

# Iran's Government and Revolutionary Guards Battle for Control of Economy

**President Hassan Rouhani wants to make way for foreign deals and investment by limiting the business role taken on by the Revolutionary Guards when sanctions isolated Iran.**



Iran's South Pars natural-gas field has extensive infrastructure that an Islamic Revolutionary Guard Corps engineering company has helped build. Above, a construction site in Assaluyeh on the Persian Gulf shore, seen in November 2015. Photo: atta kenare/Agence France-Presse/Getty Images

By  
Benoit Faucon,  
Stacy Meichtry and  
Asa Fitch

May 18, 2016 11:15 a.m. ET

TEHRAN— Ebadollah Abdollahi, a commander of Iran's Revolutionary Guards, was surprised last summer to find one of his top projects being second-guessed.

A confidential review ordered by the government called for scaling back a multibillion-dollar bullet-train project in which he was deeply involved, cutting some of its costs and allowing Western companies to bid for part of the work, said people who saw the report.

Since then, two European companies have negotiated with Iran for a piece of the project, with talks in one case continuing.

Iran is riven by a behind-the-scenes skirmish over the economy, one that was sharply accelerated by the country's 2015 deal with world powers to curb the country's nuclear program.

During years of sanctions that kept away many foreign companies, the Islamic Revolutionary Guard Corps stepped into the void, building a network of companies that came to dominate Iranian industries from energy to telecommunications.

The nuclear deal, by lifting many of the sanctions, is reopening the doors to those foreign companies. The relatively moderate government of President Hassan Rouhani is trying to nudge aside the conservative Revolutionary Guards in some areas to make way for what it hopes will be a flood of Western money.

Top leaders deny discord. President Rouhani, in remarks published by the state news agency IRNA a week ago, said there was no conflict between his administration and other Iranian power bases. "We don't have any confrontation with each other domestically," he said.

Cmdr. Abdollahi, at a news conference a few days earlier, said, "We haven't had any particular problem with any of the government."

But officials of both sides describe tensions over the Revolutionary Guards' extensive involvement in business and what it means for other participants.

The Revolutionary Guards should "be limited to those areas that the private sector is incapable of or uninterested in," a spokesman for the Rouhani government, Mohammad-Bagher Nobakht, said. "The government believes that the private sector should gain the opportunity to present its capability. The government itself shouldn't compete with it. Other sectors like [the IRGC] should not compete with it."



Cmdr. Ebadollah Abdollahi, left, leads the Islamic Revolutionary Guards' construction and engineering unit. Its grip on some business projects in Iran is threatened as Iranian officials such as Oil Minister Bijan Zanganeh, center, and President Hassan Rouhani, right, seek to bring in foreign contractors. Photo: Hasan Hosseini/Shana

An adviser to Cmdr. Abdollahi said that “the government is trying to isolate Revolutionary Guards rather than focusing on economic development.”

Cmdr. Abdollahi himself said in December he had warned “oil-ministry officials that the real intent behind the foreign companies' eagerness to enter Iran is investment for their own benefit only,” according to an account by Iran's Tasnim news agency.

#### Two sides

The behind-the-scenes struggle mirrors a broader debate over Iran's future. Moderates backing President Rouhani seek a degree of social and political liberalization, as well as better relations with Europe and the U.S.

On the other side, the Revolutionary Guards and their conservative supporters remain distrustful of the West, professing no need for foreign companies and emphasizing security and social conservatism over international engagement. They hew to what Supreme Leader Ayatollah Ali Khamenei calls a “resistance economy” of self-reliance.

President Rouhani is counting on the benefits of sanctions relief, including a boost in international oil sales and foreign investment, to lift Iranian economic growth. “We want to develop the private sector in the economy,” said his chief of staff, Mohammad Nahavandian.

Iran's economic growth was near zero in the fiscal year ended in March, according to the International Monetary Fund. The government's five-year plan aims for 8% annual growth.



Any Revolutionary Guards interference with the government's plans could hinder those goals, said Garbis Iradian, a Middle East economist at the Institute of International Finance, a Washington-based finance-industry trade group.

Mr. Iradian recently cut his own projection of Iran's growth this year to 4% from 5.5%, in part because of what he described as an effort by conservatives, including the Revolutionary Guards, to stifle foreign investment.

"Their position is an obstacle for a major rebound in economic growth," he said.

