



# How the Nuclear Deal Enriches Iran's Revolutionary Guard Corps

Emanuele Ottolenghi, Saeed Ghasseminejad, Annie Fixler & Amir Toumaj

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Center on Sanctions  
& Illicit Finance

FOUNDATION FOR DEFENSE OF DEMOCRACIES



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## Introduction

During the first week of September, Iranian speedboats twice harassed U.S. Navy ships in international waters near the Strait of Hormuz. Those boats belonged to the Islamic Revolutionary Guard Corps (IRGC). In the same week, news emerged that the IRGC had arrested another dual Iranian-American national during a family visit to the country. The commander of the IRGC's Quds Force, meanwhile, was in Aleppo, in the company of Iraqi Shiite militias currently engaged in the siege of Syria's second-largest city. Indeed, only a few days earlier, the IRGC announced the formation of a Shiite liberation army composed of Shiite militias that Iran has been nurturing across Mesopotamia and the Levant. That did not stop France's mobile phone giant, Orange, from beginning talks with Iran's largest mobile phone operator, Mobile Telecommunication Company of Iran (MCI), over acquiring a stake in the Iranian company. The IRGC controls MCI through a 50-percent-plus-one stake in its parent company, the Telecommunication Company of Iran (TCI).

In short, whether its internal security, foreign adventures, or large corporate ventures, the IRGC plays an outsized role in Iran's internal power structure. 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, conducting and directing terrorist activity abroad. The Guard has also become a political power broker, an economic conglomerate, and an agency in charge of nuclear and ballistic-missile proliferation.

The interaction among military, economic, and political power is critical in understanding the centrality of the IRGC to Iran's current system. The Guard exploits its influence and capabilities in one realm to increase its presence in another. Its growing economic clout is both an end in itself and a tool to advance its other agendas. Thus, IRGC revenues from economic activities yield the necessary resources and political leverage to place its members in positions of power. Conversely, the Guard's

political power serves the economic enterprises it owns, and both its political and economic weight in turn advance its military projects.

The IRGC's wealth serves three important goals. First, it generates revenue to finance the IRGC's military activities – including the nuclear and ballistic missile programs at home and sponsorship of terrorism abroad. Second, it offers the Guard a network of companies, enterprises, banks, offices, holdings, and joint ventures that can execute the regime's procurement efforts for advanced weaponry and sensitive technology. Third, it generates personal affluence, which the Guard can translate into political influence. Indeed, the Guard's growing political and economic influence enables it to bank on public companies' willingness to lend their services – both at home and abroad – to aid the Guard's efforts to procure forbidden technologies and raw materials, and to finance their purchases through middlemen in foreign markets.

Although the summer 2015 Joint Comprehensive Plan of Action (JCPOA) lifted significant sanctions on Iran, the risks for foreign investors – risks of exposure to money laundering, corruption, and terror finance or of inadvertently partnering with a still-sanctioned entity – have only increased. The Revolutionary Guard lies at the heart of these risks. The IRGC launders money from its "legitimate" businesses to fund its illicit activities; it finances terrorist groups across the world; and it enriches itself at the expense of the Iranian people through corruption and kleptocracy. It is for this reason, among others, that Transparency International ranks Iran 130 out of 168 countries on its corruption perception index, and the Basel Institute on Governance ranked Iran as worst in the world with regard to risks from money laundering and terrorism financing.<sup>1</sup>

This report demonstrates the Revolutionary Guard's pervasive influence in the Iranian economy and provides an accounting of the IRGC's nefarious activities. Without a sober understanding of how the IRGC will exploit economic dividends generated by the JCPOA, policymakers and the private sector cannot

establish appropriate counter-measures to prevent the enrichment of the most dangerous elements of the Iranian regime.

### *Understanding the JCPOA*

In July 2015, P5+1 negotiators reached an agreement with Iran on its nuclear program and the lifting of international sanctions. The United Nations Security Council then adopted the agreement as Security Council Resolution 2231, which supersedes all previous resolutions concerning Iran's nuclear program. A full analysis of the terms and structure of the agreement, the Joint Comprehensive Plan of Action (JCPOA), is beyond the scope of this report, but an overview of the deal provides important context.<sup>2</sup>

The JCPOA front-loaded the most significant sanctions relief on Implementation Day (January 16, 2016) after Iran met preliminary nuclear benchmarks. Then, after periods ranging from five to 15 years, additional sanctions will be lifted and restrictions on Iran's nuclear activities will lapse. As a result, Iran simply has to bide its time to become a threshold nuclear power with an industrial-size enrichment program, an advanced, long-range ballistic missile program, access to advanced heavy weaponry, and a more powerful economy.

The deal uses specific terminology to refer to milestones in the deal.<sup>3</sup> For the purposes of this report, the following three milestones are relevant:

- **Adoption Day (October 18, 2015):** The date on which Iran began initiating its nuclear obligations, and the P5+1 issued the necessary regulations to lift or suspend sanctions upon Implementation Day.
- **Implementation Day (January 16, 2016):** Simultaneous with the verification by the International Atomic Energy Agency (IAEA) that Iran completed its nuclear commitments, the U.S., EU, and UN suspended certain sanctions.

- **Transition Day (October 18, 2023):** Eight years after Adoption Day, or when the IAEA reaches a so-called broader conclusion that there is no undeclared nuclear activity in Iran and that all nuclear activities are peaceful in nature – whichever comes first. Additional U.S., EU, and UN sanctions will be terminated.

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

At the behest of Ayatollah Ruhollah Khomeini, the Islamic Revolutionary Guard Corps was established in 1979 as a militia tasked with consolidating his theocratic vision for Iran. The Iran-Iraq War (1980-1988) transformed the IRGC into a parallel national army steeped in the ideology of the Islamic revolution.<sup>4</sup> Iranian state policy to export the revolution also took shape in this period,<sup>5</sup> and the IRGC became the main instrument for the execution of this policy. Since 1989, when Ayatollah Ali Khamenei succeeded Khomeini after the latter's death, Khamenei has nurtured the Revolutionary Guard's expansion into an organization that powerfully and aggressively pushes Iran's ideology and national interests across the globe.<sup>6</sup>

The vast majority of the Guard commanders, who have risen to dominate the Islamic Republic's establishment, fought in the Iran-Iraq War,<sup>7</sup> which forged the IRGC's worldview and Iran's broader strategic doctrine.<sup>8</sup> The experience of the war instilled an unshakable belief in the senior Iranian leadership, and especially in the IRGC, that the West – led by the U.S. and the forces of "Global Arrogance" – are actively plotting their overthrow.<sup>9</sup>

IRGC officials claim that then-President Akbar Hashem Rafsanjani invited the Guard to play an important role in the reconstruction of the country following the war.<sup>10</sup> Inheriting a country ruined by the eight-year war and low oil prices, Rafsanjani prioritized economic recovery above all else. The new president reportedly ordered the government not to depend on

the Iranian parliament's budget approval process but instead to finance itself through state-run businesses.<sup>11</sup> Similarly, the IRGC branched out into the economy to ensure sources of financing for its military and overseas operations independent from the parliamentary budget process. Today, this direct engagement in the Iranian economy supplements the funds that the Iranian parliament allocates to the IRGC.

When Rafsanjani began his tenure, the IRGC's presence in Iran's economy was still limited, but by the time he left office in 1997, the Guard was one of its main players. In 1990, for example, the IRGC transformed its reconstruction headquarters into the construction conglomerate Khatam al-Anbiya, which in turn established numerous lucrative subsidiaries across the economy.<sup>12</sup> Over the decade following Rafsanjani's presidency, the IRGC became involved in the food industry, manufacturing, telecommunications, and, more recently, energy. IRGC subsidiaries are now directly involved in all phases of the oil supply chain.<sup>13</sup> IRGC companies are also now prominent in the services and logistics sectors, where energy consulting companies, shipping, and port services fall under its purview.

Although the penetration of Iran's economy occurred gradually, the turning point was the IRGC's seizure of Tehran's new Imam Khomeini Airport in 2004. IRGC forces blocked the runway and prevented aircraft from landing, claiming that the Turkish consortium managing the airport had business ties to a "Zionist company."<sup>14</sup> The IRGC wanted the contract for itself, and the takeover signaled a change: Henceforth, the IRGC would maintain first refusal for any big public project in the country.

In May 2005, Khamenei issued a decree for the government to privatize most publicly-owned industries and required ownership of at least 25 percent of the economy to be transferred to the private sector over a five-year period. The industries 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."<sup>15</sup> Rather than benefiting the private sector, however, a significant portion of privatization transfers went to the IRGC.<sup>16</sup> The process was thus a transfer of wealth from the state to a para-state organization rather than true privatization. The process resulted in increased penetration of the IRGC into major sectors of the Iranian economy.

**“Even as Iran welcomes forging strategic trading ties – inviting foreign capital and technological investment to enhance Iran's export capabilities – it ultimately subordinates these openings to national security and foreign policy goals. The IRGC is the guarantor of this objective.”**

The Islamic Republic's Constitution states, “The economy is a means that is not expected to do anything except better facilitate reaching the goal [of advancing the Islamic revolution].”<sup>17</sup> The IRGC's role in the economy therefore ensures that economic development does not contradict revolutionary ideals. While the Islamic Republic's founder, Khomeini, welcomed economic sanctions as a means to achieve greater economic autarky,<sup>18</sup> his successor, Khamenei, has quietly acted to create a “resistance economy” that, in effect, integrates economic policy-making into a national security doctrine. The goal of these policies is simple: making the economy resistant to all future Western sanctions while achieving some measure of growth as the regime pursues its political objectives.<sup>19</sup>

Decreed in February 2014, resistance economy policies are a set of 24 directives focused on transforming Iran's petroleum-based economy to a knowledge-based one, centered on Iran's information technology sector and increasing energy exports. Although a so-called resistance economy is not synonymous with autarky,



## The IRGC's Pervasive Control of the Iranian Economy

Experts calculate that the IRGC controls between 20 and 40 percent of the economy,<sup>22</sup> and its annual income may be as high as one-sixth of Iran's GDP.<sup>23</sup> 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," according to the U.S. Treasury Department.<sup>24</sup> Also according to the U.S. government, 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."<sup>25</sup> It has become Iran's "most powerful economic actor."<sup>26</sup>

Neither the U.S. nor EU has sanctioned the vast majority of IRGC-linked companies. We have identified at least 229 companies with significant IRGC influence, either through equity shares or positions on the board of directors.<sup>27</sup> The U.S. Treasury, however, has only sanctioned 25 IRGC individuals, 25 companies, and two academic institutions as owned or controlled by the IRGC.<sup>28</sup> The EU, for its part, has listed 25 entities as IRGC-owned or controlled under its nuclear and ballistic missile authorities,<sup>29</sup> and sanctioned 17 IRGC officials for human rights abuses.<sup>30</sup>

### Case Study: Tehran Stock Exchange

While the government continues to be the biggest player in the Tehran Stock Exchange, its primacy is fading. Privatization, as interpreted by Khamenei, means that eventually the executive branch should sell all of its assets. Not surprisingly, the IRGC and the religious foundations controlled by the supreme leader are the main buyers.

