The first and largest critique will likely come from those individuals who disagree with the paper’s assumption that Iran’s nuclear desires are flexible. This is a reasonable objection. However, it is the academic’s prerogative to make such assertions for the benefit of academic exploration, and in this, even if the assumption is someday proven invalid, the efforts of the paper will remain relevant and true in terms of the hypothetical.

The next likely critique is one to the overarching strategy by those who believe Iran can only be compelled through strong-arm tactics. Those who see Iran’s impending economic hardships, and cry out for the United States to squeeze all the harder in an effort to somehow destabilize the Iranian regime through a failure of their economy or to bend them to the West’s will in the face of their impending failure. To this critique, I reiterate one of my first statements that making an argument for a strategy of persuasion was not the purpose of this paper, and making the argument at all remains an exercise in futility so long as President Obama remains resolute in his desire to pursue persuasion. This paper was an effort to design a new tool to make the President’s persuasive strategy more effective, and is therefore incompatible with critiques against the strategy at large.

Section three of this paper was intended to remain as close to the truth and as far from editorial as possible and hopefully succeeded in this regard. However there likely exists some morsel of bias somewhere. Critiques on these are welcome and in response only apology offered.
Undoubtedly some will take offense at the treatment of the carrot and stick issue within section four. To clarify, the intent of this discussion was two-fold: first to provide a lesson in semantics from a constructivist perspective about how language can frame thoughts which can impact actions and alter outcomes—making it important—and second two help draw out common misconceptions about the strategy of persuasion, attempting to define the strategy in the negative—by what it is not.

Admittedly the paper’s treatment of the “how,” or the ways in which this inducement could be instituted by President Obama was something of a wave of the “fiat wand,” and deserves closer consideration. Without an “Esq.” behind one’s name getting lost in the “legal-ese” of Executive Orders, Treaty Law, Treasury Department Policy, State Department declarations, and the interplay of all these bureaucracies in addition to that between the various branches of the United States government—not to mention those between the United States and its allies, within its allies, within the United Nations, so on and so forth—is an easy thing to do. Quickly, the author was too far down the rabbit hole and opted for a simple answer, and this roundabout critique of a federal system and its difficulties with executing foreign policy.

Finally, section six provides fodder to the rampant economist claim that political scientists should stay away from economic analysis. This point should not be argued, unless by someone trained in both fields. Like the depths of the legal questions, economic ones require a deep understanding and careful analysis to be faithfully answered. As a result this paper intentionally used ambiguous words such as “significant” instead of dollar signs to describe the benefits possible. A more rigorous investigation of the economics involved in such an inducement would be necessary before a plan like this should ever be implemented.
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