An adviser to Cmdr. Abdollahi said the Revolutionary Guard Corps "is not the obstacle to economic growth, but politics."

In January, the government's oil minister, Bijan Zanganeh, accompanied President Rouhani on a visit to a gas-processing complex on the Persian Gulf. It is a giant project that the Revolutionary Guards partly took over in the past decade. Mr. Zanganeh told the ministry's in-house news agency the lifting of sanctions would bring better access to foreign equipment and technologies. A representative of Mr. Zanganeh confirmed he believes Iran could benefit from foreign technologies.

At the same Persian Gulf event, Cmdr. Abdollahi told the Revolutionary Guards' own media outlet, "Iran does not need foreign engineering."

The Revolutionary Guards, established after the 1979 revolution that overthrew the shah, have long stood near the center of power in Iran, charged with protecting the Islamic Republic from coups and foreign interference. They field about 125,000 uniformed ground personnel plus naval and air forces with foreign missions such as patrolling the Persian Gulf, but they operate separately from Iran's military.

In the decades of economic sanctions, the Revolutionary Guards stepped in to broker business deals with oil-hungry China and other countries outside the sanctions regime. They took over billions of dollars in contracts from foreign companies that had to leave Iran.

That business clout can be a liability for the Rouhani government as it seeks to lure outside investors to the long-isolated economy. One reason is the U.S. has maintained its sanctions against the Revolutionary Guards' main uniformed branches and some affiliates for alleged human-rights abuses, which they deny.

Those continuing sanctions mean Western companies seeking to do business in Iran must avoid the Revolutionary Guards. At the same time, many foreign executives fear trying to compete with the Revolutionary Guards.

In the midst of these tensions is the engineering and construction arm of the Revolutionary Guards, known as Khatam al-Anbia. It was set up in 1989 to employ demobilized soldiers after a nearly decadelong Iran-Iraq war and to rebuild devastated areas.

An early recruit was Cmdr. Abdollahi, who had helped liberate Iranian cities from Iraqi occupation during the fighting, and afterward studied civil engineering. Khatam soon got involved in some of Iran's biggest infrastructure projects.

Its profile rose in 2005 with the election as president of [Mahmoud Ahmadinejad](#), who allied closely with the group. Western limits on doing business with Iran tightened. The European Union and United Nations joined the U.S. in imposing economic sanctions.

When European oil companies pulled out of Iran's South Pars natural-gas field on the Persian Gulf around 2010, President Ahmadinejad handed the largest chunk of the project's \$21 billion in contracts for drilling, pipelines and platforms to the Revolutionary Guards.

With the 2013 election of President Rouhani, such contracts came under government scrutiny. In March 2014, after he reached a preliminary accord with world powers to curb Iran's nuclear ambitions, the government-owned National Iranian Gas Co. canceled a Khatam contract to help build a \$1.3 billion gas pipeline.

Khatam had made little progress on it, the government gas company's managing director, Hamid-Reza Araqi, said in a 2014 interview.

Khatam's managing director for oil and gas, Hassan Dargahi, blamed a lack of government funding. The project remains stalled, according to its planning director.

A Khatam contract to build a bridge to a Persian Gulf island met a similar fate. The project was envisioned as an engineering feat—a 1.4-mile span from the Iranian port city of Bandar Abbas to Qeshm Island in the Gulf.

In 2014, three years after a groundbreaking ceremony attended by President Ahmadinejad, an adviser to his successor attacked Khatam over its handling of the \$970 million project. The adviser, Ali Torkan, said it was behind schedule and called on Khatam to return the funding.

“Khatam took government finance and spent it, and now that it must bring [back] the finance money, it says that it cannot,” Mr. Torkan told the news agency ILNA.

In his news conference, Cmdr. Abdollahi blamed the delays on a lack of government funding for the bridge project, which, like the pipeline project, remains stalled.

Cmdr. Abdollahi has defended the engineering and construction company's work. “In the absence of foreign contractors, did we have to let the metal skeletons [of oil and gas projects] go rusty and abandon them?” he told Iran's Fars news agency last fall. “In such circumstances, we stepped in with conviction and a revolutionary spirit.”

#### **Railway review**

The high-speed railway was one of the Revolutionary Guards' biggest undertakings. The \$2.7 billion project was designed to connect Tehran, the holy city of Qom and the ancient Iranian capital of Isfahan, using passenger cars that would whiz along at 155 miles an hour.



