

MONTHLY REPORT



IRAN CASE FILE

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July 2019



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THE EXECUTIVE SUMMARY

During the month of July, Iran continued to exploit the issue of oil tankers. It sought to reiterate its capabilities in disrupting maritime navigation and endangering the security of oil tankers through the seizure of a British oil tanker. The maritime security arrangements in the Arabian Gulf seemed to be falling short in providing security. This led the United States and Britain to announce the formation of a naval force to ensure the security and safety of navigation in the Gulf. The two proposals came simultaneously without joint coordination from the outset; Britain began to muster European allies to support its proposal while the United States took some time to move on its proposal, despite its earlier announcement of the need for a coalition to ensure the safety of navigation in the Arabian Gulf. Iran, for its part, has become more confident that there will be no military attacks against it. It has become dependent on negotiations based on its terms through Western and regional mediation. Tehran also began to hint that it has already started negotiations or that it is about to do so.

These Iranian movements were accompanied by uproar in the media, which did not succeed in covering up the deteriorating situation at home and the dire economic crisis through which the country is going. The movements were nothing more than Iranian exploitation of all its cards at hand with a great deal of recklessness. The aim was to engage in negotiations in a better situation compared to before the imposition of sanctions on Iran's oil exports. Washington's unwillingness to stand up to Iran's provocative acts and its lack of coordination with its European allies emboldened Tehran. This is in addition to distancing itself from Russia and China. Hence, Iran in July 2019 boosted its position at the regional and international levels. However, it faced a snowballing crisis, which may break out at home.

On the ideological front at home, the statement calling on the Supreme Leader Ali Khamenei to resign, signed by 14 activists, indicates a rejection of the Velayat-e Faqih theory by segments of Iranian society which states that the supreme leader is appointed by God and cannot be removed by the constitution but through the Assembly of Experts. The assembly is made up of jurists based on farfetched criteria. The statement resonated widely at home. The

government was prompted to crack down on the signatories and to repress them. It seeks to reassure the home front that it is capable of addressing the ongoing crisis and standing up to US pressure. However, the statement threw a stone in the stagnant water as it spoke of dismissing Khamenei for the interest of state and society. It was issued outside an atmosphere of protests which are always marred by violence. It was a rational demand to move the state away from Velayat-e Faqih.

In the political aspects, Khamenei continued his domestic policies which could be described as a 'no-change policy.' As the midterm elections approach for the Guardian Council, the Iranian supreme leader renewed the membership of jurists who have maintained their seats for 40 years. This is an indication of Khamenei continuing his policy of keeping a close watch on the presidential and parliamentary elections, which is called in Iran '*correctional censorship*.' The Guardian Council is granted the power to determine those who have the right to run in the elections and those who shall be disqualified even if they have a long history in serving the government. Renewing membership of the Guardian Council's members can be considered as an indication for what will happen in the Iranian parliamentary elections which will be held after six months.

On the economic front, the Iranian government's decision to alter the Iranian budget's items due to its failure in achieving the set target of oil exports during the first three months of the budget, approved on March 21, was strong evidence of its inability to run the state in light of the sanctions on Iran's oil exports. The government expected in the budget to export 1.5 million barrels of oil per day and then altered the budget on the basis of calculating revenues generated from 300,000 barrels exported per day. In the meantime, it emphasized that the items related to wages and social services will remain untouched as any reduction could cause public outrage. The revenue deficit is to be financed through the National Development Fund and the Reserve Fund via the proceeds generated from the sale of oil. However, it is difficult to implement budget items without reducing the appropriations allocated to education and health, taking into consideration the investment conditions.

At the military level, Iran's test-firing of the Shihab-3 long-range ballistic missile represented a new sign of it defying the international community. The move constitutes a violation of UN Security Council Resolution 2231 which prevents Iran from carrying out missile tests that could carry unconventional warheads. The test-firing involved geopolitical and strategic dimensions. The move represented some kind of pressure on Europe in order for it to implement the financial mechanism INSTEX through hinting at the possibility of developing Iran's long-range missile programs. Iran is also seeking to develop its conventional warhead capabilities as a prelude to non-conventional warheads. At the technical level, the test was aimed at reducing the time of missile readiness to take off, as a necessary element in the strategy of deep attack announced by the Commander of the ground forces of the Revolutionary Guards, Brigadier General Mohammed Pakpour.

On the Arab arena, the Iraqi decision to integrate the Popular Mobilization Forces (PMF) into the regular army in Iraq triggered a great deal of controversy. In particular the controversy revolved around the motives behind the decision taken by the Prime Minister Adel Abdel-Mahdi, the scope of its implementation and its repercussions on Iranian influence in Iraq at a time in which the region is in the grip of pre-war dynamics between the United States and its allies from one side, and Iran and its proxies from the other side due to US pressure on Iran and the latter's targeting of oil tankers in the Arabian Gulf. Tehran aims to disrupt international navigation and to target governmental and diplomatic offices of US allies in Iraq and outside it.

The decision bears risk of the Iraqi army transforming into a sectarian army as PMF battalions will join its ranks. Also, the option given to the militias to either join the armed forces on condition of renouncing their political activities or to engage in political activities while

laying down arms edges Iraq closer to repeating the model of Hezbollah in Lebanon on its soil. This is due to the difficulty in disarming PMF factions for them to start engaging in politics at the time being. Following their integration into Iraq's armed forces and its political parties, the issue of loyalty to Iran among the PMF factions is still present. Many PMF factions clearly express their dependence on Iran.

Due to Hezbollah's conquering of the Lebanese state and its political and military activities in implementing Iran's agenda, the United States imposed sanctions on two Lebanese parliamentary members, Amin Sherri, and Mohammed Raad as they conducted financial activities supportive of Iran and violated the US sanctions imposed on it. This happened via the financial networks of Hezbollah. The sanctions have resulted in international repercussions and have prompted Argentina to undertake decisions in order to prevent the activities of the Lebanese Hezbollah on its soil and to consider freezing the assets of its members in its banks. Iran hastened to dispatch its Assistant Speaker of Parliament Hossein Amir Abdollahian to Lebanon to reiterate Tehran's rejection of the sanctions on the two Lebanese parliamentary members and its keenness not to embroil Lebanon in Iranian problems. Lebanon's future remains subject to the decisions of Hezbollah dictated by Iran, whether in wartime or peacetime.

On the international arena, the United States resumed its imposition of sanctions on Iran and its militias. It also sought to establish an international alliance in order to protect navigation in the Arabian Gulf against the Iranian threat. It also pushed for an international decision condemning Iran for breaching the provisions of the nuclear deal. This came as Iran announced exceeding the permissible ceiling set for low-enriched uranium stockpiles and exceeding the permissible enrichment percentage. On the other side, Iran continued its policies of resisting the US strategy through circumventing economic sanctions, threatening to use military force and refusing to internationalize the issue of maintaining navigation in the Gulf. Overall, we could say that the US strategy, mainly based on patience, gave an opportunity to Iran to show its capabilities, appearing in the region as a powerful, clout-wielding and influential power. The multiple mediation efforts enhanced Iran's confidence in its escalatory policy. Moreover, the wings of the Iranian regime are speaking of the ability to deter the US while we find that Iran was keen to hold constant consultations with the Russians on its crisis with the United States.

Russia showed support for Iran when it seized oil tankers. It also issued warnings to the United States against escalating matters as military escalation could result. It also expressed a desire to grant Iran a full membership in the Shanghai Cooperation Organization to facilitate trade exchange between Iran and the member states. It also advised Iran not to rely so much on the European role in confronting the United States. Although ceasing Iranian oil exports is in the interest of Russia, it cooperated significantly with Iran to facilitate Iranian oil export operations through its territories whether via its pipelines or its tankers working in the Caspian Sea.

