

Explaining the economic control of Iran by the IRGC

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EXPLAINING THE ECONOMIC CONTROL OF IRAN BY THE IRGC

by

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A thesis submitted in partial fulfillment of the requirements
for the Honors in the Major Program in Political Science
in the College of Sciences
and in The Burnett Honors College
at the University of Central Florida
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ABSTRACT

In 1979, Iran underwent the Islamic Revolution, which radically changed society. The Iranian Revolution Guard (IRGC) was born from the revolution and has witnessed its role in society changed over time. Many have said the IRGC has reached the apex of its power and is one of if not the dominating force in Iranian society. The most recent extension of the IRGC's control is in the economic realm. The purpose of this research is to explain the reasoning and mechanism behind this recent gain in power. The literature review demonstrates flaws by previous studies of Iran. Most used a singular focus on explaining the IRGC's influence on Iran's economy by only focusing on political or economic aspects. This study will show how explaining the political economy of Iran best explains the role of the IRGC in Iran.

The research uses event-data analysis to synthesize previous research performed on Iran. The researcher used various sources to explain the recent rise in the IRGC's power. Focus was placed on explaining three aspects of Iran's political economy, elected institutions, accountable businesses, and unaccountable businesses. Elected institutions included the majlis (the Iranian parliament) and the presidency. Accountable businesses included businesses which reported information to the Iranian central government while unaccountable businesses reported no information to the Iranian central government. Although presence in all three increased, elected institutions and accountable businesses witnessed a greater amount of presence than unaccountable institutions.

DEDICATIONS

For my Susan and Steven Robin, my parents, who always believe in me.

For my grandparents, Rita and Philip Podel, who provide me inspiration every single day.

For my teachers and professors who have given such immense knowledge throughout my schooling.

And for my friends who constantly support me during this tumultuous journey.

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DEFINITIONS

AFIO- Agriculture and Food Industries Organization

CPF- Comprehensive Principlist Front

IRGC- Iranian Revolutionary Guard Corp

IRI- Islamic Republic of Iran

GDP- Gross Domestic Product

IPO- Iranian Privatization Organization

SNSC- Supreme National Security Council

UPF- United Principlist Front

U.S. - United States

Tcf- Trillion cubic feet

TCI- Telecommunication Company of Iran

TABLE

Table 1- Overall Themes Applied to Each Independent Variable

IRGC Level of Economic Control	Leadership	Government Policy	U.S. Foreign Policy	Domestic Conflict
Elected Institutions	Positive	Positive	Positive	Positive
Accountable Businesses	Positive	Positive	Positive	Positive
Unaccountable Businesses	Slightly Positive	Slightly Positive	Positive	Slightly Positive

Chapter 1: Introduction

Hypothesis

This research pertains to the growth of power of the Iranian Revolutionary Guard Corp (IRGC) in the economic realm. The research examines factors which led to the increase of the IRGC's power in the economic sphere. The researcher's hypothesis is the increase in electoral positions filled by the IRGC's personnel, increase of ownership of strategic economic sectors (accountable businesses), and increase of ownership of influential bonyads and black markets (unaccountable businesses) led to the increase in the IRGC's economic power. The researcher hypothesizes the relationship between each independent variable and the dependent variable to be positive. An increase in any of the independent should lead to an increase in the dependent variable. The actions of the IRGC outside of Iran are not covered in this research. Military, security, and nuclear policy are deliberately excluded, due to its oversaturation in most research pertaining to the IRGC. The main focus of this research is to study the growth of the IRGC's economic power in terms of political economy.

Two terms need to be explained, accountable businesses and unaccountable businesses. Accountable businesses refer to businesses which need to extensively report data and information to the central government. This definition includes normal companies like petrochemical, communication, and manufacturing companies. Unaccountable businesses refer to businesses that do not report their operations to the Iranian central government like black markets and bonyads. It is well known people operating in black markets in any country will not report any statistics. Bonyads on the other hand are ostensibly charitable foundations which only report their information to the Supreme Leader, not the central government.

Background History

Iran will be an important country in the realm of international affairs in the 21st century. Iran has witnessed a tumultuous history spanning thousands of years. Cyrus ruled a vast empire that battled the Greeks. Iran was also the central battleground of the Great Game fought between England and Russia. The geographical location of Iran has ensured its importance in international relations for the years to come. Iran is blessed with oil reserves and access to both the Caspian Sea and the Persian Gulf. Iran has also claimed importance in international affairs for its continued defiance of U.S. policy ever since the 1979 Islamic Revolution. The Islamic Republic of Iran, the country's name since 1979, is viewed by both the U.S. government and public to be an enemy of the United States.¹ Iran's defiance has escalated under the presidency of Mahmoud Ahmadinejad, thereby increasing its importance to U.S. policymakers.

Iran presents one of the most pressing challenges encountered by U.S. policymakers. Iran possesses an alleged nuclear weapons program, supports terrorist groups like Hamas and Hezbollah, and has constantly threatened Israel, one of the United States of America's most steadfast allies.² Discerning the motivations behind actions and policies perpetrated by Iran has proved a difficult task. This task is made increasingly more difficult because of diplomatic relations having been severed between Iran and the United States of America ever since 1979. One would be mistaken to view Iran as a political monolith; there are many competing power centers within the country. They clash and fight for power within Iran's political system. At this

¹ William Polk, *Understanding Iran: Everything You Need to Know, From Persia to the Islamic Republic, From Cyrus to Ahmadinejad*, (New York: Palgrave Macmillan, 2009), 10-13, 80, 95

² Jerrold D. Green, Frederic Wehrey, Charles Wolf, Jr., *Understanding Iran*, (California: RAND Corporation, 2009), 37, 88

moment in time, the IRGC appears to be the most powerful faction in IRI. This research intends to dissect a faction in Iranian political system, the IRGC, and explain the recent rise in their economic power.³

There are two historical dynamics that need to be explained when discussing the IRGC. The IRGC's original mission to defend the revolution became diluted over time. The institutional development of the IRGC allowed it to assume other goals under the pretense of protecting the revolution. In the early days of the Islamic Republic, the IRGC's main duty revolved around preventing a 1953 style coup. Over time the duty to protect the revolution became broadened to include keeping Western influence out of the economy of Iran.⁴

Also, there are other examples of large military organizations taking part in a country's economy. The National Logistics Cell and Frontier Works Organization, two large Pakistani companies dealing with transportation and infrastructure, are controlled by the Pakistani military. The Pakistani military also runs various charitable organizations which act similar to business holding companies. The "foundations" include Fauji Foundation, the Army Welfare Trust, Shaheen Foundation, and the Bahria Foundation.⁵

Literature review

The researcher performed a literature review of the IRGC and their political and economic action in the IRI. The information spanned from the beginning of the IRI, 1979, to the

³Frederic Wehrey, *The Rise of the Pasdaran: Assessing the Domestic Roles of Iran's Islamic Revolutionary Guards Corps*, (California: RAND Corporation, 2009), 2

⁴ Greg Bruno, "Iran's Revolutionary Guards," *Council on Foreign Relations*, July 22, 2009, <http://www.cfr.org/iran/irans-revolutionary-guards/p14324>.

⁵ Frederic Wehrey, *The Rise of the Pasdaran: Assessing the Domestic Roles of Iran's Islamic Revolutionary Guards Corps*, (California: RAND Corporation, 2009), 96

present. The researcher found many articles written in the early years of the IRI. In 1981, Carswell wrote an article depicting the effects of sanction on the Iranian economy. The article described specifically which parts of the Iranian economy were affected and the monetary value of the disruption in the Iranian economy.⁶ Shahrough described the state of the IRI in the midst of its war with Iraq. The article details political battles between factions, including the IRGC, and negative aspects of the Iranian economy. The unstable nature of both the economic and political systems is dually noted.⁷

Once the war ended, the period of reconstruction began. In his article, Amirahmadi chronicled the beginning of the reconstruction process. He noted the need complexity of the reconstruction process made worse by the huge presence of factions in the IRI.⁸ Clawson and Kupchan illuminate the situation on the ground in the IRI. These foreign policy experts describe the nature and extent of the economic problems encountered by the IRI.⁹ On a different note, Valibeigi wrote an interesting article detailing banking practices within IRI. He describes the process of nationalization that allowed the regime to institute Islamic interest-free banking.¹⁰

In 1993, Bakhitari wrote an article extensively detailing the Majlis, parliament of the IRI. He chronicles the process of dividing up seats and the different factions that interact in Iranian

⁶ Carswell, Robert, "Economic Sanctions and the Iran Experience," *Foreign Affairs* 60, no. 2 (1981): 247-265

⁷ Shahrough Akhavi, "Institutionalizing the New Order in Iran," *Current History*, no. 517 (1987): 53-56

⁸ Hooshang Amirahmadi, "Economic reconstruction of Iran: Costing the war damage." *Third World Quarterly* 12, no. 1 (1990): 26-47

⁹ Patrick Clawson, and Charles A. Kupchan, "Iran after Khomeini," *Orbis* 34, no. 2 (1990): 241

¹⁰ Mahrdad Valibeigi, "Banking and Credit Rationing Under the Islamic Republic of Iran," *Iranian Studies* 25, no. 3/4 (1992): 51-65

politics.¹¹ Milani also wrote an article detailing practices of the formal institutions of the IRI. His article focused on the interaction between Velayat-e Faqih (the Supreme Leader) and the presidency. The relationship between both institutions is strong, while many points of friction exist.¹² Katzman further the study of institutions by examining the IRGC as an institution. He used Samuel Huntington's definition and framework for defining institutions. Katzman concluded that the IRGC has indeed evolved institutionally.¹³ Amuzegar also described the economic situation of the IRI. In two separate articles, he researched the effects of sanctions of the economy of the IRI. In the first article, he notes the different mechanisms that have slowed down the economy of the IRI.¹⁴

In 1997, the reformist Mahmoud Khatami won the presidency of Iran in an election. Faruqi wrote an article in 1998 predicting the hardships felt by the Khatami administration. He noted the multiple center of power inside of the IRI and the resiliency of the conservative establishment. The tensions found during the beginning of Khatami's presidency still exist today.¹⁵ Buchta reviews the multiple center of powers inside of Iran and claims reformers winning the presidency and parliament still does not give time enough power to enact changes. Once again the conservative establishment, which includes the IRGC, was strong enough to beat

¹¹ Bahman Bakhtiari, "Parliamentary Elections in Iran." *Iranian Studies* 26, no. 3/4 (1993): 372-374

¹² Mohsen Milani, "Power Shifts in Revolutionary Iran." *Iranian Studies* 26, no. 3/4 (1993): 359-361.

¹³ Kenneth Katzman, "The Pasdaran: Institutionalization of Revolutionary Armed Force." *Iranian Studies* 26 no. 3/4 (1993): 391.

¹⁴ Jahangir Amuzegar, "Adjusting to Sanctions," *Foreign Affairs* 76, no. 3 (1997): 31-41.

¹⁵ Munis D, Faruqi "Iran: Renegotiating a 'Revolutionary' Identity." *Economic and Political Weekly* 33, no. 31 (1998): 2071-2077.

back reforms championed by Khatami.¹⁶ Amuzegar examined the economic policies of the Khatami presidency. He studied the third five year plan which began to be enacted in March 2000. Amuzegar claimed the third five year plan is too similar to the previous, failed five year plans. He stresses the need to place radical changes in the plans, along with placing changes within the Iranian constitution.¹⁷

Alikhani examined nearly the full history of U.S. sanction enacted against Iran. Most importantly, he describes the Iran Foreign Oil Sanction Act of 1995 and the Iran and Libya sanction Act. These two acts greatly impeded the flow of international funds into the IRI. It also could have driven the Iranians to become more self-sufficient.¹⁸ Esfahani, Salehi, and Taheripour examined the off the books budget of the IRI. The hidden public expenditures of the IRI have negatively affected their economy, and makes economic prediction and analysis difficult. The large hidden public budget also makes corruption more likely.¹⁹ Raisdana and Gharavi researched the black market inside of the IRI. They focused of the opium and heroin market functioning inside of the IRI.²⁰ In his work, Molavi describes the deal offered to the people by the IRI's mullahs. They offered limited economic openness in exchange for a halt of demand of

¹⁶ Wilfried Buchta, *Who Rules Iran? The Structure of Power in the Islamic Republic*, (Brookings Inst Press 2000)

¹⁷ Jahangir Amuzegar, "Khatami and the Iranian Economy at Mid-Term," *Middle East Journal* 53, no. 4 (1999): 534-552

¹⁸ Hossein Alikhani, *Sanctioning Iran: Anatomy of a failed policy*, (London: I.B. Tauris, 2000).

¹⁹ Hadi Salehi Esfahani, and Farzad Taheripour, "Hidden Public Expenditures and the Economy of Iran," *International Journal of Middle Eastern Studies* 34, no. 4 (2002): 691-718.

²⁰ Raisdana, Fariborz, Nakhjavani Ahmad Gharavi, "The Drug Market in Iran: Annals of the American Academy of Political and Social Science," *Cross-National Drug Policy* 582, (2002): 149-166.

political reform. This formula has not always worked and Molavi notes the difficulty of attempting this formula in a country with the corruption levels of the IRI.²¹

Tarock chronicled the freedom of the press enacted by the Khatami presidency. Tarock claims that Iran has not seen a press as free as Khatami's press ever since the 1940's. He also credits the free press for helping defeat conservative candidates in the 2000 parliamentary elections. Khamenei, the supreme leader, green-lighted the judiciary's attack on the free press.²² Seifzadeh gives an overview of factional politics in the IRI. She identified the three main factions in Iranian politics, reformist, pragmatist, and fundamentalist.²³ In 2004, Ehsani and Saghafi declare Khatami's reform movement dead. They claim the fundamentalist opponents of Khatami have essentially recaptured the state, but they mention that the IRI is not finished answering the question of democracy.²⁴ Alamdari studied the power structure of the IRI and the evolution of that power structure. He defined the IRI as a rentier state containing many vertical autonomous power sources. Clientelism is also witnessed inside the IRI because the regime forms patron client relationship with some of the different vertical autonomous power centers.²⁵

²¹ R. Molavi & K.L Gandolfo, "Iranian ambitions: Who rules Iran?" *Middle East Quarterly*, 17, no. 1 (2010): 61-68.

