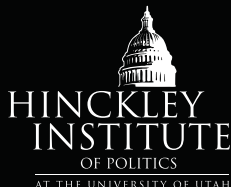


# WHERE IS MY OIL?

Corruption  
in Iran's  
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Sector

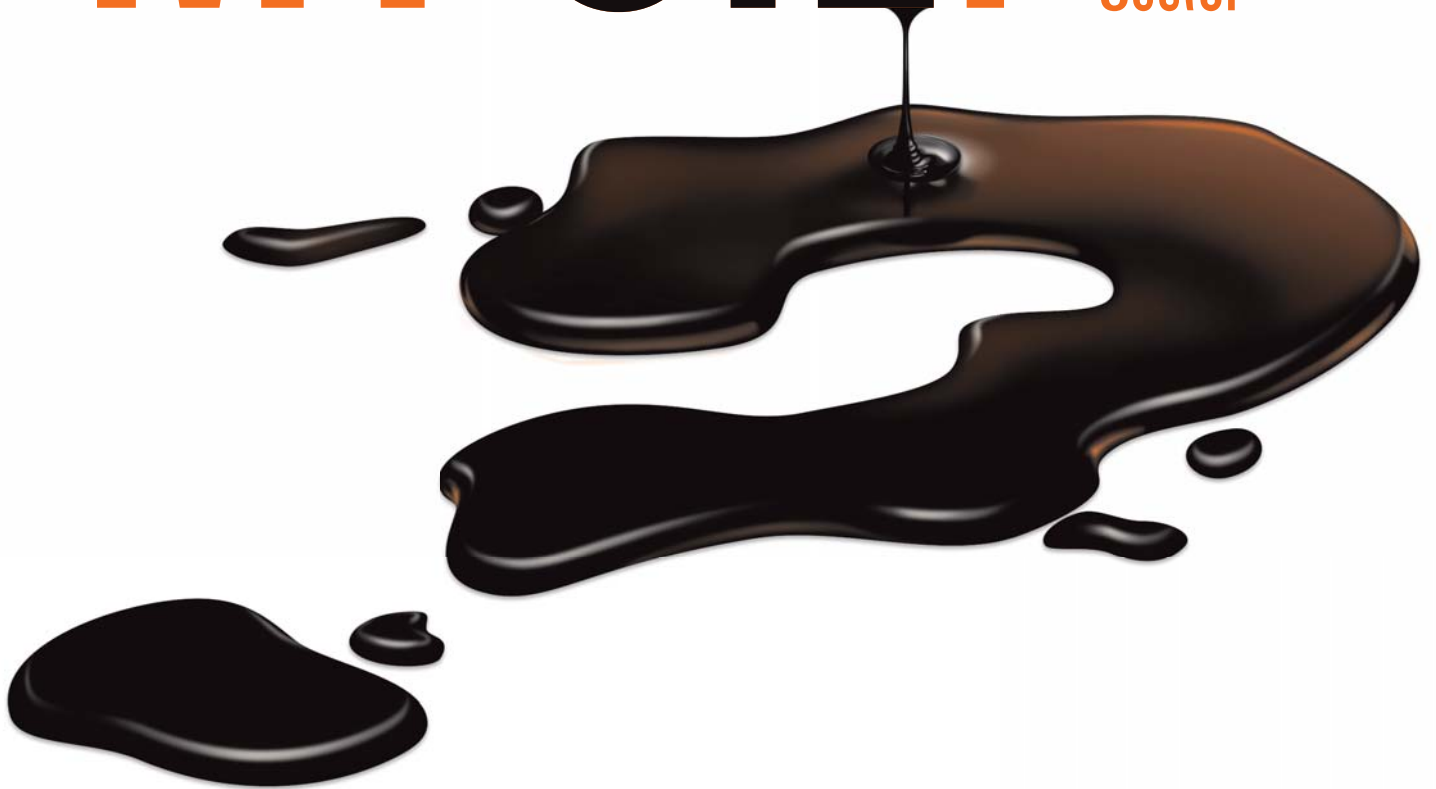


**Khosrow B. Semnani**

A Report by Omid for Iran | September 2018

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*Dedicated to the men and women in  
Iran's oil and gas industry.*

*They laid the foundations for Iran's  
progress and prosperity.*



# Acknowledgements

We wish to thank several colleagues who have shared our concerns about corruption in Iran's oil and gas industry and whose contributions, both personal and professional, have inspired and informed ***Where Is My Oil? Corruption in Iran's Oil and Gas Sector***.

In the first instance, we would like to acknowledge Dr. Ehsan Yarshater and the late Dr. Jahangir Amuzegar, two titans of Iranian studies whose devotion to Iran is reflected in every aspect of their scholarship. They were institutions. Their patriotism, scholarship and example is an enduring gift to us all.

We are deeply indebted to Dr. Suzanne Maloney and Dr. Paasha Mahdavi for their seminal studies on the governance and political economy of Iran's oil and gas sector.

We were also fortunate to benefit from rich conversations with a number of distinguished public servants and practitioners with long experience at the National Iranian Oil Company, most notably Farrokh Najmabadi and Hossein Soltani. Mr. Najmabadi, formerly Director General of Petroleum and International Affairs at NIOC, provided us with a detailed account of the systems designed to monitor and secure the flow of Iran's oil. Before his passing, Mr. Soltani, formerly Chief Inspector of the National Iranian Oil Company, shared with us his extensive study of corruption in Iran's oil and gas sector in the hope that it would help future anti-corruption efforts in Iran.

Sarah Chayes, the author of *Thieves of State*, whose work on kleptocracy provides a conceptual and comparative framework for approaching the question of corruption in Iran has, as always, been a beacon of moral clarity and intellectual rigor. Our other compass was Afshin Molavi, senior fellow at the Foreign Policy Institute of the John Hopkins University School of Advanced International Studies. His deep and abiding love for the people of Iran, together with his global perspective on Iran's political economy, in-

formed every aspect of our work. As with our earlier study, *The Ayatollah's Nuclear Gamble*, we drew heavily on the area expertise of Karim Sadjadpour, senior fellow at the Carnegie Endowment for International Peace.

The World Bank and IMF have also conducted stellar studies on structural impediments facing oil producing states, and their analyses of Iran's oil and gas sector, particularly on questions related to policy, operations, data and reporting, are invaluable. We are also deeply indebted to the United Nations, the OECD, the United States Departments of Justice and Treasury and the Securities and Exchange Commission for their anti-corruption efforts. Their work provides a legal and normative framework for institutional and international responses to cases of grand corruption.

The Extractive Industries Transparency Initiative's efforts to establish a global standard for addressing governance issues in the oil, gas and mining sectors informs many of our conclusions and recommendations for the governance of Iran's oil and gas sector. EITI's standards have served as a basis for the audit of Nigeria's oil and gas industry. We hope that the Iranian people and Parliament will follow the Nigerian example and mandate a similar audit of Iran's oil and gas industry.

In the realm of civil society organizations, Transparency International, Global Witness, Amnesty International and the Abdorrahman Boroumand Center (ABC) have distinguished themselves by shedding light on linkages between corruption and human rights violations. We are particularly grateful to Dr. Hamid Akbari, Dean at Winona State University's College of Business and Dr. Roya Boroumand, Executive Director of ABC, for their close reading and commentary on earlier drafts of this paper.

Our friends in Utah, among them General Amos A. Jordan, former CEO of the Center for Strategic Studies, Vice Admiral Richard K. Gallagher (U.S. Navy, ret) and Congress-



man Chris Stewart, read various versions of the paper and provided invaluable feedback, particularly on the relationship between corruption and extremism.

As with our previous study, so too with this one, we are fortunate to partner with the Hinckley Institute of Politics at the University of Utah. We owe much to Dr. Jason Perry and his team for their generous collaboration and support of this project and look forward to all that may follow. We are grateful to Kirk Jowers, the former director of the Hinckley Institute of Politics for launching this series and supporting our continued collaboration.

Our team at Omid for Iran included Amir Soltani who carried forward his father, Hossein Soltani's, legacy by directing the research and preparation of this study. We are particularly grateful to Dr. Zain Rasheed Siddiqui for helping us quantify the costs of corruption using social accounting matrix analysis.

While Iran's civil society sector is still nascent, one cannot ignore the role of countless Iranian public servants, legislators, workers, teachers, students and journalists

who continue to wage a relentless jihad for accountability and transparency in Iran's oil and gas sector. Their efforts are vital to rekindling the Iranian people's national consciousness, reclaiming Iran's oil and gas sector and restoring Iran's economic prosperity. Their courage and determination to end the usurpation of Iran's economy by the thieves of state is a source of inspiration to all of us.

Finally, Iran's oil and gas sector would not exist if it were not for the dedication of generations of statesmen, legislators, managers, economists, accountants, engineers, laborers, soldiers and sailors. The National Iranian Oil Company is the fruit of their love and labor. No acknowledgment would be meaningful or complete without recognizing and honoring their extraordinary legacy—a trust that must be preserved for the benefit of future generations.

In closing, we extend our condolences to the families and friends of the entire crew of Iran's Sanchi crude oil tanker which sank in the East China Sea on January 14, 2018. They deserved better.

# Foreword

As the director of the Hinckley Institute of Politics, I am pleased to present you with this special report, ***Where Is My Oil?*** Mr. Khosrow Semnani and his colleagues at Omid for Iran have conducted extensive research and placed considerable resources to produce this groundbreaking study of Iran’s oil industry. By quantifying the costs and consequences of corruption, ***Where Is My Oil?*** sheds new light into the debate about the future of Iran’s economy. It is a timely reminder that the key to the security and prosperity of any country is deeply tied not just to the resources of a nation, but access to those resources as well.

Political events throughout the world continue to surprise and even shock, and can have a profound effect on our communities and individual lives. Whether we are considering oil policy in Iran, Brexit, nuclear weapons in North Korea or the 2018 midterm elections in the United States, it is important to remember that all politics are local. That’s where and how people make a difference. But as this study makes clear, corruption is also a global phenomenon, one that undermines democracy and erodes trust in government and markets. All of us have a stake in reversing this tide, not just the Iranian people. The information and data presented in this publication provide a much-needed perspective into an issue that will continue to affect Iran and the world for decades to come.

As with all the Hinckley Institute’s forums and publications, we seek to follow our founder Robert H. Hinckley’s admonition of political participation—but in order to truly participate, you need to understand the issues. The Hinckley Institute’s various publications seek to capture the diverse conversations surrounding the most pressing issues facing the United States and the world. For this reason, we are proud to support ***Where Is My Oil?*** I have always admired Mr. Semnani for his philanthropic work, devotion to his community, and commitment to research and intellectual curiosity. I am especially impressed with the depth and breadth of the research in this report and how it encourages informed engagement.

The Hinckley Institute continues to become more internationally engaged since its inception in 1965. In addition to the hundreds of student interns working within Utah and Washington, D.C., we now have student interns in more than 50 countries around the world, including in the Middle East. As such, we feel more acutely that these international tensions should be thoroughly examined and considered if our leaders are to work toward peaceful solutions.

Jason P. Perry  
Director, Hinckley Institute of Politics  
University of Utah

We invite all individuals and organizations who recognize the threat posed by corruption to use their influence and share their ideas on how we can reverse this epidemic in Iran.

To download a copy of this paper and to follow related activities and events please visit our website at:

**[www.WherIsMyOil.org](http://www.WherIsMyOil.org)**

Or contact us at Omid for Iran: [whereismyoil@omidforiran.org](mailto:whereismyoil@omidforiran.org) | (801) 746-5600

# 1

## President's Letter: Who Owns Iran's Oil?

In Iran's epic tradition, the establishment and administration of justice was the duty of the king and the purpose of government. As the guardian of this divine order, the king was obliged to grant every creature its due. Even the ant was entitled to protection, with rights to the fruit of its labor, even if only a crumb. Life had sanctity. Labor, dignity. An injury inflicted on any subject was an injury against the king and, thus, an offense against the divine order.

Corruption and predation were the qualities of demons, not kings. The appropriation of divine authority paved the way for the collapse of the state, for conquest, subjugation, rebellion and chaos. Quite naturally, in a moral order governed by such ancient codes, corruption and cruelty in the heart of a king spread like contagion. The government itself would become a source of injustice, contaminate the fabric of language and law and condemn the body of life to sickness, suffering, darkness and death.

Iran's epic tradition is as relevant today as it was in ancient times.

The establishment of the Islamic Republic in Iran in 1979 was premised on the notion that secular Western models of government were base, materialistic and corrupt—incapable of establishing justice and meeting the spiritual needs of man. The presence and persistence of poverty in Iran was viewed as a symptom of tyranny—an expression

of the Shah's contempt for the Iranian people and a proof of his enmity against God. By replacing kings with clerics as the custodians of the divine order, Ayatollah Sayyid Ruhollah Mūsavi Khomeini offered an alternative. As a revolutionary cleric, he would end the usurpation of the public trust and treasure (the *beyt ol-maal*) by waging a war against corruption on earth.

Khomeini derived much of his prestige from his standing as a cleric. After all, unlike merchants and soldiers, the clergy's hands and hearts were devoted to prayer. They had no claim and no care for worldly gain or national glory. The implicit promise of Ayatollah Khomeini's Islamic revolution—one that millions of Iranians, though not all, believed—was that a return to the fundamentals of religion would solve the social and economic ills afflicting Iranian society. In this reading, the source of corruption in Iran was not only the Shah and his demonic regime, but also the exposure of the Iranian people to *West-itis*—a cultural sickness that had its roots in the West. By placing power in the hands of the clergy—substituting the turban for the crown—Iranians would entrust their constitution and state to an incorruptible class of militant clerics—a religious vanguard that would liberate “the oppressed on earth.” Fundamentalists would solve all of Iran's problems by enacting divine laws and establishing institutions that



Dolat.ir

*“Our path is not the path of oil. Oil does not matter to us. The nationalization of oil does not matter to us. It is a mistake. Our goal is Islam. Our goal is not oil. If someone nationalizes oil, but puts aside Islam, why follow him?”*

Ruhollah Khomeini

*In theory and practice, the principle of Velayat-i Faqih (rule of the supreme jurist), is designed to facilitate corruption on a grand scale. The Islamic Republic is founded on constitutional principles premised on the negation of the Iranian nation as a sovereign entity endowed with a title to their oil, gas, and natural resources.*

would transcend rather than descend into the human mire and muck: the corrupt and cheap calculus animating politics and commerce.

In 1979, on the anniversary of Dr. Mohammad Mossadegh's birthday, Ayatollah Khomeini put forth his vision of the new Islamic order:

"Our path is not the path of oil. Oil does not matter to us. The nationalization of oil does not matter to us. It is a mistake. Our goal is Islam. Our goal is not oil. If someone nationalizes oil, but puts aside Islam, why follow him?"<sup>1</sup>

Today, almost 40 years after the Islamic Revolution of 1979, the Iranian people are reaping the bitter fruit of the Ayatollah's vision in the form of a failing state and economy. Far from rooting out corruption, after four decades of Islamic rule, the tables have turned. The gap between the teachings and practice of the Prophet (pbuh), whose title was "Amin," *the trusted one*, and the conduct of the Islamic Republic's leaders (many of whom have accumulated vast and illicit fortunes) has become impossible to bridge. Iran's leaders act as a class above and apart, as if their religious credentials and status exempts them from accountability in this world and the next.

In theory and practice, the principle of *Velayat-i Faqih* (rule of the supreme jurist), is designed to facilitate corruption on a grand scale. The Islamic Republic is founded on constitutional principles premised on the negation of the Iranian nation as a sovereign entity endowed with

a title to their oil, gas, and natural resources. The institutions operating in the leader's name, claim to derive their authority from a divine source—not from human realities, let alone economic necessities. The operative principle is impunity, not accountability.

The results of this system of governance speak for themselves. Instead of enjoying the fruits of prosperity, today Iran is facing a humanitarian catastrophe.

- More than 10 million people live under the absolute poverty line, with another 30 million under the relative poverty line.<sup>2</sup>
- Eleven million live in slums.<sup>3</sup>
- The number of unemployed is at 3.5 million—add the underemployed and the figure stands at a staggering 6.5 million.<sup>4</sup>
- Youth unemployment is at more than 20%, with 60% unemployment in underprivileged areas.<sup>5</sup>
- In 2012, Iran had more than 2.2 million addicts.<sup>6</sup> It also had 1.2 million heroin addicts and 800,000 recreational users—the highest per capita rate of heroin users in the world.<sup>7</sup> In 2017, the number of addicts is officially estimated at 2.8 million, with some putting the figure as high as 10 million.<sup>8</sup>
- From 2006-2016, HIV rates of infection through sexual transmission have doubled from 15% to 30%.<sup>9</sup>
- More than 600,000 people are imprisoned every year, with more than 60% identified as drug users.<sup>10</sup>
- From 2006 to 2013 when the average price of oil had climbed over \$100 barrel, Iran's economic growth was 2.2%, with inflation rate climbing from 20.3% to above 40% in 2013.<sup>11</sup>
- The middle class has seen its purchasing power decline year after year. According to a BBC review of Central Bank data, Iranians have become "15% poorer." From 2008-2018, the average household income of an urban family has declined by 15%.<sup>12</sup>

The societal damage is such that Ayatollah Ali Khomeini was belatedly forced to admit that the Islamic Republic is "**20 years behind**" in responding to this unfolding tragedy.<sup>13</sup> According to Reza Faraji Dana, Iran's Minister of Science, Research and Technology until 2014, every year more than 150,000 highly educated Iranians emigrate from Iran at a total cost of \$150 billion. Fully 25% of all Iranians with tertiary education—a vast professional class—now work in the OECD member countries. Indeed, one



A woman holds up a sign that says, "He killed my brother because he asked 'Where is my vote?'"

Hamed Saber via flickr.com, creative commons license

need only look to the squandering of Venezuela's wealth, the plunder of its oil sector, the collapse of its economy and the plight of its poor and middle class to understand the gravity of the threat of looming over Iran.

Although many Iranians thought the revolution would usher in a new era—ending the dismissal of their rights and the abuse of power by a monarchical order—in practice, by voting for the principle of *Velayat-i Faqih*, they were lured into a constitutional trap, essentially surrendering their civil, economic and social rights to a new monarch, a religious leader who claimed to derive his universal right to rule the Iranian people from a divine source.

Today, Iranians are not turning their backs on the West, but on *Velayat-i Faqih*, the brand of Islamic government advocated by Khomeini and his followers.

Because of corruption, many no longer see religion as a solution to their problems but as the cause of their suffering. In a country endowed with Iran's human and natural resources, the social costs of this unfolding tragedy can no

longer be blamed on corrupt individuals or the West, but on the failure of a political and economic system to deliver on its promises to the Iranian people.

With corruption on a scale unimaginable under the Pahlavi dynasty, it is not Iran's kings, but Iran's ruling clerics who are viewed as the source and beneficiaries of corruption. And sadly, instead of fighting corruption by making transparency, accountability, and service the pillars of government, powerful factions in Iran's Parliament and judiciary serve as a cloak for covering up the plunder of Iran's resources rather than exposing corruption. As in the feudal and colonial era, the people are once again treated as subjects, not citizens.

The story of Iran's oil is at the heart of this historic betrayal. It can no longer be overlooked. What is at stake is the Iranian people's sovereignty and prosperity. Corruption is not only an economic and a political threat. It is an existential threat: a violation of the Iranian people's title and claims to their natural resources, a negation of their control over the institutions that govern these resources, and the denial of their claims to every drop of their oil and the benefits that flow from it.

In 2009, the Iranian people and media asked a question that shook the world: "Where is my vote?" Today, we join them in asking a related question, one that makes the difference between poverty and prosperity for millions: "Where is my oil?"

**Omid for Iran**, a nonprofit established to protect the interests of the Iranian people, seeks to raise this question to set the stage for a systematic review of Iran's oil and gas industry. More importantly, to reclaim their oil and gas, and put Iran back on the path to prosperity. In fact, given the epidemic of corruption and poverty in Iran, we seek to make anti-corruption a national priority. It is vital

#### Oil barons 1979–2017



Marc Rich

Mehdi Hashemi

Babak Zanjani

Hashemi: Tasnim News Agency, photo by Siamak Ebrahimi; Rich: wikipedia, marquetinternational.com; Zanjani: Farsnews.

to quantify the cost of corruption in Iran's oil and gas industry if we are to address and reverse the consequences of corruption in a systemic manner.

***Where Is My Oil?*** will demonstrate that the damage to the Iranian people from corruption by design is more than \$1 trillion. It bears repeating—more than \$1 trillion.

Perhaps nothing illustrates the gravity of the question "Where is my oil?" more succinctly than its physical manifestation—the challenges of locating and tracking the movement of Iran's oil. As late as the second half of 2016—well after the lifting of sanctions on Iran's nuclear program—ships carrying a fifth of Iran's oil exports had gone "dark," with many indicating that their Iranian cargo "began the journey in a different country, though satellite imagery showed them to have been loaded in Iran."<sup>14</sup>

The theft of Iran's oil amounts to grand corruption— theft in the tens and hundreds of billions of dollars. The cost of this strategic mismanagement to Iran's economy over the past decade exceeds the trillion-dollar mark. Left unchecked, this corruption will plunge Iran into the category of failed states, with all the insecurity, poverty, crime and chaos that can follow.

The Iranian corruption cases leave no doubt about the facts: there is an arc of corruption that extends from the Islamic Republic's ties to commodities trader Marc Rich in 1979 to its ties with Babak Zanjani in 2015 to the 2017 confessions of Reza Zarrab and the cloak-and-dagger presidential disputes over the Crescent Petroleum corruption case. To be sure, corruption existed in Iran before 1979, but it has mushroomed after. While before 1979, cultural and religious norms made theft and corruption taboo, today theft and corruption are so brazen that the fundamental ethical, cultural and religious norms are being swept away.

The change has been decades in the making. Corruption was institutionalized in the aftermath of the Iran-Iraq war, in the so-called era of construction and privatization, only to metastasize in the era of the so-called "resistance economy." Iran's revolutionary establishment has either actively engaged or deliberately concealed corruption on a grand scale for decades.

In a country in which millions of laborers, teachers, nurses and government workers can barely secure a living wage, corruption is a killer—a pandemic. 12 million Iranians are under the absolute poverty line, with 8.2 mil-

lion living on less than \$5.50/day.<sup>15</sup> Another 40% of the population—more than 30 million people—are pushed beneath the poverty line. Transparency and accountability in Iran's oil and gas sector cannot remain a public relations exercise. It is an urgent national imperative—dollars and cents that mean the difference between nutrition and malnutrition among the most vulnerable people.

The waves of anti-government protest erupting across Iran in early 2018 should not have come as a surprise to anyone tracking teacher's strikes and labor unrest in Iran.

A powerful statement by six Iranian worker's organizations—three years earlier—should have made the plight of Iranians apparent:

Today every decent human being is aware of the undeniable fact that millions of working people in large and small industries, teachers, nurses and retirees are living in the worst possible situation in the country's recent 50-year history. This means that, according to the experts and government officials, currently the lives of millions of families have fallen under the poverty line and fruit, meat and dairy products have been removed from their tables...

Such horrendous conditions did not occur in a country ravaged by famine; this condition is imposed on workers in a country which has a young, educated and skillful workforce and the highest combined oil and gas reserves in the world. Is it not shameful that teachers are forced to cover their living expenses by working as taxi or bus drivers? Do pensioners in this country deserve to feel huge pressure in their lives and tremendous concern about their livelihoods because of their meagre pensions? Do you know a country with millions of workers who are working 12 to 18 hours per day, yet are incapable of providing the basic needs of their families and stand ashamed in front of their children? Do you agree that in such a country thousands of people can reach to the point of selling their kidneys, prostituting themselves while we see addiction, misery, desperation and frustration of millions of its people, from teenagers to elderly?<sup>16</sup>

As stated in the letter:

The continuation of this unstoppable cycle of oppression imposed on the workers' standards of living over the years and decades to the extent that even today, while the minimum wage of 608,000 tomans/month (about \$180/month), many of them even do not receive the minimum wages. According to the expert and the formal institutions of the government, an expenditure basket for a family of four, is more than three million tomans [fair wage] (about \$900/month), and thus the survival of our workers is impossible.<sup>17</sup>

Teachers have not fallen silent either. On the 40th Nowruz (Iranian New Years Day, March 20, 2018), the former Secretary General of the Iranian Teachers' Trade Association, Esmail Abdi, wrote a letter from Evin Prison addressed to the International Labor Organization. He declared that he would begin a hunger strike on April 18, 2018 to protest the widespread violations of teachers and workers in Iran:

The blessings of the revolution benefitted not the poor, but rather the rich, the powerful, and tricksters... They took advantage of the people's beliefs and values to attract votes, while amassing wealth from the nation's treasury... (See the complete letter in Appendix 5)

Sadly, the Islamic Republic, according to its own admission, was not listening, let alone alleviating abject economic conditions of "the oppressed" classes it claimed to champion.

The margins matter. As does oil. To millions.

The "paystub scandal" involving Ali Sedghi, chairman of Bank Refah Kargaran (Worker's Welfare Bank) is yet another illustration of the scourge of corruption and inequality. The collapse in the purchasing power of the salaries of the poor and middle class has not stopped senior government officials and executives from gorging at the expense of the state. Iran's Civil Service Management Law, ratified in 2013, restricts the maximum wage of civil servant to seven times the minimum wage. Ali Sedghi of the Worker's Welfare Bank, however, earned 2.34 billion rials per month (\$76,500) in compensation for his labor—"roughly 300 times" more than the wages of a common worker.<sup>18</sup>

There is nothing random about millions of Iranians find-

ing themselves buried under the poverty line. Bureaucratic sleaze and sloth only explain so much. What they do not explain though, is how, in a period of sanctions, when the Iranian people were subject to severe strain, the Central Bank and key ministries were facilitating the flow of millions of barrels of oil and billions of dollars in capital out of the country. There is nothing abstract about these figures. They did more than pinch Iranians in their pocketbook. At a time when foreign reserves were scarce, the Central Bank rigged the game in favor of crony capital. Luxury car importers serving the nouveau riche "*aghazadeh* class" were subsidized with preferential foreign exchange rates, while the Health Ministry, facing a \$2 billion budgetary shortfall, was charged higher rates than the luxury car importers—essentially condemning millions of middle and lower-class Iranians to subsidize Porsches by purchasing medicine at black market prices. While Reza Zarrab and others had unrestricted access to Iranian gas and oil accounts in Turkey, purchasing race horses, hovercrafts and yachts with \$150 million commissions, paying \$50 million bribes and distributing \$700,000 Patek Philippe luxury watches, poor Iranians were effectively locked out of receiving adequate health care. Those deaths and debts count.

Revolutionary slogans and saber-rattling—the unrelenting calls and chants of "death to America" and "death to Israel"—have masked a much more pernicious reality: the corruption of Islam and the impending death of Iran, not as a sudden calamity but as a daily tragedy.

In an Islamic Republic where the judiciary puts such a high price on sheep that it turns the amputation of a thief's hand into a national spectacle, there is a virtual blackout surrounding the theft of Iran's oil. Instead of honoring and serving the Iranian people by arresting the hands involved in the systematic theft of Iran's oil and gas, even tankers and rigs, the government treats the Iranian people as peasants whose only care, concern and asset is their sheep.

But this is not a time for lament. It is a time for action.

An empirical approach to corruption matters. Quantification is a basis for reclamation—systematic action rather than cheap slogans. It is not enough to condemn corruption as a scourge. Once quantified, in the form of a data-base of corruption cases, corruption can and has been traced and reversed. The World Bank Group and the United Nations Office on Drugs and Crime have an established Stolen Asset Recovery Initiative (StAR) that allows countries like Iran to work across jurisdictions to



prevent money-laundering and the theft of assets crucial to Iran's development and prosperity. Rather than being helpless spectators subject to the plunder of their natural resources, as in the Zanjani case, making government accountable and corruption visible sets the stage for recovering tens of billions of dollars in stolen assets hidden outside Iran. Given the global nature of criminal enterprises siphoning Iran's oil under the guise of evading sanctions, international treaties, institutions and partners can help Iran's Central Bank track and recover billions hidden outside Iran.

Reversing the curse of corruption can unleash enormous blessings for the Iranian people. The linkages between Iran's oil and gas industry and the rest of Iran's economy are extensive. Based on our analysis, using the Iranian Parliament's own social accounting matrix (SAM), every dollar generated by the oil and gas sector can be leveraged into three or four dollars in the rest of Iran's economy. By the same token, every dollar taken out of the sector is the equivalent of three to four dollars taken out of the economy.

The math behind corruption's impact is not complex. Even without an investment strategy or a multiplier effect, every billion dollars in oil revenues, if distributed as cash subsidies, is the equivalent of approximately 100,000 salaries at fair wage levels of \$900/month (\$10,800/year).

Using the World Bank's International Finance Corporation (IFC) models, the multiplier effect of \$2.7 billion could create as many as 300,000 jobs at a living wage of \$900/month.

The \$2.7 billion allegedly lost in a single corruption case, if distributed as wages, would have provided 270,000 families with \$10,000 each, the equivalent of a living wage of 3 million tomans/month (\$900) for a year.

With Iran's oil and gas reserves valued at more than \$17 trillion, reclaiming the sector and restoring the National Iranian Oil Company's prominence, productivity and performance as a "national champion" on the world stage is vital to the economic well-being of the Iranian people. As with Iran's constitutional revolution, such a reclamation, ultimately, depends on the mobilization of the Iranian people in a collective struggle against corruption. Trans-

parency and accountability only have meaning where and when a people have a deep sense of ownership—an understanding of the value of oil not only to themselves but to their children, descendants, neighbors and nation.

Given the scale of unemployment and the spread of poverty in Iran, silence before such a humanitarian catastrophe is not an option.

The oil mafia's fingerprints are everywhere. Under the cover of religion, corruption has taken the form of abuse of power, nepotism in appointments, bribery and kickbacks, divulging secret information, rigging bids, improper vetting of contracts, illegal allocations of oil, sale of discounted oil, foreign currency transfers, purchase of phantom rigs, illegal and unauthorized withdrawals from accounts, suppression of reports, audits and investigations, judicial whitewashing of corruption cases and the amputation of legal and religious principles for the sake of expediency. To this day, the movement of entire tankers carrying unknown volumes of oil remains shrouded in mystery.

Far too often, corruption is concealed from the public as a matter of national security. Instead of pursuing corruption cases, the individuals and institutions charged with protecting the public interest act as pirates. Stakeholders—critical institutions and individuals—participate in government to secure their stake in the plunder of the nation's wealth. Under the rubric of protecting national security, the most elementary legal, financial and reporting requirements are flouted, effectively creating an information black-out concerning governance of the oil and gas sector. Those who dare to expose and oppose corruption are attacked for violating the sanctities of Islam, for propaganda against the system, and for insulting the leadership.

The irony, of course, is that in this, the age of surveillance, information is hard to conceal. While Iran's judiciary, and other institutions, do their utmost to keep material and documents classified, at times by eliminating government officials, at others by muzzling the Parliament and the press, much of this information is known to foreign powers, among them the United States, Russia, China, Israel and others. Official communications and bank ac-

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*Using the Iranian Parliament's own social accounting matrix (SAM), every dollar taken out of the sector is the equivalent of three to four dollars taken out of the economy.*

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*Every barrel of oil—every drop—belongs to Iran's children. It is every Iranian's duty and obligation to defend this treasure as guardians of a sacred trust.*

counts, transfers of funds, flows of oil, movement of tankers, purchases and movement of material can be tracked at a level of detail and with an ease hitherto unimaginable. Quite apart from the tracking of officials, funds, documentation, communication and oil tankers, technological innovations such as ground-penetrating radar (GPR), can detect pipelines several meters beneath the ground, let alone what transpires above the ground.

The destruction of Iran's centrifuges in a cyberattack by the **Stuxnet virus** showed the level of detail at which Iran's most closely guarded secret—the nuclear program—had been penetrated. There is no reason to believe that the operations of Iran's oil, gas, shipping and banking industry are better protected than Iran's nuclear program. Much the same holds true for official communications. Given that the NSA can tap the communications of the German Chancellery—sweeping vast amounts of data even from low priority targets—the notion that the Iranian government can conceal communications concerning corruption in Iran's oil and gas sector is a pipedream.<sup>19</sup> So is the notion that the Islamic Revolutionary Guard Corps (IRGC) can conceal billions in illicit smuggling activity—activities at all of Iran's ports and docks are easily picked up by satellite.<sup>20</sup> The Zarrab case should have put that conceit to rest. The irony about concealing corruption under the veil of national security arguments is that it puts foreign powers in a position to secure concessions by bribing and blackmailing Iranian officials. The only people left in the dark are the rightful owners of Iran's oil. And gas.

Our goal and duty is to lift this shroud—to make the operation of Iran's oil and gas sector transparent and its management accountable to the Iranian people. As the owners and beneficiaries of Iran's oil and gas resources, every barrel of oil and dollar of revenue flowing through Iran's oil sector belongs to them, not the thieves of state.

It stands to reason, then, that what makes Iran's vast reservoirs of oil a blessing or a curse is neither the chemistry nor the conspiracies around oil. It is the character of the Iranian people and their leaders.

But, the fate of the sector cannot be left to experts and officials alone. All Iranians have a stake in the health, productivity and prosperity of their mother industry.

Failure to secure Iran's oil and gas supply chain will have dire, and compounding consequences for Iran's economy. In this sense, ownership must go well beyond demands for accountability and transparency at every level of Iranian state and society. It requires a plan of action. Saving Iran's oil and gas sector depends upon all Iranians claiming their right to their oil and demanding systematic and corrective action at the legal, regulatory, operational, administrative and financial domains.

In the memorable words of Afshin Molavi, author of *The Soul of Iran*, "the gift is not only a geological endowment but also a spiritual inheritance, a blessing and bounty that since time immemorial has lit the heart, the homes and the temples of the Iranian people."<sup>21</sup> It is this sacred light, one that burns in the hearts and homes of all Iranians, that thieves of state wish to extinguish.<sup>22</sup>

Omid for Iran's sincere hope is that this paper, which draws heavily on the work of many scholars, practitioners and journalists, will help raise awareness about the gravity of the theft threatening Iran's oil and gas industry.<sup>23</sup> More importantly, we hope it will place the question of the reclamation of Iran's oil and gas sector at the forefront of debates about reviving Iran's economy.

By its own account, a theocracy that negates the sovereignty of the Iranian people in the name of religion has turned into a kleptocracy that robs Islam of sanctity to conceal the corruption of an oil mafia—the thieves of state. This theft is not an unintentional blemish on the Islamic Republic. It is masterfully organized, systematic and global. It has no place in Iran and no justification in Islam.

As in the past, the Iranian people will reclaim an inheritance for which so many have sacrificed so much. Every barrel of oil—every drop—belongs to Iran's children. It is every Iranian's duty and obligation to defend this treasure as guardians of a sacred trust. Justice demands no less.

But justice is a collective endeavor—it will not be deliv-

ered by a divine savior. It will come only when the Iranian people take charge of their destiny and insist on turning their suffering into an unyielding and total rejection of a culture of impunity and corruption. When individuals stand firm against the indignity and injustice implicit in bribery and corruption, their actions have ripple effects that extend from their family and work environment to the culture and society at large.

Though Iran's representative institutions are terribly compromised and in many cases corrupted, in recent years, a few notable members of Parliament have spoken out against the plunder of Iran's natural resources. Clearly, key parliamentary leaders and committees, regardless of faction, recognize that tackling corruption goes beyond investigating and scapegoating individuals. Restoring accountability and transparency depends on good governance: the structural and systemic reform of institutions charged with managing Iran's oil and gas sector. Every city, town and neighborhood in Iran stands to benefit if their elected representatives speak out against the theft of the people's oil and gas revenues.

For our part, we at Omid for Iran, recognize the scale of corruption that Iran's oil and gas sector represents a humanitarian catastrophe. The human cost of corruption is many times greater than the human cost of military strikes against Iran's nuclear facilities, the subject of our earlier study, *The Ayatollah's Nuclear Gamble*. Then, as now, shielding the Iranian people against such threats recognizes no boundaries. It demands a national, and indeed, a global response: concerted and systemic efforts inside and outside Iran.

President Donald Trump's decision to withdraw from the Iran nuclear deal in May 2018 makes the task of tackling corruption that much more urgent. As with the Ahmadinejad era, the reimposition of US sanctions affords criminal and corrupt actors the opportunity to justify corruption on a grand scale in the name of economic resistance and national security. Nothing can be farther from the truth. Given that the Iranian people will once again absorb the price of the regime's ideology, manifest as military conflict abroad, accountability and transparency become the key to securing Iran's oil and gas resources and revenues against another round of plunder and predation. Failure to do so may benefit war profiteers and economic speculators eager to profit from crisis. But it will ruin millions of families who cannot afford and must not

subsidize the impact of sanctions: a spike in prices for everything from foodstuffs to medicine, a collapse of foreign exchange reserves, runs on the banks and other forms of instability and mayhem playing out in Venezuela and other failed states.

In short, a new round of international sanctions makes the war against corruption, and thus the governance of Iran's scarce resources, a matter of life and death. More, not less, urgent.

Our hope is that the "Where Is My Oil?" campaign will serve as a nucleus for understanding the scale of the problem, changing the systems, and securing the benefits of Iran's oil and gas sector for the Iranian people. We are heartened by the success of anti-corruption campaigns and movements around the world, including those in Iran, and welcome all efforts by the Iranian people, media and government to reclaim and restore the National Iranian Oil Company (NIOC).

It is our hope that the findings and recommendations in this paper will serve as a basis for a much deeper collaboration for addressing and reversing the crisis of accountability, transparency, legitimacy and sovereignty in Iran. Towards this end, Omid for Iran will host a series of consultations and conferences on the governance of Iran's oil and gas industry.

Solutions are within our reach. There is no lack of education, experience or expertise in tackling corruption. And there is certainly no lack of love—we are all willing to do our part to secure a better future for Iran. Our challenge is implementation: turning love into a principle and plan of action backed by a government that is transparent and accountable to the Iranian people—not beholden to the thieves of state.

The exercise of ownership depends on a people who act, not as bystanders, indifferent about the fate of their children, but as warriors revolted by the abuse of their children's trust.



Sincerely,

Khosrow B. Semnani  
President, Omid for Iran

# 2

## Oil and Jobs: The Billion Dollar Equation

President Hassan Rouhani took office assuming that resolving the nuclear crisis with the world powers and lifting economic sanctions on Iran would spur investment and job creation. Yet, even before President Donald Trump's decision to withdraw from the Iran deal in May 2018, Rouhani's chances of turning Iran's economy around were slim. With the government missing its target of 5% growth in 2016, Rouhani faced the daunting task of addressing economic problems, particularly unemployment. The Statistical Center of Iran reported the number of jobless Iranians was 2.5 million by 20 March 2016 and the Parliament Research Center put the total figure of unemployed and underemployed at 6.5 million. In 2016, the Rouhani administration committed to fight unemployment, in part by allocating \$4.6 billion to revive Iran's manufacturing (7,500 stagnant and "semi-active production units" across the country).<sup>24</sup> The President declared that job creation had "turned positive," adding that "we are seeking to create 1 million jobs annually."

Iran's unemployment crisis loomed large in the 2017 presidential race. The presidential candidates got into a bidding war over who could create more jobs.

President Hassan Rouhani blamed the unemployment crisis on the previous government, noting that "job cre-

ation was zero in the past years before the [current] government."<sup>25</sup> During the debates, Rouhani hammered away at the failed economic policies of the ten-year period between 2004–2014. "6.6 million people were eligible to enter the work force of whom only 600,000 found jobs, this despite highly favorable economic conditions."<sup>26</sup> He dismissed the charge that he himself had promised to create 4 million jobs as an utter lie.<sup>27</sup>

Rouhani chief rival, Hojjat al-Islam Ebrahim Raisi, the supreme leader's favored presidential candidate, leveraged his position as custodian of Imam Reza shrine, a major charity, by entering the race with a promise to serve the poor, needy and oppressed.

"I believe that I can create 1.5 million jobs per year and completely solve the unemployment crisis in the country," he declared.<sup>28</sup>

To bring down the unemployment from 12% to 8%, Raisi promised to triple subsidies for the poor. He promised to create jobs by reviving Iran's labor-intensive construction industry and by restoring production at Iran's shuttered workshops and factories.

Not to be bested, Tehran mayor, Mohammad Bagher Ghalibaf, promised to create 5 million jobs in the subsequent four years—a figure that required an economic growth



Rouhani campaign website, Rouhani96.ir

*"Job creation was zero in the past years before the [current] government."*

President Hassan Rouhani.



Islamic Republic of Iran Broadcasting

*"I believe that I can create 1.5 million jobs per year and completely solve the unemployment crisis in the country,"*

Hojjat al-Islam Ebrahim Raisi



*Not to be bested, Tehran mayor, Mohammad Bagher Ghalibaf, promised to create 5 million jobs in the next four years*

Young Journalists Club



*"This dear brother has either never created jobs or has no grasp of figures and numbers."*

Vice-President Eshaq Jahangiri

rate of 26% per year. He proceeded to claim that for every million tons of product, Iran's petrochemical industry could create 200,000 direct and 400,000 indirect jobs.<sup>29</sup>

Vice-President Eshaq Jahangiri countered that "this dear brother has either never created jobs or has no grasp of figures and numbers." The media was quick to note that the mayor's formula was off by a factor of 200—and that every million tons of production generated accounted for roughly 1,000 jobs in the petrochemical industry.

Remarkably, while all the candidates lamented the soaring rates of youth unemployment approaching 30%, their solutions seemed facile, even utopian.

Perhaps with the exception of Eshaq Jahangiri, none seemed to have a grasp, let alone the ability, to focus the Iranian electorate on the scale and consequences of the systemic corruption in Iran's oil and gas industry—the engine of Iran's economic growth. The connection between theft in Iran's oil and gas sector and the empty pocket-book of millions of Iranians was never made.

By any measure, including employment, Iran's oil and gas sector is the single most important sector in Iran's economy. Oil is the mother industry. According to the World Bank, oil rents constitute almost a quarter of Iran's GDP—25.1% in 2011 and 22.8% in 2013.<sup>30</sup> In 2011, according to the International Monetary Fund (IMF), 76% of Iran's export earnings and 60% of government revenues came from oil.<sup>31</sup> Oil touches every aspect of the life, health and prosperity of the Iranian people. Today, as in the past, its governance should be the nation's most important concern.

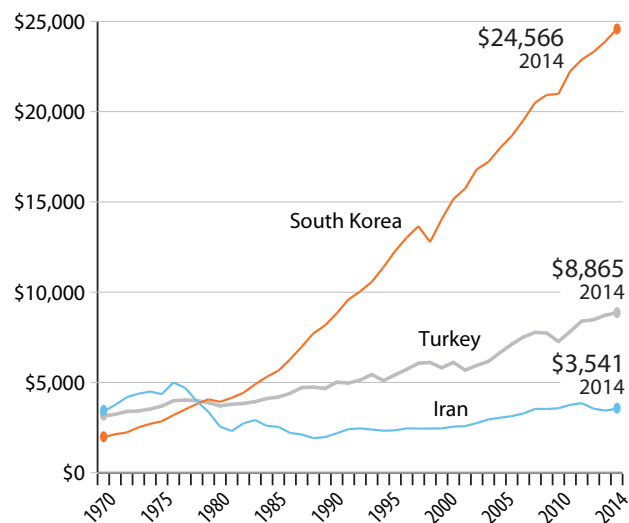
Oil serves as the baseline of the world economic, industrial and financial order—an essential component in the production and price of every commodity in virtually every sector from plastics and chemicals to agriculture and transportation. As such, the health of the sector is the key to Iran's prosperity and security. As the lifeblood of

the industrial and developing world, it is also a strategic resource highly coveted by many other nations from the United States and Europe to China and India.

By virtue of the oil sector's forward and backward linkages, the impact of every dollar invested or generated by the sector gets multiplied and magnified throughout the Iranian economy. By the same token, every dollar taken out or squandered in the sector due to corruption, incompetence or mismanagement causes grave damage throughout the economy putting millions at risk.

A brief glimpse at Iran's GDP per capita compared to Turkey and South Korea tells the story of Iran's economic failure (see figures 1 and 2). In 1978, Iran's GDP per capita of \$3,969 was roughly the same as that of both Turkey and South Korea. In 2014, almost 40 years later, Iran's GDP

**Figure 1: GDP per capita in Iran, Turkey and South Korea, 1970-2014**



OMID GRAPHIC  
Source: The World Bank, World DataBank, June 2016.  
Note: Figures are adjusted for inflation to constant 2005 U.S. dollars.

per capita stood at \$3,541—less than its 1978 level. South Korea's had soared to \$24,566 and Turkey's to \$8,865.<sup>32</sup> Despite having a vast advantage—hundreds of billions of dollars in oil revenues spread over decades—Iran's GDP per capita was seven times less than that of South Korea and 2.5 times less than that of Turkey.

A basic question all Iranians need to ask themselves is why is it that despite Iran's vast oil wealth—trillions of dollars in revenues over the past forty years—Iran's GDP per capita has stalled since 1978. Why is it that billions of dollars in oil and gas revenues—a vast pool of capital—is not translating into jobs, income and prosperity for millions of Iranians?












The Islamic Republic's casual, almost indulgent, attitude toward the loss of billions of dollars in oil revenue is not negligence. It is economic sabotage. In the Islamic tradition, the words "*fesad*" (corruption) and "*zulm*" (oppression) best capture the profound implications of economic injustice rooted in abuses of power. They have profound systemic implications and deep humanitarian consequences, one that snatches dreams, mangles families, depletes hope and sows despair. Iran's leaders impose draconian punishments on small time drug dealers, but the vast hidden financial crimes of Iran's oligarchs have created much more despair, poverty and addiction.

Iranian officials speak of the loss of \$1 billion sums as if it were pocket money. Yet, the government's own statistics about the costs of job creation allow us to create a correlation between corruption—which is a form of divestment—and jobs. According to Iran's ministry of labor, the cost of creating one job requires an investment at three different tiers: between 20 million tomans to 70 million tomans (roughly \$6,000 to \$21,000), 150 million tomans (roughly \$45,000) on another, and 400 million tomans (roughly \$120,000).<sup>33</sup> By the Iran government's own figures, \$1 billion produces over 8,000 jobs (at \$120,000 per job) to over 160,000 jobs (at \$6,000 per job). Thus, a \$2.7 billion corruption scandal such as the Zanjani case cost between 23,000 to 450,000 jobs, and even this loss is minor compared to the \$24.5 billion Naftiran Intertrade Company (NICO) scandal which cost between 204,000 to 4.1 million jobs.

Other macroeconomic case studies about job creation by the World Bank's International Finance Corporation (IFC) in MENA<sup>34</sup> countries similar to Iran can also serve as a frame of reference. According to an IFC job study on

**Figure 2: What \$1 Billion Means to Iran's Economy**

Extrapolated from Tunisia economic impact matrix

Economic Sector	Direct and indirect value added to economy (\$ billions)	Direct and Indirect economy-wide jobs increase
 Food Processing	\$5.4	584,000
 Construction	\$5.3	613,000
 Agriculture	\$3.6	654,000
 Manufacturing	\$3.0	213,000
 Transport	\$2.8	125,000
 Utilities	\$2.4	54,000
 Mining	\$2.4	46,000
 Public Service	\$2.3	248,000
 Business Services	\$1.9	44,000
 Communication	\$1.5	37,000
 Trade	\$1.1	99,000
Weighted Average USD	\$2.9	247,000

OMID GRAPHIC

Note: Graph uses Tunisia's multiplier figures extrapolated from a table looking at the impact of \$1 million.

Source: International Finance Corporation "IFC Jobs Study," Jan. 2013 via Steward Redqueen "Modeling the Socio-Economic Impact of Potential IFC Investments in Tunisia," 2012.

the impact of investments in Tunisia, every \$1 million can have an economy-wide value-added of 3–5 times and create jobs for up to 600 people depending on the sector (see figure 2 for billion dollar figures. See also figure 3 below). For example, \$1 million invested in the food processing sector can generate \$5.4 million in economy-wide

value-added, with an economy-wide employment effect of 584 jobs. \$1 million invested in construction sector generates \$5.3 million in economy-wide value-added and 613 jobs. \$1 million in the agricultural sector can generate \$3.6 million in economy-wide value-added and 654 jobs. The weighted average for \$1 million investment across sectors can generate \$2.9 million in economy-wide value-added and 247 jobs. Far from being insignificant, every \$1 million can create between 200–600 jobs per sector.

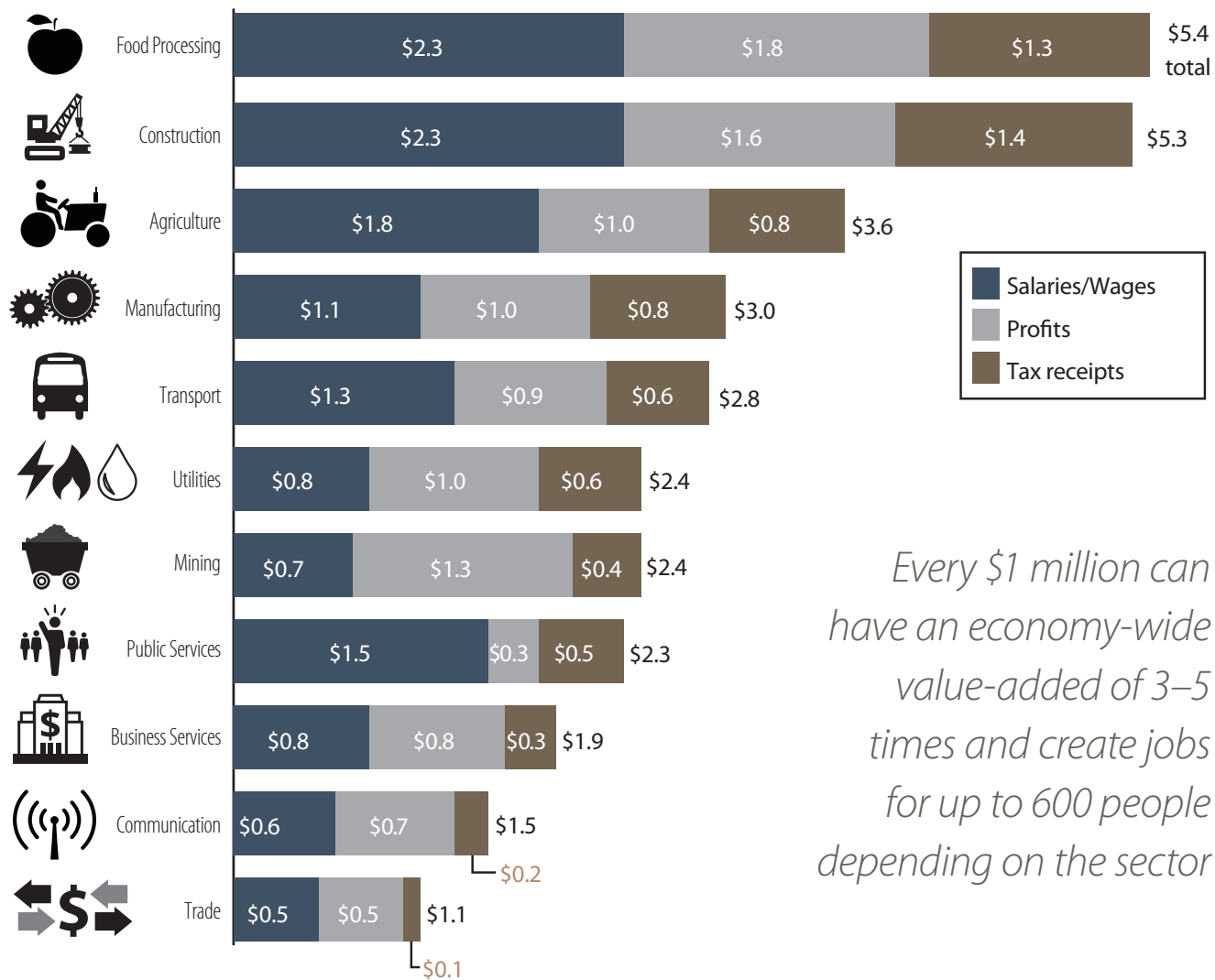
While the IFC has not performed a similar jobs study for Iran, it does provide us with a rule of thumb—a rough idea of what every \$1 billion can mean in terms of jobs.

Were one to extrapolate from the IFC study, depending on the sector, every \$1 billion invested in Iran could create approximately 200,000–600,000 jobs for the Iranian people, with weighted average putting the figure in the 290,000 range. Virtually all sectors, from food processing to construction to agriculture, can translate oil revenues into jobs and income.

If one assumes similarities between sectors and economies in Iran and Tunisia, then every \$1 billion squandered by the Islamic Republic is the equivalent of taking \$3 billion in economy-wide value-added out of the economy. It also follows that every billion dollars stolen out of Iran's

**Figure 3: How \$1 million Invested in a Sector Adds Economy-Wide Value**

From a Tunisia economic impact matrix



*Every \$1 million can have an economy-wide value-added of 3–5 times and create jobs for up to 600 people depending on the sector*

OMID GRAPHIC

Source: International Finance Corporation "IFC Jobs Study," Jan. 2013 via Steward Redqueen "Modeling the Socio-Economic Impact of Potential IFC Investments in Tunisia," 2012.

economy—whether frozen, blocked or siphoned out of the country—is the equivalent of destroying between 200,000 to 600,000 jobs. Given the multiplier factor of 3–6, \$1 billion also means \$3 to \$6 billion in value added, money, jobs, skill, pride and joy that would otherwise go into building industries and communities being siphoned out of Iran. And it means that much more insecurity for families in terms of diminished access to food, housing and shelter.