Despite the tense relations between Iran and the United Kingdom over the seizures of oil tankers, Tehran is still relying on the European Troika (France, the UK, and Germany) to preserve the nuclear deal. We address the issue from multiple levels: Iran demanding implementation of the financial mechanism INSTEX, Tehran refusing to bow down to US sanctions while insisting on a gradual reduction of its commitments under the nuclear deal and rejecting French mediation efforts as US sanctions are still in place.

European countries, particularly France and Britain, which have agreed to participate in the international alliance to protect maritime navigations in the Gulf, have declared that the measure is not part of the US maximum pressure campaign and that they continue to urge Iran to abide by the terms of the nuclear deal.

Internal Affairs

At home, Iran has witnessed an open protest against Khamenei through activists calling on him to quit his post via a published statement. Although those signing the statement calling for Khamenei's resignation did not exceed 14 activists, the repression and crackdown inflicted on them by the government indicates how far the statement impacted the Iranian political system at home. Perhaps it lays the foundations for further steps to come. However, Khamenei stuck to his old policies, refusing any change. In the midterm elections of the Guardian Council, he kept the same members and did not replace them, an indication of him continuing the 'no-change policy.'

But on the economic arena, Khamenei submitted to the new internal developments and agreed on the government's demands to alter the terms of the budget due to a decline in Iranian sale revenues. He also agreed on using the reserves of the National Development Fund as well as reducing some of the budget's spending items. But these actions did not include the military field. Iran has test-fired the Shihab3- long-range ballistic missile to achieve strategic and geopolitical aims.



THE IDEOLOGICAL FILE

This file sheds light on the ideological developments on the Iranian scene during the month of July and the impact of these developments and internal actors on the seminary and state. This month, the ideological file will touch on the statement issued by a host of activists in Iran, demanding the sacking of the supreme leader. The statement resonated hugely with Iranian public opinion. Both the political authority and religious elite were preoccupied with it, which raises the question of the possibility of the supreme leader's dismissal or resignation according to Velayat e-Faqih theory or even holding a regular election to determine his legitimacy.

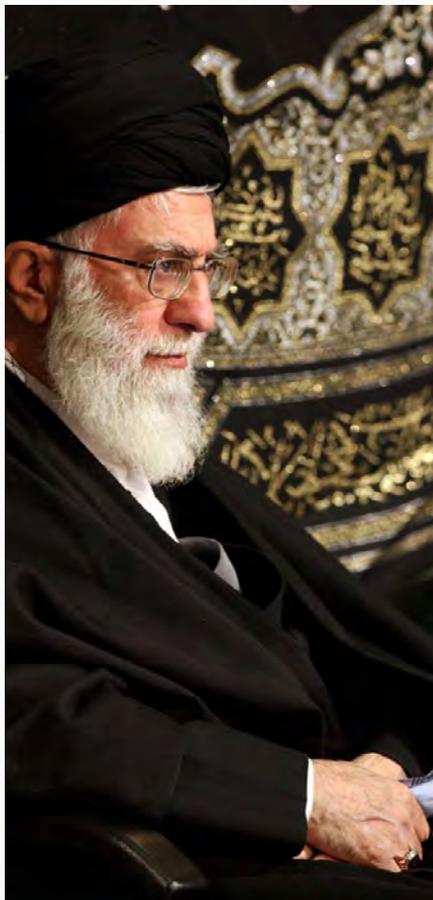
I. The Statement Calling on the Supreme Leader to Resign

It was a remarkable occurrence this month. It was worrisome for the political and religious elite when a host of activists demanded the sacking or resignation of the supreme leader in a statement addressed to the Iranian people, given the momentum which accompanied this statement. Fourteen civil and political activists demanded the resignation of the supreme leader and the amending of the constitution. They called on international human rights organizations and institutions not to consider the government of the Islamic Republic of Iran as representative of the people of Iran. The statement said: "O the free people of the world, over the past 40 years, we the Iranian people have been suffering from the most malign kind of cancer on record. This cancer spread and spilled over into the souls of the people of Iran 40 years ago. It squandered their financial assets, sentiments, and honor. Those mad people who hate humanity extend their arms beyond the Iranian border in order to increase the pace of their presence. They intrusively interfere in the affairs of the region's countries. They are killing, destroying and waging conflicts with the whole world in the name of the Iranian people. We call on you, governments and peoples of the world and civil and rights institutions, not to ever consider that the Islamic republic represents the Iranian people."⁽¹⁾

This is not the first time these activists have called for sacking the supreme leader through a statement addressed to Iranians and the world. They issued a similar statement last June ⁽²⁾when they called on the supreme leader to resign and to make a radical change in the Iranian constitution. According to the remarks of these activists, in light of the absence of a republican system and freedom, there can be no solution other than Khamenei's resignation and the changing of the Iranian constitution⁽³⁾. This statement points to several indications in particular the wall of fear breaking among the youth, women, and the post-revolution generation in general. The importance of this statement lies in the fact that it is a peaceful act. The aforesaid demands always come in a tense atmosphere of protests such as those of 2009 and 2017, when Iranians called for the sacking of the supreme leader as well as tearing up his pictures. But this time the statement did not arise during an atmosphere of demonstrations and traditional accusations made by the government against the protesters. This strips the ruling religious elite of its moral philosophy and legal justifications do prevents such statements or to track down those who issued them.

II. The Reaction of the Iranian Government

The Iranian authorities harshly faced down these calls through its security apparatuses, fearing more mobilization, and support for the demands. They arrested the prominent activists who issued the statement. For example, the authorities arrested the activist



Mohammed Mahdavi,⁽⁴⁾ one of the 14 activists who signed the statement demanding the resignation of the supreme leader from his position. He was moved to Kashan Prison. According to sources, he is facing charges relating to insulting the supreme leader.⁽⁵⁾

The Iranian security authorities also detained activist Mohammed Nouri, the press and cinema correspondent,⁽⁶⁾ one of those who signed the statement. He was referred to the notorious Evin⁽⁷⁾ Prison and fined 100 million tomans.⁽⁸⁾ Things evolved into extrajudicial violence. Reza Mehregan, Mohammad Hossein Sepehri and Javad La'l Mohammadi received several death threats and came under numerous attacks.⁽⁹⁾ Mehregan said that he was insulted and electrocuted by anonymous men, while Sepehri said that an anonymous person attacked his home holding a knife after he had rang the bell of his house. When his wife called the police, they did not come to investigate the matter. No official in the judiciary showed any reaction to the news.⁽¹⁰⁾ The government always pursues this policy when it wants dissidents to back down from their positions without taking bureaucratic measures which could be unimplementable or when it does not have sufficient pieces of evidence. The government also wants to avoid being criticized by human rights organizations. Therefore, the government resorts to defamation, distortion and cracking down using non-institutional tools.