The IRGC is mainly active in the stock market in large-scale industries like mining, petrochemicals, telecommunications, and the automotive industry. The IRGC investment portfolio also includes substantial shares in 12 publicly-traded companies. The IRGC, regular armed forces, and Basij paramilitary force also have significant ownership stakes in an additional 13 publicly-traded companies.<sup>1</sup> Together, these 25 companies<sup>2</sup> are worth 18.9 percent of the Tehran Stock Exchange and are valued at \$17 billion.<sup>3</sup> Former senior IRGC commanders, many of whom have never been subjected to sanctions, sit on many of the boards of these companies.<sup>4</sup>

1. By control, we mean that either the IRGC owns more than 50 percent of the shares or it has the majority of votes on the board of directors, or both. All values cited in this report are in dollars as they were valued on April 25, 2016.

2. Data available upon request; Emanuele Ottolenghi, "The Iran Nuclear Deal and its Impact on Iran's Islamic Revolutionary Guards Corps, Appendix I and II," *Testimony before the House Foreign Affairs Middle East and North Africa Subcommittee*, September 17, 2015. (<http://docs.house.gov/meetings/FA/FA13/20150917/103958/HHRG-114-FA13-Wstate-OttolenghiE-20150917-SD001.pdf>)

3. This number is their combined value on August 8, 2016 on the Tehran Stock Exchange ([www.tse.ir](http://www.tse.ir)). See also, Alexi

Mostrous, Billy Kenber, and Hugh Tomlinson, "Iranian Militia to Grab British Cash," *The Times* (UK), August 26, 2015. (<http://www.thetimes.co.uk/tto/news/world/middleeast/article4538125>).

4. Emanuele Ottolenghi and Saeed Ghasseminejad, "Congress should keep foreign investors from working with Iran's Revolutionary Guards," *The Hill*, January 19, 2016. (<http://thehill.com/blogs/pundits-blog/international/266254-congress-should-keep-foreign-investors-from-working-with>)

4. Emanuele Ottolenghi and Saeed Ghasseminejad, "Congress should keep foreign investors from working with Iran's Revolutionary Guards," *The Hill*, January 19, 2016. (<http://thehill.com/blogs/pundits-blog/international/266254-congress-should-keep-foreign-investors-from-working-with>)

Treasury has also targeted companies, such as Iran Air, for providing logistical and financial support to the IRGC,<sup>31</sup> and the State Department and Treasury have sanctioned some IRGC firms but not identified them as IRGC-owed. 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 Western media’s satellite signals.<sup>32</sup> The IRGC Cooperative Foundation – the Guard’s investment arm – sits on the board of Ofogh Saber, and, as a result, has direct control over the business.<sup>33</sup>

The summer 2015 nuclear agreement between Iran and the P5+1 created a major “stimulus package” for Tehran’s economy. Companies and individuals who have until now escaped international sanctions are likely to benefit from the post-deal economic windfall because the international business community will presume that any Iranian company not sanctioned is a legitimate business partner. As *The New York Times* reported in February, in the wake of sanctions relief, “the only deals being struck have been with state-backed conglomerates,” including those connected to the IRGC.<sup>34</sup> Indeed, 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 this.

On Implementation Day, January 16, 2016, the U.S., EU, and UN lifted or suspended sanctions against entire sectors of the Iranian economy, including upstream energy investment and energy-related technology transfers, the auto industry, petrochemicals, shipping, and precious metals. The IRGC is active in many of these sectors – some of which they dominate almost completely.

Numerous companies that served as accessories to the IRGC’s nuclear and ballistic missile programs and its support for the Bashar al-Assad regime in Syria

were also removed from sanctions lists.<sup>35</sup> De-listed entities include the entire network of companies and subsidiaries controlled by the supreme leader, most of Iran’s aviation industry and state-owned shipping firms, and companies where the IRGC has a significant ownership interest.<sup>36</sup> The delisting was not the result of a demonstrable change in these entities’ behavior, and there are no guarantees they will cease the illicit conduct that caused them to be sanctioned in the first place.

Finally, 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 may also facilitate the acquisition of advanced weaponry that will improve Tehran’s conventional military capabilities, including the capabilities of the IRGC, which in turn may trickle down and enhance its ability to support the Syrian regime, Hamas in the Gaza Strip, Hezbollah in Lebanon, and Houthi rebels in Yemen, to name a few.

### ***Sector-by-Sector Analysis***

As a result of the JCPOA, the United States and European Union have lifted sector-based sanctions against strategic sectors of the Iranian economy. We judge that the following sectors are important for two reasons: 1) the IRGC has an overwhelming stake in these sectors, and 2) the sectors combined account for nearly half of Iran’s total GDP. Additionally, a study by the Foundation for Defense of Democracies reveals that these sectors are also important to Iran’s ballistic missile development.<sup>37</sup>

The chart below shows the share of each major sector and sub-sector of the Iranian GDP from 2006 to 2012, according to Iran’s Central Bank.<sup>38</sup>

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

SECTOR	2006	2007	2008	2009	2010	2011	2012	Avg
<b>Oil</b>	24.5	24.3	22.4	17.6	20.1	25.0	16.4	21.8
<b>Industries and Mines</b>	20.9	21.7	22.8	22.9	21.3	21.4	24.9	22.7
<i>Construction</i>	5.8	8.2	9.3	9.0	7.6	7.9	9.8	7.8
<b>Service</b>	50.0	49.2	50.8	54.6	54.6	50.3	53.6	50.9
<i>Transport, Warehouse, and Communication</i>	8.0	8.5	9.1	9.7	9.6	8.2	8.8	8.2
<i>Financial and Monetary Services</i>	3.3	3.1	3.2	3.1	3.9	3.6	3.9	3.2

Source: Iran’s Central Bank

*Oil and Gas*

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. For example, production at the South Yaran oil field, a project owned by a subsidiary of the National Iran Oil Company (NIOC), the Petroleum Engineering and Development Company, is set to begin production before the end of 2016 and will yield approximately 50,000 barrels per day.<sup>39</sup> According to *Fars News*, “National Iranian Drilling Company (NIDC), Puya Energy Kish, Naft Kar and Khatam al-Anbiya Construction Headquarters are in charge of drilling.”<sup>40</sup> Although the U.S. and EU lifted sanctions on NIOC and its many subsidiaries on Implementation Day,<sup>41</sup> Petroleum Engineering and Development Company is partnering with the Khatam al-Anbiya, which remains under sanctions. Western companies, therefore, need to be cautious of doing business with any Iranian company – even those removed from sanctions lists – because they may have contracts with the IRGC, thereby exposing the Western company to business and reputational risks.

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 Western technology (including liquid natural gas technology, refining, and petrochemicals production)

that was previously restricted. Iranian state-owned companies with ties to the IRGC will be able to issue bonds to finance new projects and to procure technology. IRGC companies will also receive significant contracts in the oil and gas sector as investment and production rise.

*Petrochemicals*

Iran’s petrochemical products are the country’s largest source of income after oil.<sup>42</sup> 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>43</sup> The IRGC holds major (although not majority) stakes in:

- Kermanshah Petrochemical Industries Company (market value: \$280 million)<sup>44</sup>
- Pardis Petrochemical Company (\$1.4 billion)<sup>45</sup>
- Parsian Oil and Gas Development Company (\$2.5 billion)<sup>46</sup>
- Shiraz Petrochemical Company (\$343 million)<sup>47</sup>

The chemical and petrochemical industries are critical to the explosive system, fuel materials, and composite

## Case Study: South Pars Gas Field

Until 2010, European firms had been in talks with Tehran regarding the South Pars natural gas field. At the time, the Iranian partner in the project was the IRGC's Sepanir Oil and Gas Engineering Company.<sup>1</sup>

These talks came to an end with the passing of new EU sanctions in July 2010,<sup>2</sup> banning European firms from working with Iran's oil and gas sector.<sup>3</sup> In June 2010, the UN Security Council also sanctioned Sepanir, and the U.S. Treasury added it to its list of IRGC-designated entities.<sup>4</sup> As a result, Sepanir was unable to access technology critical for the project. However, within months, a new Iranian company was formed, Petro Karan Shafagh Kish, or Petrokish, which replaced Sepanir and appears to have employed Sepanir staff.<sup>5</sup> It appears that Petrokish is a front company created to evade the sanctions on Sepanir.

Much of the procurement and manufacturing of technology for South Pars is being conducted by Mapna Boiler Engineering and Manufacturing Company,<sup>6</sup> a subsidiary of the Iranian giant Mapna Group, designated by Canada<sup>7</sup> and the UK<sup>8</sup> for its ties to Tehran's nuclear and ballistic missile programs.<sup>9</sup>

The JCPOA lifted restrictions on the natural gas sector.<sup>10</sup> Mapna will therefore likely use its overseas network<sup>11</sup> to expand procurement from foreign partners. Meanwhile, because Petrokish was never sanctioned, the company can partner with foreign firms.

