GOLD RUSH: THE DISMANTLING OF THE SANCTIONS REGIME AGAINST IRAN

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With most sanctions scheduled to be lifted on Implementation Day of the Joint Comprehensive Plan of Action (JCPOA), the deal signed in Vienna by Iran with the six world powers charged with negotiating over its nuclear program will inaugurate the rapid revival of Iran’s economy. More sanctions and designations are being lifted by the European Union than by the United States. European companies will thus be able to quickly tap into Iran’s vast energy sector and its growing consumer market. By the first week of August 2015, delegations from Germany, Italy, and France – formerly Iran’s first, second, and third-largest economic partners in Europe – will have visited Tehran, alongside the EU High Representative for Foreign Policy, Federica Mogherini. More are sure to follow. Iran is, arguably the last untapped emerging market. The gold rush has begun.

Yet the Obama Administration assures critics that in the event of Iranian violations, the U.S. and its allies will be able to re-impose sanctions – the “snap-back” option. For the administration, nothing would be lost because sanctions would rapidly restore the status quo ante. The agreement details such a scenario, but in section 37 of the agreement, at the end of the discussion concerning the possible re-imposition of UN sanctions in the event of non-compliance, the JCPOA presents this following bizarre formulation: “Iran has stated that if sanctions are reinstated in whole or in part, Iran will treat that as grounds to cease performing its commitments under this JCPOA in whole or in part.” A similar clause appears at the end of section 26 when the possibility of re-imposed U.S. sanctions is addressed.

In practice, Iran can bank on the demise of
sanctions to rebuild its battered economy; it can benefit from the JCPOA nuclear trade-offs that provide Western assistance, know-how, and access to dual-use technology, among other things, until it wishes to walk away. When it does so, sanctions, even if they are re-imposed, will not affect existing contracts. Considering that the Iranian regime has already identified energy projects worth $185 billion until 2020, one can only wonder how much better off Iran will be the day it rescinds its obligations.

With the dismantling of the existing sanctions regime, Iran will reap great benefits from the deal. Here are eight reasons that explain why this is the case; who stands to gain most; and why this outcome is potentially disastrous for Western interests.

- **With the exception of a handful of senior officials involved in human rights violations during the 2009 post-elections repression and/or in charge of transferring weapons to Syria, the European Union will delist all Islamic Revolutionary Guards Corps (IRGC) officials under sanctions by year eight of the JCPOA. The EU has also undertaken to delist their companies in the same year. The U.S. is, for the time being, keeping them under sanctions.**

- Though the IRGC and their commanders, for now, remain under sanctions, the IRGC business empire will participate in the post-sanctions gold rush as a major contractor. The UN, the U.S. and the EU never designated most of the companies owned or controlled by the IRGC. They even authorized one IRGC company, Pardis Petrochemical, to sell petrochemical products under the interim agreements sanctions relief, from November 2013 to the present.

- The IRGC’s dominant role in Iran’s economy — exemplified by their ownership of 20 percent of companies traded on the Tehran Stock Exchange — is now bound to grow. As sanctions are lifted from virtually all sectors of Iran’s economy, the IRGC stands to benefit from energy sector contracts, sales of petrochemicals, the coming boom of Iran’s automotive sector, and infrastructure projects.

- The EU will permanently keep eight IRGC officers and the Qods Force — the IRGC’s overseas operations Special Forces — under sanctions for their current role in support of Syrian dictator Bashar al-Assad and for their past role in crushing popular demonstrations across Iran during the post-2009 elections protests.

- Clearly, the EU, alongside the United States, is under no illusion that the IRGC will now morph into a more benign player. It defies reason, therefore, that the same IRGC that supplies arms to Bashar al-Assad and foments other conflicts in the region should partake in the post-sanctions boom that Iran’s economy will now experience. Equally, it is remarkable that most IRGC entities and individuals sanctioned by the European Union will be delisted eight years from now.

- Yet, that is precisely what is going to happen. It is a horrific irony: The cash bonanza that the lifting of sanctions will provide to IRGC companies will finance activities that both the EU and the U.S. consider sanctionable.

- On implementation day, the U.S. will lift sanctions against the financial empire of Iran’s Supreme Leader, making sure that the highest authority in the Islamic Republic’s power structure will continue to dominate Iran’s economy.

