

**Hearing before the Missouri State Senate  
Committee on Jobs, Economic Development,  
and Local Government**

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**EXECUTIVE SUMMARY**

Chairman Schmitt, members of the Senate Committee on Jobs, Economic Development and Local Government, on behalf of the Foundation for Defense of Democracies and its Center on Sanctions and Illicit Finance, I thank you for the opportunity to testify.

Today, as you hold this important hearing on Missouri's investment policies and the leading state sponsor of terrorism, Iran, Iran's President Hassan Rouhani is touring Europe, accompanied by a large, high-profile delegation of Iranian corporate executives. They are there to reap the great economic benefits of the Joint Comprehensive Plan of Action (JCPOA). Numerous contracts worth billions of dollars are being signed as you debate whether this house should pass legislation to defund corporations doing business with state sponsors of terrorism. Iran is the foremost state sponsor of terrorism and Iran's Islamic Revolutionary Guard Corps (IRGC) is the principal instrument through which Tehran trains, finances, arms, equips, and spreads terror across the Middle East and beyond. The IRGC is also the custodian of Iran's best-kept military secrets, including its clandestine nuclear military program and ballistic missile program. As the regime's Praetorian Guard, it is also charged with defending the Islamic Revolution from enemies at home and spreading the revolution abroad. Over the years, the IRGC has zealously fulfilled these tasks, quashing pro-democracy protesters inside Iran and sponsoring terrorism and Islamist movements abroad.

The IRGC is also a dominant player in Iran's economy and the likeliest beneficiary of the JCPOA. This testimony will focus on the JCPOA impact on the IRGC and its dominant position in Iran's economy. The JCPOA dismantles specific United Nations and European Union sanctions, and significantly diminishes the scope and reach of U.S. sanctions. In doing so, the JCPOA creates a major "stimulus package" for Iran's economy. The IRGC derives much of its domestic clout from its position of dominance within Iran's economy. Thus, the IRGC and the supreme leader's business empire will be the main beneficiaries. Their economic ascendance will fortify their domestic political influence.

As export and trade restrictions are lifted, previously prohibited Western technology will make its way back to Iran. The challenge of denying the IRGC access to banned technology – including dual-use technology and equipment for monitoring dissidents – will become even more arduous. The demise of sanctions will also facilitate the acquisition of advanced weaponry that will improve Tehran's conventional military capabilities, as well as its support for the Bashar al-Assad regime in Syria, Hamas in the Gaza Strip, Hezbollah in Lebanon, and Houthi rebels in Yemen.

To be clear, the United States is set to maintain its sanctions on the IRGC. The JCPOA does not alter them. Moreover, the European Union will not delist most IRGC entities on its sanctions list until Transition Day, roughly eight years from now. But as this testimony explains, after the bulk of Iran sanctions were lifted on Implementation Day on January 16, the remaining measures against the IRGC are insufficient. They will not isolate the Guards and the supreme leader's business interests from the benefits that the JCPOA will generate. Instead, additional sanctions, regulations, and due diligence efforts are needed from both governments and the private sector.

First, on Implementation Day, the JCPOA required the European Union, United States, and United Nations to lift or suspend sanctions against entire sectors of the Iranian economy. The IRGC and the supreme leader's business interests are active in many sectors – some of which they dominate almost completely. IRGC companies will get the lion's share of public contracts and business opportunities.

Second, numerous companies, which have served as accessories to IRGC nuclear and ballistic missile programs and its support for the Assad regime and its crimes against humanity, were removed from sanctions lists. De-listed entities include the entire network of companies and subsidiaries controlled by the supreme leader, as well as Iran's aviation industry and state-owned shipping firms, and companies where the IRGC has a significant ownership interest.

The delisting was not the result of a demonstrable change in these entities' patterns of behavior. Now that these companies are delisted, there are no guarantees they will cease the illicit conduct that caused them to be sanctioned in the first place – instead, there is ample reason to believe they will redouble that activity.

Third, **and most critically**, companies owned or controlled by the IRGC that have until now eluded designation by the U.S., EU, or UN are likely to benefit from the post-JCPOA windfall, as the business community will accept them as legitimate business partners. The same is true for IRGC senior executives that eluded sanctions until now.

This testimony will explain the IRGC's role in the Iranian economy, demonstrate how the IRGC uses profits from its "legitimate" businesses to fund its illicit activities, and provide recommendations to mitigate the risk for state pension funds to invest in companies tainted by business ties with the IRGC. State governments' steps to defund Iran will send a strong signal to the international business community: those who enter contractual relations with economic players of a state sponsor of terrorism risk becoming an accomplice to terror financing. It is imperative for state legislatures to shield their own investments from such companies.

## **INTRODUCTION**

The Islamic Revolutionary Guard Corps (IRGC) is a key player in Iran's internal power structure, as well as in its operations abroad. It is the custodian of Iran's best-kept military secrets, including its clandestine nuclear military program and ballistic missile program. The IRGC is a conventional fighting force, an economic conglomerate, an agency in charge of nuclear and ballistic missile proliferation, and a player in the country's political system. Established in 1979 to consolidate the Islamic Revolution and fight its enemies, the IRGC has evolved over the years into a full-fledged conventional army, a business empire, and a political powerhouse.

The interaction among military, economic, and political power is critical in understanding the centrality of the IRGC to Iran's current system. The IRGC exploits its influence and capabilities in one realm in order to increase its involvement in another. Its growing economic clout is both an end in and of itself and a tool to advance other agendas. Thus, IRGC revenues from economic

activities yield political leverage and the resources needed to advance its loyal members in positions of power. Its power, conversely, serves the economic enterprises it owns. But the profits inevitably fund its military activities, its support for terror organizations and Shi'a militias abroad, and its involvement in the procurement and development efforts in the nuclear and ballistic missile programs – which in turn enhance its prestige and power within the system.

The IRGC's business dealings also give access to foreign technology acquiring goods and skills to advance its military projects. Meanwhile, the Guards' growing political and economic influence enables them to bank on the willingness of public companies to lend their services – both at home and abroad – to aid in the Guards' efforts to procure forbidden technologies and raw materials, and to finance their purchases through middlemen on foreign markets.

The IRGC's wealth serves three important goals. First, it generates revenue to finance the IRGC's military-oriented activities – including the nuclear and ballistic missile programs at home and sponsorship of terrorism abroad. Second, it offers the Guards a network of companies, enterprises, banks, offices, holdings, and joint ventures that can execute the regime's procurement efforts in its quest for advanced weaponry and sensitive technology. And third, it generates personal affluence, which the Guards can translate into political influence.

The nuclear agreement between Iran and the P5+1 (permanent members of the UN Security Council plus Germany), the Joint Comprehensive Plan of Action (JCPOA), provides Iran with significant sanctions relief in the form of access to previously frozen assets, re-entry into the global financial system, and the lifting of sanctions on entire sectors of the Iranian economy. The benefits of sanctions relief will expand, creating greater economic resiliency over time. The agreement dismantles specific United Nations and European Union sanctions and significantly diminishes the scope and reach of U.S. sanctions. As a significant force in the Iranian economy, the IRGC is set to be a primary direct and indirect beneficiary of the deal unless the United States and its allies act decisively to prevent the enrichment of the Revolutionary Guard.

State legislatures can contribute to this effort by passing legislation that defunds investments in companies doing business with the IRGC.

## **THE IRGC'S PERVASIVE CONTROL OF THE IRANIAN ECONOMY**

### **History of the IRGC's Role in the Economy**

The IRGC began its prominent involvement in Iran's economy at the end of the Iran-Iraq War and after the death of the founder of the Islamic Republic, the late Grand Ayatollah Ruhollah Khomeini, in 1989. Many, including the IRGC itself, claim that then-President Rafsanjani invited the IRGC to play a more important role in the economy early on in his presidency.<sup>1</sup> The

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<sup>1</sup> Mohsen Sazegara, "Sepah va seh enherof (The IRGC and Three Aberrations)," *Mohsen Sazegara*, July 23, 2006. ([http://www.sazegara.net/persian/archives/2006/07/060723\\_154435.html](http://www.sazegara.net/persian/archives/2006/07/060723_154435.html))

IRGC claims that he specifically asked them to get involved in the country's reconstruction.<sup>2</sup> Inheriting a country ruined by the eight-year long war with Iraq and facing low oil prices, Rafsanjani had to prioritize economic recovery above all else. The new president reportedly ordered the government not to be dependent on the approved budget by Iran's parliament. Instead, the executive would finance itself by conducting business activities.<sup>3</sup> Similarly, by branching out into the economy, the IRGC could ensure independent sources of financing for its military and overseas. In 1990, the IRGC transformed its reconstruction headquarters into the construction conglomerate Khatam al-Anbiya, which in turn established numerous subsidiaries across the Iranian economy.<sup>4</sup>

When president Rafsanjani began his tenure, the IRGC was not an important economic player, but by the time he left the office, the IRGC had become one of the main players in Iran's economy. Over the next decade, the IRGC went from a major economic actor in the market to a dominant actor. Over time, the Guards became involved in the food industry, a number of important manufacturing companies, telecommunications, and, more recently, the energy sector where, beyond the initial involvement in the construction of infrastructure projects, IRGC subsidiaries are now directly involved in all phases of the oil supply chain. IRGC companies are also prominent in the services and logistics sectors, where energy consulting companies, shipping, and port services have also fallen under the IRGC's purview.

Although penetration of Iran's economy occurred gradually, the turning point was the IRGC's seizure of Tehran's new Imam Khomeini Airport in 2004.<sup>5</sup> IRGC forces blocked the runway and prevented aircrafts from landing, claiming that the Turkish consortium managing the airport had business ties to a "Zionist company." The real reason, in fact, was that the IRGC wanted the contract for itself. Being the main smuggler in Iran, the IRGC controls ports and airports to conduct its illicit trade.<sup>6</sup> More importantly, its takeover of Iran's main international airport signaled a change: henceforth, the IRGC would hold a right of first refusal for any big public project in the country.

Over the next decade, the IRGC solidified its control of the Iranian economy. In May 2005, Supreme Leader Khamenei issued a decree permitting the government to privatize most public-owned industries and requiring ownership of at least 25 percent of the Iranian economy to be

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<sup>2</sup> "Voroud-e Sepah Be Eqtesad Khaste Hashemi Bara-ye Komak Be Dowlat-ha Boud (The Guards Entering the Economy Was the Wish of Hashemi to Help the Government)," *Mehr News* (Iran) May 5, 2010. (<http://www.mehrnews.com/fa/newsdetail.aspx?NewsID=1067961>)

<sup>3</sup> Mohsen Sazegara: "Sepah va Se Enheraf (The Guards and Three Deviations)," *Mohsen Sazegara*, July 23, 2006. ([http://www.sazegara.net/persian/archives/2006/07/060723\\_154435.html](http://www.sazegara.net/persian/archives/2006/07/060723_154435.html))

<sup>4</sup> Frederic Wehrey, Jerrold D. Green, Brian Nichiporuk, Alireza Nader, Lydia Hansell, Rasool Nafisi, and S. R. Bohandy, "The Rise of the Pasdaran: Assessing the Domestic Roles of Iran's Islamic Revolutionary Guards Corps," *The RAND Corporation*, 2009, pages 59-60.

([http://www.rand.org/content/dam/rand/pubs/monographs/2008/RAND\\_MG821.pdf](http://www.rand.org/content/dam/rand/pubs/monographs/2008/RAND_MG821.pdf))

<sup>5</sup> Jamshid-e Assadi: "Koudeta-ye Eqtesadi Pish Az Koudeta-ye Entekhabati ... (Economic coup d'etat before political coup d'etat)," *Gooya News* (Belgium) September 21, 2009

(<http://news.gooya.com/columnists/archives/093905.php>)

<sup>6</sup> Babak Dehghanpisheh, "Why Sanctions Won't Hurt the Revolutionary Guards," *Newsweek*, July 10, 2010. (<http://www.newsweek.com/why-sanctions-wont-hurt-revolutionary-guards-74673>)

transferred to the private sector over a five-year period.<sup>7</sup> The industries involved included “large-scale oil and low-end gas industries, mines, foreign trade, many banks, shareholder-owned cooperatives, power generation, many postal services, roads, railroads, aviation, and shipping.” Rather than benefit independent business men, however, a significant portion of privatization transfers went to the IRGC.<sup>8</sup>

### **IRGC Influence in Iran’s Economy Today**

As a result of these changes, during the last two decades the IRGC has become a dominant force in the Iranian economy, and Iran’s “most powerful economic actor,” according to the U.S. Treasury.<sup>9</sup> Although exact figures are difficult to estimate because of the opaque nature of the IRGC’s influence and the size of off-book enterprises, experts calculate that the IRGC controls around 20-30 percent of the Iranian economy.<sup>10</sup> Its annual income may be as high as one-sixth of Iran’s GDP.<sup>11</sup> The IRGC has “displace[d] ... the legitimate Iranian private sector,” created a preferential system “in favor of a select group of insiders,” and “expanded its reach into critical sectors of Iran’s economic infrastructure,” according to the U.S. government.<sup>12</sup>

Over the years, Treasury has sanctioned 25 individuals, 25 companies, two academic institutions (Baqiyatullah University of Medical Sciences and Imam Hossein University), and four military/paramilitary entities: the IRGC air force, missile command, Quds Force, and Basij – in addition to sanctioning the IRGC itself.<sup>13</sup> Additional listings have targeted other companies, such

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<sup>7</sup> Ali Alfoneh, “The Revolutionary Guards’ Looting of Iran’s Economy,” *American Enterprise Institute*, June 23, 2010. (<https://www.aei.org/publication/the-revolutionary-guards-looting-of-irans-economy/>); see also “Iran Privatization Organization” (<http://www.ipo.ir/index.aspx?siteid=1&pageid=891>).