²² Adam Tarock, "The Muzzling of the Liberal Press in Iran," *Third World Quarterly*, Vol. 22, No. 4 (2001): 585-602

²³ Hossein S. Seifzadeh, "The Landscape of Factional Politics and Its Future in Iran." *Middle East Journal* 57, no. 1 (2003): 57-75

²⁴ Morad Saghafi, "The New Landscape of Iranian Politics," *Middle East Report* 34, no. 233 (2004), <http://www.merip.org/mer/mer233/new-landscape-iranian-politics>

²⁵ Kazem Alamdari, "The Power Structure of the Islamic Republic of Iran: Transition from Populism to Clientelism, and Militarization of the Government," *Third World Quarterly* 26, No. 8 (2005):1285-1301

The IRGC grabbed an impressive victory with the election of Mahmoud Ahmadinejad as president of the IRI in the year 2005. Khosrokhavar chronicles the election victory of the IRGC. He notes the conservatives have a new generation of leaders who manipulated their rhetoric in order to appeal to more voters.²⁶ In his work, Kupchan gives some details about the character of Ahmadinejad's character. Ahmadinejad used to be a leader of the Abadgaran movement, this movement believed the elders have lost their revolutionary fervor; they also look back to the 1980's with reverence.²⁷ Blanche wrote two articles chronicling the rise in power of the IRGC. First, Blanche describes the growing power of IRGC military officers. Ahmadinejad appointed many IRGC officers to government positions. Blanche also discusses the growing economic power of the IRGC and its participation in halting Khatami's reforms.²⁸ In the second article, Blanche details the appointment of fellow IRGC officer Ali Larijani to the head of the Supreme National Security Council and chief nuclear negotiator. Blanche also mentions an odd fact about the election of Ahmadinejad; he is the first non-cleric to become president since 1989.²⁹ Gheissari and Nasr intended to explain how conservatives won back power in the 2005 elections. They study the use of formal institutions in halting the reform agenda of Khatami. Council of

²⁶ Farhad Khosrokhavar, "The New Conservatives Take a Turn." *Middle East Report* 34, no. 233 (2004): 24-27.

²⁷ Clifford Kupchan, "Iranian beliefs and realities." *The National Interest* 81, (2005): 106

²⁸ Ed Blanche, "Pasdaran power." *Middle East* 360, (2005): 22-24.

²⁹ Ed Blanche, "IRGC's power swells in Iran," *Jane's Defence Weekly* 42, no.37 (2005): 69.

Guardians, the judiciary, and the IRGC are credited as institutions that successfully blocked many of Khatami's reforms.³⁰

The IRGC has now become an economic powerhouse in the IRI. The Economist chronicles a disturbing moment in the IRI's economic history. The IRGC seized the Imam Khomeini International Airport after only having one plane land in the airport. Iranian hardliners were upset at Transportation Minister Ahmad Khorram for allowing Tepe-Akfen-Vie, a Turkish dominated conglomerate, to build the airport's first phase.³¹ Alfoneh describes the IRGC's pervasive influence in the Iranian economy. He notes this makes sanction much more difficult to enact, because the IRGC diversifies its holdings.³² Alon also adds the description of the IRGC's economic power by claiming the IRGC has indigenously produced an Anti-Tank Guided Missile that could penetrate U.S. and Israeli tanks.³³ Jane International Defense Review also examined the new fast attack aircraft and an array of missiles all domestically produced by the IRGC. The IRGC Navy has also benefitted from the IRGC's rise in power. The IRGC Navy has constantly received updated weapons while the Artesh navy has been allowed to deteriorate.³⁴

³⁰ Ali Gheissari and Vali Nasr, "The Conservative Consolidation in Iran," *Survival* 47, no.2 (2005): 175-190.

³¹ Economist staff, "Could do better," *Economist*, 375, no.8425 (2005): 43.

³² Ali Alfoneh, "How Intertwined Are the Revolutionary Guards in Iran's Economy?" *American Enterprise Institute*, October 2007, <http://www.aei.org/outlook/26991>

³³ Ben-David Alon, "ATGMs can defeat Merkavas, Abrams MBTs, says IRGC chief," *Jane's Defence Weekly* 44, no.34 (2007): 5.

³⁴ Jane International Defense Review staff, "Iran unveils new FAC and displays missiles." *Jane's International Defense Review*, 43 (2010): 10.

This has been one of the IRGC's strongest areas, producing weapons. Askari, Mohseni, and Shahrzad examined the economic impact of rising military budgets around the Persian Gulf. The increase of spending assist the IRGC in creating new domestically produced weapons.³⁵ Sobhani and Azizmohammadlou examined the factor productivity of large manufacturing in the IRI. The study found manufacturing of chemicals, basic metals, and machinery performed strongly the IRI. They found much more weakness in the subsectors of wood, textile, and leather products. The significance of this study is the IRI is strongest in the manufacturing sectors that also can produce weaponry.³⁶

Naji commissioned an extensive study examining the life of Mahmoud Ahmadinejad. She covers Ahmadinejad's relationship with many powerful people including the Supreme Leader, Ayatollah Jannati, and Mesbah-Yazdi, Ahmadinejad's eventual mentor.³⁷ Rakel, in his work, choose to examine the entire political elite of the IRI. She traces the rivalries between factions and how they affect polices enacted by the IRI. She also focuses on economic policies created by factional rivalries.³⁸ Also, Wright edited a book that takes 50 top level briefings of experienced Iran experts. The articles' topics range from 1979 revolution to the disputed 2009 election.³⁹

³⁵ Hossein Askari, Amin Mohseni, and Daneshvar Shahrzad, *The Militarization of the Persian Gulf: An Economic Analysis*, (Massachusetts: Edward Elgar Publishing Inc., 2009).

³⁶ Hassan Sobhani, and Hamid Azizmohammadlou, "Comparative Analysis of the Factor Productivity in Iran's Large Manufacturing," *Tahghihat-e-Eghtesadi*, 43, No.82 (2008): 87-119

³⁷ Kasra Naji, *Ahmadinejad: The Secret History of Iran's Radical Leader*, (California: University of California Press, 2008), 258-266

³⁸ Eva Patricia Rakel, "Power, Islam, and Political Elite in Iran: A study on the Iranian Political Elite from Khomeini to Ahmadinejad," (Massachusetts: Brill Academic Publishers, 2008), 69

³⁹ Robin Wright, "The Challenge of Iran," *Iran Primer*, <http://iranprimer.usip.org/resource/challenge-iran>

Most scholars agree that the IRGC is expanding its economic power in terms of size and scope. Ghadar studies this recent phenomenon by examining the increase in the IRGC's economic power. The author claims a massive shift in economic power has occurred with the IRGC gaining and traditional business interest losing. The author also credits an increase in smuggling and illegal activities to the Ahmadinejad presidency.⁴⁰ Dehghanpisheh wrote an article detailing the corruption problem in the economy of the IRI. The author credits the rise in power of the IRGC with an increase in corrupt practices.⁴¹ Dehghanpisheh wrote another article focusing on smuggling. He details the IRGC's role in Iran's vast smuggling network. He also credits the IRGC's ability to break sanctions with an increase in black market activity.⁴²

Wehrey also examined the evolution of the IRGC. Wehrey's study focused on the IRGC's interaction in the IRI's political and economic system.⁴³ Abolhassan Bani-Sadr, Iran's first president after the 1979 revolution sounded the alarm about the IRGC's power grab. He claims the regime's base of support, the clergy, has been replaced with the IRGC's "military financial mafia."⁴⁴ David Thaler attempts illuminate readers about the IRI's political system. He traces the formal and informal networks that constitute the regime along with important people

⁴⁰ Fariborz, Ghadar, "Behind Iran's Crackdown, an Economic Coup," *Current History* 108, no. 722 (2009): 424-428.

⁴¹ Babak Dehghanpisheh, "Iran's Dirty Hands," *Newsweek* 154, no.22, (2009): 10.

⁴² Babak Dehghanpisheh, "Smugglers for the State," *Newsweek* 156, no. 3, (2010): 42-43.

⁴³ Frederic M Wehrey, *The Rise of the Pasdaran: Assessing the Domestic Roles of Iran's Islamic Revolutionary Guards Corps*, (California: RAND Corporation, 2009), 5-6

⁴⁴ Abolhassan Bani-Sadr, "Iran at the Crossroads," *NPQ: New Perspectives Quarterly* 27, no. 1 (2010): 45-49.

and personalities who are constantly seen in the IRI's political system.⁴⁵ Safshekan and Sabet claim the 2009 election brought upon a new factional era led by the IRGC. They illustrate the IRGC's overt and covert power grab which has been continuously progressing since 2003.⁴⁶

Final Thoughts

As stated before, much research has been performed studying the military, security, and nuclear policy of the IRGC. This is completely understandable due to the militaristic nature of the IRGC. The threat of nuclear war usually overshadows research of Iran not pertaining to military, security, or nuclear policy. Very little research has attempted to examine the intersection of political and economic power of the IRGC. The rise of the IRGC's political power cannot be phenomena studied independently of economic power. The IRGC has gained much influence in the political economy of Iran. The researcher also limits the scope of the project by focusing on the IRGC's role in Iran's political economy. The IRGC has many foreign interests and participates greatly in foreign affairs. This research only examines the power of the IRGC in the domestic political economy. The researcher also attempts to link both political and economic powers. The IRGC actions in the political sphere along with the business sphere led to an increase in Iran's economic power.

The research being conducted employs three sections. The first section examines the rise of the IRGC's power in the political sphere. The increase of the IRGC's political power is clearly seen by examining IRGC personnel working key functions of the Iran's government like elected

⁴⁵ David Thaler, et all, *Mullahs, Guards, and Bonyads: An Exploration of Iranina Leadership Dynamics*, (California: RAND Corporation, 2010), 2-3

⁴⁶ Roozbeh Safshekan and Sabet Farzan, "The Ayatollah's Praetorians: the Islamic revolutionary guard corps and the 2009 election crisis," *The Middle East Journal* 64, no.4 (2010): 543.

institutions. Many new leaders are former officers of the IRGC or contain some other connection to the IRGC. The second section chronicles the increase of the IRGC's economic power by gaining ownership of accountable businesses. These sectors include manufacturing fields like oil and gas, construction, and heavy manufacturing, electronics, and communication. Many of the economic sectors contain companies which produce dual-use technologies. The third section examines the IRGC's role in the influential charitable foundations of Iran called bonyads and also black markets. Both of these areas make up the unaccountable businesses. There is very little oversight and transparency in the daily operation of Iran's bonyads. There is even less oversight of the black markets of Iran. Scholars differ over the specific amount of influence bonyads wield in the Iranian economy, but scholars agree they employ a great deal of influence in the Iranian economy. The IRGC contains the necessary ingredients to possess an influential role in the black market.

Chapter 2: Elected Institutions

Era of Reformist

In 1997, Mohammad Khatami won the election to become president of the Islamic Republic of Iran. This began the brief period of strength for reformist in Iran which lasted from Khatami's win in 1997 until Mahmoud Ahmadinejad victory in the presidential election of 2005. The student reform movement that started around 1997 helped bring Khatami to power. Reformist movements in college campuses became one of the most important supporters of Khatami's run for the office of president. Naturally, Khatami's call for openness and reform clashed with the interest and the agenda of the IRGC and other conservative elements of the ruling establishment. The issue of press freedom proved a crucial battleground between reformers and their conservative opponents.

The IRGC represented an important faction of the conservative opponents. The press plays an essential role in the election process. Candidates who wish to spread their message to the public need the press to allow its message to be spread. Restrictive and unjust describe the press that existed prior to the Khatami presidency. Khatami created an environment of press freedom not witnessed by Iranians since the 1940's.⁴⁷ Creating a system of press freedom not witnessed for at least sixty years changed the political dynamics of Iran. Conservative candidates in Iran prosper under a restrictive, unfair press system, while reformists crave a press marked by openness and freedom. The Khatami presidency instituting a freer press gave a huge victory for

⁴⁷ Adam Tarock, "The Muzzling of the Liberal Press in Iran," *Third World Quarterly*, Vol. 22, No. 4 (2001): 585-602

the reformist and helped set the stage for another reformist victory. Some scholars credit the incredible free press with reformist victory in the 2000 parliamentary elections.

Ayatollah Ali Khamenei, the supreme leader, viewed the new free press as a threat to his power and the power of other conservative elements of the regime. Khamenei denounced the “liberal” press as citadels for the enemies of the Islamic Republic of Iran like the U.S. He claimed the reformist press attempted to sully the Islamic Revolution of Iran.⁴⁸ This charge opened the floodgates to various attacks from the clerical regime. Attacks included the banning of media outlets like Neshat, Fath, Asr-e Azadegan, Arya, and Aftab-e Emrouz by the conservative judiciary. The regime also jailed editors like Mashallah Shamsolvaezin of Neshat, and journalist like Latif Safari of the same publication.⁴⁹ The IRGC did not lead this attack but this moment is consequential for other reasons. Ayatollah Ali Khamenei as Supreme Leader has attempted the near impossible task of managing the different factions fighting each other for power within the IRI. The increase of power of reformist elements of Iran’s society compelled Khamenei to create a power relationship that can defeat reformist elements of Iran. Khamenei’s new coalition included the most hardline elements of both the ruling clerics and the IRGC.