An Iranian bullet-train project is one in which Iran's government seeks to limit Revolutionary Guards' involvement by bringing in Western companies. Germany's Siemens, which makes cars such as this one, is negotiating to become a supplier to the rail project. Photo: Siemens

The government-controlled Islamic Republic of Iran Railways in 2010 gave the main contract for the project to China Railway Engineering Corp., which joined forces with the Revolutionary Guards' Khatam unit to build it.

Early last year, as the international nuclear agreement neared completion, the transportation ministry jolted Revolutionary Guards officials by asking a consulting firm to review the contract, according to people familiar with the matter. The consultants' report in July suggested lowering the line's top speed and buying lower-priced passenger cars from Germany's [Siemens AG](#) instead of from China, said people familiar with it.

The review also said the contract was "not complete in terms of the technical specifications," Deputy Transportation Minister Asghar Kashan said in an interview.

Cmdr. Abdollahi wrote to President Rouhani's leading deputy, Eshaq Jahangiri, complaining the report was politically motivated and warning it could delay the project, increase expense and cost jobs, according to two people who said they were familiar with the letter.

Cmdr. Abdollahi, in a brief interview on the sidelines of his news conference May 7, said he never wrote such a letter. But he said he holds monthly meetings with Mr. Jahangiri to discuss problems between Khatam and the government's ministries.

"These are the issues that we let him know about," Cmdr. Abdollahi said. Mr. Jahangiri's office didn't respond to requests for comment.

Cmdr. Abdollahi has defended Khatam's handling of the bullet-train project, telling Fars news agency he negotiated with the Chinese a higher share of Iranian equipment and services.

Iran will buy foreign equipment "if there is a problem with [a product] that cannot be bought" in Iran, he told the news agency. "Otherwise, why should we [import goods] in a country that has everything?" [China Railway](#) didn't respond to requests for comment.

After the government-commissioned contract review, Iran began negotiating with Siemens to supply railcars and other equipment, said Mr. Kashan, and with Italy's state-owned railway company Gruppo Ferrovie dello Stato Italiana.

Siemens confirmed the talks but wouldn't discuss details. As for the Islamic Revolutionary Guard Corps, "we are not aware of any business relationships to companies in which the IRGC has an interest," a spokesman for the German company said. "Nonetheless, we are aware that this matter is very sensitive and are monitoring our business activities in Iran very carefully."

Gruppo Ferrovie signed a contract in March to provide technical assistance for the line, it said. As part of the €700,000 deal, Gruppo Ferrovie will also advise Iran Railways in further negotiations with China Railway on prices and contractual terms, the Italian company said.



Iranian Supreme Leader Ali Khamenei spoke in January with Revolutionary Guards involved in detaining 10 U.S. Navy personnel who strayed into Iranian waters in the Gulf. They were released the next day. While such patrols were the Revolutionary Guards' original responsibility, they have since grown deeply involved in many types of business in Iran. Photo: leaders official website / hando/European Pressphoto Agency

In April, Iran signed a framework accord with Gruppo Ferrovie to build two other high-speed lines—connecting Tehran to Hamadan and Arak to Qom—in a deal valued at €2.7 billion, according to a person familiar with the matter.

While Mr. Abdollahi disputes Iran's need for most foreign involvement, a few companies affiliated with the Revolutionary Guards are starting to hire Western consultants and recruit politically moderate professionals to help run companies. The idea, said officials familiar with the moves, is to co-opt Iran's Westward shift and get in position to grab a slice of future foreign business instead of resisting it.

Telecommunication Company of Iran, which the Revolutionary Guards control, hired French IT consultancy Sofrecom in 2014 to improve service and computerize networks, according to invoices reviewed by the Journal. The telecom company didn't respond to requests for comment. Sofrecom parent company Orange SA, while not confirming this specific deal, confirmed that Orange has had contracts in Iran.

Some energy companies affiliated with the Revolutionary Guards have begun poaching young engineers from non-Guards companies, said Akbar Shabanpour, the managing director of government-controlled Pars Oil & Gas Co. "If they want to be part of the new Iran, they have to," he said.

<http://www.wsj.com/articles/irans-government-and-revolutionary-guards-battle-for-control-of-economy-1463584510>