Assuming each employed person can support a family of four, every billion dollars in theft means 200,000–600,000 fewer jobs that would leave 800,000 to 2.4 million people languishing beneath the poverty line.

In 2011, the University of Tehran's budget—the largest of any Iranian university—was \$70 million.<sup>35</sup> One billion dollars in theft is the equivalent of raiding the budget, salaries and scholarships of Iran's top 20 universities. It is the equivalent of depriving 100,000 teachers, scholars or students of \$10,000 each.

No matter how one breaks down \$1 billion, the benefits and harm to entire sectors becomes apparent.

If one wonders why government officials are so casual about losing billions of dollars of the Iranian people's oil revenues, the answer is obvious: The Islamic Republic has reverted to the feudal and predatory patterns of government that it claimed to abolish. The government acts as the owner rather than the trustee of the nation's wealth. Iran's leaders do not believe the people own the government, but that the government owns the people. Iranians are not treated as citizens. They are treated as subjects. As

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*Iranians are not treated as citizens. They are treated as subjects.*

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such, they are expected to surrender their rights or risk having them expropriated. In this narrative, legal relations are premised on the subjugation and servitude of the nation, with oil treated as if it were the spoils of war: a pot to be divided among Iran's revolutionary establishment and their mercenaries in the Islamic Revolutionary Guard Corps (IRGC).

Iran's religious leaders act as the guardians of a divine government. Sadly, this divine government is detached from the people. As the beneficiaries of this corruption, the militant clergy negate the sovereignty of the Iranian people. They promote a religious ideology premised on severing the people's claim to their oil. Disclosing the financial corruption behind the scenes is not in their interest. Transparency, in their view, would only erode faith in the leadership and faith in the system. In this context, exposing corruption is not patriotic but treated as a threat—propaganda against the system—even when it comes from a former president.

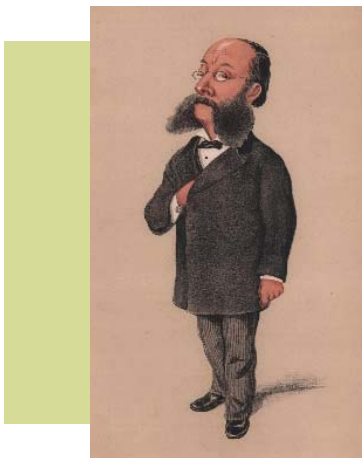
Sadly, a mother commodity—once the source of national unity, pride and independence—has once again been converted into the monopoly of criminal and corrupt cartels at the helm of the state. The deliberate subjugation, systemic impoverishment and daily harassment of the Iranian people is no accident. Breaking the nation's will, unity and spirit by dehumanizing the people, and reducing Parliament and judiciary into appendages and instruments of kleptocracy, is a necessary precondition for the plunder of the nation's oil reserves and revenues, all for the benefit of Iran's criminal oil mafia and their foreign patrons.





# 3

## Corruption by Design: The Oil & Gas Mafia



Paul Julius, Baron von Reuter

Vanity Fair, 14 Dec. 1872



Lord Curzon

Vanity Fair, 18 June 1892



William Knox D'Arcy

"The Garrick Gallery of Caricatures" by Harry Furniss, c. 1885

President Mahmoud Ahmadinejad coined the term “oil mafia” to describe the theft of Iran’s oil by Iran’s political establishment under his predecessor, President Akbar Hashemi Rafsanjani. The term, however, has broader application. Iran’s oil mafia is not controlled by a single president or administration. Their operations are systemic. They extend beyond the oil sector, are entrenched in the foundations of the state, and integrated into a much larger global network.

Corruption in Iran’s oil and gas sector has always been by design. The complex nature and global scale of Iran’s oil and gas industry makes the sector the prime target of predatory criminal enterprises that are extremely sophisticated. This should not come as a surprise. The plunder of Iran’s oil—and other mineral resources—has deep historic and colonial roots stretching back to the “Great Game.” Indeed, for much of the twentieth century, corruption by

design was the legal and economic norm, part and parcel of the strategic and economic rivalries between world powers vying for the control of oil—the lifeblood of the industrial world.

Assaults on Iranian sovereignty have often been economic, rather than territorial, in nature. In 1872, Nasir al-Din Shah, the Qajar king, granted Baron Julius de Reuters, a British businessman, a concession so brazen that even an imperialist like Lord Curzon characterized it as “the most complete grant ever made of control of resources by any country to a foreigner.” But while the Reuters concession failed, in 1901, Mozzafar al-Din Shah granted a British subject, William Knox D’Arcy, a 60-year exclusive oil concession that became the basis for the establishment of the Anglo-Persian Oil Company in 1909. Article 2 of the concession stipulated a royalty of 16% of net profits for the Iranian government.

*It was only with the Sale and Purchase Agreement of 1973, that the National Iranian Oil Company secured the right of “full and complete ownership, management and control in respect of all hydrocarbon reserves, assets and administration of the petroleum industry in the Agreement Area.”*

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The Iranian people were shackled with the consequences of Mozaffar al-Din Shah's concession—a contract that paved the way for the economic and political subjugation of the Iranian people for the better part of a century. The Iranian people were simply not a part of the equation. Qajar kings did not recognize the Iranian people as a sovereign entity, nor did the foreign powers.

Iranians paid the price of corruption in the form of concessionary agreements with foreign powers in which they were stripped of their sense of ownership and sovereignty. They lost all control over the exploration, production, distribution and sale of Iran's oil. The Iranian government could not even examine, let alone audit, the Anglo-Iranian Oil Company's books. Then, as now, there was no transparency and no accountability. The Iranian people couldn't verify how the British calculated Iran's 16% share of net profits any more than they can verify their recent 19% share in the Total deal with France and China—meaning that they were and continue to be cheated out of their national resources, at every step and stage of the process.

To make matters worse, then as now, the people had no control over expenditures. No one knew how their oil revenues were being spent. The Qajar monarchs viewed the treasury as their private purse, plundering Iran's oil revenues to finance extravagant European trips. The Iranian people were pushed to the verge of bankruptcy and forced to live on the brink of famine as if they were non-entities. Then, as now, there was no parliamentary or judicial mechanism for limiting predatory rulers willing to draw checks against the face and future of the Iranian people.

It took the Iranian nation more than fifty years—from 1901 to 1954—to emerge out of the shadow of state capture and occupation, replacing the ignominious legacy of Qajar concessions, capitulation and corruption with the 1954 Consortium Oil Agreement, a 50/50 profit-sharing

agreement with an international consortium of largely Anglo-American oil companies.

However, it was only with the Sale and Purchase Agreement of 1973, that the National Iranian Oil Company secured the right of “full and complete ownership, management and control in respect of all hydrocarbon reserves, assets and administration of the petroleum industry in the Agreement Area.” Furthermore, Iran announced that it would not extend the 1954 oil agreement beyond 1979, a fateful year, effectively letting consortium members know that they would be treated “as ordinary buyers of Iranian oil.”<sup>36</sup> (Please see Appendix 2 for an overview of historical oil production and revenue figures)

Virtually all the figures who embodied this struggle paid a heavy price for seeking to establish the Iranian nation's full sovereignty over its oil, perhaps none more than Dr. Mohammad Mossadegh who understood the primacy of the law as embodied in a constitutional government in which the Iranian Parliament protected the Iranian people's legal title and economic control over their oil. Ironically, Iran's communist party, the Tudeh party attacked Mossadegh as a “hireling of imperialists.” It opposed the nationalization of Iran's oil industry because “such a step would make it impossible for the Soviet Union to obtain oil concessions.”<sup>37</sup>

Dr. Mossadegh and the National Front's nationalist vision was that as an institution, a democratically-elected Parliament would give the Iranian people the legal standing to fight the corruption and shift the politics of oil. As Mostafa Elm, an economist and diplomat, puts it:

The nationalization of British oil interests in Iran had its roots in the constitutional revolution of 1905–1909, when the nationalists tried to establish a parliamentary system that would limit the power of autocratic rulers and invalidate the concessions that rulers had, at their whim, given

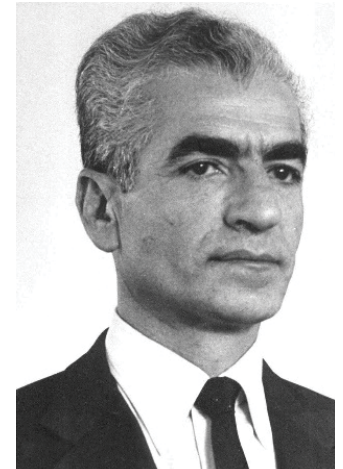
foreigners. Achieving the latter aim became even more important when a British oil company became a major political force in Iran, manipulating Cabinet ministers, government officials and Majlis members for the sake of increasing its own gain at the expense of Iran. The Iranians felt that constitutional rule could not develop as long as foreign domination fed local corruption.<sup>38</sup>

The National Iranian Oil Company is the fruit of that struggle. It was not only a symbol of the Iranian people's national unity but a manifestation in institutional form of the Iranian people's sovereign right and title to their oil. It was also the engine of Iran's remarkable economic growth and development—benefitting every other sector of Iran's economy and allowing the Iranian people to enjoy rates of growth that matched and surpassed that of China and the Asian tigers. In retrospect, these growth rates seem nothing short of an economic miracle.

Oil also fueled Mohammad-Reza Pahlavi ambitious program of modernization, a vision of Iran as a "Great Civilization." As a founder of OPEC—a price hawk widely blamed for the quadrupling of the price of oil—the Shah chided the industrialized world for using cheap oil. He referred to oil as a noble and pure substance. He blamed the industrial world for seeking to finance its rapid growth at the expense of exploiting oil producing nations, forcing countries like Iran to export commodities at a discount and import manufactured goods at a premium.

Reviewing the shift in Iran's economic standing, by the late 1970s the Shah was striking a more triumphant note:

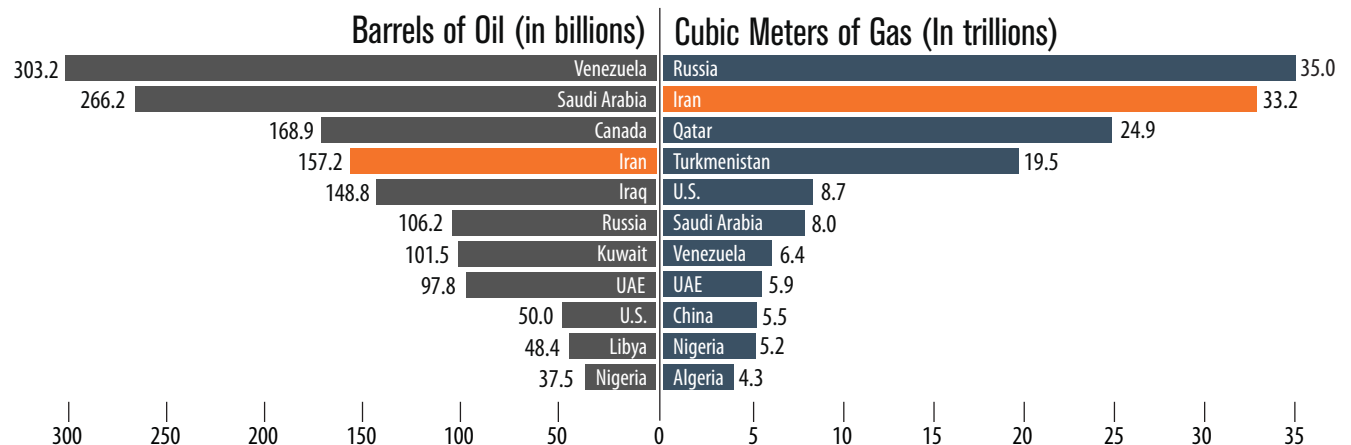
Today, our country has achieved total victory in this national struggle and has established complete and definitive ownership and sovereignty (*Malekiyat va Hake-miyat*) over its oil industry. All the revenue generated from this God-given endowment can be used towards the reconstruction of the country, its industrial and agricultural development, and progress in all other spheres.<sup>39</sup>



Mohammad-Reza Shah Pahlavi  
Wikimedia Commons

The benefits of the new contract's terms were palpable. The cumulative oil revenues of the Iranian government from 1912 until 1951 amounted to \$464 million.<sup>40</sup> But as Dr. Parviz Mina points out in *Encyclopedia Iranica*, after the 1954 Agreement, in the period 1955–1973, they rose to \$16.2 billion for a cumulative production of 15.4 billion barrels and after the 1973 Sales and Purchase Agreement,

**Figure 4: Oil and Natural Gas Proven Reserves**



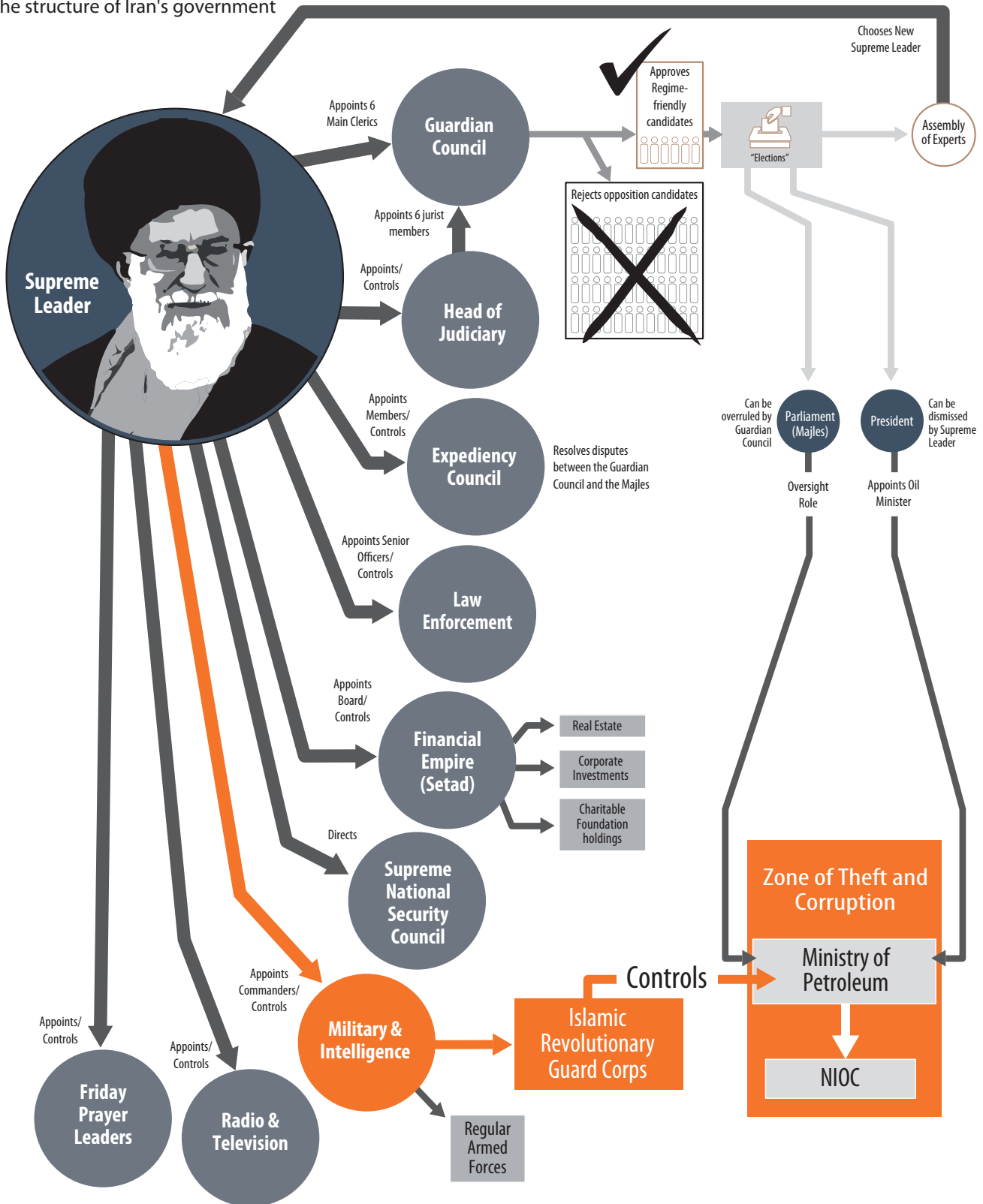
Where is My Oil? Graphic

Note: Oil and Gas reserves data from December 2017.

Source: BP Statistical Review of World Energy 2018, bp.com.

**Figure 5: The Supreme Leader's Constitutional Powers**

The structure of Iran's government



OMID GRAPHIC  
Source: Iran government, Iranian Constitution, Government actions reported in news media.

from 1974–1978, Iran’s aggregate oil income rose to \$104 billion for cumulative oil production of 10.3 billion barrels.<sup>41</sup> As Dr. Mina notes, the transformation in the Iranian people’s economic fate and fortune was remarkable. From a strictly economic point of view, with plans in place to bring Iran’s vast gas reserves online, Iran was, indeed, well on its way, to becoming a global energy superpower.

The Shah drove a hard bargain, often with a touch of scorn and even condescension. He viewed the control of Iran’s oil as a zero-sum game pitting Iran, an underdog represented by the National Iranian Oil Company, against the “emperors” and “giants” of oil and the political forces behind them.<sup>42</sup> Still, he boasted that with the termination of the consortium agreement, the passage of new petroleum laws would ensure the ascendancy of the NIOC:

From now on, all oil companies seeking to do business with Iran, will have to purchase oil or act as contractors of the National Iranian Oil Company. After the exploration and development phase is over and as soon as the commercial phase begins, the contracting company will be dissolved and a sales agreement will be signed under which the NIOC will give an agreed volume of oil, at market rates, with a maximum discount of 5%, to the contracting party. At the moment, the discount being granted to members of the consortium is less than 20 cents.<sup>43</sup>

Of course, the rise of Iran’s national oil company was not only due to shifts in the price of oil. While at the turn of the century, levels of literacy in Iran were astonishingly low, largely restricted to religious and aristocratic circles, the figures quoted by Dr. Mina as Iran’s share of its oil revenue reflected a deeper reality. What made this economic transformation possible was the development of an Iranian middle-class under the Pahlavi state. Having witnessed the disastrous political and economic consequences of a weak Iranian state subject to the predations of foreign powers and local warlords, the emergence of highly pro-

fessional cadres with a deep sense of nationalism and devotion to public service paved the way for the rapid centralization and modernization of Iranian state and economy. With security and wealth—vast investments in education, health, infrastructure, and the economy—came a sense of collective ownership.

Yet, since 1979, the story of the Islamic Republic is one that is bound to the decline and dismantlement of the NIOC. This story remains largely untold.

As with Mozaffar al-Din Shah and the D’Arcy Concession at the turn of the century, Iran’s supreme leader, Ali Khomeini, is institutionalizing a system of corruption by design that promises to strip the Iranian people of their right and title to their oil. The NIOC’s dismemberment by an “oil mafia” that successive Iranian presidents have promised to purge is not just an economic threat. It is a national security threat.

In her classic study of corruption and state capture, author Sarah Chayes coined a term, used in her book’s title, that is most apt for the scenario facing the Iranian people: *Thieves of State*. But as Chayes makes clear, naming is not

enough. We must understand the design: the kleptocratic networks and mechanisms that allow the thieves of state to institutionalize corruption.

Our hope at Omid for Iran is that the Iranian people will recognize, as in the days of the Anglo-Iranian Oil Company, the key to their prosperity lies in taking control of Iran’s oil and gas sector out of the hands of Iran’s oil and gas mafia. Breaking the grip of such a powerful and treacherous criminal enterprise—one that cuts across sectors and is global in scope—is not a task for a single individual or organization. Whether in Iran, Russia or China, an anti-corruption initiative begins with collective mobilization and concerted action at the national and global level. As with the Tobacco revolt, raising political awareness about the economic impact of corruption, requires broad participation of all classes and professions of society: legislators, teachers, journalists, clerics, Friday prayer leaders, merchants, farmers, workers, students, artists and activists all have a role and responsibility in this struggle.

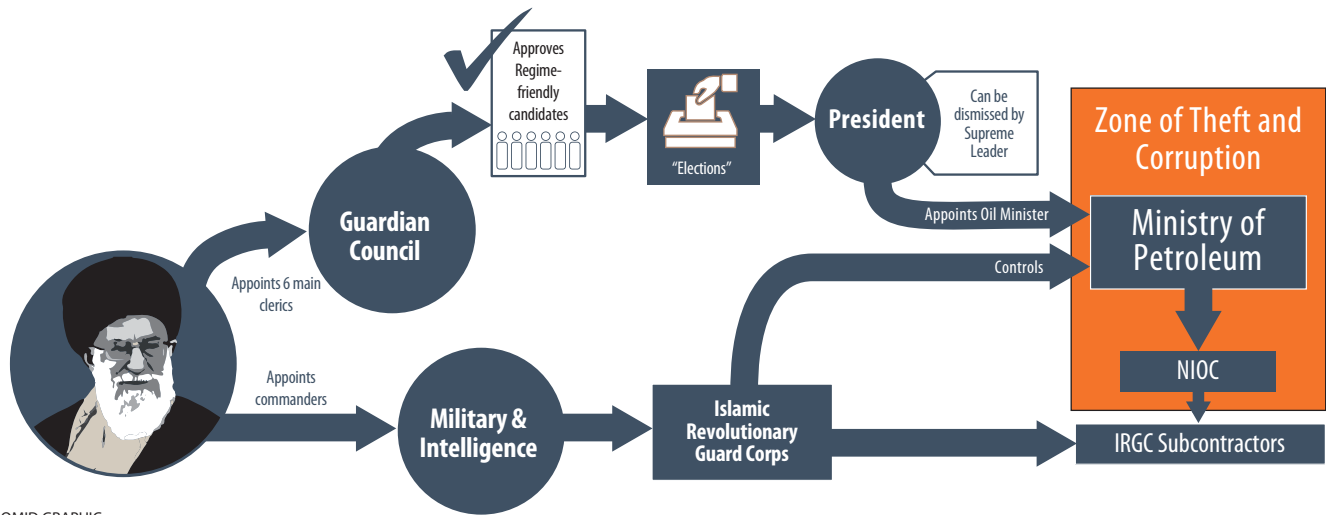
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*The NIOC’s dismemberment by an “oil mafia” that successive Iranian presidents have promised to purge is not just an economic threat. It is a national security threat.*

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**Figure 6: Controlling the Zone of Oil Theft**

How the Supreme Leader controls the oil industry



OMID GRAPHIC  
Source: Iran government, Iranian Constitution, Government actions reported in news media.

## Reclaiming Ownership: A War against Corruption

With the value of Iran's oil and gas reserves estimated at more than \$17 trillion, the Iranian people are acutely sensitive about how foreign powers have repeatedly sought to advance their strategic and economic interests at the expense of the Iranian nation. Foreign interventions have taken many forms and inflicted deep wounds—political, economic and psychological. Iranians have not only had to reverse the legacy of concessions, capitulations, coups and conspiracies, they have also had to sacrifice life and limb to reverse more brazen forms of theft: the conquest and occupation of Iran's oil rich Khuzestan province following Saddam's invasion of Iran in 1980. As such, oil is more than a commodity to most Iranians. It is the crucible

*Journalists in the frontlines of the war against corruption are the first to raise the question and the first to have their freedoms curtailed.*

that has claimed the life and formed the memory, character, politics and identity of the Iranian people

Today, the assault on Iran does not take the form of the amputation of Iranian sovereignty by a foreign corporation or the invasion of Iranian territory by a foreign army. Yet its humanitarian and economic consequences are equally destructive.

Iran is losing another war. In this war, the enemy is not Saddam. It is a pernicious system of corruption invading, occupying and compromising the integrity of the bodies charged with protecting Iran's oil and gas sector.

The players leading the charge against the Iranian people are not foreign armies. They are governments, ministries, banks, companies and subsidiaries, operating hand-in-hand with the Islamic Republic and other governments, to siphon unknown quantities of Iranian oil into a black market as vast as a black hole.

The bounty of entire oil and gas fields is being siphoned out of Iran. There is no accounting for theft on such a scale as no one knows, no one can account and no one can verify the quantities of oil being diverted into the black market. Those who dare to ask for transparency and accountability or protest the theft of the Iranian people's oil pay the price. And not only in Iran. Turkish president Tayyip

Erdogan’s self-justifying crackdown on Turkish prosecutors, judges and police investigating Reza Zarrab’s oil-for-gold money-laundering scheme reveals both the scale of the theft and the impunity that sustains corruption.

And, as always, journalists in the frontlines of the war against corruption are the first to raise the question and the first to have their freedoms curtailed. Instead of pursuing the thieves, Iran’s judiciary silences the media. A similar story plays out in Parliament. The few legislators brave enough to raise the alarm about corruption find themselves charged with spreading propaganda against the system. The legislator, for better or worse, still can act not only as the voice of the people but as the guardian of their rights.

In effect, predators have invaded and occupied Iran, not through the physical invasion of the oil and gas fields, but through the illegal political occupation of the institutions, the physical expropriation of the supply chain and the fiscal invasion of the accounts in which Iran’s oil and gas revenues are deposited.

Loss is compounding across sectors. In the name of defending every inch and iota of the Iranian people’s sovereign right to a nuclear program, the Iranian people were

forced to assume the economic and political cost of sanctions, while an international oil racket profited from the plunder of Iran’s oil and gas sector.

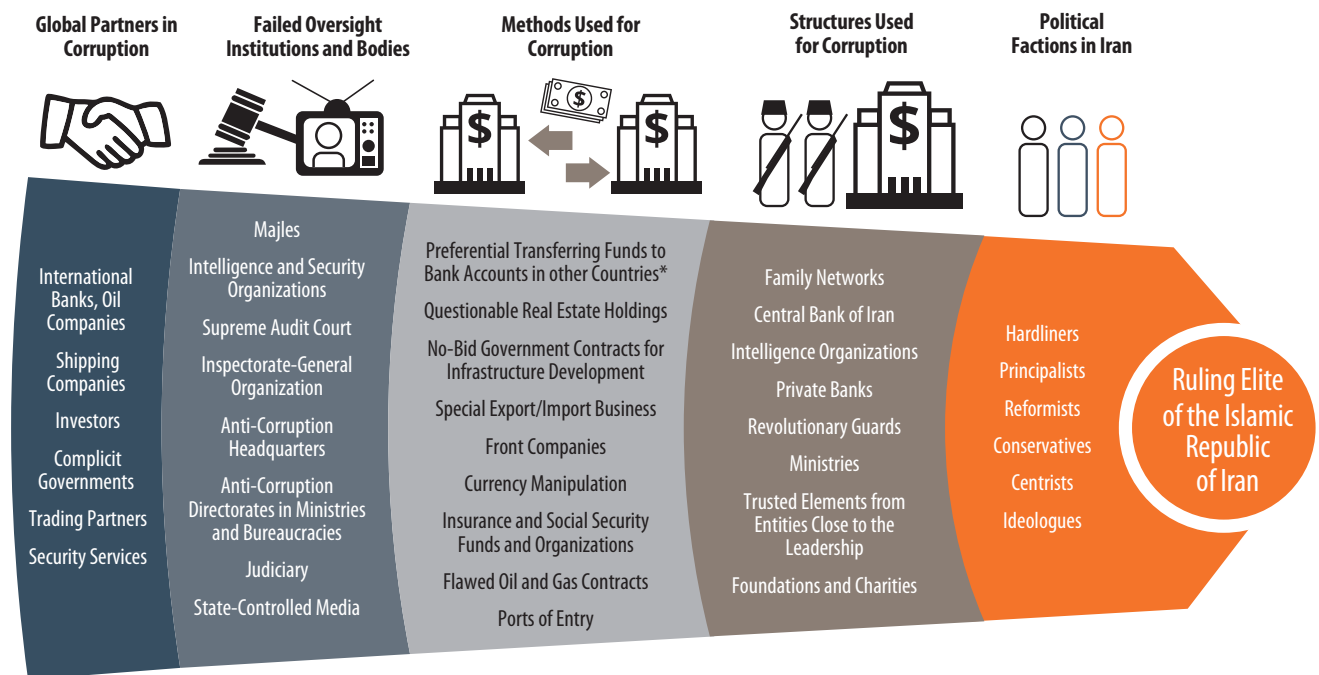
That sector can no longer remain in a collective blind-spot.

The failure to reclaim control over Iran’s oil and gas sector will have catastrophic consequences for the security of the Iranian people. Iran may not be an Angola or a Sudan, but the symptoms of a failing, if not failed, state are already manifest as social and economic degradation and injustice: an epidemic of unemployment, poverty, addiction and prostitution, to say nothing of the flight of talent and capital in a country endowed with extraordinary potential and vast riches. Yet, with the IRGC increasingly acting as a militia preying rather than protecting the Iranian people, the risks of Iran’s vast oil wealth being siphoned off in future proxy wars cannot be ignored. Good governance is the only force capable of preventing the greatest of blessings from turning into an abomination: the oil curse.

The heart of the matter is this: Vast sums of oil are being siphoned out of Iran’s oil sector into the black market without leaving a trace in the oil, financial, legal or secu-

### Figure 7: Corruption by Design

The architecture of how corruption flourishes in Iran



OMID GRAPHIC

Source: Omid for Iran analysis

\*such as UAE, Turkey, Iraq, Tajikistan, Armenia, Malaysia, Hong Kong, and Indonesia



riety sector. The institutions charged with controlling and monitoring the sectors under the supreme leader's supervision and blessing, in the first instance, the Petroleum Ministry, the NIOC and the Central Bank, have failed to carry out their institutional mandate. Oil is pumped out of the country, but money does not return into the country. This is not because of sanctions. It is because of corruption—corruption by design (see figure 7).

At a conference on diversifying Iran's oil sales, first vice-president Eshaq Jahangiri hinted at the scale of oil revenue theft by agents acting under the authority of Iran's Ministry of Oil: "I can tell you quite frankly that of all the individuals and entities that received oil allocations to sell oil on behalf of the Ministry of Oil, not one has returned a single dollar to the government."<sup>44</sup>

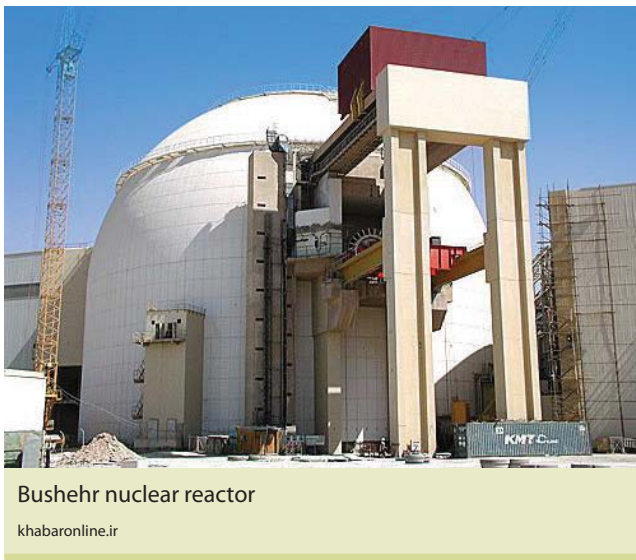
Not a single dollar.

Were it that such losses could be confined to the Ahmadinejad era. Yet sadly, the removal of sanctions didn't signal an end to corruption by design. The players may

change but the patterns and interests driving the Great Game persist. In November 2017, as part of a visit by Russian President Vladimir Putin to Tehran, Amir Hossein Zamaninia, Iran's deputy minister for international affairs, said that the Rouhani administration signed six "provisional deals" with Russia.<sup>45</sup> The deals—worth an estimated \$30 billion—are with Russian energy groups such as Rosneft and Gazprom. Igor Sechin, chief-executive of Russia's state-controlled oil giant Rosneft said that the cooperation would include swap operations, supplying oil and oil products, training staff and modernizing oil refining.<sup>46</sup> Yet, neither Rouhani nor any of his deputies have explained the nature of their "strategic deals." What is it that Iran will receive in exchange for offering its competitors access and control over its oil and gas infrastructure and reserves?

In effect, the Iranian people are once again dispossessed. A century after the D'Arcy agreement, they have lost legal, political, financial and physical control over their oil.

## The Cost of Iran's Nuclear Program: The \$100 billion White Elephant



Bushehr nuclear reactor

khabaronline.ir

The Islamic Republic has touted Iran's nuclear program as a symbol of Iranian sovereignty. Yet in practice, the program has bankrupted the Iranian people. The scope and scale of the Islamic Republic's strategic malpractice becomes incontrovertible when Iran's nuclear program is viewed in the context of Iran's total energy use. In the year that the nuclear sanctions went into effect, Iran's al-

ternative and nuclear energy use constituted less than 1% of Iran's total energy use, with fossil fuel accounting for 99.3%.<sup>47</sup> Yet, the propaganda about the nuclear program reflects skewed perceptions and priorities.

Every household in Iran is familiar with the number of Iran's centrifuges and the name of Iran's nuclear plants. Yet Iran's oil and gas sector is consigned to oblivion. The nature of the investments, number of wells, state of the reserves, rate of depletion, targets for production, even the names of the fields accounting for 99.3% of energy use, are kept in a blind spot.

In a 2013 study, Ali Vaez and Karim Sadjadpour, two leading experts on Iran, put the cost of Iran's nuclear program—"measured in lost foreign investment and oil revenue—at more than \$100 billion."<sup>48</sup>

Other highlights of the study were as follows:

- "The Bushehr nuclear reactor took nearly four decades to complete and cost almost \$11 billion (measured in 2013 dollars) making it one of the most expensive reactors in the world.
- "Bushehr provides merely 2% of Iran's electricity needs, while 15% of the country's electricity is lost

through ill-maintained transmission lines.

- “Despite aspirations to be self-sufficient, Iran’s relatively small uranium resources will inhibit the country from having an indigenous nuclear energy program.
- “Iran is the only nuclear state that is not signatory to the Convention on Nuclear Safety, and its nuclear materials and stockpiles are some of the least secure in the world.<sup>49</sup>
- “Most ominously, the Bushehr reactor sits at the intersection of three tectonic plates.”<sup>50</sup>

They noted that critical questions about the nuclear program’s economic efficacy and safety have been left “unanswered.”<sup>51</sup>

In fact, glimmers of an answer were in full view as early as February 2011, upon completion of work on the Bushehr nuclear plant by Russian contractors. On that occasion, a 40-year-old pump, supplied in the 1970s, failed, sending metal shards into the cooling system. Instead of generating electricity, Iranians and their Arab neighbors woke up to the prospects of a Chernobyl in the Persian Gulf.<sup>52</sup>

## Energy Policy: Electricity Generation in Iran-Nuclear vs Gas

It is worth pointing out from its inception under the Shah, the prospects for generating electricity from nuclear power in Iran were bleak. In his breakthrough study, “Energy Policy in Iran,” Bijan Mossavar-Rahmani noted that the capital costs of constructing the two Halileh reactors in Bushehr, estimated at \$7.5 billion in 1978 dollars, were not competitive. The price of electricity generated from these reactors per KWe installed was \$3,150 compared to \$700 - \$1000 from reactors in industrial countries.<sup>53</sup> As he put it “nuclear power makes very little economic sense in Iran at this time.”<sup>54</sup> Given Iran’s abundant supply of natural gas and the much lower capital cost of natural gas-fired thermal power plants and combustion gas turbines, he concluded that “it can be safely stated that natural gas was and is the most economical source of incremental electric power supply for Iran under any reasonable set of assumption.”<sup>55</sup> Those assumptions were as valid in 2009 as they were in 1979. As noted by Vaez and Sadjadpour, “In 2009, for instance, each kilowatt hour of installed nuclear capacity cost \$4,000, while the equivalent for gas cost \$850.”<sup>56</sup>

Instead of generating power, the Islamic Republic’s energy policy is bankrupting the Iranian people. Capital costs—costs associated with the building and financing of nuclear reactors—and fuel supply and security should be key drivers of energy policy. The World Nuclear Association notes that capital costs account for at least 60% of the levelized cost of electricity.<sup>57</sup> According to the US Energy Information Administration’s estimates, capi-

tal costs for new nuclear plants scheduled to go online in 2022 made up 71% of the levelized cost of electricity compared to 23% for natural gas.<sup>58</sup> The estimated levelized capital cost of plants entering service in 2022 for

natural gas-fired (advanced combined cycle) stood at \$14.0/MWh versus \$70.8/MWh for advanced nuclear plants.<sup>59</sup> Operating, maintenance, and fuel costs between nuclear and gas turbine plants for electric utilities in the US in 2016 stood at 2.57 cents per KWh versus 3.02 cents per KWh—a marginal and miniscule factor compared to capital costs.<sup>60</sup> In fact, from both an economic and security standpoint, nuclear reactors make

Iran dependent on external suppliers when the problem could be easily addressed by cheaper reactors fueled by an abundant and cheap source of natural gas. Iranians can no longer remain blind to the obvious. In light of virtually all these facts, the economic arguments for building nuclear plants in Iran all but collapse.

What about the economic value of the electricity generated by the Bushehr nuclear plant?

Even if one were to take the best-case scenario presented by Iran’s Minister of Energy in 2013, the anticipated 7 TWh/yr generated by the reactor would free 1.6 million tons or 11 million barrels of oil. Based on the minister’s claims, at \$50-100 per barrel, the reactor would save Iran between \$550 million and \$1.1 billion per year in hard currency. When one considers the fact that the reactor cost \$11 billion to build, even with interest payments as low as 10%, Iran would be paying \$1.1 billion in interest every

*Iranians can no  
longer remain blind  
to the obvious*

year. The 11 million barrels of oil the reactor supposedly saves would not go to the Iranian people. They would go to service interest payments. And that assumes operational costs are zero.

After almost shattering the backbone of Iran's economy—subjecting an oil and gas sector valued at more than \$17 trillion dollars to devastating sanctions—it is worth considering that the Islamic Republic stock of 20% enriched uranium was estimated at a mere 228 kilograms, of which it could only keep 51.5 kg in TRR fuel plates. It had to send out 175 kg of the 20% LEU by Implementation Day.<sup>61</sup> It also shipped more than 11,000 kg (25,000 pounds) of low-enriched uranium material to Russia in December 2015.<sup>62</sup>

What did \$100 billion in economic loss translate into for Iran? The value of Iran's entire 228 kg stockpile of 20% enriched uranium in April 2015 was \$810,540.<sup>63</sup> The value of the 11,000 kg of low grade uranium shipped to Russia was approximately \$6.8 million.<sup>64</sup>

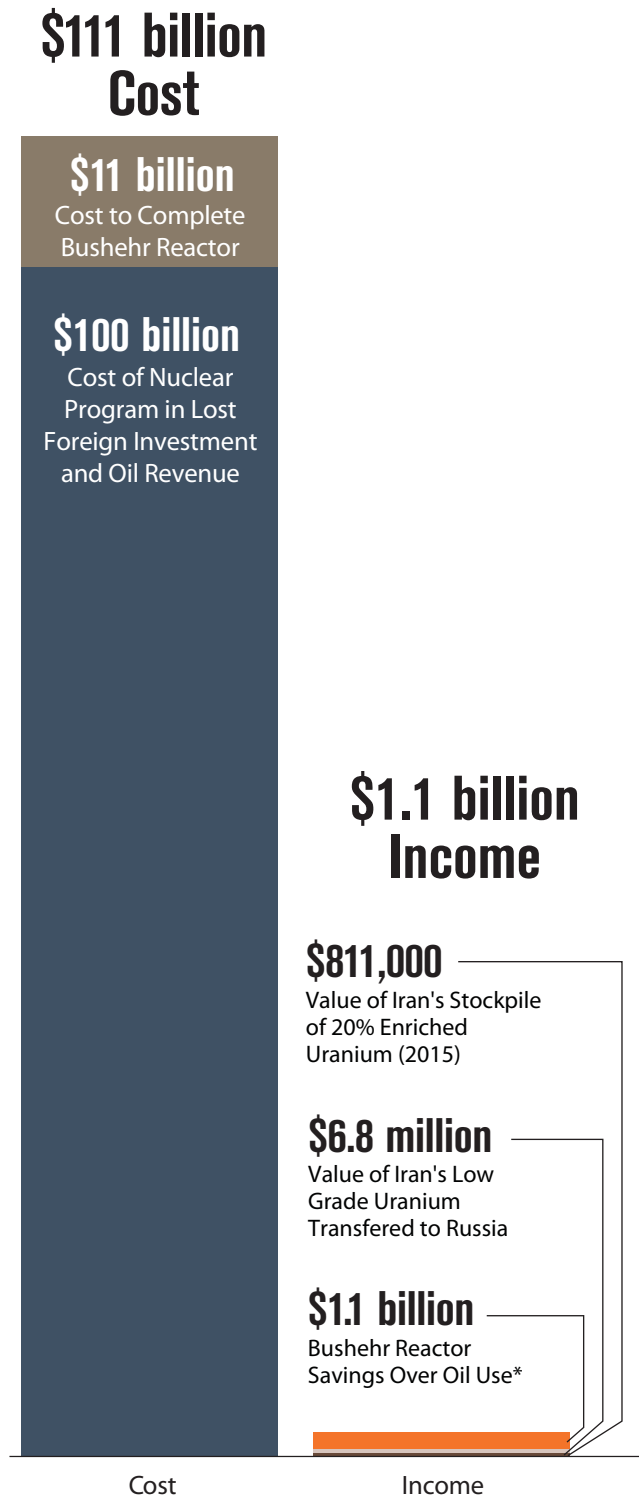
Considering that in 2013 natural gas accounted for 60% and oil accounted for 38% of Iran's total primary energy consumption—a combined 98%—\$100 billion that could have been directed towards the oil and gas sector was squandered for a nuclear sector that accounted for less than 1% of Iran's energy needs.<sup>65</sup> By 2015, with Bushehr online, nuclear power accounted for 3.8 billion kilowatt hours out of Iran's total net electricity generation of 265 billion kilowatt hours, or roughly 1.2%.<sup>66</sup> Iran has spent or otherwise squandered \$100 billion to enrich uranium that it could have purchased for less than \$8 million (see figure 8). And finally, with the electricity generated by Bushehr estimated to generate between \$550 million and \$1.1 billion in oil sales per year, between two to four years of the economic benefits generated by the Bushehr nuclear plant, for which Iranians had waited more than 40 years, were wiped out by one instance of corruption in Iran's oil industry—the \$2.7 billion heist by the Zanjani oil mafia.<sup>67</sup>

Remarkably the disastrous economics behind Iran's nuclear program has not led to a shift in policy. Instead, after the landmark nuclear, Iranian leaders are doubling down on Iran's nuclear program: a lucrative monopoly that guarantees more waste and corruption in Iran's energy sector.

What is more, the Iran nuclear program functions as a subsidy for Russia. Russia is guaranteed hundreds of thousands of barrels of free oil a day for as long as a decade in oil swaps designed to secure the Kremlin's political support.

According to Rosatom, the Russian Atomic Energy Agen-

**Figure 8: Costs and Benefits of Iran Nuclear Program**  
What Iranians Received for their Investment



OMID GRAPHIC  
\*Savings per year. At this rate, it would take a century for the Bushehr Reactor to pay off the losses Iran incurred from its nuclear program.  
Source: Carnegie Endowment for International Peace, Bargh News (Atomic Energy Organization), World Nuclear Association.



Left to right, Sadeq Raisikia, former managing director of Rah-Ahan Sports Club; Brigadier General Mohammad Rouyanian; billionaire Babak Zanjani and Hamid Fallah-Heravi, a business partner of Zanjani.

eghtesadonline.com

cy, construction began on the Bushehr 2 nuclear power plant (NPP) in Iran in Oct. 2017. The Bushehr 2 NPP will have two VVER-100- power units with a combined capacity of 2100 MW. The project is estimated to cost over \$10 billion and is expected to take up to ten years to complete.

## Kleptocracy in the Oil Industry: The Zanjani Case

The trial of Iranian Babak Zanjani, the billionaire businessman at the center of a \$2.7 billion oil heist, reveals the dimensions of the problem. If the Zanjani case were only about the circumvention of sanctions—a matter of financial technicalities related to the complex logistics of moving oil and transferring money around the world—it would neither deserve nor command attention. With their finely-honed sense of the absurd, Iranians would laugh it off, and move on. But the case has severe implications. It does much more than expose the extent and depth of the Iranian state's penetration by the very oil mafia President Ahmadinejad had promised to slay. It demonstrates how (appearances notwithstanding) the Iranian state is actually unhinged: incapable of guarding the Iranian people's claim to their most precious national asset.

It was signed in November 2014, and includes the option for the construction of another six nuclear reactors.<sup>68</sup>

As to the question of how Iran would pay for the Bushehr reactors, the answer came from Iran's ambassador to Moscow, Mehdi Sanaie. In an interview with the Russian daily *Kommersant*, Sanaie confirmed that Iran and Russia were discussing supplies of "a few hundred thousand barrels per day" and that "Iran could use some of the proceeds (to pay for) the construction by Russia companies of a second unit at the nuclear power plant in Bushehr."<sup>69</sup> As he put it, "Our Russian friends, who have stood by us at difficult moments should have advantages in Iranian market...But Russian companies must hurry to get into their niche in our market and not hesitate out of fear of Western sanctions."<sup>70</sup>

In this light, Iran's nuclear program is a manifestation of an energy policy that is nothing if not a national catastrophe—a return to Qajar era deals premised on taking the Iranian people's title over their government and economy. The nuclear program remains what it has always been: a neo-colonial arrangement through which a corrupt kleptocracy bribes its foreign patrons and betrays the nation to siphon Iran's oil resources, drain Iran's foreign reserves, stunt Iran's economic growth and destroy hundreds of thousands of jobs for decades to come—a classic case of corruption by design.

Zanjani, the head of the UAE-based Sorinet Group, was arrested on 30 December 2013. On 6 March 2016, he was convicted and sentenced to death for embezzling funds from the National Iranian Oil Company and "spreading corruption on earth," according to Gholamhossein Mohseni Ejei, the judiciary spokesman.<sup>71</sup> His partner in Turkey, Reza Zarrab, was arrested in Miami, Florida, on 19 March 2016, and charged with conspiring to evade sanctions, money laundering and bank fraud. The two operated a global oil-for gold exchange designed to launder billions of dollars in Iran's oil revenues through front companies from Turkey to China and Malaysia to the United Arab Emirates.

Yet questions about Zanjani ties to the Iranian government remained shrouded in mystery. An open letter by Mahmoud Bahmani, the former head of the Central Bank,

denied any contact between Babak Zanjani and members of the Ahmadinejad government. President Rouhani's office responded by asking Bahmani who then had qualified the defunct Malaysian bank to receive the vast sums of public funds that resulted "the squandering of the nation's wealth." Those questions were raised yet again in January 2017. Amir Abass Soltani, the head of the parliamentary committee charged with investigating the Zanjani case, asked Mahmoud Bahmani, the head of Iran's Central Bank under Ahmadinejad, "How were 12 supertankers transferred to Babak Zanjani?"

How is it that to issue a 100 million toman loan you check all the details of a person's history, but to hand over 12 supertankers to Zanjani you paid no attention to his fraudulent identity card, his debts, and his fraudulent checks...how was it that you and four other ministers got together in one day and qualified Zanjani without any official or authority raising any concerns about him with you. Believe me, the people are much smarter than this.<sup>72</sup>

Instead of resolving an economic crime and preventing any recurrence, after three years of investigating the Zanjani case, the Iranian Parliament and judiciary could not name the members, let alone dismantle and prosecute the oil mafia transferring Iranian oil, gold, currency, credit and supertankers to Zanjani.

In 2015, at a secret meeting with the Parliament's budget and planning committee, the government "noticed that \$35 billion in the Central Bank's funds were held by

the Naftiran Intertrade Company (NICO), the offshore arm of the NIOC. In a conversation with Sharq newspaper, Ismail Jalili, a member of the committee, claimed that the funds were transferred to Naftiran Intertrade Company when it was under the management of Mr. Jashnsaz, and that there had been no accounting or audit of Naftiran Intertrade Company's accounts. When asked about the similarities between the Naftiran Intertrade Company and Zanjani case, he said that Zanjani's funds were part and parcel of the Naftiran Intertrade Company equation, with the difference that the sums entrusted to Naftiran Intertrade Company were 12.5 times greater than the Zanjani case. As to the status of Naftiran Intertrade Company's \$35 billion, Jalili said that they were blocked.

In 2017, Eshaq Jahangiri, the first vice president, suggested that the NIOC had, in fact, transferred over \$50 billion from the Central Bank to Naftiran Intertrade Company supposedly to help NIOC secure lines of credit for various oil and gas projects. He confirmed that Naftiran Intertrade Company was the source of Zanjani's \$2.7 billion and lamented the fact that the funds were not secured by any collateral and that government officials had signed a piece of paper authorizing the transfer to Zanjani's bank without any report verifying its existence or history.<sup>73</sup> He spoke of the corruption cases as "the greatest corruption case of the century."<sup>74</sup>

To date, there has been no accounting for the Zanjani case or Naftiran Intertrade Company's missing \$35 billion. And even this sum, while substantial, is a fraction of Iran's oil revenues over the past four decades.

## Kleptocracy in the Gas Industry: The Crescent Case

Examples of losses from corruption in the gas industry are also staggering. Again, a single case can be illustrative.

In an agreement between the NIOC and Crescent Petroleum, officials at the NIOC agreed to a pricing scheme to sell Iranian gas from the Salman field at one-fourteenth its market price, establishing a peg, which according to a former Oil Minister Masoud Mirkazemi, would weaken Iran's negotiating position for "the next 50 years."<sup>75</sup>

Iran entered a contract which was, according to the Fars News agency, "one of the most shameful contracts in the history of Iran's oil industry and perhaps the worst gas contract in the world."<sup>76</sup> In other words, after supposedly

pouring tens of billions of dollars in Iran's oil revenues to develop the South Pars gas field, Iranian officials devalued the entire field, allegedly for a \$2 million bribe.<sup>77</sup>

The Islamic Republic made legal history at the International Court of Arbitration at The Hague. Iran's legal defense was premised on proving the corruption of its own NIOC officials and oil ministers.

In the words of Mirkazaemi, Iran had done "an exemplary job gathering all the evidence of bribery inside and outside the country, for instance, from Standard Chartered Bank where some of our financial documents concerning the transfer of funds and deposits were recorded."<sup>78</sup> He



Wikimedia Commons

*“The Islamic Republic made legal history at the International Court of Arbitration at The Hague. Iran’s legal defense was premised on proving the corruption of its own NIOC officials and oil ministers.”*

See statements of former Oil Minister Masoud Mirkazemi

added that “the information was retrieved with great difficulty and submitted to the Hague: the bribes that were received, the witnesses to them and the funds that were deposited were all presented so as to leave no doubt for the three judges at the tribunal that this agreement was signed through corrupt means.”<sup>79</sup>

Mirkazemi said the corrupt minister in charge of the Crescent case was none other than Bijan Zanganeh, Iranian President Hassan Rouhani’s oil minister: “All the documents and evidence indicate that the person of the minister was the driving force behind the agreement. He was the one who personally pursued the agreement over these years. All the others took their orders from him.”<sup>80</sup>

The case has fallen apart.

Seeing the accused in the Crescent case return to the oil company and assume their old posts along with Zanganeh, the Arbitrators were flummoxed: “Iran claims there was corruption [in the agreement] but its former ministers and ranking managers say that was not the case. And how can I find them guilty [of corruption] when your own judiciary has exonerated them.”<sup>81</sup>

The Arbitrators ruled against the NIOC:

No alleged corrupt contractual arrangements between Crescent and Mr Hashemi were ultimately executed. There is evidence that Mr. Hashemi eventually became hostile to Crescent. There is no evidence that would allow the Tribunal to surmise the effect that the agreement to pay confidential third-party fees may have had on the GSPC. There is no direct evidence of any corrupt arrangements involving Mr Rahgozar in the lead up to the conclusion of the GSPC. Perhaps more importantly, the Tribunal, as explained in Chapter

X11.B above, has been unable to make a finding that the GSPC (gas supply and purchase contract) was imbalanced in a way that would show that it must have been procured through corruption.<sup>82</sup>

The Tribunal recognises that corruption is difficult to prove. As stated in paragraph 658 above, direct evidence is rare and a finding of corruption may have to be made through inference from circumstantial evidence. The Tribunal has found the matter of whether the GSPC was obtained through corruption difficult to decide. And yet decide it must.<sup>83</sup>

The NIOC appealed. It claimed that the panel did not have the jurisdiction to rule on a breach of contract claim by Crescent Petroleum Company International Ltd and its subsidiary. The NIOC’s attorneys, instructed by Eversheds LLP, once again set out to persuade the court “that the long-term gas supply and purchase contract between the parties had been obtained through corrupt means.”<sup>84</sup>



Mahdi Hashemi Rafsanjani

Tasnim

In a 4 March 2016, ruling, Justice Michael Burton in the High Court of Justice's Commercial Court concluded that the panel did indeed have jurisdiction to hear the case. He added that "it is plain that the arbitrators made a very careful analysis of the facts and concluded that there had been discussions about a corrupt payment, but that it was never put into effect."<sup>85</sup> It adopted Crescent's formulation, claiming that "the idea that the Minister and the Board were mere ciphers who were duped by Mr. Hashemi, or that Mr. Hashemi had in some way tied the hands of either Mr. Rahgozar [an NIOC official], the Minister or the Board is simply fanciful."<sup>86</sup>

The Islamic Republic had essentially failed to prove to a British Court that its own corruption had determined the outcome of the agreement. The Iranian people were expected to breathe a sigh of relief, presumably because the NIOC board was not corrupt, merely incompetent. Not only was their gas to be diverted to the UAE for a fraction of the price, since no gas was delivered, they were hooked for billions of dollars in damages.