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1. Emanuele Ottolenghi, "Are Iranian Sanctions Working?" *The Weekly Standard*, July 12, 2012, (<http://www.weeklystandard.com/are-iranian-sanctions-working/article/648452>)

2. The Council of the European Union, "Council Regulation (EU) No 961/2010 on Restrictive Measures Against Iran and Repealing Regulation," *Official Journal of the European Union*, October 25, 2010, Articles 8, 11, and 21. (<http://eur-lex.europa.eu/legal-content/EN/TXT/?qid=14466651329470&uri=CELEX:32010R0961>); The Council of the European Union, "Council Decision 2010/413/CFSP of 26 July 2010 Concerning Restrictive Measures Against Iran and Repealing Common Position 2007/140/CFSP," *Official Journal of the European Union*, July 27, 2010, Preamble paragraph 23 and Article 4. (<http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:02010D0413-20150408>)

3. Leigh Phillips, "EU Iran sanctions 'most far-reaching ever agreed,'" *EU Observer*, July 17, 2010. (<https://euobserver.com/foreign/30534>)

4. U.S. Department of the Treasury, Press Release, "Fact Sheet: U.S. Treasury Department Targets Iran's Nuclear and Missile Programs," June 16, 2010. (<http://www.treasury.gov/press-center/press-releases/Pages/tg747.aspx>)

5. David Crawford, "Sanctions Hit – and Miss – in Germany Trade With Iran," *The Wall Street Journal*, December 17, 2011. (<http://www.wsj.com/articles/SB10001424052970204323904577040172793024832>)

6. "Project's Name: South Pars (Phase 15 & 16)," *Projects Website, Mapna Boiler and Equipment Engineering and Manufacturing Company*, accessed September 13, 2015. (<http://www.mapnaboiler.com/Projects/MapnaBoilerProjects/tabid/258/agentType/View/PropertyID/68/Default.aspx>)

7. Canada Department of Justice, Special Economic Measures Act, Special Economic Measures (Iran) Regulations, SOR/2010-165, Amended Version, May 29, 2013. (<http://laws-lois.justice.gc.ca/eng/regulations/sor-2010-165/fulltext.html>)

8. UK Department for Business Innovation & Skills, Export Control Organization, "Guidance Iran List," November 19, 2013. (<https://www.gov.uk/government/publications/iran-list/iran-list>)

9. One of Mapna's subsidiaries, Mapna Turbine Blade Manufacturing Engineering Co., was cited as the end-user for a procurement of dual-use technology in the June 2014 report of the UN Panel of Experts in charge of reporting on the implementation of UN Security Council Resolution 1929. United Nations Security Council, "Final report of the Panel of Experts established pursuant to resolution 1929 (2010)," June 5, 2014, page 13. ([http://www.securitycouncilreport.org/atf/cf/%7B65BF969B-6D27-4E9C-8CD3-CF6E4FF96FF9%7D/S\\_2014\\_394.pdf](http://www.securitycouncilreport.org/atf/cf/%7B65BF969B-6D27-4E9C-8CD3-CF6E4FF96FF9%7D/S_2014_394.pdf))

10. U.S. Department of the Treasury, "Frequently Asked Questions Relating to the Lifting of Certain U.S. Sanctions Under the Joint Comprehensive Plan of Action (JCPOA) on Implementation Day," January 16, 2016. ([https://www.treasury.gov/resource-center/sanctions/Programs/Documents/jcpoa\\_faqs.pdf](https://www.treasury.gov/resource-center/sanctions/Programs/Documents/jcpoa_faqs.pdf)); European Union, "Information Note on EU sanctions to be lifted under the Joint Comprehensive Plan of Action (JCPOA)," January 23, 2016, page 10. ([http://eeas.europa.eu/top\\_stories/pdf/iran\\_implementation/information\\_note\\_eu\\_sanctions\\_jcpoa\\_en.pdf](http://eeas.europa.eu/top_stories/pdf/iran_implementation/information_note_eu_sanctions_jcpoa_en.pdf))

11. Mapna International FZE (UAE), Mapna International Shanghai (China), Mapna Europe GmbH (Germany), Mapna Italia srl (Italy), Energy Trading Elektrik Sanayi ve Ticaret Limited Sirketi and Ms Uluslararası Enerji Yatırım Anonim Şirketi (Turkey), and Kura Industrial Trading LLC (Republic of Georgia). Corporate entries for Mapna Europe GmbH are available at Germany's commercial registry portal ([www.handelsregister.de](http://www.handelsregister.de)); Mapna Italia are available at Italy's commercial registry ([www.registroimprese.it](http://www.registroimprese.it)); Mapna subsidiaries in Turkey are available from the website of Istanbul's Chamber of Commerce ([www.ito.org.tr](http://www.ito.org.tr)); entries for Kura Industrial Trading LLC, showing that Kura is a wholly owned subsidiary of Elektrik Sanayi are available from the official Georgian commercial registry (<http://enreg.reestri.gov.ge>).

materials needed for ballistic missiles.<sup>48</sup> Petrochemical as well as oil refinery facilities can be used as a cover for a ballistic-missile procurement network to produce liquid propellant. Moreover, missiles use composite and composite-modified double-base propellants as fuel to provide propulsive energy.<sup>49</sup> Since 2008, the Atomic Energy Organization of Iran has produced high-purity graphite<sup>50</sup> used in Iran's nuclear and ballistic missile programs.<sup>51</sup>

In June 2010, the UN Security Council noted 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>52</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>53</sup> The European Union followed suit in March 2012,<sup>54</sup> targeting both exports of petrochemical products and imports of technology for the sector. The U.S. Treasury also blacklisted eight Iranian petrochemical companies in May 2013.<sup>55</sup>

Following the November 2013 announcement of the interim nuclear agreement (in place during the negotiations to reach the JCPOA), sanctions on the sector were suspended, and exports rose 32 percent to \$3.17 billion.<sup>56</sup> The interim sanctions relief enabled 14 companies to sell their products – although not the four companies mentioned above.<sup>57</sup>

The JCPOA has now permanently removed barriers to trade in the petrochemical sector and lifts restrictions on the access of Iranian petrochemical companies, including those with significant IRGC ownership, to sensitive dual-use technology.<sup>58</sup>

### *Metals and Minerals*

Iran's mining and metallurgic sectors are important sources of economic revenue for the country's economy, and are also suppliers of raw materials for its military.

Excluding construction and utilities, the mining sector contributes between 10 and 15 percent of Iran's GDP.<sup>59</sup>

The sector is also critical to Iran's ballistic missile program.<sup>60</sup> 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>61</sup> Both of these elements are used for reduced-visibility treatments in missiles to keep them from detection and interception.<sup>62</sup>

The publicly traded Iran Zinc Mines Development Company is the principal owner and producer of Iranian zinc, with a \$112 million market value and control of an important segment of the country's extractive activities. The company is majority-owned by the IRGC.<sup>63</sup>

The Islamic Republic's largest aluminum producer, Iran Aluminum Company is 20-percent owned by the IRGC company Mehr Eghtesad Iranian Investment Company.<sup>64</sup> The United States sanctioned Mehr Eghtesad in June 2011 as a subsidiary of Mehr Bank, which itself was designated for proliferation and for providing financial services to the IRGC.<sup>65</sup> Mehr Eghtesad also has shares in other firms in the metals and mining sector, including Isfahan Mobarakeh Steel,<sup>66</sup> Tecnotar,<sup>67</sup> and the Zinc Mines Development Company.<sup>68</sup>

The EU sanctioned Iran Aluminum Company in December 2012 because it "directly support[ed] Iran's proliferation sensitive nuclear activities."<sup>69</sup> The United States never designated the firm. The company has engaged in sanctions evasion for Iran's nuclear program<sup>70</sup> and supplied aluminum to the EU-designated Iran Centrifuge Technology Company.<sup>71</sup>

The EU was scheduled to lift sanctions against Iran Aluminum Company on Implementation Day, but the company won a court challenge annulling the designation prior to Implementation Day, and sanctions were lifted in September 2015.<sup>72</sup>

## Case Study: Iran Petroleum Contract

As the Rouhani administration seeks to put in place an Iran Petroleum Contract that is attractive to foreign firms<sup>1</sup> and tries to encourage upwards of \$200 billion in foreign investment in Iran's oil infrastructure,<sup>2</sup> the IRGC is posturing to protect and expand its influence in the lucrative oil business.

In December 2015, the commander of the Khatam al-Anbiya conglomerate, Ebadollah Abdollahi, claimed that there was no need for foreign companies in oil and gas construction projects except for finance purposes, pushing back against what the IRGC saw as threat to its interests.<sup>3</sup> Individuals close to the IRGC, including Rostam Ghassemi, a former oil minister and senior IRGC commander, apparently forced the cancellation of Iran's February oil conference in London because of issues with the Iran Petroleum Contract.<sup>4</sup> For months, as the contract underwent several rounds of revisions, hardline political groups, figures, and media outlets close to the IRGC continued their attacks, claiming that the Iran Petroleum Contract would damage the country by shutting domestic contractors out of upstream projects and undermining Iran's sovereignty with 20-year contract terms.<sup>5</sup>

To assuage these concerns, the Oil Ministry has reaffirmed that foreign companies interested in investing in Iran's oil and gas fields would need to partner with local exploration and production companies.<sup>6</sup> Among an initial list of eight firms is IRGC conglomerate Khatam al-Anbiya, as well as previously-sanctioned entities including a subsidiary of the National Iranian Oil Company, the Industrial Development and Renovation Organization, and the Execution of Imam Khomeini's Order, a business empire controlled by Supreme Leader Khamenei. The Rouhani administration may hope to keep criticism of the contract at bay by listing Khatam al-Anbiya, but the IRGC and its allies have continued to criticize the administration's handling of the Iran Petroleum Contract,<sup>7</sup> enhancing their leverage to protect their interests in the oil sector.<sup>8</sup>

Even if a foreign company's partner is a non-IRGC firm, there is a risk that the technology can be transferred to IRGC firms (the Iran Petroleum Contract requires foreign firms to share technology and managerial expertise with Iranian firms<sup>9</sup>), enhancing the IRGC's capabilities and potentially exposing the foreign company to risks of aiding sanctioned entities or to the theft of intellectual property. Although the first oil field bids are expected in October,<sup>10</sup> the final outcome and terms of the Iran Petroleum Contract are far from clear and depend the strength of Rouhani and his allies following the May 2017 presidential election. The IRGC's opposition to any perceived threat to its dominance in the energy sector makes the Iran Petroleum Contract a critical case to watch for multinational companies considering investing in Iran's energy sector.

1. Benoit Faucon, "Iranian Political Battles Pose Risk for Oil Contracts," *The Wall Street Journal*, February 1, 2016. (<http://www.wsj.com/articles/iran-struggling-to-finalize-new-oil-contracts-1454331285>)
2. "Iran needs \$200bn oil investments," Press TV (Iran), February 9, 2016. (<http://www.presstv.com/Detail/2016/02/09/449460/Iran-needs-200bn-oil-investments-/>)
3. "سپاه و منفعت‌های نفتی؛ خارجی‌ها نیایند" (IRGC and oil benefits; foreigners shouldn't come)," *Radio Zamaneh* (Netherlands), December 14, 2015. (<http://www.radiozamaneh.com/251205>)
4. Vice President Eshagh Jahangiri subsequently dismissed Ghassemi and replaced him with Hassan Palarak, who is a former senior IRGC Quds Force commander. "چرا رستم قاسمی برکنار شد؟" (Why was Rostam Ghassemi removed?)," *Alef* (Iran), February 2, 2016. (<http://alef.ir/vdcgq79wyak9x34.rpra.html?328619>)
5. Alireza Ramezani, "Iran closer to rolling out new oil project contracts," *Al Monitor*, August 24, 2016. (<http://www.al-monitor.com/pulse/originals/2016/08/iran-petroleum-contract-ipc-final-confirmation-parliament.html>);
6. "Iran identifies local partners for foreign oil industry investors," *Offshore Magazine*, July 5, 2016. (<http://www.offshore-mag.com/articles/2016/07/iran-identifies-local-partners-for-foreign-oil-industry-investors.html>)