- The U.S. Treasury sanctioned the Execution of Imam Khomeini’s Order (EIKO) — a body controlled by Iran Supreme Leader, Ayatollah Ali Khamanei — and 37 companies it controlled, both in Iran and overseas, on June 4, 2013, pursuant to Executive Order 13599, which targets Iranian government-owned assets on account of their deceptive financial practices and the risk they pose to the integrity of the international financial system. Subsequent investigative work conducted by the Reuters news agency led to the dramatic expose of the financial empire controlled by Iran’s Supreme Leader. Reuters put its value at $95 billion. That figure has no doubt mushroomed since the deal was signed, given the rise of the Tehran Stock Exchange and the appreciation of the Rial, Iran’s currency. Later on, evidence emerged showing that EIKO’s subsidiaries and emissaries were...
involved in a number of illicit activities, including arms procurement in violation of the arms embargo that will remain in place for another five years.

According to the JCPOA, the U.S. will still restrict U.S. persons from engaging in financial transactions with EIKO and its subsidiaries. Those restrictions do not apply to non-U.S. persons. No European entity engaged in business with EIKO can now fear retribution from the U.S. Among its assets, EIKO counted a factory in Germany9 with advanced dual use technology that Iran needed for the indigenous production of centrifuges. EIKO’s subsidiaries also sought to purchase strategic industrial assets10 in Europe. The lifting of U.S. sanctions against EIKO and its subsidiaries means that the Supreme Leaders’ holdings can now seek to invest in securities overseas. All these activities will now be permitted.

EO 13599, unlike other proliferation-related executive orders, remains in the law books and is not mentioned in the JCPOA. None of the companies linked to the Supreme Leader were targeted for proliferation of WMD, the rationale for lifting U.S. sanctions against other Iranian entities. This is President Obama’s personal gift to the Supreme Leader.

• Thanks to the deal, Iran stands to enjoy a $185 billion windfall11 in energy projects in the coming years. All European energy giants will rush back to Iran’s energy industry in order to modernize its aging oil sector and develop its vastly untapped gas sector.

Although energy sector sanctions will only be lifted on Implementation Day, months after the approval of UN Security Council Resolution 2231,12 Reuters reported that European companies were already lining up to revamp projects and contracts they were forced to abandon in 2010, following the imposition of energy sector sanctions by the European Union. Europe will shortly resume the purchase of Iranian oil, which in 2012, prior to the imposition of the EU embargo on Iranian oil exports, stood at 600,000 barrels a day,13 or roughly one fourth14 of all Iranian exports.

Europe is also interested in Iran’s natural gas. Europe’s energy security remains vulnerable, due to its heavy reliance on Russia for energy supplies, especially in Central and Eastern Europe. Prior to 2007, Iran’s natural gas reserves were considered as an affordable and attractive alternative. The viability of the EU supported pipeline project Nabucco15 relied on Iranian gas. Talks between Iran and Bulgaria—an EU member state and key transit country for Nabucco—were reported16 shortly after the Lausanne Framework was reached in April 2015. Were Iran to become a key supplier of natural gas to Europe, Europe would reduce its dependency on Russia only at the price of increasing its reliance on Iran, thereby trading one form of energy insecurity for another.

• The EU and the U.S. will immediately delist Iranian banks formerly involved in financing nuclear proliferation-related transactions, including their bank branches and subsidiaries overseas, despite their support role for Iran’s ballistic missile program.

For over a decade, Iranian banks have helped Tehran evade sanctions, facilitating procurement payments, money laundering, front companies, and even entering joint ventures with the oil sector to process oil sales that circumvented the oil embargo. In one fell swoop, banks that engaged in opaque and deceitful behavior will be reintegrated into the global financial system, as if the past had simply been wiped clean.

A primary beneficiary of this step will be Bank Sepah and its chairman, Ahmad Derakhshandeh,17 both slated to be removed from the Specially Designated Nationals (SDN) list maintained by the Office of
Foreign Assets Control (OFAC). This, too, will occur on Implementation Day. In 2007, then Undersecretary of Treasury for Terrorism and Financial Intelligence, Stuart Levey, described Bank Sepah as “the financial linchpin of Iran’s missile procurement network”, accusing it of having “actively assisted Iran’s pursuit of missiles capable of carrying weapons of mass destruction.” The U.S. designation cited Bank Sepah’s assistance to Shahid Bagheri Industrial Group (SBIG) and Shahid Hemmat Industrial Group (SHIG), two Iranian entities involved in missile proliferation, as one of the reasons for the designation of the bank and its chairman, Mr. Derakhshandeh. Though both SBIG and SHIG will remain under U.S. sanctions until Transition Day, the bank involved in facilitating their illicit financial transactions will be delisted immediately.