In October 2016, Alireza Zakani, a former parliamentarian claimed that the damages to Iran from the Crescent case exceed the \$43 billion mark. He added that Crescent lacked the necessary qualifications for such a contract. He lamented the fact that although the contract had at least 15 major flaws, at his confirmation hearing for oil minister before Parliament, Zanganeh had not deigned to respond to a single question. He noted that four separate groups of middlemen had secured commissions over the duration of the contract. The first group secured a commission of 12.5%. The second group secured a commission of 1%–1.5%. The third, represented by Mehdi Hashemi and Abbas Yazdanpanah (who has since disappeared) entered the fray from 2000–2002. The fourth group represented by Ali Taraghi Jah joined in 2004.<sup>87</sup>

What stands out about Zakani's testimony is the government's inaction. Even though Iran's national security

apparatus had declared that the Crescent case was not in the national interest, there was a reluctance to pursue the corruption rings rigging Iran's oil and gas contracts. The delays are unfathomable. As he points out, the evidence of corruption has been available to Iran's General Inspection Office since 2008—yet ten years later, despite tens of billions of dollars in damages, no one in Iran's oil ministry is addressing the questions and concerns raised by the Crescent case. He hoped that the judiciary would pursue these cases in the face of the government's obstructionism, and added that he had decided to reveal information about the case with the support of Ali Shamkhani, the Secretary of the Supreme National Security Council of Iran, who shared his concern about lack of transparency.<sup>88</sup>

What the bureaucratic infighting could not obscure was the financial impact of the case. In the Crescent case, Iran was selling its gas at one-fifth the price of its other contracts, at one-fourth the price the United Arab Emirates was purchasing its gas from Qatar and at one-tenth the price Russian was selling its gas to Europe. As late as October 2016, Ali Kardor, the NIOC's managing director, was describing the Crescent Agreement as a "first class contract."<sup>89</sup>

What is telling is virtually all the internal systems designed to check corruption within the NIOC, and all the external systems in the public sector, from the treasury to the Parliament and judiciary and even the Supreme National Security Council, could neither prevent, reverse or account for, let alone compensate the Iranian people for a corruption scandal that, for all practical purposes, has sabotaged Iran's natural gas industry.

As if this appalling damage to Iran's reputation and resources were not enough, far from being prosecuted, Zanganeh's team were once again at the helm of Iran's oil and gas sector, with a significant sum of NICO's funds held—and blocked—in the United Arab Emirates, presumably pending the settlement of Crescent case.

## Kleptocracy in the Central Bank: The NICO Case and Beyond

A similar degree of impunity is manifest at the Iranian Central Bank. Instead of providing the Iranian people with a full accounting of Iran's oil revenues, including Iranian accounts and assets abroad, the lifting of sanctions has provided a rare glimpse into the lack of accountability and transparency afflicting Iran's economy—particularly the oil and gas sector.

Despite U.S. Treasury estimates that Iran's post-sanctions windfall would be in the range of \$100 billion to \$125 billion, Valliullah Seyf, the Governor of Iran's Central Bank, put the total sum of Iran's blocked reserves at \$76 billion, of which only \$29 billion would make its way back to Iran.

Seyf could not account for \$24.5 billion withdrawn from its accounts by Naftiran Intertrade Company (NICO), the offshore trading arm of the NIOC. The oil minister, Zanganeh, provided no explanation as to how these funds had been spent, who had withdrawn how many billion dollars, allocated for which projects, based on which contracts, approved by which minister, and audited by which agency.

Another \$22.5 billion in reserves were held in China as financial guarantees for joint ventures projects and credits for imports. Seyf had nothing to say about who in the Oil Ministry had negotiated the contracts, which projects were being guaranteed, how much of the credit was used for which imports, who were the beneficiaries, and when and how the remainder would make its way back to the treasury.

The status of another \$10 billion deposited in Iranian banks was in doubt. And another \$3.5 billion was tied up due to various court rulings and legal actions.

As far as the windfalls from Iran's oil revenues was concerned, out of every four barrels of oil Iran sold during sanctions, the Iranian people were only able to reclaim the revenues from one. And even that promise was only theoretical.

The sanctions windfall is only one of many windows providing a narrow glimpse into the scale of corruption in the Islamic Republic under President Ahmadinejad. Addi-

tional facts and figures released by the Rouhani administration provide an even wider, if more damning, perspective on financial irregularities in the last four years of the Ahmadinejad administration.

From 2005–2008, the discrepancies between oil revenues and the sums deposited with the Central Bank are estimated to be more than \$66 billion—roughly “one-tenth of Iran's total oil revenues since the 1979 revolution.”<sup>90</sup>

While the Central Bank claimed that nearly \$220 billion worth of goods were imported into Iran from 2005–2008, the customs administration put the figure at \$185 billion—a \$35 billion shortfall, unaccounted for and missing.

The Central Bank claimed that revenues generated from the sale of oil from 2005–2008 amounted to \$280 billion whereas the Oil Ministry put the figure at \$255 billion—a \$25 billion discrepancy.

And finally, while the Central Bank claimed that Iran had \$28 billion in foreign exchange reserves, the actual sum in the account was only \$25 billion.

The failure of the Central Bank to track and check corruption in Iran is grave. The capital flows are vast, and the need for accountability extends beyond Iran's Oil Ministry. Yet, the Bank itself appears to have been captured by the thieves of state. It not only failed to check the theft of Iran's oil revenues by “the economic *basij*” acting as agents of Iran's Oil Ministry, the Bank is also implicated in the plunder and misallocation of foreign exchange reserves.

According to Vice President Eshaq Jahangiri, in the last two years of the Ahmadinejad administration alone, more than \$22 billion in Iranian foreign reserves left the country through currency traders in Istanbul and Dubai—a charge the Central Bank has not disputed.<sup>91</sup>

An atmosphere of impunity has meant that most corruption cases in Iran are difficult to resolve. The legal and fiscal mechanisms for governance—approving contracts, managing projects, tracking funds, and monitoring per-

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*Out of every four barrels of oil Iran sold during sanctions, the Iranian people were only able to reclaim the revenues from one.*

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formance—appear to have collapsed. No one is accountable to the Iranian people for corruption cases involving billions of dollars. Even when the State Audit Organization has completed its investigations into three grand corruption cases involving former President Ahmadinejad, the rulings are not released. The limbo is so pervasive that, in the words of Tehran Parliamentarian, Mahmoud Sedighi, the failure of the Islamic Republic to address grand corruption cases has promoted a permissive culture in which petty corruption such as jiggering pay scales has become routine.<sup>92</sup>

The contagion is extensive and systematic. By design, corruption has grown deep roots in all branches of government and has spread across virtually all sectors of the economy. The corruption in Iran's oil industry is not local. The oil mafia's operations are global—facilitated by domestic and international actors, including Iran's revolutionary guards. All these actors have a political, economic and financial stake in discounting and selling untold volumes of Iranian oil outside official channels.

# 4

## Institutions of Corruption: IRGC and Setad

Since the fall of the Pahlavi dynasty, successive Iranian presidents have promised to revive Iran's economy. Yet, with each presidency, the Iranian people's hopes have dimmed. Rhetoric has proven empty, promises hollow.

President Hassan Rouhani is no exception. His main slogan in the 2013 presidential campaign was that "centrifuges should spin but so should people's lives."<sup>93</sup> His resounding victory over hardline presidential candidates favored by the supreme leader, Ayatollah Ali Khamenei, signaled a deeper shift in the national mood. Rouhani characterized hardline critics of the nuclear negotiations as "illiterate people" who could "go to hell."<sup>94</sup>

In a swipe at Iran's political culture, one in which the economy has been plundered, with corruption and nepotism rather than investment and accountability, he called for a new kind of mentality. He told the Iranian Students News Agency: "It's been the economy that pays for the politics. It would be good for once to act in reverse and have internal politics and foreign policy pay for the economy."<sup>95</sup>

On 16 January 2016, Implementation Day, the Joint Comprehensive Plan of Action (JCPOA), agreed to in July between Iran and the world powers, went into effect. The International Atomic Energy Agency Director General, Yukiya Amano, issued a report confirming that Iran had met its obligations.<sup>96</sup> The nuclear deal had been struck.



Iranians greet Javad Zarif after nuclear deal.

ISNA

To many, including President Hassan Rouhani, the diplomatic resolution of the nuclear issue—the lifting of nuclear sanctions—was the key to restoring Iran's economy. After signing the nuclear deal in April 2015, Iranian foreign minister, Javad Zarif, was granted a hero's welcome upon his return to Tehran. The jubilant crowds gathering at Mehrabad airport hoped that the deal would not only avert the threat of war, but end decades of international isolation and economic hardship.<sup>97</sup>



Farhang News

*"It's been the economy that pays for the politics. It would be good for once to act in reverse and have internal politics and foreign policy pay for the economy."<sup>95</sup>*

President Hassan Rouhani

There was considerable speculation about the economic windfall that would follow the lifting of nuclear-related sanctions, including the release of \$100 billion to \$125 billion in frozen Iranian assets.<sup>98</sup> Iran's opening up to the world is not only viewed as an economic spur, restoring trade relations and attracting foreign investment into the country, but as a sign that Iran will once again assume its rightful place in the community of nations.

Evaluating investment prospects in Iran, T. Rowe Price Associates, Inc. reflected the growing optimism: "Iran's historic nuclear deal is being heralded as the return of the biggest economy to the global system since the breakup of the USSR."<sup>99</sup> Shortly after the signing of the JCPOA, the global consultancy firm, McKinsey predicted a \$1 trillion-dollar increase in Iran's output by 2035, with Cornelius Baur, head of McKinsey's German operations referring to Iran as the "trillion-dollar opportunity."<sup>100</sup>

Iranian President Rouhani certainly lost no time in his efforts to attract foreign investment. During a visit by a Chinese trade delegation led by President Xi in January 2016, President Rouhani announced plans for \$600 billion in economic ties over the next 10 years.<sup>101</sup> The plan was touted as a revival of the ancient Silk Road. On a post-sanctions tour of Europe, hailed by French media as "Le Big Deal," Rouhani signed memoranda of understanding for \$18 billion in deals with Italy, including a \$4 billion to \$5 billion pipeline deal with Italian oil services group Saipem, major deals with French oil group Total, as well as with Peugeot Citroen and Airbus.

In a two-day conference in Tehran, Oil Minister Bijan Zanganeh unveiled the new Iranian Petroleum Contracts as part of a campaign to entice foreign companies to invest in Iran's oil and gas sector (see figure 4 for the extent of the sector's reserves). He also invited bids and proposals for more than \$30 billion in upstream projects scheduled to be launched by mid-2016.<sup>102</sup>

Writing in *Foreign Affairs*, Cyrus-Amir Mokri and Hamid Biglari, cited estimates of infrastructure investments required to rebuild Iran's economy at close to \$1 trillion over the next decade.<sup>103</sup> The Economist put foreign direct investments in the oil and gas field in the next five years at \$230 billion to \$260 billion.<sup>104</sup>

Yet, today, four years later, dark clouds continue to hang over the Persian sky. And as in the past, the promises to Iran's unemployed are hollow.

This was more than evident in Iran's 2017 presidential campaign. Despite a resounding victory over hardline candidates favored by Ayatollah Ali Khamenei, Rouhani's opponents attacked him for failing to deliver on the promise of the nuclear deal.

As an advocate of a "resistance economy" premised on isolating Iran's economy from foreign dependence, Khamenei supported the lifting of sanctions but not the idea of opening Iran's economy. In his New Year's address on 20 March 2017, he couched his criticism of Rouhani in concern for the suffering of the weaker classes:

I am aware of the condition of the people. I feel the suffering of the people, particularly the weaker classes—due to economic difficulties such as high prices, unemployment, the injustices and inequalities, and the social damage—with all my being.<sup>105</sup>

He was not too impressed with the Rouhani government's economic record.

There is a wide gap between what has been accomplished and the expectations of the people and the leadership.<sup>106</sup>

At a meeting of the Council of Guardians two days earlier, Ayatollah Ahmad Jannati was even more scathing. The hardline cleric called on Rouhani to present a plan for actualizing the resistance economy, and failing that, to "at least apologize to the nation."<sup>107</sup>

The irony was not lost on the Iranian people. Having pushed Iran to the brink of economic collapse by endorsing Ahmadinejad policies, Iran's supreme leader was scapegoating Rouhani for failing to undo in four years the economic malaise caused by decades of corruption under the guise of religion.

As a presidential candidate, Donald Trump, seemed equally determined to tear up the nuclear deal which he characterized as the "worst deal ever." Appearing before the UN General Assembly in 2017, Rouhani warned that "it will be a great pity if this agreement were destroyed by rogue newcomers to the world of politics."<sup>108</sup>

Ranking US military figures seemed to agree. In a hearing before the Senate Armed Services Committee in October, Secretary of Defense James Mattis considered the deal as vital to the national security interests of the United States. The Joint Chiefs of Staff Gen. Joseph Dunford reit-

erated his belief that “Iran is not in material breach of the agreement, and I do believe the agreement to date delayed the development of a nuclear capability by Iran.”<sup>109</sup> After his inauguration in January, 2017, President Trump recertified the nuclear deal twice only to decertify the nuclear deal in October 2017. To him, the nuclear deal—sanctions relief—was a win for Iran: “We give them \$150 billion. We get nothing.”<sup>110</sup>

When Trump did officially withdraw from the Iran nuclear deal, in May 2018, Khamenei—the leader whose support for Ahmadinejad had brought Iran to the brink of economic ruin—had once again positioned himself to blame another disposable president, Rouhani, for his failure to revive Iran’s economy.

The person with a much deeper and realistic appreciation of the challenges facing Iran’s economy post sanctions was Obama’s Treasury Secretary Jack Lew. According to Lew, sanctions had cost Iran “more than 160 billion dollars” in oil revenue since 2012, cutting Iran’s oil exports by 60%, triggering a 50% decline in the value of the rial.<sup>111</sup> Lew claimed that in the last eighteen months of the negotiations, sanctions cost Iran \$70 billion in revenue—a figure that translates into roughly \$3.9 billion per month, \$130 million per day—\$5.4 million per hour.<sup>112</sup> Other estimates put the cost of sanctions, measured in terms of declining oil revenues, at \$5 billion per month since 2008—a rather hefty price tag for Ahmadinejad’s policies.<sup>113</sup>

Lew was far more realistic about promises of an economic miracle:

President Rouhani was elected on a platform of economic revitalization and faces a political imperative to meet these unfulfilled promises. Iran’s needs are vast—President Rouhani faces well over half a trillion dollars in pressing investment requirements and government obligations. And

Iran’s economy continues to suffer from immense challenges—including perennial budget deficits, rampant corruption, and one of the worst business environments in the world. Put simply, Iran is in a massive hole from which it will take years to climb out.<sup>114</sup>



Former United States Treasury Secretary Jack Lew

U.S. Department of the Treasury

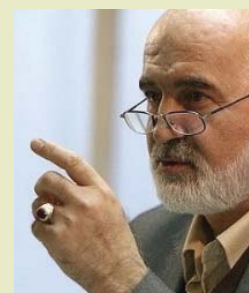
The depth of that massive hole is hard to fathom. If Iran’s economy is to recover, the Iranian people must face some brutal facts about strategic malpractice. The lifting of sanctions, by itself, does not address the curse of corruption, mismanagement and incompetence that have buried Iran in such a hole.

Climbing out of such a hole will not be easy. Iran’s fiscal house is in shambles.

As noted by a 2015 report by the International Monetary Fund, Iran suffers from “budget fragmentation.”<sup>115</sup> According to the IMF, the fiscal accounts of the government are not fully integrated or consolidated into the budget, government fiscal operations do not cover entities such as regional governments, and the quasi-fiscal operations of government bodies such as public foundations and non-financial public enterprises are not reported.<sup>116</sup> There is no fiscal mechanism for stabilizing the budget other than ad-hoc measures, no way of protecting the budget against external shocks. The budget does not take into account the potential costs of recapitalizing banks, there is a lack

*“Military coups, foreign invasion, velvet revolutions, none of them can deliver a blow against the Islamic Republic, but corruption does threaten the Islamic Republic.”<sup>127</sup>*

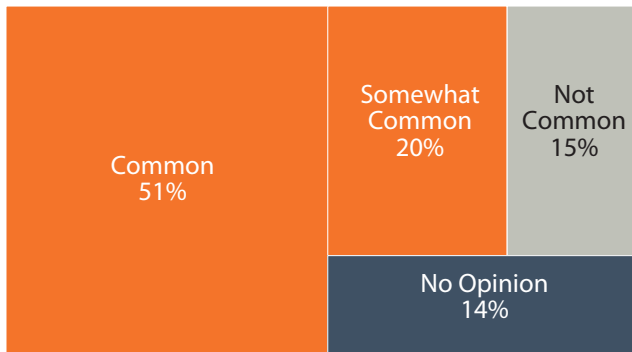
Parliamentarian Ahmad Tavakoli



Tadbir Khabar

**Figure 9: Pervasive Corruption in Iran**

What Iranians believe about the extent corruption in their country



OMID GRAPHIC  
Source: iPOS (Information and Public Opinion Solutions LLC) ipos.me

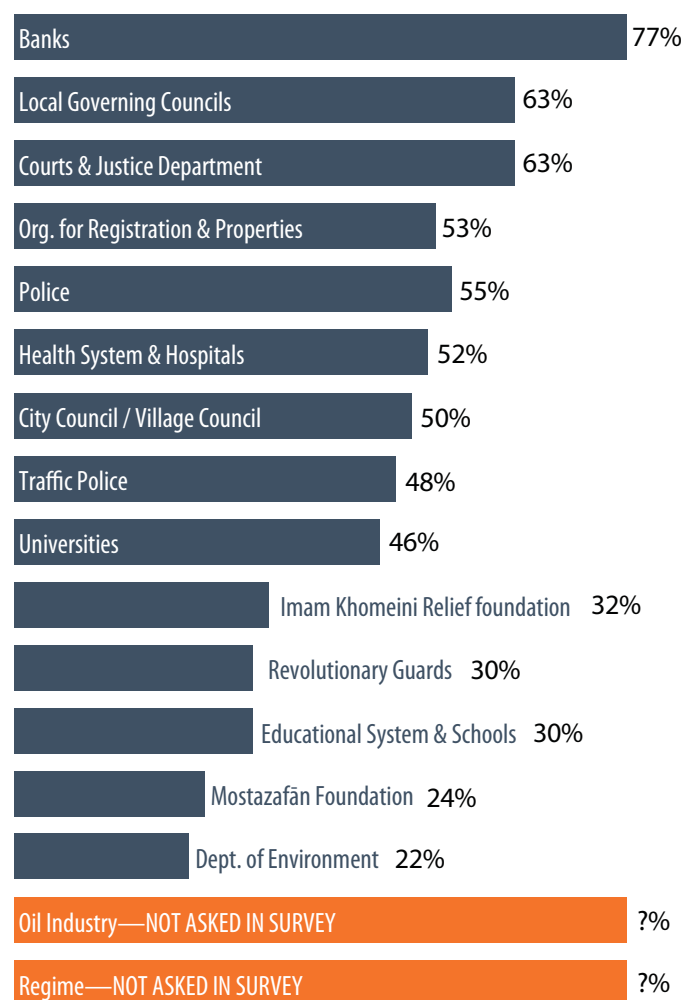
of expenditure controls on multi-year projects accumulating arrears, exposing the government to massive liabilities, and “the lack of a Treasury single account hampers the government’s ability to manage cash effectively, and in some cases has favored the accumulation of arrears.”<sup>117</sup>

This unravelling of the Iranian state and treasury has not happened by accident. The nuclear crisis paved the way for the plunder of Iran’s oil revenues. In the name of evading international sanctions, Iran’s theocracy acted as a front for a kleptocracy that, for all intents and purposes, had captured the Iranian state. An entire class of organizations from religious foundations to corporations affiliated with the revolutionary guard acted as sovereign entities operating under the supreme leader’s jurisdiction—a parallel state over which the Iranian people and government had no legal, political or fiscal control. The proliferation of these parallel institutions is not accidental. It is by design. They have posed and continue to pose as grave a threat to Iran’s economy and national security as any foreign corporation or imperial power.

Revitalizing Iran’s economy by reversing the damage inflicted by these criminal financial entities is no small task. From oil and gas to finance and real estate, entire sectors of Iran’s economy have been monopolized by actors willing to colonize and cannibalize the Iranian state and economy at the expense of the Iranian people. Since these economic rackets are sanctified in the name of religious principles and national security imperatives, they limit the government and treasury’s ability to reform the economy, secure investments, control expenditures, exe-

**Figure 10: Iran’s Corrupt Institutions**

Percentage of Iranians who judged an institution as corrupt



OMID GRAPHIC  
Note: Graphic combines percentages of people who labeled an institution’s corruption level as “a great deal,” “a lot” or “somewhat.”  
Source: iPOS (Information and Public Opinion Solutions LLC) ipos.me

cute budgets, anticipate shocks, limit liabilities and check corruption.

What explains the dismantling of the state and distortion of the nation’s economy in the name of religion?

In a word, deception—theft on a grand scale. In a broadside at Iran’s supreme leader and the revolutionary guards, President Rouhani confessed to being shaken by how corruption had left the Islamic Republic rotten to the core:

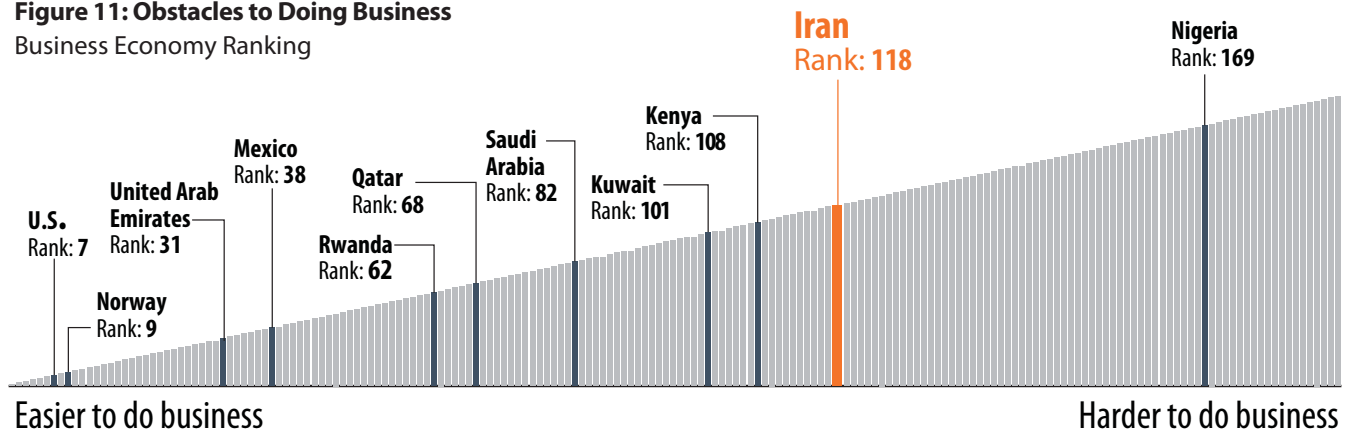
If money, news websites, newspapers, news agencies, cannons and military equipment and other power examples gather in one place, even Salman and

Abuzar [companions of the Prophet Mohammed] will become corrupt.<sup>118</sup>

Rouhani was not alone. A recent survey by iPOS, a private research and consultancy service provider, looked at corruption in Iran and found that 71% of Iranians believed corruption was extensive.<sup>119</sup> Sixty-eight percent believed that corruption had become much more extensive in the past five years. While 54% were of the opinion that with the resolution of the nuclear dispute, government officials

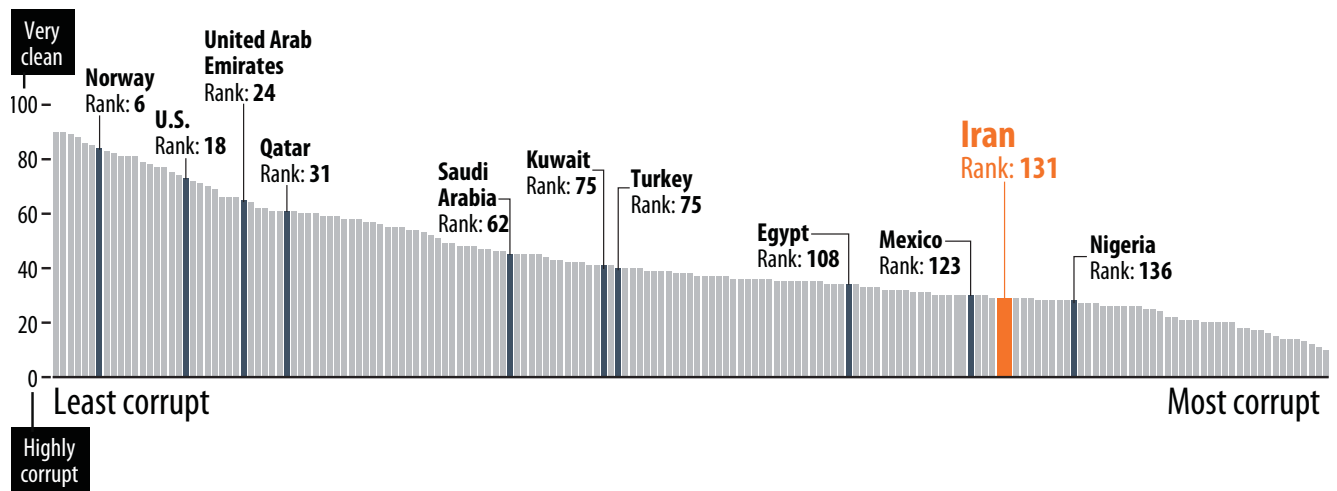
would pay greater attention to combatting corruption, the survey also revealed sharp demographic splits. While 83% of respondents over 60 years old and 59% of respondents in the 45–59-year-old category were optimistic that corruption would diminish in the future, Iran’s youth were far more pessimistic. Fifty-seven percent of youth in the 18–29-year-old category and 53% in the 30–45-year-old category held that corruption would increase over the next five years.<sup>120</sup>

**Figure 11: Obstacles to Doing Business**  
Business Economy Ranking



OMID GRAPHIC  
NOTE: Economies are ranked on their ease of doing business, from 1–189. A high ease of doing business ranking means the regulatory environment is more conducive to the starting and operation of a local firm.  
SOURCE: World Bank Doing Business Index 2016

**Figure 12: Corruption by Country**  
Transparency International’s 2016 Corruption Perceptions Index



OMID GRAPHIC  
NOTE: A country’s rank indicates its position relative to the 176 countries in the index.  
SOURCE: Transparency International

Of the 14 sectors surveyed, banks and financial institutions were identified as the most corrupt, with 77% of those polled of the opinion that banks were extremely or considerably corrupt. Other sectors leading the corruption survey were city administration (63%), the courts (63%) and the security services (55%) (see figure 10).<sup>121</sup>

Iran's economy was ranked 130<sup>th</sup> out of 189 countries surveyed in the World Bank's 2015 Doing Business study.<sup>122</sup> Iran continued to fare poorly in 2016, ranking below Mexico (38<sup>th</sup>), Turkey (55<sup>th</sup>), Azerbaijan (63<sup>rd</sup>) and even Namibia (101<sup>th</sup>), and Jordan (113<sup>th</sup>).<sup>123</sup>

Iran's ranking on Transparency International's 2015 Corruption Perceptions Index was 130<sup>th</sup> out of 168 countries and territories, barely edging out Nigeria ranked 136<sup>th</sup> (see figure 12).<sup>124</sup> Iran ranked below Turkey (66<sup>th</sup>), Egypt (88<sup>th</sup>) and Pakistan (117<sup>th</sup>). It also ranked below most Arab states, United Arab Emirates (23<sup>rd</sup>), Jordan (45<sup>th</sup>), Saudi Arabia (48<sup>th</sup>), and Kuwait (55<sup>th</sup>).<sup>125</sup> In fact, Iran was closer to Iraq, a failed state that ranked 161<sup>st</sup> and to Afghanistan at 166<sup>th</sup> than to the rest of its neighbors.

## The Ahmadinejad Era: The IRGC and the Oil Sector

While the Rouhani administration has worked feverishly to restore Iran's relations with the world, turning a new page at home has proven far more difficult. Implementation Day did not generate a much anticipated \$100 billion to \$150 billion economic windfall. Instead, the Iranian people were provided a glimpse into Ahmadinejad's legacy: an epidemic of corruption afflicting virtually all branches of government and sectors of the economy (see figure 10).

President Ahmadinejad's political grandstanding—his defiant claims that Iran will not retreat one iota from its nuclear program—masked a much darker reality. In much the same way that the hostage crisis had paved the way for the capture of the Iranian state in 1979, the nuclear crisis set the stage for another coup in 2009—a power and money grab by the Islamic Revolutionary Guard Corps (IRGC). Under the guise of evading sanctions, an oil mafia with ties to the IRGC, and acting with the blessing of Iran's supreme leader, consolidated its grip over the Iranian state. The Iranian people's protests at Ahmadinejad's reelection—chants of "where is my vote?"—were snuffed.

Sadly, in the aftermath of the nuclear deal, the Iranian people continue to remain locked out of the political

In a speech at Shiraz University, Parliamentarian Ahmad Tavakoli, a regime stalwart, publicly speculated about the collapse of the Islamic Republic because of corruption. He declared that Iran's managerial ranks were infested with "white collar criminals who appear respectable but engage in criminal activities."<sup>126</sup> He blamed this class for corruption—occupying key positions without displaying any merit (*shayestegi*). He warned that: "Military coups, foreign invasion, velvet revolutions, none of them can deliver a blow against the Islamic Republic, but corruption does threaten the Islamic Republic."<sup>127</sup>

Iran's so-called Islamic theocracy has become the antithesis of religious and ethical values, with religion masking the abuse of power and civil and human rights violations concealing an epidemic of nepotism, cronyism, theft and bribery crippling Iran's economy and industrial potential (see figure 9 for how Iranians perceive the pervasiveness of corruption).

system. Iran's oil mafia appears intent on securing its grip on the Iranian state and economy by provoking new crises, this time in the guise of a clash with the United States and Saudi Arabia.

It is not hard to see why.

According to the IMF and Central Bank of Iran, between 2000 and 2011, Iran's revenues from the oil and gas sector were more than \$1 trillion, with oil revenues alone accounting for more than \$800 billion. While the Iranian people awaited the benefits and the economy absorbed the costs of nuclear power, the spike in oil prices triggered a feeding frenzy in Iran's oil and gas sector. The sector had become the prize in a battle between rival oil mafias. The formal structures for tracking the flow of oil out of Iran's oil and gas sector and the flows of revenue into Iran's treasury were dismantled in favor of informal economic networks operating under the shadow of the IRGC. In exchange for providing Iran's supreme leader political cover and protection against the Iranian people, the IRGC and its Chinese paymasters were a clear beneficiary. The IRGC was rewarded with oil and gas contracts, including an €18 billion contract so odious that Tahmasb Mazaheri, a for-



Islamic Revolutionary Guard Corps  
Fars News Agency

mer finance minister, likened it to the infamous Treaty of Turkomenchai.<sup>128</sup>

Ironically, it was President Ahmadinejad who coined the term “oil mafia” to describe the systemic corruption in Iran’s oil sector. For Ahmadinejad, Iran’s oil mafia was led by “former president Rafsanjani and other officials who had enriched themselves and their families through their government connections.”<sup>129</sup> Appearing as a populist, Ahmadinejad promised to purge the oil mafia controlling Iran’s energy sector to put oil money “on the tablecloth.”

By 2017, the tables had turned. And the tablecloths were foul. In October, Hamid Baghaei, Ahmadinejad’s vice president and two other Ahmadinejad officials took refuge in a holy shrine, Shah Abdol-Azim, near Tehran. The judiciary had charged Ahmadinejad’s associates with corruption and embezzlement of public funds, including the now infamous gold coin scandal. In December 2017, at his trial in New York, Reza Zarrab implicated Ahmadinejad and the former head of Iran’s Central Bank, Mahmoud Bahmani, in

his oil-for-gold money-laundering scheme. Denying that he had met Zarrab, Bahmani declared: “I didn’t bypass sanctions. I managed them, and I’m proud that I managed the sanctions.”<sup>130</sup> He added: “I don’t want to say how we imported the gold. I label this action ‘managing the crisis and sanctions.’”<sup>131</sup>

With the judiciary set to charge Ahmadinejad and his cabinet in the Zanjani oil mafia’s corruption racket, Ahmadinejad turned his unofficial website into a platform for denouncing the judiciary for oppression and the head of the judiciary for corruption.<sup>132</sup> As for the gold coin scandal, his vice president claimed that the coins were not payoffs for the circumvention of sanctions but official gifts extended to a who’s who of judicial officials and IRGC commanders: overtime for an economic *basij* burning the midnight oil at emergency meetings designed to circumvent sanctions.<sup>133</sup> Ahmadinejad’s message was clear: rather than go down, along with Zanjani, as the fall guy for sanctions era corruption, he would turn the tables on the entire kleptocracy.

In hindsight, the Ahmadinejad’s extremism on the nuclear front disguised systemic plunder in the name of economic jihad. While claiming to defend Iran’s sovereignty against foreign powers, Ahmadinejad and the IRGC were using political crises to cannibalize the NIOC through the Petroleum Ministry. Purging the sector of its professional staff did not bring greater transparency or accountability to the management of Iran’s oil contracts. On the contrary, it led to the establishment, in 2006, of a Petroleum Council within the Oil Ministry—a murky body with oversight over the awarding of contracts.<sup>134</sup> It is this cloak that the Iranian judiciary and Parliament, to this day, refuse to lift. Were they to do so, Iranians would catch a glimpse of their government formalizing the sale of Iranian oil into a vast black

*“The judicial officials themselves have said that 90 percent of the trials are behind closed doors. How come? You mean 90% of 17 million cases being handled by the judiciary involve actions against national security. What sort of national security is this?”*

Mahmoud Ahmadinejad on the corruption trial of his vice president, November 24, 2017

Dolat-e Bahar website





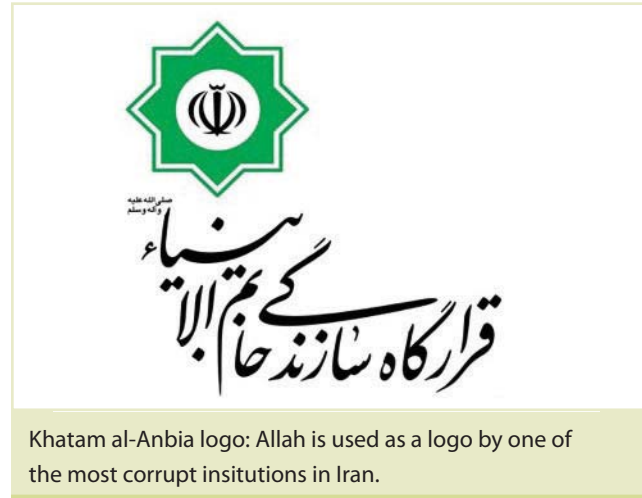
market whose full dimensions have yet to surface—one that continues to operate and threaten the future of Iran.

Sanctions not only triggered a flight of foreign investors from Iran's oil and gas sector, they allowed Ahmadinejad to restructure the sector. After a long series of clashes with Parliament, Ahmadinejad attempted to assume the position of oil minister himself. When this failed, in August 2011, Rostam Qasemi, a ranking commander in the IRGC and head of Khatam al-Anbia, the IRGC's construction arm, was confirmed for the post. By then, Ahmadinejad had succeeded in shattering the NIOC's historic monopoly over Iran's oil and gas sector.

The opening of the oil and gas sector to new players set the stage for grand corruption. New players could now prey on the sector for the upstream development of fields, the downstream marketing of crude oil sales and the domestic financing of oil and gas projects through the sale of participation bonds.<sup>135</sup> The NIOC had effectively become the target of a hostile take-over by the IRGC. In the name of bypassing sanctions, lucrative fields, assets, products and projects under the NIOC jurisdiction were dismembered and distributed, much like the spoils of war. The beneficiaries were holding companies, consortia and parastatal foundations staffed by IRGC alumni as well as former NIOC executives. These were the economic *basij*—regime insiders supposedly summoned by Ahmadinejad and the Oil Ministry to assist the Iranian government bypass sanctions.

With Ahmadinejad enjoying the supreme leader's and the IRGC's support, Khatam al-Anbia's construction firm and other parastatal organizations secured more than \$25 billion in oil and gas contracts. Billions in no-bid contracts were awarded by the Petroleum Council that Ahmadinejad had established in the Oil Ministry in 2006. The Guards were awarded more than 750 government contracts for infrastructure, oil and gas—a preposterous conversion of Iran's oil sector into a feeding trough for profiteers and scoundrels, con artists discrediting the ranks and discounting the sacrifice of the nation's soldiers to pillage their nation's wealth.<sup>136</sup> Yet, despite the significance, scale and volume of these contracts, Iran's oil and gas sector operated as a closed and incestuous system rigged in favor of insiders. The elimination of competition from outsiders cleared the way for IRGC affiliates to bankrupt public companies to control Iran's oil and gas reserves. Much about the bidding process remained cloistered.

Explaining how it was that IRGC affiliate Khatam al-An-



Khatam al-Anbia logo: Allah is used as a logo by one of the most corrupt insitutions in Iran.

bia secured government contracts without engaging in a formal bidding process, its deputy director Abdolreza Abedzadeh, admitted to receiving a no-bid contract for the Asaluyeh-Iranhshahr pipeline project. He justified the process saying that “we must have done something for them to be willing to award the contract without bidding.”<sup>137</sup> Concerning the winning of a \$2.5 billion no-bid contract for phases 15 and 16 of South Pars following the withdrawal of foreign partners, he explained that the contract had been “promised to Khatam.”<sup>138</sup> It was not clear who had made such a promise. Abedzadeh explained:

So the foreign company withdrew from the consortium. What were we supposed to do? We spoke with Pars Oil and Gas officials. We asked whether they wanted to repeat the tender. Was there enough time? We said we had worked on our documents. We said you have our bid. Then they said they intended to award the contract without the formalities.<sup>139</sup>

Despite valiant attempts by the Iranian press to lift the veil off Khatam al-Anbia, its ownership structure, stakeholders and operations remained shrouded in mystery. Reporters have “repeatedly asked this company to provide more detailed information on the company and the exact figures for completed projects, the number of personnel, and the problems facing this major contractor, but the company has refused to comply.”<sup>140</sup>

Khatam al-Anbia had effectively turned the Prophet's name into a cloak for concealing the nature of its commercial operations.

In an open letter to the supreme leader during 2017, 100 academics from Iran's major universities called for structural reform of the economy. They warned that given the narrow scope of the government's power, the real economic challenge related to reforming political, judicial, security apparatus operating under the supreme leader's jurisdiction. They too focused on the need to make economic foundations such as the Imam Reza Charity and Khatam al-Anbia "transparent and accountable."

What makes the Iranian media's exposure of the opacity of Khatam al-Anbia and other corruption cases so exceptional is that journalists, and more broadly, civil society, are stepping into the void left by the executive, legislative and judicial branch. While Rouhani and others have used corruption cases as a bludgeon against hardliners to win elections, they have repeatedly retreated from carrying out their promises and lifting the veil of impunity concealing grand corruption. To them, corruption cases are a political tool for keeping hardliners at bay, with transparency and accountability to the Iranian people no more than a rhetorical device. As such, the government cannot force Khatam al-Anbia or any of the other players in Iran's energy sector to comply with the most basic accounting and reporting standards without risking a clash with the IRGC. In the absence of a legal framework, there is no institutional structure, financial disclosure or management system for governing Iran's energy sector. Corruption remains rife, incentives perverse, governance difficult, investments risky and performance catastrophic.

Of course, the opening of Iran's energy sector to private development goes well beyond Khatam al-Anbia. Kish



Mohammad Saeedikia,  
Former minister and deputy  
head of the Pars Oil Company  
Mehr News Agency

Island, the Shah's beach resort, was turned into the home of an "oil stock exchange" for lubricating "direct sales in crude, petrochemicals, and refined products, including fuel oil and gasoline."<sup>141</sup> In yet another sign of insider dealing, the IRGC opened a backdoor for foundations to enter the oil scene. In 2009, the Oil Ministry granted authority to the Bonyad-e Mo-

*There is no doubt  
that the private sector  
has no experience  
in selling oil.*

Hassan Khosrowjerdi, at the time  
the head of the Association of Oil,  
Gas and Petrochemical  
Product Exporters



The Iran Project

stazafan, then headed by a former military officer who had once been intended to take over the NIOC itself as managing director for oil sales.<sup>142</sup> The security figure was none other than former defense minister Mohammad Forouzandeh.<sup>143</sup> Forouzandeh was replaced by Mohammad Saeedikia, another former minister, and deputy head of the Pars Oil Company.

With Parliament allocating 20% of Iran's oil for sale by private entities, three oil, gas and petrochemical consortia sprouted up for the express purpose of subverting sanctions. When pressed by reporters about their lack of experience in selling oil, Hassan Khosrowjerdi, at the time the head of the Association of Oil, Gas and Petrochemical Product Exporters, declared:

There is no doubt that the private sector has no experience in selling oil.

We ourselves know that it is hard, especially given the problems our country is facing. But I must remind you that the private sector's capacity has expanded with the presence of seasoned oil men from the government sector and many of these managers and experts have established companies of their own that are members of the consortia, so we can no longer look at the private sector as inexperienced.<sup>144</sup>

As further proof of the private sector's experience in selling oil, Khosrowjerdi boasted that some of Iran's "seasoned oil men" were so well-known that at various gatherings some companies refer to them by their nickname. When pushed, he confessed:

In fact, at the moment, it is Western companies that seek to purchase our oil and they show us



Tadbir Khabar

*The new strategic guidelines of the IRGC have been changed by the directives of the leader of the revolution [supreme leader Khamenei]. The main mission of the IRGC from now on is to deal with the threats from the internal enemies.*

Mohammad Ali Jafari, IRGC Commander

how to circumvent the sanctions, and there are even American companies set up as European companies that enter negotiations with us. They still have to feed their refineries with our oil so they shoot two targets with one bullet: they save themselves and they get a discount on our oil.<sup>145</sup>

As for the discount the private oil consortia received from the government, he said: "I cannot comment about this. Whatever price they sell it to us, we also sell it."<sup>146</sup>

Khosrowjerdi expressed his deep satisfaction that, based on the Parliament's legislation and the government's actions, his consortia undertook exporting 20% of Iran's oil. He confirmed three consortia were established to help the government with exporting oil and that one such consortia, with 65 members, was helping the government in this area.

Khosrowjerdi did not provide details about the volumes, prices and profits made by the consortia. It was also not clear why members of Parliament did not demand an account for the sale of privatized oil, something that any grocer could put together—a list of receipts for each sale, with products, volumes, prices, dates and customers identified. Instead, the privatizers presented their consortia as national heroes, "the soldiers of the system" (*basij-i Nezam*) mobilized to address a national threat, at great personal risk, a sacrifice done out of noblesse oblige, with no claims on the government or people. In other words, with the nation in danger, they could not afford to act as bystanders. The economic *basij* were heroes willing to "accept any danger and trouble since national interest trumped all personal interests."<sup>147</sup>

Parliament was, in effect, sanctioning the privatization of the national interest by opening the oil sector to private consortia. There was virtually no accountability or trans-

parency in the process—no clarity about how the private consortia formed, who their members were, how they were qualified, audited and monitored. The beneficiaries of privatization remained anonymous—shielded by Parliament and the supreme leader's adoption of policies and strategies designed to subvert public accountability.

With the privatization of Iran's oil and gas sector, an economic heist, there was a shift in the IRGC threat perception. The enemy was no longer foreign. It was the Iranian people. As early as September 2007, the command structures of the IRGC and the Basij popular militia were merged as one. Mohammad Ali Jafari, the new commander, declared a new order in which the IRGC's principal focus had shifted to combating internal enemies:

The new strategic guidelines of the IRGC have been changed by the directives of the leader of the revolution [supreme leader Khamenei]. The main mission of the IRGC from now on is to deal with the threats from the internal enemies. [The number two priority of the corps] is to help the military in case of foreign threats.<sup>148</sup>

It was not clear whom the IRGC commanders considered internal enemies: Citizens who demanded accountability and protested the theft of Iran's oil and assets or the thieves at the helm of the state.

The rise of the IRGC—which had actively suppressed Iran's pro-democracy movement—ushered in a new era of grand corruption. The erosion of civil and human rights correlated with the systematic takeover of public institutions and the plunder of natural resources—all in violation of the Iranian constitution.

From 2003 to 2009, Iran's position on Transparency International's Corruption Perceptions Index had slipped

from its best ranking at 78<sup>th</sup> to 168<sup>th</sup>, with Ahmadinejad's presidency coinciding with Iran's descent to the bottom levels of the scale.<sup>149</sup>

In the aftermath of the 2009 elections, Iran's oil wealth was quite literally divided as if it were spoils of war, with the regime securing its grip on power by purchasing the loyalty of Iran's security forces. Oil allocations were dispensed as bonuses and bribes for bloodshed and brutality—the price the Iranian people had to pay for demanding social and economic justice. By greenlighting Ahmadinejad's reelection to a second term, the supreme leader ushered in an era of impunity, with human rights abuses, atrocities and the cover up of the IRGC's role in the plunder of Iran's economy.

By order of President Ahmadinejad, Iran's Oil Ministry had transferred the rights to two oil allocations for \$180 million and \$60 million to Iran's Police Chief, Commander Esmail Ahmadi-Moqaddam. A brother-in-law of the president implicated in gross human rights violations—the 2009 crackdown and the Kahrizak prison scandal—Ahmadi-Moqaddam claimed that the payments were due to unexplained deficits in the budget of Iran's National Police. The \$180 million allocation was to cover so-called back pay for the security services, with the second \$60 million allocation for pensions. In the name of evading sanctions, the internal procedures for selling oil were subverted. It is not clear who recommended, determined and approved oil allocations. And in terms of logistics, the chain of command through which the Iranian people's oil was assigned to various individuals and companies and then transferred, shipped, priced and sold remains a mystery.

What is not a mystery is why Ahmadi-Moqaddam was the recipient of such largesse. The regime, lacking legitimacy, resorted to repression and violence. And since the Iranian military could not be relied on to attack the people, the regime had to convert the security services into a mercenary force, with bonuses and rewards for doing



the Ayatollah's dirty work in Kahrizak. The oil shipments most likely paid for the systematic humiliation, violation, rape and murder of Iranian youth by Ahmadi-Moqaddam and his henchmen in 2009. One had to look no further than Ahmadi-Moqaddam to realize that the questions "Where is my vote?" and "Where is my oil?" were the two sides of the same coin. Human rights and civil society activists make a grave mistake by ignoring the connection between the violence directed at the Iranian people and the theft of Iran's oil.

Even though Article 77 of the Iranian Constitution states that "Treaties, transactions, contracts and all international agreements must be ratified by the Islamic Consultative Assembly," in practice the Constitution was rendered moot. The operation of the sector had so many overlapping roles and institutions with such confused lines of authority that no one could be held accountable for its performance. Economic decisions were not based on their merit without undue interference; there is little principle or structure of governance.

As the World Bank noted:

In Iran, the workings of the sector are extremely opaque to the external observer. In part, this reflects the nature of the Iranian political system. Once it has been approved by the Ministry of Petroleum, the NIOC's budget must also be approved by the Ministry of Planning and the Majlis. Once the Majlis gets involved, many of the other elements of the Iranian polity can intervene. For example, the Guardian Council has the right to question the budget—as legislation within the Majlis—to check its consistency with the constitution and Islamic law.<sup>150</sup>

*It is not clear that there is any formal, consistent, and regular means of evaluating the performance of the NIOC. None of the companies in the sector publish financial statements that are publicly available.*

The World Bank

**Figure 13: Ahmadinejad's Power Base**

How nepotism works in Iranian government



OMID GRAPHIC  
Source: Omid for Iran analysis

To make matters worse, there is no data. The World Bank reports that there are no clear metrics for monitoring the oil and gas sector:

Because the nature of the objectives and targets are uncertain and there is no formal mechanism for monitoring, it is not clear that there is any formal, consistent, and regular means of evaluating the performance of the NIOC. None

of the companies in the sector publish financial statements that are publicly available. Information on operations—as published in the various company websites—is sparse and restricted to the most basic of operational data. The lack of monitoring is further compounded by constant restructuring of the sector, which has taken place with little or no thought to the interconnections of its various elements.<sup>151</sup>

The result is a veiled sector—bureaucratic twilight zones behind which an oil mafia can plunder a nation's wealth with impunity. The World Bank reports:

The lack of data makes it impossible to decide if the government's take on petroleum export revenues could be larger. The vast majority of the revenue earned seems to stay within the sector. It is highly likely that a significant part of this revenue is kept from the government through rent seeking and corruption. The complex structure of the sector makes it impossible to determine what actually constitutes oil revenues.<sup>152</sup>

No less a figure than Bijan Zanganeh (Rouhani's powerful oil minister, known as the Shaykh of Viziers) likened the management of Iran's oil and gas sector under Ahmadinejad to an act of sabotage:

A bunch of people who did not have a deep knowledge of this sector, in order to accomplish their agenda, have taken the key institutions in the energy sector to the brink of total destruction. What they have done is like that of someone who jumps in an ambulance, and in order to get one patient to the hospital, drives over and kills hundreds of people, leaving thousands with broken legs and arms. In the name of distributing subsidies to the people, our friends have destroyed the key institutions in the energy sector, such as the electric utilities (*tavanir*), the National Iranian Oil Refining and Distribution Company (NIORDC) and the National Iranian Gas Company (NIGC).<sup>153</sup>

In fact, the crisis was far more grave. The idea of a centralized modern state bound to the economic progress and welfare of the nation was being unraveled. In a remarkable reversal, the entire Pahlavi project was being

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*Bankruptcy, on a vast scale, reflected the power and promise of a revolutionary ideology premised on the breakdown of the idea of state and nation.*

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Anglo-Iranian Oil Company truck

[http://ritkanlathatotortenelem.blog.hu/2014/07/28/napi\\_erdekes\\_20\\_kep\\_721](http://ritkanlathatotortenelem.blog.hu/2014/07/28/napi_erdekes_20_kep_721) a Hungarian blog

supplanted in favor of a predatory feudal order. It was like returning to the bygone Qajar era before the Iranian constitutional revolution—an era in which the Iranian state financed a system of governance to which the Iranian people had no claim nor control. As with the Qajar, the very idea of national sovereignty and wealth were anathema in a kleptocracy run for the benefit of the Ayatollah and his cronies. Bankruptcy, on a vast scale, reflected the power and promise of a revolutionary ideology premised on the breakdown of the idea of state and nation.

The NIOC, which had become one of the world's largest and most profitable companies in the 1970s, was effectively gutted and dismantled. With the Iranian people's attention focused on Iran's nuclear program, Iran's oil and gas sector had become the subject of one of the greatest financial heists in human history. Ahmadinejad turned to populism to justify his bankrupting of Iran's oil and gas sector. In the name of granting the poor a share in Iran's oil revenues, the stage was set for the privatization of a national asset.

In the past, colonialism paved the way for the violation of Iranian sovereignty and the plunder of Iran's resources. The Anglo-Iranian Oil Company exploited Iran's oil wealth with no transparency and accountability. Today, Islamic extremism is the instrument for the occupation and plunder of the sector. Ahmadinejad and the IRGC sabotaged Iran's security and standing to profit from crisis and corruption.

Ahmadinejad's embrace of extremism was not irrational. Under the guise of "destroying Israel" and defending Iran's nuclear program, Ahmadinejad and his IRGC cronies



Babak Zanjani, chauffeur turned oil tycoon

Press TV

positioned themselves to benefit from sanctions. They could capitalize on scarcity: a spike in prices in a black market for everything from oil to medicine. All they had to do was to sell Iran's oil, in unknown quantities, at a discount and pocket the difference by importing goods at a premium. He was engaged in what Naomi Klein characterizes as "disaster capitalism" in the *The Shock Doctrine*.<sup>154</sup> The

official controls on production, pricing, transfer, shipping and sale of Iranian oil were shattered. A similar loosening of standards at customs opened the way for a vast traffic in



Former President Rafsanjani commending Babak Zanjani.

TehranPress

smuggled goods. For these thieves of state, Iran's nuclear program—the shadow of sanctions—served as both the excuse and opportunity for pillaging of Iran's oil sector.

## Labuan Connection: Zanjani, Naftiran Intertrade Company and Standard Chartered

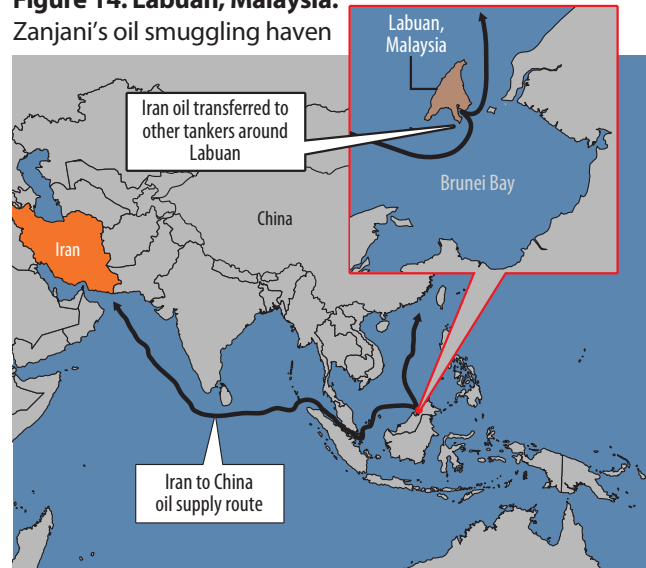
The case of Babak Zanjani is illustrative.

