

The JCPOA's Economic Benefits for Iran's Revolutionary Guards

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The Islamic Revolutionary Guard Corps (IRGC) is the custodian of Iran's best-kept military secrets, including its illicit nuclear military program and ballistic missile program. The IRGC defends the regime from enemies at home and spreads its revolutionary ideology around the world. Over the years, the IRGC has zealously fulfilled these tasks, quashing pro-democracy protesters inside Iran and sponsoring terrorism and violent, Islamist movements abroad.

The IRGC is the central force behind a range of Iran's illicit and illegal activities—from nuclear proliferation to support of international terrorism to systemic human rights abuses. It is for this reason that the United States and the international community have targeted the IRGC with an array of sanctions tools. However, the Joint Comprehensive Plan of Action (JCPOA) between the P5+1 and Iran will undermine the efficacy of the sanctions against the IRGC.

The JCPOA will create a major “stimulus package” for Iran's economy, with the benefits of sanctions relief expanding and creating greater resiliency over time. While U.S. administration officials have repeatedly stated that the United States will not lift sanctions against the IRGC, as a significant force in the Iranian economy, the IRGC is set to be a primary direct and indirect beneficiary of deal. ***The U.S. and its international partners must act decisively to prevent this enrichment of the Revolutionary Guards.***

THE IRGC'S PERVASIVE CONTROL OF THE IRANIAN ECONOMY

The IRGC is Iran's “most powerful economic actor,” according to the U.S. Treasury.¹ Although exact figures are difficult to estimate because of the opaque nature of the IRGC's influence and the size of off-book enterprises, experts calculate that the IRGC controls around 20-30 percent of the Iranian economy.² Its annual income may be as high as one-sixth of Iran's GDP.³

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

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

3. Parisa Hafezi & Louis Charbonneau, “Iranian Nuclear Deal Set to Make Hardline Revolutionary Guards

The IRGC has “displace[d]...the legitimate Iranian private sector;” created a preferential system “in favor of a select group of insiders;” and “expanded its reach into critical sectors of Iran’s economic infrastructure,” according to the U.S. government.⁴

The IRGC investment portfolio is robust, including substantial shares in 14 companies publicly traded on Tehran’s Stock Exchange (TSE) with a combined value of \$17 billion. The IRGC, Armed Forces, and Basij have significant ownership stake in an additional 13 publicly traded companies. Taken together, these 27 companies are worth more than 20 percent of the TSE and are valued at \$16.5 billion.⁵ These estimates also do not account for the hundreds of non-publicly traded companies in which the IRGC holds controlling stakes. Former senior IRGC commanders, many of whom have never been subjected to sanctions, sit on their boards.

The IRGC derives much of its domestic clout from its economic power. This power is thus both an end in and of itself, and a tool to advance other agendas. IRGC revenues from economic activities yield political leverage, fortify domestic control, and provide the resources needed to advance the organization’s loyal members in positions of power. The IRGC’s political power, conversely, serves the economic enterprises it owns.

FUNDING THE IRGC’S ILLICIT ACTIVITIES

The profits that the IRGC derives from its business interests fund Iran’s ballistic missile program, military activities, support for terrorism, regional aggression, and other activities hostile to U.S. interests. The U.S. Treasury has repeatedly noted that the IRGC’s economic empire “ultimately benefits the IRGC and its dangerous activities.”⁶

Justifying sanctions against the IRGC’s business interests, Treasury noted: “Imposing financial sanctions on commercial enterprises of the IRGC has a direct impact on revenues that could be used by the IRGC to facilitate illicit conduct.”⁷ *By extension, the lifting of sanctions on these entities and the relevant sectors will also have a direct impact—increasing revenues that could be used to facilitate illicit conduct.*

Richer,” *Reuters*, July 6, 2015. (<http://www.reuters.com/article/2015/07/06/us-iran-nuclear-economy-insight-idUSKCN0PG1XV20150706>)

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

5. This number is their combined value on August 31, 2015 on the Tehran Stock Exchange (www.tse.ir). See more: Alexi Mostrous, Billy Kenber, & Hugh Tomlinson, “Iranian Militia to Grab British Cash,” *The Times* (U.K.), August 26, 2015. (<http://www.thetimes.co.uk/tto/news/world/middleeast/article4538125.ece>)

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

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

In its role as a protector of the integrity of the global financial system, the U.S. Treasury has a duty to expose connections between Iranian companies and the IRGC. Even if official government designations do not always follow, exposure can still discourage business ties and protect multilateral companies' unwitting complicity in the IRGC's illicit behavior. Revealing the links between the IRGC and seemingly legitimate Iranian enterprises can go a long way to reducing the IRGC's ability to fund its illegal activities.