III. The Ideological Obstacles to Deposing the Supreme Leader

According to Velayat e-Faqih theory, which has been ruling Iran since 1979, the supreme leader is immune to dismissal. On the ground, there is no power which could force him to resign. This is due to several ideological reasons related to the legality of Velayat e-Faqih. The ruling religious elites in Tehran argue that the jurist derives the legitimacy of his rule from the legal guardianship of God. No guardianship shall derive its legitimacy without heavenly appointment and permission.⁽¹¹⁾ According to these people, the Assembly of Experts does not appoint the supreme leader. Its mission is to define and has nothing to do with appointment. In other words, it defines the characteristics required in the guardian jurist to be a supreme leader. The Assembly's choosing of the supreme leader is not about handing over power to him because – according to the religious elite – it is not in the hands of the people to hand it over. *Nemo dat quod non habet.*⁽¹²⁾ Thus, the role of the Assembly, according to its former President Ali Meshkini, is about determining the supreme leader with whom God is pleased, not handing power



Source: bloomberg.com

from the people to him. According to Ayatollah Makarem Shirazi, elections are not known in Shiite jurisprudence. Thus, they are a foregone conclusion as no power could be attained through them. Elections are informative, not compulsory.⁽¹³⁾

At the political and constitutional level, the Assembly of Experts is theoretically entrusted with holding the supreme leader accountable and following up on whether the supreme leader is still qualified for the position. According to Article 111 of the Iranian constitution, the Iranian supreme leader shall be ousted provided he cannot perform his mission or loses one of the requirements for capacity. However, this article has been marginalized in practice.

⁽¹⁴⁾The Assembly of Experts has continued to distance itself from overseeing the supreme leader's capacity and efficiency or holding him accountable. The members of the Assembly are not named unless there is approval from the Guardian Council. The Guardian Council is made up of 12 members, half of them are chosen by the supreme leader. The head of the judiciary, appointed by the supreme leader, chooses the other six members.

Therefore, the Assembly is controlled by the supreme leader, not the opposite. The supreme leader's domination and control over the Assembly of Experts was apparent when he managed to replace its President Rafsanjani after he supported the 2009 protests against Ahmadinejad.⁽¹⁵⁾

In reality, these complications as well as the legal and constitutional circumventions are deliberate from the beginning because the religious elite does not believe in the theory of choosing, but believes rather in heavenly appointment as is clear in their philosophy and theories. These institutions were created in light of how this religious elite perceived a modern nation-state and its workings.

Conclusion

It seems that the voices calling for dismissing the supreme leader or pushing him to resign are not confined to times of political crises. They have permeated into the arena of public culture for many Iranians. This disturbed the authorities, prompting them to invoke the tactics used in the 1990s such as unofficial distortion and launching crackdowns, which are not openly adopted by the state. It takes these measures from behind the scenes. The religious elite never believed in the legitimacy of elections.

But they, under the guise of necessity and 'marginal sections' in Shiite jurisprudence, conferred on the institutions a ceremonial and honorary role.

In conclusion, these statements demanding the deposing or resignation of the supreme leader, despite being ineffective in terms of making a change at home, exacerbate the crisis of the government, aggravate its dilemmas and put it in an awkward situation before the international community. This destroys the official narrative about the public's acceptance of the government and its satisfaction with Iran's expansionist and destructive policies in the region.

THE POLITICAL FILE

The Guardian Council witnessed midterm elections in July 2019. Given the supreme leader and the judiciary's control over this Council, the Iranian political scene looks to the orientation of the supreme leader in choosing the members of the Council as an indication of the future of his political decisions when it comes to engineering Iranian elections. This comes as Iran will hold in less than six months a crucial parliamentary election which may affect the future of the Iranian political system. The Guardian Council will supervise it by allowing or disqualifying candidates.

The Guardian Council is one of the most important and powerful institutions within the Iranian political system. Actually, it may be the second most important apparatus after the supreme leader's establishment. This importance lies in the vast powers granted to it by the Iranian constitution as well as its role in overseeing legislation and laws issued by the Iranian Parliament. The Council consists of 12 members; six of them are clerics in the position of jurists. They are directly appointed by the supreme leader as well as six men of law who are nominated by Parliament and appointed after the supreme leader's approval. According to Article 99 of the Iranian constitution, the Guardian Council is responsible for monitoring the elections of the Assembly of Experts.

There are other powers granted by the Iranian constitution to the Guardian Council, such as supervising the election of the presidency and Parliament, as well as direct recourse to popular opinion and referendums.

I. Re-electing Jannati as Secretary-General of the Guardian Council

On July 16, 2019, the Guardian Council re-elected Ahmed Jannati, the 92-year-old, as its secretary-general,⁽¹⁶⁾ and Abbasali Kadkhodaei was re-elected as Ahmed Jannati's deputy and spokesperson for the Council.⁽¹⁷⁾ Khomeini chose Jannati for this position with five other jurists in February 1980. At the level of the General Secretariat, Jannati has been secretary-general of the Guardian Council since 1992.⁽¹⁸⁾

Jannati, who is considered one of the hindrances to reform the Iranian political system, is one of the figures close to the supreme leader. Over the years, he has played an important role in disqualifying hundreds of candidates in the presidential elections or those running for Parliament who are opposed to the approach of Ali Khamenei or are not fit to run for president or Parliament. He also played a major role in disqualifying several figures who were close to the supreme leader in the past, such as disqualifying Hashemi Rafsanjani who entered the presidential race in 2013, let alone depriving former President Mahmoud Ahmadinejad of running in the last presidential elections in the country.

II. Khamenei's Alterations in the Lineup of the Six Jurists

According to Article 92 of the Iranian constitution, members of the Guardian Council are elected to serve for a period of six years, but during the first term, after three years have passed, half of the members of each group will be changed and new members will be elected in their place. According to Section 2 of Article 91, six jurists, specializing in different areas of law, are elected by the Islamic Consultative Assembly from among the



Muslim jurists nominated by the head of the Judicial Authority. Of the three jurists that the constitution provided for changing every three years, the Iranian Supreme Leader Ali Khamenei appointed only one member. He is the Friday prayer leader in the city of Qom, Alireza Arafati. He kept both Sadiq Amoli Larijani and Mohammed Yazdi.⁽¹⁹⁾

By this appointment, Reza Arafati took the place of Shiite cleric Mohammed Momen who passed away in February 2019. He has been a member of the Guardian Council since 1983, becoming the second-oldest member in the Council after Ahmed Jannati.⁽²⁰⁾

As for Mohammed Yazdi, the former head of the judiciary, he joined the Guardian Council in July 2013. Following a decree from Khamenei renewing his term, he will continue to be a member of the Council for another six years. As for Sadiq Amoli Larijani, he was appointed seven months ago in December 2018 to the two positions once occupied by Hashemi Shahroudi, which are the chairmanship of the Expediency Discernment Council and membership of the Guardian Council. The decision to appoint him as one of the jurists in the Guardian Council aimed to fill the term of the late cleric Hashemi Shahroudi, which was scheduled to end in July.⁽²¹⁾ This means that Larijani could serve at least a six-year term.

The slight alterations in the lineup of the six jurists of the Guardian Council proved that the Supreme Leader Khamenei prefers to maintain jurists in this regulatory council such as Ahmed Jannati, who has been in office since 1979, and Mohammed Reza Modarresi, who has been in office since 2010. Previous experiences proved that most of the new appointments made over the past few years were due to the demise of some members of the Council. For example, Mehdi Shabzendedar Jahromi was appointed in 2016 after the demise of Ayatollah Gholamreza Rezvani, Sadiq Amoli Larijani was appointed in 2018 in place of Mahmoud Hashemi Shahroudi and Reza Arafati was appointed to succeed Mohammed Momen.