<sup>8</sup> Ali Alfoneh, “All the Guard’s Men: Iran’s Silent Revolution,” *World Affairs Journal*, September 2010. (<http://www.worldaffairsjournal.org/article/all-guards-men-irans-silent-revolution>); Ali Alfoneh, “The Revolutionary Guards’ Looting of Iran’s Economy,” *American Enterprise Institute*, June 23, 2010. (<https://www.aei.org/publication/the-revolutionary-guards-looting-of-irans-economy/>)

<sup>9</sup> U.S. Department of the Treasury, Press Release, “Treasury Submits Report to Congress on NIOC and NITC,” September 24, 2012. (<http://www.treasury.gov/press-center/press-releases/Pages/tg1718.aspx>)

<sup>10</sup> Greg Bruno, Jayshee Bajoria, and Jonathan Masters, “Iran’s Revolutionary Guard,” *Council on Foreign Relations*, June 14, 2013. (<http://www.cfr.org/iran/irans-revolutionary-guards/p14324>); Emanuele Ottolenghi and Saeed Ghasseminejad, “Who Really Controls Iran’s Economy?” *The National Interest*, May 20, 2015. (<http://nationalinterest.org/feature/who-really-controls-irans-economy-12925>); Frederic Wehrey, Jerrold D. Green, Brian Nichiporuk, Alireza Nader, Lydia Hansell, Rasool Nafisi, and S. R. Bohandy, “The Rise of the Pasdaran: Assessing the Domestic Roles of Iran’s Islamic Revolutionary Guards Corps,” *The RAND Corporation*, 2009. ([http://www.rand.org/content/dam/rand/pubs/monographs/2008/RAND\\_MG821.pdf](http://www.rand.org/content/dam/rand/pubs/monographs/2008/RAND_MG821.pdf)); Mark Gregory, “Expanding Business Empire of Iran’s Revolutionary Guards,” *BBC News*, July 26, 2010. (<http://www.bbc.com/news/world-middle-east-10743580>)

<sup>11</sup> Parisa Hafezi and Louis Charbonneau, “Iranian Nuclear Deal Set to Make Hardline Revolutionary Guards Richer,” *Reuters*, July 6, 2015. (<http://www.reuters.com/article/2015/07/06/us-iran-nuclear-economy-insight-idUSKCN0PG1XV20150706>)

<sup>12</sup> U.S. Department of State, “Joint Statement on Iran Sanctions,” June 23, 2011. (<http://www.state.gov/r/pa/prs/ps/2011/06/166814.htm>); U.S. Department of State, “Treasury Targets Iran’s Islamic Revolutionary Guard Corps,” February 10, 2010. (<http://www.state.gov/r/pa/prs/ps/2010/02/136595.htm>); U.S. Department of the Treasury, “Fact Sheet: Treasury Sanctions Major Iranian Commercial Entities,” June 23, 2011. (<http://www.treasury.gov/press-center/press-releases/Pages/tg1217.aspx>)

<sup>13</sup> Information available via the Treasury Department’s “Sanctions List Search” database, accessed on January 18, 2016 at <http://sdnsearch.ofac.treas.gov/>.

as Iran Air, for providing logistical and financial support to the IRGC.<sup>14</sup> State and Treasury have also sanctioned IRGC companies under different authorities rather than explicitly for their links to the IRGC. For example, the State Department designated Ofogh Saber Engineering Development Company under Executive Order 13628 as an “electronic warfare entity” because it facilitates the Iranian government’s efforts to “limit access to print or broadcast media” by jamming satellite signals.<sup>15</sup> The IRGC Cooperative Foundation sits on the board of Ofogh Saber and as a result has direct control over the business.<sup>16</sup> The EU, for its part, has listed 26 entities as IRGC-owned or controlled.<sup>17</sup>

Most IRGC-linked companies, however, have not been designated by EU or U.S. authorities. These companies are now likely to benefit from the economic windfall because the international business community will presume that any Iranian company not sanctioned is a legitimate business partner. The gap between designated IRGC companies and those that have eluded U.S. or EU sanctions is wide, creating a window for the latter to now participate in the JCPOA economic windfall. As discussed in greater depth in the recommendation section below, an IRGC Watch List could provide information on the IRGC connections of members of the board of directors and on the equity stake that IRGC entities control. Such a watch list would assist foreign companies with due diligence and know-your-customer risk assessments. In the course of research I conducted at FDD alongside my colleagues, we have identified at least 229 companies with significant IRGC influence either through equity shares or positions on the board of directors. I have included the list of these companies and pertinent ownership information in Annex I. Additionally, in Annex II, I have included individuals who may be liable for sanction as a result of their affiliation with the IRGC.

The United States retains the ability to designate IRGC companies and individuals under non-nuclear sanctions authorities. State legislatures, likewise, can divest from companies engaged in business deals with designated IRGC companies or companies that, while not designated, appear on the aforementioned watch list. Such a step is needed to insulate state pension funds from exposure to companies doing business with the IRGC, especially with regard to European companies. The EU will delist IRGC entities currently under sanctions by Transition Day, roughly eight years from now. The EU may still be able to designate certain IRGC entities and individuals under human rights authorities – as it has already done numerous times in the case of IRGC commanders responsible for human rights abuses following the fraudulent 2009

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<sup>14</sup> Iran Air was delisted on Implementation Day.

<sup>15</sup> U.S. Department of State, Office of the Spokesperson, “United States Takes Action to Facilitate Communications by the Iranian People and Targets Iranian Government Censorship,” May 30, 2013. (<http://www.state.gov/r/pa/prs/ps/2013/05/210102.htm>)

<sup>16</sup> Masood Merhdadi represents the IRGC Cooperative Foundation on the board of directors. “Agahi-ye Tasmimat-e Sherkat-e Mohandesi-e Ofogh Tose’e Saber Sahami Khas (Bulletin for Decisions Made by Ofogh Saber Engineering Development Company),” *Iranian Official Journal*, November 5, 2011. (<http://www.gazette.ir/Detail.asp?NewsID=985125894517389&paperID=910608650781836>).

<sup>17</sup> The Council of the European Union, “Council Regulation (EU) No 267/2012 of 23 March 2012 Concerning Restrictive Measures Against Iran and Repealing Regulation (EU) No 961/2010,” *Official Journal of the European Union*, March 24, 2012. (<http://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1406807228342&uri=CELEX:32012R0267>); The Council of the European Union, “Council Implementing Regulation (EU) No 1264/2012 of 21 December 2012 Implementing Regulation (EU) No 267/2012 Concerning Restrictive Measures Against Iran,” *Official Journal of the European Union*, December 22, 2012. (<http://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1406811749063&uri=CELEX:32012R1264>)

presidential election.<sup>18</sup> The EU also may (and has) designate Iranian officials and entities for supporting President Bashar Assad's brutality in Syria.<sup>19</sup> Given the business interest in Iran generated by the lifting of sanctions, it is unlikely that European authorities will issue new sanctions against Iran. State legislation that defunds Iran's economic sources of terrorism by divesting companies doing business with the IRGC thus becomes critical.

### Supreme Leader Khamenei's Network of Corruption

In addition to the IRGC, the Supreme Leader controls significant portions of the Iranian economy. According to the U.S. Treasury, Supreme Leader Ali Khamenei's financial empire is a "shadowy network of off-the-books front companies."<sup>20</sup> The network, headed by an organization known as the Execution of Imam Khomeini's Order (EIKO), or Setad, is reportedly worth \$95 billion.<sup>21</sup>

While EIKO is not part of the IRGC, it frequently partners with Guard companies. Like the Guard, it has an opaque, parallel quasi-state power structure. The network is a vast business conglomerate, involved in everything from agriculture to leisure resorts, parking lots, and residential complexes. An overview of EIKO's holdings reveals the extent of its control of the Iranian economy. The value of EIKO's real estate portfolio totals nearly \$52 billion; its stakes in publicly traded companies totaled nearly \$3.4 billion in 2013.<sup>22</sup> EIKO controls more than five percent of publicly traded companies on Tehran's Stock Exchange,<sup>23</sup> using the Tadbir Group to invest.<sup>24</sup> Rey Investment Company, which the U.S. Treasury found is controlled by EIKO, was valued at approximately \$40 billion as of December 2010.<sup>25</sup> EIKO's publicly traded banks,<sup>26</sup>

<sup>18</sup> The Council of the European Union, "Council Decision 2011/235/CFSP of 12 April 2011 Concerning Restrictive Measures Directed Against Certain Persons and Entities in View of the Situation In Iran," *Official Journal of the European Union*, April 14, 2011. ([http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L\\_.2011.100.01.0051.01.ENG](http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L_.2011.100.01.0051.01.ENG)); Since this initial decision, the EU has sanctioned 84 individuals and one entity for human rights abuses. European Union, Information Note, "The European Union and Iran," April 17, 2015, page 3. ([http://eeas.europa.eu/statements/docs/2013/131219\\_04\\_en.pdf](http://eeas.europa.eu/statements/docs/2013/131219_04_en.pdf)); Of these, 16 individuals are specifically mentioned as having affiliation with the IRGC. Data available upon request.

<sup>19</sup> The Council of the European Union, "Council Decision 2013/255/CFSP of 31 May 2013 Concerning Restrictive Measures Against Syria," *Official Journal of the European Union*, June 1, 2013. (<http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32013D0255>)

<sup>20</sup> U.S. Department of the Treasury, Press Release, "Treasury Targets Assets of Iranian Leadership," June 4, 2013. (<http://www.treasury.gov/press-center/press-releases/Pages/j11968.aspx>)

<sup>21</sup> Steve Stecklow, Babak Dehghanpisheh, and Yeganeh Torbati, "Khamenei Controls Massive Financial Empire Built on Property Seizures," *Reuters*, November 11, 2013. (<http://www.reuters.com/investigates/iran/#article/part1>)

<sup>22</sup> Steve Stecklow, Babak Dehghanpisheh, and Yeganeh Torbati, "Khamenei Controls Massive Financial Empire Built on Property Seizures," *Reuters*, November 11, 2013. (<http://www.reuters.com/investigates/iran/#article/part1>)

<sup>23</sup> Emanuele Ottolenghi and Saeed Ghasseminejad, "Who Really Controls Iran's Economy?" *The National Interest*, May 20, 2015. (<http://nationalinterest.org/feature/who-really-controls-irans-economy-12925>); For more information about EIKO and its investment arms, see Emanuele Ottolenghi and Saeed Ghasseminejad, "The Bank of Ayatollah," *National Post* (Canada), December 18, 2013. (<http://news.nationalpost.com/full-comment/ottolenghi-ghasseminejad-the-bank-of-ayatollah>)

<sup>24</sup> U.S. Department of the Treasury, Press Release, "Treasury Targets Assets of Iranian Leadership," June 4, 2013. (<http://www.treasury.gov/press-center/press-releases/Pages/j11968.aspx>)

<sup>25</sup> U.S. Department of the Treasury, Press Release, "Treasury Targets Assets of Iranian Leadership," June 4, 2013. (<http://www.treasury.gov/press-center/press-releases/Pages/j11968.aspx>)

<sup>26</sup> Emanuele Ottolenghi and Saeed Ghasseminejad, "The Bank of Ayatollah," *National Post* (Canada), December 18, 2013. (<http://news.nationalpost.com/full-comment/ottolenghi-ghasseminejad-the-bank-of-ayatollah>)



Parsian Bank and Karafarin Bank, were worth \$760 million<sup>27</sup> and \$705 million<sup>28</sup> respectively, as of January 19, 2016.

The U.S. Treasury Department designated EIKO and 37 subsidiaries in June 2013 and noted at the time that the purpose of EIKO was “to generate and control massive, off-the-books investments, shielded from the view of the Iranian people and international regulators.”<sup>29</sup> Then-Under Secretary for Terrorism and Financial Intelligence David S. Cohen explained:

“Even as economic conditions in Iran deteriorate, senior Iranian leaders profit from a shadowy network of off-the-books front companies. While the Iranian government’s leadership works to hide billions of dollars in corporate profits earned at the expense of the Iranian people, Treasury will continue exposing and acting against the regime’s attempts to evade our sanctions and escape international isolation.”<sup>30</sup>

Treasury sanctioned EIKO and its subsidiaries – including a number of foreign companies – under Executive Order 13599, which targeted Iran’s government-owned entities for posing a threat to the integrity of the international financial system. As Treasury explained:

“EIKO has made tens of billions of dollars in profit for the Iranian regime each year through the exploitation of favorable loan rates from Iranian banks and the sale and management of real estate holdings, including selling property donated to EIKO. EIKO has also confiscated properties in Iran that were owned by Iranians not living in Iran full-time ... EIKO has been tasked with assisting the Iranian Government’s circumvention of U.S. and international sanctions. Because of this unique mission, EIKO has received all of the funding it needs to facilitate transactions through its access to the Iranian leadership.”<sup>31</sup>

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<sup>27</sup> Information on the value of Parsian Bank is available on the Tehran Stock Exchange, accessed January 19, 2016, at [http://new.tse.ir/instrument/%D9%88%D9%BE%D8%A7%D8%B1%D8%B31\\_IRO1BPAR0001.html](http://new.tse.ir/instrument/%D9%88%D9%BE%D8%A7%D8%B1%D8%B31_IRO1BPAR0001.html).

<sup>28</sup> Information on the value of Karafarin Bank is available on the Tehran Stock Exchange, accessed January 19, 2016, at [http://new.tse.ir/instrument/%D9%88%D9%83%D8%A7%D8%B11\\_IRO1KRAF0001.html](http://new.tse.ir/instrument/%D9%88%D9%83%D8%A7%D8%B11_IRO1KRAF0001.html).

<sup>29</sup> U.S. Department of the Treasury, Press Release, “Treasury Targets Assets of Iranian Leadership,” June 4, 2013. (<http://www.treasury.gov/press-center/press-releases/Pages/j11968.aspx>)

<sup>30</sup> U.S. Department of the Treasury, Press Release, “Treasury Targets Assets of Iranian Leadership,” June 4, 2013. (<http://www.treasury.gov/press-center/press-releases/Pages/j11968.aspx>)

<sup>31</sup> U.S. Department of Treasury, Press Release, “Treasury Targets Assets of Iranian Leadership” June 4, 2013, (<http://www.treasury.gov/press-center/press-releases/Pages/j11968.aspx>)

U.S. sanctions had a chilling effect on EIKO's business ventures abroad, especially in Europe.<sup>32</sup> An EIKO subsidiary, Tadbir Energy Group, unsuccessfully bid for a refinery in France in 2012;<sup>33</sup> and in April 2015, another EIKO bid to buy a refinery in Switzerland was rejected, reportedly due to concerns over U.S. sanctions.<sup>34</sup>

As a result of the JCPOA, the U.S. Treasury lifted sanctions on EIKO, despite the fact that there was no indication that its business practices have changed and despite the fact that none of these entities were designated for nuclear proliferation.<sup>35</sup> These entities were sanctioned because they were involved in illicit financial practices, including government corruption. There is no indication that this conduct has changed.