Ayatollah Ahmad Jannati and Ayatollah Mohammad-Taqi Mesbah-Yazdi represent two hardline figures of the clerical establishment who are avid supporters of an incredibly powerful IRGC. Ayatollah Ahmad Jannati wields considerable power within Iran. Jannati holds the

⁴⁸ Jim Muir, “Khamieni Attacks Press, *BBC*, April 21, 2000, http://news.bbc.co.uk/2/hi/middle_east/720581.stm

⁴⁹ BBC staff, “Iran’s Liberal Staff Muzzled,” *BBC*, April 24, 2000, http://news.bbc.co.uk/2/hi/middle_east/724309.stm

powerful position of Secretary of the Guardian Council.⁵⁰ After electoral gains of the reformers in 2000, the Guardian Council led by Jannati used every tool it contained to block reformist candidates from running for office. An example of the extreme screening process can be seen in the run-up to the 2009 presidential elections. 475 candidates attempted to run for the presidency, but only four candidates survived screening. Two of those candidates were former IRGC commanders.⁵¹

Ayatollah Mohammad-Taqi Mesbah-Yazdi, founder of the Haghani School, remains one of the most powerful people in Iran. Ties between Yazdi and the IRGC become evident once the relationship between Ahmadinejad and Yazdi are examined. The latter is the spiritual advisor of the former.⁵² As Ahmadinejad's spiritual advisor, a friend of some of the IRGC and the Basij rank and file, and a close friend of the Supreme Leader, he wields a great deal of power and influence. Yazdi espouses an extremely hardline conservative viewpoint that sometimes conflict with the Supreme Leader, Khamieni. The fatwa launched against Salman Rushdie was wholeheartedly supported by Yazdi and he gave religious approval to those who were involved with the assassination and violence of the 1990's.⁵³ Yazdi runs the Imam Khomeini Education and Research Institute and participated in the High Cultural Revolution Council.⁵⁴

⁵⁰ Farideh Farhi, "Rafsanjani Dislodged From a Top Job," *Iran Primer*, March 8, 2011, <http://iranprimer.usip.org/blog/2011/mar/08/rafsanjani-dislodged-top-job>

⁵¹ Con Coughlin, "Iran's Potemkin Election," *Wall Street Journal*, June 11, 2009, <http://online.wsj.com/article/SB124458910646499883.html>

⁵² Kenneth Katzman, "Iran: U.S. Concerns and Policy Responses," *Congressional Research Service*, September 28, 2011, <http://www.fas.org/sgp/crs/mideast/RL32048.pdf>

⁵³ Colin Freeman, "The Rise of Prof 'Crocodile' - A Hardliner to Terrify Hardliners," *The Telegraph*, November 20, 2005,

Conservatives Ascend

The new alliance between the conservative clerics and the IRGC hardliners allowed the IRGC elements to win handily in the 2004 parliamentary elections. The Guardian Council led by Ayatollah Ahmad Jannati disqualified eighty sitting parliamentarians from running for reelection. They also disqualified 2,500 candidates seeking to run for office. It is not surprising that most of the disqualified candidates were reformist. The actions by the Guardian Council led to the Islamic Participation Front, led by Mohammad Reza Khatami, President Khatami's younger brother, to boycott the election. Also, 120 reformist parliamentarians decided to protest the actions of conservative elements like the Guardian Council by not running for reelection.⁵⁵ The large number of reformist candidates disqualified allowed the Abadgaran movement to capture many seats in the 2004 election. Although the Abadgaran part displayed their strengths most effectively in 2004, their political ascent began in the year 2003.

The Abadgaran movement is a movement of mostly non-cleric hardliners who do not feel the current leaders of the IRI are sufficiently revolutionary. Most of the non-cleric hardliners are former IRGC personnel. In 2003 Abadgaran backed candidate's performed extremely well in Tehran, winning 14 seats on the Tehran municipal council. The council decided to vote in

<http://www.telegraph.co.uk/news/worldnews/middleeast/iran/1503479/The-rise-of-Prof-Crocodile-a-hardliner-to-terrify-hardliners.html>

⁵⁴ Mehrzad Boroujerdi and Kourosch Rahimkhani, "Iran's Political Elite," *Iran Primer*, <http://iranprimer.usip.org/resource/irans-political-elite>

⁵⁵ BBC staff, "Hundreds More Quit Iran Election," *BBC*, February 14, 2004, http://news.bbc.co.uk/2/hi/middle_east/3488941.stm

Mahmoud Ahmadinejad as mayor later that year.⁵⁶ In the 2004 parliamentary elections, conservative elements won seventy percent of the seats in the first round votes. The second round vote's mirrored similar conclusions.⁵⁷ Jannati's Guardian Council took extreme actions to prevent the reformist candidates from running, which led to a victory for conservative elements. This action serves as retaliation for the 2000 parliamentary elections. As stated before, reformist candidates earned a huge victory in that election, with the help of a free press. The conservative judiciary took away many of the press freedoms instituted by Khatami, thereby weakening the press. The neutered press gave Jannati much more freedom to disqualify thousands of candidates seeking to serve in parliament including sitting parliamentarians seeking re-election. The conservatives achieved another huge victory in the parliament in 2008.

The 2008 parliamentary election resulted in a huge win for conservatives. Although, conservatives won around 170 seats, conservatives do not signify a monolithic group. Two camps appear within the conservatives, Ahmadinejad's hardline United Principlist Front (UPF) and Qalibaf and Larijani's more moderate Comprehensive Principlist Front (CPF). UPF won 117 seats while CPF won 96 seats. Reformist held their ground by capturing forty-eight seats despite having their most prominent members barred from running.⁵⁸ Of the 1,700 candidates

⁵⁶ Abbas William Samii, "The Changing Landscape of Party Politics in Iran -- A Case Study," *The Journal of the European Society for Iranian Studies* 1, no. 1 (2005): 57-58

⁵⁷ Mark Gasiorowski, "Iranian Politics After the 2004 Parliamentary Election" *Strategic Insights III*, No. 6 (June 2004)
<http://www.nps.edu/Academics/centers/ccp/publications/OnlineJournal/2004/jun/gasiorowskiJun04.pdf>

⁵⁸ Farideh Farhi, Iran's 2008 Majlis Elections: The Game of Elite Competition," *Middle East Brief*, No. 29 (May 2008):4- 5, <http://www.brandeis.edu/crown/publications/meb/MEB29.pdf>

disqualified from running, most were reformist.⁵⁹ The election kept the IRI continuing down the path of greater concentration of power for conservatives which means more power for IRGC supporters. One interesting note from the parliamentary election is Ali Larijani's election as Speaker of the Iranian Parliament.

Like the election of Mohammad Khatami eight years earlier, the election of Mahmoud Ahmadinejad in 2005 shocked the world. Scholars knew little information about Ahmadinejad and his past. Ahmadinejad presented himself as a pious man of little wealth. His outsider appearance combined with rhetoric pertaining to social justice made him a different and dangerous candidate.⁶⁰ As a member of the Iranian Revolutionary guard, he served in northern Iran near the Kurdistan region during the Iran-Iraq war. Ahmadinejad used relationships formed during the war to help him win the presidency.⁶¹ Veterans of the Iran-Iraq war proved to be his most ardent supporters. They viewed Ahmadinejad as a formidable challenger to the reformist agenda.⁶² His populist statements echoed a new rhetoric for conservative candidates, now appealing directly to IRGC members and the lower socio-economic classes in Iran. In the first round, Ahmadinejad lost to Rafsanjani capturing twenty percent of the vote compared to

⁵⁹ BBC staff, "Iranian Vote in General Election," *BBC*, March 14, 2008, http://news.bbc.co.uk/2/hi/middle_east/7295732.stm

⁶⁰ Elliot Hen-Tov, "Understanding Iran new authoritarianism," *The Washington Quarterly* 30, No. 1 (2006-07): 165

⁶¹ Kasra Naji, *Ahmadinejad: The Secret History of Iran's Radical Leader*, (California: University of California Press, 2008), 31-32

⁶² Kasra Naji, *Ahmadinejad: The Secret History of Iran's Radical Leader*, (California: University of California Press, 2008), 52

Rafsanjani's twenty-one percent.⁶³ Ahmadinejad ran away during the second round, capturing sixty percent of the vote, decisively defeating Rafsanjani.⁶⁴

Many Iranians, including presidential candidates Mehdi Karroubi criticized the IRGC and the Basij for illegal involvement in the elections.⁶⁵ Karroubi complained about the role Movahhedi Kermani, The Supreme Leader's representative to the IRGC, pursued during the election. He told voters to vote for the candidate who lives a simple life and obtains only a small amount of campaign funds. He subtly instructed voters to vote for Ahmadinejad (Rafsanjani is one of the wealthiest people in Iran). Karroubi also chastised the leader of the Basij, Mohammad Hejazi, for his role in the election. Karroubi believed Hejazi placed unauthorized votes in ballot boxes. Karroubi became so enraged he said, 'I suggest to Mr. Hejazi that if he wants to get involved in politics, he should form a political party where he can be its secretary general.'⁶⁶ Unfortunately Ahmadinejad used his 2005 election victory to increase his power by strategically allocating appointments to cabinet agencies.

The IRGC Consolidates its Victory

The victory of Mahmoud Ahmadinejad, former IRGC member, in the Iranian presidential election of 2005 indicated a power shift in the elected institution of the presidency. This new

⁶³ Robert Tait, "Iran Poll Challenger Accused of Ballot Fraud," *The Guardian*, June 19, 2005
<http://www.guardian.co.uk/world/2005/jun/20/iran.roberttait1>

⁶⁴ BBC staff, "Iran Hardliner Sweeps to Victory," *BBC*, June 25, 2005,
<http://news.bbc.co.uk/2/hi/4621249.stm>

⁶⁵ Ali Alfoneh, "The Basij Resistance Force," *Iran Primer*, <http://iranprimer.usip.org/resource/basij-resistance-force>

⁶⁶ Kasra Naji, *Ahadinejad: The Secret History of Iran's Radical Leader*, (California: University of California Press, 2008), 77-78

landscape would later ease the task of economic takeover by the IRGC. One of the president's most powerful tools is the power of appointments. The president of Iran appoints his cabinet secretaries and eight vice-presidents, pending approval of parliament, and appoints the regional governors. Ahmadinejad fundamentally changed the political landscape of Iran by appointing other IRGC members and his friends.

After winning the 2005 election, Ahmadinejad needed to appoint regional governors. Ahmadinejad decided to discard many of the governors who secured their positions under the Khatami and Rafsanjani administration. He appointed his friends and allies to the positions once held by the friends and allies of the reformist Khatami and pragmatic Rafsanjani.⁶⁷ Ahmadinejad used his position as governor of Arabidjal to influence the 1997 presidential election by supporting Ali Akbar Nateq-Nouri, former speaker of the Majlis.⁶⁸ Ahmadinejad decided to appoint former Guardsmen to the governorships of Kerman, West Azerbaijan, Khuzestan, Hamadan, and Ilam. Ahmadinejad also appointed veterans of Iran's prison system into the governorship of Zanjan, Lorestan, Isfahan, and South Khorasan. These friendly officials who wield considerable power played a role in the re-election of Ahmadinejad in 2009.⁶⁹

Ahmadinejad also increased the presence of the IRGC and his personal supporters in his cabinet following the 2005 election. These officials possess many of the same qualities and traits. Some officials like Seyyed-Parviz Fattah, head of the Energy Ministry and Mir-Kazemi, Seyyed

⁶⁷ Ali Alfoneh, "The Revolutionary Guards' Role in Iranian Politics," *Middle East Quarterly* XV, 4 (2008): 3-14, <http://www.meforum.org/1979/the-revolutionary-guards-role-in-iranian-politics>

⁶⁸ Kasra Najji, *Ahmadinejad: The Secret History of Iran's Radical Leader*, (California: University of California Press, 2008), 36-40

⁶⁹ Ali Alfoneh, "The Revolutionary Guards' Role in Iranian Politics," *Middle East Quarterly* XV, 4 (2008): 3-14, <http://www.meforum.org/1979/the-revolutionary-guards-role-in-iranian-politics>

Masoud, Minister of Commerce, worked in the Imam Hossein University. Fattah also worked in Khatam al Anbia while Masoud served in the Iran-Iraq war. Others like Ali-Akbar Mehrabian, head of the Ministry of Industries of Mines and Nowzari, Gholam-Hossein, head of the Ministry of Petroleum served in the Basij. Also, Najjar, Mostafa-Mohammad, head of the powerful Ministry of Defense and Armed Forces Logistics and Abdol-Reza Mesri, leader of the Ministry of Social Security and Welfare, headed the IRGC Cooperative Organization. Mohammad Abbasi, Mohammad-Hossein Saffar-Harandi, and Gholam-Hossein Elham (Ministry of Cooperatives, Culture and Islamic Guidance, and Justice respectively) also possess experience with the IRGC.⁷⁰

Iran presidential cabinets usually represent the interest of various domestic political factions, excluding the cabinet of Mehdi Bazargan. The purpose of keeping a diverse cabinet is to facilitate consensus in policy decisions. Ahmadinejad's cabinet represents a radical departure from Iranian political norms.⁷¹ IRGC officials have been represented in various cabinets in Iran's history. While their representation is normal, the appointment of nine officials with ties to the IRGC is unmatched in Iran's political history. They occupy important posts in Ahmadinejad's cabinet like the Ministry of Energy, Defense and Armed Forces Logistics, and Petroleum.⁷² This trend accelerated after the 2009 Iranian presidential election.

⁷⁰ Ali Alfoneh, "Ahmad versus the Technocrats," *American Enterprise Institute*, No. 4 (May 2008): 1-4

⁷¹ Ali Alfoneh, "Assessing Ahmadinejad's Closed Circle," *IHS's Janes: Defense & Security Intelligence & Analysis*, January 29, 2010, <http://www.aei.org/docLib/Assessing%20Ahmadinejads%20Closed%20Circle.pdf>

⁷² Ali Alfoneh, "The Revolutionary Guards' Role in Iranian Politics," *Middle East Quarterly* XV, 4 (2008): 3-14, <http://www.meforum.org/1979/the-revolutionary-guards-role-in-iranian-politics>

2009 marked a watershed year in Iranian politics. The emergence of the Green Movement created fear and division in the ruling establishment. These divisions lead to a situation of higher instability within the regime.⁷³ Sources speculate Mohammad Khatami, an influential leader of the Green Movement; found himself the target of an assassination attempt a couple of weeks before the election.⁷⁴ The IRGC also placed their target sights on the clerical establishment. Hossein Taeb, the deputy Intelligence chief of the IRGC, eerily predicated the end of the “first generation”, most likely meaning clerics, during Iran’s fourth decade.⁷⁵ Babak Rahimi, who teaches Iranian Studies at the University of California—San Diego, stated the IRGC is currently the dominant political force in Iran. He also questions the theocratic nature of the Iranian state because of its current military regime.⁷⁶

The presence of the IRGC in the cabinet has only increased following Ahmadinejad’s 2009 election victory. Ahmadinejad felt embolden enough to jettison cabinet members who are not loyal to him. Ahmadinejad dismissed Mohammed Rahmati of the Khatami faction, leader of the Ministry of Roads and Transportation. He also dismissed Rafsanjani’s representatives in the cabinet Davoud Danesh-Ja’fari and Mohammed-Kazem Vaziri Hamaneh, Finance minister and Petroleum minister respectively. He also discarded, Hojjat al-Eslam Mostafa Pour-Mohammedi

⁷³ Roozbeh Safshekan and Sabet Farzan, "The Ayatollah's Praetorians: the Islamic revolutionary guard corps and the 2009 election crisis," *The Middle East Journal* 64, no.4 (2010): 558