7. David Ramin Jalilvand, "What's fueling opposition to Iran's new oil contracts?" *Al Monitor*, May 25, 2016. (<http://www.al-monitor.com/pulse/originals/2016/05/iran-petroleum-contract-framework-delayed.html>)
8. An arrangement may include bidding high-risk fields and offshore reserves to foreign companies, while extending small- and medium-sized fields to domestic firms. An Iranian administration official announced in May that less capital- and technological-intensive fields would be extended to Iranian firms. See: "۱۰ ایراد و ۴ پیشنهاد اصلاحی برای الگوی جدید قراردادهای نفتی" (10 criticism and 4 recommendations for the new oil contract models)," *Fars News* (Iran), May 21, 2016. (<http://www.farsnews.com/13950303000565>); "Iran to hold first oil tender in mid-Oct.," *Press TV* (Iran), August 30, 2016. (<http://www.presstv.ir/Detail/2016/08/30/482342/Iran-oil-tender-Azadegan-field-IPC>)
9. English translation of the latest version: "The New Iranian Petroleum Contract - Government Approval," *Lexology*, August 9, 2016. (<http://www.lexology.com/library/detail.aspx?g=495d1029-891e-4a53-9b7a-5a6236984382>)
10. "Iran to hold first oil tender in mid-Oct.," *Press TV* (Iran), August 30, 2016. (<http://www.presstv.ir/Detail/2016/08/30/482342/Iran-oil-tender-Azadegan-field-IPC>)

The JCPOA does not lift U.S. sanctions against Mehr Eghtesad, but the EU had not previously sanctioned this entity. EU companies will thus be able to invest in Iranian companies where Mehr Eghtesad is a shareholder as well as conduct business transactions with them, despite a clear link with the IRGC.

As metals and mining sanctions are relaxed, companies in this sector will be able to conduct business with, and secure investments from, foreign companies. Additionally, with the lifting of sanctions against Iran's banking and transport sectors, Iranian metals and minerals exports will become more affordable to international buyers. IRGC companies will thus benefit from the general climate of economic improvement, access to modern extraction technology, financing, cheaper delivery costs, and potentially foreign investment in the metals and mining sector.

### *Automotive*

The IRGC is active in the automotive sector, controlling major automotive companies listed on the Tehran Stock Exchange. The IRGC sold its shares of Bahman Group, the country's third-largest carmaker,<sup>73</sup> in June 2016.<sup>74</sup> The IRGC likely sold its shares because it understood that the company could not sign contracts with foreign companies if the IRGC retained ownership. Multinational companies interested in trading or partnering with Bahman should nevertheless engage in robust due diligence to ensure that the IRGC is not using front companies to retain its influence in Bahman.

The United States imposed sanctions on Tehran's automotive sector in June 2013, noting that it "is a significant contributor to its overall economic activity, generating funds that help prop up the rial and the regime."<sup>75</sup> The JCPOA lifts these sanctions. IRGC firms will be able to procure goods that Iran can use to further its ballistic missile program and potentially an illicit nuclear program.

Iran has engaged in illicit procurement under the guise of legitimate trade in the automotive sector.<sup>76</sup> By acquiring firms in the automotive sector, the IRGC eliminated its reliance on non-IRGC vehicle producers for Iran's ballistic missile program. Specialized vehicles are needed for the transportation, handling, and launch of ballistic missiles.<sup>77</sup> The technology to produce these specialized vehicles is not significantly different from that of regular vehicles.

The automotive industry also relies on dual-use goods and technology that have applications in the aerospace, defense, and nuclear industries. These goods include fiber-optic lasers for industrial welding and cutting,<sup>78</sup> electron-beam welding machines for automatic transmission systems,<sup>79</sup> flow-forming machines for rotational manufacture, and fiber-winding machines for the production of CNG pressure vessels and battery containers.<sup>80</sup>

### *Shipping*

The IRGC controls and manages most Iranian commercial ports and relies on Iran's largest shipping and aviation companies to transport military equipment and personnel to its proxies abroad.<sup>81</sup> The IRGC also runs numerous economic activities through airports and harbors, including the Tehran-area Payam International Airport and its affiliated cargo airline Payam Air.<sup>82</sup>

Iran's largest port operator is Tidewater Middle East Company PLC. According to the U.S. Treasury, "[S]hipments into Tidewater facilities provide an avenue of revenue to the IRGC in support of its illicit conduct."<sup>83</sup> The EU also designated Tidewater as an IRGC company.<sup>84</sup>

Tidewater and its subsidiaries played a critical role in providing services for 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>85</sup>

Under the JCPOA, sectoral sanctions, as well as individual designations of companies in the transportation sector, have been lifted. Although Tidewater itself will remain under EU sanctions until Transition Day (and under U.S. sanctions indefinitely),<sup>86</sup> any increase in shipping prompted by the lifting of sanctions will almost certainly enrich IRGC-owned companies managing container terminals and port services.

### Aviation

In the aviation sector, the United States de-listed a number of airlines previously sanctioned for providing services to the IRGC. For example, under the JCPOA, the United States de-listed Aban Air,<sup>87</sup> which the U.S. had sanctioned in May 2013, under Executive Order 13382, for providing support to the IRGC’s illicit weapons proliferation.<sup>88</sup> The U.S. also de-listed Iran Air, which, according to 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>89</sup> Iran Air also shipped military

equipment on behalf of the IRGC and the Ministry of Defense,<sup>90</sup> including, crucially, IED parts Iran illegally procured from U.S. suppliers in 2007. Iran Air transported them to Tehran and they later made their way to Iraq, where Iranian-backed Shiite militias made lethal use of them against US personnel.<sup>91</sup>

Other Iranian airlines that regularly do business with the IRGC are likely to benefit from the discrepancy between U.S. and EU sanctions. For example, in 2012, the United States sanctioned Yas Air (now called Pouya Air) for acting “on behalf of the IRGC-QF [Quds Force] to transport illicit cargo – including weapons – to Iran’s clients in the Levant.”<sup>92</sup> According to Treasury, Yas Air “has moved IRGC-QF personnel and weapons under the cover of humanitarian aid.”<sup>93</sup> Yas Air will remain under U.S. sanctions, but the EU will lift its sanctions on the airline on Transition Day.<sup>94</sup>

Similarly, the U.S. designated Mahan Air in October 2011 for “financial, material and technological support” to the Quds Force, including ferrying personnel and weapons to Syria.<sup>95</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>96</sup>



Mahan has even used its newly acquired A340 Airbus fleet for flights to Syria.<sup>97</sup> According to available commercial flight tracking data obtained for the period between September 13, 2015 and September 14, 2016, Mahan Air flew at least 194 flights to Syria, mostly to Damascus.<sup>98</sup>

Mahan Air will remain under U.S. sanctions indefinitely. Nonetheless, the EU has not designated Mahan Air, meaning that its jets fly with impunity to more than a dozen European destinations. The airline has also announced the expansion of its European routes,<sup>99</sup> which it will be servicing with planes it acquired in May 2015, in violation of U.S. sanctions.<sup>100</sup> Mahan is also receiving services from Western airports as a result of its continuing operations of international routes, including fueling, baggage handling, ticketing and check-in, catering, and overnight stays for crew.

In addition to lifting sanctions on specific Iranian airlines 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>101</sup> This will enable Iranian airlines – including those mentioned above – to modernize their aging fleets; and Iran Air has announced preliminary deals with Airbus for 118 planes, with Boeing for another 80 planes, and with other companies for many more.<sup>102</sup>

The removal of sanctions on firms in the aviation sector will likely enhance the IRGC's ability to engage in illicit activities – especially given the IRGC's control of key Iranian airports as mentioned above. Airlines will be able to improve the quality and reliability of their air service to their customers, including the IRGC and its Quds Force. The Quds Force will have access to newer, larger, and more efficient planes with which to pursue its strategic objectives.

### *Construction*

The IRGC conglomerate Khatam al-Anbiya is the Islamic Republic's biggest construction firm, and may be its largest company outright, with 135,000 employees, 5,000 subcontracting firms,<sup>103</sup> and more than 800 subsidiaries<sup>104</sup> in numerous sectors of Iran's economy, including its nuclear and defense, energy, construction, and engineering programs. The value of its current contracts is estimated at nearly \$50 billion, or about 12 percent of Iran's GDP.<sup>105</sup>

The company is involved in “road-building projects, offshore construction, oil and gas pipelines, and water systems.”<sup>106</sup> Among its projects are 51 contracts with the Oil Ministry, worth more than \$17 billion;<sup>107</sup> and that does not include the \$2-billion Bakhtiari Dam,<sup>108</sup> which is slated to be the tallest in the world. The company also has a contract for the 560-mile-long natural-gas pipeline from Bushehr to Sistan-Baluchistan, a project worth \$1.3 billion. It has reportedly also 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>109</sup>

Khatam al-Anbiya is heavily involved in infrastructure projects, including railway networks, port expansion, highway improvement, and high-velocity trains. The company has a contract for the \$3 billion “shrine-to-shrine” highway connecting Qom and Mashhad;<sup>110</sup> and a Tehran metro line that is part of a \$7-billion metro-expansion program.<sup>111</sup> Its subsidiary, Sepasad Engineering Company, 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>

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 and Khatam al-Anbiya. Financing will come partially from Iran's Bank of Industry and Mine,<sup>113</sup> a government-owned entity that the U.S. Treasury sanctioned in 2011 for facilitating Iran's proliferation activities. The EU sanctioned it in 2012 for similar reasons,<sup>114</sup> but it was de-listed on Implementation Day.<sup>115</sup>

Most of Khatam al-Anbiya's projects are straightforward business ventures, but many have military dimensions or applications. In 2008, then-Deputy Director Abdolreza Abedzadeh said that 70 percent of Khatam al-Anbiya's business was military-related.<sup>116</sup>

Iran's ballistic missile program, for example, requires the construction of testing and production facilities, above-ground and underground storage areas, and launch facilities. In October 2015 and January 2016, the IRGC unveiled two underground sites for storing missiles.<sup>117</sup> The equipment needed to build underground military facilities is the same as those needed for the Tehran metro line project and other Khatam al-Anbiya infrastructure projects.<sup>118</sup>

In 2007, the United States sanctioned Khatam al-Anbiya as a proliferator of weapons of mass destruction.<sup>119</sup> According to the U.S. Treasury, the IRGC uses Khatam al-Anbiya to "generate income and funds its operations."<sup>120</sup> Even though Khatam al-Anbiya will remain under EU sanctions until Transition Day, and under U.S. sanctions indefinitely,<sup>121</sup> its primary constraint until now has been Tehran's failing economy. More business coming into Iran means more construction. The anticipated increase in public spending to modernize and improve Iran's aging infrastructure will no doubt lead to public tenders for large projects, for which Khatam al-Anbiya will be a primary beneficiary.