The network, however, continues to pose risks to the integrity of the global financial system and poses a significant terror-financing risk. Companies such as EIKO, likely established for the purpose of evading sanctions and helping Iranian procurement efforts, are now likely to be subject to even less government scrutiny than before the JCPOA. Evidence suggests due diligence is unlikely to come from the business community either.

Even before Washington delisted all of EIKO's subsidiaries on Implementation Day,<sup>36</sup> barriers to conducting business with EIKO were already eroding. In January 2015, representatives of two sanctioned EIKO petrochemical companies were in Moscow attending Interplastica, a large

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<sup>32</sup> Emanuele Ottolenghi and Saeed Ghasseminejad, "The Iranian Deep State is Trying to Buy an Oil Refinery in Switzerland Even Before Sanctions Have Been Lifted," *Business Insider*, April 29, 2015.

(<http://www.businessinsider.com/iranian-deep-state-trying-to-buy-swiss-oil-refinery-2015-4>)

<sup>33</sup> Benoit Faucon, "Iran's Tadbir Energy to Bid for French Refinery," *The Wall Street Journal*, July 4, 2012.

(<http://www.wsj.com/articles/SB10001424052702303962304577507370495110742>)

<sup>34</sup> Emanuele Ottolenghi and Saeed Ghasseminejad, "The Iranian Deep State is Trying to Buy an Oil Refinery in Switzerland Even Before Sanctions Have Been Lifted," *Business Insider*, April 29, 2015.

(<http://www.businessinsider.com/iranian-deep-state-trying-to-buy-swiss-oil-refinery-2015-4>)

<sup>35</sup> Executive Order 13599, "Blocking Property of the Government of Iran and Iranian Financial Institutions," February 8, 2012. (<http://www.gpo.gov/fdsys/pkg/FR-2012-02-08/pdf/2012-3097.pdf>); U.S. Department of the Treasury, Press Release, "Treasury Targets Assets of Iranian Leadership," June 4, 2013.

(<http://www.treasury.gov/press-center/press-releases/Pages/jl1968.aspx>); "New US Sanctions on the Government of Iran and Iranian Financial Institutions," *Steptoe & Johnson, LLP*, February 7, 2012.

(<http://www.steptoelaw.com/publications-newsletter-431.html>)

<sup>36</sup> Emanuele Ottolenghi and Saeed Ghasseminejad, "Under Iran Agreement, U.S. Will Delist All Entities Controlled by Supreme Leader," *Foundation for Defense of Democracies*, July 27, 2015.

(<http://www.defenddemocracy.org/media-hit/ottolenghi-ghasseminejad-us-will-delist-entities-controlled-by-khamenei/>);

U.S. restrictions will remain in place against EIKO and its designated subsidiaries for U.S. persons as defined in the JCPOA. According to footnote 6 of Annex II of the JCPOA, "For the purposes of Sections 4 and 6-7 of this JCPOA, the term 'non-U.S. person' means any individual or entity, excluding (i) any United States citizen, permanent resident alien, entity organized under the laws of the United States or any jurisdiction within the United States (including foreign branches), or any person in the United States, and (ii) any entity owned or controlled by a U.S. person. For the purposes of (ii) of the preceding sentence, an entity is 'owned or controlled' by a U.S. person if the U.S. person: (i) holds a 50 percent or greater equity interest by vote or value in the entity; (ii) holds a majority of seats on the board of directors of the entity; or (iii) otherwise controls the actions, policies, or personnel decisions of the entity. U.S. persons and U.S.-owned or -controlled foreign entities will continue to be generally prohibited from conducting transactions of the type permitted pursuant to this JCPOA, unless authorised to do so by the U.S. Department of the Treasury's Office of Foreign Assets Control (OFAC)."

"Joint Comprehensive Plan of Action, Annex II – Sanctions related commitments," Vienna, July 14, 2015. ([http://eeas.europa.eu/statements-eeas/docs/iran\\_agreement/annex\\_2\\_sanctions\\_related\\_commitments\\_en.pdf](http://eeas.europa.eu/statements-eeas/docs/iran_agreement/annex_2_sanctions_related_commitments_en.pdf))

plastics and rubber trade fair.<sup>37</sup> In August, a subsidiary of Italy's Finmeccanica signed a \$530-million contract with Ghadir Investment (which according to the U.S. Treasury, is a subsidiary of EIKO<sup>38</sup>) to build an electric power plant in Iran. The deal was signed during an official visit to Tehran by Italy's Economic Development Minister Federica Guidi and Foreign Minister Paolo Gentiloni.<sup>39</sup> The delisting of EIKO will facilitate more such deals across Europe. It may also weaken the level of scrutiny that export-control authorities have paid to EIKO's subsidiaries.

As long as the supreme leader uses shadowy, off-the-book financial assets to exert political influence, the risk that EIKO poses to the international financial system will remain undiminished.

### *Business Interests Fund Illicit Activities*

In addition to the funds the IRGC receives from the federal budget and from off-the-book enterprises – including smuggling and drug trade – the IRGC generates profits through its predominance in key sectors of Iran's economy (analyzed in greater detail in the following section). The profits the IRGC derives from its “legitimate” business interests fund Iran's military, terrorist proxies, and other activities hostile to U.S. interests. The U.S. Treasury has repeatedly noted that the IRGC's economic empire “ultimately benefits the IRGC and its dangerous activities.”<sup>40</sup>

Justifying sanctions against the IRGC's business interests, Treasury noted, “Imposing financial sanctions on commercial enterprises of the IRGC has a direct impact on revenues that could be used by the IRGC to facilitate illicit conduct.”<sup>41</sup> Logically, the lifting of sanctions on these entities and the relevant sectors will also have a direct impact – increasing revenues that could be used to facilitate illicit conduct.

Additionally, the IRGC's legitimate business dealings enable it to gain access to foreign technology that Iran cannot yet produce indigenously. The IRGC can thus acquire missing tools to advance its military projects, learn critical skills, crack technological secrets, and insofar as it

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<sup>37</sup> The two companies are Polynar Petrochemical Co. and Ghaed Bassir Petrochemical Products Co. “Powerful Presence of Iranian Petrochemical Companies at Interplastica 2015,” *Interplastica*, accessed September 13, 2015. ([http://www.interplastica.de/cipp/md\\_wv2/custom/pub/content.oid.32498/lang.2/ticket.g\\_u\\_e\\_s\\_t/~/Powerful\\_Presence\\_of\\_Iranian\\_Petrochemical\\_Companies\\_at\\_INTERPLASTICA\\_2015.html](http://www.interplastica.de/cipp/md_wv2/custom/pub/content.oid.32498/lang.2/ticket.g_u_e_s_t/~/Powerful_Presence_of_Iranian_Petrochemical_Companies_at_INTERPLASTICA_2015.html))

<sup>38</sup> U.S. Department of Treasury, Press Release, “Treasury Targets Assets of Iranian Leadership,” June 4, 2013, (<http://www.treasury.gov/press-center/press-releases/Pages/j11968.aspx>)

<sup>39</sup> “Iran-Italia: Ministro Guidi, Raggiungimento Intesa per Accordo fra Italiana Fata e Iraniana Ghadir per Centrale Elettrica Combinata, (Iran-Italy: Minister Guidi, understanding reached for an agreement between Italy's Fata and Iran's Ghadir to build a combined electrical power plant)” *Agenzia Nova* (Italy), August 9, 2015. (<http://www.agenzianova.com/a/0/1191780/2015-08-09/business-news-ministro-guidi-intesa-fra-italiana-fata-e-iraniana-ghadir-per-centrale-elettrica-combinata>)

<sup>40</sup> U.S. Department of the Treasury, Press Center, Press Release, “Treasury Targets Iran's Islamic Revolutionary Guards Corps,” February 10, 2010. (<http://www.treasury.gov/press-center/press-releases/Pages/tg539.aspx>)

<sup>41</sup> U.S. Department of the Treasury, “Fact Sheet: Treasury Sanctions Major Iranian Commercial Entities,” June 23, 2011. (<http://www.treasury.gov/press-center/press-releases/Pages/tg1217.aspx>)

succeeds in reverse-engineering foreign technologies,<sup>42</sup> make Iranian military industries less dependent on imports over time.

There is abundant evidence to show that many IRGC companies are used as conduits for illicit transactions, that their revenue flows into IRGC coffers to finance military projects, and that a place in the companies' board or senior management may result more readily from loyalty to the cause than from professional qualifications. As Matthew Frick put it, "[T]he source of the [IRGC]'s political clout can be summed up in one word: *alumni*."<sup>43</sup> The connections the IRGC spawns are often based on informal networks of blood ties and bonds established while in uniform and maintained, in exchange for economic clout and wealth, once the uniform is retired.

Given that IRGC companies are involved in a wide array of activities that may not necessarily be linked to proliferation or the missile program, there are arguments that they should not be targeted, lest ordinary Iranians, who may work for or benefit from these companies and their activities, suffer. These are no doubt sound objections; however, Iran's legitimate and illegitimate business endeavors cannot be easily disentangled or separated. The profits from the former are used to finance the latter, as IRGC members have occasionally admitted on the record.<sup>44</sup>

### Sector-by-Sector Analysis

The IRGC is heavily involved in Iran's "financial and commercial sectors and [has] extensive economic interests in the defense production, construction, and oil industries, controlling billions of dollars in corporate business," noted Treasury.<sup>45</sup> The IRGC's control over strategic sectors of the Iranian economy – banking, energy, construction, industrial, engineering, mining, shipping, shipbuilding, amongst others – means that any foreign firms interested in doing business with Iran will have to do business with the IRGC. The IRGC will thus directly benefit from the lifting of sanctions on key sectors of the Iranian economy.

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<sup>42</sup> The cases of the IRGC's reverse engineering of an Italian speedboat and an Austrian sniper rifle are well-documented. Emanuele Ottolenghi, *Iran: The Looming Crisis: Can the West Live with Iran's Nuclear Threat?* (London: Profile Books, 2010), pages 191-193, 246-247; Emanuele Ottolenghi, "Iran's Deceptive Commercial Practices," *BESA Perspectives*, April 15, 2008. (<http://www.biu.ac.il/SOC/besa/perspectives41.pdf>); When Iran was unable to export flow-forming machines (a dual-use good applicable to both the auto industry and nuclear centrifuges) from a German company, Tehran eventually purchased the factory to learn how to make the equipment. Though neither its machinery nor its carbon fiber could be transferred to Iran, its owners ensured periodic visits by delegations of Iranian engineers, who familiarized themselves with the technology on site. Eventually, a twin factory was built in Iran. Emanuele Ottolenghi, "A Nuclear Deal with Iran and the Perils of Sanctions Relief," *The Institute for National Security Studies*, September 2014. (<http://www.inss.org.il/index.aspx?id=4538&articleid=7700>); Iran has also boasted that it reverse-engineered an American drone. Brad Lendon, "Iran Says It Built Copy of Captured U.S. Drone," *CNN*, May 12, 2014. (<http://www.cnn.com/2014/05/12/world/meast/iran-u-s-drone-copy/>)

<sup>43</sup> Matthew M. Frick, "Iran's Islamic Revolutionary Guard Corps: An Open Source Analysis," *Joint Force Quarterly*, 2008, page 125. (<http://www.dtic.mil/dtic/tr/fulltext/u2/a516529.pdf>)

<sup>44</sup> Frederic Wehrey, Jerrold D. Green, Brian Nichiporuk, Alireza Nader, Lydia Hansell, Rasool Nafisi, and S. R. Bohandy, "The Rise of the Pasdaran: Assessing the Domestic Roles of Iran's Islamic Revolutionary Guards Corps," *The RAND Corporation*, 2009, pages 63-64. ([http://www.rand.org/content/dam/rand/pubs/monographs/2008/RAND\\_MG821.pdf](http://www.rand.org/content/dam/rand/pubs/monographs/2008/RAND_MG821.pdf))

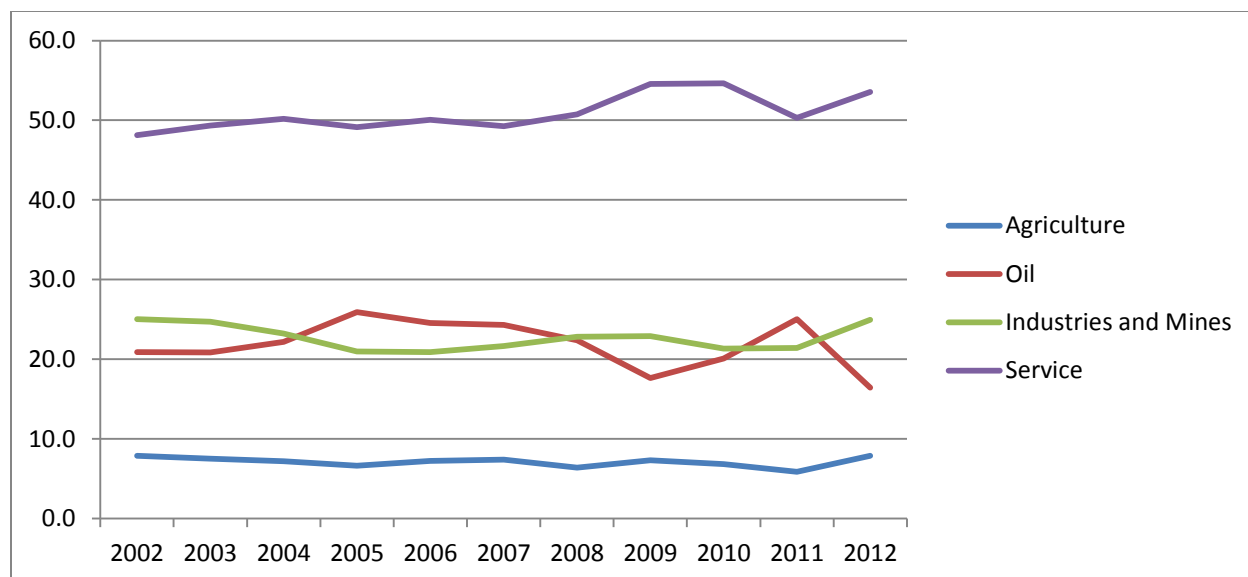
<sup>45</sup> U.S. Department of the Treasury, "Fact Sheet: Treasury Sanctions Major Iranian Commercial Entities," June 23, 2011. (<http://www.treasury.gov/press-center/press-releases/Pages/tg1217.aspx>)

The table and chart below show the share of each sector and sub-sector of Iran's GDP from 2002 to 2012, according to Iran's Central Bank. Over that decade, the oil sector, Iran's main driving force of the economy, contributed an average annual 21.8 percent of Iran's GDP. The oil sector's share GDP is directly related to the oil price and the volume of the oil export. The mines and industries sector has provided another 22.7 percent of the GDP, while the service sector includes 50.9 percent of the GDP, at the average annual level. The construction sector, where the IRGC has a strong presence, on average contributed 7.8 percent to the GDP. The same can be said for the transport and communication sector, which contributed 8.2 percent to the GDP.