⁷⁴ Jerusalem Post staff, “Violence Mars Iranian election Campaign,” *Jerusalem Post*, June 2, 2009, <http://fr.jpost.com/servlet/Satellite?cid=1243872316573&pagename=JPost/JPostArticle/ShowFull>

⁷⁵ Roozbeh Safshekan and Farzan Sabet, “The Ayatollah's Praetorians: The Islamic Revolutionary Guard Corps and the 2009 Election Crisis,” *The Middle East Journal* 64, No. 4 (2010): 552

⁷⁶ Elliot Hen-Tov, Nathan Gonzalez, “The Militarization of Post-Khomeini Iran: Praetorianism 2.0,” *Washington Quarterly*, (Winter 2011): 53

and Hojjat al-Eslam Gholam-Hossein Mohseni Ezhehi, powerful ministers of Khamenei's camp. Pour-Mohammedi led the Interior Ministry while Gholam-Hossein headed the Intelligence Ministry.⁷⁷

Ahmadinejad furthered the purge of his first cabinet by reinstating officials with ties to the IRGC and appointing new officials who also possessed ties to the IRGC. Mohammad Abbasi and Mohammad Hossein returned to their post in the Ministry of Co-operatives and Ministry of Culture and Islamic Guidance. Ahmadinejad brought in new cabinet secretaries to lead some of the most powerful agencies in Iran. Majid Namjou was brought in to head the Energy Ministry. Mohammad Mostafa Najjar, served in Lebanon with IRGC, answered the call to lead the Interior Ministry. Ahmadinejad also tapped Masoud Mirkazemi, former head of the IRGC's logistics, to run the Petroleum Ministry.⁷⁸ Najjar traces his connection to the IRGC through service in Lebanon while Mirkazemi led the logistics division of the IRGC.⁷⁹⁸⁰ Ahmadinejad also tapped Ahmad Vahdi, wanted by Interpol for the Argentinean Jewish Center Bombing, for the position of Minister of Armed Forces and Defense Logistics.⁸¹

⁷⁷ Ali Alfoneh, "All Ahmadinejad's Men," *Middle East Quarterly* (Spring 2011): 79-83, <http://www.meforum.org/2935/ahmadinejad-power-struggle>

⁷⁸ Ali Alfoneh, "Assessing Ahmadinejad's Closed Circle," *IHS's Janes: Defense & Security Intelligence & Analysis*, January 29, 2010, <http://www.aei.org/docLib/Assessing%20Ahmadinejads%20Closed%20Circle.pdf>

⁷⁹ Henry Newman, "The grip of Iran's Revolutionary Guards," *The Guardian*, August 28, 2009, <http://www.guardian.co.uk/commentisfree/2009/aug/28/iran-revolutionary-guards-grip>

⁸⁰ Dieter Bednarz and Erich Follath, "Revolutionary Guards Keep Stranglehold on Iran," *Der Spiegel*, February 16, 2010, <http://www.spiegel.de/international/world/0,1518,677995-2,00.html>

⁸¹ Aidan Jones, "Ahmadinejad chooses wanted man for cabinet," *The Guardian*, August 21, 2009, <http://www.guardian.co.uk/world/2009/aug/22/ahmadinejad-appoints-bomb-suspect>

IRGC Fractionalization

The electoral victories for the IRGC occur within the framework of Iran's Islamic Republic. The American congressional system and European parliamentary systems have allowed the evolution of political parties. Iran's system of contradictory institutions, elected and unelected, has stymied the evolution of political parties. Although Iran contains many political parties their actions remain insignificant. The Article 10 commission holds the responsibility for issuing permits for political parties. Deputy Interior Minister Mohammad Javad Haq-Shenas served as secretary of the body. While he performed his duty he noted, "The system, as a whole, is not conducive to political parties."⁸² In a system with these characteristics, personalities possess the real power, not political parties. It is in this context the IRGC developed which leads to many personalities gaining power.

Three personalities besides Mahmoud Ahmadinejad stand out within the IRGC for their personal political power. These people include, Mohsen Rezai, Mohammad Baqer Qalibaf, and Ali Larijani. Interestingly, each person ran for president in the 2005 presidential election. Mohsen Rezai, one of the founders of the IRGC and former central commander, currently serves as the Secretary of the Expediency Council. Many classify Rezai as the most moderate IRGC member who advocates for limited rapprochement with the U.S. Negative evaluation of Ahmadinejad's policies showcased on his website led to its closure by the government in 2007. Mohammad Baqer Qalibaf, former commander of the IRGC Air Force and mayor of Tehran, also received the classification as a pragmatic moderate. Qalibaf previously called for implementing reforms similar to the ones established by Iran's first shah, Reza Khan but with an Islamist twist.

⁸² Abbas William Samii, "The Changing Landscape of Party Politics in Iran -- A Case Study," *The Journal of the European Society for Iranian Studies* 1, no. 1 (2005): 53-54

Although Rezai and Qalibaf both command centers of gravity in Iran's political system, Ali Larijani eclipses their power.⁸³

Many describe Ali Larijani as Ahmadinejad's main rival within the IRGC. Ali Larijani previously headed the Supreme National Security Council (SNSC) and served as Iran's nuclear negotiator. Larijani resigned from the SNSC in 2007 because of disagreements with Ahmadinejad. The two men's relationship can only be described as heated. He currently serves as Speaker of the Majlis. In his election, the Guardian council, headed by his brother, barred every candidate except for Ali from running.⁸⁴ This exhibition of power reveals the threat posed to Ahmadinejad by Larijani. Despite hailing from the same faction, IRGC, Ahmadinejad perceives other IRGC officials as threats. The fractionalization of the IRGC represents a new stage for this organization.

The Supreme Leader sits atop of the Iranian political structure. He wields almost unlimited power in Iran and therefore holds the most authority. The usually apolitical Supreme Leader made the unprecedented decision to support Mahmoud Ahmadinejad in the 2009 presidential election. Khamieni chose to support the IRGC over the Green Movement.⁸⁵ Although this pairing seems obvious, the Supreme Leader usually does not actively participate in politics. This led to a split between Iran's most powerful people, Khamieni and Rafsanjani. Rafsanjani orchestrated the political charade which allowed Khamieni to rule as Supreme

⁸³ Frederic M Wehrey, *The Rise of the Pasdaran: Assessing the Domestic Roles of Iran's Islamic Revolutionary Guards Corps*, (California: RAND Corporation 2009), 61

⁸⁴ Muhammad Sahimi, "Nepotism & the Larijani Dynasty," *PBS*, August 20, 2009
<http://www.pbs.org/wgbh/pages/frontline/tehranbureau/2009/08/nepotism-the-larijani-dynasty.html>

⁸⁵ Tony Karon, "Khamenei: The Power Behind the President," *Time*, June 15, 2009,
<http://www.time.com/time/world/article/0,8599,1904589,00.html>

Leader. Rafsanjani also supports Mousavi, the Green Movement's candidate in the election.⁸⁶ Rafsanjani and Khamenei cannot bridge this division. Khamenei's feud with Rafsanjani is one factor that pushed the Supreme Leader to formally ally with the IRGC.

In conclusion, the IRGC made huge gains in political power starting from 2004 to the present. The IRGC now wields substantial control over the parliament and presidency of Iran. This allowed the IRGC to be a huge player in the privatization process of Iran. In the next chapter, the IRGC's dealings in Iran's accountable businesses are exposed.

⁸⁶ Henry Meyer, "Khamenei-Rafsanjani Split Limits Power to Stop Unrest," *Bloomberg*, June 19, 2009, <http://www.bloomberg.com/apps/news?pid=newsarchive&sid=aCsEuKvAdp78>

Chapter 3: Accountable Businesses

Evolution of the IRGC's Economic Power

The ascendancy of the IRGC's economic power began not during the Ahmadinejad administration, but during the Rafsanjani presidency. Rafsanjani's pragmatist faction began its ascendancy during the Rafsanjani presidency whose pragmatist faction had won over the hardliners in the aftermath of Khomeini's death. The faction was still weak and they needed to manage the return of the IRGC from a defeat in battle. Rafsanjani allowed the IRGC to enter the business arena by giving them startup money in the form of oil revenue to participate in reconstruction.⁸⁷ This allowed the IRGC to gain an extra source of finance to augment the money it receives from the IRI government as the strain from having to fund separate militaries in addition to rebuilding the economy would have proved too much. Thus, the IRGC used the oil revenue and the different exchange rates (they were not unified until the Khatami presidency) to undercut private enterprise.⁸⁸ Khatami entered the presidency after Rafsanjani. He failed to create a more equitable income distribution in Iranian society, despite granting much more freedom to average Iranians and the press.⁸⁹ The IRGC's participation in reconstruction and its relentless challenge to Khatami's presidency then led to the IRGC's victories in Iran's elected institutions.

⁸⁷ Julian Borger and Robert Tait, "The Financial Power of the Revolutionary Guards," *The Guardian*, February 15, 2010, <http://www.guardian.co.uk/world/2010/feb/15/financial-power-revolutionary-guard>

⁸⁸ Ali Ansari, "The Revolution will be Mercantiled," *The National Interest*, 105 (2010): 50-60.

⁸⁹ Adam Tarock, "The Muzzling of the Liberal Press in Iran," *Third World Quarterly*, 22, No. 4 (2001): 585-602.

The Iranian economy underwent a tremendous evolutionary process to reach its current stage. The IRGC began to gain tremendous political power in the 2004 Majlis election, when many former IRGC officials proceeded to enter the political sphere.⁹⁰ Ahmadinejad's victory in the 2005 presidential election marked the beginning of the huge, rapid increase of the IRGC's economic power. One of the most important economic policies initiated by the Ahmadinejad presidency is the awarding of no-bid contracts to IRGC affiliated businesses.⁹¹ This practice damages the private sector more than any of the other abuses by the IRGC and their allies in elected office. The purpose of initiating a no-bid contract is effectively to shut out any competition to the government's favored economic institutions. One of the most favored and powerful of the IRGC's economic institutions is GHORB or otherwise known as Khatam-Al-Anbia.

Khatam-Al-Anbia

Khatam-Al-Anbia began as two separate headquarters running IRGC businesses in the beginning of Rafsanjani's presidency. Moavenat Khodkafae and Moavenat Bassazi were established to manage the IRGC's portfolio of business interests. These interests included enterprises conducting activities in the "agriculture, industrial, mining, transportation, road construction, import, and export sectors." In 1990, the IRGC decided to combine the resources of both headquarters and establish a single headquarter for their operations. The headquarters now operates within the existing IRGC structure and became known as Gharargah Sazandegi Khatam

⁹⁰ Kaveh Ehsani and Saghafi, Morad, "The New Landscape of Iranian Politics," *Middle East Report*, No. 233 (2004): <http://www.merip.org/mer/mer233/new-landscape-iranian-politics>

⁹¹ Rasool Nafisi, "Iran's Revolutionary Guard Has A Lot To Lose," *Radio Free Europe*, September 18, 2009, http://www.rferl.org/content/Irans_Revolutionary_Guard_Has_A_Lot_To_Lose/1826074.html.

Alanbia, or Khatam-Al-Anbia, also referred to by their acronym, GHORB.⁹² Khatam-Al-Anbia is the major engineering asset of the IRGC. In the American context, Khatam-Al-Anbia performs a similar role to the Army Corp of Engineers.⁹³ IRGC commander Sattar Vafaei stated of the 25,000 people working at Khatam, 10 percent of them are IRGC members, while the rest are employed as contractors. Khatam-Al-Anbia also operates their own website and disseminates a publication called the Road and Tunnel Magazine.⁹⁴

Khatam-Al-Anbia claims they have been granted over 750 contracts by the Iranian government. These contracts include areas in construction like highways, water diversion systems, dams, water supply systems, and oil and gas infrastructure.⁹⁵ Khatam-Al-Anbia also finished 150 projects which involve supervision and technical consulting. IRGC Brigadier General Abdolreza Abedzadeh stated Khatam-Al-Anbia is currently working on 247 mining and industrial projects and have successfully finished 1,220 projects since 1990.⁹⁶ They also plan to complete twenty-one new projects focused on the rural area of Iran. Khatam-Al-Anbia also contracts and sub-contracts the projects it receives to businesses they own, or control. Two of the

⁹² Frederic M Wehrey, *The Rise of the Pasdaran: Assessing the Domestic Roles of Iran's Islamic Revolutionary Guards Corps*, (California: RAND Corporation, 2009), 59

⁹³ Jeff Bliss, "Bloomberg," *Bloomberg*, February 10, 2010, <http://www.bloomberg.com/apps/news?pid=newsarchive>.

⁹⁴ Jason Gewirtz, "Revolutionary Guard Has Tight Grip on Iran's Economy," *CNBC*, December 8, 2010, http://www.cnbc.com/id/40570657/Revolutionary_Guard_Has_Tight_Grip_on_Iran_s_Economy

⁹⁵ Greg Bruno, "Iran's Revolutionary Guards," *Council on Foreign Relations*, July 22, 2009, <http://www.cfr.org/iran/irans-revolutionary-guards/p14324>.

⁹⁶ Frederic M Wehrey, *The Rise of the Pasdaran: Assessing the Domestic Roles of Iran's Islamic Revolutionary Guards Corps*, (California: RAND Corporation 2009), 60

most well known businesses owned by Khatam-Al-Anbia are Sepasad and Hara. Sepasad is currently working on a lucrative contract to create line seven of the Tehran Metro.⁹⁷ Hara current projects include tunnel construction and excavation projects within the IRI.⁹⁸

Khatam-Al-Anbia also works other construction projects including the Tehran-Tabriz railway of the Tehran Metro, the Karkheh dam, phase 15 and 16 of the South Pars Gas field, and the 900-km gas pipeline transferring gas between Asaluye to Iranshahr.⁹⁹ Khatam-Al-Anbia received 1.3 billion dollars to build this crucial gas pipeline which is part of the proposed Iran Pakistan India pipeline. The Iranian Ministry of Oil gave away no-bid contracts to Khatam-Al-Anbia to build the pipeline. Khatam also received a no-bid contract totaling 2.09 billion U.S. dollars to build work on the South Pars Gas Field and a 1.3 billion U.S. dollar contract for the railway.¹⁰⁰ Various hydroelectric and dam-construction projects in West Azerbaijan, Kordestan, Kermanshah, Ilam, Lorestan, and Khuzestan are being completed by subsidiaries of Khatam-Al-Anbia.¹⁰¹ Khatam al Anbia also worked with the National Petrochemical Company of Iran and a

⁹⁷ "Project," *Sepasad Engineering Co.*, https://www.sepasad.com/en/index.php?option=com_phocagallery.