The Obama administration may be correct that Iran will use most of the funds in previously frozen accounts to finance construction projects. Rather

than transfer the funds directly to terrorist proxies, the money will flow through the IRGC's construction arm, which in turn will support the Guard's ability to fund terrorism.

### *Banking and Finance*

Over the past decade, the United States imposed sanctions on six Iranian banks due to their ties to the IRGC: Ansar, Mehr, Melli, Arian, Kargoshaee, and Future Bank.<sup>122</sup> The first two were created by the IRGC to provide services to its personnel and its paramilitary Basij force, according to statements issued by the U.S. Treasury and the EU.<sup>123</sup> Banks Ansar and Mehr are owned by the Guard, while the other four banks are not IRGC banks but rather have conducted transactions on its behalf.<sup>124</sup>

On Implementation Day, the U.S. and EU de-listed Bank Melli and its subsidiaries, including the aforementioned Arian Bank, Bank Kargoshaee, and Future Bank.<sup>125</sup> On Transition Day, Brussels will also lift sanctions on Ansar Bank and Mehr Bank.<sup>126</sup> The U.S. sanctions on these two banks will remain in place.

The IRGC ownership appears to explain the distinction in the lifting of sanctions, but ownership in this case is immaterial. The distinction between IRGC-owned, IRGC-linked, and non-IRGC banks is insignificant. The IRGC's financial activities are not limited only to those banks owned by the Guard or those that have previously managed its transactions. For example, when Treasury sanctioned Bank Melli, it noted that the institution facilitates transactions for the IRGC and engages in deceptive financial practices to hide the IRGC's involvement.<sup>127</sup> Other Iranian state banks have also been used as conduits for ballistic missile and nuclear proliferation financing – activities run by the IRGC.

Moreover, by allowing financial institutions to reconnect to the SWIFT financial messaging 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 Guard to resume banking operations in Europe.

One of the ways the Guard invests in Iranian financial markets is through its banks and investment firms, which are directly or indirectly controlled by the IRGC Cooperative Foundation. Treasury has noted that eight of the nine members of the foundation's board of trustees are IRGC officials, including its commander, Mohammad Ali Jafari.<sup>128</sup> The Guard controls Mehr Eghtesad Iranian Investment Company, Andishe Mehvaran Investment Company,<sup>129</sup> and Tadbirgaran Atieh Iranian Investment Company.<sup>130</sup> Tadbirgaran Atieh, for example, owns shares in Zinc Mines Development Company, Exir Pharmaceutical Company, Behbahan Cement Company, Sina Tile and Ceramic Industries, Rayan Saipa Leasing Company, Isfahan Oil Refinery, and Kaveh Paper Industries.<sup>131</sup> As Iran's economy grows, these companies are likely to experience new business opportunities and generate profits for their investors and owners: the IRGC.

While some IRGC investment firms have been designated, others have escaped sanctions. Not only will these companies now increase their income from investments, but they will also be able to invest their assets abroad. The high number of IRGC-owned investment firms makes it difficult to identify and track entities under control of the Guard. It also provides the IRGC a complex network of financial entities that can be used in the IRGC's illicit activities, such as money laundering.

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>132</sup>

### *Telecommunications*

The IRGC controls Iran's largest telecom company, the Telecommunication Company of Iran (TCI), having purchased 50 percent plus one of the shares in 2009.<sup>133</sup> The Guard won the bid in a joint venture with a foundation controlled by the supreme leader, and drove out its main rival by using its political power to exclude it from the bidding process. Two IRGC companies participated in a tender to buy the company: one owned by Bonyad Taavon Sepah, the other by Bonyad Taavon Basij. TCI's main shareholder (50 percent) is Tose'e Etemad Mobin, a company controlled jointly by the IRGC and the supreme leader's financial network.<sup>134</sup>

TCI has a near monopoly on Iranian landline telephone services,<sup>135</sup> and reportedly all internet traffic in and out of the country travels through TCI.<sup>136</sup> This is particularly problematic since TCI purchased "a powerful surveillance system capable of monitoring landline, mobile and internet communications" from a Chinese firm in 2010.<sup>137</sup> All three mobile operators in the Islamic Republic are directly or indirectly partners with IRGC-affiliated companies, according to an August 2013 report in *Al Monitor*.<sup>138</sup>

The United States sanctioned the IRGC in April 2012 for "grave human right 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 government of Iran.<sup>139</sup> TCI, however, was never sanctioned by the U.S. or EU, either for its IRGC ownership or potential role in human rights violations. In 2013, the State Department did, however, designate an IRGC subsidiary, Ofogh Saber Engineering Development Company, for censorship activities under Executive Order 13628.<sup>140</sup>

As sanctions on the telecommunication sector are lifted, Iran will attract foreign investment and gain significant access to advanced technology. The IRGC will thus be in a position to acquire sensitive monitoring technology that it may use to enhance its surveillance of dissidents.

## *The IRGC Business Model*

The profits the IRGC derives from its “legitimate” business interests fund Iran’s military and terrorist proxies and other nefarious activities.<sup>141</sup> Indeed, some IRGC companies are involved in a wide array of activities not necessarily linked to proliferation or missiles. Iran’s legitimate and illegitimate business endeavors, however, cannot be easily disentangled. Legitimate businesses are used to procure goods for illicit activities, and the profits from the former are used to finance the latter, as IRGC members have admitted on the record.<sup>142</sup>

As scholar Matthew Frick explains, the Guard’s political clout “can be summed up in one word: *alumni*.”<sup>143</sup> The businesses the IRGC spawns are often based on informal networks of blood ties and bonds forged in uniform. Abundant evidence shows IRGC companies have been used as conduits for illicit transactions, and that board memberships may be afforded out of loyalty to the revolutionary cause than professional qualifications. For example, the IRGC Cooperative Foundation and Basij Cooperative Foundation are among Iran’s top holding companies and control billions of dollars of assets. Board members for these two financial giants are active-duty IRGC officers or IRGC veterans with no previous financial experience.<sup>144</sup> The IRGC Cooperative’s chairman, General Morteza Rezai, is a former commander of the IRGC and head of its intelligence bureau.<sup>145</sup> The foundation’s CEO, Ahmad Vahid Dastjerdi spent his life in the Defense Ministry running the Aerospace Industries Organization, the entity in charge of Iran’s missile program.<sup>146</sup> Companies owned and controlled by these two foundations feature similarly inexperienced boards.

The IRGC’s legitimate business dealings enable it to gain access to foreign technology that Iran cannot yet produce indigenously, such as dual-use goods for its nuclear and ballistic missile program. The Guard can

acquire missing tools to advance its military projects, learn critical skills, crack technological secrets, engage in corporate espionage, and – insofar as it succeeds in reverse-engineering foreign technologies<sup>147</sup> – make Iranian military industries less dependent on imports.

**“Iran’s legitimate and illegitimate business endeavors, however, cannot be easily disentangled. Legitimate businesses are used to procure goods for illicit activities, and the profits from the former are used to finance the latter, as IRGC members have admitted on the record.”**

The IRGC’s legitimate businesses are intertwined with its smuggling operations. The IRGC smuggles cars, electronics, and household commodities that are scarce or costly due to international sanctions.<sup>148</sup> The IRGC is also the country’s main smuggler of arms,<sup>149</sup> and drug trafficking is endemic within the Guard, according to Sajjad Haghpanah, a former investigator with the IRGC’s domestic intelligence division. “They have their own ships, aircraft and haulage companies, everything needed for import and export,” he said.<sup>150</sup> The U.S. Treasury Department has also identified IRGC commanders’ involvement in the drug trade.<sup>151</sup>

The IRGC’s control of sea, air, and land borders, as well as ports, airports, and roads, enables the organization to engage in extensive smuggling operations.<sup>152</sup> In 2011, Mehdi Karroubi, the former speaker of parliament, complained that the IRGC also operated unauthorized ports to smuggle goods.<sup>153</sup> Estimates of the total value of smuggled imported goods in Iran range between \$20 billion and \$30 billion.<sup>154</sup> As noted in a *Newsweek* report in 2010, only the IRGC has the resources to run such a massive operation and the political influence to keep it from getting shut down.<sup>155</sup>

## The IRGC and Iran's Rogue Activities

The IRGC is today the central force behind the range of Iran's dangerous and nefarious activities – from nuclear proliferation to support for international terrorism to systemic human rights abuses. In 2011, then-Secretary of State Hillary Clinton and then-Treasury Secretary Timothy Geithner explained:

The IRGC ... serves as the domestic “enforcer” for the Iranian regime, continues to play an important proliferation role by orchestrating the import and export of prohibited items to and from Iran, is involved in support of terrorism throughout the region, and is responsible for serious human rights abuses against peaceful Iranian protestors and other opposition participants.<sup>156</sup>

It is for this reason that the United States and the international community have targeted the IRGC under myriad sanctions authorities: The United States first sanctioned the Revolutionary Guard in 2007 for its role in Iran's nuclear and ballistic missile proliferation activities.<sup>157</sup> At the same time, Washington also designated the IRGC's elite, external arm, the Quds Force, for its role in international terrorism and supporting a range of terrorist groups in 2007.

Two years later, the United States sanctioned the IRGC and its volunteer Basij force for “severe human rights abuses” and their central role in crushing the pro-democracy movement following the fraudulent 2009 presidential elections.<sup>158</sup> In 2012, Washington issued an executive order sanctioning individuals and entities involved in so-call “human rights abuses via information technology” and sanctioned the IRGC under this authority for monitoring dissidents and censoring free expression.<sup>159</sup>

Finally, the United States sanctioned the Quds Force and its commander, General Qassem Soleimani, in 2011 for supporting Syria's intelligence services and helping the Assad regime crush internal dissent.<sup>160</sup> Two years later, the EU followed suit.<sup>161</sup>

The nuclear deal does not affect any of these sanctions, and likewise none of the IRGC's behavior has changed. In fact, in the wake of the nuclear deal, the bloodshed in Syria continues to worsen, and the human rights situation in Iran has deteriorated further.<sup>162</sup> The Revolutionary Guard has arrested hundreds in what human rights experts call the largest crackdown since the suppression of protests after the 2009 election.<sup>163</sup>

### *The IRGC and Iran's Ballistic Missile Program*

Iran's ballistic missile program started during the reign of the Shah, but expanded considerably after the 1979 Islamic revolution.<sup>164</sup> Then, in the aftermath of the Iran-Iraq War, the IRGC and the Aerospace Industries Organization, a subordinate of the Ministry of Defense and Armed Forces Logistics, expanded the program to include longer-range missiles.<sup>165</sup> These two organizations began work toward intercontinental ballistic missile (ICBM) capability in the late 1990s or early 2000s, but have not tested any such weapons to date.<sup>166</sup> Two primary entities involved in Iran's ballistic missile program are Shahid Hemmat Industrial Group – a subsidiary of Aerospace Industries Organization – and the IRGC Al-Ghadir Missile Command.<sup>167</sup>