Banks that benefit from early delisting include Dey Bank, Karafarin Bank, Parsian Bank, and Sina Bank, all controlled by the Supreme Leader’s financial empire. They also include the Banco Internacional de Desarrollo, C.A. 21 and the Iranian-Venezuelan Binational Bank, 22 two institutions that Iran established in Venezuela at the height of the strategic cooperation between former Iranian President Mahmoud Ahmadinejad and the late Venezuelan dictator, Hugo Chávez, in order to circumvent financial sanctions and finance Iranian activities in South America. Eghtesad-e Novin Bank, 23 another financial institution linked to Iranian activities in Venezuela through its parent holding, Stratus Holding, 24 will be delisted. Iran’s strategic relation with Venezuela and, by extension, Iran’s activities in Latin America, can now breathe more easily: banking, for them, just got easier.

- The JCPOA will immediately lift both EU sanctions and U.S. designations against the Islamic Republic of Iran Shipping Lines (IRISL), a government company involved in more than a decade of supporting Iran’s proliferation efforts and weapons’ deliveries to terror groups like Hamas. Dozens of subsidiaries and front companies of IRISL are also being delisted.

For years, IRISL engaged in fraudulent practices, 26 in blatant violation of international shipping norms, to support Tehran’s efforts to procure and transport missile technology to Iran and Iranian weapons to Iranian proxies across the Middle East. 27 IRISL was also responsible for illicit shipments to and from North Korea. A State Department secret cable discussing implementation of UN Security Council Resolution 1803 noted 28 that “in mid-2003 an IRISL vessel departed from North Korea carrying missile-related and other military items destined for Iran.” It also described two instances in 2007 where IRISL loaded military equipment destined for Syria’s Defense Industries. Despite its proven record of involvement in these types of activities – which include logistical support for Iran’s still-sanctioned ballistic missile program and for Iran’s sponsorship of terrorist groups – IRISL will now be able to operate freely.

- Not only will the EU delist Iranian nuclear scientists immediately; eventually all of Iran’s procurement agents and front companies, which over the years were involved in Iran’s procurement and development of nuclear weapons delivery systems and ballistic missile technology, will be forgiven too.

The European Union will immediately delist all senior executives and scientists from the Atomic Energy Organization of Iran (AEOI), including those who, over the years, were involved in nuclear weapons-related projects. Among their number is Ali Reza Khanchi, 29 who as the head of the AEOI’s Tehran Nuclear Research Center oversaw plutonium separation experiments.

The EU is also set to immediately delist Modern Industries Technique Company (MITEC), which was responsible for procurement efforts for the Arak heavy water reactor; and Mesbah Energy Company, 31 a subsidiary of the AEOI, which was listed by the U.S. Department of Treasury in July 2007 out of concern that its activities posed “a risk of diverting exported and re-exported items into programs related to weapons of mass destruction.”

- All Iranian airlines under U.S. sanctions, except Mahan Air, will now be delisted, and Iran will be
able to buy commercial aircraft, irrespective of the airline. Iranian aircraft have been carrying weapons and ferrying military personnel to Syria and Yemen since the beginning of the so-called “Arab Spring” in 2011. Weapons deliveries from Iran to Hezbollah continue by air through regime-controlled airfields in Syria. The civilian aircraft involved in these transports will now be off sanctions. The lifting of a U.S. ban on sales of aircraft to Iran means that the very same airlines that are accessories to terrorism, mass murder, and crimes against humanity will now be able to buy better, bigger, and more fuel efficient planes to deliver their deadly cargoes.

The agreement’s small print seeks to prevent Iran from misusing acquired planes for the wrong purposes. The U.S. Treasury, in June 2011, accused Iran Air of transporting rockets and missiles via passenger aircraft to Syria. It accused the IRGC of disguising dangerous cargo shipments “as medicine and generic spare parts” with the airline’s collusion. The U.S. has now agreed to issue licenses for the sale of passenger aircraft to Iran Air and other Iranian airlines, provided they use them for the sole purpose of transporting passengers. If the past is prologue, this is not going to end well.

- The United States will eventually remove a ban on Iranian graduate students applying for advanced degrees in nuclear sciences at American universities.

According to the agreement, the United States will end the “Exclusion of Iranian citizens from higher education coursework related to careers in nuclear science, nuclear engineering or the energy sector” by year eight of the agreement. That means that as restrictions on Iran’s nuclear program begin to fade, young Iranian scientists will be free to pursue nuclear studies at institutions like CalTech or MIT. They will return to Iran with their degrees just in time for the nuclear deal to sunset. On that day, Iran will have American-trained scientists to work on its nuclear program.

What could go wrong?

2. See http://www.reuters.com/article/2015/07/24/us-iran-nuclear-industry-idUSKCN0PX0XQ20150724
6. See https://www.washingtonpost.com/world/europe/a-mysterious-iranian-run-factory-in-germany/2013/04/15/92259d7a-a29f-11e2-82bc-511538ae90a4_story.html
7. See http://www.iranwatch.org/iranian-entities/ali-reza-khanchi
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