⁹⁸ Alireza Jafarzadeh, "9," *The Iran Threat: President Ahmadinejad and the Coming Nuclear Crisis*, (New York: Palgrave Macmillan, 2008), 175-88.

⁹⁹ Frederic M Wehrey, *The Rise of the Pasdaran: Assessing the Domestic Roles of Iran's Islamic Revolutionary Guards Corps*, (Santa Monica: RAND National Defense Research Institute, 2009), 61

¹⁰⁰ Azadeh Moaveni, "Iran's Rich Revolutionary Guard," *TIME Magazine*, September 5, 2007, <http://www.time.com/time/world/article/0,8599,1659039,00.html>

¹⁰¹ Frederic M Wehrey, *The Rise of the Pasdaran: Assessing the Domestic Roles of Iran's Islamic Revolutionary Guards Corps*, (Santa Monica: RAND National Defense Research Institute, 2009), 61

Turkish company called STFA Company to build the Pars Petrochemical Port located in Asaluye. The project will include 14 docks, breakwaters, and an onshore facility.¹⁰²

The IRGC benefitted from changes in Iranian law. Article 44 specifies the makeup of the Iranian economy. The article specifies 3 sectors (public, private, and cooperative) and the specific industries that fall into each category. In 2005, Khamieni issued a decree which calls for shrinking the public sector while enlarging the private and cooperative sector. The parliament codified this law in 2008.¹⁰³ This law allowed the widespread participation of the IRGC in Iran's economy. The IRGC heavily benefitted from privatization which this law sanctioned. In April 2009, the IRGC controlled Khatam-Al-Anbia bought a 51 percent share of Sadra. Sadra is an Iranian company which at first focused on ship building and ship repairs but eventually moved into the oil and gas market.¹⁰⁴ It is interesting to note that Spain's Repsol and British-Dutch Shell decided not to develop phase 13 and 14 of the South Pars oil field. In June 2010, The Iranian government decided to give it to the Khatam-Ol-Osea consortium for 5 billion dollars. Khatam-Al-Anbia and Sadra are both members of the consortium.¹⁰⁵ Also, the IRI has decided to become self-sufficient in shipbuilding which provides a huge financial boost to companies like Sadra.¹⁰⁶

¹⁰² "IRGC Wins Contract to Set Up Pars Petrochemical Port," *Tehran Times*, July 28, 2002, http://tehrantimes.com/Index_view.asp?code=85502.

¹⁰³ Ali Alfoneh, "The Revolutionary Guards' Looting of Iran's Economy," *American Enterprise Institute*, June 2010, <http://www.aei.org/outlook/100969>.

¹⁰⁴ Ardalan Sayami, "1388: Year of Militarization of Iran's Economy," *Payvand*, March 23, 2010, <http://www.payvand.com/news/10/mar/1213.htm>.

¹⁰⁵ "Iranian Consortium to Replace Shell, Repsol in South Pars," *Tehran Times*, June 6, 2010, http://www.tehrantimes.com/index_View.asp?code=220734

¹⁰⁶ "Minister Calls Sanctions on Iran's Shipping Industries Futile," *Fars News Agency*, June 1, 2010, <http://english.farsnews.com/newstext.php?nn=8903111753>

The IRGC contains other industrial machines to gain support among the people. The IRGC involves itself in public works projects through different organizations tied to the Basij. Iran has a significantly young population, most of whom have no direct recollection of the Iran-Iraq war. These people, most importantly younger members of the IRGC, are sometimes put off by the IRGC's vast wealth and involvement in illicit activities.¹⁰⁷ The IRGC uses the public works projects completed by the Basij as a way to increase its legitimacy. The two objectives of the Basij involvement in public works programs are preventing any possible uprising and to implement policies to make the provinces more "secure". The security versus public works dilemma can be analyzed by looking at the distinction between views on the rural Basij versus the urban Basij. The rural Basij spend more of their time and resources completing public work projects.¹⁰⁸ On the other hand, the urban Basij is associated with rigid enforcement of laws as they struggled to suppress protest in their assigned areas.¹⁰⁹

While the Basij will work on many public works projects, many projects were begun by the IRGC. One such project is the previously mentioned the 900-km gas pipeline transferring gas between Asaluye to Iranshahr. The purpose of the so-called "peace pipeline" is to send natural gas from the South Pars Gas Field to Pakistan. This project is initiated by the IRGC, but many of the people working on the project are from the Basij. The IRGC also attempts to recruit locals of

¹⁰⁷ Azadeh Moaveni, "Iran's Rich Revolutionary Guard," *TIME Magazine*, September 5, 2007, <http://www.time.com/time/world/article/0,8599,1659039,00.html>

¹⁰⁸ Frederic M Wehrey, *The Rise of the Pasdaran: Assessing the Domestic Roles of Iran's Islamic Revolutionary Guards Corps*, (Santa Monica: RAND National Defense Research Institute, 2009), 66

¹⁰⁹ Ali Alfoneh, "Is the Basij Iran's Weak Spot?" *RealClearWorld*, February 6, 2010. http://www.realclearworld.com/articles/2010/02/06/is_the_basij_irans_weak_spot_97529.html.

the provinces to help complete the projects. The most talented of these young rural populations are then offered positions with the IRGC or the Basij. In 2007, Colonel Dehzam Khoy, leader of the Ardabil Construction Basij, claims the Basij witnessed a 50 percent increase in recruits from 2006 to 2007. The 50% increases provide the Basij with 8,500 new recruits in the year 2007.¹¹⁰

The construction Basij, created in 2000, serves as a great tool for the regime, but more specifically the IRGC. The construction Basij is mainly located in the rural provinces which consist of ethnic minorities. These provinces include Ardabil, Sistan-Baluchistan, Zanjan, and East Azerbaijan. In 2001, The Supreme Leader called for the formation of the Cultural and Constructive Movement of the construction Basij, known as the Herat Plan. This plan contains two main goals, fostering the development of economically deprived rural areas and the indoctrination of young people into the IRGC-Basij line of thinking. Since 2001, sources from the Basij have claimed a high number of projects completed. In August and September of 2006, Basij sources claim to have completed 1,800 projects in rural areas of Iran, building units of small manufacturing and training. The construction Basij has a wide diversity of projects completed and slated. They are committed to refurbishing 202 schools in the province of Zanjan along with a wide amount of recreational facilities. The Basij refurbish schools in partnership with the Ministry of Education. They also form partnerships with relief organizations like the Endowment and Relief Organization in Ardabil. They donated 50 million rials (5,400 U.S. dollars) and 100 million rials (11,000 U.S. dollars) to help build an Islamic school and a potable

¹¹⁰ Frederic M Wehrey, *The Rise of the Pasdaran: Assessing the Domestic Roles of Iran's Islamic Revolutionary Guards Corps*, (Santa Monica: RAND National Defense Research Institute, 2009), 67-68.

water pipeline, respectively.¹¹¹ While being awarded contracts helps the IRGC attain economic power, the process of privatization also contributes greatly to the increase of power for the IRGC.

Mehr Finance and Credit Institution

In 2001, the Iran Privatization Organization (IPO) became an official appendage of the IRI government. Mohammad Khatami's third five year development plan called for the creation of the organization and the fourth five year plan codified the need of such an organization.¹¹² In the first half of the Iranian calendar year the IRI will privatize 20 power plants by September 2010. Two of the power plants, Khalij-e-Fars and Sahand, contain an estimated value of 1 billion U.S. dollars.¹¹³ Two automobile manufacturing companies, Khodro and Saipa, along with large data insurance companies are also scheduled to be privatized in 2010.¹¹⁴ Many of these privatized companies end up being owned by IRGC aligned institutions. The Mehr Finance and Credit Institute has been one of the most active IRGC aligned entities to take advantage of the privatization process.

¹¹¹ Frederic M Wehrey, *The Rise of the Pasdaran: Assessing the Domestic Roles of Iran's Islamic Revolutionary Guards Corps*, (Santa Monica: RAND National Defense Research Institute, 2009), 67-69.

¹¹² "Brief History of the I.P.O," *Iranian Privatization Organization*, <http://www.en.ipo.ir/index.aspx?siteid=83>

¹¹³ "Iran to Privatize 20 Power Plants," *Mehr News Agency*, February 17, 2010, <http://www.mehrnews.com/en/NewsDetail.aspx?NewsID=1036396>

¹¹⁴ "Iran Khodro, Saipa to Be Privatized," *Payvand*, April 11, 2010, <http://www.payvand.com/news/10/apr/1090.html>

The IRGC took over the Angouran Zinc Mine in August 2009. The IRGC accomplished this by using the sanctioned financial institute known as the Mehr Finance and Credit Institution.¹¹⁵ The Mehr Finance and Credit Institution heavily linked to the IRGC, own the Mehr-e-Eghtesad-e Iranian Investment Company which subsequently owns a subsidiary known as Iran Zinc Mines Development Company. This company bought the Angouran Zinc mines for 1.86 trillion rials, around 186 million U.S. dollars. The real value of the zinc mines is estimated to be 10.55 trillion rials or 1 billion U.S. dollars. Many figures within the IRI regime criticized this blatantly corrupt deal. The leader of the Friday prayers in Zanzan and representative of Khamieni in Zanzan, Hojjat al-Eslam Mohammad-Taghi Vaezi, exclaimed, "It would have been better if the government had given the mine away for free!" Jamshid Ansari and Reza Abdollahi, both parliamentarians while the latter is the chairman of the Plan and Budget Committee, verbally chastised Ali-Akbar Mehrabian, Minister of Industry and Mines, while calling for an investigation into the zinc mine giveaway to the IRGC. The investigation by the Supreme Audit Court found very unusual facts regarding the sale of the zinc mine. All three companies bidding for the mines were claimed to be of "the same family". The three companies that were bidding on the mines were the Zinc Production Company, Pasargad Company, and the Iran Zinc Mines Development Company. What makes the bidding process unfair is that the Iran Zinc Mine Development Company owns 100 percent of the Zinc Production Company and 70 percent of the Pasargad Company. Also, the same handwriting signed for all three companies. Luckily for Iran, the courts declared the sale invalid. Unfortunately, this case is an outlier in the process of

¹¹⁵ Mark Gregory, "Expanding Business Empire of Iran's Revolutionary Guards," *BBC*, July 26, 2010, <http://www.bbc.co.uk/news/world-middle-east-10743580>.

privatization for Iran. The IRGC and its affiliates are usually successful in their business dealings.¹¹⁶

Besides funding public work projects and taking part in large scale industrial projects, the IRGC has entered into even more strategically crucial areas of the economy. The Zinc Mine case stands out as an anomaly, the IRGC have found great success in the privatization process. In September on 2009, the IRGC affiliated Tose'eh-ye E'temad-e Mobin Trust Consortium spent around 8 billion U.S. dollars to purchase 51 percent of the recently privatized Telecommunication Company of Iran (TCI).¹¹⁷ The only private sector competitor, Pishgaman-e Kavir-e Yazd Cooperative, was disqualified from participating in the bidding process because of "security reasons". The company received the notice a couple of hours before the trade took place.¹¹⁸ TCI lasted only 30 minutes on the Tehran Stock Exchange before the deal went through. This incredibly small amount of time, suggest foul play among Iranian officials. Many figures criticize the practice of privatization in the IRI. Muhammad Nahavandian, head of the Iranian Chamber of Commerce claims only 25 percent of privatized assets have been sufficiently privatized to the "real private sector." Many IRI officials referred to the privatization process as vagozari, which is defined as transfer.¹¹⁹

¹¹⁶ Ali Alfoneh, "The Revolutionary Guards' Looting of Iran's Economy," *American Enterprise Institute*, June 2010, <http://www.aei.org/outlook/100969>.

¹¹⁷ Julian Borger and Robert Tait, "The Financial Power of the Revolutionary Guards," *The Guardian*, February 15, 2010, <http://www.guardian.co.uk/world/2010/feb/15/financial-power-revolutionary-guard>

¹¹⁸ Ali Alfoneh, "All the Guard's Men," *World Affairs*, 173 No. 3, 2010, 73-80.

¹¹⁹ Shirzad Azad, "The Politics of Privatization," *Middle East Review of International Affairs* 14, No. 4 2010, 60-71.

The interesting aspect regarding this purchase is the hoops jumped through by IRGC affiliated financial institutions to affect the purchase positively for the IRGC. The Mehr Finance and Credit Institute own the Mehr-e-Eghtesad-e Iranian Investment Company. Mehr-e-Eghtesad was understandably forbidden from taking part the privatization process of TCI. Despite this ban they still participated by loaning the Mobin Trust Consortium a great amount of money which allowed them to make this steep purchase. It is also instructive to note the companies that make up the affiliated Tose'eh-ye E'temad-e Mobin Trust Consortium. Tose'eh-ye E'temad Investment Company, Shahriar-e Mahestan Investment Company, and Mobin Iran Electronics Development Company formed this consortium. The IRGC Cooperative Foundation controls the Tose'eh-ye E'temad Investment Company and the Shahriar-e Mahestan Investment Company.¹²⁰

The purchase of TCI represents the largest financial purchase in the history of the Tehran Stock Exchange. Other important figures besides Muhammad Nahavandian suspected foul play in the TCI privatization process. Eliyas Naderan, a Majlis representative and former IRGC member, told the Alef news agency that Majlis will investigate the deal. Interestingly, after the parliament signaled they might investigate the deal, the executive general of the Tose'eh-ye E'temad-e Mobin Trust Consortium and his wife mysteriously died in their home. High level of censorship will only increase as the IRGC affiliated companies now own a majority of the largest telecommunication firm in Iran.¹²¹ The IRGC had their sights set on telecommunications for a long time. In 2002, a Turkish telecommunications company named Turkcell attempted to enter

¹²⁰ Ali Alfoneh, "The Revolutionary Guards' Looting of Iran's Economy," *American Enterprise Institute*, June 2010, <http://www.aei.org/outlook/100969>.