Policymakers should continue to target the Guards' business interests with robust sanctions, blacklisting, and isolation.

HOW SANCTIONS RELIEF WILL BENEFIT THE IRGC

While the United States is set to maintain its sanctions on the IRGC, the European Union will delist most IRGC entities on Transition Day, roughly eight years from now. The benefits to the IRGC, however, will come sooner. ***Once the bulk of Iran sanctions are lifted, the remaining measures against the IRGC will be insufficient to isolate the Guards from the economic benefits that the JCPOA will generate.***

In addition to drawing indirect benefits from Iran's economic growth, the IRGC will directly benefit from the lifting of sanctions bans on commercial and financial transactions in key sectors of the Iranian economy, including upstream energy investment and energy-related technology transfers, the auto industry, petrochemicals, and shipping, as well as metals trade. ***The IRGC is a significant player in precisely the sectors from which sanctions are set to be lifted.*** IRGC companies will likely receive the lion's share of public contracts and are set to capitalize on new business opportunities.

As export and trade restrictions are lifted, ***the IRGC will gain access to previously prohibited Western dual-use technology that the IRGC needs to advance its missile program, military activities, and internal repression.*** The EU will relax scrutiny over exports to Iran, making it easier for companies controlled by, or acting on behalf of, the IRGC to procure dual-use technology. As these restrictions on trade with Iran loosen, 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 lifting of the UN arms embargo after five years will also facilitate the acquisition of advanced weaponry that will improve Tehran's conventional military capabilities, as well as enable additional support to the Bashar al-Assad regime in Syria, Hamas in the Gaza Strip, Hezbollah in Lebanon, and Houthi rebels in Yemen.

Additionally, the United States and European Union will delist hundreds of companies from their sanctions' lists. The JCPOA requires this delisting whether or not there has been a change in the illicit and illegal behavior that prompted the designation in the first place. ***The JCPOA's sanctions relief procedure creates no guarantees these entities will, once delisted,***

cease the patterns of illicit conduct that caused them to be sanctioned in the first place. Instead, there is ample reason to believe they will redouble that activity.

More than 200 Iranian entities and individuals will remain under U.S. sanctions, including companies and individuals affiliated with the IRGC. The Obama Administration insists, therefore, that the IRGC will not benefit from the economic recovery. Unfortunately, this is inaccurate. *The U.S. and EU will delist numerous individual companies that have served as accessories to the IRGC's nuclear and ballistic missile programs, as well as its support for the Assad regime and its crimes against humanity.* This includes Iran's entire aviation industry, which has shuttled weapons to Assad and state-owned shipping firms which have been involved in the proliferation of conventional weapons to extremist groups throughout the region. The IRGC also maintains a significant ownership interest in numerous other companies that will be delisted.

In theory, Iranian entities that are not sanctioned 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 and will assume that what is not explicitly forbidden is allowed. *Companies owned or controlled by the IRGC that have until now eluded designation by the U.S., EU, or UN are now likely to benefit from the post-JCPOA economic growth.* The international business community will accept them as legitimate partners in an environment of market enthusiasm for investment opportunities in Iran. These companies, however, are part of the IRGC's criminal enterprise, launder funds, and support the IRGC's domestic and regional goals. The same is true for IRGC senior executives who have eluded sanctions thus far. Unless U.S. and European authorities quickly list all business entities and all senior executives affiliated with the IRGC, the Revolutionary Guards will gain greatly from the economic windfall generated by the JCPOA.

BANKING AND FINANCIAL PROVISIONS

On Implementation Day, the U.S. will move to terminate financial sanctions against most Iranian financial institutions. The European Union will simultaneously delist most Iranian banks that it sanctioned over the past decade and remove restrictions on messaging services for financial transactions, thereby allowing most Iranian banks to return to the SWIFT network.