While serving in the military in the 1990s, Zanjani was assigned as the chauffeur for the head of the Central Bank of Iran. Before long, he was involved in secret currency deals, helping the bank illegally transfer foreign currency to the market.<sup>155</sup>

After Ahmadinejad became Iran's president in 2005, the hustler and courier who had been famous for running errands and drawing blank checks became a tycoon. His empire grew to include 60 companies, including several financial institutions, one or two airlines, the Rah Ahan soccer team, cosmetic companies, hotels, restaurants, construction companies, a "fleet of oil tankers," a recording studio and even investments in Iranian movies.<sup>156</sup> Zanjani estimated his sanctions-enhanced wealth at \$13.5 billion.<sup>157</sup>

In 2010, Zanjani helped the IRGC's massive engineering and construction subsidiary, Khatam al-Anbia, violate sanctions to repatriate \$40 million stuck outside the country.<sup>158</sup> As sanctions increased, currency became scarce. Iranian officials turned to Zanjani to export more than \$3 billion in oil and bring the money back into the country.<sup>159</sup> Four ministers in Ahmadinejad's administration gave Zanjani control over a dozen supertankers.<sup>160</sup>

Figure 14: Labuan, Malaysia: Zanjani's oil smuggling haven



OMID GRAPHIC

To sell the oil, it had to have its original identity as Iranian changed. The oil center at Labuan island—an offshore financial center in Malaysia—worked well for this purpose (see figure 14).<sup>161</sup> Tankers full of Iranian oil sailed to Labuan

where the oil would be transferred from tanker to tanker—commonly referred to as the “kissing process”—to conceal its origins, leaving falsified records several layers deep. Upwards of 24 million barrels of oil were disguised and sold using this or similar methods.<sup>162</sup> Once the oil was relabeled from another country, it could be sold on the open market to buyers in India, Singapore and Malaysia.<sup>163</sup>

Zanjani conveniently had a branch of his First Islamic Investment Bank in Malaysia help launder the money back into Iran—allegedly selling \$17.5 billion for the IRGC, Oil Ministry, and Central Bank of Iran<sup>164</sup>.

Turkey was another perfect place to sell oil and launder money. Cash payments for oil were deposited in a Halkbank account in Turkey. That money was used to buy gold, which was then sent to the Dubai free-trade zone.<sup>165</sup>

On just one day, 10 May 2012, for example, Zanjani’s man in Turkey, businessman Reza Zarrab, transferred approximately 5.1 million Turkish Liras (about \$840,000<sup>166</sup>) from the Istanbul branch of Bank Mellat to one of Zanjani’s many companies. Between 2012 and 2014, Zarrab’s Royal Shipping company exported “151.1 tons of gold (a value of about \$8 billion) to Iran and the UAE.”<sup>167</sup> Adem Karahan, Zarrab’s courier, said 44 couriers were used to transfer a ton of gold every day. Karahan claimed that custom officials “did not create problems as they were also getting their bribes.”<sup>168</sup>

This level of sanctions-evading trading required the finance-induced cooperation of Turkish cabinet members, businessmen, bureaucrats and more. In December 2015, after Turkey shot down a Russian military plane, the Russian defense ministry released satellite images of tanker trucks loading oil at an ISIS-controlled installation in Syria before crossing Turkey’s border. It accused Turkish president Recep Tayyip Erdogan and his family of smuggling oil. “Turkey is the main consumer of oil stolen from its rightful owners, Syria and Iraq,” said deputy Russian defense minister, Anatoly Antonov. “In the West, no one has asked questions about the fact that the Turkish president’s son heads one of the biggest energy companies, or that his son-in-law has been appointed energy minister what a marvelous family business.”<sup>169</sup>

The family business appears to extend beyond Syria and Iraq to Iran. Reza Zarrab—Zanjani’s partner—was arrested in Miami on 19 March 2016 on charges of conspiring to evade sanctions, money laundering and bank fraud. Mehmet Hakan Atilla, the Deputy General Manag-



Reza Zarrab and his wife (Ebru Gündeş, a famous Turkish singer). Zarrab received \$100-\$150 million from illicit oil-for-gold scheme.

TehranPress

er of Halkbank, was arrested in New York ten days later. US prosecutors charged him with participating in Zarrab’s scheme to violate sanctions against Iran by conducting hundreds of millions of dollars of illegal transactions. The shares of Halkbank, Turkey’s fifth largest bank by assets, plunged 16% on the news.<sup>170</sup> What was not mentioned was that Zarrab and Halkbank had not only conspired to violate US sanctions, but as disclosed in the Atilla case, Zarrab claimed to have bribed ranking Turkish officials, including Erdogan’s family members to launder billions of dollars of Iranian oil revenue.

As Dexter Filkins put it in *The New Yorker*:

According to documents filed in U.S. District Court in Manhattan, the Minister for the Economy, Zafer Çağlayan, accepted more than forty-five million dollars in cash, gems, and luxury goods from Zarrab. When police entered the home of Süleyman Aslan—the C.E.O. of Halk Bank, which Zarrab allegedly used to launder his money—they found shoeboxes stuffed with four and a half million dollars. (Both Çağlayan and Aslan have denied any wrongdoing.) Wiretapped phone conversations also appeared to implicate members of Erdoğan’s family.<sup>171</sup>

Erdogan also was reported to have met Zarrab’s legal counsel, former New York City mayor Rudolph W. Giuliani and former attorney general Michael Mukasey in Turkey





Rostam Ghassemi

Shamseddin Hossein

Ali Nikzad

Mehdi Ghazanfari

Mahmoud Bahmani

**The Gang of Five**—Oil minister Rostam Ghassemi, the Minister of Industry and Mines, Shamseddin Hossein, the Minister of Commerce, Mehdi Ghazanfari and the head of the Central Bank, Mahmoud Bahmani, intervened on behalf of Zanjani to direct 14.5% of Iran's foreign reserves from the sale of oil into his FIIB accounts.

Different sources

to find “a state-to-state resolution of this case.”<sup>172</sup> During former Secretary of State Rex W. Tillerson’s visit to Turkey in March 2017, Turkish Foreign Minister Mevlet Cavusoglu charged that the federal investigation of Zarrab was political and accused Preet Bharara, the former United States attorney for the Southern District of New York of being “a pawn of anti-Turkish forces.”<sup>173</sup> As to why Erdogan cares so much about Zarrab, Filkins writes that “evidence found by Turkish prosecutors in the original case against Zarrab suggest that Erdogan himself, or his family, could

be tied to Zarrab’s scheme.”<sup>174</sup> During the trial Zarrab admitted to having made \$100 million, maybe \$150 million, from the scheme. And he once again confirmed paying Çağlayan—a single Turkish minister—over \$50 million in bribes.

As for the economic jihad’s masterminds in Iran, three ministers in Ahmadinejad’s cabinet and the head of the Central Bank qualified Babak Zanjani and officially recognized and selected his First Islamic Investment Bank (FIIB) for the purposes of laundering Iran’s oil money. In

## Zanjani’s Global Money Laundering Operation

Zanjani’s connections are not difficult to figure out. His First Islamic Investment Bank was based in Labuan, Malaysia. It was conveniently located in the same office tower as Standard Chartered. Interestingly, Naftiran Intertrade Company (NICO), the offshore oil trading arm of the NIOC, once based in the British tax-haven of Jersey, had also moved to the tax haven of Labuan. The point is a simple one. Zanjani was part of a much more sophisticated money-laundering operation involving a global network of oil traders, bankers and financiers.

These highly sophisticated international oil consortia did not all transfer their operations to the tax haven in Labuan by accident. Naftiran Intertrade Company did not move its operations from a British tax-haven in Jersey to Labuan by accident. And Zanjani did not set

up his First Investment Bank in Labuan by accident. These networks did not emerge overnight. They were developed over time. And they were accustomed to oil swaps and trades in the billions. To this day, these operations remain shrouded in mystery, and despite an extensive investigation, there has been no audit to account for these funds and transactions.

Zanjani was not the mastermind. He merely stood at the intersection of much larger interests and networks. And it is these networks—not Zanjani—that coordinated and managed a highly sophisticated oil supply chain, from identifying and qualifying customers, securing authorizations and negotiating allocations, establishing and issuing letters of credit, to securing insurance and tankers, to storing and transferring oil, to swapping tankers and forging documents off

the coast of Labuan. Naftiran Intertrade Company, the offshore trading arm of the NIOC, diverted billions of dollars in Iranian oil revenues through banks, companies and trading houses around the world. Zanjani was only one of these agents. And his Sorinet group only one of the spider webs in which the Iranian people’s assets were frozen.

The government’s job was not to catch the likes of Zanjani. It was to facilitate the theft. The Iranian judiciary’s prosecution of Zanjani has also been about covering up the global nature and protecting the more powerful players in the network. This network has not been dismantled. The higher-ranking officials responsible for authorizing these transactions in the name of the Iranian people remain at large.

statements at the second, eighth, thirteenth and fifteenth sessions of what the Iranian media have called the “oil corruption case,” Oil minister Rostam Ghassemi, the Minister of Industry and Mines, Shamseddin Hossein, the Minister of Commerce, Mehdi Ghazanfari and the head of the Central Bank, Mahmoud Bahmani, intervened on behalf of Zanjani to direct 14.5% of Iran’s foreign reserves from the sale of oil into his FIIB accounts.<sup>175</sup> Zanjani’s \$17 billion oil allocation was not accidental. Zanjani delivered Iranian oil to customers who must have been known and cleared by the IRGC and the ministers. He was the middle man between much more powerful, but still anonymous, players.

Corruption in one sector paves the way for corruption in other sectors. Again, in the Zanjani case, the Iranian people’s oil revenues were partially recycled back into the country through the Sorinet group, Zanjani’s holding company. And those funds, or at least that credit, was in turn used to purchase shares in the Social Security Organization, which through its investment arm, Shasta, owns a conglomerate of over 208 Iranian companies, including major banks, “(Saderat, Pasargad, Tat, Parsian and Dey); insurance companies (Mellat, Mihan, Dana and Parsian); ... petrochemicals (Ghadir, Tabriz); shipping (IRSL and National Iranian Tanker Company)” and hotels.<sup>176</sup> In other words, the IRGC and its affiliates were using Iran’s oil revenues in privatization scams that were no more than Ponzi schemes, effectively acting as a mafia laundering its wealth by taking over other sectors of the economy and institutions of government. The conversion of the IRGC from a military into a mercenary body has led to the corruption of the public and private sector and a loss of confidence in the state and economy.

Corruption could not be contained within the IRGC alone. Iran’s oil wealth was pumped and channeled through the banking sector. And from there, the funds were funneled back into the government as bonuses, salaries and other perks, including favorable loans and mortgages for real estate purchases, business ventures and such. The pay-slip scandal bedeviling the Rouhani administration is a massive system of state-run embezzlement—incentives and rewards for corruption (see figure 11 for how corruption hurts Iran’s business climate).

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*If financial corruption fuses with political corruption, it can create serious difficulties for the system, especially the Islamic system*

Judiciary spokesman  
Gholamhossein Mohseni Ejei

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In May 2014, after an extensive investigation into a \$2.6 billion banking fraud case billed by some members of the Iranian judiciary “as the largest embezzlement case in history,” Iran’s Prosecutor General, Gholam Hossein Mohseni Ejei, warned of corruption by officials in all three branches of the government and in the financial sector.<sup>177</sup> The corruption case included over 500 individuals, of which 200 were high-ranking government officials and banking executives—including 17 Parliamentarians. The financial heist had been perpetrated by eight of Iran’s major state-owned and private banks, including Bank Melli and Saderat. Ejei confirmed that the judiciary was tarnished. He implicated ranking officials, including a “deputy of the head of the judiciary branch and the head of intelligence protection unit of the judiciary.”<sup>178</sup>

Ahmadinejad’s chief of staff, vice-president, Esfandiar Rahim Mashai, was also implicated in the case but not prosecuted.<sup>179</sup> Ejei stated that “if financial corruption fuses with political corruption, it can create serious difficulties for the system, especially the Islamic system.”<sup>180</sup> The Islamic Participation Front, a reformist group, stated that the \$2.6 billion was “an insignificant fraction of the wholesale plunder of Iran’s national treasure in the Islamic system.”<sup>181</sup>

As for his own role at the epicenter of a kleptocracy in which 500 high ranking officials were implicated in banking corruption, Iran’s supreme leader, Ayatollah Ali Khamenei accepted no responsibility. “Advice about confronting economic corruption uttered a few years ago was not taken seriously,” he said (see figures 5 and 6 for how the supreme leader exercises control over Iran and oil policy). He added that had it been heeded, “this giant banking corruption scandal would not have come to pass and the thousands of billions (of tomans) misappropriation would not have occurred.”<sup>182</sup> He said that “Economic corruption cases cause people to lose hope.” He called on authorities to show no mercy towards “wrongdoers, saboteurs and corrupt elements,” “to pursue matters to the very end and cut off the treacherous hands,” he also called on the media “to cease sensationalizing the events” to permit responsible authorities and the judiciary to pursue the cases with “wisdom, strength and precision.”<sup>183</sup>

## The Ayatollah's Circle: The Setad—An Instrument of Theft



Supreme leader Ayatollah Ali Khamenei  
Office of the Iranian supreme leader

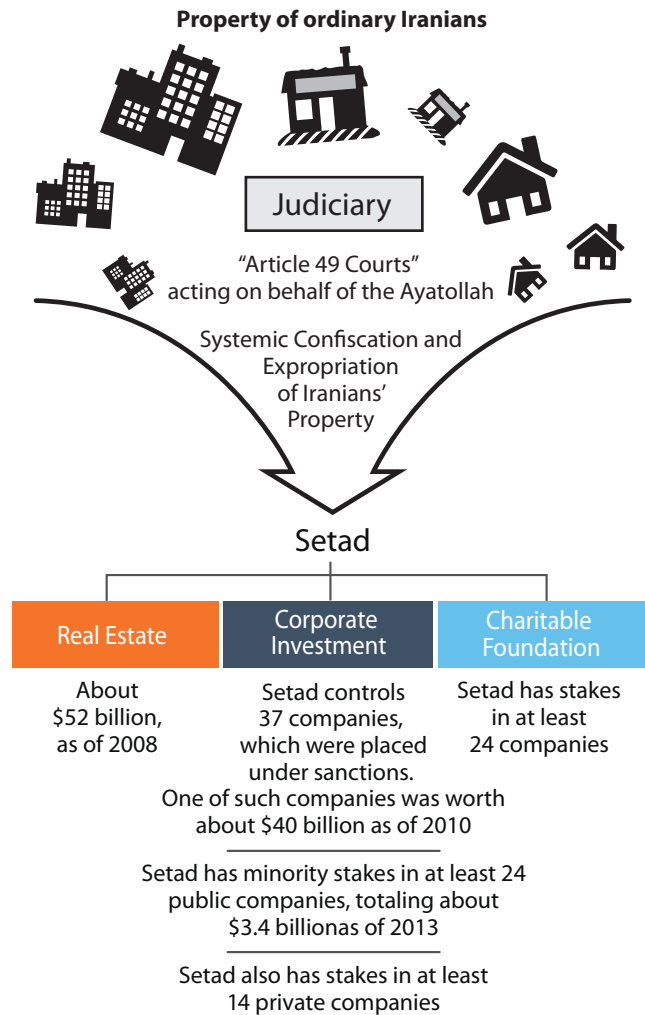
No discussion of the IRGC's role in Iran's economy would be complete without the examination of the role of its commander-in-chief, Ayatollah Ali Khamenei. Ayatollah Khamenei's dictatorial control of politics and the military are obvious, but much of his power is hidden in the machinations of his economic empire (see figure 15).

Iran's supreme leader controls a vast fortune under Setad, short for *Setad Ejraiye Farmane Hazrate Emam* (Headquarters for Executing the Order of the Imam). Setad is an entity spawned after the 1979 revolution to manage the systematic seizure of thousands of properties belonging to ordinary Iranians.<sup>184</sup> As a new organization, Setad, would report to Iran's supreme leader, oversee the confiscations and close after two years. Before he died in 1989, Ayatollah Khomeini issued a decree claiming that the proceeds from the sale of these properties would go to charity.

The Setad was not dissolved after two years. Ayatollah Khamenei transformed its mission by focusing it on acquiring property for itself rather than redistributing wealth—a broader malaise that signaled the perversion of charitable foundations and endowments into personal fiefdoms. Revenues from the organization—estimated to be in the billions—were used to “fund the ultimate seat of power in Iran, the *Beit Rahbar* or Leader's House”—the supreme leader's headquarters staffed by more than 500 personnel

**Figure 15: Secret Setad**

The hidden business empire directly controlled by the Supreme Leader



OMID GRAPHIC  
Sources: Based on Reuter's estimate of Setad's holdings, which looked at internal Setad documents, Tehran Stock Exchange information, company websites and the U.S. Treasury Department. Nov. 2013 analysis.

*“The organization [Setad] holds a court-ordered monopoly to taking property in the name of the supreme leader and regularly sells the seized property at auction or seeks to extract payments from the original owners.”<sup>186</sup>*

Reuters

recruited from the military and security services.<sup>185</sup>

Ayatollah Khamenei used his monopoly over the judiciary to sanctify theft. Article 49 of the Iranian constitution, governing confiscation and expropriation became the basis for religious extortion. The Iranian state was converted into an instrument for incriminating the Iranian people to strip them of title to their assets and property. Parliament created “Article 49 courts” in 1984 to systematize and continue expropriations: “The organization [Setad] holds a court-ordered monopoly to taking property in the name of the supreme leader and regularly sells the seized property at auction or seeks to extract payments from the original owners.”<sup>186</sup>

According to Reuters, the estimated value of Setad’s business holdings, real estate investments, and other assets were around \$95 billion. Fifty-two billion dollars of this sum was in real estate. Another \$43 billion was in corporate holdings ranging from banking and oil to telecommunications and pharmaceuticals.

The Ayatollah controls the Setad (see figure 16). He selects its board of trustees. As evidence, Reuters presented an official document in which the Ayatollah appoints Ho-

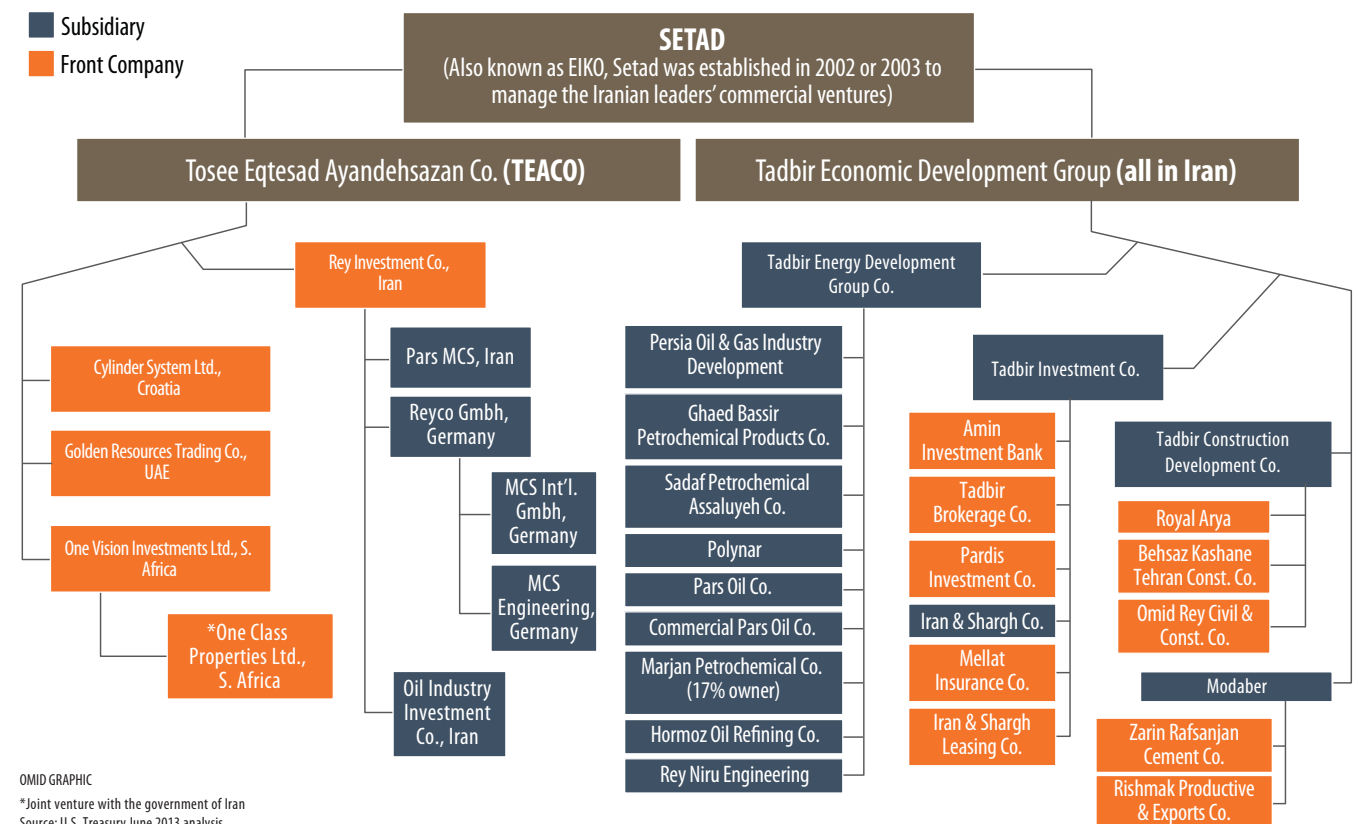
jatoleslam Hossein Ali Nayyeri, Mohammad Javad Irvani, Mohammad Shariatmadari, Seyyed Mohmmad Mirmohammadi and Kazem Najafi-Elmi to the Setad’s board for a three-year term.<sup>187</sup>

As Reuters noted, the value of the Setad’s assets were 40% higher than Iran’s total oil revenues in 2013:

The revenue stream generated by Setad helps explain why Khamenei has not only held on for 24 years but also in some ways has more control than his revered predecessor. Setad gives him the financial means to operate independently of Parliament and the national budget, insulating him from Iran’s messy factional infighting.<sup>188</sup>

Khamenei transformed Iran’s legal landscape to protect and advance his private economic interests. In 2004, he set the stage for not only Setad’s expansion but also for massive corruption of state institutions. He ordered the Expediency Council to review Article 44 of the constitution, mandating state-ownership of major industries. Shortly thereafter the Expediency Council cleared the path for the privatization of major industries. In 2006, President

**Figure 16: Setad’s International Financial Network**





Presidential candidate Mehdi Karoubi, blames Assembly of Experts for supreme leader's corruption

Iranian National News Agency

Ahmadinejad privatized 80% of the shares of state-owned companies, including banks and insurance companies as well as petroleum firms. He justified the measure on the grounds that it would change the "government's role from direct ownership and management of companies to policymaking, guidance and monitoring."<sup>189</sup>

In 2009, the Setad, acting through a subsidiary, won a 38% stake in a consortium that succeeded in buying Iran's biggest state asset, the privatization of the Telecommunication Company of Iran (TCI).<sup>190</sup> The majority shareholder was the IRGC.

The supreme leader's economic interests were shielded from the public. Attempts by reformists to investigate the Setad in Khatami's second term were rebuffed by the Guardian Council, a body of conservative clerics and jurists, which declared that Setad's operations were beyond Parliament's authority. After the 2008 elections, a conservative Parliament demonstrated its loyalty to the Leader by amending "its bylaws to limit its own power to audit institutions under the supreme leader's supervision, except with his permission."<sup>191</sup>

Such moves did not stop presidential candidate Mehdi Karoubi from launching a scathing attack on the Assembly of Experts, the body charged with supervising the supreme leader. In a letter to the late Hashemi Rafsanjani, the powerful head of the Experts, he charged the Leader, acting through Setad and the IRGC, for plundering entire ministries in the name of privatization:

Isn't it your duty within the Assembly of Experts to examine what's taking place in the name of privatization and carrying out article 44 of the constitution? And to examine what organizations under the supervision of the Leader, like the Revolutionary Guards and the Setad Ejraiye Farmane Emam? A Setad (that the honored grandchild of the Imam complained about that if it is not going

to shut down to at least take the word "Imam" out of the title) who takes the shares of a government ministry and who put the shares of a government ministry in their own name within half an hour?<sup>192</sup>

Karoubi was labeled a "seditionist." He has been under house arrest since 2011.

Stung, the supreme leader sought to shore up his reputation. He declared that "Even the leader is not above supervision, let alone organizations linked to the leader."<sup>193</sup> He added:

Therefore, everyone should receive supervision, including those who govern the country. Government by its very nature entails the accumulation of power and wealth. That is to say, national wealth and social and political power are entrusted to a few government officials. As a result they must be supervised.<sup>194</sup>

As for himself, he stated "I welcome supervision and I am strongly opposed to evading it. Personally, the more supervision I receive, the happier I will be."<sup>195</sup>

Despite ample proof that the sons and daughters of Iran's revolutionary establishment have amassed vast fortunes—with Mehdi Hashemi as poster-child for corruption—the Ayatollah and the members of his household, including his sons, have not been subjected to careful scrutiny despite their proximity to Ahmadinejad. Neither the Ayatollah nor his sons have declared their assets. And none of their enterprises and holding companies have been subjected to a thorough audit. The Setad continues to prey on Iran's economy. Secondly, in the absence of transparency, the Iranian people may not see the extent of the plunder, but they do pay its price.

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*"I welcome supervision and I am strongly opposed to evading it. Personally, the more supervision I receive, the happier I will be."*<sup>195</sup>

Ali Khameni, Supreme Leader

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# 5

## The Sanctions Windfall: Where Did the Money Go?

In 2016, shortly after the nuclear agreement, the United States Supreme Court issued a ruling in favor of victims of the 1983 Beirut bombing. It allowed victims of terrorist attacks to sue Iran for \$2 billion in compensation from frozen Iranian funds.<sup>196</sup>

The \$2 billion deduction from Iran's expected sanctions windfall return of \$100 billion to \$125 billion caused a stir in Iran. President Rouhani took to the airwaves. He called the Court's ruling a "continuation of hostilities against Iran" and a "flagrant theft and legal disgrace." "The Americans," he said, were "thieves" who "imagine what they have pillaged belongs to themselves."<sup>197</sup>

In an interview with the semiofficial student news agency, Rouhani was equally adamant about retrieving the funds. "[The U.S. Supreme Court ruling] is a legal scandal for the U.S. From the political viewpoint, it also means continued hostility against the Iranian nation. This is a blatant violation and an open aggression by the United States administration. The great Iranian nation and the government, acting on their behalf, will spare no effort to retrieve the Iranian people's rights."<sup>198</sup>

Iran's foreign minister, Mohammad Javad Zarif demanded that the U.S. prevent the plunder of Iran's funds. "We hold the U.S. administration responsible for the preservation of Iranian funds, and if they are plundered, we will

lodge a complaint with the International Court of Justice for reparations."<sup>199</sup>

Yet, while Rouhani and Zarif blame Americans for the plunder of \$2 billion in the Iranian people's money, Iranian officials do not seem as concerned about the regime's failure to track, reconcile or account for at least \$60 billion discrepancy in Iran's estimated \$100 billion to \$125 billion oil windfall. That the U.S. Supreme Court could freeze \$2 billion in Iranian assets reflected the Iranian people's dilemma. The Islamic Republic's ties to terrorist organizations and operations abroad exposed the Iranian people to massive political, financial and security risks. And to make matters worse, the regime's managerial and financial incompetence was such that it purchased \$2 billion in American bonds that were easy to block and confiscate.

As Rouhani put it at a cabinet meeting on 10 August 2016, the confiscation of Iranian funds could have been averted: "There was a golden opportunity at our discretion to remove all of our money from American access but it was neglected."<sup>200</sup>

Vice President Eshag Jahangiri was more specific:

Under the previous administration, it was decided that a part of the Central Bank's resources be managed in Europe. Therefore, with complete

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*With complete poor planning, \$2 billion of American bonds were purchased and kept in a European bank, so the Americans were able to easily block the bonds and then confiscate it.*<sup>201</sup>

Vice President Eshag Jahangiri

poor planning, \$2 billion of American bonds were purchased and kept in a European bank, so the Americans were able to easily block the bonds and then confiscate it.<sup>201</sup>

No one could understand why Iran's Central Bank had purchased \$2 billion of U.S. bonds at a time when Iran was facing sanctions. Iranian economist Saeed Laylaz not only strongly condemned the "unprecedented act"—suggesting that had it been carried out against any other country it would have damaged American credit—but openly speculated that the failure to pull out the funds in a 10 month-window was "more treacherous than any betrayal."<sup>202</sup>

Sadly, the fate of the rest of Iran's frozen assets suggests even greater betrayals of the public trust.

While the Rouhani administration has devoted considerable resources to prosecuting Babak Zanjani for failing to repatriate \$2 billion in public funds, it has yet to account for the \$60 billion missing from the sanctions windfall. All the media attention on the U.S.'s seizure of \$2 billion and the \$2.7 billion Zanjani case should not be used to white-wash over the dubious status of \$60 billion in missing funds in this period alone. In fact, appearing before J-Street, a Jewish lobby group, former Secretary of State, John Kerry, stated that up until April 2016 Iran had only been able to retrieve \$3 billion in its frozen assets.<sup>203</sup>

Basic questions about the relationship between the Central Bank and the NIOC remain unanswered. There has been no investigation of Naftiran Intertrade Company, the offshore trading arm of NIOC, accused by the head of Iran's Central Bank for illegally spending \$24.5 billion in oil revenues. It is not clear who at Naftiran Intertrade Company has authority over which accounts, with funds received

*There has been no investigation of Naftiran Intertrade Company, the offshore trading arm of NIOC, accused by the head of Iran's Central Bank for illegally spending \$24.5 billion in oil revenues.*

from which sources, and dedicated to which projects. No one knows who keeps and who audits Naftiran Intertrade Company's books on behalf of the Iranian people. Similarly, the government has not explained which minister had signed concessionary contracts and barter agreements converting billions of dollars in Iranian oil revenues into \$22.5 billion held in China. Though the trade is mentioned during Zarrab's trial, it is not clear who imported which Chinese goods in exchange for how many millions of barrels in Iranian oil.

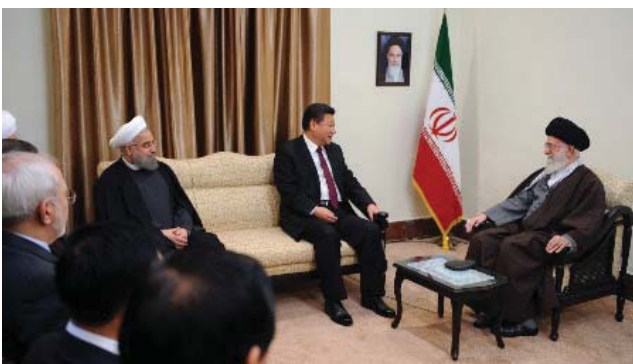
If the government is indeed accountable to the Iranian people, then economic reform does not begin with investment. It begins with the president and Parliament providing the Iranian people with a credible account about how and why government ministers and institutions are failing to establish policies and to follow rules and procedures governing the management of Iran's oil revenues. What the Iranian people are owed, at the very least, is a president and Parliament willing to investigate, answer and account for the \$60 billion question.

The State Audit Organization accused the Ahmadinejad administration of massive financial fraud during its two-term tenure from 2000–2008.

In the period 2000–2005, discrepancies in the Oil Stabilization Fund alone amounted to \$35 billion.

From 2005–2008, the discrepancies between oil revenues and the sums deposited with the Central Bank are estimated to be more than \$66 billion, "roughly 1/10<sup>th</sup> of Iran's oil exports since 1979." These statistics are widely disseminated by media outlets such as the Farda website, "which is closely affiliated with Tehran's mayor."<sup>204</sup>

While the Central Bank claimed that nearly \$220 billion worth of goods were imported into Iran from 2005–2008, the customs administration put the figure at \$185 billion.



Chinese President Xi Jinping, and Ayatollah Ali Khamenei, negotiating a modern day Turkmenchay treaty.

Office of the Iranian supreme leader

This is a \$35 billion shortfall. Far from being an exception, the purchase of phantom oil rigs (goods for which Iran had paid more than \$80 million) pointed to a much larger heist: the diversion of \$35 billion in cash for phantom goods that never reached Iran.

The Central Bank claimed that revenues generated from the sale of oil from 2005–2008 amounted to \$280 billion whereas the Oil Ministry put the figure at \$255 billion, which is a \$25 billion discrepancy.

The Central Bank claimed Iran had \$28 billion in foreign exchange reserves, while the actual sum in the account was only \$25 billion.

And finally, according to Vice President Eshaq Jahangiri, in the last two years of the Ahmadinejad administration alone, more than \$22 billion in Iranian foreign reserves left the country through currency traders in Istanbul and Dubai. This is a charge the Central Bank has not disputed.<sup>205</sup>

Iran's Central Bank, Oil Ministry, customs, Parliament and judiciary were implicated by systemic failure to account for many billions of dollars in oil revenue. This makes the Rouhani administration's threat to take the United States to the International Court of Justice to reclaim the \$2 bil-

lion awarded by the U.S. supreme court over the 1983 terrorist bombing seem like a tempest in a teapot. Other than Zanjani, the officials responsible for converting sanctions into a system for the plunder of Iran's oil revenues were not prosecuted. Even though addressing just one of these instances of systemic and institutional corruption promised short and long term returns many times greater than suing the United States in the ICJ, the Iranian perpetrators behind these cases have been granted immunity. Zanjani was put on trial, but his network and its bosses remain intact.

To borrow from President Rouhani, the Iranian thieves "imagine what they have pillaged belongs to themselves."<sup>206</sup>



Babak Zanjani on trial.

Mehr News Agency

## The Central Bank's Accounting Fiasco

Ezatollah Yousefian Molla, a member of the Budget and Planning Commission, estimated that \$107 billion in Iran's oil revenues were blocked. When pressed to explain a \$2 billion discrepancy between the Central Bank governor's initial published declaration that \$27 billion rather than \$29 billion would find its way back to Iran, he stated: "I do not have accurate information, perhaps there were new calculations that explain the new figures, besides, \$2 billion is not a significant figure."<sup>207</sup>

The Governor of Iran's Central Bank, Valliullah Seyf, put the total sum of Iran's blocked reserves at \$76 billion. In July 2015, Seyf's deputy at the Central Bank raised the pot by \$13.7 billion. He cited a figure of \$89.7 billion, significantly less than the U.S. Treasury's \$100 billion to \$125 billion estimates (see figure 17).<sup>208</sup> Out of this sum, the Central Banker claimed that only \$29 billion—roughly 25% of the United States Treasury's estimate of \$100 billion to \$125 billion—would find its way back to Iran.<sup>209</sup> Out of ev-



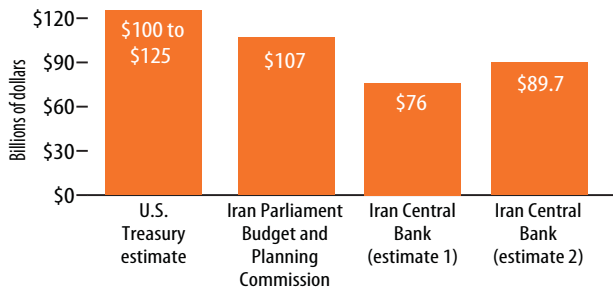
Bourse News

*"Apparently \$24.5 billion in the Central Bank's foreign exchange reserves were deposited with NICO"*

Valliullah Seyf, Governor of Iran's Central Bank, is one of Iran's most corrupt figures.



**Figure 17: Iran's Sanctions-Blocked Funds**  
Estimates of amount of Iran's funds to be released



OMID GRAPHIC  
Sources: Iran Central Bank, Sharq, Newsweek

ery four dollars in oil sales, only one dollar would make it back to Iran, or to put it another way, out of every four barrels of oil sold, Iranians would get paid for one. And nobody could quite explain where, why and how the other three barrels had disappeared.

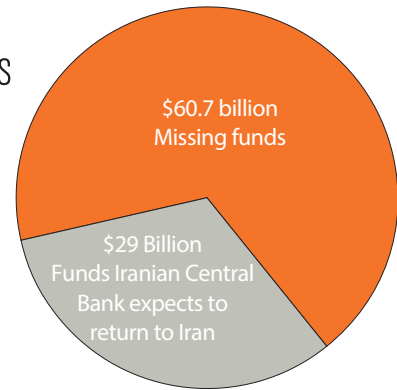
Still, even if one were to accept the Iranian Central Bank's claim that Iran's frozen foreign reserves amounted to \$89.7 billion, of which \$29 billion would find its way back to Iran, the Iranian people faced a massive black hole—a \$60.7 billion discrepancy in the Iranian people's accounts (see figure 18).

Despite their promise to spare no effort in retrieving the Iranian people's rights, the Rouhani administration doesn't explain why the Iranian government fights for \$2

**Figure 18**  
**Iran's Lost Billions**  
**Part 1**

Funds expected to return to Iran from estimated \$89.7 billion in blocked reserves

OMID GRAPHIC  
Source: Iran Central Bank, The Express Tribune, Mardomsalari, Sharq News, Omid SAM analysis



billion confiscated by U.S. courts, but ignores the loss of more than \$60 billion lost in the sanctions haze.

If one extrapolates from the IFC's job creation figures for Tunisia, and assumes that every \$1 million in investments generates 257 jobs, then a \$60 billion discrepancy amounts to almost 15.5 million jobs. In this section of the paper, we have used the IFC job creation figures to identify what the missing funds from each corruption scandal mean in terms of jobs.<sup>210</sup> The Iranian Parliament's Research Center has put the number of Iran's unemployed, underemployed and those who have given up searching for work at 6.5 million<sup>211</sup>—a population that could easily be integrated back into the economy with \$60 billion investment and employment plan.

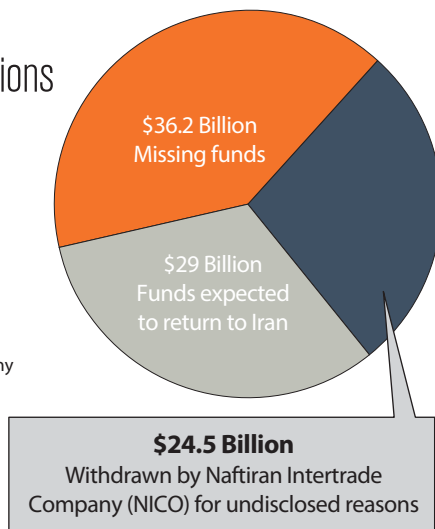
## The NIOC's Offshore Accounts—\$24.5 Billion or 6.3 Million Jobs

**Figure 19**  
**Iran's Lost Billions**  
**Part 2**

Naftiran Intertrade Company's Take from estimated \$89.7 billion in blocked reserves

NOTE: NICO is NIOC's offshore trading company

OMID GRAPHIC  
Source: Iran Central Bank, The Express Tribune, Mardomsalari, Sharq News, Omid SAM analysis



In an attempt to plug the \$60.7 billion hole in the Central Bank's accounts, Seyf told Sharq newspaper that in the previous period "apparently \$24.5 billion in the Central Bank's foreign exchange reserves were deposited with NICO [Naftiran Intertrade Company, the offshore trading arm of the NIOC]." These sums were *no longer available*. "Though nominally and legally deposited on an overnight basis—subject to withdrawal by the Central Bank at a moment's notice," Seyf added, "regretfully that was not the case."<sup>212</sup>

Even though the funds were supposedly held in foreign accounts, the Iranian people were told that the \$24.5 billion had been spent on various oil projects. As to how, when and where these sums had been withdrawn and spent, given that they were held abroad, Seyf added

that according to the Minister of Oil, “the books and accounts were not exactly sound” (*hesab-o-ketab daghighi nadashteh ast*).<sup>213</sup> The government did not volunteer the names, let alone have access to the records, of the foreign banks in which Iranian funds were held. It was not clear who had authorized the offshore trading arm of the NIOC to spend \$24.5 billion or how that money was spent in such a short window of time. Nor did Seyf provide any explanations as to why the Central Bank had failed to monitor and clear Naftiran Intertrade Company’s withdrawals from a \$24.5 billion account (see figure 19). Despite the President’s push for transparency, and admission of irregularity in Naftiran Intertrade Company’s accounts, the President has not called for an investigation or audit of Naftiran Intertrade Company’s offshore accounts.

As for the governor of Central Bank’s charge that the Naftiran Intertrade Company had spent \$24.5 billion by raiding the Central Bank’s account, Rouhani’s oil minister, Zanganeh blamed the Central Bank for depositing the money in the wrong type of account:

I refuse to validate the offenses of this company [Naftiran Intertrade Company] with the regulations, opened a different type of account (*sepordehgozari-ye oosooli*).<sup>214</sup>

Zanganeh’s declaration that he refuses to validate the offenses of Naftiran Intertrade Company was somehow considered final. Yet, given the sensitivity and significance of Naftiran Intertrade Company’s trading operations to Iran’s economy one would have thought that its suspicious transfer of \$24.5 billion out of the Central Bank’s accounts would trigger a political furor.

Zanganeh’s explanations appear to be an insufficient and clumsy cover-up. No one appeared to have the power to lift the lid off Naftiran Intertrade Company’s offshore accounts to trace \$24.5 billion in funds deposited and withdrawn from a suspicious offshore account—the source of the offense. If Naftiran Intertrade Company’s books were in shambles, as the minister alleged, one would have thought that there would be immediate and severe consequences. In light of the Zanjani scandal, at the very least it should have raised alarms about the management of Naftiran Intertrade Company and possible embezzlement by other Zanjani-style oil mafia operating within the Oil Ministry.

In Zanganeh’s telling, \$24.5 billion was spent as a result of “an error” by Iran’s Central Bank. It was merely a matter

## NIOC

 <p><b>Bijan Zanganeh</b> Oil Minister</p>	 <p><b>Ali Kardor</b> Managing Director</p>	 <p><b>Gholamreza Manouchehri</b> Deputy Head of NIOC for Engineering &amp; Development Affairs</p>
 <p><b>Sayed Saleh Hendi</b> Director of Explorations Department</p>	 <p><b>Touraj Moshdari Doust</b> Head of Conventions and Secretary of the Board</p>	 <p><b>Mohsen Paknejad</b> Deputy Managing Director in Production Affairs</p>
 <p><b>Mahmoud Bilkar</b> Director of Financial Affairs</p>	 <p><b>Karim Zobeidi</b> Director of Integrated Planning</p>	 <p><b>Asghar Hendi</b> Oil Minister’s Legal and International Consultant</p>

The National Iranian Oil Company leadership are not accountable to the Iranian people for oil and gas contracts and revenues.

NIOC

of financial nomenclature, and the Central Bank’s failure to follow its own procedures and monitor key accounts. But this wasn’t casual negligence and incompetence. This was corruption by design. The Bank had failed to safeguard billions of dollars in deposits. It did not even open the right type of account, let alone trace deposits and restrict withdrawals. The breakdown of chains of authority, custody and communication between the Bank and other institutions made abuses easier and tracing funds more difficult. In short, an institution as central to Iran’s national security, financial solvency and economic prosperity could not be trusted. As for building public and investor confidence, it was not at all clear what action the government would take to recover what was stolen and prevent the theft of additional tens of billions of dollars. The status of \$24.5 billion in oil revenues is unclear. And no one is held re-



Bijan Namdar Zanganeh,  
Iranian oil minister

ion.ir

sponsible. As the head of the government, Rouhani has yet to explain the measures the Iranian government will be taking to return these funds to the Iranian people.

On the question of the impact of sanctions on oil revenues, Bijan Namdar Zanganeh, Iran's minister of oil, stated that Iran was owed \$8.5 billion, with Europe, notably Shell and a Greek company, owing Iran roughly \$5.2 billion, some of which had been paid to the NIOC. One newspaper attributed a rather exaggerated claim to the minister. Zanganeh was quoted as saying that despite the hardships imposed by sanctions, the Central Bank had brought more than \$75 billion in blocked funds back to Iran, the bulk of which was spent on South Pars.<sup>215</sup> Given the floods of investment recycled through the South Pars projects, one can only hope that they would be easier to reconcile than Naftiran Intertrade Company's accounts. No accounting of these expenditures is available.

Concerning irregularities in the NIOC's purchasing activities, the oil minister stated that the judiciary was pursuing the case of a phantom oil rig, purchased for \$88 million, purchased by one of the NIOC's subsidiaries. He added that the judiciary was also pursuing cases concern-

ing the purchase of another 30 offshore and onshore rigs from China.<sup>216</sup> Even if the \$88 million phantom rig were part of the \$22.5 billion of Iranian funds deposited in China as guarantees for joint ventures, the phantom rig accounts for less than half of a percent of the Iranian funds in Chinese accounts. While the judiciary is investigating the missing oil rigs case—\$88 million—there is virtually no transparency or accountability surrounding the Iran-China joint ventures. The phantom rig incident also points to a much larger fiasco, namely the conversion of the South Pars gas project into a \$75 billion wasteland.

Looking to the future after sanctions, the oil minister announced plans for bids designed to raise \$185 billion for 50 projects ranging from petrochemicals, refineries, gas, pipelines and the development of Iran's oil fields, with 60% of the value of the projects set aside for domestic companies.<sup>217</sup> Yet, it is not clear who vets and qualifies these domestic companies for which contracts. In the absence of an audit of the NIOC's purchasing departments, as well as the accounts of domestic companies, it is also not clear who has charged the Iranian people how much commission for how many phantom purchases from their Chinese suppliers to develop which blocks of South Pars.

With more than 6 million jobs at stake (that's food, clothes and shelter for up to 24 million poor Iranians) it might be expected that the Iranian Parliament and judiciary would feel compelled to investigate how, when and who spent the \$24.5 billion transferred out of the Central Bank—the Iranian people's bank accounts—and into Naftiran Intertrade Company's accounts.

## China—\$22.5 Billion or 5.6 Million Jobs

Seyf also pointed to problems with recovering funds from China. \$22 billion dollars of Iranian reserves held in China were effectively held as financial guarantees for joint venture projects. Though technically not blocked, they could not be transferred back to Iran. He did not elaborate on how the \$22.5 billion figure was calculated, and whether this figure corresponded with the Oil Ministry's records of volumes, prices, shipments and deliveries of oil to China. How much oil had Iran transferred to China, in what volumes, at what prices, in which shipments, over what period of time? The governor also had little to say

about who in the Oil Ministry had negotiated the Chinese contracts and concessions, and which projects and joint ventures required \$22.5 billion in Iranian guarantees and who were the beneficiaries (see figure 20).

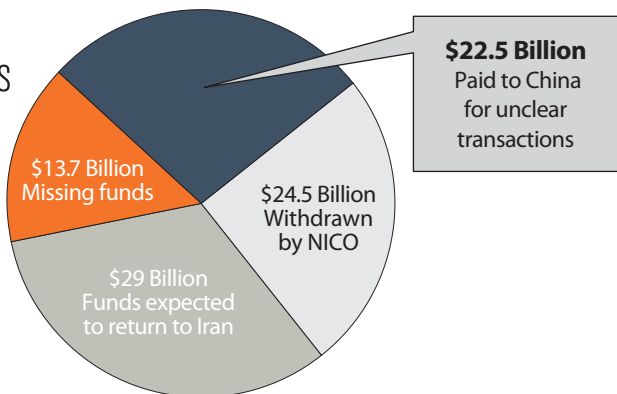
Regarding the recovery of Iran's funds in China, Tahmasb Mazaheri, a former finance minister, claimed that, under Ahmadinejad's government, the Iranian Oil Ministry entered an €18 billion treaty with China. He compared the Chinese deal to the disastrous Treaty of Turkomanchai in which Iran surrendered much of its sovereignty. Striking a more pessimistic note, he said: "Westerners freeze

**Figure 20**

## Iran's Lost Billions Part 3

China's Take from estimated \$89.7 billion in blocked reserves

OMID GRAPHIC  
Source: Iran Central Bank, The Express Tribune, Mardomsalari, Sharq News, Omid SAM analysis



*Iranian leaders effectively killed 5.6 million jobs in Iran and exported them to China.*

*“The Chinese are rogues. Our funds in China cannot be classified as blocked, but their status is worse than blocked. The Chinese get our funds, don’t return it, and call it safekeeping. Even after agreement, they will not return it.”*

Tahmasb Mazaheri, a former finance minister

our funds and announce that the funds are frozen. After the agreement, they release the funds.” “The Chinese,” he claimed, “are rogues (*be-ensaaf*).” He added: “Our funds in China cannot be classified as blocked, but their status is worse than blocked.” As he put it, “the Chinese get our funds, don’t return it, and call it safekeeping. Even after agreement, they will not return it.” The best Iranians could hope for was payment in the form “shipments of junk goods at exorbitant rates and then subject to terms and conditions such as kickbacks and commissions for their middlemen.”<sup>218</sup>

Assadollah Asgarowladi, head of the Iran-China Chamber of Commerce, was defensive, declaring that the Oil

Ministry had agreed to sell oil in exchange for payments in cash as well as in Chinese goods.<sup>219</sup> Still, it was not clear how Iran’s Oil Ministry had converted public funds—Iran’s oil revenues—into financial instruments, and who had allocated and transferred credits from the sale of oil belonging to the Iranian people to private entities importing Chinese goods. There were reports, however, that in exchange for oil, Zanjani had purchased containers of tombstones.

But as symbols of Iran’s economic mismanagement, grave markers were not entirely inappropriate. Iranian leaders had effectively killed 5.6 million jobs in Iran and exported them to China.

## Banks—\$10 Billion or 2.5 Million Jobs

With \$24.5 billion sunk in the quicksand of Naftiran Intertrade Company accounts and another \$22.5 billion blocked in the China labyrinth, the Iranian people could subtract \$47 billion out of the sanctions windfall. The task of plugging the rest of the \$60.7 billion hole—\$13.7 billion in change—fell on Seyf’s deputy, Gholamali Kamyab. He explained that various domestic legal considerations and budgetary allo-

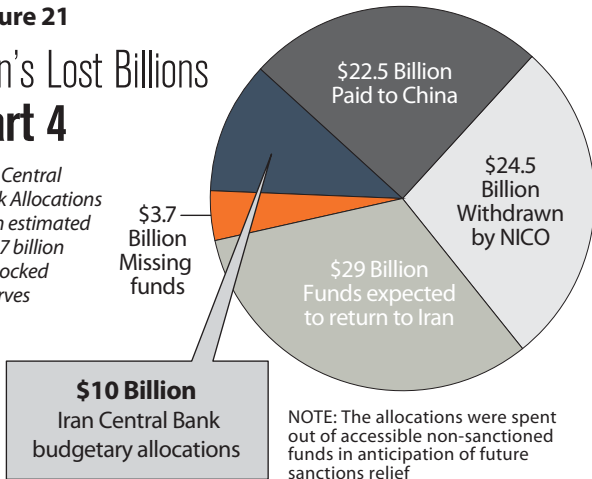
cations meant that the status of \$10 billion in reserves deposited with Iranian banks was also “in doubt.”<sup>220</sup>

Mahmoud Bahmani, a former Central Bank governor, clarified the problem. He stated that much of Iran’s blocked reserves were counted as part of the Central Bank’s reserves, and that the government had withdrawn the rial equivalent in previous years. Were the government to

**Figure 21**

**Iran's Lost Billions  
Part 4**

Iran Central Bank Allocations from estimated \$89.7 billion in blocked reserves



NOTE: The allocations were spent out of accessible non-sanctioned funds in anticipation of future sanctions relief

OMID GRAPHIC  
Source: Iran Central Bank, The Express Tribune, Mardomsalari, Sharq News, Omid SAM analysis

withdraw such sums from the Central Bank again, it would mean that for each dollar in reserves the government would be withdrawing the rial equivalent twice. It was not clear who had advanced how much money to which Iranian banks against Iran's reserves. It was also not clear to whom the banks had lent the money, and under what terms. Ten billion dollars simply vanished in a financial sieve—raising questions about the health of the banking sector and the possibility that billions of Iranian oil revenues were being recycled through Ponzi schemes to fund projects (see figure 21).



Gholamali Kamyab -Deputy of the Governor of Iran's Central Bank  
Nerkhbox

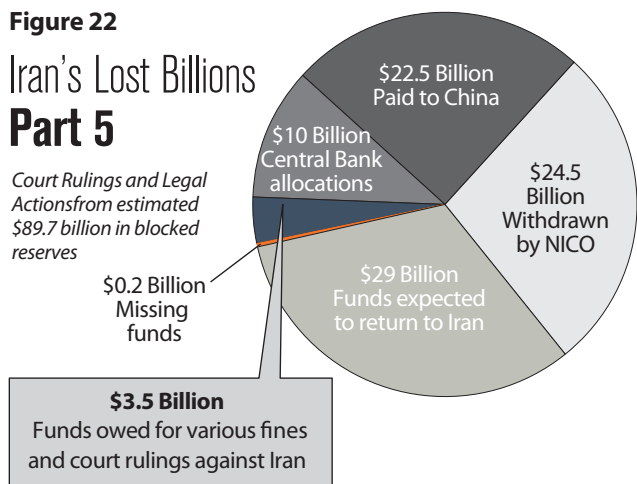
**Court Rulings and Legal Actions—\$3.5 Billion or 860,000 Jobs**

Another \$3.5 billion in promissory notes and bonds, it was claimed, were blocked due to various court rulings and legal actions (see figure 22). Again, there was little accountability or transparency. The origin, nature and reasons for the legal cases remained unclear. It was unknown who had saddled the Iranian people with such a liability, and on behalf of whom. Nor was it clear who had directed the security services and other government entities to break international laws and agreements. While Iran had been fined \$813 million for the 1983 bombing of the Marine barracks in Lebanon, the government did not provide any clarification about which courts had frozen Iranian funds to cover which violations.<sup>221</sup> Rogue terrorist operations abroad may have advanced the Iranian leadership's dreams of an Islamic caliphate in Lebanon and beyond. But it was the Iranian people who paid the price, with Iranian soldiers losing life and limb, and Iranian workers subsidizing an ideology that cost more than 800,000 jobs in Iran. This is not mismanagement. It is theft by design.