¹²¹ Ali Alfoneh, "The Revolutionary Guards' Looting of Iran's Economy," *American Enterprise Institute*, June 2010, <http://www.aei.org/outlook/100969>.

the Iranian telecommunications market. Turkcell is traded on the New York Stock Exchange and is the largest Turkish Company traded on that exchange. The IRI government placed the deal in abeyance once the IRGC protest the deal. The Iran Electronic Industries and the Foundation of the Oppressed, both IRGC operated entities, placed numerous roadblocks in the form of legal obstacles to end Turkcell's attempt to be the second mobile phone provider in Iran.¹²²

The IRGC will also force itself onto companies they want to own. In early 2010, the IRGC through its affiliate, Mehr Finance and Credit Institution, proceeded to enter the tractor manufacturing industry. The Mehr Finance and Credit Institution took control of the Tabriz Tractor Manufacturing Company. They paid around 17 million U.S. dollars for the company, rejecting the fierce opposition given to the buyout by the Tabriz Tractor Manufacturing Company's managers and Majlis legislators representing East Azerbaijan. The Mehr Institution requested the resignation of the company's president among other changes in management. A. Hanafi, a former IRGC official, is currently president of the Tabriz Tractor Manufacturing Company, after being appointed to the position.¹²³

The IRGC also controls the Kurdistan Tractor Manufacturing Company. This process started in early 2010, but company managers delayed the buyout because of their hard push back against the deal. The governor of the Kurdistan Province even traveled to Tehran to speak with figures who could affect the deal. Despite talking to various ministers of the government and people within the president's cabinet, he convinced no one of the dangers of the buyout. In June

¹²² Ali Alfoneh, "How Intertwined Are the Revolutionary Guards in Iran's Economy?" *American Enterprise Institute*, October 2007, <http://www.aei.org/outlook/26991>

¹²³ "After Telecommunications, the Revolutionary Guard Corps Also Seized Kurdistan Tractor Manufacturing Company," *Iran Briefing*, June 8, 2010, <http://iranbriefing.net/?p=247>

of 2010 the Mehr Finance and Credit Institution successfully bought out the Kurdistan Company and insisted the president resign from office. Davood Amrahnejad, an IRGC general, was appointed president of the company. Western Iran contains no other big manufacturing enterprises except for the Kurdistan Company which employs 160 people.¹²⁴

Sanctions

The main response from western nations to punish the deviant behavior of the IRGC takes the form of imposing sanctions on people and companies affiliated to the IRGC. The theory behind this strategy is to place a hard burden on the IRGC affiliated companies to attract investments and funds necessary to undertake large projects. One of the best cases to look at the effects of recent sanctions is to look at the development of the South Pars natural gas field. The South Pars natural gas fields contain about 450 Tcf of natural gas reserves, which roughly corresponds to 47 percent of Iran's reserves of natural gas.¹²⁵ This also represents 8 percent of the world's total natural gas reserve.¹²⁶ This represents arguably the most important economic structure in the Iranian economy.

Prior to Western countries enacting sanctions, many Western companies, including oil and gas, cultivated extensive ties inside Iran. Total, a major French oil and gas company, won the ability to participate in the development of the South Pars natural gas field. Total assumed the

¹²⁴"After Telecommunications, the Revolutionary Guard Corps Also Seized Kurdistan Tractor Manufacturing Company," *Iran Briefing*, June 8, 2010, <http://iranbriefing.net/?p=247>

¹²⁵ "Iran Background," *Energy Information Agency*, January 2010, <http://www.eia.gov/countries/cab.cfm?fips=IR>.

¹²⁶ Hiedeh Farmani, "Global Firms Invited to Join Iran Energy Projects," *Google News*, July 19, 2010, <http://www.google.com/hostednews/afp/article/ALeqM5iHmUtrM4HudPPEsdDY99h3DtWswQ>

position of the leading company in a consortium that included Petropars and Gazprom to develop phase two and three of the natural gas field which cost around 2 billion U.S. dollars. Total was also the leading foreign energy company developing phase 11 of the natural gas field after Petronas pulled out of the project. Total also participates in extensive sales of natural gas to Iran.¹²⁷ In 2008, Total announced they were halting participating in its 10 billion U.S. dollar investment in the South Pars natural gas field. Total succumbed to the political pressures placed upon it by the French and American government to halt its role in the project.¹²⁸ In June 2009, the Iranian government decided to formally end Total's role in developing phase 11 of the natural gas field by signing a 4.7 billion dollar deal with the Chinese National Petroleum Corporation.¹²⁹ On June 28, 2010, just days before U.S. President Barak Obama signed new sanctions against Iran; Total announced they were refusing to sell any more gas to Iran.¹³⁰ Sanctions placed upon Iran had a major impact in affecting a western company working in Iran.

The sanctions also had an effect on the Italian oil and gas company, Eni, working in the Darkhovin oil field. Once all of the phases are complete, the oil field is expected to produce 260,000 barrels of oil per day. Eni signed a 550 million dollars deal to develop the Darkhovin oil field in 2001. In 2009, The NIOC signed a 1.5 billion U.S. dollar deal with Eni to develop phase

¹²⁷ "Iran: Country Analysis Brief," *Energy Information Agency*, January 2006, http://www-personal.umich.edu/~twod/oil-ns/articles/iran/eia_iran_country_analysis_brief_2006.pdf

¹²⁸ Charles Bremner, "Iran Isolation Grows as France's Total Cancels \$10bn South Pars Gas Field Project," *The Times*, July 11, 2008, http://www.timesonline.co.uk/tol/news/world/middle_east/article4311311.ece

¹²⁹ CNPC to Start Drilling in Iran's Gas Project in March," *Press TV*, February 10, 2010, <http://edition.presstv.ir/detail/118321.html>.

¹³⁰ "France's Total Halts Iran Gasoline Sales: Report," *MarketWatch*, June 28, 2010, <http://www.marketwatch.com/story/frances-total-halts-iran-gasoline-sales-report-2010-06-28>

3 of the Darkhovin oil field. Eni is also participating in developing the first two phases of the oil field.¹³¹ In April of 2010, facing the intense pressures of U.S. sanctions, Eni decided to halt all production of the oil field and hand it off to various IRI companies. The sanctions convinced Italian president Silvio Berlusconi to convince Eni to halt production.¹³² Netherland's Royal Dutch Shell and Spain's Repsol has also been affected by the new sanctions. The two companies were negotiating with the Iranian government to develop phase 13 and 14 of the South Pars natural gas field. After negotiations were finished, the Iranian government gave the two companies a week to decide if they wanted to participate. Amid pressure from the U.S., the two companies gave no answer to the Iranian government. The development was then handed to the Khatam-Ol-Osea consortium for 5 billion dollars. The consortium contains Khatam-Al-Anbia, the main engineering arm of the IRGC.¹³³

The IRGC increased their control over accountable businesses during the same period as the IRGC's political ascendancy, 2004 to the present. As stated in the chapter, the reinterpretation of Article 44 gave the IRGC the opening to control the privatization process. The IRGC's control of the economy is easily represented by viewing Khatam-Al-Anbia and the Mehr Finance and Credit Institution. The next chapter involving the unaccountable businesses becomes much harder to explain.

¹³¹ Matthew Scotland, "Eni Signs \$1.5bn Deal for Iran's Darkhovin Field," *Arabian Oil And Gas*, May 22, 2009, <http://www.arabianoilandgas.com/article-5521-eni-signs-15bn-deal-for-irans-darkhovin-field>.

¹³² "Italy: Eni to Forfeit Iranian Gas Field over Sanction Threat," *Adnkronos International*, April 29, 2010, <http://www.adnkronos.com/AKI/English/Business/?id=3.1.320276186>

¹³³ Ladane Nasser, "Iran Ends Talks With Shell, Repsol on South Pars Gas Project," *Iran Energy Project*, June 6, 2010, <http://www.iranenergyproject.org/768/iran-ends-talks-with-shell-repsol-on-south-pars>

Chapter 4: Unaccountable Businesses

The IRGC gained more representation in the IRI's pseudo-democratic system by controlling two of the three elected institutions, the Majlis and the presidency. The IRGC affiliated companies also gain power through the process of privatization similar to the privatization process of the former Soviet Union. The bonyads represent an interesting study in not only the power increase of the IRGC, but the decline of previously powerful factions. The IRGC also increased its involvement in Iran's black market. Both black markets and bonyads are referred in this paper as unaccountable businesses.

History of Bonyads

Bonyads were created after the 1979 revolution. Before the revolution the ulama, high clerics, created and owned awqaf, or charitable foundations. These foundations, like the present day bonyads, were exempt from state oversight. The main duties of the ulama were to create ejtehad, or religious interpretation of the Quran, and to provide guardianship for the socially weaker members of society. The ulama are given the task of safeguarding the deposits and estates of minors and protecting orphans. People who believe in Shiism are encouraged to give a tax called zakat which translates into a poor tax and khoms which translates into the fifth. These taxes serve the purpose of helping the ulama help the poor. Taqlid, emulation of another in the matter of law, serves as the framework for paying the taxes. It is the duty of the moqalled, which roughly translates to someone who emulates, to pay these religious taxes. Taqlid also serves as the foundation of the clerical hierarchal regime of the IRI.¹³⁴ It is the duty of the moqalled, the citizens, to emulate the Supreme Leader, Ayatollah Khamieni.

¹³⁴ Ali A. Saeidi, "The Accountability of Para-governmental Organizations (bonyads): The Case of

In 1979, the Islamic revolution replaced the government of the Shah with a government ruled by the ulama. This changed the tax collection process for the ulama. The clerical government chooses not to administer awqaf or collect religious taxes. The clerics collected only taxes for the purpose of running the government. The clerical government distinguished the taxes paid to the Islamic government versus the religious taxes. Ayatollah Ardebili, president of the Supreme Court from 1981-1989 said, “Those who do not pay their taxes are like those who do not pay their khoms, their property is illicit.” After the revolution, the properties of the shah and the royal families were confiscated by the government and given to the newly created parallel governmental institutions called bonyads. Ayatollah Khomeini allowed the Revolutionary Councils to confiscate the property and pass it off to these newly created non-state or quasi-state institutions because of ghanimat. Ghanimat translates to spoils, and the possessions of the shah and the royal family were considered to be spoils. Khomeini directly told the Revolutionary Councils that spoils must be kept separately from state assets.¹³⁵

The assets of the fifty-one largest Iranian industries were nationalized by the government following the Islamic revolution. The properties were then transferred over to the control of the bonyads. This gave the bonyads an independent economic base that allowed them to act separately from the Iranian government. The bonyads basically act as holding companies claiming the unclaimed assets of those who were tied too closely to the Shah and the ruling

Iranian Foundations,” *Iranian Studies* 37, No. 3 (2004): 479-480

¹³⁵ Ali A. Saeidi, “The Accountability of Para-governmental Organizations (Bonyads): The Case of Iranian Foundations,” *Iranian Studies* 37, No. 3 (2004): 483-484

family. One example of this is the creation of the Bonyad-e Astan-e Qods-e Razavi. This organization added bonyad to their name following the Islamic revolution. The bonyad was based on the shrine of the Imam Reza at Mashad and had an annual budget of 2 billion dollars. The large amount of money controlled by the bonyad allows it to act outside the normal governmental institutions. This situation leads one to question the Iranian government commitment to private property, which frightened the bazaars.¹³⁶

The bonyads represent incredible economic and cultural power within Iran. The legal system assist the bonyads in their economic dominance by allowing bonyads to not pay any taxes, to give them easy access to finance, and by allowing them to use exchange rates lower than the official exchange rate of Iran. The bonyads also report directly to the Supreme Leader, bypassing any scrutiny from the parliament, presidency, or any other governmental institution inside of Iran. The bonyads also provide their own administrative bodies and financial resources. The bonyad's autonomy has led it to clash with the governmental institutions of Iran. President Rafsanjani attempted to change the orientation of Iran's foreign policy. Rafsanjani wanted to bring a less harsh foreign policy to Iran to help increase trade, The Bonyad-e Panzadeh-e Khordad, the 15th Khordad Foundation, decided to increase the reward they would give to anyone who assassinates Salman Rushdie. Rafsanjani declared the bonyad actions legitimate because of its status as a private charity.¹³⁷ This claim is odd because a private charity is still subjected to governmental oversight. Bonyads are autonomous organization that acts outside the

¹³⁶ Ali A. Saeidi, "The Accountability of Para-governmental Organizations (Bonyads): The Case of Iranian Foundations," *Iranian Studies* 37, No. 3 (2004): 483-484

¹³⁷ Ali A. Saeidi, "The Accountability of Para-governmental Organizations (Bonyads): The Case of Iranian Foundations," *Iranian Studies* 37, No. 3 (2004): 485

purview of the state. This bonyad took an action contrary to the wishes of the president without any consequences.