Today, Iran has the “largest inventory of ballistic missiles in the Middle East,” according to the U.S. government's February 2016 Worldwide Threat Assessment. The United States intelligence community further assesses that Iran “would choose ballistic missiles as its preferred method of delivering nuclear weapons, if it builds them.”<sup>168</sup> Experts believe Iran's nuclear and ballistic missile

programs are closely intertwined.<sup>169</sup> As Director of National Intelligence (DNI) James Clapper testified to Congress, “Iran’s ballistic missiles are inherently capable of delivering WMD.”<sup>170</sup> Moreover, experts note that developing costly, indigenous long-range ballistic missiles without acquiring nuclear warheads makes little sense, and no country without nuclear-weapons ambitions has ever built a medium- or long-range ballistic missile program.<sup>171</sup>

Since the July 2015 nuclear deal, Iran has conducted repeated ballistic missile tests, contrary to UN Security Council Resolution 2231.<sup>172</sup> Iran appears to be committed to developing its missile program “regardless of the consequences,” according to testimony from Ambassador Stephen Mull, the State Department’s coordinator for the implementation of the JCPOA.<sup>173</sup> DNI Clapper noted in February that since June 2010, Tehran had conducted 140 missile launches.<sup>174</sup>

A ballistic missile program is a sophisticated, capital- and technology-intensive endeavor that requires expertise from sectors ranging from construction to robotics and computer science. The IRGC has extensive expertise in these fields and, as noted above, controls large companies in sectors that provide access to raw and processed materials, human capital and expertise, and foreign procurement networks.

Despite Iran’s ongoing ballistic missile development, on Transition Day, the EU will lift sanctions against Shahid Hemmat Industrial Group and the IRGC’s Al-Ghadir Missile Command – and their parent organizations, the Aerospace Industries Organization, the Ministry of Defense, and the IRGC.<sup>175</sup> Thus, after continuing to illicitly procure goods for its ballistic missile program and funneling money from legitimate businesses to fund it, the IRGC will receive additional benefits through the lifting of ballistic missile-related sanctions.

### *The IRGC, Quds Force, and Terrorism in the Region*

The State Department formally designated the Islamic Republic a state sponsor of terrorism in January 1984, confirming that assessment every year since, including in its most recent report on global terrorism, issued in June 2016.<sup>176</sup>

Since the 1979 revolution, the Iranian government has financed and supported dozens of deadly terrorist attacks against American and allied targets, and the IRGC has been directly “involved in or behind some of the deadliest terrorist attacks of the past two decades,” according to the Defense Department’s April 2010 Unclassified Report on Military Power of Iran.<sup>177</sup> In the February 2016 Worldwide Threat Assessment, DNI Clapper noted, “Iran—the foremost state sponsor of terrorism—continues to exert its influence in regional crises in the Middle East through the Islamic Revolutionary Guard Corps—Quds Force (IRGC-QF), its terrorist partner Lebanese Hezbollah, and proxy groups. ... Iran also supported Houthi rebels in Yemen by attempting to ship lethal aid to the Houthis.”<sup>178</sup>

According to the U.S. government, the Quds Force is responsible for “exporting the revolution” abroad,<sup>179</sup> is Iran’s “primary arm for ... supporting terrorist and insurgent groups,” and “provides material, logistical assistance, training and financial support to militants and terrorist operatives throughout the Middle East and South Asia.”<sup>180</sup> Quds Force operatives lead subversive activities abroad ranging from the creation of cultural and business fronts and executing assassinations to backing political resistance organizations and supporting violent opposition groups.<sup>181</sup> According to the U.S. government, the Quds Force provided “weapons, training, funding, and guidance” to groups that targeted American servicemen.<sup>182</sup> Although the Pentagon does not maintain a specific record of

casualties linked to Iran, senior Defense Department officials estimate that at least 500 U.S. military deaths in Iraq and Afghanistan were linked directly to Iran and its militias.<sup>183</sup>

The Quds Force was also behind plans to assassinate the Saudi ambassador in Washington in 2011.<sup>184</sup> The foiled plot entailed bombing a Georgetown restaurant as well as the Israeli embassy in Washington.<sup>185</sup> The plan involved coordination with a Mexican drug cartel and a side deal to funnel tons of opium from the Middle East to Mexico. Then-Attorney General Eric Holder said that the plot was “directed and approved by elements of the Iranian government and, specifically, senior members of the Quds Force,” noting that the Quds Force is “an integral part of the Iranian government.”<sup>186</sup> This plot was not, therefore, the work of a rogue cell but rather coordinated at the highest levels of the Islamic Republic.

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The U.S. Treasury designated the Quds Force under its terrorism authorities,<sup>187</sup> but Iran's support of terrorism extends beyond the Quds Force and is an integral tool of Tehran's foreign policy<sup>188</sup> – a foreign policy in which the Revolutionary Guard plays a significant role. The IRGC chief commander has a seat in the Supreme National Security Council (SNSC), Iran's highest national security decision-making body.<sup>189</sup> The council formulates policies on the country's critical internal and external security issues, including the nuclear program and conflicts in Iraq and Syria. Both the IRGC and SNSC answer directly to Supreme Leader Khamenei, who has the final word on all issues, including foreign policy.

In testimony before the Senate Banking Committee in September 2015, Treasury's Acting Under Secretary for Terrorism and Financial Intelligence Adam Szubin noted:

The IRGC is a parent organization, has a number of subsidiaries, and it's involved almost in every bad aspect of what Iran is engaged in. Whether it's the ballistic missile procurement, whether terrorism, whether it's regional destabilization or human rights. We designated the Quds Force, which is their arm that they use to support military activity and terrorist groups, under our terrorism program because it was the most apt element of the IRGC to label with the terrorist brush. ... [B]ut, certainly we've seen the activity underneath the IRGC that easily qualifies for terrorist support.<sup>190</sup>

### *IRGC's Involvement in Syria's Civil War*

Tehran has been the main supporter of the Syrian regime since the uprising against it began in 2011. Syrian territory is especially important for Iran, as it is the supply route to its main proxy, Hezbollah.<sup>191</sup> Tehran's primary lifeline to Syrian leader Bashar al-Assad is through the air, and its commercial airline Mahan Air has been a significant conduit for ferrying weapons, materiel, and manpower to the regime since 2012.<sup>192</sup> The IRGC reportedly uses military planes to transport large numbers of ground forces and Shiite militias to Syria.<sup>193</sup>

The Quds Force has been the spearhead of Iran's strategy and operations in the Syrian theater.<sup>194</sup> The Quds Force's charismatic commander, General Qassem Soleimani, is in charge of all of the IRGC's important portfolios in the Middle East, including Iraq and Syria.<sup>195</sup> Soleimani is one of the most powerful figures in the Islamic Republic and reports directly to the supreme leader.<sup>196</sup> When Assad was in danger of falling in 2015, Soleimani traveled to Moscow, in violation of a UN travel ban,<sup>197</sup> to convince Russia to intervene on Assad's behalf.<sup>198</sup> Soleimani has also coordinated the deployment of Shiite

militias from Iraq, Lebanon, Afghanistan, and Pakistan to aid the Quds Force's efforts.<sup>199</sup>

### *Iran's Cyber Army*

Iran is rapidly emerging as a top-tier cyber power.<sup>200</sup> DNI Clapper testified before the Senate Armed Services Committee on February 26, 2016 that Tehran ranks just behind Russia and China as a leading cyber threat actor.<sup>201</sup> Experts warn that since 2010, Iran has invested significant resources and efforts to develop its cyber program.<sup>202</sup> The IRGC has taken the lead in this field.

As noted above, the IRGC now owns and controls Iran's largest communication company, and manages the skilled cyber technicians and specialists of the Iran Cyber Army, who are trained to hack into opposition websites and conduct other offensive cyber operations.<sup>203</sup> The Iranian government has been implicated in dozens of cyberattacks, including the penetration of critical infrastructure – which observers fear may be aimed at hacking the accounts of U.S. officials.<sup>204</sup> The IRGC also is believed to be behind the 2012 cyberattack against Saudi Aramco.<sup>205</sup>

In the wake of the nuclear agreement, Iran has reportedly stepped up its cyberattacks against the United States. *The Wall Street Journal* reported that after July 2015, the Revolutionary Guard conducted a “surge” of cyberattacks against the U.S., relying on an “army of cyberattackers” who targeted American banks and the U.S. government.<sup>206</sup> In November 2015, European authorities took decisive action to shut down an infamous hacker group known as “Rocket Kitten,” which is believed to be linked to the Revolutionary Guard.<sup>207</sup>

The IRGC's nefarious activities in the cyber realm – cyberattacks as well as censorship and other human rights abuses – are particularly relevant for telecommunications and technology companies that may be exploring opportunities in Iran.

## Recommendations

Although the U.S. retains the legal edifice of sanctions against the IRGC, it is insufficient to exclude the Guard from the post-deal windfall. The JCPOA effectively shuts the door on re-imposing previous sanctions (other than in cases of a significant Iranian violation of the agreement), but there are numerous areas outside the scope of the JCPOA where the U.S. government, Congress, and the private sector can mitigate benefits to the IRGC.

Sanctions related to ballistic missiles, conventional weapons proliferation, terrorism, and human rights are not included in the nuclear agreement. However, Iran has insisted that it may “reconsider its commitments” under the JCPOA if new sanctions are imposed for any reason.<sup>208</sup> Supreme Leader Khamenei affirmed that the Islamic Republic believes any sanctions, including those under the “fabricated pretext of terrorism and human rights,” to be a violation of the nuclear deal.<sup>209</sup>

U.S. administration officials, however, have correctly explained that Washington is not limited by the JCPOA in its use of targeted economic sanctions to combat Iran's support for terrorism, other illicit activities, or regional destabilization.<sup>210</sup> While significant economic pressure has been lifted and while the nuclear deal is a game-changing development for the Iranian economy, the U.S. still has leverage to impose non-nuclear sanctions on individuals, entities, and entire sectors of the economy involved in illicit activities.

A comprehensive strategy involving all tools of American national power is necessary to combat and roll back Iranian terrorism and regional aggression. The following recommendations focus only on economic tools rather than the full arsenal of military, covert, cyber, and diplomatic instruments – which are beyond the scope of this report. Indeed, the use of economic sanctions should not replace but rather complement the deployment of these other elements of statecraft.

*For the Current and Next U.S.  
Administration:*

**1. Sanction the IRGC for terrorism**

The State Department maintains a list of Foreign Terrorist Organizations (FTO) that pose a threat to U.S. nationals and national security.<sup>211</sup> Treasury also issues sanctions and designations under Executive Order 13224 against entities and individuals engaged in the planning or funding of terrorism.<sup>212</sup> There is little doubt that the IRGC has engaged in terrorist activity against U.S. nationals and service members and threatened the national security of the United States.