### Share of GDP (%) - Current Prices

Sector	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Average
Agriculture	7.9	7.5	7.2	6.6	7.2	7.4	6.4	7.3	6.9	5.9	7.9	7.1
Oil	20.9	20.9	22.2	25.9	24.5	24.3	22.4	17.6	20.1	25.0	16.4	21.8
Industries and Mines	25.0	24.7	23.2	21.0	20.9	21.7	22.8	22.9	21.3	21.4	24.9	22.7
<i>Mines</i>	0.5	0.5	0.6	0.7	0.7	0.8	0.7	0.7	0.8	0.8	1.0	0.7
<i>Industries</i>	15.2	15.0	14.5	13.5	13.5	11.8	11.9	12.4	12.0	11.0	12.6	13.0
<i>Water, Gas, and Electricity</i>	1.4	1.4	1.3	1.1	1.0	0.9	0.9	0.9	0.9	1.8	1.5	1.2
<i>Construction</i>	7.9	7.9	6.8	5.7	5.8	8.2	9.3	9.0	7.6	7.9	9.8	7.8
Service	48.1	49.3	50.2	49.1	50.0	49.2	50.8	54.6	54.6	50.3	53.6	50.9
<i>Hotel, Restaurant, and Trade</i>	13.8	13.9	14.2	13.4	12.9	12.2	12.2	13.3	13.5	14.0	15.0	13.5
<i>Transport, Warehouse, and Communication</i>	6.1	7.2	7.7	7.6	8.0	8.5	9.1	9.7	9.6	8.2	8.8	8.2
<i>Financial and Monetary Services</i>	2.3	2.9	3.3	3.1	3.3	3.1	3.2	3.1	3.9	3.6	3.9	3.2
<i>Real Estate and Professional Services</i>	12.5	12.6	12.3	11.9	12.8	14.1	14.7	15.4	14.3	13.2	14.2	13.4
<i>Public Services</i>	10.2	9.6	9.4	9.7	9.8	7.9	8.2	9.5	9.7	8.3	8.4	9.2
<i>Social, Personal, Household Services</i>	3.0	3.0	3.2	3.5	3.3	3.4	3.3	3.6	3.7	3.0	3.4	3.3

Source: Iran's Central Bank



The following sections provide a detailed analysis of the strategic sectors of Iran's economy. As a result of the JCPOA, the United States and European Union will lift sector-based sanctions against these industries. This report has chosen to examine these sectors for two reasons: 1) the IRGC has an overwhelming stake in these sectors, and 2) the sectors combined are nearly one-half Iran's total GDP.

### *Oil, Gas, and Petrochemical Sectors*

Iran will benefit from the lifting of sanctions on its energy sector both through renewed foreign investment in upstream and downstream projects and from access to previously-restricted Western technology – including liquid natural gas technology, refining, and petrochemicals production – that was previously restricted by EU sanctions. IRGC companies now stand to gain from Iran's state-owned energy companies' ability to issue bonds to finance projects, and from the ability of de-listed state companies to procure technology for these projects.

IRGC firms own important contracts across the entire energy sector and are positioned to secure additional contracts as foreign capital and technology return to the energy industry. Additionally, the lifting of oil sanctions will now benefit the National Iran Oil Company (NIOC) and its many subsidiaries, which both the U.S. and EU de-listed on Implementation Day. The South Yaran oil field, a project owned by NIOC's subsidiary the Petroleum Engineering Development Company (PEDEC), offers a perfect example of how the IRGC stands to benefit from the lifting of oil sanctions. Production at South Yaran is set to begin in mid-2016 and will yield approximately 50,000 barrels per day.<sup>46</sup> According to *Fars News*, "National Iranian Drilling Company (NIDC), Puya Energy Kish, Naft Kar and Khatam al-Anbia Construction Headquarters are in charge of drilling."<sup>47</sup> Khatam al-Anbia is the IRGC's main construction arm. IRGC companies are thus

<sup>46</sup> "Drilling of South Yaran Oil Field Kicked Off," *Petroleum Engineering and Development Company*, August 1, 2013. (<http://pedec.ir/en/detail=2510>)

<sup>47</sup> "South Yaran Operational by March 2016," *Fars News* (Iran), August 3, 2015. (<http://english.farsnews.com/newstext.aspx?nn=13940511000976>)

positioned to receive contracts and subcontracts for energy projects, and many Western companies that invest or participate in those projects will have no choice but to partner up with the IRGC.

The JCPOA also permanently removes barriers to trade in the petrochemical sector, allowing renewed Iranian access to sensitive dual-use technology. United Nations Security Council Resolution 1929 (2010) noted the “potential connection between Iran’s revenues derived from its energy sector and the funding of Iran’s proliferation-sensitive nuclear activities,” and also that “chemical process equipment and materials required for the petrochemical industry have much in common with those required for certain sensitive nuclear fuel cycle activities.”<sup>48</sup>

The United States issued sanctions prohibiting investment in and the provision of goods and services to Iran’s petrochemical sector in November 2011.<sup>49</sup> The European Union similarly, sanctioned Iran’s petrochemical sector in March 2012.<sup>50</sup> EU sanctions targeted both Iranian exports of petrochemical products (as well as associated services) and Iranian imports of technology for the petrochemical sector. The U.S. Treasury blacklisted eight Iranian petrochemical companies in May 2013.<sup>51</sup> As of Implementation Day, these measures have been suspended.

Iran’s petrochemical products are, after oil, the country’s largest source of foreign income and its second-leading export.<sup>52</sup> During the interim agreement, sanctions on this sector were suspended and exports rose 32 percent to \$3.17 billion.<sup>53</sup> The interim sanctions relief enabled 14 companies to sell their products.<sup>54</sup> That interim agreement left in place sanctions against Iranian purchases

<sup>48</sup> United Nations Security Council, “Resolution 1929 (2010),” June 9, 2010.

([http://www.un.org/en/ga/search/view\\_doc.asp?symbol=S/RES/1929%282010%29](http://www.un.org/en/ga/search/view_doc.asp?symbol=S/RES/1929%282010%29))

<sup>49</sup> Executive Order 13590, “Iran Sanctions,” November 21, 2011. (<https://www.whitehouse.gov/the-press-office/2011/11/21/executive-order-13590-iran-sanctions>)

<sup>50</sup> The Council of the European Union, “Council Regulation (EU) No 267/2012 of 23 March 2012 Concerning Restrictive Measures against Iran and Repealing Regulation (EU) No 961/2010,” *Official Journal of the European Union*, March 24, 2012. (<http://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1406807228342&uri=CELEX:32012R0267>)

<sup>51</sup> U.S. Department of Treasury, Press Release, “U.S. Announces New Sanctions against Iran” May 31, 2013 (<http://www.treasury.gov/press-center/press-releases/Pages/jl1965.aspx>); U.S. Department of State, Spokesperson, “Companies Sanctioned under Iran Sanctions Authorities,” May 31, 2013. (<http://www.state.gov/r/pa/prs/ps/2013/05/210147.htm>)

<sup>52</sup> Maysam Bizær, “Iran Holds Trump Card on Oil: Petrochemicals,” *Al-Monitor*, January 22, 2015. (<http://www.al-monitor.com/pulse/originals/2015/01/iran-oil-petrochemicals.html>)

<sup>53</sup> Emanuele Ottolenghi and Saeed Ghasseminejad, “Iran Sanctions Relief Sparks Growing Trade with Europe, Asia,” *Foundation for Defense of Democracies*, March 27, 2015. (<http://www.defenddemocracy.org/media-hit/Iran-sanctions-relief-sparks-growing-trade-with-Europe-Asia/>)

<sup>54</sup> U.S. Department of State, Office of the Spokesperson, “Guidance Relating to the Provision of Certain Temporary Sanctions Relief in Order to Implement the Joint Plan of Action Reached on November 24, 2013, Between the P5+1 and the Islamic Republic of Iran,” January 20, 2014.

(<http://www.state.gov/p/nea/rls/220049.htm>); The companies were: (1) Bandar Imam Petrochemical Company; (2) Bou Ali Sina Petrochemical Company; (3) Ghaed Bassir Petrochemical Products Company; (4) Iran Petrochemical Commercial Company; (5) Jam Petrochemical Company; (6) Marjan Petrochemical Company; (7) Mobin Petrochemical Company; (8) National Petrochemical Company; (9) Nouri Petrochemical Company; (10) Pars Petrochemical Company; (11) Sadaf Petrochemical Assaluyeh Company; (12) Shahid Tondgooyan Petrochemical Company; (13) Shazand Petrochemical Company; and (14) Tabriz Petrochemical Company. Ghaed Bassir Petrochemical Products Company is a subsidiary of the Headquarters of the Execution of the Imam Khomeini Order.

of technology, but now the JCPOA gives Iranian petrochemical companies, including those owned by the IRGC, access to sensitive dual-use technology.

While not a majority-owner in any of the publicly-traded petrochemical companies, the IRGC holds major stakes in many of these firms and will no doubt benefit from the suspension of petrochemical sanctions.<sup>55</sup> The IRGC holds major, although not majority, stakes in:

- Kermanshah Petrochemical Industries Co. (market value: \$362.6 million)<sup>56</sup>
- Pardis Petrochemical Co. (market value: \$1.62 billion)<sup>57</sup>
- Parsian Oil & Gas Development Co. (market value: \$2.6 billion)<sup>58</sup>
- Shiraz Petrochemical Co. (market value: \$527.8 million)<sup>59</sup>

Revenue from dividends and interest generated by these investments goes to pay retirement funds, insurance, and social security for military personnel and their families. Growth in revenue from these investments means assured resources to support members of the IRGC and the IRGC's illicit activities.

### *Automotive*

The United States imposed sanctions on Tehran's automotive sector in June 2013, noting that the sector "is a significant contributor to its overall economic activity, generating funds that help prop up the rial and the regime."<sup>60</sup> The IRGC is active in the automotive sector, controlling five major automotive companies listed on the Tehran Stock Exchange, including the Bahman Group, Iran's third largest carmaker.<sup>61</sup>

Bahman Group is Iran's third largest carmaker and the proprietor of a license to produce Mazda cars for the domestic market. Bahman Group currently has a market value of approximately \$300

<sup>55</sup> Emanuele Ottolenghi and Saeed Ghasseminejad, "The Geneva Joint Plan of Action and Iran's Petrochemical Sector," *Foundation for Defense of Democracies*, December 9, 2013. (<http://www.defenddemocracy.org/media-hit/the-geneva-joint-plan-of-action-and-irans-petrochemical-sector/>)

<sup>56</sup> "Sanaye Petrochimi-e Kermanshah (Kermanshah Petrochemical Industries) – Sahamdarān (Shareholders)," *Tehran Securities Exchange Technology Management Company*, accessed September 13, 2015. (<http://www.tsetmc.com/Loader.aspx?ParTree=151311&i=38437201078089290#>).

<sup>57</sup> "Petrochimi-ye Pardis (Pardis Petrochemical) – Sahamdarān (Shareholders)," *Tehran Securities Exchange Technology Management Company*, accessed September 13, 2015. (<http://www.tsetmc.com/Loader.aspx?ParTree=151311&i=20562694899904339#>)

<sup>58</sup> "Gostaresh Naft va-Gaz Parsian (Parsian Oil and Gas Development Co.) – Sahamdarān (Shareholders)," *Tehran Securities Exchange Technology Management Company*, accessed September 13, 2015. (<http://www.tsetmc.com/Loader.aspx?ParTree=151311&i=23441366113375722#>)

<sup>59</sup> "Petrochimi-e Shiraz (Shiraz Petrochemical) – Sahamdarān (Shareholders)," *Tehran Securities Exchange Technology Management Company*, accessed September 13, 2015. (<http://www.tsetmc.com/Loader.aspx?ParTree=151311&i=38568786927478796#>)

<sup>60</sup> U.S. Department of the Treasury, Press Release, "Testimony of Under Secretary for Terrorism and Financial Intelligence David Cohen before the Senate Committee on Banking, Housing and Urban Affairs on 'Iran Sanctions: Ensuring Robust Enforcement, and Assessing Next Steps,'" June 4, 2013. (<http://www.treasury.gov/press-center/press-releases/Pages/j11969.aspx>)

<sup>61</sup> Emanuele Ottolenghi and Saeed Ghasseminejad, "Sanctions Relief Under the JCPOA," *Foundation for Defense of Democracies*, February 23, 2015. (<http://www.defenddemocracy.org/media-hit/emanuele-ottolenghi-sanctions-relief-under-the-jpoa/>)



million. It controls 24 companies,<sup>62</sup> including a share in Bahman Investment Co., another publicly traded company whose market value is currently estimated at around \$80 million.<sup>63</sup> The company also owns 11 after-sales automobile services companies, five financial investment companies, three energy companies, three trading houses, and one car insurance company.<sup>64</sup>

Bahman Group's board has five members, each representing a different company.<sup>65</sup> The following four (of the five companies) are IRGC-owned:

- Azerbaijan Diesel Vehicle Manufacturers Company (ADVMC)<sup>66</sup>
- Andisheh Mehvaran Investment Company (AMIC)<sup>67</sup>
- Negin Royal Sahel Company (NRHC)<sup>68</sup>
- Tadbir Garan Atieh Iranian Investment (TAII)<sup>69</sup>

The IRGC-owned companies, however, have sold shares back to Bahman Group subsidiaries, Fan Pardazan Bahman Co. (27.4 percent) and Andishe Fardah Investment Company (25.6 percent).<sup>70</sup> This practice of selling shares of a company to that company's subsidiaries is restricted or illegal in many countries and dubious at best. The practice obfuscates corporate governance information as a means to evade sanctions; however, it is clear from the identity of the board of directors that the IRGC controls the company.