Despite the bonyads autonomous status and its limited accountability, only to the Supreme Leader, the bonyads played a major function during the beginning years of the Islamic Republic. At first, the new regime did not trust the governmental and the bureaucratic mechanisms of the old regime and felt they needed mechanisms dedicated to the new regime. The bonyads represented a huge mechanism that can be employed by the regime to solidify its new position in society. One example of the help the bonyads offered to the new regime came during the university purges. Many white-collar professionals, students, and teachers left Iran, were jailed, or killed. These people were replaced by those in the lower classes who ardently supported the regime. The number of university instructor drastically fell from 16,000 in 1978-79 to 9,000 in 1981-82. Also around 10,000 students and teachers who were members of groups opposed to the regime were executed in 1981, and more the 80,000 professionals, intellectuals, and people with managerial skills fled the country. The new regime took advantage of the situation and bypassed a quota system to allow the many university positions to be filled by people with less knowledge, but who ardently supported the regime. The regime also encouraged public employees to give preferential treatment to those people affiliated with particular bonyads.¹³⁸

During the purges, the bonyads acted as a vehicle of social mobility for the lower classes that were given secondary positions within the regime. This gave the Iranian government major

¹³⁸ Ali A. Saeidi, "The Accountability of Para-governmental Organizations (Bonyads): The Case of Iranian Foundations," *Iranian Studies* 37, No. 3 (2004): 486

control over the distribution of human capital, by funneling regime supports into higher education and the public sector. The resources of the bonyads helped the Iranian government expand its access and reach within Iranian society. In 1976 one-third of the urban workforce worked in the public sector, that number increased to one-half by 1986. In addition to funneling their lower class supporters into higher education and the public sector, the bonyads also took part in many cultural activities which helped solidify its position in Iran. The bonyads created schools, published books and magazines, sponsored art festivals, book exhibits, and museums. All of the cultural activities undertaken by the bonyads promoted a version of radical Islam dedicated to helping the downtrodden.¹³⁹

IRGC involvement in Bonyads

The IRGC has gotten into the business of running bonyads. Mohsen Rafiqdust, the first minister of the Revolutionary Guards, previously headed the Foundation of the Oppressed and Disabled (Bonyad Mostazafin va Janbazan). Rafiqdust was also one of the founding members of the IRGC and the head of Khomeini's security when he returned to Iran.¹⁴⁰ Mohammad Forouzandeh, chief of staff of the IRGC in the late 1980's and former Defense Minister, heads the Foundation of the Oppressed and Disabled. Many scholars paint Mostazafin as Iran's most powerful bonyad.¹⁴¹ This bonyad took over many of the Shah's assets after the revolution, most

¹³⁹ Ali A. Saeidi, "The Accountability of Para-governmental Organizations (Bonyads): The Case of Iranian Foundations," *Iranian Studies* 37, No. 3 (2004): 487

¹⁴⁰ Paul Klebnikov, "Millionaire mullahs," *Forbes*, July 7, 2003, <http://www.forbes.com/global/2003/0721/024.html>

¹⁴¹ Kenneth Katzman, "Joint Economic Committee Hearing on Iran," *Congressional Research Service* July 25, 2006

importantly; it took over the Pahlavi foundation.¹⁴² This bonyad aims to help those who have suffered during the Iran-Iraq war, veterans, their families, and the general population of poor citizens. It now owns over 400 companies and experts estimate the bonyad's total value at 12 billion dollars. The foundation takes part in many economic sectors including; "food and beverages, chemicals, shipping (Bonyad Shipping Co.), metals, petrochemicals, construction materials, dams, towers, farming, horticulture, animal husbandry, tourism, transportation, hotels (including two major hotels in Tehran), commercial services, and financing. It produces the best selling soft drink in Iran, called Zam Zam."¹⁴³

Mostazafin employs over 200,000 workers and owns over 350 different organizations resulting in its status as the largest business in Iran next to the National Iranian Oil Company.¹⁴⁴ Mostazafin owns the Agriculture and Food Industries Organization (AFIO) which registers as its largest subordinate company. The AFIO also owns 115 other operations. Mostazafin also conducts work outside the Iranian state. The UAE's Hajar Mountains is currently hosting a Mostazafin project. The General Mechanic Civil and Housing Organization is currently on contract to build a 30 million dollar road.¹⁴⁵

¹⁴² Frederic M Wehrey, *The Rise of the Pasdaran: Assessing the Domestic Roles of Iran's Islamic Revolutionary Guards Corps*, (Santa Monica: RAND National Defense Research Institute, 2009), 57

¹⁴³ Kenneth Katzman, "Joint Economic Committee Hearing on Iran," *Congressional Research Service* July 25, 2006

¹⁴⁴ Shayerah Ilias, "Iran's Economic Conditions: U.S. Policy Issues," *Congressional Research Service*, April 22, 2010

¹⁴⁵ Frederic M Wehrey, *The Rise of the Pasdaran: Assessing the Domestic Roles of Iran's Islamic Revolutionary Guards Corps*, (Santa Monica: RAND National Defense Research Institute, 2009), 58

Other bonyads contain links to the IRGC. Some allege Mostazafin assisted the Nur foundation's beginnings.¹⁴⁶ The former's leader of Mostazafin, Rafiqdust, currently heads the Nur Foundation which contains real estate holdings, and "makes an estimated 200 million from importing pharmaceuticals, sugar, and imports equipment."¹⁴⁷ Also, Bonyad Shahid, Martyrs Foundation, employs Hossein Dehghan a former commander of the IRGC Air Force as its leader. This foundation provides various members of the Basij and relatives of martyrs affordable home loans. The Martyr Foundation has lent 270 million rials to urban and rural families. They also participate in projects alongside the Industrial Development and Renovation Organization and the Iran Electronic Development Company.¹⁴⁸ The Martyrs foundation reportedly retains activities in the "mining, agriculture, construction, and import-export" sectors.¹⁴⁹

The important aspect of the bonyads that must be remembered is that they and their predecessors has been a tool used exclusively by the ulama, or clerics. The increase of IRGC influence within the bonyads represents a huge threat to the clerical regime. Also, the IRGC's increase of influence with the Supreme Leader gives it indirect power towards the bonyads because the bonyads answer only to the Supreme Leader. The bonyads work in social services

¹⁴⁶ Frederic M Wehrey, *The Rise of the Pasdaran: Assessing the Domestic Roles of Iran's Islamic Revolutionary Guards Corps*, (Santa Monica: RAND National Defense Research Institute, 2009), 58

¹⁴⁷ Paul Klebnikov, "Millionaire mullahs," *Forbes*, July 7, 2003, <http://www.forbes.com/global/2003/0721/024.html>

¹⁴⁸ Frederic M Wehrey, *The Rise of the Pasdaran: Assessing the Domestic Roles of Iran's Islamic Revolutionary Guards Corps*, (Santa Monica: RAND National Defense Research Institute, 2009), 59

¹⁴⁹ Kenneth Katzman, "Joint Economic Committee Hearing on Iran," *Congressional Research Service* July 25, 2006

and social mobility is incredibly relevant because the IRGC has its own network of social mobility. The Basij acts as a vehicle of social mobility for those less well off in society. The IRGC formally merged the Basij within their formal structure in 2007. The bonyads funneled the lower class into government jobs. The Basij attempt to accomplish the same task, they both attempt to assist the lower classes into government positions. This would not be a threat to the regime, except if the IRGC as an institution is more powerful than the Supreme Leader. The loyalty of the lower classes that advance socially would not necessarily be to the Supreme Leader, but to the IRGC.

Iran's Black Markets

The Iranian government cannot track the funds flowing in and out of the charitable foundations known as bonyads. While bonyads account for a sizable portion of the “undocumented” economy, there is another undocumented sector which must be accounted for. Smuggling goods to trade on the black market occurs within every country including the United States. The smuggling, black market sector becomes another part of the economy that is easily penetrated by the IRGC. There are three major rules and regulations in Iran covering smuggling. They include the 1933 Penal Codes for Smuggling, 1971 Customs Rule, and the 1994 Governmental Discretionary Punishment Rule.

The 1994 Governmental Discretionary Punishment Rule and executive guidelines created in the year 2000 add to the rules and regulations of smuggling activity. These rules classify smuggling into two categories based on the values of the goods smuggled. The first category includes goods smuggled under 10 million rials, 1010, U.S. dollars, and the second category includes goods smuggled over 10 million rials or 1010 U.S. dollars. Reports claimed 87.9 and

86.5 percent of the goods smuggled in 2004 and 2005 fell respectively into the first category.

Petty smuggling, the first category, contains little of the overall value in smuggling. It constitutes only 16 percent of the total value of smuggled goods in 2004 and 20.5 percent in 2005.¹⁵⁰

The Iranian economy host many features which lead to a pervasive culture of smuggling. The Iranian economy contains high levels of corruption, many high tariff and non-tariff barriers, and extremely high prices as compared to competitors. Transparency International's Corruption Perception Index rated the Iranian economy 146 out of 178 countries in terms of corruption. Iran received a score of only 2.2, a pitifully low score.¹⁵¹ The World Bank and International Finance Corporation's Doing Business study found that the Iranian economy ranked 142 out of 181 countries. The study also measured import cost (U.S. dollar, 20 foot container). In the study, only the Iraqi economy performed worse. The lowest cost country, Singapore, had an average import cost of 439 U.S. dollars while the Iranian import cost hovered around 1656 U.S. dollars. The Iranian economy also performs miserably in the category of wait time, export cost, and paperwork.¹⁵²

Another factor inside the Iranian economy that makes allows for the pervasiveness of corruption is the highly subsidized consumer oil products. Energy subsidies represent 12 percent of the GDP of Iran while some who study this subject estimate the percentage to be even higher,

¹⁵⁰ Farzanegan, Mohammad Reza. "Illegal Trade in the Iranian Economy: Evidence from a Structural Model." *European Journal of Political Economy* 25, no. 4 (2009): 489-507

¹⁵¹ Corruption Perception Index 2010 Results," *Transparency International*, 2010, http://www.transparency.org/policy_research/surveys_indices/cpi/2010/results

¹⁵² Farzanegan, Mohammad Reza. "Illegal Trade in the Iranian Economy: Evidence from a Structural Model." *European Journal of Political Economy* 25, no. 4 (2009): 489-507

at 25 percent of GDP.¹⁵³ Subsidizing fuel creates an incentive for export smuggling because one can buy the fuel domestically for a very cheap price and sell it as an export at a much higher price. It is reported that over 90 percent of the export smuggling taking place within Iran encompasses the exporting of petroleum products. The petroleum based export smuggling breaks down as follows, 60.6 percent in gas oil smuggling, 17.6 percent in the smuggling of kerosene, 2.5 percent in gasoline, and 11 percent on other petroleum products. The import smuggling of Iran contains a much more diverse amount of goods. The major contributors to import smuggling include machinery at 24 percent, cars at 12 percent, 9.5 percent involve alcohol, 8.5 involve cloths, and 8 percent involves chemical material. The smaller contributors include accessories at 4.7 percent, gold bar and clutch and tea at 3.1 percent, and cereal at 3 percent.¹⁵⁴

In 2010, the parliament of Iran passed a bill which will end the subsidization of petroleum products and replace it with direct transfer funds. The newly created Subsidy Reform Organization will distribute the funds to the poor, injured industries, and the treasury. The pervasiveness of petroleum based export smuggling makes Ahmadinejad and the parliament's decision to eliminate oil subsidies within the next five extremely interesting.¹⁵⁵ The Iranian government already expects a backlash from ordinary consumers over the increase of energy prices, but an increase in energy price will also anger those involved in the export smuggling business. Ahmadinejad is ruffling the feathers of what is an area of the economy influenced by

¹⁵³ Semira N. Nikou, "The Subsidies Conundrum," *Iran Primer*, <http://iranprimer.usip.org/resource/subsidies-conundrum>

¹⁵⁴ Farzanegan, Mohammad Reza. "Illegal Trade in the Iranian Economy: Evidence from a Structural Model." *European Journal of Political Economy* 25, no. 4 (2009): 489-507

¹⁵⁵ Semira N. Nikou, "The Subsidies Conundrum," *Iran Primer*, <http://iranprimer.usip.org/resource/subsidies-conundrum>

the IRGC the smuggling business. The IRGC officials involved in that specific area of smuggling will not be happy when the price of petroleum begins to increase.

IRGC's Involvement in Black Markets

Evidence exist which connects the IRGC to the smuggling business. The Islamic Republic has periodically banned items such as televisions, satellite dishes, and other consumer products. Despite the fact that many normal household goods are technically banned, they can be found easily in merchant shops. An Iranian skipper claims, "We can take almost anything to Iran." Consumer electronics carry a high demand within the economy of the IRI. He also claimed if the IRGC stopped his boat and found the illegal contraband, they will not apprehend the illegal property. The IRGC always ask for a fee, usually around 3,000 to 4,000 dollars, in order for the guards to make their profit from the illegal trade.¹⁵⁶ One Iranian legislator estimates the size of the illegal trade within Iran's economy to be around 12 billion dollars. He also claims that the size of the smuggling operations proves the involvement of a coordinated effort, the IRGC.¹⁵⁷

Mohammad Baqer Qalibaf, former IRGC guardsman, currently mayor of Tehran, former head of Iran's Law Enforcement Agency, and rival of Mahmoud Ahmadinejad have reported on the extent of the smuggling business in Iran while he was head of the police force. In 2005, Qalibaf recognized the smuggling of normal consumer goods like cigarettes, tea, automobiles, household equipment, and computer parts as a huge problem for Iran. Qalibaf estimates the total value of the goods brought in by the smuggling business to equal around 6 billion dollars. He

¹⁵⁶ Dehghanpisheh, Babak, "Smugglers for the State," *Newsweek*, Volume 156, No. 3, 2010, 42-43

¹⁵⁷ Ali Alfoneh, "How Intertwined Are the Revolutionary Guards in Iran's Economy?" *American Enterprise Institute*, October 2007, <http://www.aei.org/outlook/26991>

also warns of the uses of illegal ports and jetties, not registered with the IRI government, which he estimates about 80 percent of smuggled goods, arrive through. Qalibaf attributes the high tariff rate and other trade barriers to encouraging the smuggling of goods. High tariffs discourage imports, which then arrive in the IRI as smuggled goods. Qalibaf also criticized Dubai for not strictly policing the trade that leaves their country.¹⁵⁸ Although Qalibaf has talked frankly about the problem of smuggling, he won't implicate any Iranian actor participating in the trade due to the fear of creating factions and divisions.

The case of smuggling through the Payam Airport provides an interesting case study on smuggling in Iran. The Iranian government owns the airport and the IRGC manage it. Around 300 tons of goods were transported to the Payam Airport illegally over a two year span.¹⁵⁹ The defendant who is only known through his initials, A.T., organized four to five flights a day and up to eight flights on the holidays to transport illicit goods through the airport. Accomplices in the Customs helped him obtain falsified passports, undervalue the amount of goods being transported, and operated beyond normal business hours. The Defendant was arrested by the Intelligence Ministry in 2005. Luckily, for A.T., his financial powers allowed him pay his 1 billion toman, or 1.265 million dollar, fine in less than five minutes. Information and Communications Technology Minister, Ahmad Motamedi, shot down any idea that government officials should be implicated in the case.¹⁶⁰

¹⁵⁸ A. William Samii, "Analysis: Goods Smuggling Highlights Economic Problems in Iran," *Radio Free Europe/Radio Liberty*, January 7, 2005.

¹⁵⁹ Ali Alfoneh, "How Intertwined Are the Revolutionary Guards in Iran's Economy?" *American Enterprise Institute*, October 2007, <http://www.aei.org/outlook/26991>

¹⁶⁰ A. William Samii, "Analysis: Goods Smuggling Highlights Economic Problems in Iran," *Radio Free Europe/Radio Liberty*, January 7, 2005.

Although the IRGC increased its participation in running the bonyads, the amount of control is still less than the IRGC's control of the other political and economic institutions. For hundreds of years this important economic institution remained solely in the hands of the clerics. The IRGC's encroachment into this sector dilutes some of the cleric's power in this once dominated sector. One can only speculate about the IRGC's involvement in the black market. Unfortunately, only some involvement can be proven.