**“Treasury has designated the Quds Force for its role in terrorism under Executive Order 13224 and for supporting the Assad regime’s repression in Syria. Treasury should extend those designations to the entire Revolutionary Guard, as it is ultimately responsible for the actions of the Quds Force...”**

To date, the State Department has not designated the IRGC or its Quds Force as a Foreign Terrorist Organization. The United States has traditionally not designated a state organ under this authority.<sup>213</sup> However, Treasury has designated the Quds Force for its role in terrorism under Executive Order 13224<sup>214</sup> and for supporting the Assad regime’s repression in Syria.<sup>215</sup> Treasury should extend those designations to the entire Revolutionary Guard, as it is ultimately responsible for the actions of the Quds Force and because the regular IRGC ground forces have become expeditionary forces like the Quds Force.<sup>216</sup> Such a step would bring additional scrutiny to the vast financial network of the IRGC and bring additional pressure to bear.

**2. Designate additional IRGC subsidiaries and individuals under nonproliferation and human rights authorities**

The subsidiaries of designated Iranian companies are all under sanctions, and no company or financial institution is likely to risk transacting with an entity on a U.S. or EU sanctions list. In theory, Iranian entities that are not listed may still draw enhanced scrutiny from anti-money laundering and compliance authorities. In practice, however, the global business community looks to the U.S. Treasury for guidance. It is therefore important that all subsidiaries of IRGC companies be sanctioned and that these designations be publicized.

Given the ubiquity of the IRGC in Iran’s economy, exposing as many companies as possible could go a long way toward addressing this problem in practical terms. The more companies are publicly linked to the IRGC, the likelier governments will be to designate them. Meanwhile, exposure will alert the business community of the risks involved in doing business with Iranian entities without significantly enhanced due diligence to ensure there are no ownership connections to sanctioned entities.

Additionally, there are numerous IRGC officials who have been designated by the European Union for human rights abuses but have escaped designation by the United States. The EU has also designated IRGC commanders involved in nuclear and ballistic missile-related activities who have not been similarly designated by the United States.<sup>217</sup> While these officials are unlikely to have assets under U.S. jurisdiction, their addition to U.S. sanctions lists would have symbolic value and emphasize that Washington will continue to highlight Iran’s appalling human rights record and its illegal weapons development. Treasury should investigate these individuals with an eye toward imposing sanctions.

### 3. Designate companies with IRGC beneficial ownership

The majority equity-stake threshold for designation as IRGC-owned or controlled should be re-examined. Currently, Treasury uses the 50-percent threshold to determine IRGC ownership, but a 25-percent threshold would better reflect global standards and Treasury's own recommendations. In early May 2016, Treasury announced the final rule requiring financial institutions in the United States to "identify and verify the identity of any individual who owns 25 percent or more of a legal entity, and an individual who controls the legal entity."<sup>218</sup> At the spring 2016 International Monetary Fund meetings, Treasury Secretary Jack Lew emphasized that requiring financial institutions to identify beneficial owners would help combat the "misuse of companies."<sup>219</sup>

A 25-percent threshold also reflects the recommendations of the global anti-money laundering and counter-terrorism finance body, the Financial Action Task Force (FATF), which notes, "A controlling ownership interest depends on the ownership structure of the company. It may be based on a threshold, e.g. any person owning more than a certain percentage of the company (e.g. 25%)."<sup>220</sup> While not specifically requiring the use of the 25-percent threshold, FATF's language implies that that figure is a recommended standard. Lowering Treasury's designation threshold to that number would put sanctions designations in line with global anti-money laundering standards. If the criteria for designation were changed, many additional entities might be eligible for sanctions. Lowering the threshold would likely also generate greater public scrutiny and enhanced due diligence procedures by the private sector.

There is also precedent in U.S. law for defining "owned or controlled" to include not only a majority equity share, but also a majority of seats on the board

of directors or an ability "to otherwise control the actions, policies, or personnel decisions."<sup>221</sup> That is, if one entity controls a majority of another's board, the former is said to own or control the latter. In the case of IRGC ownership, the use of these criteria would expand the number of entities eligible for sanctions and more accurately reflect the IRGC's influence in the Iranian economy.

### 4. Create an IRGC Watch List

As protector of the integrity of the global financial system, the U.S. Treasury has a duty to expose Iranian companies' connections to the IRGC. As Treasury has stated, targeting the IRGC's core commercial interests undermines its "ability to continue using these interests to facilitate its proliferation activities and other illicit conduct."<sup>222</sup>

This could be implemented through the creation of an "IRGC Watch List." The list would include entities that do not meet the threshold for designation but have demonstrable connections to the IRGC. The list could be maintained by Treasury or another government agency, such as the Government Accountability Office (GAO), that can evaluate public and classified information on companies that may be used as fronts for the IRGC. As the Guard continues to evolve and its economic influence becomes increasingly sophisticated, enforcement must also evolve. The criteria for inclusion on the IRGC Watch List should be flexible to account for that evolving role.

Exposing seemingly legitimate Iranian enterprises' links to the IRGC can go a long way to reducing the Guard's ability to fund its illegal activities. This Watch List would also be a critical resource for risk compliance officers who want to limit their company's exposure to bad actors.

## 5. Communicate that sanctions on the IRGC remain intact and will be enforced

A decade ago, as Treasury developed its economic sanctions tools against Iran, officials held hundreds of meetings with leaders of foreign governments and heads of major financial institutions and multilateral companies.<sup>223</sup> Treasury officials presented detailed information on Iran's illicit activities and examples of suspicious transactions.<sup>224</sup> The information campaign effectively conditioned the environment to reject Iranian transactions.

Even as significant international sanctions are suspended by the JCPOA, sanctions on Guard companies and commanders remain intact. Foreign companies that engage in business with IRGC enterprises may be sanctioned under U.S. law and can be banned from U.S. markets. Treasury needs to emphasize that sanctions on the IRGC remain in place and will be fully enforced.

**“Foreign companies that engage in business with IRGC enterprises may be sanctioned under U.S. law and can be banned from U.S. markets. Treasury needs to emphasize that sanctions on the IRGC remain in place and will be fully enforced.”**

Treasury's guidance regarding Implementation Day warned that foreign financial institutions may be subject to “correspondent or payable-through account secondary sanctions” if they knowingly facilitate significant financial transactions for entities that remain on the Specially Designated Nationals (SDN) list, including (but not limited to) the IRGC.<sup>225</sup> In addition, Treasury should engage in a private and public awareness campaign to ensure that foreign financial institutions and other companies understand the risks and liabilities of such activity.

## 6. Push back against the Revolutionary Guard in Syria

Max Peck, a Foundation for Defense of Democracies' research analyst, has done extensive research on Iran's role in Syria, another leading state sponsor of terrorism. He notes that the United States can weaken the IRGC in Syria by, among other steps, targeting its proxies there. In particular, he recommends devoting “greater intelligence capabilities to thwart[ing] Iran's attempts to recruit Shiite fighters.”<sup>226</sup> Using the model of the Hezbollah International Financing Prevention Act of 2015,<sup>227</sup> he also recommends sanctioning any bank that knowingly works with Iranian proxy militias in Syria.<sup>228</sup> Maintaining pressure on Iran for its actions in Syria will increase the costs to the IRGC for its actions that perpetuate the conflict.

IRGC scholar Ali Alfoneh has extensively documented the role and presence of IRGC forces (including IRGC units of Pakistani and Afghani soldiers) in the civil war in Syria.<sup>229</sup> Washington should designate those units involved in Syria under authorities targeting individuals and entities that support the Assad regime. The United States should also develop initiatives with Pakistan and Afghanistan to stem the flow of Shiite fighters to IRGC units.

Finally, the administration should expand sanctions against Iranian airlines and front companies that carry weapons, equipment, and personnel to aid Iran's efforts in Syria. These include front companies for Mahan, Meraj, and Caspian Airlines, all of which remain under U.S. sanctions but have not been similarly sanctioned by Europe. Administration officials have testified before Congress that the United States is “actively engaged to try to prevent Mahan Air from being able to fly.”<sup>230</sup> Washington should take legal action to impound the aircraft of designated companies landing at European airports and impose secondary sanctions on firms providing ground services to those companies.<sup>231</sup> The U.S. should further consider sanctions against any foreign company providing replacement parts or dual-use items to these airlines.

## 7. Target corruption and kleptocracy

Building on the work of the Justice Department's Kleptocracy Asset Recovery Initiative, the U.S. should initiate efforts to allocate resources and develop additional authorities to target the assets of those who benefit from corruption.

The intelligence community should be tasked with collecting information on corruption involving IRGC-linked companies and individuals, and locating their assets. Treasury can then use this information to freeze the assets or target the relevant individuals with travel bans. The objective would be to locate ill-gotten assets as soon as they enter the formal financial system. Additionally, working with U.S. allies, these travel bans could extend to all G20 countries, thus raising the costs of corruption. The U.S. can also leverage international organizations like FATE, the G20 Anti-Corruption Working Group, and the World Bank's Stolen Asset Recovery Initiative to draw attention to corruption in Iran.

The U.S. should also consider the creation of a specific office within Treasury as a center of economic policy resources to address corruption. This office would dovetail with the Justice Department's efforts to recover and repatriate assets, and with the work done by the State Department's Bureau of International Narcotics and Law Enforcement Affairs aimed at building transparency in public institutions.

### *For Congress:*

Over the past decade, Congress has developed ever-more complex and impactful sanctions against Iran, targeting its nuclear program and support for terrorism, and to a lesser extent its human rights abuses. These congressional efforts arguably convinced the Iranian leadership to engage in nuclear negotiations. To prevent the benefits of sanctions relief from flowing to the most dangerous elements of the Iranian regime,

Congress should enhance non-nuclear sanctions, increase the enforcement of remaining sanctions, and deny benefits to companies doing business with the most dangerous elements of the regime.

### **1. Require updated reporting on IRGC penetration in the Iranian economy**

The Iran Freedom and Counter-Proliferation Act of 2012 requires the president to provide a report to Congress every 180 days on "which sectors of the economy of Iran are controlled directly or indirectly by Iran's Revolutionary Guard Corps."<sup>232</sup> Congress can update this requirement so that the president must provide not only an assessment of which sectors are controlled by the IRGC, but also an evaluation of the Guard's penetration into key sectors of Iran's economy. This report should include an analysis of the most significant sectors for Iran's GDP, as well as a list of the largest companies in that sector and their links to the Guard. The report should also provide a qualitative and quantitative assessment of the IRGC's involvement in each sector.