<sup>62</sup> "Ownership Status of Companies," *Bahman Group Company*, accessed September 12, 2015. (<http://www.bahmangroup.com/en/index.php/companies/ownership-status>)

<sup>63</sup> Bahman Group owns 32.6 percent of Bahman Investment.

<sup>64</sup> "Ownership Status of Companies," *Bahman Group Company*, accessed September 12, 2015. (<http://www.bahmangroup.com/en/index.php/companies/ownership-status>)

<sup>65</sup> "Gorouh-e Bahman (Bahman Group) – Sahamdarān (Shareholders)" *Tehran Stock Exchange*, accessed September 13, 2015. (<http://new.tse.ir/Instrument.html?IRO1BHMN0001>)

<sup>66</sup> ADVMC is a subsidiary of Iran Tractor Manufacturing Company – itself a subsidiary of Mehr Eghtesad Iranian Investment Company (MEIIC). The latter is a subsidiary of Mehr Eghtesad Bank, owned by the IRGC's Basij Cooperative Foundation and designated by Treasury on June 23, 2011. "Sherkatha-ye Tabe (Subsidiaries)," *Iran Tractor Manufacturing Group*, accessed September 2, 2015. (<http://www.itm.co.ir/ps002t.aspx>); "Darbare-ye Ma (About Us)," *Iran Tractor Manufacturing Group*, accessed September 2, 2015. (<http://www.itm.co.ir/pi001t.aspx>); Treasury's designation of Mehr Bank: U.S. Department of Treasury, Press Release, "Fact Sheet: Treasury Sanctions Major Iranian Commercial Entities," June 23, 2011. (<http://www.treasury.gov/press-center/press-releases/Pages/tg1217.aspx>)

<sup>67</sup> AMIC is a subsidiary of Iran Zinc Mines Development Company, which is controlled by MEIIC. "Sarmaye Gozari-ye Andishe Mehvaran (Andisheh Mehvaran Investment)," *Iran Zinc Mines Development Company*, accessed September 2, 2015. ([http://izmdc.com/?page\\_id=121](http://izmdc.com/?page_id=121))

<sup>68</sup> NRHC's board members are MEII, TAI, and Tajalli Samane Investment Company. The latter is a subsidiary of IRGC-owned Mehr Eghtesad Iranian Brokerage Company. "Agahiye Taghirat-e Sherkat-e Negin Sahel Royal (Change Bulletin for Negin Sahel Royal Company)," *Iranian Official Journal*, January 13, 2013. (<http://www.gazette.ir/Detail.asp?NewsID=917412606859553&paperID=916206452817003>); "Darbare-ye Ma (About Us)," *Mehr Eghtesad Iranian Brokerage Company*, accessed September 2, 2015. (<http://meibourse.com/?tabid=381>)

<sup>69</sup> TAI is a subsidiary of MEIIC: "Sherkat-e Tadbirgaran-e Atieh (Tadbirgaran Atieh Company)," *Mehr Eghtesad Bank*, accessed September 2, 2015. (<http://mebank.ir/index.aspx?siteid=1&pageid=207>)

<sup>70</sup> "Corporate entry for Andishe Fardah Investment Co." *Iran Official Journal*, November 23, 2009. (<http://www.gazette.ir/Detail.asp?NewsID=925341495024623&paperID=951869441925668>)

The automotive industry relies on dual-use technology, including fiber lasers for industrial welding and cutting,<sup>71</sup> electron-beam welding machines for automatic transmission systems,<sup>72</sup> flow-forming machines for rotational manufacture, and fiber-winding machines for the production of CNG pressure vessels and battery containers.<sup>73</sup> These technologies have applications in the aerospace, defense, and nuclear industries. Lifting bans on such goods is problematic given the IRGC's significant presence in this sector and considering past cases of Iran's illicit procurement under the guise of legitimate trade in the automotive sector.<sup>74</sup> Divestment efforts should thus pay special attention to Iran's automotive sector's foreign suppliers.

### *Transportation*

The IRGC has relied on Iran's largest shipping and aviation companies to transport military equipment and personnel to proxies abroad.<sup>75</sup> Under the JCPOA, sectoral sanctions as well as individual designations of companies in the transportation sector have now been lifted.

In addition to the deceptive practices in which Iran's state-owned shipping companies – the Islamic Republic of Iran Shipping Lines and the National Iranian Tanker Company – engage, the IRGC itself controls and manages most Iranian commercial ports. Although Iran's biggest port operator, Tidewater Middle East PLC, will remain under EU sanctions until Transition Day (and under U.S. sanctions indefinitely), any increase in shipping prompted by the lifting of sanctions will enrich IRGC-owned companies managing container terminals and port services. Tidewater and its subsidiaries played a critical role in providing services to the IRGC and Iran's weapons shipments to Hamas and Hezbollah, some of which were interdicted in international waters. Weapons cargoes disguised as commercial goods and destined for terrorist and militant groups have consistently originated from the Bandar Abbas container terminal, which Tidewater manages.<sup>76</sup> As Treasury noted when it sanctioned Tidewater in June 2011, “[S]hipments into Tidewater facilities provide an avenue of revenue to the IRGC in support of its illicit conduct.”<sup>77</sup>

<sup>71</sup> James Harrington, “Dual-Use Technologies and Export Controls,” *U.S. Department of State's Jefferson Science Lecture Series*, March 31, 2009. (<http://www.state.gov/e/stas/series/154211.htm>)

<sup>72</sup> “Electron Beam Welding Technology,” *EBE Electron Beam Engineering Inc. Company*, accessed September 13, 2015. (<http://www.ebeinc.com/Electron-Beam-Technology.html>)

<sup>73</sup> “Entec Company Brochure,” *Entec Composite Machines Inc. Company*, accessed September 13, 2015. ([http://entec.com/Entec%20company%20brochure\\_final.pdf](http://entec.com/Entec%20company%20brochure_final.pdf))

<sup>74</sup> Michael Birnbaum and Joby Warrick, “A Mysterious Iranian-Run Factory in Germany,” *The Washington Post*, April 15, 2013. ([https://www.washingtonpost.com/world/europe/a-mysterious-iranian-run-factory-in-germany/2013/04/15/92259d7a-a29f-11e2-82bc-511538ae90a4\\_story.html](https://www.washingtonpost.com/world/europe/a-mysterious-iranian-run-factory-in-germany/2013/04/15/92259d7a-a29f-11e2-82bc-511538ae90a4_story.html)); Mark Dubowitz and Emanuele Ottolenghi, “Iran's Car Industry - A Big Sanctions Buster,” *Forbes*, May 13, 2013. (<http://www.forbes.com/sites/energysource/2013/05/13/irans-car-industry-a-big-sanctions-buster/>)

<sup>75</sup> U.S. Department of the Treasury, Press Release, “Fact Sheet: Treasury Sanctions Major Iranian Commercial Entities,” June 23, 2011. (<http://www.treasury.gov/press-center/press-releases/Pages/tg1217.aspx>)

<sup>76</sup> In its designation of Tidewater, Treasury highlighted the cases of a seized shipment headed to Nigeria in 2010, a cargo aboard a German-owned and IRISL-chartered vessel in October 2009, and arms-related material aboard the M/V Monghegorsk detained by the U.S. Navy and seized by Cypriot authorities in January 2009. U.S. Department of the Treasury, Press Release, “Fact Sheet: Treasury Sanctions Major Iranian Commercial Entities,” June 23, 2011. (<http://www.treasury.gov/press-center/press-releases/Pages/tg1217.aspx>). Additionally, in November 2009, Israeli authorities intercepted the *Francop* carrying 500 tons of weapons originally loaded in Bandar Abbas. Jeffrey White, “Iran and Hizballah: Significance of the *Francop* Interception,” *The Washington Institute for Near East Policy*, November 12, 2009. (<http://www.washingtoninstitute.org/policy-analysis/view/iran-and-hizballah-significance-of->

Additionally, on Implementation Day, the United States “allow[ed] for the sale of commercial passenger aircraft and related parts and services to Iran,” as well as the export, lease, and transfer of aircraft, and the provision of associated services to aircraft, provided they are “for exclusively civil aviation end-use.”<sup>78</sup> This provision is designed to allow Iranian airlines to modernize their aging fleet.<sup>79</sup> However, many of the companies likely to take advantage of this sanction relief are the very airlines responsible for serving as fronts for sanction entities and lending their planes for logistical support of terrorism abroad. For example, Aban Air was designated under Executive Order 13382 in May 2013 for providing support to the IRGC. According to Treasury, “[T]he IRGC used Aban Air to clandestinely ship cargo to and from Iran.”<sup>80</sup> As a result of the JCPOA, however, Aban Air (de-listed by the U.S. on Implementation Day) will be able to modernize its fleet without any guarantee that it will not engage in similar activities in the future. Aban and others airlines will be able to improve the quality and reliability of their air services to their customers, including the IRGC and its Quds Force.

The U.S. and EU delisted major Iranian airlines, including those designated for facilitating illegal activities. The removal of sanctions on firms in the aviation sector will likely enhance the IRGC’s ability to engage in illicit activities. For example, on Implementation Day, the U.S. delisted Iran Air, which has, according to the U.S. Treasury, “shipped military-related equipment on behalf of the IRGC since 2006 ... [and has] also been used to transport missile or rocket components to Syria.”<sup>81</sup> The Quds Force used Iran Air to dispatch weapons and military personnel to conflict zones worldwide.<sup>82</sup> As a result of the JCPOA, the Quds Force will have access to newer, larger, and more efficient planes with which to pursue its strategic objectives.

For example, Yas Air (now called Pouya Air), was designated for acting “on behalf of the IRGC-QF [Quds Force] to transport illicit cargo – including weapons – to Iran’s clients in the Levant.”<sup>83</sup> According to Treasury, Yas Air “has moved IRGC-QF personnel and weapons under

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[the-francop-interception](#)); Similarly, UN experts investigated the case of the seizure of weapons aboard the Kloc C and determined that the shipment was loaded at the port of Bandar Abbas. Louis Charbonneau, “Exclusive: UN Experts Trace Recent Seized Arms to Iran, Violating Embargo,” *Reuters*, July 27, 2014.

(<http://www.reuters.com/article/2014/06/28/us-iran-sanctions-un-idUSKBN0F300H20140628#sIimgmaQcmJrZKAQi.97>)

<sup>77</sup> U.S. Department of the Treasury, Press Release, “Fact Sheet: Treasury Sanctions Major Iranian Commercial Entities,” June 23, 2011. (<http://www.treasury.gov/press-center/press-releases/Pages/tg1217.aspx>)

<sup>78</sup> “Joint Comprehensive Plan of Action – Annex II – Sanctions related commitments,” July 14, 2015, Section 5.1.1. ([http://eeas.europa.eu/statements-eeas/docs/iran\\_agreement/annex\\_2\\_sanctions\\_related\\_commitments\\_en.pdf](http://eeas.europa.eu/statements-eeas/docs/iran_agreement/annex_2_sanctions_related_commitments_en.pdf))

<sup>79</sup> Aaron S. Goldblatt and Roozbeh Aliabadi, “How Sanctions Relief will impact Iran’s Civil Aviation Industry,” *The Hill*, June 5, 2014. (<http://thehill.com/blogs/congress-blog/foreign-policy/208085-how-sanctions-relief-will-impact-irans-civil-aviation>)

<sup>80</sup> U.S. Department of Treasury, Press Release, “Treasury Announces New Sanctions against Iran,” May 23, 2013. (<http://www.treasury.gov/press-center/press-releases/Pages/j11955.aspx>)

<sup>81</sup> U.S. Department of the Treasury, Press Release, “Fact Sheet: Treasury Sanctions Major Iranian Commercial Entities,” June 23, 2011. (<http://www.treasury.gov/press-center/press-releases/Pages/tg1217.aspx>)

<sup>82</sup> Emanuele Ottolenghi and Saeed Ghasseminejad, “The Nuclear Deal’s Impact on Iran’s Revolutionary Guards,” *Foundation for Defense of Democracies*, July 17, 2015. (<http://www.defenddemocracy.org/media-hit/emanuele-ottolenghi-the-nuclear-deals-impact-on-irans-revolutionary-guards/>)

<sup>83</sup> U.S. Department of the Treasury, Press Release, “Treasury Targets Iranian Arms Shipments,” March 27, 2012. (<http://www.treasury.gov/press-center/press-releases/Pages/tg1506.aspx>)

the cover of humanitarian aid.”<sup>84</sup> Yas Air will remain under U.S. sanctions indefinitely but will be de-listed by the EU on Transition Day.

Similarly, Mahan Air was designated in October 2011 “for providing financial, material and technological support” to the Quds Force, including ferrying personnel and weapons to Syria.<sup>85</sup> Mahan’s role in the shipment of weapons and military personnel to Syria appears to be ongoing with shipments occurring several times a week, sometimes daily, and occasionally more than once a day.<sup>86</sup> For example, on October 9, Mahan Air flew twice to Damascus, using two recently acquired Airbus A340 – tailed EP-MMF and EP-MMI – for the route.<sup>87</sup> These planes are routinely used for long haul commercial routes. For example, in the September 15-22 period, Mahan EP-MMF travelled to Ankara, Beijing, Bangkok, Dubai, and Munich.<sup>88</sup> Mahan EP-MMI travelled to Bangkok, Dubai, Guangzhou, Milan, and Shanghai.<sup>89</sup>

More recently, on December 13 and then again on December 15, Mahan operated two flights to Damascus with stopovers in Abadan.<sup>90</sup> The IRGC reportedly has a military base in Abadan.