III. Changing the Six Constitutional Law Experts in the Guardian Council

Membership of three of the six constitutional law experts expired on July 16, 2019 after they completed their terms set out in the constitution. They are Najatullah Ibrahimian, Sam Sawadkuhi Farr and Mohsen Ismaili. Therefore, the head of the Judiciary Ibrahim Raisi submitted a list containing the names of five constitutional law experts to Parliament to choose three from among them as new members of the Council.⁽²²⁾

Only a few moments before the beginning of the vote, one of the candidates was forced to withdraw. He was the Chairman of the Faculty of Law at Imam Sadiq University. The withdrawal came upon a direct request from the Council's member and spokesman Abbas-Ali Kadkhodaei, according to an announcement by several lawmakers including Ali Motahari.⁽²³⁾ The Parliament endorsed three of the four constitutional law experts. Mohammad Dehghan got 230 votes and Mohammadhassan Sadeghi Moghaddam won 181 votes. Hadi Tahan Nazif, the youngest member of the Guardian Council – born in 1982 and the first member from the post-revolution generation – got 156 votes.⁽²⁴⁾

Hence, the 12 members of the Guardian Council, both jurists and constitutional law experts, are as follows:

The Six Jurists	The Six Constitutional Law Experts
(Ahmad Jannati (Secretary	Siamak Rahpeyk
Mohammad-Reza Modarresi Yazdi	Abbas-Ali Kadkhodaei
Sadeq Larijani	Fazlollah Mousavi
Mehdi Shabzendedar Jahromi	Mohammad Dehghan
Mohammad Yazdi	Mohammadhassan Sadeghi Moghaddam
Alireza Araf	Hadi Tahan Nazif

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Half of the Guardian Council's Lawyers in Iran Changed



Conclusion

Given the political backgrounds of the members of the Guardian Council and their affiliation with the conservative movement in the Iranian government, as well as the supreme leader's desire to keep "the historical members," it becomes clear that Khamenei intends to pursue his old approach. It is represented in imposing harsh oversight on the elected bodies and the laws they issue. This is in addition to excluding those rejected by him and the conservatives from partaking in the coming elections.

THE ECONOMIC FILE

This file breaks down the most highlighted economic issues on the Iranian arena during July. The most controversial issue in the past month was the sharp decline in Iranian crude oil exports and the re-approval of the budget. Therefore, the file reveals the consequences of this collapse on Iranian society and the economy, as well as the change in the financial policy of the state, and the options available for Iranians at the time being and in the future.

The Decline in Iranian Oil Exports: the Consequences and Available Options

The sharp drop in Iranian oil exports in July led President Hassan Rouhani's government to adopt financial decisions that could have serious repercussions on the Iranian economy and society, and even on the efficiency of the government's current performance. Some of these measures included the search for alternative financial sources through domestic borrowing, while others included a significant reduction in government expenditure for economic development and social welfare. To try to mitigate the economic and societal impact of the oil collapse, Iranian policymakers are pursuing a variety of options, some of which have not achieved the desired results, while others may work.

We will explain the following: the current situation of oil exports after 14 months of US sanctions and the impact of the decline in exports on government performance. This file will also analyze the potential repercussions on society and the economy as well as the options available to Iranian decision makers for mitigating the impact of the current crisis.

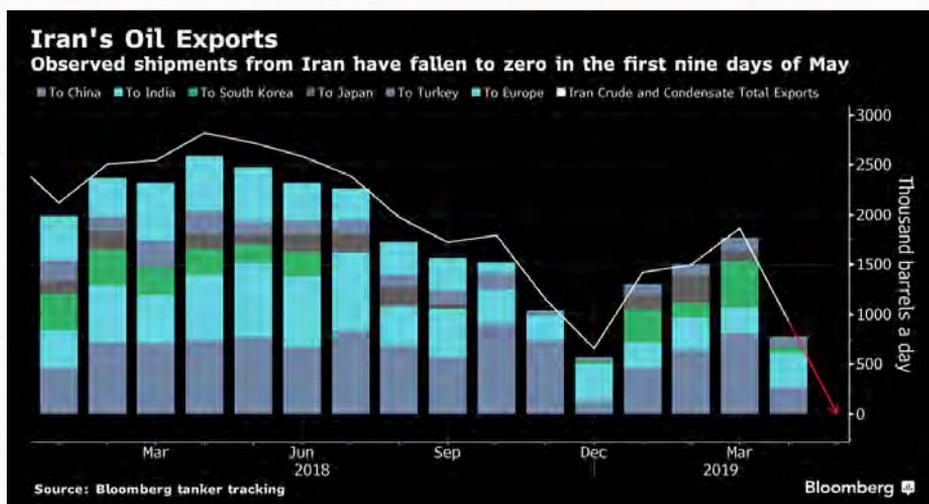
I. The Current Situation of Oil Exports After 14 Months of US Sanctions

The Iranian oil minister described any statistic that might come out concerning the volume of Iranian exports as “warfare secrets” that should not be disclosed in order to preserve national interests.⁽²⁵⁾ The latest reports of ship tracking companies revealed an estimated volume of Iranian oil exports at 100,000 barrels per day. At best it could reach 300,000 barrels per day according to the results of other companies.



The estimates released in June 2019⁽²⁶⁾ showed that Iranian oil exports ranged from 300,000 barrels per day to 500,000 barrels per day, which confirms the continuous, sharp and rapid decline of Iranian oil exports. Both estimates represent a disastrous situation for Iran when compared to exports of more than 2.5 million barrels per day last year prior to the US withdrawal from the nuclear deal in May 2018. As shown in Figure 1 below, exports have followed a downward trend from the date of sanctions to the time of writing this report.

**Figure 1: Iranian Oil exports and the Destination of Iran's Exports
(March 2018-April 2019)**



Until March, Iranian exports were still above 1 million barrels per day, taking advantage of a six-month US sanctions exemption for eight of Iran's top oil buyers, most notably China, India, and South Korea. But after the end of the exemption period in early May, oil exports began to collapse sharply as shown in the previous chart, and some countries stopped buying oil even before the end of the exemption period, such as Japan, while China continued to buy but in constantly decreasing amounts. The latter is the largest buyer of Iran's oil.

Chinese customs reports in June revealed a decline of nearly 60 percent of Iranian oil imports compared to June 2018, with an estimated import of about 200,000 barrels per day, while the average daily import before the imposition of US sanctions was about 700,000 barrels.⁽²⁷⁾ This decline is a result of caution from falling under US financial sanctions and exclusion from doing business in the United States, in addition to the current obstacles to the completion of financial transactions, which are likely to continue in the foreseeable future. This comes amid a US warning to Europe against the inclusion of financial transactions for Iranian oil exports through the channel known as "INSTEX." This financial channel has not enabled Iran to achieve what it wants since it was declared by the European countries that are members of the nuclear agreement as a financial mechanism to help Iran in the face of US sanctions.

II. The Impact of the Collapse of Iranian Oil Exports on Government Performance

The government of President Hassan Rouhani has reduced the volume of oil exports estimated in this year's budget from 1.5 million barrels per day previously to only 300,000 barrels per day. The amendment came on July 27, four months after the approval of the budget for the current fiscal year (March 21, 2019 - March 20, 2020). This

is after acknowledging that the projected budget revenues are far from being realized. The largest share of budget revenues came from oil exports, which made up at least 40 percent of revenues. Taxes came in second, though tax revenues have been much lower than previous years.

The latest development, the drop in Iran's oil exports from the new budget level (300,000 barrels per day) means an additional fiscal deficit above the already estimated deficit (\$33 billion or 140,000 billion tomans due to the difference in expected oil export volumes). This will force the government to reduce expenditures at a higher rate in the future and will limit its ability to manage and run the day-to-day affairs of the country from government facilities and services to the public. This may also impact the government's ability to pay salaries.

The government has proposed to tackle this deficit through two methods, the first is to reduce expenditures and the second is to try to increase revenues from non-oil means such as withdrawals from the National Development Fund and borrowing internally through the sale of government bonds.