**Figure 22**



**Iran's Lost Billions  
Part 5**

Court Rulings and Legal Actions from estimated \$89.7 billion in blocked reserves



OMID GRAPHIC  
Source: Iran Central Bank, The Express Tribune, Mardomsalari, Sharq News, Omid SAM analysis

Figure 23: “Where Is My Money?” Sanctions Windfall

MISSING FUNDS		LOCATION	STATUS	AUDIT
\$24.5 billion		NaftIran Intertrade Company (NICO)	?	?
\$22.5 billion		China- guarantees and credits joint venture projects	?	?
\$10 billion		Iranian banks	?	?
\$3.5 billion		Court rulings and legal actions	?	?
<b>Total: \$60.5 billion</b>				

## Iran’s Sovereign Wealth Fund: Salary Scandals as Tip of the Iceberg



Seyed Safdar Hosseini  
National Development Fund of Iran

The management of Iran’s National Development Fund (NDF)—the nation’s sovereign wealth fund—was forced to resign on 2 July 2016. The payslips revealed that top executives and directors of Iran’s state-affiliated companies were commanding monthly salaries “more than 1,000 times the minimum wage of \$400/

month.”<sup>222</sup> The documents showed that the head of the development fund, Seyed Safdar Hosseini, was paid 570 million rials per month (\$18,512) and received a “3 billion rial loan with an interest rate of 4%, compared to the 30% Iranians typically pay.”<sup>223</sup> He was not alone. Four other bank directors were sacked for “receiving unconventional salaries and loans.”<sup>224</sup>

The scandal, orchestrated by hardliners, threatened to undermine Rouhani’s anti-corruption drive. As Najmeh Bozorgmehr reported in the Financial Times, “any disclosure of the income of military figures in the elite Revolutionary Guards, as well as the revenues of its economic empire and religious foundations, which together are estimated to run up to half of Iran’s economy, are considered a taboo.”<sup>225</sup> Nevertheless, hardliners were reportedly planning to derail Rouhani’s reelection campaign by releasing another 3,000 payslips of top officials, begging the much more critical question, namely the Ayatollah’s systemic failure to hold accountable the IRGC and religious foundations, which have a grip over 50% of the economy.

While public attention was focused on the salary wars erupting between reformists and hardliners, a far more important scandal, the state of Iran’s sovereign wealth fund, remained in the collective blind spot. The crisis is akin to an investor, in this case the Iranian people, fretting and flaring over the salaries and fees of their bankers and brokers without paying attention to the raids on their portfolio over decades.

*“Any disclosure of the income of military figures in the elite Revolutionary Guards, as well as the revenues of its economic empire and religious foundations, which together are estimated to run up to half of Iran’s economy, are considered a taboo.”*

Financial Times

*"[Parliament's] handling of the OSF has thus shown the futility, if not indeed the absurdity, of setting up a rainy day fund if it can be freely used while the sunshine had never been brighter."*

Iranian economist Jahangir Amuzegar

The precursor of Iran National Development Fund, the Oil Stabilization Fund (OSF), is a case in point. The OSF was established in 2000 as a foreign currency account for holding Iran's oil revenues at the Central Bank. As with the sovereign wealth funds of Norway, Kuwait and other oil rich nations, the OSF was conceived as a rainy day fund. Its purpose was to stabilize government's budget and revenues against volatility in oil prices. In addition, a particular quirk of Iran's sovereign wealth fund was that 50% of the OSF's foreign exchange reserves would be lent to the private sector through commercial banks supposedly to encourage investment in high priority projects. In practice, this opened a backdoor for vast amounts of corruption in the banking industry as there was virtually no oversight over the OSF's lending practices.

As noted by Suzanne Maloney and others, the guidelines governing deposits, transfers and withdrawals into the OSF were quite simple. Under Article 60 of the Third Five-Year Development Plan, an oil windfall caused by a spike in oil prices would result in a difference between projected and actual oil prices. All foreign exchange incomes above the figure projected for the budget would be deposited in the OSF. After the third year, in the event of a sudden plunge in oil prices, where actual oil export revenues would dip below budget allocations, the Central Bank could tap into the OSF—after the eleventh month—and transfer the funds to the treasury to cover government expenses.<sup>226</sup>

The OSF's board of trustees, which included the head of the Management and Planning Organization, the Minister of Economy and Finance, the Governor of the Cen-

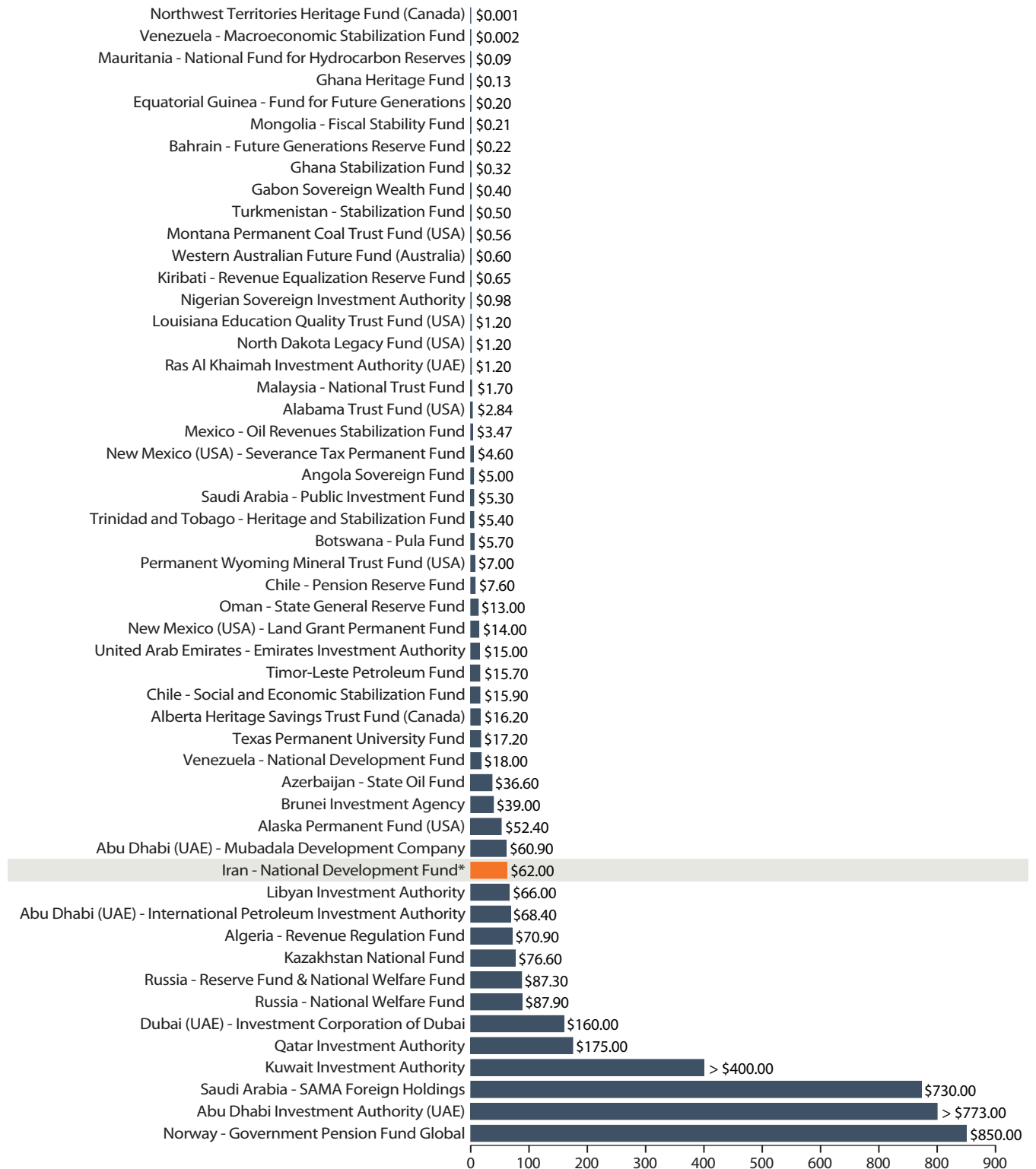
tral Bank of Iran, and four presidential appointees, were to set the priorities, terms and conditions for OSF loans to approved commercial banks. In 2005, OSF financing was made available to state-owned companies. And in 2007/2008, OSF deposits at various state-owned commercial banks were converted into equity to strengthen their capital.<sup>227</sup> In view of the subsequent epidemic of fraud in Iran's banking sector, these policies appear highly suspect.

Yet, as noted by the World Bank, between 2000 and 2005, the unexpectedly robust rise in oil prices saw not just increases in Iran's regular oil share of the budget, but also in withdrawals from the fund.<sup>228</sup> Instead of following the original guidelines which would have accumulated \$74 billion in the fund between March 2000 and 2005, total deposits were a paltry \$29 billion. According to the IMF, the Majlis "frequently bypassed the OSF board for withdrawals totaling \$17 billion from 2000–2005—for reasons not approved in the original law."<sup>229</sup>

One need only look at the state of Iran's sovereign wealth fund compared to that of the Gulf states to grasp the difference between management by thieves versus professionals. By 2005, the end of the five-year plan, the OSF's assets stood at \$9.4 billion cash and \$3.5 billion in outstanding loans.<sup>230</sup> As noted by Paasha Mahdavi, a leading scholar of the Iranian oil and gas industry, Iran's total oil and gas revenue stood at \$82 billion for 2008–2009, with the actual total "much higher if one includes a generous estimate of \$32 billion that was deposited into the OSF."<sup>231</sup>

Yet, as Mahdavi notes, even members of Parliament did not know how much was really in the OSF. In 2009, one NIOC official estimated the sum in the oil fund at an anemic \$7 billion.<sup>232</sup> In contrast, the Sovereign Wealth Fund Institute estimated the United Arab Emirates sovereign wealth fund, the Abu Dhabi Investment Authority, stood at \$875 billion in 2008 and the Kuwait Investment Authority's two state funds stood at \$213 billion.<sup>233</sup> By 2014, the National Resource Governance Institute (NRGI) estimated that Kuwait Investment Authority's funds were over \$400 billion and the Abu Dhabi Investment Authority stood at over \$773 billion. Iran's National Development Fund (OSF's replacement) stood at \$62 billion (see figure 24). Of course, all official statistics about such accounts need to be verified to make sure the deposits are there.

**Figure 24: Natural Resource Funds by size**  
Measured in billions of U. S. dollars



OMID GRAPHIC

Source: Natural Resource Governance Institute (NRGI) "Managing the public trust" report, July 2014.

Note: Natural resource funds are sovereign wealth funds deriving financing from oil, gas or mineral sales. The combined USA funds are \$101 billion. The combined UAE funds are \$1,078.5 billion.



In a separate report, Deutsche Bank estimated that the net value of the Gulf Cooperation Council (GCC) owned foreign assets had nearly tripled over four years from \$472.5 billion in 2004 to just over a trillion dollars.<sup>234</sup>

Characterizing the Oil Stabilization Fund as “a misnomer,” the Iranian economist Jahangir Amuzegar blasted Iran’s Parliament, the Majlis, for the depletion of the fund. As he put it: “The Majlis’ handling of the OSF has thus shown the futility, if not indeed the absurdity, of setting up a rainy day fund if it can be freely used while the sunshine had never been brighter.”<sup>235</sup>

In practice, the bodies charged with establishing and governing the OSF acted like serial offenders, fudging guidelines and breaking laws to raid the OSF. Instead of stabilizing the budget, the OSF destabilized the budget, with “budget allocations repeatedly changed to enable more oil revenue to be spent as it came in, also against the fund’s rules.”<sup>236</sup>

In February 2012, the Revenue Watch Institute, an oil and gas watchdog, issued a scathing report about Iran’s management of its oil and gas revenues:

We believe the government has violated its own rules for oversight of the revenues. In 2000, the government began saving some of its oil revenues in an oil stabilization fund (OSF). We estimate that the OSF should have received \$36 billion more between 2005 and 2011 than what the government has reported. Based on our analysis of data from the Central Bank of Iran and the IMF, we also estimate that the government withdrew \$150 billion from the fund between 2006 and 2011 without clear economic justifications.<sup>237</sup>

In 2008, with oil prices spiking, Iran’s Central Bank unilaterally stopped reporting on deposits, transfers and withdrawals into the OSF. Iran’s OSF received a ranking of 1 out of 10 on the Sovereign Wealth Fund Institute’s Linaburg-Maduell-Transparency Index, with a 1 being “the minimum rating a fund can receive.”<sup>238</sup> This score prompted one prominent Iranian economist to caution that the

“figures on the monetary content of the OSF are merely estimates, as the true value of OSF transactions is unknown.”<sup>239</sup>

This wasn’t just a case of mismanagement of Iran’s oil revenues. It was the diversion of vast sums of oil revenues into the OSF and other accounts, which set the stage for large-scale corruption. Based on a comparison of the government’s total revenues and expenditures, Revenue Watch

estimated the “magnitude of the money” outside the state’s budget control at close to \$200 billion, an amount that “by any measure remains unaccounted for.”<sup>240</sup>

Further, the lack of transparency was neither accidental nor occasional. It was systematic. Virtually none of the bodies responsible for managing Iran’s oil revenues provided the public with access to a full, or even partial, reporting on deposits, withdrawals, transfers and returns on the funds held in their accounts. Flagrant violations of the spirit and letter of the law had indeed converted “the OSF into a secure pot of gold, and a ready financing source, for the legislators to use it mainly for off-budget pork-barrel projects.”<sup>241</sup> Of course, the OSF, and later the National Development Fund have also been the back channel for transferring billions of dollars into a highly corrupt banking system run on the principle of management through embezzlement.

In other words, Iran’s bankers, like bankers everywhere, would deserve salaries and bonuses in the millions had they doubled or quadrupled Iran’s sovereign

wealth fund as their Arab counterparts have done. Or, at the very least, if the money had been stuffed under a mattress, all they had to do was bark, as loyal dogs would, at the sight of thieves breaking into their master’s home. Instead, they channeled the Iranian people’s savings into non-performing loans for various Ponzi schemes and white elephant projects established in the name and for the benefit of regime insiders. Those toxic loans, in turn, mushroomed into debts, saddling the Iranian people with shares in bankrupt public and private companies stripped

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*Flagrant violations of the spirit and letter of the law had indeed converted “the OSF into a secure pot of gold, and a ready financing source, for the legislators to use it mainly for off-budget pork-barrel projects.”*

Iranian economist  
Jahangir Amuzegar

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of all assets and value. The industrial shells and financial coffins containing the remains of Iranian workers cheated out of their salaries and pensions, were then placed under the receivership of government officials such as Judge Mortazavi, a manager whose religious probity and political credentials no banker would question. And, Mr. Mortazavi, in turn, would sell them to Mr. Zanjani, much as an addict would: inject Iran's oil revenues and recycling dollars into the financial system to prevent the collapse of the rial. What better way to boost confidence in the economy than by delaying a much delayed run on banks?

The mismanagement of the OSF reflected a much broader and deeper crisis of legitimacy and governance. The establishment of accounts outside of a transparent and unified budgetary framework paved the way for the gradual subversion of policies and procedures, rules and institutions protecting the public trust and purse. Far from stabilizing Iran's economy, the rise in oil prices stimulated a feeding frenzy—with a succession of financial, institu-

tional and, eventually, military coups setting the stage for ignoring the Iranian constitution. Far from keeping a vigilant eye on Iran's budget by holding the executive branch to account, parliamentarians were accepting bribes and payments from the executive branch. They too had been corrupted—acting as complicit partners in the pillage of oil revenues held in the Iranian people's special accounts. With Parliament unable and unwilling to investigate itself, tracking the flows of oil and gas revenues into and out of the formal structures of the Iranian state became even more difficult.

Reformist members of Parliament, "the List of Hope" promised to reverse the despair caused by Parliament's failure to represent the interests and protect the wealth of the Iranian people. Yet, with Parliament reduced to an appendage of a theocracy premised on usurping popular sovereignty, most parliamentarians represent, protect and participate in a kleptocracy premised on corruption by design.



# 6

# Quantifying Corruption: The Trillion Dollar Gap

The patterns of corruption in other oil rich nations provide a basis for assessing the scale of loss in Iran. In the case of Nigeria, where President Muhammadu Buhari's anticorruption drive is lifting the veil that has long cloaked the scale of the pillaging, there are reference points. In 2006, Nuhu Ribadu, the former chairman of Nigeria's Economic and Financial Crimes Commission (EFCC) estimated that \$380 billion was "stolen or wasted" in the 40 years since the Nigeria's independence.<sup>242</sup> The failure to reverse corruption—the legacy of Ahmadinejad's presidency, part and parcel of Ayatollah Khamenei's kleptocratic rule—has put Iran on the path to surpassing Nigeria and other failed states. Quantifying the extent and impact of corruption in Iran's oil industry is a fundamental step in preventing the long term political and economic damage left in the wake of decades of plunder.

## The Social Accounting Matrix: A Note on Methodology

There are many ways to quantify the cost of corruption to Iran's economy. While virtually all these methods have their constraints, both in terms of the availability and accuracy of data, and the limits of underlying equations and formula, they can help establish parameters for quantifying corruption.

For the purposes of this study, we have used a social accounting matrix (SAM) multiplier model to simulate the effects of missing oil revenues on the Iranian economy. In layman's terms, a social accounting matrix (SAM) is a table or matrix that represents the economic transactions of an economy. The transactions between production, factors of production and institutions (such as households, businesses and government) are organized in a matrix

representing columns and rows. The columns show the expenditures and the rows show the incomes. Such a matrix highlights the interdependencies among various sectors in an economy. A SAM can be expanded to include enough detail to model a snapshot of an economy and how it would respond to external shocks. It can show economic patterns and is a comprehensive look at transactions inside the economy. (See Appendix 1 Table 4)

The purpose of a SAM-based multiplier model is to provide quantitative estimates of the direct and indirect impacts of an exogenous demand-side shock on the economy.<sup>243</sup> The multiplier model assumes "that prices are fixed and that any changes in [revenue] will lead to changes in physical output rather than prices. This in turn requires an additional assumption that the economy's factor resources are unlimited or unconstrained, so that any increase in demand can be matched by an increase in supply. Finally, the multiplier model assumes that all structural relationships between sectors and households in the economy are unaffected by exogenous changes in demand."<sup>244</sup>

The most recent SAM available for Iran comes from the Majlis Research Center.<sup>245</sup> The SAM uses the base year 2006 and was published in 2012. SimSIP SAM (SimSIP) was used to perform all the analysis related to the SAM multiplier model. SimSIP is a publically-available simulation application that can be used to run the SAM multiplier model. The application was developed by Juan Carlos Parra and Quentin Wodon at the World Bank.<sup>246</sup> This SAM illustrates the structural interdependence of the Iranian economy. It shows the linkages between Iran's oil sector and other sectors in the economy. As such, it is a powerful tool for assessing both the direct and indirect costs of missing oil revenue.

A social accounting matrix reflects the basic structure of the economy it represents. Such structures do not normally change dramatically over long periods of time.<sup>247</sup> This study assumes the structure of Iran's economy has not

*Attempts to quantify the loss are a first step towards reclaiming and revitalizing Iran's economy.*

changed significantly from 2006, the year of the country's most recent available SAM. By adding the direct and indirect effects, it is possible to measure the missing oil revenue's multiplier effect on the economy. The multiplier effect can then be used to calculate the total loss to the Iranian economy and people due to their missing oil revenue.

With the Majlis Research Data as baseline, the SAM model quantifies the impact of various scandals in the oil and gas sector on the Iranian economy. These are, of course, estimates and approximations, and their accuracy depends on the quality of the data used. As the data is refined and updated, we can get an even more accurate estimate of the impact of shocks on Iran's economy. SAM can also be used to simulate the economic losses and gains from the reduction or spread of corruption in Iran's oil and gas sector. At a minimum, such an exercise can help policymakers and the Iranian people, as well as the international community, grasp the stakes: the scale of the threat posed by corruption. It also enables them to move beyond abstract political concepts and moral pronouncements. Corruption is not only a violation of legal, ethical and religious norms. Corruption is a political, cultural and economic reality. It has profound, direct and immediate consequences on the lives of millions of people. Transparency and accountability are not abstract and remote principles. And they are not western luxuries. They are the basis of the social contract: a question of survival. For millions.

Of course, there are limits to any attempt to shine a light on a sector and economy that remains buried in darkness. Data and models can only do so much. They can always be refined and improved. But their limitations are not an excuse for avoiding transparency and accountability but an argument for insisting on both. Attempts to quantify the loss are a first step towards reclaiming and revitalizing Iran's economy. They serve as a warning to the various oil mafia that their activities can be measured and monitored, and that a day will come when they will be held account-

able for the betrayal of public trust. Establishing an empirical foundation for measuring and reversing corruption is a national imperative: the first step toward reclaiming the sanctity and integrity of institutions and sectors that are the key to restoring Iran's economy. It is also necessary for establishing a legal foundation for the prosecution of oil thieves and an economic case for tracking and recovering billions of dollars in stolen assets.

A couple of data attributes have bearing on the analyses in this paper. First, the results from SAM of the base year of 2006 are applied to the present time. Such an approach assumes:

- prices are fixed and that any change in demand would cause an equivalent shift in output;
- economy enjoys unlimited factor resources; and
- sectors and households maintain a structural relationship in the economy that is not impacted by external changes in demand.<sup>248</sup>

However, we know that under sanctions, restrictions on imports can create bottlenecks in various sectors, and impact the workings of our SAM-based multiplier model. Although the Parliament's Research Center, the authors of the 2006 SAM model, have since revised it to address the special conditions created by sanctions, the base data they used to generate that study were not available to us.<sup>249</sup> For the purposes of this study, we have relied on the 2006 SAM model to generate a first set of results. Our hope is that these initial approximations and simulations can be further refined using more complete sets of data and more advanced economic modeling techniques. The results of our analysis are adjusted for inflation and differences in exchange rates to transform them to constant prices in 2013-2014 U.S. dollars.

Finally, the cost of sanctions and other corruption scandals are cumulative in nature. Most took place over time. As is common, the SAM analysis aggregates the cost of sanctions and other corruption scandals and assumes that they happened at a single point in time. While sanctions and other corruption scandals may have taken place in multiple sectors, the SAM analysis introduces the cost of sanctions and other corruption scandals to the crude oil sector. With these caveats in mind, the loss of oil revenues from sanctions and other corruption cases also has a multiplier effect, with deep and lasting effects on the Iranian economy.

Table 1 (below) shows the impact of sanctions and scandals on Iran's economy using the social accounting matrix (SAM) data and methodology from the Majlis 2012 report.

**Table 1: Sanctions and Scandals: The Social Accounting Matrix Calculations<sup>250</sup>**

(In billions of dollars)

Sectors	Zanjani	NICO	China	Banking	Court Cases	OSF 1	OSF 2	Sanctions	Total
Scandal Amount	<b>\$2.7</b>	<b>\$24.5</b>	<b>\$22.5</b>	<b>\$10.0</b>	<b>\$3.5</b>	<b>\$45.0</b>	<b>\$36.0</b>	<b>\$160.0</b>	<b>\$304.2</b>
Crude Oil	\$4.16	\$37.43	\$34.38	\$15.28	\$5.35	\$68.76	\$55.01	\$244.47	\$464.82
Urban Households	\$2.09	\$18.82	\$17.28	\$7.68	\$2.69	\$34.57	\$27.65	\$122.91	\$233.70
Other Activities	\$0.57	\$5.16	\$4.74	\$2.10	\$0.74	\$9.47	\$7.58	\$33.67	\$64.03
Rural Households	\$0.51	\$4.58	\$4.20	\$1.87	\$0.65	\$8.41	\$6.72	\$29.89	\$56.82
Home Appliances	\$0.42	\$3.79	\$3.48	\$1.55	\$0.54	\$6.96	\$5.57	\$24.76	\$47.08
Retail	\$0.40	\$3.60	\$3.31	\$1.47	\$0.51	\$6.62	\$5.29	\$23.52	\$44.73
Agriculture	\$0.39	\$3.47	\$3.19	\$1.42	\$0.50	\$6.38	\$5.10	\$22.68	\$43.12
Food	\$0.28	\$2.50	\$2.30	\$1.02	\$0.36	\$4.60	\$3.68	\$16.35	\$31.09
Insurance	\$0.24	\$2.13	\$1.95	\$0.87	\$0.30	\$3.90	\$3.12	\$13.88	\$26.39
Transportation	\$0.22	\$1.99	\$1.83	\$0.81	\$0.28	\$3.66	\$2.92	\$13.00	\$24.71
Health	\$0.21	\$1.85	\$1.70	\$0.75	\$0.26	\$3.39	\$2.72	\$12.07	\$22.95
Water	\$0.10	\$0.89	\$0.81	\$0.36	\$0.13	\$1.63	\$1.30	\$5.79	\$11.02
Motor vehicles	\$0.09	\$0.84	\$0.77	\$0.34	\$0.12	\$1.54	\$1.23	\$5.48	\$10.42
Post and Telecommunications	\$0.09	\$0.77	\$0.70	\$0.31	\$0.11	\$1.41	\$1.13	\$5.01	\$9.53
Metals and Machines	\$0.08	\$0.73	\$0.67	\$0.30	\$0.10	\$1.34	\$1.07	\$4.76	\$9.06
Textiles	\$0.08	\$0.69	\$0.63	\$0.28	\$0.10	\$1.26	\$1.01	\$4.50	\$8.55
Electricity and Natural Gas	\$0.07	\$0.67	\$0.61	\$0.27	\$0.10	\$1.23	\$0.98	\$4.36	\$8.29
Education	\$0.07	\$0.66	\$0.60	\$0.27	\$0.09	\$1.21	\$0.97	\$4.29	\$8.16
Fisheries and Livestock	\$0.04	\$0.39	\$0.36	\$0.16	\$0.06	\$0.72	\$0.58	\$2.57	\$4.88
Financial Services	\$0.04	\$0.38	\$0.35	\$0.16	\$0.05	\$0.70	\$0.56	\$2.50	\$4.75
Wood	\$0.04	\$0.33	\$0.31	\$0.14	\$0.05	\$0.61	\$0.49	\$2.18	\$4.14
Construction	\$0.04	\$0.33	\$0.30	\$0.13	\$0.05	\$0.61	\$0.48	\$2.15	\$4.09
<b>Total Cost</b>	<b>\$10.21</b>	<b>\$91.99</b>	<b>\$84.49</b>	<b>\$37.55</b>	<b>\$13.14</b>	<b>\$168.97</b>	<b>\$135.18</b>	<b>\$600.78</b>	<b>\$1,142.31</b>

## The Total: A Trillion Dollar Toll

The multiplier effect of the SAM model used by the Iranian Parliament is such that every \$1 in missing oil revenue gets leveraged by a factor of 3.75.

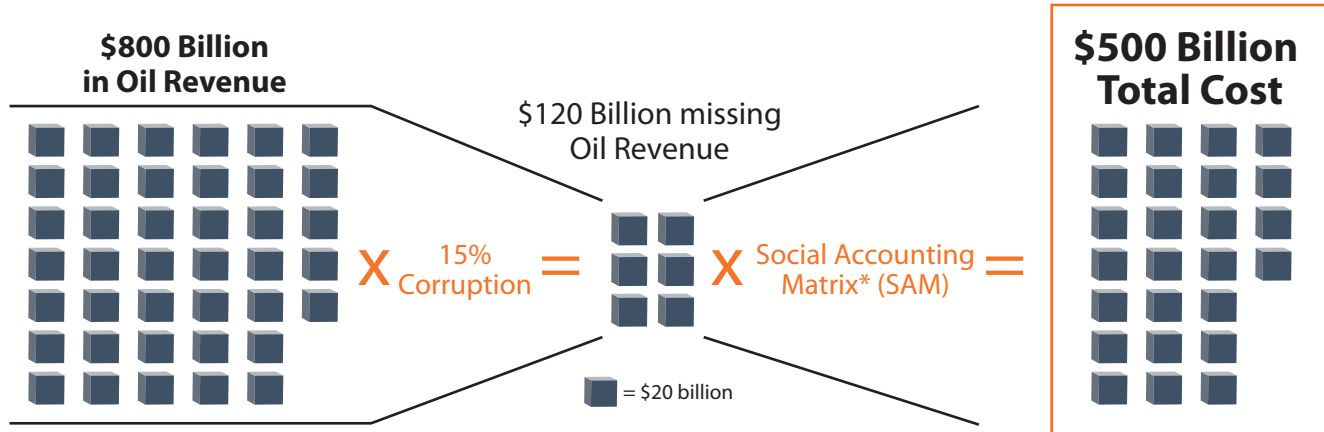
A cursory glance at the SAM table above reflects the devastation that ensues:

- The United States Treasury's estimate that sanctions cost Iran \$160 billion in lost oil revenues, a figure that translates into a net loss to Iran's economy of \$600 billion.
- Raids on the oil revenues deposited in the Oil Stabilization Fund come in at another \$300 billion net loss to the economy.
- The funds vanishing in Naftiran Intertrade Company and China twilight zones translate into a net loss of \$92 billion and \$84.5 billion respectively.
- During Ahmadinejad's presidency, the net impact of losses from sanctions and corruption, together with the Oil Stabilization Fund (OSF) scandals, exceeded \$1 trillion.

## The Cost of Corruption Compared to the Cost of the Iran-Iraq War

**Figure 25: The Real Cost of Corruption in Iran**

Assuming a modest 15% corruption rate during Ahmadinejad's presidency, 2005-2013



OMID GRAPHIC

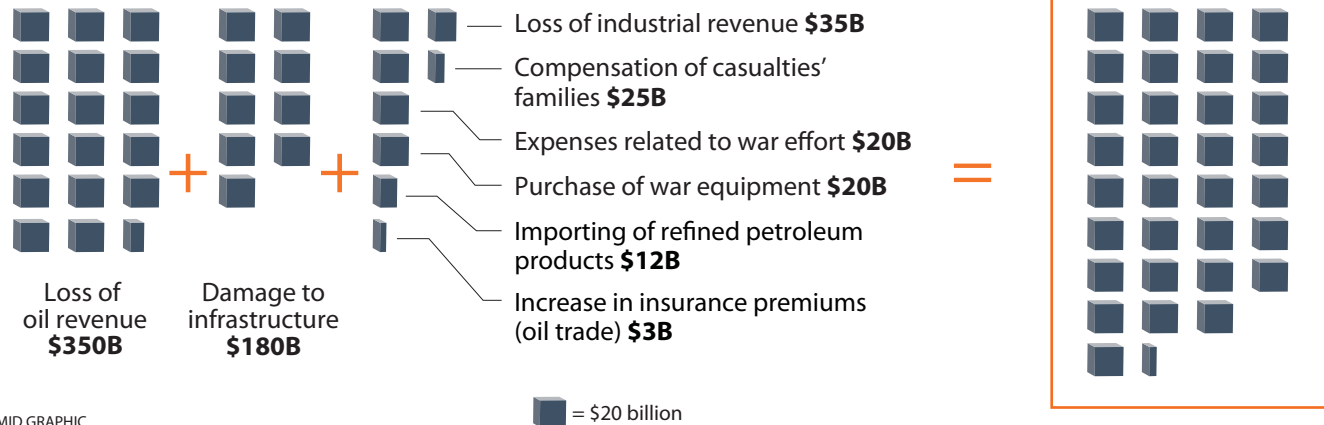
Note: The 15% rate is a modest estimate of corruption.

\*The Social Accounting Matrix, as explained in the text, are figures developed by Iran's Majlis Research Center to calculate the multiplier effects of oil revenue upon the rest of the economy.

Source: Omid for Iran calculations

**Figure 26: Financial Costs of Iran-Iraq War for Iran**

What the war cost to Iran's economy



OMID GRAPHIC

NOTE: 1988 dollars

SOURCE: Razoux, Pierre, The Iran-Iraq War, Harvard University Press, Cambridge, Mass., 2015. p. 574.

Approaching the same problem from another angle, the Iran's State Audit Organization accused the Ahmadinejad administration of massive fraud as early as 2009. Farda website claimed that according to the statistics, the difference between the Ahmadinejad administration's revenues and the sums deposited in the Central Bank exceeded \$66 billion. In 2009, at the time of the report, this sum

suggested that in four years, from 2005–2008, the missing revenue was equal to of one-tenth of Iran's oil revenues since 1979.<sup>251</sup>

If one extrapolates from the \$66 billion discrepancy that took place over four years, and assumes that missing oil revenue due to corruption in the Ahmadinejad period was in the 15% range (roughly \$120 billion out of \$800 billion

in oil revenues), then, applying the Majlis SAM multiplier, the net loss from corruption to the economy would be in the \$400 billion to \$500 billion range (see figure 25). This is a figure that confirms the rough estimate that corruption and sanctions cost Iran more than \$1 trillion.

If the corruption rate under the Ahmadinejad regime was higher and, which is very likely, in the 25%–30% range, then net loss from corruption alone may be in the trillion-dollar range.

To put these figures in perspective, the cost of corruption and sanctions to the Iranian people was on the same magnitude as the losses Iran had incurred during the Iran-Iraq war (see figure 26).

For every barrel of oil the Iranian people could not sell due to sanctions, at least another was being stolen due to corruption.

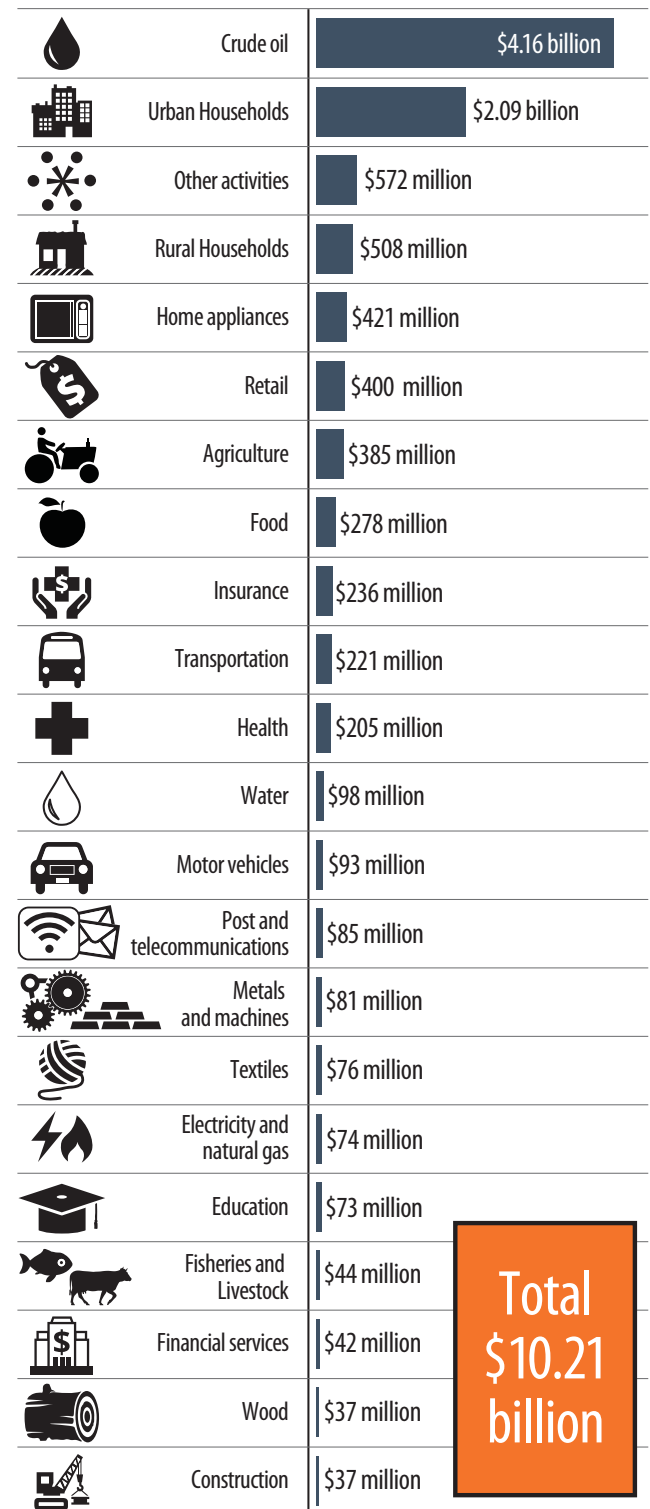
Of course, the actual impact of corruption on Iran’s economy varies as multipliers can vary by sector. But, if one assumes a multiplier in the 3–4 range, or even less, the damage is still enormous. While the price of oil may have concealed the extent of this loss during much of Ahmadinejad’s presidency, Iran was robbed of a golden economic opportunity that may never repeat itself, and the damage left behind by this systemic corruption will exact a toll on Iran for decades to come.

## Six Scenarios: Benchmarking Losses and Gains

Scenario 1 is based on the Babak Zanjani scandal—a corruption case that cost the country around \$2.7 billion in oil revenues.<sup>252</sup> Zanjani was accused of withholding roughly 15% of the \$17.5 billion in oil revenue meant to be channeled back to the government through his companies. Based on the multiplier effect, if the Iranian people were to reclaim the oil revenues siphoned to Turkey, Malaysia and the rest of Zanjani’s web of companies, the net gain to the Iranian economy would not be just \$2.7 billion. SAM modeling would allow us to identify the linkages, and thus, the net gains per sector (see figure 27). The reclamation of this sum and its investment in the Iranian economy would lead to a \$4.0 billion impact in the crude oil sector, and an \$821 million gain in the home appliances and retail sector. Education and health sectors would

**Figure 27: The Hidden Cost of Zanjani Scandal**

The impact on Iranian economy of Zanjani's \$2.7 billion corruption

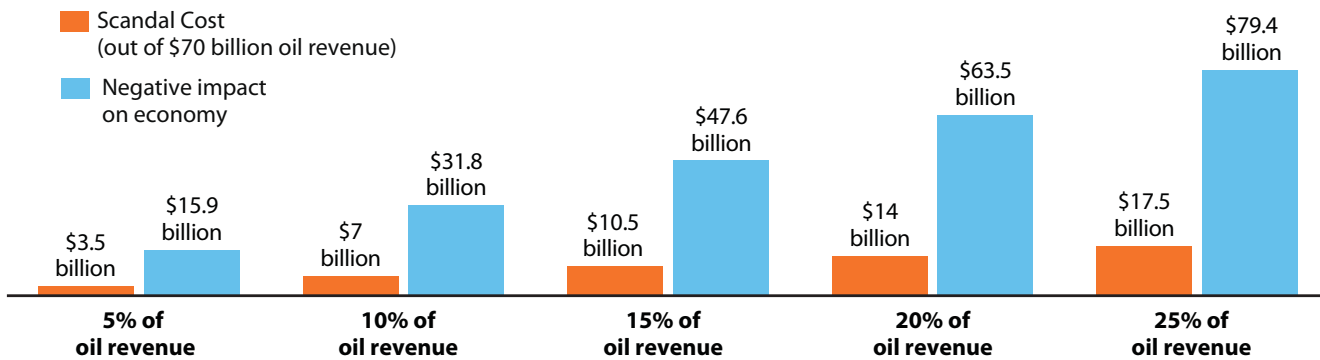


OMID GRAPHIC  
Source: Omid for Iran calculations based upon a Majlis Research Center 2006 social accounting matrix (SAM) multiplier model.



**Figure 28: Corruption's Impact on the Economy**

How varying percentages of corruption in the oil industry affects the economy negatively



OMID GRAPHIC

SOURCE: Source: Omid for Iran calculations based upon a Majlis Research Center 2006 social accounting matrix (SAM) multiplier model.

gain around \$278 million in income. Iranian households would see their combined incomes increase by \$2.5 billion. Adding up the gains of different sectors, shows the aggregate gain to Iranian economy. As shown in Table 1, the aggregate gain to Iranian economy is around \$10.2 billion, nearly four times greater than the Zanjani scandal.

Scenarios 2 thru 6 (see table 2, page 101) allow us to quantify the scale of losses and gains from corruption, mismanagement and squandering of Iran's oil revenues. Using the experience of oil rich nations such as Nigeria and Iraq as reference points, suggests anywhere between 15%–50% of oil revenues can be lost, stolen and squandered (see figure 28). These percentages can be catastrophic. For example, Nigeria's Reconciliation Committee put the missing oil revenues at around 15% of total oil revenue between 2012 and 2013. Nuhu Ribadu, the former chairman of Nigeria's Economic and Financial Crimes Commission (EFCC) estimated in the 40 years since the country's independence \$380 billion was "stolen or wasted."<sup>253</sup> Nigeria, at the very least, has had an audit. Iran has not.

A conservative Nigerian scenario—15% loss of oil revenue—serves as a baseline for Iran. It is worth noting that Nigeria performs better than Iran on nearly all the resource governance indicators published by the Natural Resource Governance Institute (NRGI).<sup>254</sup> The values presented in this analysis are adjusted based on the prices of the respective base year combined with the prevailing USD-IRR exchange rates at the time.

## A Rough Audit: The Breakdown

### Sanctions

The U.S. Treasury estimated that Iran lost more than \$160 billion in oil revenue due to sanctions. Given the SAM multiplier, the aggregate loss to the economy of \$160 billion is well over \$600 billion. Considering the crude oil sector is the largest sector as a share of Iran's GDP, it is also the worst hit, losing around \$244 billion in revenue. The impact on urban and rural households combined was more than \$152.8 billion. And the impact on other key sectors at \$203.5 billion. Even without considering the corruption, the tab from sanctions reveals the price the Iranian people have paid for the nuclear program.

### Naftiran Intertrade Company (NICO)

Iran's Central Bank claims that more than \$24.5 billion in foreign exchange reserves were taken out of its accounts without authorization and spent by Naftiran Intertrade Company, the offshore arm of NIOC in violation of the law. Zanganeh, the oil minister, denies the charge and claims that the Central Bank failed to deposit the money in the correct type of account. Regardless, no one can explain where these funds resided, who controlled the accounts, how they were transferred, where they were spent, over which periods, on which projects, and with whose authorization. Nor does anyone know when or how these funds will be returned to the Iranian people. Assuming these funds have either been stolen or squandered, then

according to this paper's simulations, the total loss to Iranian economy of Naftiran Intertrade Company scandal over this period alone is around \$92 billion. The loss meant more than \$20 billion in losses for urban and rural households, with the toll only on retail, agriculture, food, insurance and transportation sectors coming in at almost \$20 billion.

## China

Another murky realm is the fate of \$22.5 billion held by China. The government has not provided the Iranian people with a credible explanation of the nature of the Oil Ministry's concessionary arrangements with China. It is not clear how many shipments of oil were sent to China, through which channels, at what price and over what period. Nor has the government produced an account of who has this money and what the Iranian people have received in return. Again, if one assumes that these funds will not be returned to Iran, then the loss of \$22.5 billion in oil revenues translated into an \$84.5 billion loss for the Iranian economy.

## Banks

The head of Iran's Central Bank also claimed that the status of another \$10 billion in funds deposited with Iranian banks was in doubt. Again, there was no explanation of how or why these sums were transferred, to which banks, on what terms, and by whose authority. There was no transparency about to whom the banks had loaned this money and what the government was doing to reclaim it. The net loss to the Iranian economy from this loss comes to \$37.5 billion.

## Court cases

The impact to Iran's economy from the \$3.5 billion in oil revenues that are allegedly tied up in court cases is a net loss of \$13.1 billion.

## Oil Stabilization Fund (OSF)

According to the World Bank, instead of accumulating \$74 billion in the OSF between 2000 and 2005, it gained only \$29 billion—a difference of \$45 billion. Revenue Watch also flagged another scandal involving \$36 billion in missing oil revenues. Using the SAM technique, the combined loss to the economy of predations on the Oil Stabilization Fund is nearly \$304 billion.

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*In fact, every 5% reduction in corruption levels represents a net positive gain to the Iranian economy of almost \$16 billion.*

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Table 2 (next page) shows the overall impact of corruption on Iran's economy by sector using the social accounting matrix. Scenario 1 shows the impact of the Zanjani scandal. Scenarios 2–6 show the impact of corruption from 5%–25% of oil revenues, with scenario 4, showing the impact of corruption at the 15% (Nigerian) level—\$47.6 billion assault on the Iranian people.

Table 3 (next page) shows the net impact of gains or losses to the economy as a result of shifts in corruption levels in Iran's oil industry.

If one assumes oil revenues in the \$70 billion range, then it becomes clear that stopping a single oil corruption case, such as the Zanjani case, means recovering \$2.7 billion in missing oil revenues and reversing more than \$10 billion in economic loss.

In fact, every 5% reduction in corruption levels represents a net positive gain to the Iranian economy of almost \$16 billion.

While corrupt individuals may have a deep stake in a system that rewards them for corruption, the Iranian people as a whole have an interest in a system of government that protects the public trust.

Reducing corruption, even by 5%, can have vast economic benefits, with the savings acting as a source of investment across sectors. Yet, moving along such a path requires a whole new approach to governance, one where a culture of secrecy is replaced by one of disclosure. It also means institutionalizing reforms designed to maximize accountability and transparency, including programs that provide incentives for exposing, rather than concealing, corruption.

**Table 2: Impact of Corruption in Oil Sector on Iran's Economy (Billions USD)**

Sectors	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5	Scenario 6
	Zanjani	5% of oil revenue	10% of oil revenue	15% of oil revenue	20% of oil revenue	25% of oil revenue
Scandal Amount	<b>\$2.7B</b>	<b>\$3.5B</b>	<b>\$7.0B</b>	<b>\$10.5B</b>	<b>\$14.0B</b>	<b>\$17.5B</b>
Crude Oil	\$4,155	\$6,461	\$12,922	\$19,383	\$25,844	\$32,304
Urban Households	\$2,089	\$3,248	\$6,497	\$9,745	\$12,993	\$16,241
Other Activities	\$572	\$890	\$1,780	\$2,670	\$3,560	\$4,450
Rural Households	\$508	\$790	\$1,580	\$2,370	\$3,159	\$3,949
Home Appliances	\$421	\$654	\$1,309	\$1,963	\$2,617	\$3,272
Retail	\$400	\$622	\$1,243	\$1,865	\$2,487	\$3,108
Agriculture	\$385	\$599	\$1,199	\$1,798	\$2,397	\$2,997
Food	\$278	\$432	\$864	\$1,296	\$1,729	\$2,161
Insurance	\$236	\$367	\$734	\$1,101	\$1,467	\$1,834
Transportation	\$221	\$343	\$687	\$1,030	\$1,374	\$1,717
Health	\$205	\$319	\$638	\$957	\$1,276	\$1,595
Water	\$98	\$153	\$306	\$459	\$613	\$766
Motor Vehicles	\$93	\$145	\$290	\$435	\$579	\$724
Post and Telecommunications	\$85	\$132	\$265	\$397	\$530	\$662
Metals and Machines	\$81	\$126	\$252	\$378	\$504	\$630
Textiles	\$76	\$119	\$238	\$356	\$475	\$594
Electricity and Natural Gas	\$74	\$115	\$230	\$346	\$461	\$576
Education	\$73	\$113	\$227	\$340	\$453	\$567
Fisheries and Livestock	\$44	\$68	\$136	\$203	\$271	\$339
Financial Services	\$42	\$66	\$132	\$198	\$264	\$330
Wood	\$37	\$57	\$114	\$171	\$228	\$284
Construction	\$37	\$57	\$115	\$172	\$230	\$287
Total Cost	<b>\$10,212</b>	<b>\$15,878</b>	<b>\$31,755</b>	<b>\$47,633</b>	<b>\$63,511</b>	<b>\$79,389</b>

**Table 3: Gain from recovery of the oil revenue (Billions USD)**

Sectors	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5	Scenario 6
	Zanjani	5% of oil revenue	10% of oil revenue	15% of oil revenue	20% of oil revenue	25% of oil revenue
Scandal Amount	<b>\$2.7B</b>	<b>\$3.5B</b>	<b>\$7.0B</b>	<b>\$10.5B</b>	<b>\$14.0B</b>	<b>\$17.5B</b>
Total Cost	<b>\$10,212</b>	<b>\$15,878</b>	<b>\$31,755</b>	<b>\$47,633</b>	<b>\$63,511</b>	<b>\$79,389</b>

## Impact on Households

There is a direct correlation between missing oil revenues and urban households. A 5% loss in oil revenue—\$3.5 billion—translates into \$3.25 billion loss for urban households and a \$790 million loss for rural households.

Thus, for every dollar of oil stolen or recovered, urban households alone stand to make or lose a dollar, with ur-

ban and rural households combined losing more. Every percentage point of loss or gain in the oil and gas sector translates, almost directly, into an equivalent loss or gain in the income of urban households. In other words, theft in the oil and gas sector, though invisible to the average Iranian, is the equivalent of theft from every household in Iran.

## Corruption as Divestment

As discussed, for every dollar in oil revenue lost, the loss to the crude oil sector would be almost twice that amount. Zanjani's \$2.7 billion heist translated into a \$4.2 billion loss for the sector. A 5% loss in oil revenue would mean a \$6.5 billion loss for the sector, a 10% loss would mean a \$12.9 billion loss and a 25% loss would mean a \$32 billion loss—more than the sum total of foreign investment Mr. Zanganeh was seeking to attract in 2015–2016.

The point is a simple one. For a government that prides itself on its economic independence, to turn a blind eye to corruption is to make Iran dependent on foreign investment. Put another way, the best and cheapest way to invest in Iran's oil industry is to curb corruption in the sector. The proper management of the Iranian people's oil revenues reduces Iran's dependence on foreign sources of capital, often secured on onerous terms. It is thus essential for Iran's political as well as economic independence.

If curbing corruption can be viewed as investment, then corruption can be viewed as a form of divestment. It has deep and profound consequences on the long-term health and future of Iran's economy, with obvious implication for workers in Iran's oil and gas industry. Rather than holding on to secure jobs in the heart of a thriving oil industry, Iranian oil workers find themselves absorbing all the strain and stress of an industry that is subject to corruption under the guise of privatization or the circumvention of sanctions. Such a system makes workers and employees passive spectators or complicit participants in the destruction of their own economic future. Rather than

upholding rules, standards and quality to guarantee the Iranian people the highest returns on their investments and assets in the sector, workers and managers pay the price and assume the liability of systemic corruption and negligence. The results are not only stagnating wages, but also declining value, opportunity, investments, markets, performance and morale.

Of particular concern is the laundering of missing oil revenues through a diseased banking and financial system in which regime insiders, operating through various front companies and foundations, privatize national assets, auctioned at severe discounts, often with dubious bank loans or the manipulation of pension funds. Such financial scams essentially amount to the junkbonding of the crude oil sector. As reflected in the Zanjani case, billions can get smuggled out of the most profitable sector of the Iranian economy through elaborate Ponzi schemes, with the Iranian people—workers, pensioners and investors—left holding the title to hollow, bankrupt sectors.

If one makes the analogy between oil and water, then the theft and diversion of oil, with its linkages to sectors from agriculture to transportation and health to education, is the equivalent of diverting the flow of water from entire cities and provinces, turning a thriving economic garden into a financial desert.

(See Appendix 1 for more about the methodology of how the social accounting matrix (SAM) was used in this section.)

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*The best and  
cheapest way to  
invest in Iran's oil  
industry is to curb  
corruption*

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# 7

## The Insignificant Billions: The Human Price of Corruption

In his foreword to the United Nations Convention against Corruption, former UN Secretary General Kofi Annan stated that “Corruption is an insidious plague that has a wide range of corrosive effects on societies. It undermines democracy and the rule of law, leads to violations of human rights, distorts markets, erodes the quality of life and allows organized crime, terrorism and other threats to human security to flourish.”<sup>255</sup>

Sadly, all these corrosive effects are on full display in Iran. In fact, the damage in Iran is so grave that Iran’s supreme leader admitted Iran is “20 years behind” in addressing corruption.<sup>256</sup> While such white-collar crimes do not fall under the category of crimes against humanity, the consequences of such greed are as harsh as what might be expected from war, epidemic or famine.

While Iranian politicians have become accomplished showmen when it comes to holding the United States accountable for pillaging Iran’s resources, they disregard the larger loss of public funds inside Iran.

This cavalier attitude was perhaps best reflected by Ezatollah Yousefian Molla, a member of the Budget and



Ezatollah Yousefian Molla,  
Iranian Budget and Planning  
Commission

Otagh Khabar

Planning Commission who dismissed a \$2 billion discrepancy in the Central Bank governor’s declarations about the sanctions windfall as immaterial. As he put it: “I do not have accurate information, perhaps there were new calculations that explain the new figures, besides, \$2 billion is not a significant figure.”<sup>257</sup>

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*“Besides, \$2 billion is not a significant figure.”*

Ezatollah Yousefian Molla, Iranian Budget and Planning Commission

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Yet, even the simplest overview of Iran’s key sectors reveals what reversing the plague of corruption would mean for millions.

Every \$1 billion invested in the Iranian people yields massive benefits in terms of jobs, health, education, housing and security. By the same token, every \$1 billion stolen or squandered by thieves of state is like a financial earthquake affecting Iranians’ lives, families, homes and minds.