Chapter 5: Conclusion

Overview

The IRGC has a substantial control of the elected political institutions, allowing it great freedom in influencing policy. They captured the political institutions as a result of the reform agenda spearheaded by former president Mohammad Khatami. It also has increased its presence in the accountable businesses of Iran. The IRGC has used many vehicles to gain a foothold in business, two of the most powerful being the Mehr Finance and Credit Institution and Khatam al Anbia. Western sanctions also positively impacted the presence of the IRGC in accountable businesses. The IRGC slightly increased their presence in the unaccountable businesses of Iran. The Foundation of the Oppressed and Disabled and the Noor Foundations are two huge bonyads linked to the IRGC. There are only a few reports linking the IRGC to Iran's black markets.

Themes

The research began with asking a question about the nature of the Iranian economy. The question pertained to the level of the IRGC's influence in the economy of Iran. Does the IRGC control the Iranian economy and if so how much does it control? By examining three variables related to the Iranian economy a picture can be painted of the IRGC's influence in the Iranian economy. The IRGC has used many tools to increase its economic power. Each of the three tools represents the three independent variables of the research. All three variables have increased, leading to an increase in the economic power of the IRGC. Each of the three independent variables contains themes that relates to all of the independent variables. The themes include leadership, government policy, U.S. foreign policy, and domestic conflicts. Each of the themes interacts with each independent variable as shown by Table 1.

Table 2- Overall Themes Applied to Each Independent Variable

IRGC Level of Economic Control	Leadership	Government Policy	U.S. Foreign Policy	Domestic Conflict
Elected Institutions	Positive	Positive	Positive	Positive
Accountable Businesses	Positive	Positive	Positive	Positive
Unaccountable Businesses	Slightly Positive	Slightly Positive	Positive	Slightly Positive

Leadership

Leadership proves vital within each independent variable. Leadership encompasses the need for politically active groups to place favorable people in important offices. In the Iranian political system, personalities determine the relative strength of an office. The use of an office with someone who possesses a “strong” personality can be the difference between the ascension and defeat of policy. The placement of strong IRGC officials in powerful positions can be the deciding factor in a political conflict. Placing enough committed supporters in government positions can win a policy battle before the battle even begins.

On the political side, the speaker of the majlis registers as an important office. This office is filled by former Guardsman Ali Larijani. As stated in Chapter 2, Ali Larijani is one of the more powerful people in Iran due to his family. His connections have assisted him in his political journey which includes not only speaker of the majlis, but also Iran’s chief nuclear negotiator and head of the Supreme National Security Council. As stated before, the IRGC is not a

monolithic group with a singular interest. Larijani has clashed with President Ahmadinejad, another former Guardsman, over government policies and appointments. Although both men clash at times, they profess similar ideological opinions of the Islamic Republic of Iran. Their rivalry is a rivalry of personality, not ideology. Larijani plays an important role as speaker of the majlis by giving a powerful platform to conservative ideology which is exposed by the IRGC.

The business variable also contains the leadership theme. Arguably, the most powerful business entity controlled by the IRGC is Khatam al anbia. AS referred to in Chapter 3, Khatam has been described as the main engineering arm of the IRGC. General Rostam Ghasemi, former IRGC commander is the new Petroleum Minister of Iran. He was appointed to the position after leading the conglomerate Khatam al anbia. The positioning of Ghasemi in Khatam gave the IRGC personal control of the engineering empire. Larijani supported Ahmadinejad's appointment of Ghasemi to the Petroleum Ministry along with 216 out of the 246 parliamentarians present at the vote.¹⁶¹ This action displays the informal network of the IRGC, as a major player was easily appointed to a powerful ministry position. Ghasemi received this status by being the head of Khatam al anbia.

The leadership theme can also be found in the operations of bonyads. Bonyads are on paper charitable organizations created to help the poor and impoverished. In actuality, they appear more similar to business holding companies as bonyads now own many businesses. Bonyads are also completely unaccountable to the government of Iran. They are only accountable to the Supreme Leader who also appoints the leaders of bonyads. As referred to in

¹⁶¹ Saeed Kamali Dehghan, "Iran revolutionary guards' commander set to become president of Opec" *The Guardian*, July 27, 2011, <http://www.guardian.co.uk/world/2011/jul/27/iran-revolutionary-guards-opec-rostam-ghasemi>

Chapter 4, The Foundation of the Oppressed and Disabled is one of Iran's most powerful bonyads. Mohsen Rafiqdust, the first minister to the IRGC during the Iran-Iraq war previously headed this foundation. He now heads the Noor Foundation. Mohammad Forouzandeh, chief of staff of the IRGC in the late 1980's and former Defense Minister, currently leads the Foundation of the Oppressed and Disabled. This illustrates the vastness of the IRGC informal network and also highlights the close relationship between the IRGC and the Supreme Leader.

Black markets have not benefited from of leadership. As referred to in Chapter 4, Qalibaf, former IRGC officer, held the post of head of Iran's Law Enforcement Forces at that time. Qalibaf used his stature to complain about the IRGC's illegal practices. Fortunately for IRGC forces involved, No major crackdown of illegal trade resulted from Qalibaf's complaints. It appears that the IRGC is not yet willing to abate the constant instances of black market trading.

Government Policy

Consequently, Iranian government policy also affects each of the independent variables. Placing leaders within powerful positions or cultivating friendships with powerful people is important, but one must view the resulting policy set by the government to assess the relative importance of the IRGC. The policy set by government is not created by just one leader which creates the difference between leadership and government policy. Government policy represents the endgame of political theater where victory or defeat of a political faction can be observed.

During the presidency of Mohammad Khatami, The Guardian Council and Judiciary launched policies that affected the outcome of the election in the mid 2000's. Their policy of attacking the free press of Iran and making it difficult for reformist to run in the election had a huge effect on the elections. As mentioned in Chapter 2, the Council of Guardians disqualified

2500 candidates from running for parliament. This action reduced the number of reformist candidates running, giving the IRGC backed candidates an easier road to victory. Also 120 sitting parliamentarians decided not to run because of the government's policies towards reformist. The atmosphere created by the policies led the parliamentarians to resign. The actions created a clear path for the IRGC backed candidates to enter parliament and affect formation of government policy.

IRGC business interest has also benefitted from favorable government policy. The IRGC business interest has benefitted from a widespread government push for privatization. This policy has been pushed not only by the friendly parliament; the Supreme Leader also backed that policy. Chapter 3 explains the actions which culminated in the law which sanctioned the IRGC's privatization. In 2005, the Supreme Leader reinterpreted Article 44 of the Iranian Constitution. Article 44 refers to the law that codifies the set up of the Iranian economy. The economy is to be divided into three sectors and each sector contains certain industries. The sectors include the public, private, and cooperative sectors with the public sector leading the economy. The reinterpretation of Article 44 called for more privatization. The Supreme Leader's decree was codified into law by the parliament. The IRGC has benefitted from this law because their companies have been buying other companies during this period of privatization. The most notable example of the trend is the 2009 purchase of TCI by the Mehr Finance and Credit Institution.

The unaccountable business of bonyads controlled by the IRGC has also received a boost because of favorable government policy. As referred to in Chapter 4, bonyads report directly to the Supreme Leader, the elected governments cannot oversee their operations. The Supreme

Leader also appoints the directors of the bonyads. Bonyads connected to the IRGC like the Foundation of the Oppressed and Disabled, and Noor Foundation manage to serve the IRGC interest while being appointed by the Supreme Leader. This paints a close relationship of the Supreme Leader to the IRGC. The IRGC benefits from the relationship because the Supreme Leader is task with overseeing the bonyads. A friendly relationship equates to more freedom in running the bonyads.

Government policy may be injuring the IRGC activities within the black market. As mentioned in Chapter 4, petroleum products have been one of the most lucrative products bought and sold within the Iranian black market. This persists because of huge subsidies which lowers the price of fuel for Iranians. Those who are involved in the black market buy the petroleum product at a low price in Iran and export them for a profit. This situation is coming to an end because of new laws written by the parliament. In 2010, the parliament wrote a law that will eliminate the subsidy placed upon Iranian gas products. Eliminating the subsidy will make the petroleum product export scheme less feasible in the future.

U.S. Foreign Policy

U.S. foreign policy has also produced an effect on the actions of the IRGC. U.S. has not held an ambassador with Iran since the 1979 Islamic Revolution.¹⁶² Since then, Attempts at rapprochement were made during the Rafsanjani and Khatami administrations.¹⁶³ The U.S. still

¹⁶² Fars News Agency staff, "FM Summons Swiss Charge D'affaires Over US Allegation Against Iran," *Fars News Agency*, October 12, 2011, <http://english.farsnews.com/newstext.php?nn=9007160654>

¹⁶³ Radio Free Europe staff, "Iran's Rafsanjani Loses Key Post on Assembly of Experts Radio Free Europe," *Radio Free Europe*, August 3, 2011, http://www.rferl.org/content/iran_rafsanjani_assembly_of_experts/2331272.html

remained hostile to Iran when Ahmadinejad entered the presidency. The hostility between the U.S. and Iran has dramatically increased since Ahmadinejad became president. The confrontational atmosphere between Iran and the U.S. produces an effect within each independent variable.

Generally speaking, Iranian political thought can be explained by examining the last three presidents. Rafsanjani, Khatami, and Ahmadinejad hold the political positions of reformist, pragmatist, and conservative, respectively. Both reformist and pragmatic thought include the betterment of relations between Iran and the U.S. Conservative thought thrives on the current conflict between the U.S. and Iran. President Ahmadinejad thrives off making confrontational statements about the U.S. In September 2010, Ahmadinejad's speech at the U.N. prompted the U.S. government representatives to walk out of the U.N. General Assembly. He aired his theories about 9/11 which include U.S. government officials orchestrating the attack to get Middle Eastern oil and save Israel. These statements are red meat to Ahmadinejad's core supporters. Ahmadinejad thrives off the confrontational atmosphere between the U.S. and Iran by making statements such as this.

U.S. foreign policy has also affected the IRGC controlled businesses. As mentioned in Chapter 3, the U.S. has launched many rounds of sanctions both unilaterally and multilaterally with the U.N. The sanctions have the impact of isolating Iran from the world market. If the goal of the sanction was to isolate Iran economically, then it has succeeded. The exact economic impact upon Iran is unknown, but the sanctions result in a positive impact for IRGC affiliated businesses. One of the best examples of IRGC gain from sanctions is the case of the South Pars Gas Field. Before the enactment of recent sanctions, Total and Shell were both going to

participate in the development of the gas field. The sanctions have forced the withdrawal of Western oil companies who are being replaced by Iranian and Asian companies. Sadra, a company connected to the IRGC is developing gas field phases which has seen the withdrawal of Western companies.

Sanctions may have produced a positive effect for IRGC involvement in the bonyads. One of the goals of U.S. foreign policy is to promote economic freedom within countries. One goal of economic freedom is to promote transparency within markets. As mentioned in Chapter 4, one of the noticeable characteristics of bonyads is the lack of transparency in their operations. The Supreme Leader is the only official in Iran who knows the revenues, profits, etc of bonyads. Continued isolation of the Iranian economy from the world economy assists the everyday operations of bonyads. The IRGC's involvement in the Foundation of the Oppressed and Disabled would become an arduous task if bonyads were subject to reporting their real business numbers to the central government.

A similar explanation can be given to the black market operations. Economic isolation creates economic turmoil within the legal market and provides a huge incentive to seek profit in the black market. Chapter 4 mentions items usually traded in the black markets. Many of these items including cars, satellite dishes, and cloths could be purchased legally if Iran opened its markets to more imports. The Iranian government and the IRGC want to combat Western influence which is one reason why they prefer an economy more closed to the West.

Domestic Conflict

The theme of domestic conflict lies with the history of each independent variable. The IRGC entered into the spheres of economic and politics saturated with other actors. In order for

the IRGC to gain success in each independent variable, the IRGC needed to fight a rival actor. Each actor fought within each independent variable represents a segment of Iranian society. The actors include the reformist, bazaars, and the clergy.

Chapter 2 noted the domination of reformist faction in Iranian politics from the period of 1997-2005. President Mohammad Khatami led the reformist faction to victory in 1997 which signaled the ascent of the reformist faction. The reformist faction professed goals which were directly against the interest of the IRGC. Some goals included civil liberties, human rights, non-confrontational foreign policy, and less power for security officials. With the assistance of conservative organs within Iran's government, the IRGC defeated the reformist in 2004 and most recently in the 2009 presidential election. In order for the IRGC to dominate the political sphere, the reformist needed to lose their power.

The IRGC backed businesses has recently gained power within the Iranian economy. Before the IRGC became a powerful force in the economy, the bazaars held the economic power. Bazaars represented more than a place of commerce. Bazaars have a long, rich history in Iran which includes participation in the Constitutional Revolution of the 1900's and the Islamic Revolution of 1979. Although bazaars still possess an important place in Iran's economic landscape, their position has decreased.¹⁶⁴ Pervasive uncertainty due to government policy is injurious to an import-export business. As the bazaars decrease in economic power, the IRGC filled the vacuum and has benefitted from a weaker bazaar. A wealthier bazaar community could have challenged the "privatization" conducted by IRGC affiliated businesses.

¹⁶⁴ Kevan Harris, "The Bazaar," *Iran Primer*, <http://iranprimer.usip.org/resource/bazaar>

The bonyads contain a very important history in Iran. Chapter 4 details the history of bonyads. They began as charitable foundations which evolved in large business holding companies after the 1979 revolution. Bonyads and their predecessors has been a tool used exclusively by the clerics. The increase of IRGC influence within the bonyads represents a huge threat to the power of the clergy. Major foundations used to be exclusively run by the clergy. The IRGC have encroached on this power of the clergy. Their involvement in the Noor Foundation and the Foundation of the Oppressed and Disabled represents resources that could have been controlled by the clerics. The IRGC's involvement in bonyads takes away resources that were controlled by the clerics.

Very little information exists on groups involved in Iran's black market. This portion of the variable does not contain the theme of domestic conflict. The IRGC is certainly battling groups for influence in the black markets, but there appears to be no groups organized like the reformist, bazzaris, or clergy. Overall, much of the black market remains opaque and the IRGC is just one of many groups participating in this market.

Results

In conclusion, two of the independent variables, elected institutions and accountable businesses significantly increased, while the other variable unaccountable businesses only slightly increased. The research confirmed the hypothesis for the first two variables, elected institutions and accountable businesses, but not necessarily for the third variable, unaccountable businesses. The research has confirmed the IRGC's control of Iran's economy by proving the IRGC's extensive control of Iran's elected institution and accountable businesses while proving only a slight increase of control in the unaccountable businesses.

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