Third: The Future Repercussions on Society and the Economy

Given the vital role of oil exports in the Iranian economy and for the day-to-day lives of Iranians, the collapse of its volume to this extent will undoubtedly have negative repercussions if it continues for a long time. These implications can be summed up as follows:

1- Prolonging the Economic Downturn

This is because Iranian oil exports are still the locomotive for the growth of Gross Domestic Production in Iran, which has suffered a recession for over a year. This recession has been estimated by the IMF to be at 6 percent. This impacts the level of production, prices, employment and the state's ability to run the country's apparatuses as well as honoring its basic commitments such as paying wages and pensions.

2- The Decline in Economic Development and Social Welfare

This would be due to the significant reduction in government expenditure, especially the appropriations for development and investment carried out by the government, which make up the biggest share of the budget expenditure during this fiscal year. The development expenditure here means the spending dedicated to developing government services and facilities including infrastructure, transport, health, and educational services. These are aimed to improve the living conditions of the citizens and to activate the economy through improving the business environment, encouraging local investments, creating value added products and new jobs and increasing production in order to counter soaring prices. The inability of the government to undertake these development projects will lead to resentment spreading among Iranians in the short run.

3- Causing More Inflationary Pressures

This could happen as a possible consequence of some of the government's methods of addressing the fiscal deficit caused by a collapse in Iran's oil revenues and withdrawals from the National Development Fund, as well as due to a depletion of Iran's foreign currency surplus in the current account, and its investment in non-productive consumer activities.

This may increase inflationary pressures, given the absence of the government's developmental role that enhances the supply and production aspects. This comes at a time when the Iranian Statistics Center recently announced that inflation in July 2019 reached more than 40 percent, while food prices have increased, with some of them increasing by 100 percent.

4- Shortage in Foreign Currency and Price Volatility



Oil exports account for about 60 percent of Iran's foreign currency sources, which limits the ability to import intermediate raw materials, production equipment and consumer goods for both production and the day-to-day needs of Iranian society and raises the prices of those available.

5- Creating Political and Security Challenges for the Iranian Decision Maker

This includes high crime rates and possible addiction and psychological problems, in addition to factional and youth protests in general. This happens as a result of declining investment in development and increasing living pressures placed on citizens due to high costs and unemployment.

III. The Options Available to Iran

Iranian policymakers are aware of the serious implications of the continued collapse of oil exports at all political, economic and societal levels.

Therefore, they try in various ways to get out of the current crisis with the least possible losses, or at least to mitigate it by implementing a range of options available in parallel.

1- Smuggling

Iran has mastered various smuggling methods over the past years in order to stop the accelerated decline in its oil exports. But according to the declared export statistics, this option did not bear the desired results for the Rouhani government. Of course, smuggling is still going on, but the results certainly say that this option cannot be relied upon by Iran for a long time as it is insufficient.

2- Committing Hostile Acts at the Regional and International Levels

Iran is undertaking hostile acts such as threatening the stability of neighboring countries, threatening navigation or seizing ships passing through the Strait of Hormuz. It seeks to pressure the West to end the current stalemate in their position on US sanctions on Iranian oil exports or at least seeks to gain pressure cards for negotiations on the nuclear deal when the time is ripe for negotiations with the United States. But so far, there is no guarantee that Iran would achieve its ends. On the contrary, the West may respond to these threats with further harsh measures, impose additional sanctions on it and call for forming international alliances in order to counter Iranian threats. Such alliances began to surface under the leadership of the United Kingdom after the seizure of a British oil tanker by Iran last July while it was passing through the Strait of Hormuz. Also, the

United States is working to forge another alliance to ensure the freedom and safety of navigation in the Arabian Gulf.

3- The Policy of Reducing Expenditures

This policy is also called ‘tightening the belt’ in some countries. It is the third option. It has already started in Iran after a later July announcement that the government had reduced its budget expenditures by 62.5 trillion tomans, (nearly \$15 billion) given that its exports of oil will be steady at 300,000 barrels per day. If it did not reach this rate, how long will it be able to move ahead with its policy of reducing expenditures? For how long will the Iranians be able to endure this austerity? This is one of the key challenges facing the Iranian government.

4- Placing Oil in Stores Outside the Country

This is the fourth option. It has reached massive rates, about 111 million barrels, in onshore stores inside Iran and oil tankers as well as floating storages in the Gulf. The oil is also stored in massive warehouses in China outside the customs zone (they remain in Iran’s name as long as they are not checked by the customs officials). This option enables Iran to continue to produce oil and transport it to potential customers in the future. It also has the capacity to reduce oil prices globally if Chinese refining firms decide to rely on Iranian stockpiles in Chinese stores, which are estimated to be 20 million barrels. Iran could barter this massive stockpile with Chinese products or even with Chinese investments in Iran, given such dealings are clearly not subject to US sanctions. Thus, such an option is in favor of Iran.

Iran is implementing all the previously discussed options simultaneously despite difficulties in withstanding the crisis of a collapse in its oil exports. But it may focus on two options relating to its foreign policy. The first is the threats to security and navigation.

The second one depends on enhancing its oil stockpiles using all means possible in the future to gain a pressure card and to demonstrate its ability to reduce oil prices. OPEC members are opposed to this option, and even Iran does not seek to do it.

At home, Iran has no option but to lower expenditure and to take loans from local banks despite the serious consequences of this option at the economic, social and security levels. Therefore, Iran will not be able to rely on this option for a long time in fear of mounting popular discontent. In the end, all these combined attempts are aimed at mitigating the ongoing crisis, not to get out of it, as long as US sanctions are still in place.



Conclusion

The collapse of Iranian oil exports in July led President Hassan Rouhani's government to adopt financial decisions that could have serious repercussions on the Iranian economy and society, and even on the efficiency of government performance today. Some measures included searching for alternative financial sources through domestic borrowing, while others involved a significant reduction in government expenditure that would have an adverse impact on economic development and social welfare. To try to mitigate the economic and social effects, Iranian decision makers are pursuing a variety of options, some of which have not achieved the desired results, while others may work in alleviating the current crisis.

THE MILITARY FILE

What Lies Beneath Iran's Missile Tests

On July 24, Iran fired a Shahab-3 missile from its southern coast and it landed east of Tehran, after flying for about 1,100 kilometers. The Shahab-3 is not a new weapon system but one that has been in Iran's arsenal for two decades. Based on a North Korean design, called the No-Dong or Nodong, the liquid-fueled missile can fly over 1,300 kilometers with a smaller payload, making it capable of reaching Europe.⁽²⁸⁾ The testing of the already commissioned Shahab-3 is meant to convey a message of defiance but in reality, the exercise is part of a grander Iranian stratagem. In simple words, the testing of missiles offers two significant and distinct messages, a geopolitical and a strategic.

I. The Geopolitical Dimension

As Tehran lowers its commitment to the Joint Comprehensive Plan of Action (JCPOA), such missile tests are aimed not only at exhibiting defiance to the US President Donald Trump but also at blackmailing Europe to do more to save the JCPOA. The West did not fall for the carefully calibrated Iranian effort at escalation.