### Unemployment: Squandering Jobs

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Nowhere is the impact of corruption more palpable and profound than in the grim economic forecasts about Iran’s future. Corruption condemns millions of Iranians, particularly the youth, to unemployment and millions of others to underemployment.

Seyed Mehdi Barakchian summed up the squandering of a golden economic opportunity. He noted that from 2006 to 2013, when oil prices had climbed to more than \$100 per barrel, Iran’s economic growth was only 2.2%, with an annual inflation rate 16% higher than the global average. Far from generating growth, the flow of imported goods, mostly Chinese, into Iran resulted in the decline of Iranian industry, resulting in more than 2,500 industrial firms, with an attendant reduction of more than 500,000 workers in the industrial sector. Despite an influx of \$700 billion in oil revenues from 2006–2013, the net total of jobs created in Iran was equal to zero (see figure 29).<sup>258</sup>

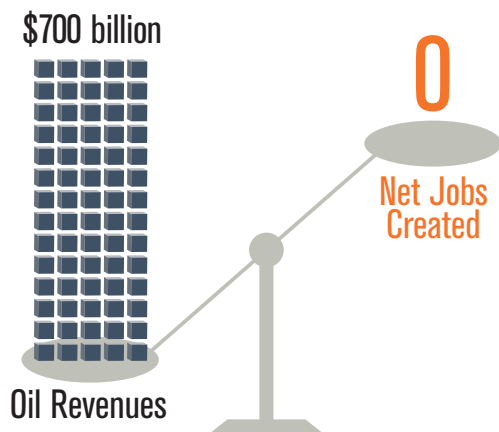


Clockwise from left: A woman begs in traffic in Tehran, 2016; A man searches through garbage for food in Tehran, 2016; A peddler in Tehran, 2016; A child chews on pencil while mother begs on street in Tehran, 2016.

Omid for Iran

**Figure 29: Iranian jobs created during oil boom 2006-2013**

■ = \$10 billion



OMID GRAPHIC  
Source: Sharif University of Technology, Iran

It bears repeating: zero.

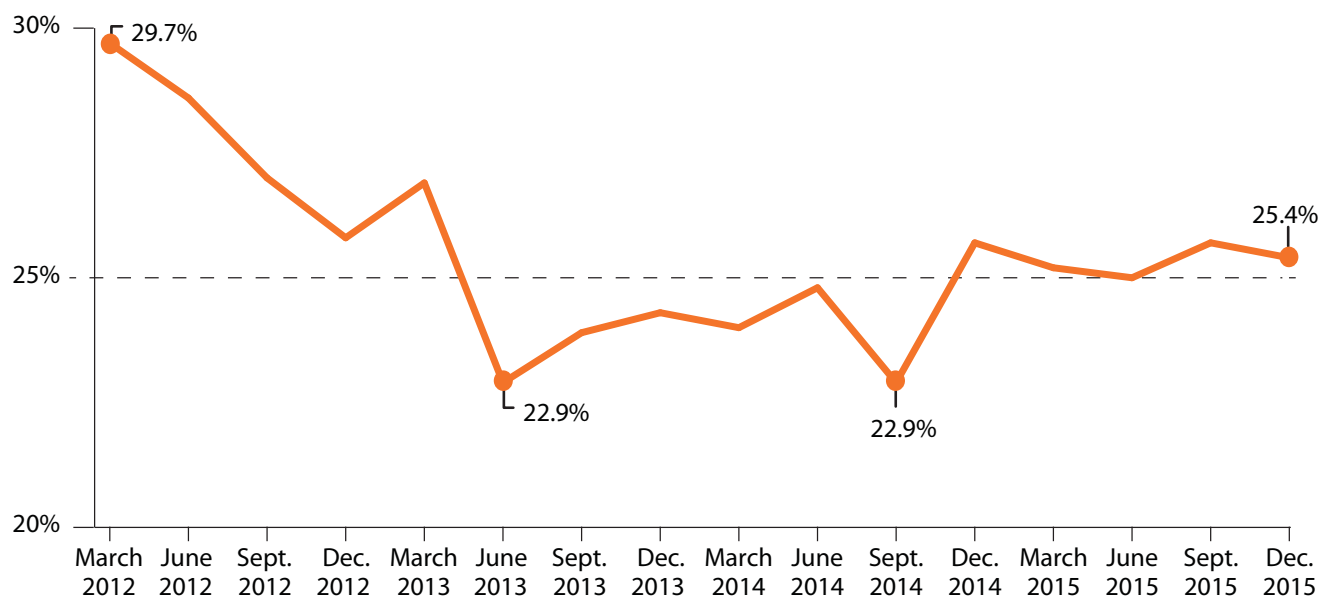
More than 60% of Iran's population is under 30 years old.<sup>259</sup> No group has a greater stake in Iran's future, and a greater claim to Iran's oil reserves and revenues. Yet, sadly, Iran's youth are largely excluded not only from Iran's political system but frozen out of the labor market.

Examining the deterioration of employment prospects for youth over two decades, Djavad Salehi-Isfahani notes that the unemployment rate among young men "increased gradually from 13.7% in 1984 to 19.2% in 2007 and then increased to 23.4% in 2008."<sup>260</sup> For women, "unemployment rates more than doubled from 16.9% in 1997 to 37.9% in 2007 to 46.3% in 2008."<sup>261</sup>

By 2014, Rouhani's reforms had not curbed unemployment. With labor participation rates dropping to 37.2%, the unemployment rate for the general population climbed to 11.4% from 10.4% in 2013. Youth unemployment was significantly worse (see figure 30). According to the Statistical Center of Iran, among youth between

**Figure 30: Iran Youth Unemployment**

Percentage of Iranian youth, ages 15-24, without work but available for and seeking employment



OMID GRAPHIC  
Source: Statistical Center of Iran

15 and 29, 21.8% were unemployed. The figure for young women stood at almost 40%.<sup>262</sup> By the third quarter of 2016, the unemployment rate was continuing its climb past the 12% mark. With annual economic growth rate of only between 1.5% and 3.0%, considerably less than Rouhani's 5% target, Iran's Interior Minister, Abdolreza Rahmani Fazli was predicting that unemployment and inflation will double in the short term.<sup>263</sup>

The demographic implications were tremendous. The Islamic Republic had to generate more than 1 million jobs to absorb young people entering the labor market. Yet it was only generating 300,000 jobs—roughly one job for every three Iranian youth. To create 900,000 jobs, the growth rate had to be more than 8%, not 3.7%.<sup>264</sup> While countries such as Bangladesh, Vietnam, Kenya, China and India have all enjoyed real GDP growth rates of 6.5%–7.5% in 2015, Iran was a relative laggard, this despite its vast natural resources and highly educated work force. Ironically, almost 50 years earlier, in the late 1960s and early 1970s, Iran's GDP growth rate, in the 10%–12% range, surpassed that of China and India.

According to the government's own estimates, it had to create 8.5 million jobs in two years for the unemployment rate to fall to 7% by 2016. Ali Rabi'i, the Minister of

Labor, Employment and Social Affairs (formerly the general manager of the Labor Unit of the Ministry of Intelligence), declared that unemployment in Iran would soar over the next seven years. As related by the Iranian Labor News Agency, Rabi'i said that while the labor force stood at 2.5 million, with 10.2% unemployed, by 2021, "the labor force is expected to total a whopping 42.5 million people, with 7.5 million people or 17.6% unemployed."<sup>265</sup> He complained that college students were not willing to take on jobs "that require working with their hands," making the economy more dependent on Afghan refugees.<sup>266</sup>

Mousa al-Reza Servati, a parliamentarian stated that the total number of unemployed in Iran stood at 5 million, and that Parliament had allocated 4,000 billion tomans, slightly more than \$1 billion to create jobs.<sup>267</sup> Sharq Daily reported that the Labor minister had provided three separate sets of figures for calculating the number of jobs the government could create. Although lower than the IFC estimates, he put the cost of creating one job as requiring an investment of between 20 million tomans to 70 million tomans (roughly \$6,000 to \$21,000), 150 million tomans (roughly \$45,000) on another, and 400 million tomans (roughly \$120,000).



Figure 31

# Where is My Job?

Cost of Creating One Job by Tier (According to Iran Ministry of Labor)

Tier 1 Jobs <b>\$6,000</b>	Tier 2 Jobs <b>\$21,000</b>	Tier 3 Jobs <b>\$45,000</b>	Tier 4 Jobs <b>\$120,000</b>
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## Number of Jobs Squandered Due to Corruption

Corruption Case	Missing Funds	Tier 1 Jobs	Tier 2 Jobs	Tier 3 Jobs	Tier 4 Jobs
<b>NICO (Naftiran Intertrade Company)</b> Central Bank's foreign exchange reserves withdrawn by the offshore arm of NIOC without authorization or accounting.	<b>\$24.5 billion</b>	4.1 million	1.2 million	544,000	204,000
<b>China</b> Guarantees and credits for joint venture projects between NIOC and China as part of an Agreement compared to the "Treaty of Turkomanchai."	<b>\$22.5 billion</b>	3.8 million	1.1 million	500,000	188,000
<b>Iranian Banks</b> Iranian blocked reserves against which Central Bank deposited in Iranian banks as loans whose "status is in doubt."	<b>\$10.0 billion</b>	1.7 million	476,000	222,000	83,000
<b>Court Rulings &amp; Legal Actions</b> Iranian funds blocked due to court rulings and legal actions such as the 1983 bombing of Marine barracks.	<b>\$3.5 billion</b>	583,000	167,000	78,000	29,000
<b>Zanjani Scandal</b> Heist by Babak Zanjani "oil mafia."	<b>\$2.7 billion</b>	450,000	129,000	60,000	23,000
<b>Government's Job Creation Budget</b> Proposed investment in job creation.	<b>\$1.0 billion</b>	167,000	48,000	22,000	8,000

OMID GRAPHIC

Source: Mashreq, May 10, 2015; Sharq, July 21, 2015; Mardomsalari, August 3, 2015; The Express Tribune, July 7, 2012; Donya-e eqtesad, June 17, 2007.

Based on these figures, Mashregh News calculated that the government would create 57,000 jobs in the best-case scenario and 10,000 in the worst-case scenario. Assuming an official unemployment rate of 2.5 million, in the best-case scenario, the government would be creating jobs for only 2.28% of the unemployed. Ninety-seven percent would remain unemployed. Going by the larger unemployment figure of 5 million, it could create jobs for 1.14% of the unemployed.<sup>268</sup>

Salehi-Isfahani argues that modern Iranian society is rather harsh on Iran's youth. It offers them competitive schools, inflexible markets and "many opportunities for perceived failure." Transition to adulthood is marked by a period that he calls "waithood," with Iran's youth condemned to a purgatory after graduation, a world in which jobs, marriage and housing are more of a mirage than a promise:

The challenges faced by Iran's youth are in part the result of the baby boom of the 1970s and 1980s. But Iran's education system, labor market, and marriage market have failed to adequately adjust to ease the impact of this youth bulge. While demographic transitions often bring with them larger cohorts of youth who have to compete for jobs and resources, they also confer economic benefits in terms of a faster growing labor force and greater potential for human capital accumulation. To take advantage of these benefits, the institutions of the society must be flexible and able to adjust to the changing demographic realities. Our assessment of Iran's relevant institutions—schools, the formal labor market, and marriage—is that they are not sufficiently flexible to take advantage of Iran's "demographic gift."<sup>269</sup>

One of President Ahmadinejad's signature employment policies was to provide bank credit for employment and marriage. In 2006, the government forced public banks to give \$18 billion in subsidized credit to small and medium sized firms. Yet most of the loans are unaccounted for.<sup>270</sup> Other lending programs for marriage and housing reportedly also ran into trouble due to administrative problems and tight credit.

Yet, far from creating jobs for Iran's youth, these government programs have funneled billions into a twilight zone—a corrupt banking, financial and housing sector that serves as a front for kickbacks and embezzlement.

Corruption is a major cause of unemployment in Iran. In a healthy economy in which oil revenues are not stolen, banks are not criminal enterprises and the judiciary is not corrupt, public and private investment can create hundreds of thousands, indeed, millions of jobs. Iran's growth rate prior to 1979 was consistently one of the highest in the world. Virtually every sector in Iran's economy was creating jobs, often at such a pace that Iran was far ahead of Dubai and other Arab states as a cosmopolitan magnet attracting everyone from foreign engineers and architects to teachers and workers. Iranian capital and brains did not rush out of the country at the earliest opportunity. They returned, invested and built the future of the country.

Such economic prospects are not beyond the Iranian people's reach. However, they will not materialize as long as Iran's economy is held hostage by a kleptocracy rather than a meritocracy. A kleptocracy thrives on theft and favoritism which it secures with prejudice and ignorance. A meritocracy thrives on knowledge and ethics which it promotes through education and protects with equity.

If one takes the IFC's weighted averages for job creation, then depending on the sector, every \$1 million invested in an economy, can generate anywhere between 100–600 jobs. By the same token, every \$1 billion can generate anywhere between 100,000–600,000 jobs. Thus, at \$2.7 billion, if Zanjani's stolen funds were actually returned and invested in Iran, the net effect could be between 270,000 and 1,620,000 jobs. The larger sums that Naftiran Intertrade Company supposedly invested in South Pars—the \$24.5 billion—could have generated, at the 100 jobs per million level, 2.45 million jobs. And the \$22.5 billion converted into financial guarantees in China was the equivalent of exporting 2.25 million jobs.

What is even worse, Iran's current relations with China have been similar to the Qajar dynasty's relations with foreign powers in the nineteenth and early twentieth centuries. Iran's concessions to China have had a disastrous impact on Iran's labor market. In effect, Iran's oil revenues finance an economic cycle that cheats the Iranian people at least four times. Once, because the oil is sold through the black market at significant discounts below the official rates in exchange for political protection. A second time, because the funds are invested in corrupt private and public entities that stifle employment and productivity. A third time, because the flood of cheap Chinese goods dumped in the Iranian market erodes Iran's fragile man-

ufacturing base. A fourth time, because Iran's educated and professional class are forced to seek employment and security outside the country. And sadly a fifth, sixth and seventh time, because segments of Iran's merchant, religious and military sectors act as mercenaries mortgaging Iran's oil reserves and assets for their foreign financiers in exchange for a share in the revenues.

The point was perhaps best driven home by the purchase of phantom oil rigs from China. Iran's oil revenues simply vanished in a twilight zone only to be recycled in casinos in the French Riviera. Iran exploited the South Pars gas fields with phantom oil rigs, phantom jobs and phantom returns secured by phantom government agencies. Meanwhile, Qatar lured Iran's top oil and gas professionals to work on their side of the shared gas field. Qatar enjoyed the billions in revenue that the gas field provided in easy abundance. Iran, however, preferred to concentrate on siphoning hundreds of billions of dollars out of its economy through a failed nuclear program, leaving the riches of gas extraction to its rivals.

The question remains: how many jobs could the \$160 billion in oil revenues lost due to sanctions have produced? And how many jobs could the \$60 billion in missing sanctions windfall have created? Who has lost these jobs, and all the benefits—shelter, security, food, health and dignity—that have disappeared with Iran's oil revenues? And, in the end, who is responsible for reclaiming these lost jobs and benefits by demanding a full accounting for Iran's revenues?

## Health: The \$2 Billion Medical Crisis

Yousefian's claim that \$2 billion is an insignificant figure would have certainly been news to Hossein Ali Shahriari, the head of the Parliament's Health Committee, whose repeated appeals to President Ahmadinejad about shortages and rising prices in the health care sector appeared to have fallen on deaf ears.

Indeed, while the economic *basij*—the sanction profiteers—were making millions from spikes in the price of medicine to food, Marzieh Vahid Dastjerdi, the first woman appointed as minister of health since 1979, was ousted for seeking to protect the public health sector's share of the oil revenue. Her crime? After failing to impress the Ahmadinejad cabinet that their policies were creating

a health crisis, she went public with her criticism, complaining that the Central Bank shortchanged the Ministry of Health by misappropriating funds. As she put it, the government was only allocating \$41.5 million out of \$2.5 billion in foreign reserves budgeted for the purchase of medicines and medical equipment:

I reached the conclusion that if I do not publicize this issue, there would be no way of securing foreign reserves for medicines. No matter what I said in the meetings, they would say that mister so and so will give you foreign reserves. I would say no they don't provide us with any currency as the funds are dedicated to cosmetics as in the ministry of industry's list of priorities medical equipment is eighth but dog food, shovels are third and fourth...<sup>271</sup>

In retaliation, Dastjerdi was accused of sacrificing the public's health to import cosmetics, a charge that infuriated her:

I repeatedly reported these issues to the gentlemen but they reached the conclusion to dismiss me and then government newspapers wrote that the minister of health is using currency for medicine to import cosmetics. That's when I fully saw how improper an individual's actions can be.<sup>272</sup>

Dastjerdi subsequently claimed that the \$650 million budgeted was less than 25% of what was needed to keep state-run hospitals and pharmacies running.<sup>273</sup>

A report by Tehran Bureau on Iran under sanctions revealed how subsidized dollars were being spent on luxury goods while the Ministry of Health "scrambled for supplies."<sup>274</sup> A careful analysis of customs data showed how the Central Bank was offering dollars at preferential rates to car importers:

As the health ministry struggled to acquire dollars, car importers were doing brisk business. Between March and November 2012, Iranian customs data show importers used more than \$617m acquired at the preferential rate to import over 5,000 cars. This included \$277m for Kias and Hyundais, \$109m for Toyotas, and—at the luxury end—\$41m for around 200 Porsches and \$10m for 35 Maseratis.



*Aghazade Class.* The children of Iran's revolutionary establishment flaunt their new wealth.

realiran.ir and "Rich Kids of Tehran" Facebook page

Customs data also reveal that from December 2012 until the cancelation of subsidized dollars in July 2013, car importers enjoyed a better exchange rate: the average dollar rate for importing passenger cars was 22,570 rials while it was 24,427 rials for importing medicine with HS Code 300490.<sup>275</sup>

While the children of Iran's revolutionary establishment (the *agha zadeh*) enjoyed their Porsches, the Iranian people were forced to assume the costs of \$2 billion shortfall in the Ministry of Health's budget. With no access to preferential dollars, Iranians assumed the costs of corruption by subsidizing a black market in medicine—a medical crisis that saw the price of radiology film soar 240%, helium gas for MRI's 667%, filters for kidney dialysis 325%. Prices for a round of chemotherapy almost tripled to \$65,000. Meanwhile state-hospitals were flooded with patients who could not afford private care, with one young doctor complaining that "sometimes we don't even have serum for dehydrated patients."<sup>276</sup>

Iranian news media, like *Hamshahri*, captured the daily toll of a tragedy in which corruption and cruelty struck down family after family. It quoted a father who remained unnamed as saying "his child died because he could not afford the higher price of an artificial heart valve." In a deeply moving article, Nasser Karimi, drew stirring human portraits and testimonies of the desolation afflicting Iran's medical sector:

#### **Hooshang, the father of a cancer patient:**

At a major pharmacy in Tehran, a 53-year old father slumped over—his head in his hands—as he looked at the prices of medicines for his teenage daughter, who is suffering from stomach cancer. "How can I afford buying medicine as prices have doubled over a week?"<sup>277</sup>

#### **Fatemeh, the mother of a hemophiliac:**

At a recovery center in Tehran, 8 year old Milad Rostami's mother watches over him carefully. The boy suffers from hemophilia and is currently recovering from knee-surgery. His mother, Fatemeh, knows there is a long waiting list for a blood product needed to halt bleeding if the boy falls or reinjures his knee.

"There is no hope," said Ahmad Ghavidel, head of Iran's Hemophilia Association. "There is no hope for his health."<sup>278</sup>

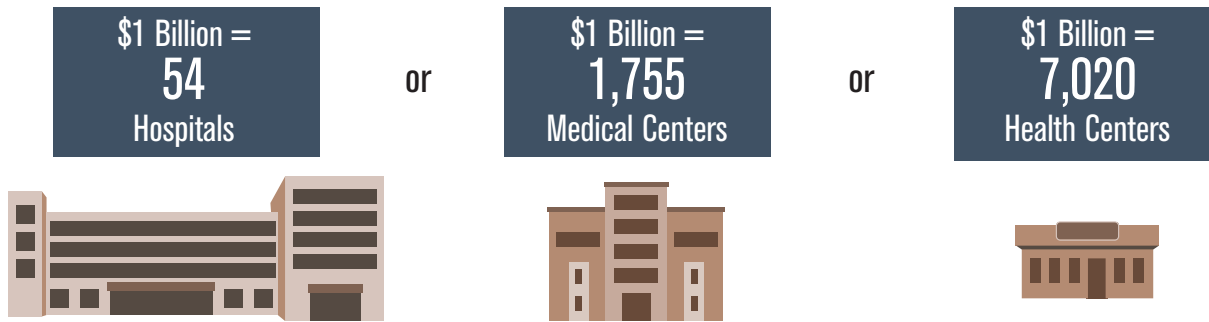
#### **Rahmati, a nurse:**

At dawn in another part of Tehran, patients are leaving the emergency room at the state-run hospital. Some carried pills, but others could get no treatment.

"I don't know how many of them will survive until my next shift," said Rahmati, "I did my best but I know it was not the best for them."<sup>279</sup>

**Figure 32: Impact of \$1 Billion on Healthcare**

What \$1 billion can buy for Iranians



OMID GRAPHIC  
SOURCE: Mehr News, Nov. 7, 2015.

With oil revenues accounting for 50%–60% of Iran's fiscal budget, corruption in the oil sector threatens the budgets of every ministry and deprives all sectors of Iranian society from the most basic services. A cursory glance at the loss of funding in the health sector shows how plunder of Iran's oil revenues and reserves spikes the health care costs for millions. Not only did government fail to provide the necessary resources for a well-functioning sector, it created lucrative opportunities for insiders to capitalize on the most vulnerable and desperate segments of Iranian society—millions of people suffering from cancer, heart disease and other chronic illnesses. It is worth noting that a president who called on the Iranian people to sacrifice so much for Iran's nuclear program was actively sabotaging his own health minister.



Hemophilia patient

ISNA

A truly representative system of government, in which all branches of the government recognize and care for all of Iran's families and children as their own, would recognize the value of every barrel of oil as a source of scarce foreign exchange: the pills, products and professionals contributing to the health, security and income of the Iranian people. Far from dismissing \$2 billion as an insignificant figure, as was the case with Yousefian Molla, member of the Parliament's Budget and Planning Commission, it would hold the Oil Ministry accountable for revenues from every barrel of oil and hold the Central Bank accountable for every dollar deposited in the name of the Iranian people.

Had the Parliament and other bodies insured the priority of Iran's oil revenues and the integrity of the banking system against contagion, detecting and stopping the Zanjani case alone, would have reduced the loss of life across Iran's healthcare system (see figure 32). No one in a representative government would tolerate a \$2 billion discrepancy in the Central Bank's accounts, let alone pass the liability onto the Iranian people by firing a minister of health for defending the Ministry of Health's budget. After all, no minister with integrity would permit hundreds of hospitals, thousands of doctors, nurses and medical professionals, and millions of patients be shortchanged. Rather than being squandered in Turkey, Malaysia and China, \$2 billion in foreign reserves, properly appropriated and administered through the Ministry of Health would serve as a shield, protecting the health of Iran's children, the heart of Iran's mothers and the dignity of Iran's fathers.

To steal their oil is to steal their medication.



Drug addict with "If you did it, you can't blame others" tattoo.

PC Parsi online magazine



A baby born addicted to drugs.

Dana

## Drugs: The Other Religion

In 2013, with Iran facing "an official youth unemployment rate of 28% and inflation running at 42% a year," both aggravated by sanctions, *The Economist* called Iran's drug epidemic "The Other Religion."<sup>280</sup> It warned that the fate of an entire new generation depended on reducing youth unemployment:

If Iran's new president, Hassan Rohani, can fulfil his promise to reduce youth unemployment and cure Iran of its economic malaise, he may prevent a generation of Iranians from becoming the most addled in the world.<sup>281</sup>

By 2017, the statistics had not improved. Over a span of 5 years, Iran's population of addicts had increased from 1,325,000 to 2,808,000.<sup>282</sup> Parviz Afshar, a government spokesman suggested that the numbers showed that the consumption of drugs had "declined" relative to the population growth.<sup>283</sup> He was rebuked by Saeed Safatian, another head of the Expediency Council's drug reduction committee, who pointed out that Iran's population had grown by 5% in 5 years, whereas drug use had increased 100%.<sup>284</sup>

The *Washington Post* gave the drug epidemic ravaging Iran's youth a human face. It told the story of Nariman, an 18-year old, who like hundreds of thousands of young Iranians was turning to hard narcotics because "he regards drugs as the only alternative to work."

"We should have jobs," Nariman said, standing up in the vast cemetery on the southern edge of Tehran. In a routine played out every Thursday, the day families traditionally visit the cemetery, devoted mostly to the war dead, young addicts sweep in afterward to scavenge the cookies and dates left on the grave. "I sometimes find work," Nariman said, "collecting stale bread in town."

His plight was echoed by Amir Mohammadi, a 30-year old who has been an addict for 10 years: "You haven't got a job. You haven't got a family. You haven't got entertainment. For a few hours, you forget everything."<sup>285</sup>

The plight is by no means restricted to the poor. Nassrin Tehrani, executive director of Aftab, a high end drug rehab, stated:

Those who are usually referred to us are educated. Put yourself in their place. If you're educated, you've got high expectations. When those expectations are not fulfilled, the first reaction is depression. After that, the drug use begins.<sup>286</sup>

As the *Washington Post* put it, with addiction rates approaching 3% of the population over age 15, "Iran has no real competition as the world leader in per capita addiction to opiates, including heroin."<sup>287</sup>



Addiction

Mehr News Agency

Indeed, after an earthquake destroyed the city of Bam, in 2003, vast amounts of methadone had to be shipped into the city to treat heroin addicts, estimated at 20% of the city's population.<sup>288</sup>

The crisis runs so deep that there are calls for the Iranian government to get in the poppy cultivation business. Azarakhsh Mokri, director of the Iranian National Center for Addiction Studies noted the needs for "a strategic reserve of narcotics."<sup>289</sup>

Despite Iran's war on drugs, the *Washington Post* notes that many Iranians see the prevalence and availability of drugs as a government plot: "After students rioted at Tehran University in 1999, residents of a locked-down dormitory told of drug dealers being allowed in to distribute narcotics for free."<sup>290</sup>

Even Hamid Motalebi, a 22-year-old police officer dealing with parks overrun by junkies, was given to this conspiratorial mindset: "I believe this is the policy of the state,

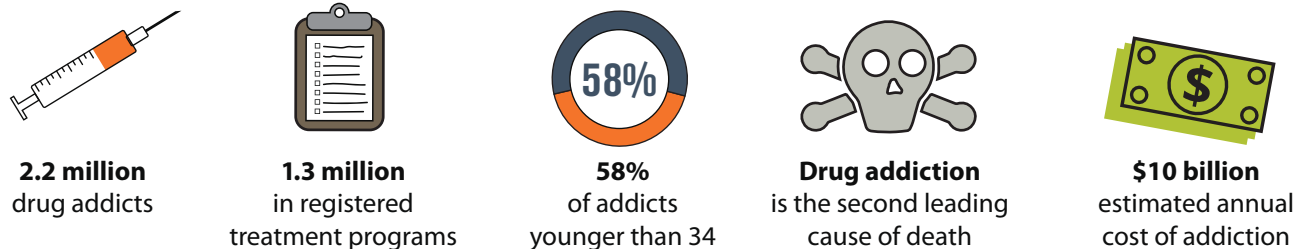
to make all the youth addicted. It's the lack of policy and management. If they could create enough jobs, enough entertainment, why would people turn to drugs?"<sup>291</sup>

Iran's proximity to Afghanistan makes it both a destination and a corridor for a vast illicit drug trade. Heroin in Iran is sold at discount prices, with 50% pure heroin selling for as low as \$5 a gram. The United Nations Office on Drugs and Crime estimates that 60% of heroin and morphine from Afghanistan moves through Iran along the Balkan supply route. Zahedan, the capital of Iran's predominantly ethnic Baluch region is a major smuggling thoroughfare. As with the Taliban, so too with the Jundullah, another militant separatist group, the drug supply routes and distribution networks fuel and fuse criminal activity with ethnic insurgency and terrorism.

More than 3,500 Iranian law enforcement personnel and soldiers have been killed in clashes with heavily armed drug traffickers in what Iran's former foreign minister, Kamal Kharrazi, described in 2007 as "a full-scale war."<sup>292</sup> Even religious centers are not immune from this scourge. Drug traffickers dressed up as pilgrims to enter Iraq via Iran, where they operated drug operations in Najaf and Karbala.<sup>293</sup>

Estimates of drug abuse and addiction vary. The UN 2010 World Drug Report claimed that Iran had one of the highest rates of heroin use in the world.<sup>294</sup> In 2015, the Islamic Republic was reported to have 2.2 million drug addicts, including 1.3 million in registered treatment programs.<sup>295</sup> Iran's Ministry of Health and the United Nations Office on Drugs and Crime estimated the number of heroin and opium users "at about 3.76 million, with 1.39 million classified as cases of abuse and 1.16 million as cases of addiction."<sup>296</sup> Iranians consumed the largest amount of the opium not converted into heroin—42% of the world total (see figure 33).<sup>297</sup>

**Figure 33: Drug addiction in Iran - The bitter harvest of corruption**



OMID GRAPHIC

Source: Dareini, Ali Akbar "Drug Abuse in Iran rising despite executions, police raids," AP, 12 February 2015; Khajehpour, Bijan "Drug Addiction takes toll in Iran," AI-Monitor, 26 June 2007; Navai, Ramita "Breaking bad in Tehran: how Iran got a taste for crystal meth." The Guardian, 13 May 2014

**Figure 34: How Many Addicts' Lives One Tanker of Oil Could Save?**

OMID GRAPHIC  
Middle East Institute, Associated Press, Washington Post

Life-saving treatment for  
**167,000**  
drug addicts

Viewed in another light, with addiction recovery and treatment costs at around \$50/month or \$600/year, a single tanker of oil—2 million barrels at \$50 per barrel—would enable 167,000 addicts to receive a year of treatment for free.

**Figure 35: How Many Iranians One Tanker of Oil Could Save From HIV?**

OMID GRAPHIC  
Iranian Red Crescent Medical Journal, Jan 16, 2014

Preventing  
**23,000**  
Iranians from contracting HIV

Revenues from a single tanker of oil invested in MMT treatment centers could prevent more than 23,000 Iranians from being infected with HIV in a single year

Methamphetamine production and the use of other hard drugs have also skyrocketed. Iran was reportedly the world's fourth largest importer of pseudoephedrine, the main chemical ingredient used to make crystal meth. The use of "Shishe" a highly purified form of crystal meth is spreading across all social classes, with the State Welfare Organization reporting that "over half a million Tehranis between the ages of 14 and 45 have used it at least once."<sup>298</sup> Courses for producing crystal meth at home were being peddled for \$70 to \$100.<sup>299</sup>

Hamid Serami, director general of the office for research and training affiliated with the Iran Drug Control program, noted that 58% of addicts were younger than 34. Nine percent of addicts were women and 22% had higher education.<sup>300</sup> According to Sadeq Amoli Larijani, the head of the judicial system of Islamic Republic of Iran, seventy percent of Iran's prison population were convicted of drug-related offenses.<sup>301</sup> In total, 10 million Iranians (relatives of the addicts) were impacted. After road and traffic accidents, drug addiction was the second leading cause of death in Iran.<sup>302</sup> Despite the execution of over ten thousand people for drug smuggling, Muhammad Reza Jahani, deputy head of Iran's anti-narcotic organization, claimed that the number of Iran's drug addicts was increasing at 8% per year. Iran's police chief claimed that 130,000 become addicted to drugs every year—a rate of 300–400 per day.

In 2003, former President Khatami and his State Welfare Minister, Muhammad Reza Rah-Chamani, put the number of heroin addicts at 1.2 million, with another 800,000 recreational users.<sup>303</sup> One in 5 Iranians aged 15–60 were involved in drug use, with 16% injecting drugs. According to the UN-AIDS/WHO AIDS Epidemic update, intravenous drug use was leading to a spike in HIV infections: "Almost one in four [23%] injecting drug users participating in a recent study in the Iranian capital, Tehran, [were] found to be HIV-infected."<sup>304</sup> Iranian youth were particularly vulnerable:

In Iran—and elsewhere in this region—substantial proportions of young people, including injecting drug users, are sexually active. A majority of injecting drug users seeking treatment in Tehran are sexually active, yet only half the injecting drug users participating in a 2005 study said they had ever used a condom during sex.<sup>305</sup> Such generalized ignorance and lack of preventive behavior puts young people at considerable risk of HIV infection.<sup>306</sup>

The total cost of addiction to the Iranian economy was estimated at \$10 billion annually, with anti-drug operations alone estimated to cost Iran \$1 billion a year.<sup>307</sup>

If one wanted to compare and convert the cost of corruption in terms of addiction, then one must consider the



fact that the \$10.2 billion net loss (SAM analysis) from the Zanjani oil heist was slightly more than estimates of the total cost of addiction to Iran's economy. Had the government put in place safeguards to prevent corruption, or if it had a way to track and repatriate the missing \$2.7 billion, it could almost triple the budget for anti-drug operations.

An interventional study, of seven Methadone Maintenance Treatment Centers treating 694 registered drug users, 42% of whom were infected with HIV, concluded that the centers would prevent 128 HIV cases in 1 year at a total cost of \$547,423.<sup>308</sup> In the case of no intervention, the total cost was estimated at \$14,171,816, putting the incremental cost effectiveness ratio per HIV case averted at \$106,382 and the total cost saving of \$13,624,392 million. The total cost of seven MMT centers was \$547,423. They averted 128 HIV cases in 1 year. Each center prevented 18 HIV infections a year. For every \$4,277 invested in MMT, one Iranian was saved from HIV.

## Education: Cheating Teachers by the Tanker

Iran's teachers also pay the price of corruption in the oil sector. In his 2013 election campaign, President Rouhani recognized this fact. "I say explicitly that we need to save Iran's economy if we are planning to save its education system. Any plan that does not aim to improve the country's economy is a sham."<sup>309</sup>

Yet, the working conditions of Iranian teachers are deeply unsatisfactory. In a letter to Ali Larijani, the speaker of the Parliament, 6,000 teachers wrote that: "The majority of Iran's teachers are not able to take care of their basic

What then of the relationship between a tanker of oil and the spread of HIV?

Had the \$2.7 billion from the Zanjani case been diverted toward preventing the spread of HIV alone, the Iranian government would have been able to prevent more than 630,000 Iranians from being infected with HIV in a single year.

If ten million Iranian families impacted by addiction were to insist that the government safeguard Iran's oil revenues, Iran could expand its drug prevention and treatment programs not only to lift up hundreds of thousands of addicts, but to prevent future generations from the scourge of addiction. Sadly, the corruption has only compounded addiction, infection, depression and despair affecting thousands of Iranians families on a daily basis.

More importantly, by using Iran's oil revenues to invest in education and create jobs for Iran's youth, millions of Iran's sons and daughters would benefit. Iran's oil revenues would be put to work for Iran's youth instead of being converted into trappings of status and luxury for an oil mafia.

needs and live under the poverty line. Their status in society has been damaged and they have lost their motivation to work."<sup>310</sup>

As reported by Al-Monitor, according to Iran's Minister of Education, Ali Asghar Fani, Iran has more than 105,000 schools which employ about a million teachers and other personnel with 98.5% of the Education Ministry's budget allocated for teacher and employee salaries.<sup>311</sup> Yet, in 2014, the ministry faced a 26% deficit. It had a shortfall of \$1.47 billion, which is a mere 6% of the \$24.5 billion siphoned out of the Central Bank's account for "investments" for which Naftiran Intertrade Company has yet to provide an accounting.

Although the Rouhani government spokesman declared plans to increase the Ministry of Education's allocated budget from \$5.58 billion to \$6.67 billion in 2015, claiming that teacher salaries would be increased by 14%, teachers were not falling for the numbers game.

An education analyst in Tehran told Al-Monitor why: "This year, the rate of inflation has been at least 25%, and if we compare salary increases with inflation, then compared to the previous year, the teachers' purchasing power will decrease by 11%."<sup>312</sup>



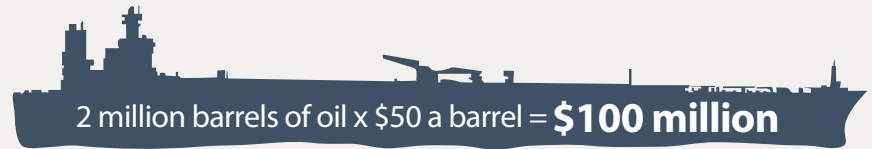
Teachers protesting

Koneshgarayan

Another way to think of the Education Ministry's deficit is to think of oil tankers as mobile banks—floating ATMs that contain the accounts and hold the salaries of hundreds of thousands of Iranians. The National Iranian Tanker Company claims that Iran owns the largest fleet of supertankers, with 42 very large crude carriers or VLCCs, each able to carry 2 million barrels of oil.<sup>315</sup> At a price of \$50/barrel, a supertanker loaded with crude dedicated to education—as opposed to fattening Zanjani's bosses in the IRGC—is the equivalent of a \$100 million ATM machine—see figure 36). Five supertankers would have wiped the Education Ministry's \$1.47 billion deficit in just three trips (see figure 37).

**Figure 36: Floating ATMs: Value of an Iranian Oil Tanker**

Approximate income per shipment of oil



OMID GRAPHIC  
Source: Press TV, July 3, 2015.

**Figure 37: How Many Tankers to Solve Iran Education Shortfall?**



OMID GRAPHIC  
Source: Press TV, July 3, 2015; Al-Monitor, Feb. 20, 2015.

An examination of teacher pay levels in Iran reveals the gravity of the situation facing average civil servants. The minimum wage for teachers in 2014 was 600,000 tomans, which is about \$175 per month.<sup>313</sup> A 14% salary increase would raise their salary to 680,000 tomans, or about \$200/month.<sup>314</sup> At the \$200/month salary, a \$2 billion theft of oil would be the equivalent of robbing 1,000,000 teachers out of their salary, every month, for ten months.

The Iranian Parliament, judiciary and Central Bank could protect the rights and salaries of Iran's teachers by tracking the movement of a few NITC tankers to make sure that the oil was delivered to legitimate clients and that the revenue was properly deposited in the Central Bank's accounts and remitted to the Treasury.

Since there is little accountability and transparency in the operations of the Oil Ministry—as evident from the Zanjani and countless other cases—thousands of Iranian teachers and millions of students were absorbing the stress of a \$1.4 billion deficit in the education sector. While they were struggling in the classroom, their fleet of tankers, the largest in the world, had been commandeered for

one of the largest exercises in piracy in human history. Under the cover of sanctions, their tankers were diverting their oil, with the proceeds—their salaries—transferred into offshore accounts established, monitored and controlled by Zanjani and other corrupt couriers acting on behalf of Iran's thieves of state—an oil mafia with seats in Ahmadinejad's cabinet acting under the protection of the IRGC and the supreme leader.

No one captured the economic injustice inflicted on millions of teachers more powerfully than Esmail Abdi, a 44 year-old high school teacher arrested by the Intelligence Ministry in 2016. Writing from Evin Prison, on March 18, 2018, he declared that he would begin a hunger strike on April 18 to protest the Islamic Republic's violations of teachers' rights.

During these four decades, most countries in the world have made education a priority. But in Iran the largest ministry in the country [Education Ministry], with more than a million teachers and millions of students, has seen continuous budget



*“The blessings of the revolution benefitted not the poor, but the rich, the powerful, and tricksters”*

Esmail Abdi, former Secretary General of the Iranian Teachers' Trade Association

deficits. The distribution of welfare and education facilities have always fallen short for the poor and benefitted the wealthy. At the same time, most schools are worn out and teachers and students face many dangers. Retired and employed teachers, including freelance, part-time and pre-school teachers as well as toiling workers, are grappling with how to survive under the poverty line while every few days they hear news about the plunder of funds they worked hard for, such as the recent embezzlement of 13 billion rials (approximately \$3.4 million USD) from the teachers' pension fund.

Since the nuclear deal [July 2015], the officials of the Islamic Republic have boasted to the world about adhering to the Universal Declaration of Human Rights and other international conventions and yet sections of the ruling establishment have no respect for the Constitution they themselves authored. They are trying to control

the conflicts at various levels of society and suppress critics by creating a security climate for the few existing independent teachers' and workers' organizations and crush peaceful assemblies and frame trade union activists with such threadbare charges as “acting against national security” in show trials without the presence of a jury. Unfortunately, despite the monitoring of the situation of workers and teachers in Iran by human rights organizations and international bodies such as Amnesty International, the International Labor Organization and Education International, the suppression of trade unionists has even spread to schools and factories.

He did not mince words about the betrayal of the Iranian people: “The blessings of the revolution benefitted not the poor, but the rich, the powerful, and tricksters.”

To see Abdi's full letter, see Appendix 5.

# 8

# Preventing Corruption: The Extractive Industries Value Chain

Transparency and accountability in Iran’s oil and gas sector has a simple purpose: to ensure that Iran’s natural resources are extracted for public benefit.

Having a clear picture of the value chain is essential. It helps secure Iran’s oil and gas sector by identifying the vulnerabilities of the sector. Using models developed by the Extractive Industries Transparency Initiative (EITI), one can identify the areas where the theft and loss of Iran’s natural resources and revenues can occur. They are as follows:

- 1) Contracts and Licenses
- 2) Production
- 3) Revenue Collection
- 4) Revenue Allocation
- 5) Social and Economic Spending

Without a process view, the sector cannot be managed or governed in an integrated manner. A process is the first step towards establishing control: defining roles and responsibilities, assigning them to various institutions and jurisdictions, making sure there are checks and balances, and a system for reporting and monitoring flows of oil, revenue and expenditures, reconciling discrepancies and taking corrective action.

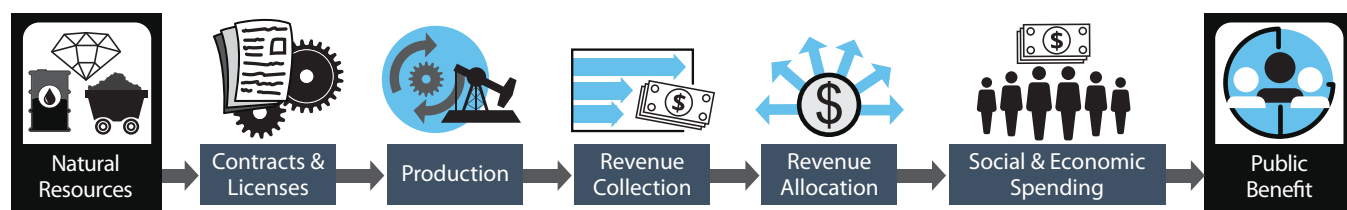
In political systems where ownership of natural resources such as oil is vested in the people as opposed to monarchies, colonies and corporations, the Parliament acts

as the trustee and guardian of the nation’s resources and revenues. As the governing legal authority, it grants the executive the power to enter contracts on behalf of the people. It exercises control over the executive by reviewing nominations to the ministries charged with protecting resources and revenues, in this case, the production and sale of oil. It also approves the budget, monitors plans and controls expenditures.

Typically, the executive is charged with proposing and implementing a strategic plan for the governance of the sector. It defines the landscape and controls the boundaries of the sector through a ministry or oil agency—a functional organizational structure that can operationalize policy. In pursuit of this policy, the ministry or agency enters into contracts to explore, produce, refine, sell and/or deliver oil and gas according to the terms of the contract.

In Iran, the system of *Velayat-i Faqih*—rule of the jurist—has created competing sources of authority and parallel institutions with claims on Iran’s resources and revenues. As with colonial systems, so too in a theocratic system, the people, Parliament and executive cannot challenge the authority of individuals, institutions and organizations acting under the shadow of Iran’s supreme leader, Ayatollah Ali Khamenei. The subjugation of the legislative, executive and judiciary branch by domestic actors such as the IRGC and their foreign partners—the

**Figure 38: The EITI value chain - Strengthening Governance Along the Extractive Industries Value Chain**



OMID GRAPHIC  
The Extractive Industries Transparency Initiative (EITI), [eti.org](http://eti.org)

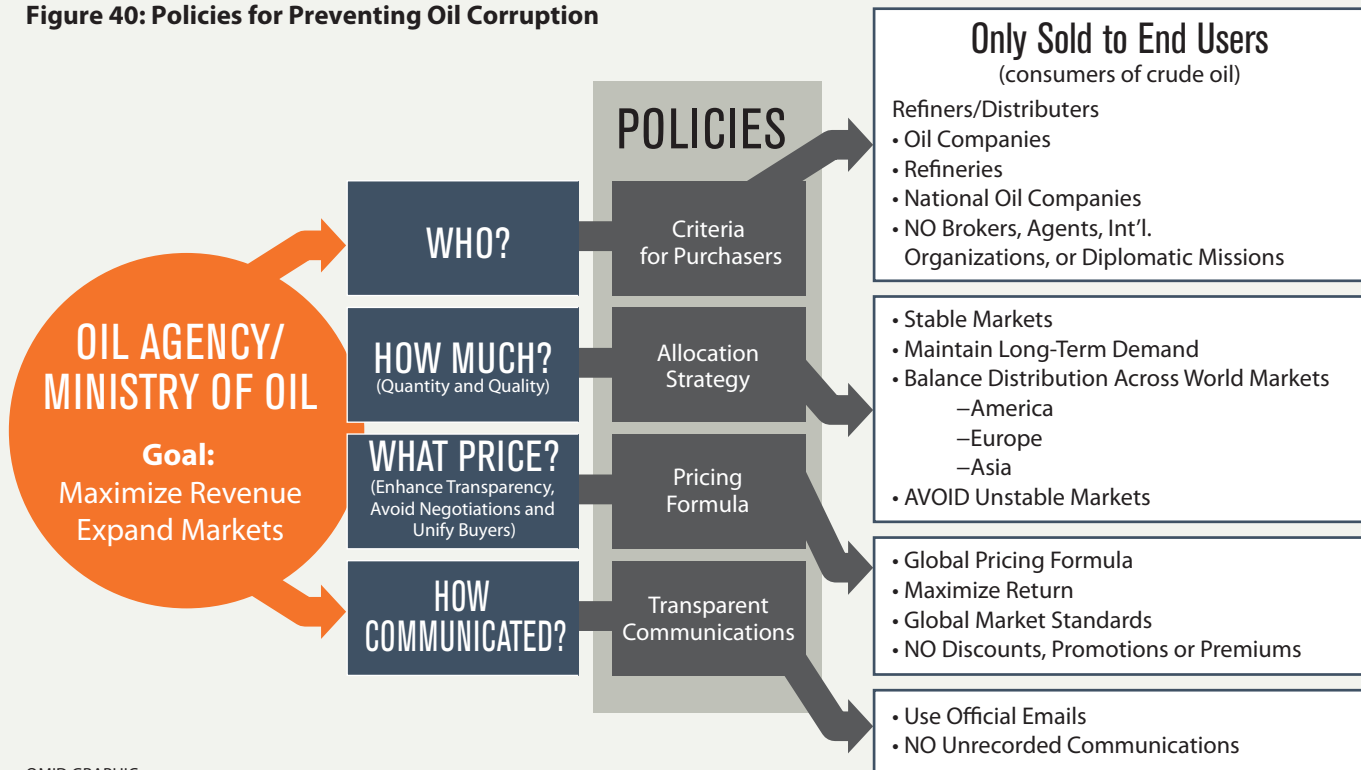
# EITI Processes to Prevent Corruption

**Figure 39: Legal Authority and Structure Governing Oil Sales**



OMID GRAPHIC  
Extractive Industries Transparency Initiative Report

**Figure 40: Policies for Preventing Oil Corruption**



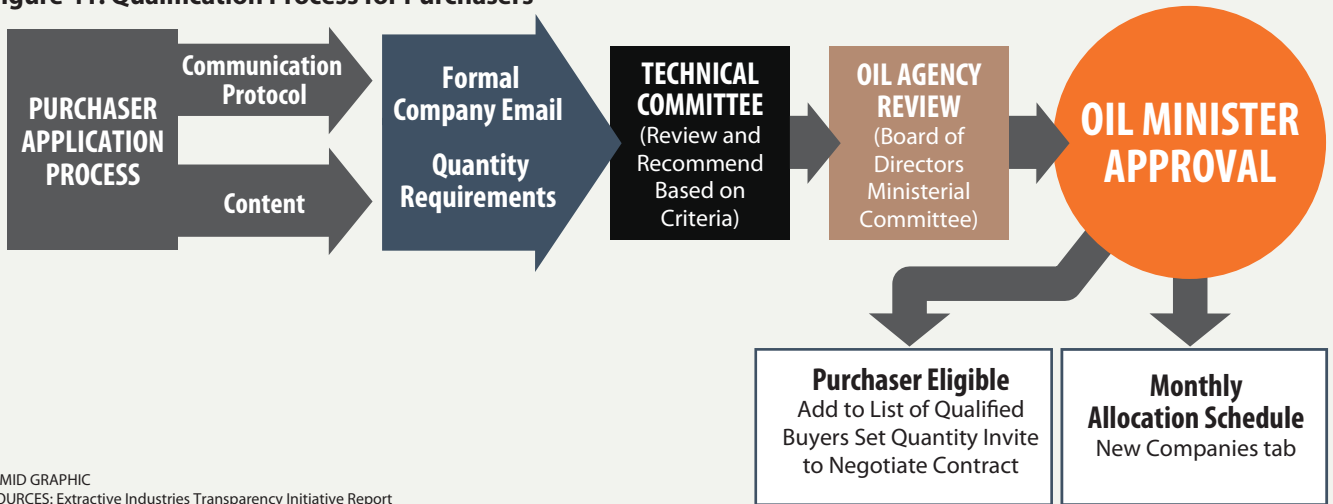
OMID GRAPHIC  
SOURCES: Extractive Industries Transparency Initiative Report

purchasers—becomes the key to capturing the ultimate prize: the oil and gas contracts.

The Ministry of Oil or Oil Agency can play a crucial role in preventing corruption. It establishes and enforces policies governing the sale of oil, among them criteria for the selection of purchasers, standards for the allocation of oil across markets, a stable pricing formula and transparent communication protocols. These policies are designed to protect the integrity of the oil ministry/agency. Eliminating middlemen, restricting communication to official channels, sustaining long term relationships, and having a fixed pricing policy reduce possibilities for collusion and corruption.