In turn, the rest of the world will be able to interact with these financial institutions. By allowing these banks to reconnect to the global financial system and lifting restrictions on their operations, *the JCPOA will allow all unsanctioned IRGC companies to regain access to the global financial system by using delisted banks to transact their business. This will be sufficient to enable the Guards to resume banking operations in Europe.* Iranian banks will be able to raise capital through Iranian government public-guaranteed bonds, which will finance public projects contracted to IRGC companies.⁸ Finally, as Iran's economy improves, the portfolios of IRGC investment firms will grow as a result.

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8. Iran has already announced a \$1.7 billion bond issue for the current calendar year to help finance energy sector projects: "Iran to sell bonds for key energy plans," *PressTV* (Iran), August 25, 2015. (<http://www.presstv.com/Detail/2015/08/25/426235/Iran-to-sell-bonds-for-key-energy-plans>)

Under the existing sanctions regime, Iranian companies are blocked from accessing the global financial system, face steep costs for transport and insurance, and have to accept systematic screening of their merchandise. Under the JCPOA, these barriers will no longer exist.

DESIGNATING THE IRGC FOR TERRORISM

The U.S. State Department maintains a list of Foreign Terrorist Organizations (FTOs) that pose a threat to U.S. nationals and U.S. national security. The U.S. Treasury Department also issues sanctions and designations under Executive Order 13224 against entities and individuals that engage in the planning or funding of terrorism. There is little doubt that the IRGC has engaged in terrorist activities against U.S. nationals and threatens the national security of the United States. ***The United States government has confirmed that the IRGC “is involved in support of terrorism throughout the region.”***⁹

Most recently, in testimony before the Senate Banking Committee, Acting Undersecretary of the Treasury for Terrorism and Financial Intelligence Adam Szubin noted that IRGC activities meet the definition of support for terrorism:

“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.”¹⁰

To date, the State Department has not designated the IRGC or its external arm, the Quds Force, as a Foreign Terrorist Organization. The U.S. Treasury has designated the IRGC-Quds Force for its role in terrorism¹¹ and for supporting the Assad regime’s brutal repression in Syria.¹² Yet this conclusion should be clear: the Quds Force is part of the IRGC. ***If the Quds Force is responsible for terrorism, then the IRGC as a whole should be designated as a terrorist organization under Executive Order 13224 or included on the FTO list, or both.***

9. Hillary Rodham Clinton & Timothy Geithner, “Joint Statement on Iran Sanctions,” *U.S. Department of State*, June 23, 2011. (<http://www.state.gov/r/pa/prs/ps/2011/06/166814.htm>)

10. Adam Szubin, “Nomination Hearing,” *Senate Banking, Housing, and Urban Affairs Committee*, September 17, 2015. (<http://www.cq.com/doc/congressionaltranscripts-4758134?7&search=nisvDlD6>; <http://www.c-span.org/video/?328135-1/treasury-undersecretary-nominee-adam-szubin-confirmation-hearing>)

11. Treasury Department, “Fact Sheet: Designation of Iranian Entities and Individuals for Proliferation Activities and Support for Terrorism,” October 25, 2007. (<http://www.treasury.gov/press-center/press-releases/Pages/hp644.aspx>)

12. Executive Order 13572, “Blocking Property of Certain Persons With Respect to Human Rights Abuses in Syria,” April 29, 2011. (<http://www.gpo.gov/fdsys/pkg/FR-2011-05-03/pdf/2011-10910.pdf>)

Sanctioning the IRGC for supporting terrorism will provide a warning to foreign companies contemplating business in Iran and deter them from engaging with the most dangerous elements of the regime. The move would also help mitigate some of the benefits that the IRGC is set to receive as a result of the JCPOA. Pushing for the designation of the IRGC as a terrorist group is a way for members of Congress—both those who supported and those who opposed the JCPOA—to ensure that the sanctions relief provided under the JCPOA does not unleash even greater Iranian regional aggression.

The Iran Task Force’s goal is to lend expertise to the legislative branch on Iran’s internal politics, nuclear science, and the multi-faceted U.S. and global sanctions regime against Iran. This group of former government officials and nuclear, legal, and sanctions experts provides advice and recommendations to policymakers in order to block Iran’s uranium and plutonium pathways to a nuclear weapon.

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