Merely days after the Europeans set up the Instrument in Support of Trade Exchanges (INSTEX), Iran showed belligerence.⁽²⁹⁾ As a matter of policy, the European Union (EU) tries not to allow such tests by Iran to sink the JCPOA, however, the EU response was firm and categorical. The EU seeks an 'immediate end' to 'unacceptable behavior,' while also seeking an end to further tests of missiles. In addition, the EU stated that it is "deeply concerned by the hostile activities that Iran has conducted on the territory of several member states."⁽³⁰⁾

Iran has a standard position on such test runs too. Tehran calls such actions as 'normal defensive measures' while hoping that Europe "will fulfill all of its commitments and the two sides will shortly witness deepening of trade relations." It insists that carrying out missile tests is well within its rights.⁽³¹⁾

France has been the most proactive European power amidst Iran's gradual reversal of its commitment as agreed under the JCPOA. However, the 2015 nuclear deal does prohibit Iran from carrying out missile tests. Yet there are United Nation's Security Council (UNSC) resolutions that urge Tehran not to carry out missile tests. For instance, the UNSC Resolution 1929, passed in 2010, stipulates, "Iran shall not undertake any activity related to ballistic missiles capable of delivering nuclear weapons."⁽³²⁾ The UNSC Resolution 2231, adopted soon for the signing of the nuclear deal, reads, "Iran is called upon not to undertake any activity related to ballistic missiles designed to be capable of delivering nuclear weapons, including launches using such ballistic missile technology."⁽³³⁾ Russia and China, two key allies of Iran, remain silent about Iran's test firing of the missile. The EU has a daunting task ahead of it to save the nuclear deal without enraging the US sanctions and averting any punitive response. Over the years, Tehran's security doctrine has evolved from being defensive to offensive, more so during the Trump era.



II. The Strategic Facet

The US maximum pressure strategy has triggered maximum defiance from Iran's regime despite the mounting costs involved. The IRGC has sped up its process of diversifying, modernizing and enlarging its disruptive, and offensive military capabilities. Its attempt to achieve sophistication in payload delivery systems does not only serve Iran's conventional military but also prepares the country for eventual nuclear capability that Tehran denies pursuing. Last month, Brigadier General Mohammad Pakpour explicitly stated that the IRGC is operationalizing a 'deep-attack doctrine', which was first put to action in 'Payambar-e Azam 12' wargames in December 2018.⁽³⁴⁾ Iran's indigenous missile program is one of the key components of its military doctrine. Given its outdated and small air force, the deep attack doctrine can only be realized by relying heavily on ballistic and cruise missiles as well as long-range drones.

Though the roots of Tehran's missile program predates the 1979 revolution, it was only in 1986 when the IRGC "self-sufficiency unit" was formed to develop Iran's military industries. Under Gen. Hassan Tehrani-Moghaddam, who is called its 'founding father", the unit essentially focused on reverse-engineering US and Soviet inventory.⁽³⁵⁾ Even after Tehrani-Moghaddam's assassination in 2011, Tehran's nuclear program largely depends on reverse-engineering but with the addition of integrating smuggled parts of the delivery systems to enhance their range and payload capacity.⁽³⁶⁾ Iran's leadership and strategist believe that effective missiles of a diverse range offer the most cost-effective way to counter its foes in the Gulf.

Since America's withdrawal from the JCPOA, Iranian strategists have focused on retaliation. While on the one hand, the sophistication of weapon systems remains a constant Iranian pursuit, on the other hand, Iranians pursue diverse and abundant platforms to make enemy counter-measures insufficient.

Iran's doctrinal review and its evolution have been evident across its military forces. Tehran's transition from a 'second strike' to a 'massive retaliation' doctrine is the result of both, Iran's quest for enhancing its geostrategic footprint as well as its ambition to enhance its offensive-defensive prowess. Contrary to the US Secretary of State John Foster Dulles' massive retaliation doctrine, Tehran's adaption does not entail nuclear weapons. It's purely conventional, despite the country's quest for nuclear deterrence. The telltale sign of the evolving doctrine is Major General Hossein Salami's appointment as the IRGC commander. He is known for his strategic thinking.⁽³⁷⁾ Now that there is no threat of US invasion or a land-based attack from Iran's neighboring countries, Tehran's leadership is investing in offensive arsenal aimed at foreign military bases as well as at rival Arab states across the Gulf. The previous doctrine sought strength beyond borders through proxies, drones and short-range rockets and missiles. Iran's second-strike doctrine prevented the US and its allies from directly attacking the country. The absence of Iranian proxies across Iran's western neighborhood and Yemen could have prompted the US to retaliate when its drone was shot down above Gulf waters.

Conclusion

Iran's evolving military doctrine still depends on the extension of conflicts beyond its borders but it has added lethal, massive and diverse firepower in the battle field along with effectively deploying instruments of hybrid warfare.

Thus, back-to-back missile tests are not only aimed at refining the accuracy, improving the payload and extending the range of the missiles but also at shortening the turn-around or breakout time. Keeping the element of surprise on its side Iran can significantly impair the enemy's technological edge in the battlefield.



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IRAN FACES LONG ROAD BEFORE IT IS TRUSTED BY NEIGHBORS

A closed-door conference held recently in Europe concerning developments on the political scene in the Middle East and ways to address them was attended by high-profile characters from several countries, including Iran. The discussions during the event and informal talks in the breaks between sessions focused on the tensions between the US and Iran, their consequences, the options at hand and the repercussions of these tensions on the region.

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Arab Affairs

Iran seeks to consolidate its influence in some Arab countries after it has been able to form pro-political and military entities. For this reason, Iran is using all the cards available to achieve this goal. Iran is concerned about the sanctions imposed on it and the economic crisis it is suffering from. These issues may result in it losing the leverage it has been working for years to maintain.

Accordingly, Iran moved to establish the Popular Mobilization Forces (PMF) within the structure of the Iraqi state at political and military levels. To achieve this goal, Iran has used its infiltration within Iraqi political currents and its ability to influence the decisions of the state, through political alliances at times and has taken advantage of Iraq's crucial need to cooperate with Iran economically, especially in the energy sector, at other times. On the other hand, the United States seeks to reduce Iran's influence outside its territory by targeting Iranian arms in the region financially and imposing sanctions against the country. The United States probably may not have been able to target the PMF due to the nature of the conditions inside Iraq, which still suffers from the presence of ISIS elements in its territory. However, the United States targeted Hezbollah by imposing financial sanctions affecting two of its deputies in order to disengage Hezbollah from the Lebanese state.



IRAQ AND IRAN

At present, the Popular Mobilization Forces (PMF) represent one of the most controversial subjects in the Iraqi arena for several reasons: its movements and its power which compete with that of the Iraqi army, its widespread deployment in vital strategic oil-producing areas, its political wing which formed the second largest bloc in the Iraqi Parliament in 2018, and its excessive use of armed force against the “Sons of the Sunni” groupings in the Sunni provinces.

The PMF has been perceived as one of the most important Iranian military arms to implement its plans to extend its influence in the Middle East in general, and in Iraq, Iran's western neighbor, in particular. Also, it is one of the most important armed militias targeted by President Donald Trump's strategy of maximum pressure against Iran. One of this strategy's pillars is to limit Iranian regional activities by diminishing its power in Iraq, Syria, Yemen and Lebanon. Therefore, we will analyze the Iraqi decree issued on July 1, 2019 to integrate the PMF Forces into the Iraqi army, the PMF and Iranian reactions, the motives behind the decree, and the possibilities of the decree's applicability, as well as the criticism against it and its impact on Iranian influence in Iraq.