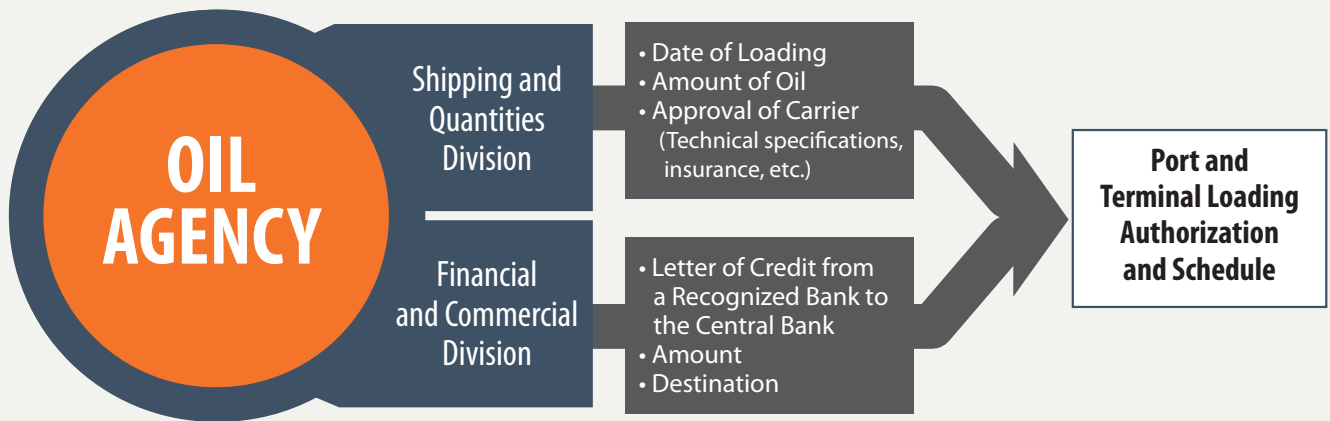
As reflected in the Iran corruption cases, Iran's Ministry of Oil was run as if it were the private domain of powerful clans and factions rather than a public trust held in the name of the Iranian people. As illustrated by the Hashemi and Zanjani cases, institutional chaos governing Iran's oil

**Figure 41: Qualification Process for Purchasers**



OMID GRAPHIC  
SOURCES: Extractive Industries Transparency Initiative Report

**Figure 42: Contract Execution**



OMID GRAPHIC  
SOURCES: Extractive Industries Transparency Initiative Report

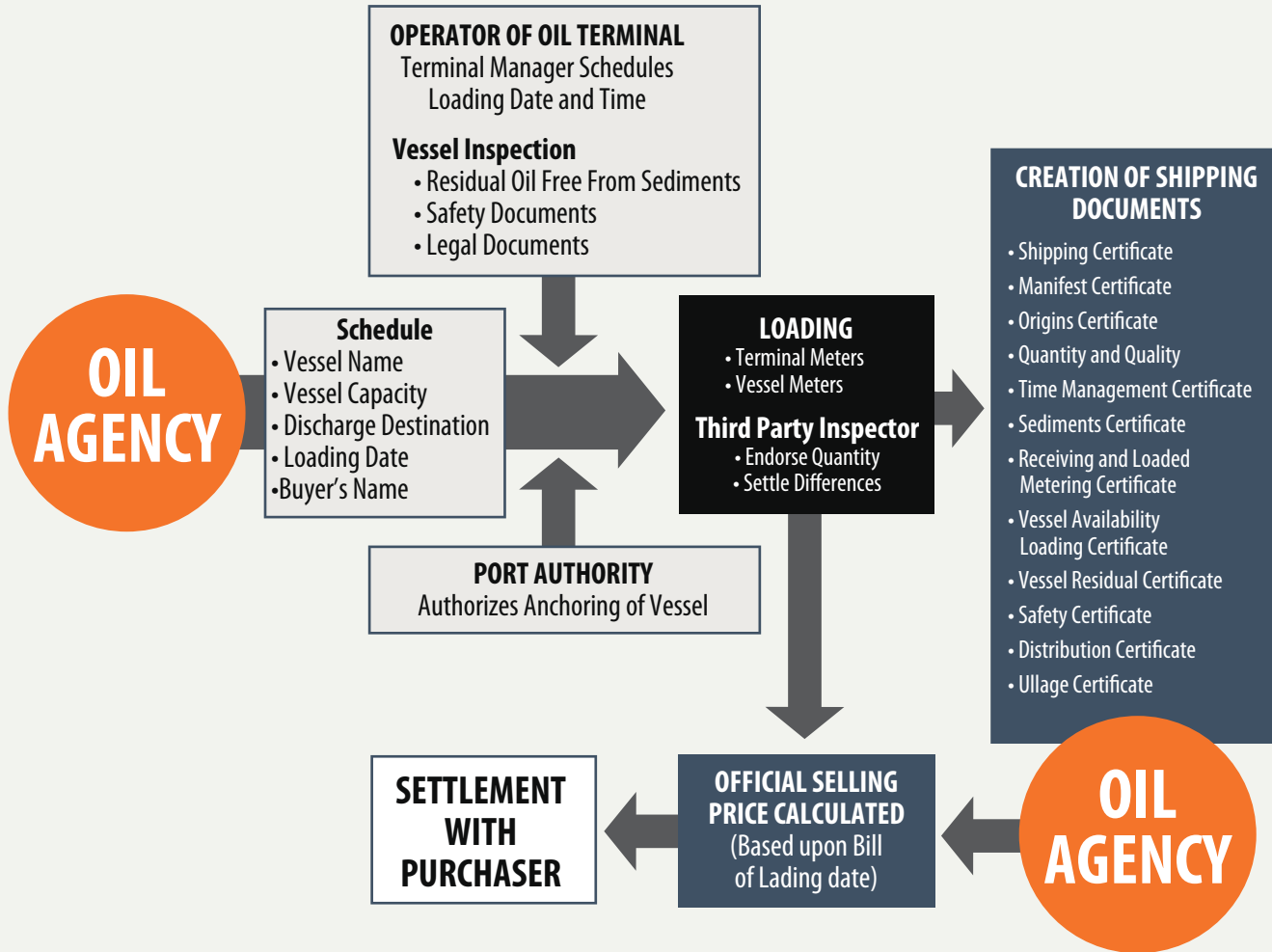
and gas sector was by design. The thieves of state thrived in an institutional no-man’s land. The confusion of boundaries and proliferation of roles, the absence of policies concerning the pricing, volume and shipments of oil, the transfer of revenues through secret accounts, and the lack of criteria for qualifying purchasers made it that much easier to conceal the diversion of Iran’s oil and gas.

A formal application process in which proposals are submitted from an official company e-mail that is trace-

able—not informal intermediaries, brokers, relatives. The proposals are judged on their merits by a technical committee and a ministerial board protects all actors against personal and political pressure. The reputation and authority of individuals, institutions, governments, companies and purchasers is not compromised. And the rules and standards governing eligibility advance a strategy and plan that serves the national interest. Reviews by a technical and ministerial committee also shield the minister and the insti-

# EITI Processes to Prevent Corruption

**Figure 43: Shipping and Loading Procedure**



OMID GRAPHIC  
 SOURCES: Extractive Industries Transparency Initiative Report

tution. They are not subject to a top-down system of arbitrary decision-making based on random criteria.

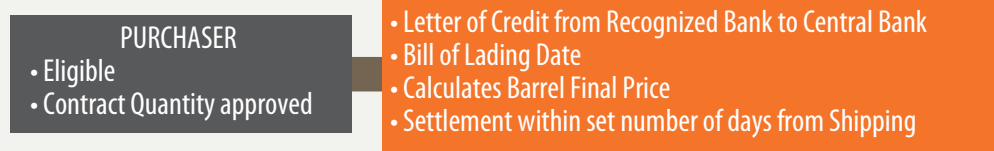
To this day, no one has explained patterns of communication, review, and decision-making in Iran's oil ministry. Whether it was the allocation of Iran's oil to Marc Rich, Babak Zanjani or Commander Ahmadi-Moghaddam, it is not at all clear how they were qualified to sell Iran's oil.

The execution of a contract depends on a series of inter-

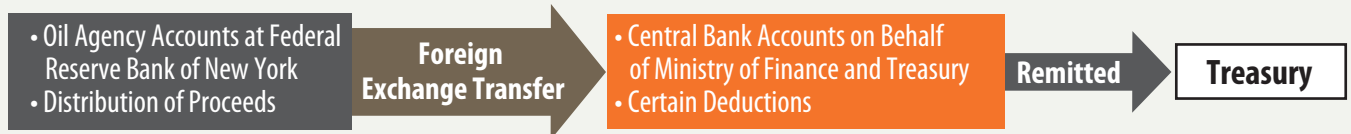
nal operational authorizations—one set related to shipping, the volumes and date of loading, and the approval of the carrier, the other related to finance, a letter of credit from a recognized bank, the amount and the destination of funds. The physical process of loading the oil into a ship typically creates a trail of documents and certificates: the name of the buyer, the carrier, the quality, volume and price of oil, financial accounts, settlements and so forth.

**Figure 44: Payment Process**

**Purchaser to Central Bank**

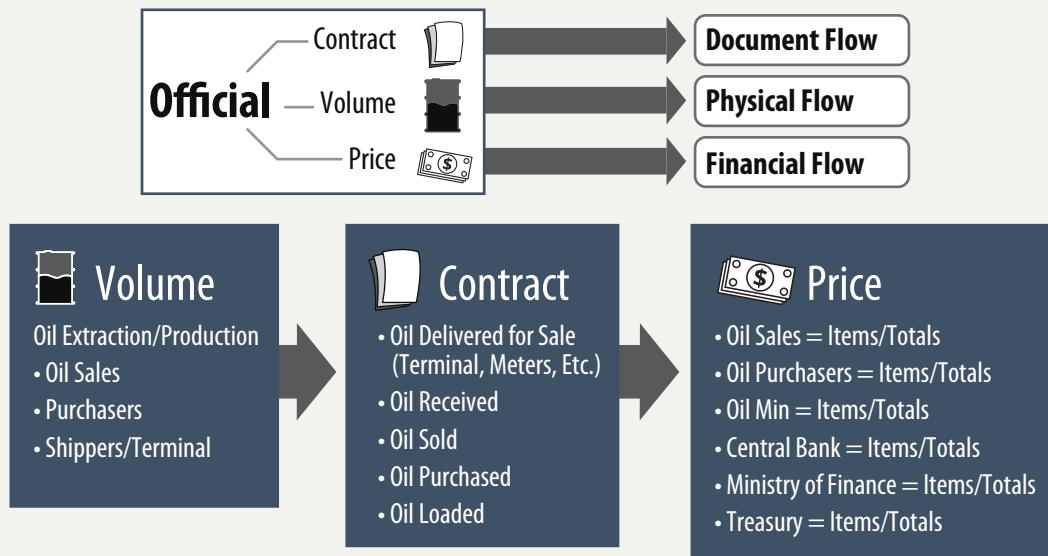


**Financial Record**



OMID GRAPHIC  
SOURCES: Extractive Industries Transparency Initiative Report

**Figure 45: Reconciliation Process**



OMID GRAPHIC  
SOURCES: Extractive Industries Transparency Initiative Report

Multiple copies are held by all parties for each shipment.

If Iranians are to reclaim their oil, they must control their ports and terminal loading zones. In the absence of documentation, authorization and schedules linking volumes of oil loaded at the port to shipments and carriers, destinations, accounts and buyers, Iranians may never be able to restore the checks and controls to prevent the theft of their oil. The absence of such documentation at

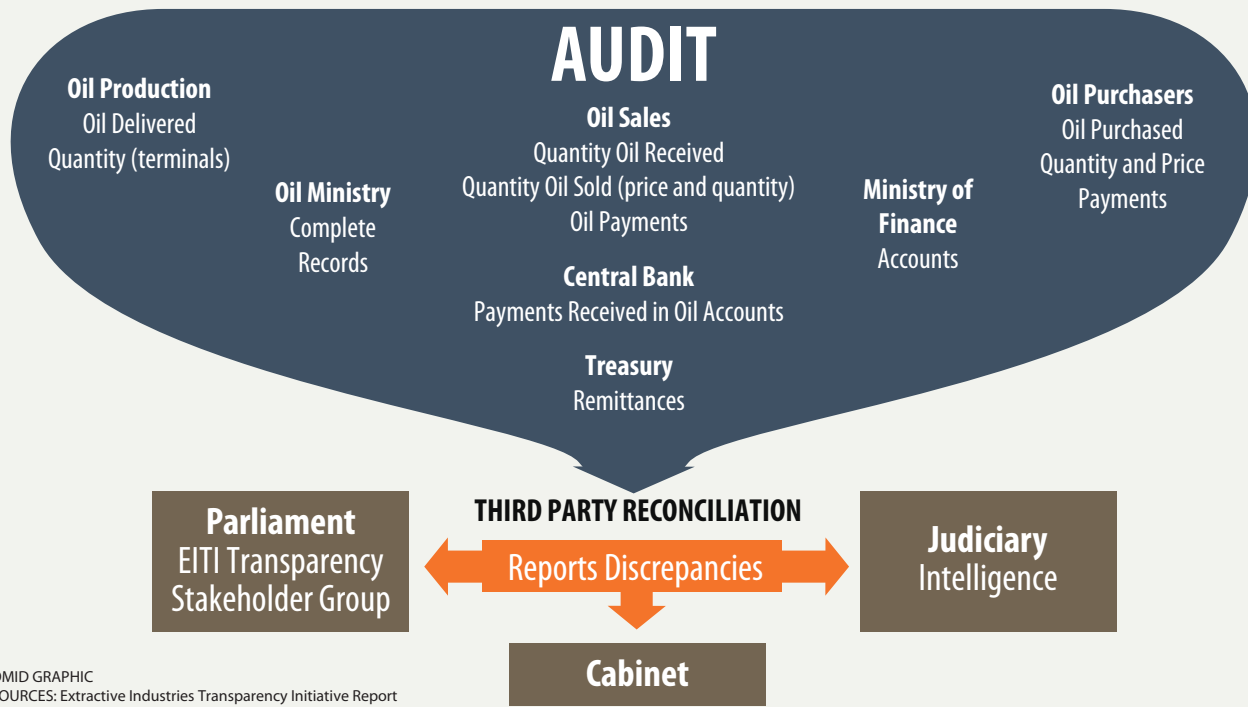
the oil ministry or agency is cause for grave alarm. It is not a sign of an absence of intelligence, professionalism or governance. It is proof of impunity.

Even if Iran were concealing the origin of its oil to avoid sanctions, the oil was still loaded at certain dates, in certain amounts, into particular ships, with a buyer's name. Surely, even if the documentation were forged, the government would still retain the capacity to track and con-



# EITI Processes to Prevent Corruption

**Figure 46: Data Points**



OMID GRAPHIC  
SOURCES: Extractive Industries Transparency Initiative Report

nect the forged documents to actual shipments of Iranian oil to figures such as Zanjani.

The financial dimensions of oil transactions are not that complex. There is a trail of accounts, payment within a number of days after shipping, the international transfer of foreign exchange to the Central Bank's accounts and from there remittal to the treasury.

This basic process appears to have broken down in the Iran corruption cases, particularly during sanctions. An otherwise linear process became hopelessly convoluted—an exercise in improvisation. Contracts, letters of credit, recognized banks, foreign exchange all seemed like a house of cards—Ponzi schemes run by couriers in the service of criminal financial networks.

Establishing a reconciliation process to address discrepancies in the volume, price, shipment and sale of oil is not complicated.

In Iran's case, the oil supply chain is not transparent. Consequently, there is no clear correlation between contracts, volumes and prices received for each shipment.

This can be easily remedied. The problem is not the complexity of the business processes but their deliberate sabotage to make accountability and transparency virtually impossible.

Finally, the most crucial element in preventing corruption is an audit. Each transaction triggers action, generates data and leaves a trace linking multiple institutions across the oil value chain. By comparing their accounts, one can not only reconcile differences due to error, accidents and instruments but take corrective action by reporting corruption on a grand scale to the Parliament, judiciary and cabinet. In the case of Iran—with billions in revenue and millions of lives at stake—an audit has not taken place. As with Naftiran Intertrade Company (NICO), it is not even clear who generates reports and who oversees the production and sale of oil. As long as they can deny the Iranian people basic and verifiable evidence and information, corruption will continue to cripple Iran's economy, and, one might add, spirit.

## Reclaiming Iran's Oil and Gas Sector

While Iran's oil wealth had been the subject of concessionary agreements that sanctified the predation and plunder of Iranian oil by foreign powers for much of the twentieth century, the nationalization of Iranian oil entailed a shift in the management and control of Iran's oil operations.

Two landmark agreements reflected this shift:

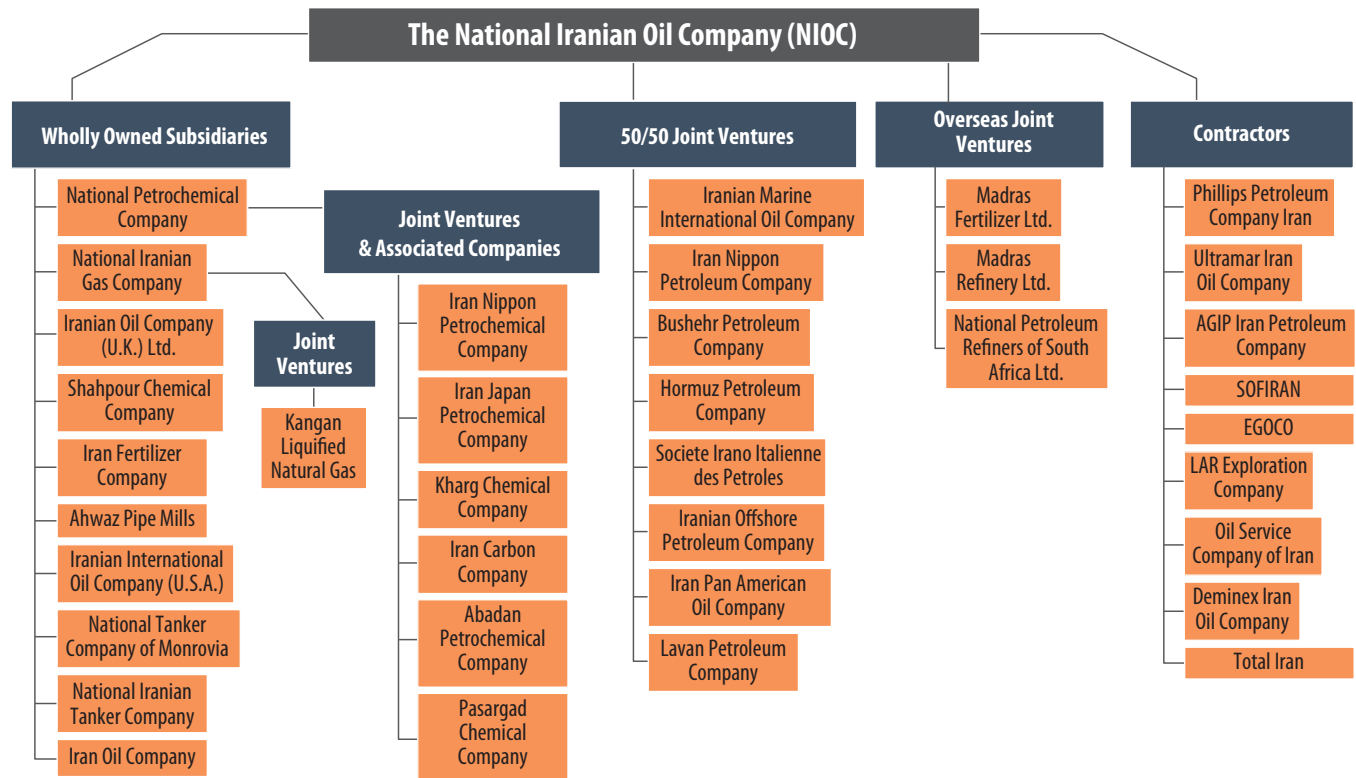
**The 1954 Consortium Oil Agreement:** a twenty-five year agreement, established the principle of 50/50 profit-sharing between an international consortium (Iranian Oil Participants Ltd) and the Iranian government.

**The 1973 Sale and Purchase Agreement:** after the NIOC warned the Consortium that it would not renew the 1954 agreement upon its termination in 1979, Iran finally secured the goals of the 1951 oil nationalization. With Iran threatening to treat the Consortium members as "ordinary

buyers" after 1979, the 1973 Sale and Purchase Agreement marked a breakthrough. Thereafter, the NIOC would "exercise the right of full and complete ownership, operation, and management of all hydrocarbon reserves, assets and administration of the petroleum industry in the Agreement area."<sup>316</sup>

These two international agreements changed Iran's status from a weak backwater into a modern political and economic powerhouse. The shift in the governance of Iran's oil and gas sector was reflected in Iran's oil income. The cumulative oil revenues of the Iranian government from 1912 until 1951 amounted to \$464 million. But as Dr. Mina points out in the *Encyclopedia Iranica*, after the 1954 Agreement, in the period 1955–1973, they rose to \$16.2 billion (for 15.5 billion barrels), and after the 1973 Sales and Purchase Agreement, from 1974–1978, Iran's aggregate oil income rose to \$104 billion (for 10.3 billion barrels).<sup>317</sup>

**Figure 47: The National Iranian Oil Company in 1974, Before the Revolution**



OMID GRAPHIC  
Source: "Petroleum Industry of Iran," NIOC publication, Tehran, 1974, p. 16.

The NIOC not only gave institutional form to the Iranian people's sovereign title and claim to their oil, it also provided an organizational and operational framework for translating ownership of the sector into an economic windfall for the nation. It provided a structure for translating political gains into economic benefits. That depended on translating policy into operations: effective management and control of all the complex operations of Iran's oil and gas sector.<sup>318</sup>

Now reconsider Iranian oil minister Bijan Zanganeh decrying the "destruction" of Iran's energy sector by the end of Mahmoud Ahmadinejad's presidency:

A bunch of people who did not have a deep knowledge of this sector, in order to accomplish their agenda, have taken the key institutions in the energy sector to the brink of total destruction. What they have done is like that of someone who jumps in an ambulance, and in order to get one patient to the hospital, drives over and kills hundreds of people, leaving thousands with broken legs and arms. In the name of distributing subsidies to the people, our friends have destroyed the key institutions in the energy sector, such as the electric utilities (*tavanir*), the National Iranian Oil Refining and Distribution Company (NIORDC) and the National Iranian Gas Company (NIGC).<sup>319</sup>

The displacement of professional technocrats by revolutionary ideologues has grave implications for the future of Iran's energy sector. It means that the processes, operations and systems that secure Iran's oil and gas sector are

not subject to legal, fiscal or operational control. Information cannot be traced, operations cannot be tracked, decisions cannot be monitored, performance cannot be managed. Contracts, investments, sales, prices, volumes, shipments, payments all take place in a blackhole. And all that the Iranian people are entitled to is the carcass of Iran's energy sector: a series of bankrupted organizations and companies stripped of all their assets and value by questionable actors that have no business, expertise or qualification for participating in Iran's oil and gas sector.

If the Iranian people are to salvage the energy sector, the good governance of the sector must become a national priority. At a minimum, Minister Zanganeh must explain why key institutions in the energy sector are "on the brink of total destruction." How is it that institutions charged with the oversight, governance and security of the energy sector appear to have profited from its systematic plunder? Surely, the losses from the Zanjani and Crescent cases alone demand a wholesale review and audit of the systems and processes governing Iran's oil and gas value chain. These cases provide vital information about how thieves of state have subverted Iran's oil and gas value chain. To ignore the policies and processes governing the authorization of contracts, qualification of customers, and all the other processes, from the loading and shipping of oil to its delivery and settlement of payments, is to leave Iran's energy sector vulnerable to the predations of a global oil and gas mafia whose fortunes depend on turning Iran into a failed state.

The challenge is obvious, simple and clear: Will President Rouhani call for a thorough audit of Iran's oil and gas sector or not?

# 9

# Summary of Findings

## A. The Economic Cost of Corruption and Sanctions

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### 1) The Nuclear Dispute: The Trillion-Dollar Conflict

Based on the Iranian Parliament's social accounting matrix (SAM), economic models establish the cost of corruption scandals and sanctions to Iran's economy during the presidency of Mahmoud Ahmadinejad to be in the range of 1 trillion dollars.

### 2) Jobs: The Billion-Dollar Equation

Corruption is a form of divestment. Job creation models for countries comparable to Iran suggest that, depending on the sector, every \$1 billion in lost oil revenues, if invested in Iran's economy, could generate between 200,000 to 600,000 jobs.

### 3) Jobs: The Trillion-Dollar Equation

According to Iran's Minister of Labor, the cost of creating one job ranges from \$6,000 to roughly \$120,000. At \$6,000, \$1 billion can create more than 160,000 jobs. At \$120,000, \$1 billion can create more than 8,000 jobs. Even at \$120,000 per job, a trillion dollars lost over the Ahmadinejad decade could have translated into more than 8 million well-paying jobs.

### 4) The Employment Picture

The abuse of Iran's oil revenues has eroded Iran's industrial base. Corruption has had a devastating impact on workers. Despite an influx of more than \$700 billion between 2006 and 2013, economists suggest

the net total of job creation in Iran was zero. Despite oil prices at more than \$100 per barrel, the flood of imported goods into Iran resulted in the bankruptcy of more than 2,500 industrial firms and the reduction of the work force in the industrial sector by more than 500,000.

### 5) Youth Unemployment

With more than 60% of Iran's population under 30 years old, unemployment among Iran's youth between the ages of 15 and 29, stands at a staggering 21.8%, with the rate for women at almost 40%. As things stand, the labor market only creates 1 job for every 3 Iranian youths entering the labor market. By 2021, with a labor force of 42.5 million, 7.5 million people, or 17.6% of the population, will be unemployed.

### 6) Corruption, Scandals and Jobs

Under the IFC model, the \$2.7 billion Zanjani corruption scandal, cost Iran between 270,000 to more than 1 million jobs. Using the government's \$6,000 per-job estimate, 450,000 jobs could be created if these sums were reclaimed.

The \$24.5 billion that Naftiran Intertrade Company, the NIOC's offshore trading arm, withdrew from Iran's sanctions windfall, if invested in the economy, would have created more than 4 million jobs at \$6,000 per job and more than 200,000 at \$120,000 per job.

## B. Oil Heists and Accounting Irregularities: Sanctions Windfall and Sovereign Wealth Fund

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### 1) No Accounting for Iran's Frozen Funds

The Rouhani government and Iran's Central Bank have still to provide a complete accounting for the status of Iran's frozen funds. There are significant discrepancies in the accounts, with the government failing to track, reconcile or account for at least \$60 billion. According to former U.S. Secretary of State John Kerry, only \$3 billion in Iran's frozen reserves have made their way back to Iran by April 2016, raising questions about the Central Bank's claims concerning the \$27 billion–\$29 billion in released funds expected to be returned to Iran.

### 2) NIOC and Naftiran Intertrade Company (NICO)

#### \$24.5 Billion Audit

The Central Bank, the NIOC and the State Audit Organization have failed to account for \$24.5 billion in oil revenues withdrawn and spent without proper authorization by Naftiran Intertrade Company, the offshore oil trading arm of the NIOC.

### 3) The Chinese Oil Contracts and Concessions

The status of \$22.5 billion in Iranian oil revenues held in China as guarantees for joint venture projects remains unclear. Although compared to the infamous "Treaty of Turkomenchai," the nature and legality of these contracts and concessions remain veiled in secrecy, as does the identity of the beneficiaries. To this day, it is not clear who sets up, controls and monitors these accounts on behalf of the Iranian people, in which banks. Nor is it clear which joint-ventures were guaranteed by \$22.5 billion in Iranian oil revenues, and what goods and services, if any, were imported from China, and by which entities.

### 4) The Domestic Banks

The government authorized the withdrawal of the rial equivalent of \$10 billion in Iran's frozen assets from the Central Bank, the bank admits. In 2015, the head of the Central Bank described the status of these funds,

allegedly loaned to various Iranian banks, as being "in doubt." This raises grave questions about the health of Iran's banking sector, the extent of corruption in Iran's financial sector, the nature and condition attached to the loans, and the status of \$10 billion in projects on the verge of bankruptcy or default. To date, the Rouhani administration has not provided a comprehensive and transparent account as to how these funds were squandered.

### 5) Iran's Sovereign Wealth Fund

While much attention has focused on the pay of executives charged with managing Iran's Sovereign Wealth Fund, the National Development Fund (former Oil Stabilization Fund), the crisis at the fund is much deeper than the scandal over inflated salaries and perks. The laws and rules regarding the deposit and withdrawal of funds from the account appear to have been skirted to facilitate the plunder of the fund for off-budget pork barrel projects. Revenue Watch estimated that between 2005 and 2011, the OSF should have received \$36 billion more than the government reported, and that between 2006 and 2011, the government withdrew more than \$150 billion from the fund without clear economic justifications. To this day, Iranians are in the dark about the operation of Iran's Sovereign Wealth Fund. The fund has scored a 1 out of 10 from the Sovereign Wealth Institute's Transparency Index. The state of the NDF—anemic by all accounts—points to extensive systemic and structural weaknesses. Such levels of corruption, neglect and mismanagement of oil revenues should be of grave concern to the government and the Iranian people given the need to protect the country against volatility in oil markets. A comprehensive review of the fund, including an audit of all deposits and withdrawals from its accounts, is a matter of national security.

## C. Governance of the Oil and Gas Sector

### 1) The Iranian People's Blind Spot

Iran's oil and gas sector has been kept in a collective blind spot. As reflected in the Zanjani case, the flows of information and data necessary for monitoring the movement of oil and funds through the sector have broken down. Despite questions from the media, the government and others in the oil and gas sector cannot account for billions in oil revenues. Similarly, the most basic information about the ownership structure, capabilities and performance of major players in the sector, such as Khatam al-Anbia, are not available. It is not clear how decisions are made, contracts vetted, investments allocated, projects monitored and revenues measured. Major economic plans and projects have stalled for decades. For Iran's economy to recover, reclaiming and restoring the oil and gas sector must become a national priority.

### 2) The Unknown: The Black Market in Iranian Oil

Unknown quantities of Iranian oil are sold on the black market by oil mafia and other corrupt actors with little loyalty to the Iranian people. Entire tankers are unaccounted for. Such oil cartels pose a threat to the economic prosperity and national security of Iran.

### 3) Energy Policy: Priorities and Policies

Iran's political and economic priorities must focus on long term energy policy that is rational, not ideological or political. Iran's nuclear program accounts for less than 1% of the country's total energy use, with fossil fuels accounting for more than 99%. To have subjected Iran's oil and gas sector, and the economy to massive sanctions, in the name of defending Iran's right to enrich uranium, was economic suicide.

### 4) Securing the Oil Supply and Revenue Chain

Iran's oil supply chain is highly vulnerable to corruption. The arteries connecting the physical flow of oil and gas out of the country to the flow of goods and revenues into the country have been slashed. So also have the arteries governing investments in projects and plans for the development of Iran's oil and

gas sector. Restoring transparency and accountability to the oil and gas sector is essential for protecting Iran's resources. Iran must sever its ties with the highly sophisticated international black market in oil, a criminal underworld that is every bit as powerful as the illicit drug and arms market. Rather than keep the sector operating under a veil of secrecy that facilitates corruption and rewards impunity, Iran's national security and economic future depends on access to information: multiple institutions checking, reporting, auditing and verifying data about prices, volumes, shipments, deliveries, payments and partners.

### 5) Budgets and Treasury: Oil Allocations and Economic Malignancy

A significant portion of Iran's oil revenues is not accounted for in Iran's budget. Oil is allocated to actors ranging from parastatal organizations to revolutionary guard commanders and private consortia, all of which operate outside official channels. The Iranian treasury and Parliament do not control their budget, revenues or expenditures. This breach of sovereignty has serious implications as it opens the most sensitive sectors of Iran's economy to nefarious players, oligarchs and militias. They not only abuse their political power to establish and expand monopolies that prey on Iran's resources, they have an interest in amputating the Iranian people's sovereignty by taking over the Iranian state on behalf of foreign interests. Some are directly implicated in grave human rights violations, money laundering, financing extremism, extortion, smuggling and other criminal and terrorist activities.

### 6) Investments in the Oil and Gas Industry

Corruption is a major cause of the decline of Iran's oil and gas industry. To put it bluntly, the return on investments in Iran's oil and gas projects and plans have been pathetic. Projects and plans are poorly conceived, managed, structured, funded and secured. The outcomes are disgraceful. Iran sits on the world's largest reserves of gas—the South Pars Fields—yet Iran's National Gas company is nearly bankrupt. As

the Crescent Petroleum corruption case [see page 32] has made abundantly clear, after spending billions of dollars in Iran's oil revenues on the development of the South Pars Oil field, Iranian officials blame corruption at the NIOC for signing disastrous long-term contracts, with pegs binding Iran to sell its gas at one-fourteenth the market price.

### **7) Policy and Governance**

As the World Bank made abundantly clear in its review of Iran's oil and gas industry, there is a lack of vision for the sector. For all practical purposes, the NIOC's historic monopoly over the sector has been compromised and its professional cadres purged. The sector has been opened to new players: corrupt and criminal actors and interest groups ranging from the Islamic Revolutionary Guard Corps (IRGC) and parastatal foundations to international and domestic consortia. The result has been the fragmentation and fractionalization of Iran's oil and gas industry—a severe constraint on the productive and operational capacity of the sector, with profoundly negative consequences for the future of Iran's economy.

### **8) Diminishing Returns: South Pars**

Despite billions in alleged investments over decades, Iran, with the world's largest gas reserves, has failed to tap into its potential as a gas superpower. Billions in oil

revenues have vanished in South Pars only for the value of the entire field to be squandered through corrupt deals pricing Iranian gas at one-fourteenth its worth. Iran's plans to pump 34 billion cubic meters per annum into its oil recovery program have been jeopardized due to shortsighted policies. As Iran's situation has grown more desperate, that of other players has grown stronger. Qatar, which shares and exploits the same gas field has become an energy superpower.

### **9) Diminishing Returns: Iran's Oil Fields**

Protecting the productivity of Iran's oil fields is crucial to Iran's economic future. Every year, the country's oil fields lose between 8%–14% of their production level—a massive loss that can be forestalled by reinjecting 34 billion cubic meter per annum of natural gas into Iran's oil wells. Yet Iran has missed its last two National Development Plans (2005–2015) to increase its oil recovery rate by 2%.<sup>320</sup> With 9.3% of the world's total proven conventional crude oil reserves, every 1% increase in oil recovery rates translates into \$80 billion more in revenues.<sup>321</sup> Instead of gaining ground, corruption in Iran's oil and gas sector is compounding losses at a staggering pace. Iranian policymakers are putting entire generations at risk by making and then failing to properly implement recovery plan after recovery plan, decade after decade.

## **D. Political Risks of Corruption**

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### **1) Extremism**

The link between extremism and corruption is incontrovertible. While the Iranian people were subjected to the most severe economic pressures, the Rouhani administration has accused an economic militia with ties to IRGC of engaging in corruption on a scale unprecedented in Iranian history. IRGC commanders not only assumed sensitive posts in Iran's oil and gas infrastructure, they siphoned unknown sums of Iranian oil revenue into foreign accounts over which Iran has no control or jurisdiction. Extremism, in the form

of the nuclear dispute, allowed the thieves of state to subvert controls over the sale of oil in the name of bypassing sanctions. Such black market activities threaten Iran's prosperity and security. They also give the oil mafia an interest in perpetuating extremism: promoting and provoking crises, whether under the guise of defending Iran's nuclear program or through inflaming domestic and regional conflicts.

## E. From Denationalization to Reclamation

### 1) Transparency, Accountability and Control

Virtually all Iranians have a national obligation and an economic interest in reclaiming their oil by fighting corruption. The Islamic Republic's revolutionary ideology must not become an instrument for the denationalization of Iranian oil. Iran's oil and gas sector is a national treasure, with the Iranian people holding title to an asset that is worth trillions of dollars. The process of reclaiming and salvaging the treasure depends on a robust anti-corruption campaign initiated at all levels of society. Iranian officials and institutions have a duty to protect Iran's oil and gas sector, reserves, resources and revenues against the thieves of state. They must not only demand transparency and accountability but also establish and enforce policies, standards and metrics for restoring confidence in the governance, productivity and future of the oil and gas sector.

### 2) Audit

Addressing the open corruption cases, vast accounting discrepancies, and systemic gaps is crucial to restoring Iran's sovereignty over its resources. As with

the case of Nigeria, it is essential to initiate an independent audit of Iran's oil and gas sector's books and operations—particularly for how the sector was run under the presidency of Mahmoud Ahmadinejad.

### 3) Judiciary and Parliament: Prosecution of Corruption Cases

Iran's judiciary and Parliament must not cover up corruption by high officials responsible for the governance of Iran's oil and gas sector. All corruption cases in Iran should be prosecuted to the full extent of the law. The higher the official, the greater the breach of trust, the more grave the violation and the more important the need for complete investigation and accounting of the crimes. Yet, as charged by Ahmadinejad and others, the judiciary itself is corrupted, more often than not conducting investigations and trials with the intention of covering up rather than revealing grand corruption in the oil and gas sector.

## F. Corruption by Design

### 1) Corruption is Not Accidental

Corruption in the Islamic Republic is not accidental. It is structural and systematic—purposely and deliberately crafted to facilitate theft on a grand scale. While the spoils from corruption allow the Islamic Republic to survive, effectively rewarding and unifying the thieves of state for the plunder of Iran's resources and revenues, it punishes the Iranian people by exposing their culture, health, economy and security to untold harm.

### 2) Corruption is about Control

Corruption is an instrument of political and economic coercion and control—a rite of passage that separates insiders from outsiders. Bribery, extortion, kickbacks and embezzlement are not viewed as a violation of law or ethics, but as a necessary and integral part of Iran's political and business culture. In such a system, without corruption, no one is secure in their property or person, and as such corruption is viewed as a necessity of life that guarantees survival, or, at the very least, prevents sabotage, extortion, confiscation and loss.



### **3) Corruption is Embedded in Politics and Business**

Bribery, extortion, kickbacks and embezzlement have become integral and implicit parts of Iran's political and business culture. Virtually all economic transactions are subject to corruption, with regime insiders, fixers and gatekeepers collecting tolls and demanding "sweets" in exchange for issuing licenses, permits, deeds, titles and other services.

### **4) Corruption is Systemic**

Corruption is actively promoted through governmental and administrative structures, effectively weakening the fabric of civil society by encouraging opportunism and protecting a culture of theft premised on the violation rather than the protection of individual and collective rights. It threatens the Iranian people's sense of national identity and solidarity by eroding the foundations of their character, with the quality of relationships and sense of community severely diminished.

### **5) Corruption Negates Traditional Values**

Future generations are forced to grow up in an environment in which traditional values that serve as the legal and moral foundation for investment, growth, stability and security are negated. Values such as trust, integrity, dignity, empathy, compassion and solidarity give way to greed, avarice, theft and fraud, with bankruptcy and dishonor as the likely outcome.

# 10

## Conclusion

Today, Iran is in a state of crisis, a crisis unlike any other. As demonstrated in this study, the corruption toll of the eight-year Ahmadinejad presidency may well have exceeded the trillion-dollar mark. Very little suggests that the Rouhani administration can roll it back. In fact, with President Donald Trump's decision to reimpose US sanctions on Iran—a decision that could lead to a war—there is every reason to believe that under the guise of evading sanctions and protecting national security, Iran's oil mafia will reconstitute itself, in even more virulent form, to plunder billions more in the decades ahead.

This is no light matter. Iran today is not the Iran of forty years ago. Having endured the hostage crisis, the Iran-Iraq war, the Rushdie and Mykonos case, the Iran nuclear program, and the Syrian and Yemeni civil war, the Iranian people must not be exposed to another decade of loss.

Anti-corruption rhetoric is not rooted in protecting the national interest through a systemic and structural reform of the oil and gas sector. It is rooted in factionalism—conflicts over which oil mafia controls and profits from which slice of Iran's oil and gas revenues. This failure to control corruption means that Iran's oil revenues are being used to finance conflicts in Yemen, Lebanon, Syria, and Iraq, a humanitarian tragedy that can soon envelope Iran.

Babak Zanjani's trial has shown how Ahmadinejad and the IRGC plundered Iran's resources after promising to rid Iran of the Rafsanjani-era oil mafia. A case of wolves disguised not as sheep, but as shepherds themselves. While Zanjani was sent to prison on corruption charges, Rostam

Qassemi, the IRGC commander turned oil minister was not touched. Bijan Zanganeh, Rouhani's oil minister—one of Mehdi Hashemi's accomplices in the Total and Statoil bribery cases—was not prosecuted. The Parliament and judiciary ignored the legal evidence presented in Norwe-

gian, French and American investigations of the case. And similarly, while there is considerable evidence tying Zanganeh to multiple Rafsanjani-era corruption cases, neither the Parliament nor the judiciary blocked his appointment as oil minister. Charges and countercharges of corruption reflected a broken system incapable of containing feuds between insiders. Consequently, as long as Iran remains a closed kleptocracy in which the executive, Parliament, judiciary do not recognize or protect the national interest, one cannot have much confidence in the sanctity of Iran's oil and gas contracts, no matter which faction administers the oil and gas sector.

Khamenei and Ahmadinejad's extremism not only exposed Iran to sanctions, but also facilitated institutionalized theft on a scale that pushed Iran onto the path to becoming a failed state. Rouhani's so called moderation has done little to reform the systemic and structural flaws that have created a climate of impunity, even piracy, in Iran. What we are witnessing is the bitter fruits of Khomeini's theory of the rule of the jurist: an ideology, that by design, has set the stage for the plunder of Iran's resources by negating the idea of the sovereignty of the Iranian people and destroying the institutions charged with protecting the public's interests.

Corruption is a manifestation of both the unravelling of

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*What we are witnessing is the bitter fruits of Khomeini's theory of the rule of the jurist: an ideology, that by design, has set the stage for the plunder of Iran's resources by negating the idea of the sovereignty of the Iranian people.*

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the modern Iranian nation-state and an unprecedented assault on the foundations of Iranian civilization and culture.

The Iranian people are paying the price. The statistics are devastating.

If one takes the weighted averages for job creation used by the World Bank's International Finance Corporation (IFC), every \$1 billion siphoned out of the Iranian economy could generate anywhere between 200,000–600,000 jobs. In a country in which 40% of the population live below or close to the poverty line, with 7.5 million people out of a labor force of 42.5 million expected to be unemployed by 2021, corruption on the scale witnessed in Iran is a collective death sentence: a lethal threat to the stability, security and prosperity of Iran.

Entire generations are at risk.

In 1978, Iran's GDP per capita stood at \$3,969, roughly the same as both Turkey and South Korea. Almost 40 years later, despite Iran's trillions of dollars in oil wealth, Iran's per capita income has stagnated. Turkey's per capita grew by a factor of 2.5, South Korea's by a factor of 7. This is the price Iranians have paid for a theocracy that has failed them on all counts.

As shown in this study, Iran's oil and gas sector is the key to Iran's economic recovery. It can no longer remain in a collective blind-spot.

Iransians should consider the statement issued by Iran's first vice-president, Eshaq Jahangari, at a conference on oil:

I can tell you quite frankly that of all the individuals and entities that received oil allocations to sell oil on behalf of the Ministry of Oil, not one has returned a single dollar to the government.

What kind of a government allocates oil to individuals and entities who do not return a single dollar? What can such a government secure or offer the people it claims to represent?

According to the IMF and the Central Bank of Iran, in the decade between 2000 and 2011 alone, Iran's oil revenues amounted to a staggering \$800 billion. Yet, under the guise of circumventing sanctions, supposedly to defend every inch of Iranian sovereignty, the Ahmadinejad ad-

ministration engaged in corruption on an unprecedented scale. Could that have happened without the backing of Iran's supreme leader? In truth, the crackdown on the Iranian people in 2009 set the stage for the IRGC's control over Iranian oil. The nuclear dispute—defending the Iranian people's right to enrich uranium—diverted and distracted the Iranian people.

Disenfranchising a people is the necessary condition for plundering their wealth.

Unknown quantities of Iranian oil were sold in the black market—and most likely continue to be sold—without millions of Iranians asking and demanding a response to a simple question: "Where is my oil?"

This is a trillion-dollar question.

In a country in which the monthly minimum wage is about \$180 per month and the living wage at around \$900 per month, this is a vital question.

The Iranian people's title to their sacred endowment of oil and gas was secured at great sacrifice over the course of a century. The value of this inheritance is estimated at more than \$17 trillion.

All Iranians who retain a sense of honor and history understand the value of this resource. They recognize that they not only have a share and a stake in the protection and management of Iran's oil and

gas sector, but an obligation to invest in its future and enhance its value. After all, Iran's wealth is a trust held for the benefit of future generations.

The Zanjani case's significance lies in what it exposes: how the Iranian people have lost the ability to control, monitor, track and verify the contracts, prices, volumes and flow of revenues generated by oil sales.

By design, the methods and mechanisms through which Iranian oil was allocated to individuals and entities to sell oil on behalf of the Ministry of Oil remain opaque.

And Zanjani is certainly not the only individual to have benefitted from chaos and corruption in the Ministry of Oil. Ahmadinejad's cabinet members qualified him and authorized the transfer of Iranian oil into entities bound to his signature.

The smuggling of Iranian oil continues under the Rouhani administration.

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*The Zanjani case's significance lies in what it exposes: how the Iranian people have lost the ability to control, monitor, track and verify the contracts, prices, volumes and flow of revenues generated by oil sales.*

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According to a Wall Street Journal article titled “Ships Exporting Iranian Oil Go Dark, Raising Sanctions Red Flags,” in the second half of 2016, 47 of the 55 shipments of Iranian oil products by two U.A.E. registered traders, Silk Road Petroleum FZE and Petrochemix General Trading LLC, were transported on vessels that “either turned off their radio-signal tracking systems or gave misleading information about the origin of their cargo.”<sup>322</sup> Radio signals from 16 of the 47 ships “indicated their Iranian cargo began the journey in a different country, though satellite imagery showed them to have been loaded in Iran.”<sup>323</sup> The article says these disguised shipments were “almost a fifth of Iran’s oil exports” during that time.

The connection between the Iranian people and their oil shipments remained severed. And the IRGC oil mafia, not just Zanjani’s companies, continued to use the United Arab Emirates as a global hub for front companies involved in the smuggling of Iranian oil.

It does not have to be this way. Corruption need not be a fact of life.

Monitoring oil contracts, sales and operations to prevent leakage and loss is not complex. Yet, since government officials derive their standing and status as a function of their loyalty to the “*nezam*” or system rather than the people, they operate within a closed system of predation bound to protecting Iran’s oil mafia against the people.

The truth is that Iran has been transformed into a kleptocracy.

The inner circle with preferential access to Iranian oil is vast. Countless ministers, members, relatives and associates of Iran’s revolutionary establishment—from President Rafsanjani’s son, Mehdi, to Ahmadinejad’s brother-in-law, IRGC commander Ahmadi-Moqaddam, to former Tehran prosecutor, Saeed Mortazavi, to the supreme leader himself—stand implicated in corruption cases and scandals. Remarkably, Friday prayer leaders are silent about the plunder of the *beyt ol-maal*.



Saeed Mortazavi- Former  
Tehran prosecutor

Khabarnegar.ir

These scandals and this culture have by no means remained con-

*Yet, since government officials derive their standing and status as a function of their loyalty to the “nezam” or system rather than the people, they operate within a closed system of predation bound to protecting Iran’s oil mafia against the people.*

finied to the Oil Ministry. According to Iran’s Prosecutor General, Gholam Hossein Mohseni Ejei, more than 500 individuals, including 200 high ranking government officials from all three branches of government, as well as executives in eight major state-owned and private banks, were involved in a \$2.6 billion banking fraud case described as the “largest embezzlement case in history.”

The cancer of corruption is spreading fast. And the damage is extensive.

As the twin pillars that have historically guaranteed the Iranian state and nation’s identity, unity, morality and security, the clergy and military are two institutions that stand tarnished by the conversion of the Iranian state into a kleptocracy. Leading clerics and ranking military commanders are perceived as primary stakeholders and beneficiaries of a system of corruption designed to conceal the theft and plunder of the nation’s wealth.

Despite the presence of men and women of conscience who reject equating Islam with corruption and embezzlement, the Parliament and judiciary fare no better.

Both institutions have failed to defend the Iranian people’s title and claim to their oil. They have opened Iran’s oil and gas sector as if the NIOC and its affiliates—institutions charged with protecting Iran’s sovereignty and wealth—were a carcass. The feeding frenzy in the oil and gas sector has been such that virtually all the legal and financial arteries through which Iran’s oil and revenues once flowed have been slashed. Oil gushes out of the country, but not a single individual or entity that has received oil allocations has returned a single dollar.

And for all practical purposes, the operation of the sector is sealed off from public view. Despite the media's persistent questions, most Iranians know very little about Naftiran Intertrade Company (NICO), the entity charged with selling the bulk of Iran's oil. They do not know about the ownership structure and operations of Khatam al-Abia and countless other contractors operating in the sector. And they know even less about the beneficiaries of the contracts and joint-ventures with China—likened by one Iranian minister to the Treaty of Turkomenchai, an historic capitulation in which Iran ceded Iranian sovereignty over its territories to Russia.

The irony is not lost on many Iranians. Having fought the Anglo-Iranian Oil Company and the Consortium to secure their right to control the production and sale of their oil, the Islamic Republic of Iran is acting like a colonial power that is keeping the Iranian people in the dark about policies and practices governing the allocation of oil. The net effect is the same. Iran's treasury is drained. At the turn of the century, the British granted the Qajar Shah a 16% share in Iran's oil, today Total grants a supposedly Iranian company a 19% share in the South Pars contract.

Vast volumes of Iranian oil are diverted and sold through a network of entities and subsidiaries over which the Iranian people have no legal, financial or even physical control. These daisy chains—set up for the purpose of concealing the origins and transferring rights over Iranian oil—effectively nullify the Iranian people's title and claims as the owners of Iran's oil. To this day, the Rouhani government has not explained how the Oil Ministry selects and qualifies the entities and individuals acting as its sales agents.

The Iranian Parliament, which once played a crucial role in the nationalization of Iranian oil and the establishment of Iran's oil sector, has all but abdicated its historic role and constitutional obligation to protect the Iranian people's wealth and treasure. A Parliament whose members supposedly represent the people not only sanctified highly dubious privatization schemes that gutted the sector, it failed to retain control over oil revenues that constitute the lion's share of Iran's budget—a key attribute of sovereignty.

The judiciary's role in promoting a culture of impunity is particularly toxic. It sees its function as protecting the system (the *nezam*) by covering up corruption. Instead of holding the thieves of state accountable through vigorous investigation and prosecution, ranking judicial officials have facilitated corruption on a grand scale. The institution

charged with preventing corruption was itself corrupted, with over 170 judges purged from the judiciary for corruption according to parliamentarian Hassan Tavakoli.<sup>324</sup>

The Crescent case and countless other corruption cases—each of which represent tens of billions of dollars stolen from the Iranian people—remain covered up by the judiciary, with the secrecy surrounding theft justified in the name of “national security.” Meanwhile, parliamentarians such as Tavakoli and Zakani, who dare to investigate such cases, were persecuted for challenging the “thick necked” (*gardan koloft*) thieves of state.

The Central Bank of Iran is also implicated. It has failed to monitor the flows and protect the accounts in which foreign exchange from the sale of Iran's oil revenues are deposited. The Naftiran Intertrade Company incident is a case in point. The Central Bank authorized the Naftiran Intertrade Company's officers to withdraw billions out of accounts nominally under the Bank's control. To this day, the Bank has failed to provide a credible explanation for the \$60 billion in Iran's missing sanction's windfall—including \$10 billion lent to Iranian banks. It is not clear who is tracking and allocating the revenues generated by Iran's oil contracts—hundreds of billions of dollars deposited and withdrawn in foreign and domestic banks by individuals acting in the name of the Iranian people. And while much has been made about the high salaries of government officials, the status of billions of dollars withdrawn from Iran's sovereign wealth funds and funneled as loans to private banks remains in question.

As for Iran's oil and gas sector, if one were to rely on statements by Iranian oil minister, Bijan Zanganeh alone, what he inherited is nothing short of “devastation,” with much of the sector, including the National Iranian Gas Company teetering on bankruptcy—a remarkable achievement given that Iran sits on the world's largest reserves of natural gas. Of course, as the guardian of South Pars gas field, Zanganeh himself presided over much of the devastation he bemoans, whether through his corrupt dealings with the abysmal Crescent case, in which the Islamic Republic claimed corruption in defense. He has yet to provide an accounting for the status of Iran's missing billions or present a plan to change the structures, operations and processes that he so readily criticizes.

Regardless of who is to blame, the institutions that were once hailed as national, even global, champions have all been crippled, with the status of vast investments, assets

## Nepotism in the Islamic Republic: Ahmadinejad versus the Larijani brothers



**Bagher Larijani**  
Director General of the  
Endocrinology and Metabolism  
Research Institute



**Ali Larijani**  
Current Chairman of the  
Parliament of Iran



**Sadegh Larijani**  
Head of the Judicial  
System of Iran



**Mohammad-Javad Larijani**  
Secretary of High Council  
for Human Rights, Judiciary of  
Islamic Republic of Iran



**Fazel Larijani**  
Chancellor of the Islamic Azad  
University, Ayatollah Amoli  
Science and Research Branch

and much of Iran's professional workforce in doubt thanks to failures of governance, fraudulent attempts at privatization and outright embezzlement.

As the World Bank has noted, there is no vision for the sector.

If this pattern were reversed, as the Rouhani administration has promised, then the billions lost to corruption and sanctions would never exit Iran. The money would be invested back into Iran's oil and gas sector. Instead of disappearing in a twilight zone of phantom oil rigs, accounts, projects and ventures, the oil and gas sector would fuel Iran's economic development. The oil and gas sector would then function as an engine lifting every other sector from agriculture to education, health and environment back to health, much as it had prior to 1979 when Iran's growth rate exceeded that of the so-called Asian tigers.

According to Kayhan, one of the Islamic Republic's own mouthpieces, just one contract—the Crescent case—is estimated to have cost the Iranian people as much as \$43 billion. The Islamic Republic's defense before international tribunals only highlights the gravity of the Iranian people's plight. Iran's revolutionary establishment has set out to prove that its ranking officials charged with representing and protecting the interests of the Iranian people are corrupt. Among them, NIOC directors Rokn ud-Din Javadi and Mirmoezi, and by many accounts, the current oil minister, Bijan Zanganeh.<sup>325</sup>

Sadly, the Crescent case is not an exception. Evidence suggests dozens of other cases implicate ranking officials from the Rafsanjani and Ahmadinejad administrations to

the Rouhani administration in the systematic plunder of Iran's oil and gas revenues. These are not accidental or isolated cases. The solution to this problem does not lie in the elimination of any individual. The problem is systemic and structural, and one might add ideological. It is rooted in the negation of the very concept of an Iranian nation-state and the dissolution of all notions of citizenship. The Iranian people are not only denied the right to vote. They are denied the right to question their leaders for presiding over one of the largest series of oil heists in history. Despite ample evidence of corruption, negligence and incompetence in all three branches of government, President Ahmadinejad, the Larijani brothers and other ranking officials have not been held accountable. They are a protected class shielded by Iran's supreme leader, and one might add, the IRGC.