Congress can then create sector-based sanctions targeting any sector of the economy in which companies with IRGC beneficial ownership and/or companies on the IRGC Watch List control at least one-third (for example) of the market share. These sanctions could build on the precedent that Congress and the administration set of targeting sectors connected to Tehran's nuclear program, as well as the sector-based sanctions Treasury developed against Russia in response to its annexation of Crimea two years ago.

In the Iran Threat Reduction and Syria Human Rights Act of 2012, Congress required the GAO to provide a report listing all foreign investors in the Iranian energy sector.<sup>233</sup> Similarly, Congress should require the GAO to report on all foreign investors in the sectors identified by the U.S. Treasury as having at least one-third of their market value controlled by IRGC companies.

## **2. Require reporting on joint ventures with Iran and transactions with IRGC watch list companies**

The Iran Threat Reduction and Syria Human Rights Act of 2012 requires companies that file reports with the Securities and Exchange Commission to note any transactions with sanctioned entities or the Iranian government unless the company received specific authorization from the U.S. government.<sup>234</sup> To address the IRGC's role in Iran's economy, Congress can amend this report to require companies to include: 1) any business in sectors with greater than one-third IRGC penetration; 2) any joint ventures with public or private Iranian companies (as even so-called private companies are often influenced or controlled by the IRGC); and 3) transactions with companies on the IRGC Watch List. Congress can mandate that any company that does not provide timely and accurate reports – and does not amend previous reports when new information emerges about potential IRGC-linked partners – will be fined according to the value of the project or trade deal.

## **3. Declare that U.S. policy views the IRGC as one organization responsible for all of its subsidiaries**

Congress should declare that it is the policy of the United States to view the Guard as a single organization. To date, the U.S. government has quarantined the actions of one branch of the IRGC, the Quds Force, stating that it is responsible for terrorism, but that the organization as a whole is not. This runs counter to other U.S. policies, such as its argument against Europe's view that Hezbollah has a military arm and non-military arm.<sup>235</sup> In that case, Washington has argued against this distinction, recognizing that the money is fungible, the branches are intertwined, and the leadership is the same. This should be similarly reflected in how the U.S. views the IRGC. Congress should declare that any transaction with a part of the IRGC is the same as transacting with

any other part of the IRGC. And any activity by the Quds Force will be attributed to the IRGC as a whole.

## **4. Declare that it is U.S. policy that members of the IRGC will be perceived as such for life**

The Revolutionary Guard is an “old boys club” whose alumni receive benefits and promote its agenda long after they retire. Congress should declare that even officials who retire from active service are considered members of the Guard. This policy would accurately reflect the IRGC's pervasive influence in Iran's economy and create another opening to designate additional individuals, including prosecutors in Iran's court system who use their positions of power and ties to the IRGC to commit human rights abuses.

## **5. Require additional reporting on IRGC activity and investment in Europe and Asia**

Building on the model set by the Countering Iran in the Western Hemisphere Act of 2012,<sup>236</sup> Congress should require additional reporting from the State Department and the U.S. Treasury Department on activities and investments made by the IRGC throughout Europe and Asia on a yearly basis. This information should be provided to Congress in an unclassified report that would include known foreign investment in IRGC companies, and also detail known purchases and business ventures that European or Asian firms engage in. With the de-listing of many entities along with the end of EU sanctions, lawmakers should have accurate information on what new business and trading opportunities are being taken advantage of by the IRGC.

## **6. Require the U.S. Trade Representative to reject IRGC-linked financing in trade talks**

As the Transatlantic Trade and Investment Partnership (TTIP)<sup>237</sup> is negotiated between the U.S. and the EU,

Congress can help limit the exposure of U.S. companies to exploitation by IRGC-controlled entities in Europe. In negotiations with the EU, Congress can require that the U.S. Trade Representative make the rejection of IRGC-linked financing an objective of the negotiations. In February 2016, members of the House Financial Services Committee Task Force to Investigate Terrorism Financing wrote a letter to the Trade Representative and the president urging them to include trade-based money laundering concerns in the negotiations and create Trade Transparency Units (TTUs) to coordinate between U.S. and EU law enforcement and customs agencies.<sup>238</sup> Along those lines, Congress could require the Trade Representative to prioritize transparency with EU member states by ensuring that EU states provide information on their current exposure to IRGC-linked companies separately or as part of the TTUs.

## **7. Require reporting on Iran's support for the Assad regime and IRGC activities in Syria**

Congress should require regular reporting from the administration on Iran's activities in Syria. This report should detail which IRGC units are actively participating in the Syrian war and what assistance they provide to the Assad regime. It should also explain what types of support (provision of arms, financial support, intelligence sharing, and military strategy) Iran provides, including support that comes in the form of energy supplies, loans, lines of credit, and cash.<sup>239</sup>

Congress can also authorize sanctions against entities that are aiding the IRGC's efforts in Syria. In the case of Mahan Air, in addition to authorizing secondary sanctions against companies that provide services (financial services and ground services, including fueling), Congress can require the administration to report on who provides financial services when its aircraft land at international destinations. Moreover, airlines pay for ground services locally, usually transacting through a local bank. Congress could

require airlines to receive certification from their banks that they do not provide financial services to Mahan Air.

## **8. Sanction Iranian leaders involved in corruption and kleptocracy**

Congress should consider legislation targeting corruption in all state sponsors of terrorism. The link between the funds generated from corruption and the sponsorship of terrorism by these regimes is well-documented. The pending Global Magnitsky Human Rights Accountability Act is one mechanism that could be used to target corruption in Iran. That legislation, which passed the Senate in December 2015 and still requires action by the House of Representatives, authorizes sanctions not only against human rights violators but also government officials and their associates responsible for corruption.<sup>240</sup>

Although IRGC members are unlikely to seek travel to the United States or transact directly with U.S. financial institutions, being publicly assigned to a Global Magnitsky sanctions list would raise their profiles among global compliance officers and make it more difficult for them to do business internationally.

## **9. Expand human rights sanctions**

To date, U.S. sanctions against Iranian human rights abusers have primarily targeted individuals, with the exception of the IRGC, its Basij force, the National Police Force, Ministry of Intelligence and Security, and a very few companies. Unlike Europe, the United States has not sanctioned prosecutors and court officials, many of whom are current or former members of the IRGC. Congress should encourage Treasury to examine all EU designations with the goal of reconciling discrepancies and adding missing individuals to U.S. sanctions list.

At the same time, Congress should expand human rights sanctions authorities to broaden the definition of those

responsible for human rights abuses to include state institutions, such as prisons or military bases, where abuses like torture and arbitrary detention occur. Many of these institutions or their branches are controlled by the Guard, such as the notorious Evin prison's Ward 2A for political prisoners.<sup>241</sup> Any foreign company engaging in transactions with these entities or individuals who work for them could also be liable for secondary sanctions.

### *For the Private Sector:*

Navigating economic sanctions on the Islamic Republic – both those that have been lifted and those that remain – is a legal and reputational minefield for international companies. Although America's primary trade embargo against Iran will continue banning U.S. persons from conducting business with most Iranian entities, doing business with Tehran is now much easier than before January 16, 2016. Foreign companies will need to ensure that their transactions do not transit through New York, because Iran is banned from conducting any transactions in the United States – including “momentary transaction to ... dollarize a foreign payment,” or U-turn transactions.<sup>242</sup>

The Obama administration has actively engaged with the international business community to clarify that certain business with Iran is permitted. Secretary of State John Kerry has even stated, “[A]s long as [banks] do their normal due diligence ... they're not going to be held to some undefined and inappropriate standard.”<sup>243</sup> This, however, conflicts with Washington's designation of Iran and its entire financial sector as a jurisdiction of primary money laundering concern.<sup>244</sup> This designation requires U.S. banks and U.S. branches of foreign banks to impose “special measures” against Iran and prohibits the opening of correspondent accounts that transact with Iran.<sup>245</sup> Additionally, under U.S. law, any foreign financial institution engaged in “significant financial transactions” with banks that remain under U.S. sanctions “will risk losing its access to the U.S. financial system,” Treasury Secretary Lew explained.<sup>246</sup> Foreign

banks have thus been justifiably wary of working with the Iranian financial sector.<sup>247</sup>

The potential for the re-imposition of sanctions in the event of Iranian nuclear non-compliance –combined with Iran's continued support for terrorism, assistance to Assad, and systemic human rights abuses – should raise additional concerns for foreign companies looking to engage in business with Iran.

Companies should avoid trade and investment in Iran. For those companies that assume the risks of doing business there, the following recommendations are suggested:

## **1. Enhance due diligence**

Risk and compliance officers should implement enhanced due diligence procedures to ensure their companies do not run afoul of remaining restrictions. The end of sanctions does not mean the end of legal, regulatory, or business risk – in fact, as sanctions are reduced, risk increases.

For the immediate future, the biggest challenge for foreign companies considering investing in Iran comes from counter-party risk. Foreign companies that re-enter the Iranian market are likely to unknowingly enter into business and financial transactions with Iranian entities owned or controlled by the IRGC. Companies need to protect themselves from unwittingly partnering with sanctioned entities.

## **2. Require certification from Iranian partners that they are not IRGC-linked**

Foreign companies should demand that their Iranian partners provide certification that the company is not owned or controlled by the IRGC and that their shareholders do not include IRGC individuals or firms. For foreign companies requiring a license from Treasury's Office of Foreign Assets Control, this certification could be included in the licensing process.

### **3. Demand an exclusion clause to withdraw from contracts with parties with IRGC connections**

Foreign companies should demand an exclusion clause in all Iranian contracts so they may end commercial activities if they discover their partners have IRGC connections. Iranian firms frequently obscure their ownership, and as a result even a foreign company that exercises robust due diligence may find its partner designated by the U.S. or EU. Companies should ensure they have a way to nullify their contracts if this occurs.

## **Conclusion**

As the 2015 nuclear deal is implemented, it is the IRGC that is poised to benefit most. The Guard controls roughly 40 percent of the Iranian economy, and sanctions that once greatly inhibited economic growth are either now nonexistent or are set to expire. At its core, the agreement was intended to engineer moderate change among Tehran's decision makers before the key limitation on Iranian nuclear activities expires in a decade. But the economic and political benefits set to accrue to the IRGC leave little reason to believe that will occur. Indeed, the JCPOA empowers those within the Iranian power structure who are most aggressive in their pursuit of policies antithetical to U.S. national interests: the IRGC.

A robust defense of U.S. national security does not by definition require Washington to "tear up" the nuclear agreement. But it does demand that policymakers address the unintended – but foreseeable – impact that sanctions relief has on the IRGC's ability to fund its nefarious activities. Aggressive use of economic sanctions against IRGC companies and individuals should be the start – certainly not the end – of an American strategy to push back against Tehran's ongoing dangerous conduct at home, throughout the region, and around the world.

## Notes

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