I. The Iraqi Decree to Integrate the PMF Into the Iraqi Army

On July 1, 2019, the Prime Minister and the General Commander of the Iraqi Armed Forces Adel Abdul-Mahdi issued a decree to integrate the pro-Iranian factions of the PMF into the Iraqi army under his authority. The PMF militias have the right to choose freely between political or military action, provided that those who join the armed forces do not engage in politics, and those who engage in political activities do not carry weapons. The contents of this decree are as follows:⁽¹⁾



- 1- All PMF factions are an inseparable part of the armed forces and are subject to the same regulations applied to the armed forces under the command of its general commander.
- 2 -The PMF factions must dissociate from all names they worked with while fighting ISIS, and for them to be replaced with military designations (division, brigade, regiment, etc.), as well as the factions being designated military ranks of the armed forces.
- 3- All headquarters, all financial offices, and bodies under the umbrella of the PMF factions, must be closed.
- 4-The PMF factions that have not yet joined the armed forces would be political organizations subject to the laws of parties and political action, and they are prevented from taking up arms unless they are authorized to protect their party headquarters.
- 5- On July 31, 2019, a deadline will be set for finalizing the arrangements for the implementation of these decisions, and orders. A yet unspecified date, will be issued for restructuring the PMF.

II. The PMF and Iranian Reactions

Excluding the Iraqi Hezbollah Brigades, which are fiercely and fanatically loyal to Iran, many of the leaders and figures of the PMF voiced their support for the decree including the Secretary-General of Asa'ib Ahl al-Haq Qais al-Khazali, the head of the Wisdom Movement Ammar al-Hakim and the leader of the Sadrist movement Muqtada al-Sadr who called on his armed faction Saraya Al-Salam to comply with Adel Abdul-Mahdi 's call because this decree reinforces the unity of the armed forces with state power. They believe that this decree will prevent the dissolution of the PMF in the future.

Iran also announced its support for the Iraqi decree through its Foreign Ministry Spokesman Abbas Mousavi and its member of the National Security and Foreign Policy Committee Hashmatullah Flahat Bisha, considering it an Iraqi decision which concerns Iraqi sovereignty.⁽¹²⁾

The subdued reaction by PMF militia leaders and Iranian officials, as well as the intense meetings between the PMF leaders and the three Iraqi leaders (President Barham Saleh, Prime Minister Adel Abdul-Mahdi, and Parliamentary Speaker Mohammad Halbousi) give credence to the views of many specialists and followers of the situation that the Iraqi decision to integrate the PMF into the army is possibly taken in coordination with the pro-Iranian militia leaders and Iran itself. Iran recognized the decrees positives as follows:

- 1- It will prevent the possible Israeli and US targeting of Iran's militias after news reports concerning Israeli and American intentions to bomb militia headquarters in Iraq.
- 2 - Any Israeli and US strikes against Shiite militias after they are integrated into the Iraqi army would be seen as a direct attack against the Iraqi state itself.
- 3- The decree will prevent the imposition of sanctions on militias after their names are replaced with Iraqi military designations.

III. The Assessments and Implications of the Call to Integrate the PMF Into the Iraqi Army

The Iraqi decree sparked extensive debate about the motives of Adel Abdul-Mahdi behind such a decision, the limits of its application and its impact on Iranian influence in Iraq. The region is simultaneously at the threshold of war in a troubled neighborhood between the United States and its allies and Iran and its proxies, against the backdrop of US sanctions and pressure against Iran, the targeting of oil tankers by Iran in the Gulf to disrupt international shipping, and Iranian attacks on government and diplomatic headquarters of US allies inside and outside Iraq.

1- The Motives Behind the Iraqi Decision

The United States' repeated calls for Iraq to disband the PMF and to comply with US

sanctions against Iran, Washington obtaining information that the PMF militias are ready to target US forces in Iraq, as well as it holding the PMF responsible for the attacks on Iraqi bases hosting US forces in June 2019 indicate that Adel Abdul-Mahdi wanted to achieve several goals by making this decree:

A- He wanted to prevent turning Iraq into an arena of US-Iranian confrontation in the midst of US-Iranian mutual escalations in the Gulf.

B- He wanted to appease the United States to ensure the continuity of US exemptions for Iraq on importing Iranian oil and electricity after the fourth deadline for exemptions is to expire on September 23, 2019.

C- Adel Abdul-Mahdi wanted to improve Iraq's regional and international standing by opposing the presence of a military formation parallel to that of the army, while the PMF supposedly has accomplished its mission fighting ISIS in the Sunni provinces.

Apparently, the Iraqi prime minister has received the green light from Iran to announce the decree. Simultaneously, Iranian media reports referred to Iran undertaking a review of Iraqi-Iranian relations with a focus on civilian rather than military issues, following the success of the PMF in its duties inside Iraq and with it extending Iran's influence and gains throughout the Iraqi state.

2- The Boundary of Implementing the Iraqi Decision

Given the situation in Iraq during the post-US 2003 invasion period to the present time, the turning of the stage over to non-state actors by multiple power centers as well as political struggles to control the Iraqi equation, the widespread proliferation of pro-Iranian militias throughout the Iraqi state allowing Iran to achieve political, economic and military gains inside Iraq, and the inability of the former Iraqi Prime Minister Haider al-Abadi to implement the law of the integration of the Popular Mobilization Forces Committee since November 2016, many questions come to mind including: Can



Adel Abdul-Mahdi close all the headquarters and offices of the PMF militias which are deployed in the heart of the Iraqi state, especially in the economic field? How is the Iraqi government addressing the widespread deployment of weapons and their stockpiles in densely populated neighborhoods and cities? How can Adel Abdul-Mahdi dampen the appetite of the militias controlling more areas of influence and to expel them from the areas liberated from ISIS control or the traditionally Sunni lands they have controlled in Sunni provinces? What about Adel Abdul-Mahdi's ability to influence the militias to withdraw their fighters from the battlefields in Syria?

Even if the Iraqi prime minister was able to nominally integrate the PMF into the Iraqi army, the problem of regulating the relationship of power and influence between the regular army and the PMF will benefit the latter similar to the IRGC's dominance over the Iranian army. Therefore, decision making will be in the hands of the PMF and its new formations, rather than the Iraqi army.

3- The Criticism of the Iraqi Decision

Observers of the Iraqi decree criticized the decision for not identifying the armament capability of the new PMF formations under the Iraqi army, and the areas and the scope of their camps. Namely, are the armaments going to be of a broad interpretation that allow the new formations to retain military equipment as well as advanced and qualitatively superior equipment to that of the Iraqi army? It also did not define the nature of the PMF tasks and duties entrusted to it and the limits of its powers, under the leadership of the Iraqi armed forces. In addition, the decree did not clearly reveal the extent of the PMF's acceptance of international agreements concluded by the Iraqi government with the governments of other countries, especially the security agreement with the United States. Thus, will the PMF along with its new formations under the Iraqi army accept the agreement as being legally binding for the Iraqi state?



4- The Implications of the Decree on Iranian Influence in Iraq

This decree does not only regulate the activity of the pro-Iranian PMF but also strengthens its influence within the Iraqi military establishment. Therefore, this allows the formation of a doctrinal army parallel and similar to the IRGC and more loyal to Iran. It will also imbue the Iraqi army with a certain sectarian character, distancing it from other Iraqi state components on a sectarian basis. This makes the PMF more compliant with ideological doctrine than Iraqi laws. As a result, it will increase its rate of targeting Sunnis, which poses a serious danger to the future of the Iraqi state, because it undermines the foundations of peaceful Iraqi social and political coexistence.

In addition, the integration into the Iraqi army provides official cover for the internal and external PMF movements as they will be official movements of the Iraqi army to protect Iraqi national security. It reflects positively on Iranian influence in Iraq and Iran's plans to extend its influence and to launch the Iranian Corridor. For this reason, the Iranian government will not surrender the PMF so long as Iran does not abandon its regional expansionist behavior. This will be unlikely at least in the next few years. The PMF is a high priority in Iranian strategy as the protector of its

western gate, as well as for Iran's political, economic and military gains and for its potential corridor running down toward the Mediterranean.