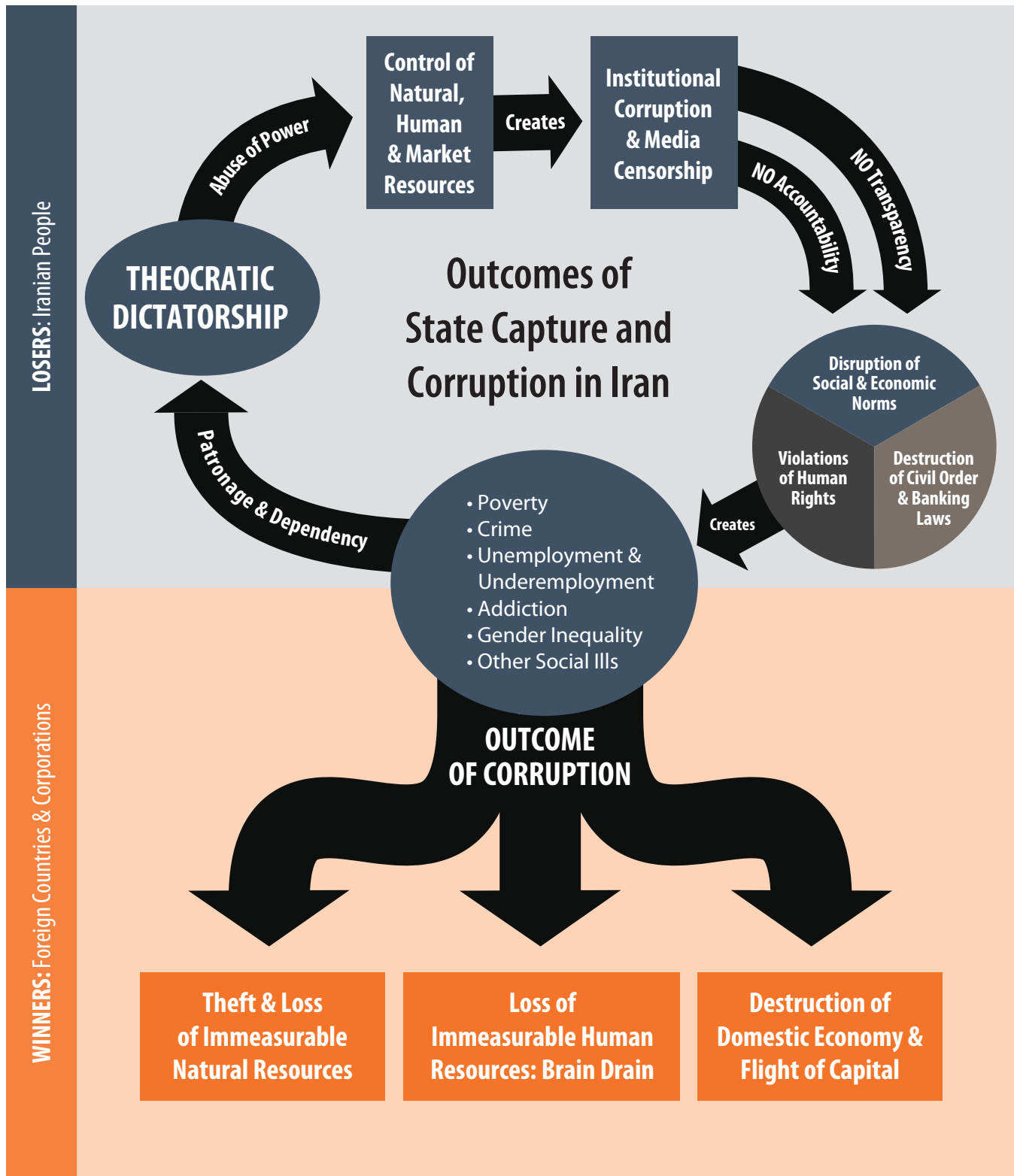
Corruption is a threat to the Iranian nation—the economic livelihood and well-being of millions. They are its primary victims. They pay for it. As do their children. And not only with less opportunity, poorer education and health, but in compromised integrity and shattered dignity. Consequently, the Iranian people cannot expect or assume that other powers will tackle corruption. Every Iranian has a share and a stake in the governance of Iran's oil and gas sector. The response must come from them. In

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*What is at stake is the spirit of a nation*

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Figure 48:



OMID GRAPHIC  
Source: Omid analysis

the name of the Ayatollah, their oil has been denationalized. And so, in the name of the people of Iran, it must be reclaimed and renationalized.

As demonstrated in this paper, the price of that malpractice is paid by millions of Iranians daily. And while theft in the billions is such that most cannot imagine the scale of the damage, this paper demonstrates what every billion dollars lost to the corruption epidemic does to the Iranian people in terms of the loss of jobs, health, housing and education.

Now consider what it means to lose a trillion dollars, roughly 8 million jobs, over a decade. And what such economic performance means for Iran's security, prosperity and future, decade after decade.

The challenge facing the Iranian people is to recognize what corruption represents and why it pervades every aspect of Iranian life. What is at stake is not just money. What is at stake is the spirit of a nation: the future of Iran, and, one might add, Islam. The concept of an Islamic state, as advanced by Iran's rulers, is premised on dismantling the very idea of an Iranian state and nation as a legal and historic construct. And, by extension, the dissolution of the state is premised on the destruction of the idea of citizenship. The electoral system is rigged such that Iranians can only vote for the thieves of state. And the political and economic system is rigged in such a manner that the Iranian people cannot question the theft, let alone reclaim, their title to their oil. This is not only a national security threat. It is a threat to the survival of Iranian culture and civilization.

The loss of control over the Iranian people's oil revenues is not only a threat to prosperity, it is also a threat to peace and stability. The regional and international implications of corruption cannot be ignored. Corruption fuels extremism and finances terrorism. As with Iraq's Oil-for-Food Program, a global oil mafia depends on a black market for commodities in which there are no controls over the sale of Iranian oil and no accounting for the transfer of Iran's oil revenues. Sadly, economic distortions on such a scale can have lasting and dangerous consequences for political stability. It is not only Iran, but all nation-states that can become the target of such global criminal networks.

There is still an opportunity, albeit slight, to recognize that *Velayat-i Faqih* is neither a divine nor an eternal prin-

ciple. The trillion-dollar price-tag for corruption and sanctions over the last decade need not be replicated, or compounded, decade after decade. A clear break with *Velayat-i Faqih*, is possible. So is the introduction of fundamental political and economic reforms that can salvage an oil and gas sector that generations of Iranians have built over a century. Skeptics may point to the chaos and confusion in the oil and gas sector as proof that nothing can be done. The corruption is too great, the forces too powerful, the risks too high and the game too dangerous for the Iranian people to enter the scene. Why reclaim their title and demand a full accounting for every drop of their oil, for every contract, project, investment and expenditure made in their name? It may be safer to remain passive, to stand by and let the thieves of state take Iran's wealth, and hope that they might leave a few scraps for the Iranian people as a token of their contempt, in much the same way as the investors and directors of British Petroleum did. The cynics may be right. Reversing decades of neglect, sabotage and corruption may be a quixotic quest. But so was the constitutional revolution. And so was the nationalization of Iran's oil. The critics may shoot back. Why cling to the memory of those who risked everything in the name of Iran and the Iranian people, every drop of their blood, every dime of their wealth, and every ounce of their energy, when their devotion and work on behalf of the Iranian people has been so thoroughly obliterated? Why invest in the future of Iran and the Iranian people?

The answer is simple. Because while they may be dead, their dreams and devotion, their Iran lives on. And it does not live on in the heart of one or two people. It lives on in the heart of millions. And no amount of theft can extinguish the pride and dignity, the joy and genius, the light and the love that continues to shine through and in the name of their Iran.

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*How can we not know how this oil is  
being sold and where this money is being  
spent and by whom?*

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## The Call to Action: National Mobilization Against Corruption

So what is to be done? What can each of us do?

The Iranian people must invert the relationship between state and society from one where they are treated as subjects of the state to one where they act as citizens. Just as they asked the question, “Where is my vote?” to put an end to the theft of their political rights, they must now all ask the question, “Where is my oil?” and mobilize against corruption, the theft of their economic rights. The two questions—“Where is my vote?” and “Where is my oil?”—are connected. The amputation of political rights by the thieves of state has an economic purpose: the theft of Iran's natural resources, the siphoning of billions out of the economy, and one might add, the sapping of the nation's spirit.

The scale of the theft in Iran's oil and gas sector in the Ahmadinejad period alone has exposed the Iranian people to over \$1 trillion in economic damage. Given that millions of Iranians live below the poverty line, and millions more in the middle class are following suit, stopping corruption is not an abstract or academic matter to be left to the experts. It is a practical matter—a question of survival for millions of families.

Such a state of affairs will continue, as it did with the British, as long as the Iranian people are treated as second-class citizens—minors whose economic and political status is dependent and determined by higher and greater powers. By the same token, such a state of affairs can and will change the instant the Iranian people dare to frame and raise the question: “Where is my oil?”

The very fabric of Iranian civilization and culture is being destroyed before our very eyes—one mother, one father, one child at a time. Virtually, all Iranians, except for a select elite linked to the kleptocracy, absorb the cost and pay the price of corruption daily. They may not see or experience the theft of Iran's oil as a direct assault on their livelihoods and families but they do experience the symptoms. The epidemic of societal and economic breakdown—unemployment, poverty, declining purchasing power, addiction, prostitution, divorce, homelessness—may be experienced in isolation as personal failures and

tragedies, yet in reality, the damage is collective, evidence of systemic violation.

Today, Iranians owe it to themselves to witness the connection between their economic plight and corruption by design in the oil and gas sector. They are all absorbing the cost of plunder, with shame and humiliation as the currency masking the face of poverty. What is lacking is a language for translating failure and loss into action rather than lament. There is an urgent need for economic literacy—for bringing astronomical figures and scale of the corruption cases into focus. Every barrel of oil, every shipment of oil, every billion-dollar contract is a matter of life and death, health and sickness, for real people. How can we not know how this oil is being sold and where this money is being spent and by whom?

It is time for demanding transparency and accountability: every barrel of oil can make a difference in the life of the nation. Instead of selling their kidneys, let Iranians join a movement that asks “Where is my oil?” Instead of watching their mothers sell their jewelry, their daughters their bodies, their sons their dignity, let Iranians raise their voices and ask “Where is my oil?”

Everyone has a voice and a role to play for a national movement to reclaim Iran's oil and to have it assume the force and energy it once commanded.

### 1: Political Leaders

To be sure, Iran needs leaders who, like Reza Shah, Dr. Mohammad Mossadegh and the late Shah, Mohammad Reza Pahlavi, understand the centrality of Iran's oil and gas sector to the sovereignty, security, health, prosperity and future of the Iranian people. They not only understood the economic value of oil, but had a vision for the sector—one that linked Iran's oil revenues and resources to the political and economic development of the Iranian nation, not a corrupt and phony theocracy bound to a revolutionary ideology. Every Iranian political leader has an obligation to raise and demand an answer to the question: “Where is my oil?”

*So what is  
to be done?  
What can each  
of us do?*

## 2. Religious leaders

Since the days of the Tobacco Revolt, Iran's religious leaders, the true and noble ones as opposed to the mercenaries and scoundrels, have defended the nation's honor and dignity by serving as the backbone of protest movements against capitulations, concessions and occupation. The clergy have not only articulated but also mobilized public opinion against abuses of power and privilege—being religious did not mean negating the people's rights but standing up for them. At a time when corruption in the oil and gas sector is threatening the sanctity of the state, military, philanthropic and even religious institutions, Iran's clergy must demonstrate their independence and integrity by generating a concerted response against corruption. The alternative is for them to risk losing their status and standing by acting as courtesans in the service of the state. Rather than taking their orders from Iran's Supreme Leader, every Friday prayer leader must raise the public's awareness about the theft of their oil. We invite every Friday prayer leader from those of major cities to small towns and villages to speak out against the corrupt system or resign.

## 3. Intellectuals, Academics and Professionals

Iran also needs a class of public intellectuals, academics, professionals, technocrats and experts who can frame the problem. Only then will the extent, nature and sources of corruption in Iran's oil and gas sector be seen. The questions must be formulated, the data must be collected, reports must be commissioned, audits must be performed and the results must be communicated. Without data, there can be no knowledge, without knowledge, there can be no processes and policies, and without processes and policies, there can be no transparency and no accountability: no management and no governance, no productivity and no performance. Those who have the gift of education, talent and knowledge have a duty to speak and serve on behalf of the Iranian people.

## 4. Journalists and Artists

No single group has risked more to raise the public's awareness of the scale of the theft in Iran than journalists and artists. Many of Iran's leading journalists, cartoonists and artists have paid a terrible price for daring to speak truth to power, daring to defy cen-

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*This is not only a national security threat. It is a threat to the survival of Iranian culture and civilization.*

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sorship, daring to call crooks by their name at the risk of being accused of violating national security and insulting religious sanctities. The true insult, of course, is that thieves of state use their monopoly over the state, religion, economy and military to promote corruption and conceal theft. Yet journalists and artists are unmasking systemic corruption, piercing the veil of divinity to expose corruption case after case. Iranians owe them much for effectively waging a war to prevent ethical and cultural norms from becoming distorted beyond recognition. Without journalists giving a form and face to facts, and artists breathing emotion and imagination in the battle against corruption, there can be no collective language, let alone a collaborative response against corruption.

## 5. Unions and Associations

All of Iran's unions and associations—whether they represent lawyers, economists, teachers, students, farmers, laborers, bus drivers—have a direct stake in protecting Iran's oil and gas sector against plunder. Their membership's bargaining power, wages, purchasing power, pensions are all at stake. They can simply compare the decline of their economic status from 1979 till today with Turkey and Korea to understand what continued poor stewardship of Iran's oil and gas resources and revenues will mean in the decades to come.

## 6. Public sector

Government officials and bureaucrats also have a role, indeed, a duty, to guard and to act in the interests of the nation. Contrary to the stereotypes, both under the Pahlavi dynasty and today under the Islamic Republic, there are many devoted civil servants who uphold the highest standards of morality and ethics

despite their low wages. And while there is enormous pressure to ignore and even facilitate corruption at the NIOC and other governmental organizations and institutions, there is also deep resentment and resistance over the reckless and wanton disregard for the public good. Many Iranians, both inside and outside government, still put Iran first, humanity first, justice and ethics first. Some do so as devout Muslims, Christians, Jews and Bahá'ís, others as fervent patriots and still others as dutiful professionals. These managers, engineers, accountants, laborers, bankers and inspectors are not only a bulwark against corruption but the foundation upon which Iran's oil and gas sector will be rebuilt. Since they have not sold the Iranian people short, they should be called upon, trained, recognized and rewarded for speaking up against nepotism in appointment, the stripping of assets, rigging of contracts, the tampering with documents, the diversion of shipments, the purchase of phantom rigs and a host of other violations. They can not only ask the question, "Where is my oil?" they can also provide the answers.

### **7. Private Sector**

The private sector must also protect its integrity by differentiating between legitimate business and criminal enterprises linked to Iran's oil and gas mafia. Whether it is figures like Babak Zanjani and Reza Zarrab, or IRGC linked contractors like Khatam al-Anbia or various so-called religious foundations and charities linked to the regime's clerics—Iran's oil and gas mafia must not be allowed to leverage Iran's oil wealth to monopolize the rest of Iran's economy. Asking "Where

is my oil?" means asserting national sovereignty and jurisdiction over the energy sector: questioning the qualifications, reviewing the contracts, monitoring the operations and auditing the books of all entities and individuals operating in the sector.

### **8. Civil Society**

But, in the end, nothing will come to pass, if the public does not make tackling corruption in Iran a national priority. That means teachers and civil servants whose purchasing power is declining year after year, workers who are not being paid, students who cannot find jobs, families that cannot afford rent, addicts who are selling their kidneys are all facing the same problem, albeit in different silos. To reclaim their standing and status, they must speak, act, organize and move in concert. Such a revival depends on a new mentality—a new analysis of how power is marginalizing rather than serving the Iranian people. It means refusing to suffer from the stigma of shame and isolation but rather uniting, as we have done before, as part of a national movement to reclaim our title to Iran's oil and gas—every drop of oil, every inch of soil, every sale and every cent belongs to the Iranian people—not an exclusive ruling circle or revolutionary caste.

We cannot address the symptoms of our individual and national suffering without connecting our social and economic plight to the underlying cause: the plunder of Iran's oil and gas sector by the thieves of state. If we abdicate our role and title to the sector, we become complicit in the subjection, abduction and destruction of current and future generations of Iranians.

# Appendix 1:

## SAM Technical Analysis

It is important to note that all the nominal values are adjusted for inflation and differences in exchange rates. A similar social accounting matrix (SAM) of the base year of 2006 was used by Fatemeh Bazzazan in her analyses of cash subsidies in Iran.<sup>326</sup> The SAM has 20 activities sectors. Factors of production are aggregated in one account. Households at the decile level are aggregated in rural

and urban households. The exogenous accounts include the government account, the investment account, and the rest of the world. For more details, see Appendix Table 5. The SAM is balanced using the iterative adjustment procedure, as proposed by the RAS methodology. RAS is commonly used to balance SAMs that uses the row and column sums as controls.<sup>327</sup>

### A SAM-Based Multiplier Model for Iran

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#### Scenarios and Simulations

This paper uses a social accounting matrix (SAM) multiplier model (for details, see Methodology) to estimate the economic gain from reducing corruption and misgovernance.

Appendix Table 1 presents the increase in income of different sectors of Iranian economy under different scenarios. Scenario 1 simulates the recovery of \$2.7 billion from the Zanjani scandal. Based on the multiplier effect, the crude oil sector is the biggest beneficiary. It registers a gain in income of around \$4 billion. The home appliances and retail sectors gain a combined income of \$821 million. Education and health sector gain around \$278 million in income. Construction and wood products are amongst the least affected sectors. Iranian households can expect their combined incomes to increase by \$2.5 billion. When the gains of different sectors are added together, we arrive at the aggregate gain to Iranian economy. As shown in Appendix Table 1, the aggregate gain to Iranian economy is around \$10.2 billion, nearly four times greater than the Zanjani scandal.

Scenarios 2–6 show the gain from recovering the missing oil revenue of between 5%–25% as a ratio of total oil revenue of around \$70 billion, adjusted for current prices. For example, Nigeria’s Reconciliation Committee put their missing oil revenues at around 15% of total oil revenue between 2012 and 2013. Using Nigeria as a baseline case for Iran, an identical 15% increase in oil revenues due to recovery would bring in a total of \$47 billion in annual income for Iranian economy. The education and health sector would gain around \$1.2 billion. The Iranian households would gain around \$12 billion in combined income. Construction and wood products remain amongst the least affected sectors.

**Appendix Table 1.****Gain from recovery of the oil revenue income (Millions USD)**

Sectors	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5	Scenario 6
	Zanjani scandal	5% of oil revenue	10% of oil revenue	15% of oil revenue	20% of oil revenue	25% of oil revenue
Scandal cost	<b>\$2.7bn</b>	<b>\$3.5bn</b>	<b>\$7.0bn</b>	<b>\$10.5bn</b>	<b>\$14.0bn</b>	<b>\$17.5bn</b>
Crude oil	\$4,155	\$6,461	\$12,922	\$19,383	\$25,844	\$32,304
Urban Households	\$2,089	\$3,248	\$6,497	\$9,745	\$12,993	\$16,241
Other activities	\$572	\$890	\$1,780	\$2,670	\$3,560	\$4,450
Rural Households	\$508	\$790	\$1,580	\$2,370	\$3,159	\$3,949
Home appliances	\$421	\$654	\$1,309	\$1,963	\$2,617	\$3,272
Retail	\$400	\$622	\$1,243	\$1,865	\$2,487	\$3,108
Agriculture	\$385	\$599	\$1,199	\$1,798	\$2,397	\$2,997
Food	\$278	\$432	\$864	\$1,296	\$1,729	\$2,161
Insurance	\$236	\$367	\$734	\$1,101	\$1,467	\$1,834
Transportation	\$221	\$343	\$687	\$1,030	\$1,374	\$1,717
Health	\$205	\$319	\$638	\$957	\$1,276	\$1,595
Water	\$98	\$153	\$306	\$459	\$613	\$766
Motor vehicles	\$93	\$145	\$290	\$435	\$579	\$724
Post and telecommunications	\$85	\$132	\$265	\$397	\$530	\$662
Metals and machines	\$81	\$126	\$252	\$378	\$504	\$630
Textiles	\$76	\$119	\$238	\$356	\$475	\$594
Electricity and natural gas	\$74	\$115	\$230	\$346	\$461	\$576
Education	\$73	\$113	\$227	\$340	\$453	\$567
Fisheries and Livestock	\$44	\$68	\$136	\$203	\$271	\$339
Financial services	\$42	\$66	\$132	\$198	\$264	\$330
Wood	\$37	\$57	\$114	\$171	\$228	\$284
Construction	\$37	\$57	\$115	\$172	\$230	\$287
<b>Total</b>	<b>\$10,212</b>	<b>\$15,878</b>	<b>\$31,755</b>	<b>\$47,633</b>	<b>\$63,511</b>	<b>\$79,389</b>

## Methodology

A social accounting matrix (SAM) analysis is a common tool for the estimation of economic gains. Corruption has both direct and indirect effects on the economy. One of the main sources of corruption in Iran is losses due to missing oil revenues. The crude oil sector is directly affected by this kind of corruption. However, the missing oil revenue might experience indirect effects from the crude oil sector's linkages with other parts and sectors in the Iranian economy. The multiplier effect is the sum of the direct and indirect effects.<sup>328</sup> The multiplier effect is then used to

calculate the total gain to the Iranian economy by reducing corruption and recovering the missing oil revenue.

We constructed five scenarios to estimate the gain to Iranian economy from recovering the missing oil revenue. Scenario 1 is based on Iran's Babak Zanjani scandal that cost the country around \$2.7 billion in oil revenues.<sup>329</sup> Zanjani was accused of withholding \$2.7 billion of the \$17 billion in oil revenue meant to be channeled back to the government through his companies. Scenarios 2–5 are based

on the cross-country estimates that countries increase annual oil revenues anywhere from 5%–25% by reducing corruption and recovering the missing oil. Nigeria's Reconciliation Committee put the missing oil revenues in their country at around 15% of total oil revenue between 2012 and 2013. It is also noteworthy that Nigeria performs better than Iran on nearly all the resource governance indicators published by the Natural Resource Governance Institute (NRGI).<sup>330</sup> This implies Iran's situation would be worse than Nigeria's. We draw from Nigeria's experience and choose 15% as a conservative baseline scenario for Iran. The values presented in this analysis are adjusted based on the prices of the respective base year combined with the prevailing USD-IRR exchange rates at the time.

SAM is an economic accounting system that records all transactions and transfers between agents in an economy.<sup>331</sup> The general structure of a SAM is presented in Appendix Table 4. A SAM is a square matrix in which each account has its own row and column. Expenditures are listed in columns and the incomes in rows. Double-entry accounting means that, for every account in the SAM, total income is equal to total expenditure. Because each account must balance, the corresponding row and column totals are equal.<sup>332</sup>

The purpose of a SAM-based multiplier model is to provide quantitative estimates of the direct and indirect impacts of an exogenous demand-side shock on the economy.

**Appendix Table 4. Basic structure of a SAM for Iran**

	Activities	Factor Production	Households	Government	Investment	Rest of the world	TOTAL
Activities							Total activity income
Factor Production	Value added						Total factor income
Households		Factor payment to household		Social transfers		Foreign remittances	Total household income
Government			Direct taxes			Foreign grants and loans	Government income
Investment			Private savings	Fiscal surplus		Current account balance	Total savings
Rest of the World							Foreign exchange outflow
TOTAL	Gross output	Total factor production	Total household spending	Total gov't. expenditure	Total investment spending	Foreign exchange inflow	

**Note:** (Each account is represented twice: once as a row (showing receipts) and once as a column (showing payments)).

### Limitations

As with any analysis, there are some limitations to our approach due to the level of detail that we can obtain from available data. Key limitations to bear in mind include:

- One major limitation of SAM is that we assume “that prices are fixed and that any changes in [revenue] will lead to changes in physical output rather than prices. This in turn requires an additional assumption that the economy's factor resources are unlimited or un-

constrained, so that any increase in demand can be matched by an increase in supply.”<sup>333</sup>

- SAM also assumes “that all structural relationships between sectors and households in the economy are unaffected by exogenous changes in demand. In other words, the input coefficients of producers and the consumption patterns of households remain unchanged.”<sup>334</sup>

**Appendix Table 5. Number of components and definitions**

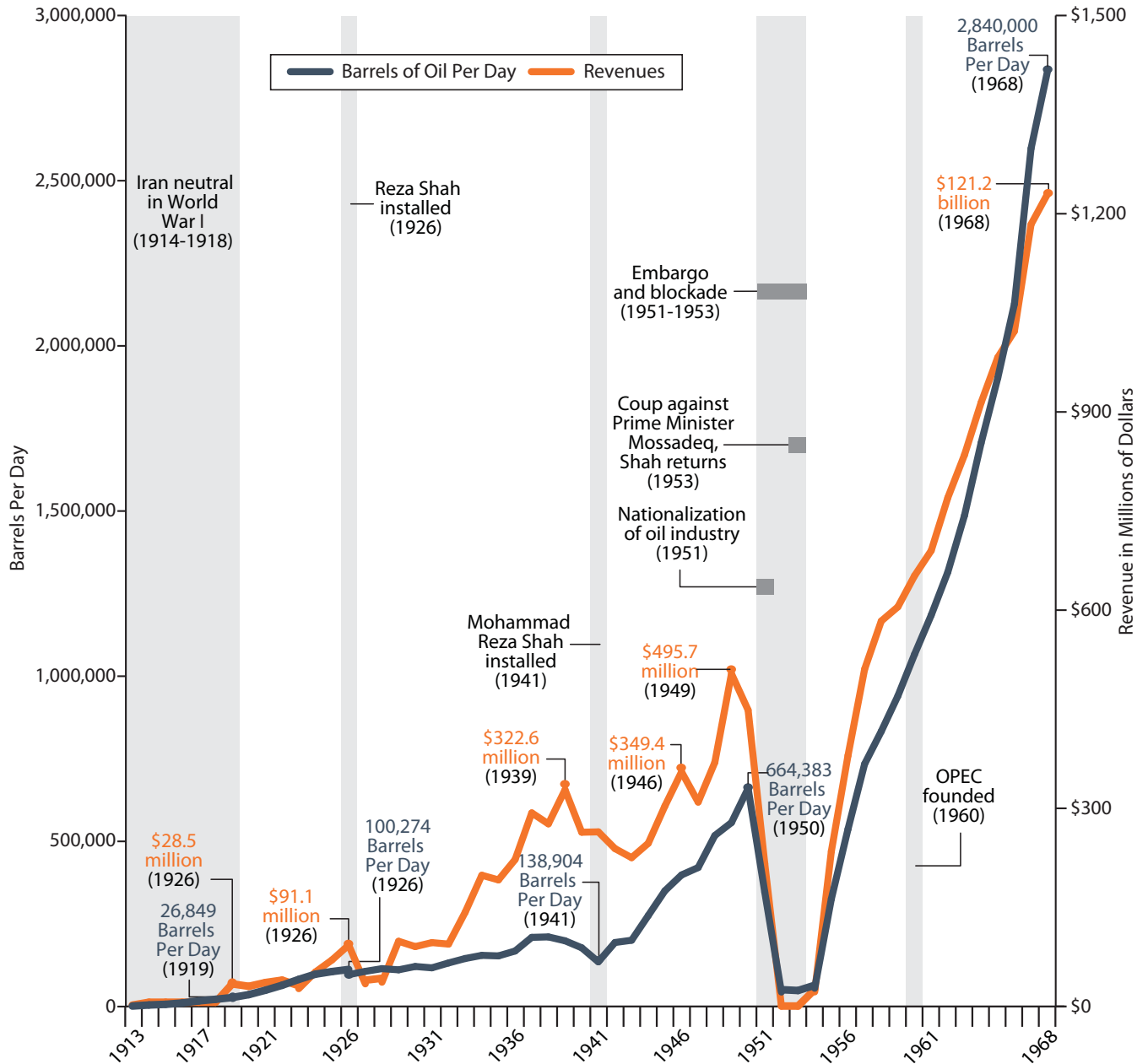
<b>Endogenous accounts:</b>
Agriculture
Fisheries and Livestock
Crude oil and petroleum
Food
Textiles
Wood
Metals and machines
Home appliances
Motor vehicles
Electricity and natural gas
Construction
Water
Transportation
Post and telecommunications
Education
Insurance
Health
Retail
Financial services
Other activities
Factor production (Labor, capital, and land)
Households (Urban households and Rural households)
<b>Exogenous accounts:</b>
Government
Investment
Rest of the world

*To learn more about how a SAM-based multiplier model works, good overviews<sup>335</sup> of the process are found at the World Bank's website, [worldbank.org](http://worldbank.org). Search for "Social Accounting Matrices" and choose "Chapter 14 Social Accounting Matrices and SAM-based Multipliers Analysis."<sup>336</sup>*

# Appendix 2: Iran's Historic Oil Production

**Figure 49: Iran Oil Production and Revenue—the Early Years (1913–1968)**

Revenue adjusted for inflation to 2015 U.S. dollars



OMID GRAPHIC

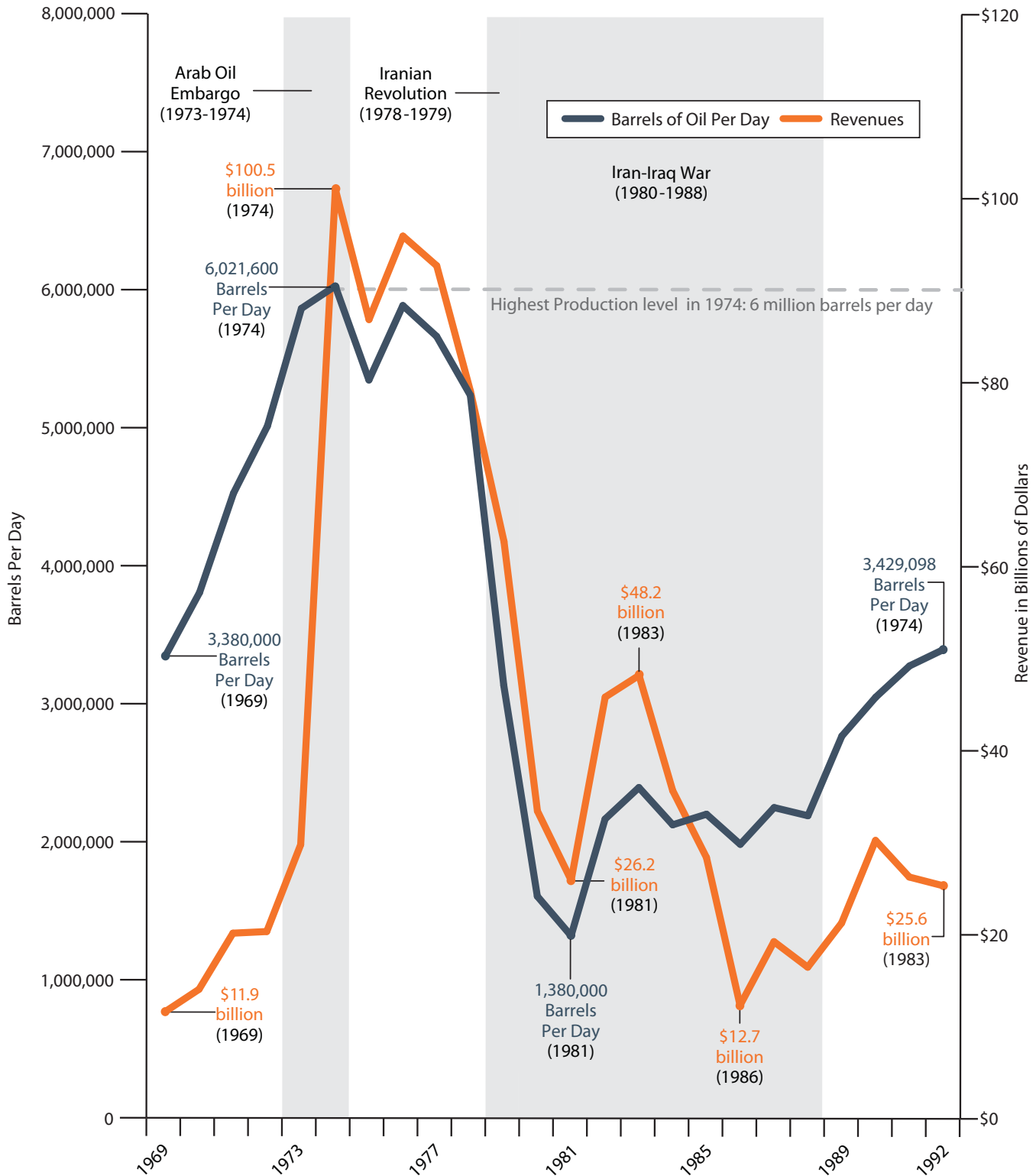
Note: In constant 2015 dollars calculated from current dollars using U.S. Bureau of Labor Statistics CPI Inflation Calculator. Contemporaneous revenue data converted from British Pounds to U.S. Dollars using historical exchange rates for 1913 to 1962. OPEC revenue figures, beginning in 1969, are "values of petroleum exports."

Sources: U.S. Bureau of Mines; Bloomberg; OPEC; Elm, Mostafa, "Oil, Power, and Principle," Syracuse University Press, 1992. 2016 oil production as of August.



**Figure 50: Iran Oil Production and Revenue—Rise and Fall (1969–1992)**

Revenue adjusted for inflation to 2015 U.S. dollars



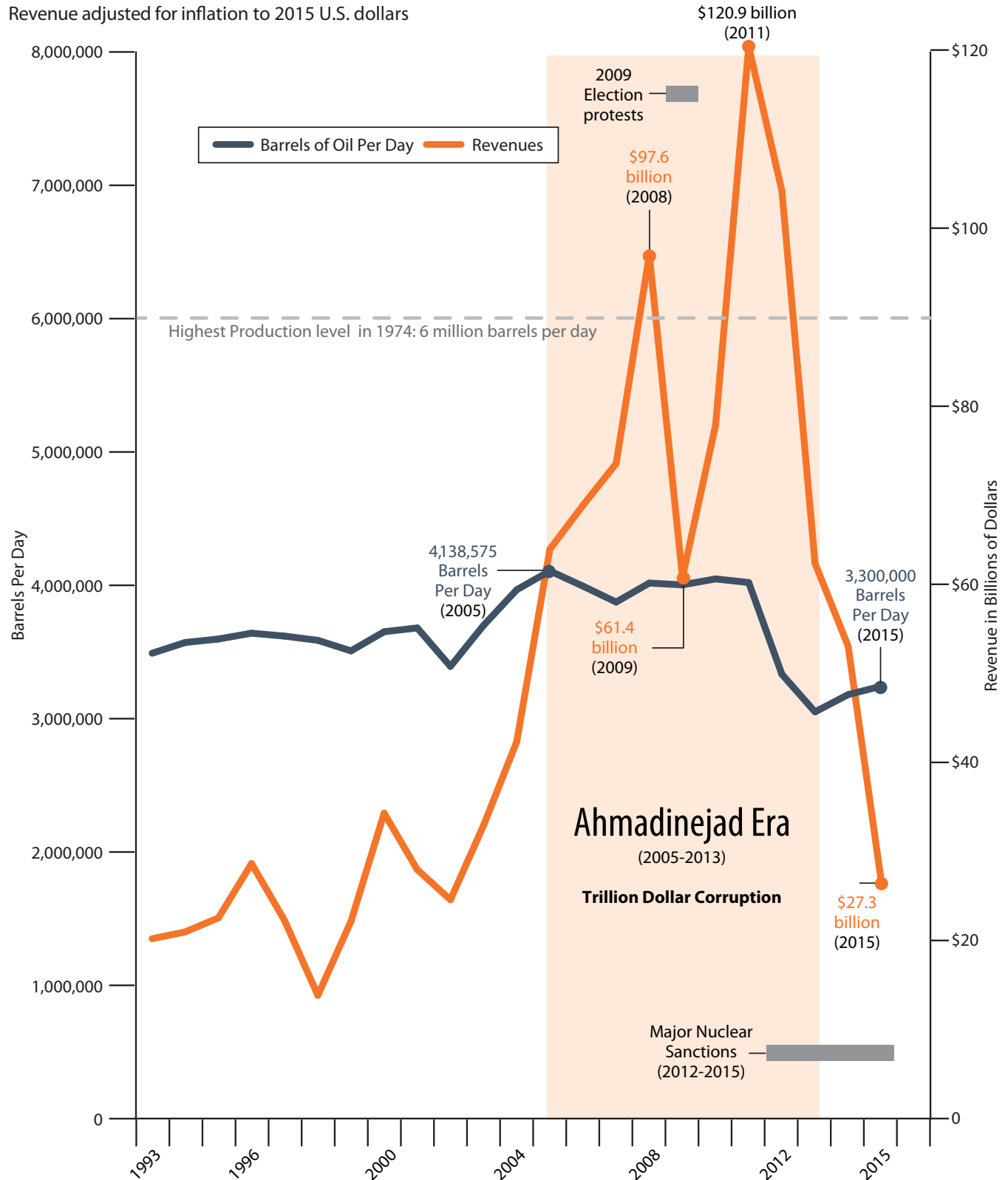
OMID GRAPHIC

Note: In constant 2015 dollars calculated from current dollars using U.S. Bureau of Labor Statistics CPI Inflation Calculator. Contemporaneous revenue data converted from British Pounds to U.S. Dollars using historical exchange rates for 1913 to 1962. OPEC revenue figures, beginning in 1969, are "values of petroleum exports."

Sources: U.S. Bureau of Mines; Bloomberg; OPEC; Elm, Mostafa, "Oil, Power, and Principle," Syracuse University Press, 1992. 2016 oil production as of August.

**Figure 51: Iran Oil Production and Revenue—Lost Opportunities (1993–2016)**

Revenue adjusted for inflation to 2015 U.S. dollars



OMID GRAPHIC

Note: In constant 2015 dollars calculated from current dollars using U.S. Bureau of Labor Statistics CPI Inflation Calculator. Contemporaneous revenue data converted from British Pounds to U.S. Dollars using historical exchange rates for 1913 to 1962. OPEC revenue figures, beginning in 1969, are "values of petroleum exports."

Sources: U.S. Bureau of Mines; Bloomberg; OPEC; Elm, Mostafa, "Oil, Power, and Principle," Syracuse University Press, 1992. 2016 oil production as of August.



# Appendix 3:

## Subsidiaries of the National Iranian Oil Company (NIOC)

National Iranian Offshore Oil Company  
National Iranian Drilling Company  
National Iranian South Oil Company  
National Iranian Central Oil Fields Company  
National Iranian Tanker Company  
Naft'e Iran Trade Company  
Pars Oil and Gas Company  
National Iranian Gas Export Company  
Khazar Exploration and Production Company  
Petroleum Engineering and Development Company  
Pars Special Economic Energy Zone Company  
Iranian Fuel Consumption Optimizing Organization

Exploration Service Company  
Kala Naft London Ltd.  
MSP Kala Naft Company  
Arvandan Oil and Gas Company  
Karooon Exploration and Production Company  
Masjid Sulieman Exploration and Production Company  
Gashsaran Exploration and Production Company  
Maroon Exploration and Production Company  
Aqajari Exploration and Production Company  
South Zagros Oil and Gas Company  
Oil and Gas Study and Development





# Appendix 4:

## Reza Zarrab's Financial Network

Zarrab's \$2.4 Billion in payments of Iran's Oil and Gas profits held in Halk bank to various entities and individuals in Iran in 2012, as revealed in the Atilla Case tried in New York.<sup>337</sup>

Name	# of Payments	Date/s	Payments in euros	Payments in dollars
Azar Rahbar	11	4/5/2012 to 4/5/2012	€ 24,435,896.55	\$ 31,317,704.79
Bad Asa Co.	1	5/28/2012	€ 904,057.00	\$ 1,158,663.86
Bank Keshavarzi	9	5/11/2012 to 5/21/2012	€ 26,024,741.85	\$ 33,354,011.82
Bank Pasargad*	1	3/9/2012	€ 25,475,376.00	\$ 32,649,930.00
Bank Pasargad	166	3/15/2012 to 8/15/2012	€ 455,757,216.78	\$ 584,110,754.47
Beh Avarane Nafis	9	6/4/2012 to 8/15/2012	€ 18,866,891.50	\$ 24,180,317.55
Butan Co.	3	6/11/2012 to 6/21/2012	€ 2,110,601.20	\$ 2,705,003.48
Dinar Co.	13	5/10/2012 to 5/23/2012	€ 30,641,154.35	\$ 39,270,530.73
Faraz Etemad Exchange	2	5/25/2012	€ 5,133,901.50	\$ 6,579,746.78
Fatemeh Ouraki	1	6/18/2012	€ 83,142.20	\$ 106,557.29
Fayegh Abdi	3	5/10/2012 to 6/29/2012	€ 999,837.69	\$ 1,281,418.98
Felourespar Co.	1	5/4/2012	€ 202,084.50	\$ 258,996.95
Foulad Sabz Tabarestan	3	4/6/2012 to 6/29/2012	€ 1,910,857.80	\$ 2,449,006.95
Golchin Sanaat	6	5/18/2012 to 5/25/2012	€ 11,318,523.00	\$ 14,506,124.68
Heshmati & Partner Tazamon	11	3/29/2012 to 5/14/2012	€ 29,937,381.15	\$ 38,368,555.99
Jahan Nama Co.	10	5/14/2012 to 5/29/2012	€ 22,579,853.40	\$ 28,938,949.77
Karafarin Exchange	4	8/24/2012 to 9/13/2012	€ 9,210,933.90	\$ 11,804,981.58
Kavian Pardazesh	9	5/14/2012 to 5/25/2012	€ 21,610,544.05	\$ 27,696,656.74
Kavian Sazeh	3	5/18/2012	€ 4,962,264.00	\$ 6,359,771.52
Kaviyan Toos	1	5/29/2012	€ 1,141,424.20	\$ 1,462,880.07
Kish Marbel Beach Resort	3	3/14/2012 to 3/27/2012	€ 4,902,166.00	\$ 6,282,748.30
Kish Marbel Beach Resort*	2	3/7/2012 to 3/8/2012	€ 14,386,049.13	\$ 18,437,549.00
Masoud Najmipour	2	5/28/2012 to 7/12/2012	€ 3,000,541.90	\$ 3,845,575.51
Matin Baran Manafi	2	5/15/2012 to 5/30/2012	€ 1,602,149.00	\$ 2,053,357.42
Mehdi Chamani	2	6/27/2012 to 6/29/2012	€ 271,503.56	\$ 347,966.29
Mehran Soltani	3	8/2/2012 to 10/9/2012	€ 764,801.78	\$ 980,190.61
Mohammad Mehdi Farokhi	2	5/4/2012	€ 5,164,050.00	\$ 6,618,385.91

Name	# of Payments	Date/s	Payments in euros	Payments in dollars
Mohammad Rostami Safa*	6	3/8/2012 to 3/13/2012	€ 22,406,716.77	\$ 28,717,053.20
Mohammad Rostami Safa	37	3/14/2012 to 4/30/2012	€ 101,186,783.70	\$ 129,683,714.03
Mojdeh Distribution Industry	2	4/6/2012	€ 2,029,800.00	\$ 2,601,446.48
Nazir Tejarat Astara	1	5/14/2012	€ 404,169.00	\$ 517,993.90
Noavaran Sam Azar	2	6/11/2012 to 6/25/2012	€ 1,855,635.20	\$ 2,378,232.17
Novin Exchange	1	2/27/2013	€ 698,067.13	\$ 894,661.68
Parsian Co.	63	4/27/2012 to 7/10/2012	€ 151,629,880.80	\$ 194,332,949.24
Parsian Exchange	16	4/5/2012	€ 24,565,743.69	\$ 31,484,120.39
Pasokhgou Exchange	3	4/27/2012 to 7/10/2012	€ 4,428,366.90	\$ 5,675,514.58
Paydar Pay Co.*	4	3/6/2012 to 3/8/2012	€ 4,694,319.79	\$ 6,016,367.00
Paydar Pay Co.	7	3/16/2012 to 4/16/2012	€ 17,706,017.55	\$ 22,692,510.15
Paydar Sarmay Co.*	1	3/6/2012	€ 3,408,517.45	\$ 4,368,448.00
Paydar Sarmay Co.	17	4/5/2012 to 4/27/2012	€ 46,362,641.90	\$ 59,419,613.65
Paydare Qeshm Co.*	4	3/5/2012 to 3/8/2012	€ 5,641,764.10	\$ 7,230,637.20
Paydare Qeshm Co.	13	4/2/2012 to 4/20/2012	€ 32,978,655.10	\$ 42,266,334.80
Paydare Tooseh Co.	17	4/5/2012 to 4/26/2012	€ 43,451,182.15	\$ 55,688,208.23
Payeh Paydar Co.*	1	3/13/2012	€ 5,291,842.91	\$ 6,782,168.75
Payeh Paydar Co.	10	3/14/2012 to 4/27/2012	€ 21,019,712.30	\$ 26,939,430.82
Poya Gostar	1	5/10/2012	€ 2,811,770.50	\$ 3,603,640.99
Pouyan Sanaat Co.	6	5/14/2012 to 5/24/2012	€ 13,310,532.90	\$ 17,059,138.35
Pouya Tarabar Co.	11	5/14/2012 to 5/30/2012	€ 21,383,027.60	\$ 27,405,065.51
Qesh Qeshm Co.*	2	3/8/2012 to 3/12/2012	€ 2,523,470.55	\$ 3,234,148.00
Qesh Qeshm Co.	2	3/28/2012 to 4/17/2012	€ 9,164,049.50	\$ 11,744,893.27
Qeshme Paydar Co.	12	3/21/2012 to 4/27/2012	€ 32,828,995.25	\$ 42,074,526.70
Qeshm Sarmayeh Co.	7	4/3/2012 to 4/27/2012	€ 27,149,699.35	\$ 34,795,787.73
Qeshm Tooseh Co.	15	5/14/2012 to 5/15/2012	€ 50,394,816.30	\$ 64,587,357.23
Reza Azimian	2	5/11/2012	€ 5,045,893.75	\$ 6,466,953.67
Rezvan Co.	2	5/14/2012	€ 3,233,352.00	\$ 4,143,951.22
Saba Sepehr Co.*	1	3/13/2012	€ 846,694.86	\$ 1,085,147.00
Saba Sepehr Co.	1	3/29/2012	€ 1,223,850.00	\$ 1,568,519.20
Saber Ghajarzadeh	1	4/6/2012	€ 369,841.50	\$ 473,998.85
Sahand Steel Arya Co.	10	3/21/2012 to 5/15/2012	€ 22,955,903.70	\$ 29,420,905.99
Saman Bank Co.	4	6/27/2012 to 6/29/2012	€ 5,383,988.08	\$ 6,900,264.49
Saman Exchange Co.	1	12/28/2012	€ 1,854,654.83	\$ 2,376,975.71
Sanat Garane Khavaran	2	5/29/2012	€ 4,035,749.85	\$ 5,172,325.97
Sanat Qand Kurdistan	1	5/15/2012	€ 404,666.50	\$ 518,631.51
Sarmayeh Paydar Co.	21	3/27/2012 to 5/7/2012	€ 51,493,896.70	\$ 65,995,968.35
Sarmayeh Co.*	3	3/8/2012 to 3/12/2012	€ 6,717,692.27	\$ 8,609,575.80
Sarmayeh Co.	1	4/3/2012	€ 3,807,148.00	\$ 4,879,343.67
Sarmayeh Qeshm Co.*	1	3/13/2012	€ 1,566,385.50	\$ 2,007,521.95
Sarmayeh Qeshm Co.	20	4/10/2012 to 8/15/2012	€ 51,508,891.35	\$ 66,015,185.89
Sarmayeh Sarma Co.	8	3/29/2012 to 4/30/2012	€ 20,221,036.75	\$ 25,915,826.67

Name	# of Payments	Date/s	Payments in euros	Payments in dollars
Sarmayeh Tooseh Co.*	1	3/13/2012	€4,233,474.33	\$ 5,425,735.00
Sarmayeh Tooseh Co.	31	4/10/2012 to 5/8/2012	€ 79,256,874.25	\$ 101,577,749.97
SCT Bankers Kish	20	5/22/2012 to 7/10/2012	€ 41,206,253.40	\$ 52,811,046.93
Shahin Koshesh Partikan	2	5/28/2012 to 6/25/2012	€ 929,369.80	\$ 1,191,105.43
Shekar Afshan Kurdistan	3	4/6/2012	€ 852,516.00	\$ 1,092,607.52
Shokoofamanesh Co.	6	5/25/2012 to 7/5/2012	€ 6,143,010.60	\$ 7,873,048.25
Talayeh Co.	13	7/10/2012 to 8/15/2012	€ 23,834,206.90	\$ 30,546,563.09
Teepad Group LLC	3	6/25/2012 to 6/29/2012	€ 3,291,881.48	\$ 4,218,964.19
Toose Sarmayeh*	6	3/6/2012	€ 11,024,268.37	\$ 14,129,000.00
Toose Sarmayeh	14	3/16/2012 to 5/10/2012	€ 36,091,764.35	\$ 46,256,179.67
Tooseye Qeshm Co.	13	3/28/2012 to 4/27/2012	€ 44,955,160.60	\$ 57,615,747.61
Tooseye Toos Co.*	2	3/6/2012	€ 3,417,212.65	\$ 4,379,592.00
Tooseye Toos Co.	17	3/14/2012 to 4/27/2012	€ 50,686,055.80	\$ 64,960,617.64
Tooseh Paydar*	1	3/13/2012	€ 2,894,017.41	\$ 3,526,727.75
Tooseh Paydar	12	3/26/2012 to 5/11/2012	€ 31,467,929.70	\$ 40,330,148.34
Zarkam Noosh Co.	4	5/28/2012	€ 5,999,651.00	\$ 7,689,314.71
Zarrin Dast Yekta	2	5/25/2012	€ 7,171,164.00	\$ 9,190,757.40
Zeynab Jabareh	1	5/14/2012	€ 404,169.00	\$ 517,993.90
Zharf Andishan Sadra	1	5/18/2012	€ 4,135,220.00	\$ 5,299,809.60
<b>TOTAL PAYMENTS</b>			<b>€ 1,911,387,967.66</b>	<b>\$ 2,449,504,104.03</b>

NOTE: The information in this appendix was extracted from a government exhibit used in U.S. v. Zarrab.<sup>337</sup> Except for the payment recipients marked with an asterisk (\*), payments were made in euros. There may be some errors due to rounding. In this table, euros were converted to U.S. dollars using the average rate for May 2012, which was 1.281627. The same rate was used for the few payments made in dollars to convert to euros.

X-rates.com <http://www.x-rates.com/average/?from=EUR&to=USD&amount=1&year=2012>

\*Payment recipient originally paid in dollars.







# Appendix 5:

## Nowruz letter from Evin Prison<sup>338</sup>



This is the 40th Nowruz [Iranian New Year's day, March 21, 2018] since the revolution; a revolution that took place in 1979 with the promise of ending dictatorship, establishing democracy, implementing transparency and preventing the accumulation of wealth in the hands of a particular class; a revolution that the clerics and some political groups said would be a harbinger of peace and freedom and put an end to poverty and discrimination, where people would have access to free water and electricity and enjoy such rights as freedom of thought and expression, free and equal educa-

tion, with the right to form organizations and unions, hold protests and strikes, assemble and rally and be equal against the law.

But these aspirations did not amount to anything besides slogans. The blessings of the revolution benefitted not the poor but rather the rich, the powerful and tricksters. The groups that came to power used the state media to promise a better and more dignified life. They took advantage of the people's beliefs and values to attract votes while amassing wealth from the nation's treasury and now we see competing factions trying to expose each other.

During these four decades, most countries in the world have made education a priority. But in Iran the largest ministry in the country [Education Ministry], with more than a million teachers and millions of students, has seen continuous budget deficits. The distribution of welfare and education facilities have always fallen short for the poor and benefitted the wealthy. At the same time, most schools are worn out and teachers and students face many dangers. Retired and employed teachers, including freelance, part-time and pre-school teachers as well as toiling workers, are grappling with how to survive under the poverty line while every few days they hear news about the plunder of funds they worked hard for, such as the recent embezzlement of 13 billion rials (approximately \$3.4 million USD) from the teachers' pension fund.

Since the nuclear deal [July 2015], the officials of the Islamic Republic have boasted to the world about adhering to the Universal Declaration of Human Rights and other international conventions and yet sections of the ruling establishment have no respect for the Constitution

they themselves authored. They are trying to control the conflicts at various levels of society and suppress critics by creating a security climate for the few existing independent teachers' and workers' organizations and crush peaceful assemblies and frame trade union activists with such threadbare charges as "acting against national security" in show trials without the presence of a jury. Unfortunately, despite the monitoring of the situation of workers and teachers in Iran by human rights organizations and international bodies such as Amnesty International, the International Labor Organization and Education International, the suppression of trade unionists has even spread to schools and factories.

Some of the people in charge are putting pressure on the judicial system and interfering with indictments and sentences, rejecting Supreme Court reviews, and preventing conditional leave for prisoners. Acting above the law, unfortunately, they are ruling over judges, prosecutors and other judicial authorities.

As a teacher and board member of the legitimate Iranian Teachers' Trade Association in Tehran, while declaring my solidarity with all teachers and workers of the world, I warn the judiciary about the ominous consequences of its arbitrary and illegal rulings, and I will go on a hunger strike on Tuesday April 17, 2018, to protest against the widespread violation of the rights of teachers and workers in Iran and demand a public trial and the right to go on furlough and medical leave in accordance with Article 520 [of the Criminal Procedures Regulations], which is currently being illegally blocked. Obviously, the judicial branch will be responsible for the consequences of this hunger strike.

Esmail Abdi  
Ward 4, Evin Prison  
March 18, 2018

*Esmail Abdi is a 44 year-old high school teacher and former Secretary General of the Iranian Teachers' Trade Association. He is serving a 6 year prison sentence on charges of propoganda against the state and collusion against national security.*

For more information on this case, please visit Center for Human Rights in Iran ([www.IranHumanRights.org](http://www.IranHumanRights.org)).

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We invite all individuals and organizations who recognize the threat posed by corruption to use their influence and share their ideas on how we can reverse this epidemic in Iran.

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In theory and practice, the principle of *Velayat-i Faqih* (rule of the supreme jurist), is designed to facilitate corruption on a grand scale. The Islamic Republic is founded on constitutional principles premised on the negation of the Iranian nation as a sovereign entity endowed with a title to their oil, gas, and natural resources.