Mahan Air will remain under U.S. sanctions indefinitely, but importantly, the EU has not previously designated Mahan Air. As a result, Mahan’s airplanes fly with impunity to more than a dozen European destinations. It has also announced the expansion of its European routes,<sup>91</sup> with the airline servicing some destinations with planes it acquired last May in violation of U.S.

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<sup>84</sup> U.S. Department of the Treasury, Press Release, “Treasury Designates Syrian Entity, Others Involved in Arms and Communications Procurement Networks and Identifies Blocked Iranian Aircraft,” September 19, 2012. (<http://www.treasury.gov/press-center/press-releases/Pages/tg1714.aspx>)

<sup>85</sup> U.S. Department of the Treasury, Press Release, “Treasury Designates Iranian Commercial Airline Linked to Iran’s Support for Terrorism,” October 12, 2011. (<http://www.treasury.gov/press-center/press-releases/Pages/tg1322.aspx>)

<sup>86</sup> Emanuele Ottolenghi and Benjamin Weinthal, “The Wings of War,” *Politico EU*, September 16, 2015. (<http://www.politico.eu/article/iran-mahan-air-sanctions-nuclear-deal-aviation-air-safety/>); Jennifer Griffin, “Exclusive: Russia Flying Iranian Weapons Shipments into Syria, Sources Say,” *Fox News*, October 29, 2015. (<http://www.foxnews.com/world/2015/10/29/exclusive-russia-flying-iranian-weapons-shipments-into-syria-sources-say/>)

<sup>87</sup> @eottolenghi, “Mahan Air EP-MMF is returning to Tehran from Damascus while broadcasting the Baghdad-Tehran flight number,” *Twitter*, October 9, 2015. (<https://twitter.com/eottolenghi/status/652533298321858560>)

<sup>88</sup> “EP-MMF - Aircraft info and flight history,” *FlightTrader24*, accessed January 19, 2016. (<http://www.flightradar24.com/data/airplanes/ep-mmf/>)

<sup>89</sup> “EP-MMF - Aircraft info and flight history,” *FlightTrader24*, accessed January 19, 2016. (<http://www.flightradar24.com/data/airplanes/ep-mmf/>)

<sup>90</sup> @eottolenghi, “Second Mahan Air deadly cargo has now left Damascus. Iran’s airlift to Assad/Hezbollah continues apace & unimpeded,” *Twitter*, December 13, 2015. (<https://twitter.com/eottolenghi/status/676194174732017664>); @eottolenghi, “Assad, here we come! Mahan Air’s EP-MMJ on its way to Damascus. #Pasdaran Air is the IRGC supply line to #Syria,” *Twitter*, December 15, 2015. (<https://twitter.com/eottolenghi/status/676836101269536768>); @eottolenghi, “Flight W5146 from Abadan to Damascus: Mahan Air’s 2nd daily delivery of weapons & personnel to #Assad’s war machine,” *Twitter*, (<https://twitter.com/eottolenghi/status/676848934359334916>); @eottolenghi, “Homeward bound: Mahan Air’s EP-MNX is returning to Tehran after it’s deadly delivery to #Syria’s regime,” *Twitter*, December 13, 2015. (<https://twitter.com/eottolenghi/status/676184830246277120>)

<sup>91</sup> The new routes are: Tehran-Moscow, Tehran-St. Petersburg, Tehran-Sochi, Tehran-Athens and Tehran-Milan. “Mahan Air announces six new international routes,” *CAPA Center for Aviation*, May 20, 2015. (<http://centreforaviation.com/members/direct-news/mahan-air-opens-6-new-international-routes-from-may-142015-225574>)

sanctions.<sup>92</sup> Mahan continues to receive a host of services as a result of its continuing operations of international routes. Especially on long haul flights, its fleet and crew are presumed to receive a whole host of ground services, including maintenance and repair, fueling, baggage handling, ticketing and check-in, catering, and overnight stays for the crew. The provision of these services and the attendant financial transactions are violations of U.S. sanctions.

Iran's president Rouhani is expected to sign a deal with Airbus, during his state visit to France, to purchase 114 new planes for Iran's commercial fleet. According to Italian media,<sup>93</sup> a deal was also signed this week for the sale of twenty aircraft by ATR to Meraj Airlines. Meraj Airlines remains designated by U.S. sanctions under Executive Order 13224. According to Treasury, Meraj aircraft "has been used to ferry illicit cargo, including weapons, from Tehran to the Syrian regime since at least 2013."<sup>94</sup> ATR is a joint venture between Italy's Finmeccanica and France's Airbus.<sup>95</sup>

Given the terms of the JCPOA, it is possible that Boeing in due course, may sell planes to Iran as well. Boeing Space, Defense and Security subdivision, headquartered in St. Louis, Missouri, might end up supplying the U.S. military with the weaponry it needs to confront the IRGC in the Persian Gulf, while Boeing Commercial Airplanes subdivision, headquartered in Seattle, WA, might sell Iran planes that will transport IRGC troops to theatres of conflict.

Finally, the IRGC is involved in transportation-related infrastructure projects, including railway networks, port expansion, highway improvement, and high-velocity trains. The lifting of sanctions will enable the IRGC to access financing and technology, and to secure international partners for these projects.

Recent contracts issued by the Islamic Republic of Iran Railways illustrate how it is impossible to insulate the IRGC from the lifting of sectorial bans. In February 2015, work began on a \$2.7 billion project to link Tehran to Isfahan by high-speed railway. The project is spearheaded by the China Railway Engineering Corporation, together with the U.S., EU-, and UN-sanctioned construction giant Khatam al-Anbiya. Financing will come partially from Iran's Bank of Industry and Mine,<sup>96</sup> a government-owned entity that the U.S. Treasury sanctioned in 2011<sup>97</sup> and the EU sanctioned in 2012, but which was removed from both sanctions lists on Implementation Day.

<sup>92</sup> U.S. Department of Treasury, Press Release, "Treasury Department Targets Those Involved in Iranian Scheme to Purchase Airplanes," May 21, 2015.

(<http://www.treasury.gov/press-center/press-releases/Pages/j110061.aspx>). According to data available on the commercial website [www.flightradar24.com](http://www.flightradar24.com), Mahan's sanctioned aircraft tail registration EP-MMH flew into Athens on 6 September, 2015; EP-MMI flew into Munich on September 2, 2015.

<sup>93</sup> "Italia-Iran: Siglati 7 Accordi Istituzionali e 10 Industriali. 564 Milioni di Euro alla SACE (Italy-Iran: seven institutional agreements and ten commercial agreements signed. 564 million Euro to SACE)" RAI News (Italy), January 26, 2015. (<http://www.rainews.it/dl/rainews/articoli/Italia-Iran-siglati-7-accordi-istituzionali-e-10-industriali-564-milioni-di-euro-alla-Sace-In-occasione-della-visita-in-Italia-del-presidente-Iran-Hassan-Rouhani-437c80ea-e8f3-4489-a014-8266adf3e075.html>).

<sup>94</sup> U.S. Department of Treasury, Press Release, "Treasury Targets Networks linked to Iran," August 29, 2014. (<https://www.treasury.gov/press-center/press-releases/pages/j12618.aspx>)

<sup>95</sup> "ATR Aircraft Company Profile," (<http://www.atraircraft.com/about-atr/corporate-overview/company-profile.html>). Accessed January 26, 2015.

<sup>96</sup> Iran's Bank of Industry and Mine, Press Release, "President Rouhani Officially Starts Tehran-Isfahan High-Speed Rail Project," March 3, 2015. (<http://en.bim.ir/detail/p10088872.bim>)

A few days before the JCPOA was signed, Iran's railways authorities announced another deal to revamp train stations in Tehran, Qom, and Mashhad.<sup>98</sup> The contract, awarded to French state-owned company AREP, is part of a \$25-billion project to modernize Iran's railways. In the words of Mohsen Pourseyed-Aqa'ie, the head of the Islamic Republic of Iran Railways, "All the contracting work for construction and upgrades would be carried out by Iranian companies, with outside companies brought in for design work and other kinds of consultancy."<sup>99</sup>

### *Construction*

Khatam al-Anbiya (KAA), a massive IRGC conglomerate, was designated by the United States as a proliferator of weapons of mass destruction.<sup>100</sup> It is Iran's biggest construction firm and, according to my colleagues' estimates, "may be its largest company outright, with 135,000 employees and 5,000 subcontracting firms."<sup>101</sup> The value of its current contracts is estimated to be nearly \$50 billion, or about 12 percent of Iran's GDP.<sup>102</sup>

KAA reportedly has more than 800 subsidiaries<sup>103</sup> in numerous sectors of Iran's economy, including its nuclear and defense programs, energy, construction, and engineering. Given its origins and history as a reconstruction tool for the revolution, KAA initially was involved mainly in infrastructure projects, and it remains heavily invested in that area through its subsidiaries. Most of these projects are straightforward business ventures – although some have military dimensions as well. In 2008, then-Deputy Director of KAA Abdolreza Abedzadeh stated that 70 percent of KAA's business was military related.<sup>104</sup>

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<sup>97</sup> U.S. Department of Treasury, Press Release, "Treasury Designates Iranian State-Owned Bank for Facilitating Iran's Proliferation Activities," May 17, 2011.

(<http://www.treasury.gov/press-center/press-releases/Pages/tg1178.aspx>)

<sup>98</sup> David Rogers, "French Transport Consultant Wins First Contract in \$25bn Iranian Rail programme," *Global Construction Review*, July 6, 2015. (<http://www.globalconstructionreview.com/news/french-transp8rt-con6su0l6t4a2nt8-0w6i4n2s-fi8r8st/>)

<sup>99</sup> David Rogers, "French transport Consultant Wins First Contract in \$25bn Iranian Rail programme," *Global Construction Review*, July 6, 2015, <http://www.globalconstructionreview.com/news/french-transp8rt-con6su0l6t4a2nt8-0w6i4n2s-fi8r8st/>.

<sup>100</sup> U.S. Department of State, Office of the Spokesman, "Fact Sheet: Designation of Iranian Entities and Individuals for Proliferation Activities and Support for Terrorism," October 25, 2007. (<http://2001-2009.state.gov/r/pa/prs/ps/2007/oct/94193.htm>)

<sup>101</sup> Parisa Hafezi and Louis Charbonneau, "Iranian Nuclear Deal Set to Make Hardline Revolutionary Guards Richer," *Reuters*, July 6, 2015. (<http://www.reuters.com/article/2015/07/06/us-iran-nuclear-economy-insight-idUSKCN0PG1XV20150706>); Emanuele Ottolenghi and Saeed Ghasseminejad, "The Nuclear Deal's Impact on Iran's Revolutionary Guards," *Foundation for Defense of Democracies*, July 17, 2015. (<http://www.defenddemocracy.org/media-hit/emanuele-ottolenghi-the-nuclear-deals-impact-on-irans-revolutionary-guards/>)

<sup>102</sup> Benoît Faucon and Asa Fitch, "Iran's Guards Cloud Western Firms' Entry After Nuclear Deal," *The Wall Street Journal*, July 21, 2015. (<http://www.wsj.com/articles/irans-guards-cloud-western-firms-entry-after-nuclear-deal-1437510830>)

<sup>103</sup> Massimo Calabresi, "New Iranian Sanctions Target Revolutionary Guards," *Time Magazine*, June 10, 2010. (<http://content.time.com/time/magazine/article/0,9171,1995869,00.html>)

<sup>104</sup> Frederic Wehrey, Jerrold D. Green, Brian Nichiporuk, Alireza Nader, Lydia Hansell, Rasool Nafisi, and S. R. Bohandy, "The Rise of the Pasdaran: Assessing the Domestic Roles of Iran's Islamic Revolutionary Guards Corps," *The RAND Corporation*, 2009, page 62. ([http://www.rand.org/content/dam/rand/pubs/monographs/2008/RAND\\_MG821.pdf](http://www.rand.org/content/dam/rand/pubs/monographs/2008/RAND_MG821.pdf))

Now, the company is involved in “road-building projects, offshore construction, oil and gas pipelines, and water systems.”<sup>105</sup> Among its projects are 51 contracts with the Oil Ministry worth more than \$17 billion;<sup>106</sup> the \$2-billion Bakhtiari Dam<sup>107</sup> – slated to be the tallest in the world; the \$3 billion “shrine-to-shrine” highway<sup>108</sup> connecting Qom and Mashhad; and a Tehran metro line that is part of a \$7-billion metro-expansion program.<sup>109</sup> KAA has also secured contracts for pipelines, including the 560-mile long natural gas pipeline from Bushehr to Sistan-Balochistan, a project worth \$1.3 billion.<sup>110</sup> It reportedly also has taken over most development phases in the South Pars offshore gas field, partially as a response to foreign companies’ withdrawals in the wake of international sanctions.<sup>111</sup> Another subsidiary, Sepasad is developing several metro projects to lengthen and improve commuters’ connections to Tehran and its international airport from satellite towns. It is also the contractor for the Moshampa Dam.<sup>112</sup>

The IRGC uses KAA to “generate income and funds its operations,” according to the U.S. Treasury Department.<sup>113</sup> Even though KAA will remain under EU sanctions for eight years and under U.S. sanctions indefinitely, its primary constraint until now was Iran’s failing economy itself. With Tehran’s economy on the potential rebound, the organization’s prospects look bright. The anticipated increase in public spending to modernize and improve Iran’s aging infrastructure will no doubt lead to public tenders for large projects. Just last week, for example, Italian construction company Pessina Costruzioni S.p.A. signed a memorandum of understanding for the building of five hospitals inside the country.<sup>114</sup>

KAA will be the primary beneficiary of this construction boom, even if the company is still under sanctions.

