

# Iran's State-Linked Conglomerates

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## Issue Overview

The Joint Comprehensive Plan of Action (JCPOA) multilateral nuclear agreement with Iran, which took effect on January 16, 2016, has raised questions about the economic and political effects of sanctions relief provided under the agreement. Although Iran has a substantial private sector composed, at least in part, of large import-export trading houses, several years of sanctions have enabled regime leaders and institutions to acquire control of significant portions of the economy. The question for the Administration and Congress is whether sanctions relief will benefit primarily the state-linked conglomerates—and by extension, regime hardliners—or would provide space for Iran's private sector and entrepreneurs to expand their roles in the economy. Legislation to require Administration reporting on the assets of regime-linked financial conglomerates, [H.R. 5461](#), passed the House on September 21, 2016 by a vote of 282-143. The Administration has stated an intent [to veto the bill](#) on the grounds that its provisions might cause Iran to make its financial sector less transparent.

## Background and Analysis

On January 16, 2016, the "Implementation Day" of the JCPOA, Iran received broad relief from United States, United Nations, and European Union sanctions that, by all accounts, had severely damaged Iran's economy since sanctions were comprehensively applied after 2011. The Obama Administration and partner countries negotiated the JCPOA primarily to limit Iran's potential to acquire a nuclear weapon, but Administration officials stated that the agreement might also empower moderate political elements and their supporters in civil society and the private sector. Yet, much of Iran's economy remains [dominated by large economic conglomerates](#) that are linked to Iran's government and some of its leaders, to its hardline military and security institution the Islamic Revolutionary Guard Corps (IRGC), or to religious foundations (*bonyads*, in Persian) controlled by key Shi'ite religious figures or shrines. Analysts assess that Iran's private sector, comprised in part of entrepreneurs who were educated outside Iran and advocate engagement with the West, is at a disadvantage to [state-linked economic institutions that enjoy](#) tax and customs duties exemptions as well as favorable treatment by government contract decision makers.

There are no firm estimates for the extent of the role in the economy that the state-linked economic institutions play. However, there is a [wide range of reporting](#) that these conglomerates, together, control numerous large Iranian companies in nearly every industry, hold vast quantities of property and land, and continue to win large government

contracts - including to develop some of Iran's major oil and gas fields.

## IRGC-Linked Companies

In order to generate funds to supplement its budget and reward its current and retired commanders, the IRGC [owns or invests in numerous businesses](#), the most prominent of which is the construction conglomerate *Khatem-ol-Anbiya* (Seal of the Prophet), commonly known as Ghorb. The firm reportedly employs 25,000 workers and has been awarded hundreds of contracts to build dams, buildings, infrastructure projects such as highways and gas and oil platforms and pipelines, and public transportation. In 2010, the government awarded the largest portion of a \$21 billion project to develop a section of Iran's pivotal South Pars natural gas field. The IRGC, Ghorb, and many Ghorb affiliates remain subject to U.S. sanctions for weapons proliferation under Executive Order 13382. No IRGC-controlled entities were removed from U.S. lists of sanctioned entities as a consequence of the JCPOA.

## Government-Owned Corporations

Iran's government runs several large economic entities that manage pension and other funds of public employees, and other assets. Since sanctions were lifted, several major foreign corporations have decided to resume investing in Iran's economy by partnering with these entities, perhaps because these entities have Iranian government backing. In February 2016, Italian steel producer Danieli returned to the Iran market with a \$2 billion joint venture with the large state-owned entity [Iranian Mines and Mining Industries Development and Renovation Organization](#).

## Foundations/*Bonyads*

Other state-linked conglomerates are represented by the several *bonyads* run by key clerics or regime figures. Some *bonyads* are centered around religious shrines, such as the Shrine of Imam Reza (Astan-e Qods Razavi) in the northern city of Mashhad. That *bonyad* reportedly owns vast tracts of lands and many businesses in its province that have an estimated total value of \$15 billion, and the *bonyad* has undertaken construction projects in the region. It is headed by Ibrahim Raisi, a cleric who reportedly is Supreme Leader [Ali Khamene'i's favorite to succeed him](#). Another major *bonyad*, the Foundation for the Oppressed and Disabled, [built a large empire from assets](#) that were abandoned by or expropriated from wealthy supporters of the Shah when his government fell in 1979. Yet another significant *bonyad*, the Martyr's Foundation (*Bonyad-e-Shahid*), continues to be subject to U.S. sanctions under Executive Order 13224 for alleged funding of groups that conduct acts of international terrorism.

## Leadership-Linked Entities

One prominent economic entity, the "Headquarters for Executing Imam Khomeini's Order" (known by the acronym EIKO, or *Setad*, the Persian word for executive) is reportedly run by the office of the Supreme Leader. Also formed with assets taken over after the Shah fell (pursuant to the orders of the Islamic Republic's founder Ayatollah Ruhollah Khomeini), EIKO controls or holds stakes in at least 70 Iranian companies in many industries, and its total estimated assets [are nearly \\$100 billion](#). In October 2016, Iran's Oil Ministry awarded \$2.2 billion in contracts to an EIKO subsidiary under Iran's new model of energy sector [development called the Iran Petroleum Contract](#). In June 2013, EIKO and 37 firms it owns were made subject to sanctions by the Treasury Department under Executive Order 13599, but the sanctions on these entities were lifted in January 2016 under the JCPOA.

## Conclusion

It is likely that regime leaders will ensure that Iran's state-linked conglomerates will continue to benefit from the rebuilding of Iran's global economic ties to a greater degree than will the private sector. However, foreign investors will continue to avoid partnerships with IRGC-linked or other entities that remain under U.S. sanctions.