<sup>105</sup> Massimo Calabresi, “New Iranian Sanctions Target Revolutionary Guards,” *Time Magazine*, June 10, 2010. (<http://content.time.com/time/magazine/article/0,9171,1995869,00.html>)

<sup>106</sup> Nargas Rasooli, “51 Gharardad bein Vezarae Naft va Majmooe-ye Khatam Basteh Shod (51 Contracts Signed between the Ministry of Petroleum and Khatam al-Anbiya),” *Magiran* (Iran), May 23, 2012. (<http://www.magiran.com/npview.asp?ID=2507886>)

<sup>107</sup> “Bakhtiari Project – Project Introduction,” *Iran Power & Water Resources Development Company*, accessed September 13, 2015. (<http://en.iwpc.ir/Bakhtiari/default.aspx>)

<sup>108</sup> “Shrine to Shrine Highway Project Starts,” *Press TV* (Iran), October 10, 2010. (<http://edition.presstv.ir/detail/145999.html>)

<sup>109</sup> Ladane Nasser, “Tehran to End Initial \$7 Billion Metro Expansion by March,” *Bloomberg*, October 22, 2014. (<http://www.bloomberg.com/news/articles/2014-10-22/tehran-to-end-initial-7-billion-metro-expansion-by-march>)

<sup>110</sup> Julian Borger and Robert Tait, “The Financial Power of the Revolutionary Guards,” *The Guardian* (UK), February 15, 2010. ([www.guardian.co.uk/world/2010/feb/15/financial-power-revolutionary-guard](http://www.guardian.co.uk/world/2010/feb/15/financial-power-revolutionary-guard))

<sup>111</sup> Julian Borger and Robert Tait, “The Financial Power of the Revolutionary Guards,” *The Guardian* (UK), February 15, 2010. ([www.guardian.co.uk/world/2010/feb/15/financial-power-revolutionary-guard](http://www.guardian.co.uk/world/2010/feb/15/financial-power-revolutionary-guard))

<sup>112</sup> “*Projeh Sad Mahzani va Band Tansimi Moshampa* (Moshampa Dam Construction Project),” *Sepasad Company*, accessed September 13, 2015. (<http://www.sepasad.ir/fa/index.php/moshampa-dam-project>)

<sup>113</sup> U.S. Department of the Treasury, Press Release, “Treasury Announces Additional Sanctions Against Iranian Engineering and Shipping Firms,” March 28, 2012. (<http://www.treasury.gov/press-center/press-releases/Pages/tg1509.aspx>)

<sup>114</sup> “Primi affari in Iran: il gruppo italiano Pessina costruirà 5 ospedali (First business deals in Iran: Italian group Pessina will build five hospitals),” *Il Sole 24 Ore* (Italy), January 19, 2016. (<http://www.ilsole24ore.com/art/impresa-e-territori/2016-01-19/primi-affari-iran-il-gruppo-italiano-pessina-costruira-5-ospedali-165837.shtml?uuid=AC2oK9CC>)

While the Obama administration may be correct that Iran will use the bulk of funds in previously frozen accounts to finance construction projects rather than transferring the funds directly to terrorist proxies, the money will flow through the IRGC's construction arm, which in turn will support the IRGC's ability to fund terrorism.

### *Metals and Minerals*

Iran's mining sector is an important source of revenue for the country's economy as well as a supplier of raw materials for its developing industry. The metallurgic sector is also critical to Iran's economic health. Excluding construction and utilities, the industries and mining sector contributes between 10 and 15 percent of Iran's GDP.

According to the Organization for Investment Economic and Technical Assistance of Iran, the country "has the world's largest zinc reserves and second-largest reserves of copper."<sup>115</sup> The publicly traded Iran Zinc Mines Development Company (IZMDCO) is the principal owner and producer of Iranian zinc, with an \$80-million market value and control of an important chunk of the country's extractive activities. The company is also majority-owned by the IRGC.<sup>116</sup> With the lifting of sanctions against the Islamic Republic's banking and transport sectors, Iranian metals and minerals exports have once again become a more affordable option for international buyers. IZMDCO will thus benefit from the general climate of economic improvement, access to modern extraction technology, financing, cheaper delivery costs, and potentially foreign investment.

The metallurgic sector is an important resource for Iran's nuclear program. Iran's largest aluminum producer, Iran Aluminum Company, or IRALCO, was sanctioned by the European Union in December 2012 because it "directly support[ed] Iran's proliferation sensitive nuclear activities ... [by] supply[ing] aluminum to EU-designated Iran Centrifuge Technology Company."<sup>117</sup> According to IRALCO's July 2015 report, the IRGC-owned (and U.S.-sanctioned) Mehr Eghtesad Iranian Investment owns 20 percent of the company.<sup>118</sup> The EU, however, lifted its sanctions on this company on Implementation Day. The U.S. never designated IRALCO, and therefore has no secondary sanctions against the firm. Thus, IRALCO, which supplied the

<sup>115</sup> "Industry and Mining – Overview" *Invest in Iran/Organization for Investment Economic and Technical Assistance of Iran*, accessed September 13, 2015. (<http://www.investiniran.ir/en/sectors/industry>)

<sup>116</sup> "Toseyeh Ma'adan Rouyeh Iran – Sahamdaran (Iran Zinc Mines Development Company - Shareholders)," *Tehran Securities Exchange Technology Management Company*, accessed September 13, 2015. (<http://www.tsetmc.com/Loader.aspx?ParTree=151311&i=22787503301679573>); The IRGC owns a combined 51.8 percent of IZMDCO through five companies: Mehr Eghtesad Financial Group (18.4 percent), Mehr Eghtesad Iranian Investment Company (18.39 percent), Tadbir Garan Atieh Iranian Investment Company (9.11 percent), Negin Sahel Royal Company (3.26 percent), and the mineral company Calcimin (2.65 percent).

<sup>117</sup> "Council Implementing Regulation (EU) No 1264/2012 of 21 December 2012 implementing Regulation (EU) No 267/2012 concerning restrictive measures against Iran," *Official Journal of the European Union*, December 22, 2012, pages 356-57, entry No. 6. (<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2012:356:0055:0060:en:PDF>)

<sup>118</sup> Treasury sanctioned Mehr Eghtesad for being owned by Mehr Bank, another subsidiary of the IRGC. U.S. Department of Treasury, Press Release, "Fact Sheet: Treasury Sanctions Major Iranian Commercial Entities," June 23, 2011. (<http://www.treasury.gov/press-center/press-releases/Pages/tg1217.aspx>); U.S. Department of Treasury, Press Release, "Fact Sheet: Treasury Designates Iranian Entities Tied to the IRGC and IRISL," December 21, 2010. (<http://www.treasury.gov/press-center/press-releases/Pages/tg1010.aspx>)



Iranian nuclear program with aluminum to build centrifuges – and whose revenue helps fill the IRGC’s financial coffers – is slated to benefit from sanctions relief as well as from the general economic stimulus that the JCPOA will prompt.

### *Banking and Finance*

Over the past decade, the international economic sanctions architecture was designed to respond to the full range of Iran’s illicit activities, not only the development of Iran’s illicit nuclear program. A primary goal of the sanctions on Iran, as explained by senior Treasury Department officials, was to “protect the integrity of the U.S. and international financial systems” from Iranian illicit financial activities.<sup>119</sup>

The banking sector in Iran was targeted under multiple U.S. and international authorities for lax money laundering and terror finance standards. In November 2011, Treasury issued a finding under Section 311 of the USA PATRIOT Act that Iran and its entire financial sector was a “jurisdiction of primary money laundering concern”<sup>120</sup> and posed “illicit finance risks for the global financial system.”<sup>121</sup> Treasury highlighted Iran’s support for terrorism, pursuit of conventional and nonconventional weapons, and use of “deceptive financial practices to facilitate illicit conduct and evade sanctions.”<sup>122</sup>

Internationally, the global anti-money laundering and anti-terror finance standards body the Financial Action Task Force (FATF) has repeatedly warned its members that they should “apply effective counter-measures to protect their financial sectors from money laundering and financing of terrorism (ML/FT) risks emanating from Iran.”<sup>123</sup> As recently as October 2015, FATF warned that Iran’s “failure to address the risk of terrorist financing” poses a “serious threat ... to the integrity of the international financial system.”<sup>124</sup> FATF concluded that Iran has “strategic AML/CFT deficiencies” and “call[ed] on its members to consider the risks arising from the deficiencies.”<sup>125</sup>

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<sup>119</sup> David Cohen, “The Law and Policy of Iran Sanctions,” *Remarks before the New York University School of Law*, September 12, 2012. (<http://www.treasury.gov/press-center/press-releases/Pages/tg1706.aspx>)

<sup>120</sup> U.S. Department of the Treasury, Press Release, “Finding That the Islamic Republic of Iran is a Jurisdiction of Primary Money Laundering Concern,” November 18, 2011. (<http://www.treasury.gov/press-center/press-releases/Documents/Iran311Finding.pdf>)

<sup>121</sup> U.S. Department of the Treasury, Press Release, “Fact Sheet: New Sanctions on Iran,” November 21, 2011. (<http://www.treasury.gov/press-center/press-releases/Pages/tg1367.aspx>)

<sup>122</sup> U.S. Department of the Treasury, Press Release, “Finding That the Islamic Republic of Iran is a Jurisdiction of Primary Money Laundering Concern,” November 18, 2011. (<http://www.treasury.gov/press-center/press-releases/Documents/Iran311Finding.pdf>); U.S. Department of the Treasury, Press Release, “Fact Sheet: New Sanctions on Iran,” November 21, 2011. (<http://www.treasury.gov/press-center/press-releases/Pages/tg1367.aspx>)

<sup>123</sup> The Financial Action Task Force, Public Statement, “FATF Public Statement 14 February 2014,” February 14, 2014. (<http://www.fatf-gafi.org/countries/d-i/islamicrepublicofiran/documents/public-statement-feb-2014.html>)

<sup>124</sup> The Financial Action Task Force, Public Statement, “FATF Public Statement – 23 October 2015,” October 23, 2015. (<http://www.fatf-gafi.org/publications/high-riskandnon-cooperativejurisdictions/documents/public-statement-october-2015.html>)

<sup>125</sup> The Financial Action Task Force, Public Statement, “FATF Public Statement – 23 October 2015,” October 23, 2015. (<http://www.fatf-gafi.org/publications/high-riskandnon-cooperativejurisdictions/documents/public-statement-october-2015.html>)

Over the past decade, as the United States escalated sanctions and designated Iranian banks, Washington specifically mentioned the IRGC connections of six banks: Ansar, Mehr, Melli, Arian, Kargoshaee, and Future Bank. The first two were created by the IRGC to provide services to its personnel and to its paramilitary Basij force, according to both the U.S. Treasury and the EU.<sup>126</sup> Banks Ansar and Mehr are owned by the IRGC. While the other four banks are not IRGC-banks, they have conducted transactions on the Guards' behalf.

On Implementation Day, however, the United States terminated financial sanctions against most Iranian financial institutions. The European Union lifted restrictions on: banking transactions to and from Iran, including the €40,000 cap per transaction and the obligation to report and authorize transactions; financial support for trade with Iran; and Iranian government public-guaranteed bonds.<sup>127</sup>

The EU also de-listed most Iranian banks that it sanctioned over the past decade and removed restrictions on financial messaging services, allowing these de-listed Iranian banks back onto the SWIFT financial messaging system from where they were expelled in March 2012.<sup>128</sup>

By allowing financial institutions to reconnect to the SWIFT global financial system and lifting restrictions on their operations, the JCPOA allows all unsanctioned IRGC companies to regain access to the global financial system. That is sufficient to enable the Guards to resume banking operations in Europe. Moreover, Western credit institutions will now be able to finance projects in Iran, potentially providing capital to firms to enter contractual relations with IRGC counterparts.

Additionally, as Iran's economy improves, IRGC investment firms' portfolios will grow as a result. One of the ways the IRGC invests in Iran's financial markets is through its banks and investment firms. In addition to the IRGC-owned banks, Ansar Bank and Mehr Bank, the Guards also control investment firms such as Mehr Eghtesad Iranian Investment Company, Andishe Mehvaran Investment Company,<sup>129</sup> and Tadbirgaran Atieh Iranian Investment Company.<sup>130</sup> The investment firms controlled by the IRGC raise money for the Guards' financial leadership to execute their plans in the financial markets. Tadbirgaran Atieh, for example, owns shares in Zinc

<sup>126</sup> U.S. Department of the Treasury, Press Release, "Fact Sheet: Treasury Designates Iranian Entities Tied to the IRGC and IRISL," December 21, 2010. (<http://www.treasury.gov/press-center/press-releases/Pages/tg1010.aspx>); The Council of the European Union, "Council Implementing Regulation (EU) No 503/2011 Of 23 May 2011 Implementing Regulation (EU) No 961/2010 On Restrictive Measures Against Iran," *Official Journal of the European Union*, May 24, 2011. (<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2011:136:0026:0044:EN:PDF>)

<sup>127</sup> "Joint Comprehensive Plan of Action, Annex II – Sanctions-related commitments," Vienna, July 14, 2015. ([http://eeas.europa.eu/statements-eeas/docs/iran\\_agreement/annex\\_2\\_sanctions\\_related\\_commitments\\_en.pdf](http://eeas.europa.eu/statements-eeas/docs/iran_agreement/annex_2_sanctions_related_commitments_en.pdf))

<sup>128</sup> "Joint Comprehensive Plan of Action, Annex II – Sanctions-related commitments," Vienna, July 14, 2015. ([http://eeas.europa.eu/statements-eeas/docs/iran\\_agreement/annex\\_2\\_sanctions\\_related\\_commitments\\_en.pdf](http://eeas.europa.eu/statements-eeas/docs/iran_agreement/annex_2_sanctions_related_commitments_en.pdf)); SWIFT, Press Release, "SWIFT Instructed to Disconnect Sanctioned Iranian Banks Following EU Council Decision," March 15, 2012. ([http://www.swift.com/news/press\\_releases/SWIFT\\_disconnect\\_iranian\\_banks](http://www.swift.com/news/press_releases/SWIFT_disconnect_iranian_banks))

<sup>129</sup> AMIC is a subsidiary of Iran Zinc Mines Development Company, which is controlled by MEIIC. "Sarmaye Gozari-ye Andishe Mehvaran (Andisheh Mehvaran Investment)," *Iran Zinc Mines Development Company*, accessed September 2, 2015. ([http://izmdc.com/?page\\_id=121](http://izmdc.com/?page_id=121))

<sup>130</sup> TAIH is a subsidiary of MEIIC: "Sherkat-e Tadbirgaran-e Atieh (Tadbirgaran Atieh Company)," *Mehr Eghtesad Bank*, accessed September 2, 2015. (<http://mebank.ir/index.aspx?siteid=1&pageid=207>)

Mines Development Company, Exir Pharmaceutical, Behbahan Cement, Sina Kashi and Ceramic, Rayan Saipa Leasing, Isfahan Oil Refinery, and Kaveh Paper Industries.<sup>131</sup> As Iran's economy grows as a result of sanctions relief in the JCPOA, all of these companies are likely to experience new business opportunities and generate profits for their investors and owners – namely the IRGC.

The investment companies are all directly or indirectly controlled by the IRGC Cooperative Foundation and the Basij Cooperative Foundation, both under the control of IRGC Commander General Mohammad Ali Jafari.

While some IRGC investment firms have been designated, others have escaped sanction. Not only will these companies now increase their income from investments, but they will also be able to invest their assets abroad as well.

The IRGC also indirectly controls two economic conglomerates that are unique to Iran's revolutionary structures: the Foundation of the Oppressed of the Earth (*Bonyad-e Mostazafan*) and the Foundation of Martyrs and Veterans' Affairs (*Bonyad-e Shahid va-Omur-e-Janbazan*). The immensely lucrative and influential Foundation of the Oppressed has extensive business interests across Iran's economy. These supposedly independent foundations are "traditionally run by a retired IRGC commander and used by the state as a proxy to fund off-the-books IRGC operations."<sup>132</sup>

The Foundation for the Oppressed, established after the revolution to take over government assets associated with the Shah and his regime, is an especially powerful economic force in Iran and its special status affords it significant benefits. Among its assets are several key national industries.<sup>133</sup> The Foundation has a stake in Iran's mining, food and beverage, agriculture and animal husbandry, trade and transport, civil development and housing, tourism and recreational centers, real estate, banking, investment, and energy industries. The Foundation's own bank, Sina Bank,<sup>134</sup> was delisted on Implementation Day and is thus plugged back into the global financial system.

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<sup>131</sup> "Darousazi Exir (Exir Pharmaceutical) – Sahamdarān (Shareholders)," *Tehran Stock Exchange*, accessed September 13, 2015. (<http://new.tse.ir/Instrument.html?IRO1EXIR0001>); "Sanaye Kaghzesazi Kaveh (Kaveh Paper Industries) – Sahamdarān (Shareholders)," *Tehran Stock Exchange*, accessed September 13, 2015. (<http://new.tse.ir/Instrument.html?IRO1KSKA0001>); "Palayesh Naft Esfahan (Isfahan Oil Refinery) – Sahamdarān (Shareholders)," *Tehran Stock Exchange*, accessed September 13, 2015. (<http://new.tse.ir/Instrument.html?IRO1PNES0001>); "Leasing Rayan Saipa – Sahamdarān (Shareholders)," *Tehran Stock Exchange*, accessed September 13, 2015. (<http://new.tse.ir/Instrument.html?IRO1RSAP0001>); "Siman Behbahan (Behbahan Cement) – Sahamdarān (Shareholders)," *Tehran Stock Exchange*, accessed September 13, 2015. (<http://new.tse.ir/Instrument.html?IRO1SBHN0001>)

<sup>132</sup> Ali Alfoneh, "How Intertwined Are Iran's Revolutionary Guards in Iran's Economy?" *American Enterprise Institute*, October 22, 2007. (<https://www.aei.org/publication/how-intertwined-are-the-revolutionary-guards-in-irans-economy/>)

<sup>133</sup> The complete list of companies controlled by the Foundation of the Oppressed can be found on its website at [www.irmf.ir/en/EN-RelatedCompanies.aspx](http://www.irmf.ir/en/EN-RelatedCompanies.aspx).

<sup>134</sup> "Mostazafan Foundation Independent Auditor Report together with Consolidated Financial Statements of the Group and Parent Unit for the Fiscal Year ended March 20, 2015," *Foundation of the Oppressed*, accessed January 25, 2016. (<http://irmf.ir/en/Images/Financial/Links/EN-H15-t.pdf>)

Finally, as financial restrictions are lifted, Iranian banks will be able to raise capital through Iranian government public-guaranteed bonds. In turn, these bonds finance public projects contracted to IRGC companies.<sup>135</sup>

### *Telecommunications*

The United States sanctioned the IRGC in April 2012 for systemic human rights abuses via information technology. Executive Order 13606 targets those entities and individuals that operate, support, or provide technology that disrupts, monitors, or tracks communication that could assist or enable human rights abuses by the governments of Iran.<sup>136</sup>

As *Al-Monitor* reported in August 2013, all three mobile operators in Iran are directly or indirectly partners with IRGC-affiliated companies.<sup>137</sup> The IRGC also controls Iran's largest telecom company, the Telecommunication Company of Iran (TCI).<sup>138</sup>

The IRGC purchased Iran's Telecommunication Company at a market value of \$14 billion. The IRGC won the bid in a joint venture with a foundation controlled by the Supreme Leader. The IRGC drove out its main rival by using its political power and had it excluded from the bidding process due to security reasons. A special commission in parliament criticized the government for this deal, but to no avail. Two IRGC companies participated in a tender to buy the telecommunication company; the U.S. sanctioned Bonyad Taavon Sepah owned the first, while the IRGC-controlled Bonyad Taavon Basij owned the other. The company's main shareholder is Toseye Etemad Mobin (50 percent), a consortium controlled jointly by the IRGC and the Supreme Leader's financial network.

TCI has a near monopoly on Iran's landline telephone services,<sup>139</sup> and reportedly "all internet traffic in and out of Iran travels through" TCI,<sup>140</sup> which is particularly problematic since TCI purchased "a powerful surveillance system capable of monitoring landline, mobile and internet communications" from a Chinese firm.<sup>141</sup>

<sup>135</sup> Iran has already announced a \$1.7 billion bond issue for the current calendar year to help finance energy sector projects: "Iran to sell bonds for key energy plans," *Press TV* (Iran), August 25, 2015.

(<http://www.presstv.com/Detail/2015/08/25/426235/Iran-to-sell-bonds-for-key-energy-plans>)

<sup>136</sup> Executive Order 13606, "Blocking the Property and Suspending Entry Into the United States of Certain Persons With Respect to Grave Human Rights Abuses by the Governments of Iran and Syria via Information Technology," April 23, 2012. ([http://www.treasury.gov/resource-center/sanctions/Programs/Documents/2012iran\\_syria\\_eo.pdf](http://www.treasury.gov/resource-center/sanctions/Programs/Documents/2012iran_syria_eo.pdf))

<sup>137</sup> Khouroush Avaei, "What to expect in Iran's Telecom Sector," *Al-Monitor*, August 18, 2013. (<http://www.al-monitor.com/pulse/originals/2013/08/expect-iran-telecom-sector.html#>)

<sup>138</sup> Michael Slackman, "Elite Guard in Iran Tightens Grip with Media Move," *The New York Times*, October 8, 2009. ([http://www.nytimes.com/2009/10/09/world/middleeast/09iran.html?\\_r=0](http://www.nytimes.com/2009/10/09/world/middleeast/09iran.html?_r=0))

<sup>139</sup> Steve Stecklow, "Special Report: Chinese firm helps Iran spy on citizens," *Reuters*, March 22, 2012.

(<http://uk.reuters.com/article/2012/03/22/uk-iran-telecoms-idUKBRE82L0B720120322>); Robin Wright, editor, *The Iran Primer*, (Washington, DC: United States Institute of Peace, 2010), page 55.

<sup>140</sup> Ian Black, "How Iran is filtering out dissent," *The Guardian* (UK), June 30, 2009.

(<http://www.guardian.co.uk/technology/2009/jun/30/internet-censorship-iran>)

<sup>141</sup> Steve Stecklow, "Special Report: Chinese Firm helps Iran spy on its Citizens," *Reuters*, March 22, 2012.

(<http://www.reuters.com/article/2012/03/22/us-iran-telecoms-idUSBRE82L0B820120322>)

TCI was never sanctioned by the U.S. or EU, either for its IRGC ownership or potential role in human rights violations. The U.S. Department of State did, however, designate an IRGC-subsiidiary, Ofogh Saberin Engineering Development Company, under Executive Order 13628 in 2013 for censorship activities.<sup>142</sup>

As sanctions on the telecommunication sector are lifted, the sector will attract foreign investment and gain significant access to advanced technology. The IRGC will be in a position to benefit from additional sensitive monitoring technology, and it will likely use these tools to enhance its surveillance of Iranian dissidents. As a result of the JCPOA, the IRGC will thus increase revenue, as well as its ability to spy on and censor its citizens.

## **CONCLUSIONS AND RECOMMENDATIONS**

The JCPOA will generate significant benefits to Iran's economy. Given the centrality of the IRGC to all sectors of Iran's economy (as demonstrated above), its companies and entities controlled by the Supreme Leader stand to be the greatest beneficiaries of the economic relief granted under the JCPOA. They will benefit both from their dominance of key strategic areas of the Iranian economy and from an overall improvement in Iran's macroeconomic environment.

Moreover, as export and trade restrictions are lifted, previously prohibited Western technology will make its way back to Iran. The challenge of denying the IRGC access to banned technology – including dual-use technology and equipment for monitoring dissidents – will become even more arduous. The suspension of sanctions will also facilitate the acquisition of advanced weaponry that will improve Tehran's conventional military capabilities, as well as its support for the Bashar al-Assad regime in Syria, Hamas in the Gaza Strip, Hezbollah in Lebanon, and Houthi rebels in Yemen.

Additionally, on Implementation Day, the U.S. and EU de-listed hundreds of individuals and entities designated for supporting Iran's nuclear and ballistic missile proliferation. Many businesses previously involved in the procurement of materials and provision of financial services on behalf of the IRGC will now benefit from sanctions relief. The entire network of companies and subsidiaries controlled by the supreme leader, as well as Iran's aviation industry and state-owned shipping firms, and companies where the IRGC has a significant ownership interest, are also beneficiaries of the JCPOA.

Sanctions relief under the JCPOA is not the result of a demonstrable change in these entities' patterns of behavior. Rather, they are being delisted because the nuclear deal requires the wholesale lifting of sanctions on entire sectors. There are no guarantees these entities will, once delisted, cease the illicit conduct that caused them to be sanctioned in the first place – instead, there is ample reason to believe they will redouble that activity.

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<sup>142</sup> U.S. Department of State, Office of the Spokesperson, "United States Takes Action to Facilitate Communications by the Iranian People and Targets Iranian Government Censorship," May 30, 2013. (<http://www.state.gov/r/pa/prs/ps/2013/05/210102.htm>)

Additionally, companies owned or controlled by the IRGC that have until now eluded designation by the U.S., EU, or UN are now likely to benefit from the post-JCPOA windfall, as the business community will accept them as legitimate business partners. The same is true for IRGC senior executives that eluded sanctions until now.

Behind all of the technical details of sanctions relief, one overarching issue remains apparent: the IRGC's dominant role in the Iranian economy means that the IRGC will be a key beneficiary of sanctions relief under the nuclear deal. As this testimony explains, the IRGC controls significant companies in all major sectors of Iran's economy. Any foreign company partnering with local Iranian businesses will likely expose itself to transacting with the IRGC, the business interests of Supreme Leader Ali Khamenei, or both.

Rather than benefitting independent Iranian businesses, the sanctions relief likely will strengthen the control of the Supreme Leader, the IRGC, and the state of key sectors of Iran's economy. In short, even though IRGC companies and commanders remain under sanctions, once the sector-based sanctions are lifted, the remaining measures against the IRGC are insufficient to prevent it from expanding its illicit activities and to discourage Western companies from doing business with their affiliates.

Chairman Schmitt, given all the above, I humbly submit to the committee that a number of urgent steps are required, lest state investments unwittingly end up benefitting companies involved in trade, finance, and projects involving or benefiting companies owned or controlled by the IRGC.

**First**, state governments should divest from companies that trade with, provide finance to, and participates in projects that involve IRGC companies, their affiliates and subsidiaries, or companies where the IRGC has a significant ownership stake.

**Second**, state governments should define, for the purposes of divestment from companies, an ownership threshold for companies owned or controlled by the IRGC. This threshold should involve the following criteria:

1. The IRGC, through its holdings and subsidiaries, owns or controls 50 percent plus one of the shares of a company;
2. The IRGC, through its holdings and subsidiaries, owns or controls 50 percent plus one of the shares represented on the board of directors of a company;
3. The IRGC, through its holdings and subsidiaries, controls a majority of the members of the board of a company;
4. The IRGC, through its holdings and subsidiaries, is the largest shareholder in the company;
5. The IRGC, through its holdings and subsidiaries, invests in a publicly traded company and, being a shareholder of any amount and percentage of shares, benefits from earnings and dividends.

**Third**, state governments should create a Watch List, for the purpose of publicly identifying IRGC businesses. The Watch List would guide state governments in their decisions to invest in or divest from companies. It could enhance corporate compliance by companies interested in doing business in Iran while avoiding the risk of benefiting the IRGC in the process. The Watch List could be updated yearly and companies on the Watch List should be allowed to submit evidence of corporate filings, biographies of board members, and other relevant information for the purposes of being removed from the Watch List. Such records could be made available to the public to enhance transparency and due diligence by corporate actors.

**Fourth**, state governments should bar companies that trade with, provide finance to, and participates in projects that involve IRGC companies, their affiliates and subsidiaries, or companies where the IRGC has a significant ownership stake, from bidding on government contracts.

Mr. Chairman, Iran's economy stands to greatly benefit from the JCPOA and the end of Western sanctions against Tehran. The legislative steps you and your esteemed colleagues are discussing are an important contribution to ensuring that those actors inside the Iranian regime that remain dedicated to supporting terrorism abroad and silencing freedom at home do not benefit from this economic windfall.