IV. The PMF in Brief

<p>Origination</p>	<p>The PMF, an irregular Shiite force, was formed after a fatwa by the world's leading Shiite cleric, Ali al-Sistani, in 2014 to fight ISIS and to restore the Sunni provinces that had been fully taken over: Al Anbar, Salah al-Din, Nineveh, Diyala, or partially fell into the grip of ISIS like Babylon and Kirkuk. These forces, in coordination with the Iraqi army and the international coalition to fight ISIS, successfully eliminated the terrorist organization from several geographical areas during 2018.</p>
<p>The formation</p>	<p>The organization consists of 67 armed militias,⁽¹³⁾ with a total of more than 100,000 fighters, including those formed before 2003 such as the Badr Organization led by Hadi Al-Ameri, the closest and most loyal faction to Iran. Some were formed after the 2003 invasion of Iraq by the United States such as Asa'ib Ahl al-Haq, Saraya al-Salam and the Mukhtar Army. Some were formed after Sistani's 2014 fatwa, such as the Nujaba Movement, the Hezbollah Brigades, and the Jihad and Al-Bina Saraya. On November 11, 2016, the Iraqi Parliament approved the law integrating the PMF into the Iraqi army.</p>
<p>Marāji'</p>	<p>36 militias, which is the largest number, follow Khamenei. The other 14 militias follow Sistani. As for the remaining 16, some are under Kazem Husseini Haeri, while the others are affiliated with the influential Lebanese Hezbollah leader in Iraq, Muhammad Al-Kawtharani.⁽¹⁴⁾</p>
<p>Crimes committed</p>	<p>The PMF committed horrendous crimes and massacres against Sunni militias and tribal coalitions in the Sunni governorates throughout their participation in the fight against ISIS in the Jurf al-Sakhar operation in 2014, Tikrit 2015, Ramadi 2015, Fallujah 2016, and Mosul 2017. They work to impose their ideological views in areas liberated from ISIS at gunpoint.</p>
<p>The relationship of the PMF with the Iraqi army</p>	<p>The PMF often integrate into the Iraqi army by using its weapons, equipment, military vehicles and ammunition. They also wear the Iraqi army's clothes. In 2015, the Iraqi government allocated \$60 million to build the capacity of the PMF. Each personnel of the PMF earns about \$500 a month to be paid by the Iraqi government.⁽¹⁵⁾</p>

Conclusion

The call to integrate the PMF into the Iraqi army is one of the most serious decisions concerning the future of the Iraqi state because it changes the doctrine of the Iraqi armed forces and makes them more alike militias due to the expected domination by PMF members over the rest of the Iraqi army elements. In addition, it will imbue the Iraqi army with a Shiite sectarian character changing the values of the army, which is affiliated with a nationalist state, to a sectarian army similar to the IRGC. In the event of faction formation in the Iraqi army belonging to the PMF, these factions and brigades will be an army parallel to the regular army. Internally, the parallel formation will deal with the components of the Iraqi state on the grounds of an exclusionary doctrine that will benefit the Shiites. Externally, it will engage with pro-Iranian militias in Syria, Lebanon and Yemen. However, the new formations will also serve Iranian regional influence at the expense of the identity of the Iraqi nation-state, as the development of new militia formations in the Iraqi army will serve Iran's agenda, not Iraqi interests.

IRAN AND LEBANON

Hezbollah has been and remains Iran's tool and its arm to intervene in the affairs of the states of the region politically and militarily. Hezbollah is no longer an armed group with a political role undermining the Lebanese state but is also an organization that serves the interests of Iran outside Lebanon as it does inside it and more. Hezbollah has become a platform for Iran's activities in Yemen, Europe, and Latin America. Iran has contributed significantly in providing logistical support, as well as operational support for the assassination of opposition figures abroad— assigned to Hezbollah by the Iranian political system. In addition, Iran provided Hezbollah with a financial network. Hezbollah leader Hassan Nasrallah boasted about how this financial network was outside the international financial system's control and cannot be detected or sanctioned. This financial network also provided sufficient cover for the financial movements of the Iranian political system abroad.

As a result, it is difficult for the global financial system to detect the movement of funds from Iran to the party or from the party to other entities, which it supports in favor of Iran. This prompted the United States and many other countries to impose economic sanctions on Hezbollah and some of its members.

The movement of funds from Hezbollah's financial network not only supports the party financially but it also enables it to move more freely on behalf of Iran through Lebanese citizens, who may or may not be members of Hezbollah (whether they are Shiite or even of other religions). As a result of Iran's financial support, the party can manage the underground economy of the Iranian political system abroad and is thus the main supporter of Iran, although Hezbollah is not the only recipient of Iranian funding. The United States is working within the framework of its maximum pressure strategy against Iran in order to force it to adjust its regional and international behavior by reducing financial resources available to it to limit its ability to support its proxy militias and arms in the region, foremost being the Lebanese Hezbollah. The US sanctions, imposed on two Lebanese parliamentarians in July 2019, fall within the framework of this strategy.

I. The US Decision to Impose Sanctions on Two Lebanese Parliamentarians

On July 9, 2019, the US Treasury's Office of Foreign Assets Control added two members of the Lebanese Parliament, Amin Sherri and Muhammad Hasan Ra'd, on the sanctions list which targets those accused by Washington of providing support to terrorist organizations.

The sanctions also included the Lebanese Wafiq Safa, who is in charge of Hezbollah's Liaison and Coordination Unit responsible for coordinating with Lebanese security agencies.

The decision by the US Department of the Treasury bans US citizens from dealing with the three individuals and blocks any assets they may hold in the United States. It also limits their ability to access the US financial system.⁽¹⁾

The US Secretary of State Mike Pompeo said the sanctions imposed on the Hezbollah members were part of US efforts to counter the group's corrupt influence in Lebanon. The United States has called on its allies to include Hezbollah and all its political and military arms on their terrorist lists.



source: telegraph.co.uk

The US Secretary of State added that the sanctions against the Lebanese members of Parliament were for using their positions to support Hezbollah and Iran's activities, and for facilitating banking transactions for the benefit of individuals belonging to Hezbollah who had already been added to the sanctions list. The US Department of the Treasury published a photo of Qasem Soleimani the Commander of the Qods armed force and Amin Sherri. Previously, Amin threatened the officials of a Lebanese bank who had blocked the accounts of Hezbollah. The US Secretary of State has called on the Lebanese government to sever its ties with Hezbollah. The US Department of the Treasury also announced that the Lebanese government should realize that the United States will not condone Hezbollah's control of the Lebanese state, nor will it distinguish between Hezbollah's political and military faction.⁽²⁾ Sigal P. Mandelker, the Under Secretary of the Department of the Treasury said Hezbollah "threatens Lebanon's political and economic stability and the security of the region, all at a cost to the Lebanese people."⁽³⁾

II. Lebanese and Iranian Reactions to the US Decision

1- Lebanon's Reaction

Hezbollah and its deputies in the Lebanese Parliament sought to develop an atmosphere of solidarity with the sanctioned parliamentarians through the Lebanese state and Parliament. Although Hezbollah did not issue a statement in response to the sanctions, Hezbollah's parliamentarians condemned the sanctions through media statements; for instance, Ali Fayad stated that US sanctions were an insult to the Lebanese people and called on the government and Parliament to respond,⁽⁴⁾ and Ali Ammar said that the US move is an attack on national sovereignty and that the government is obliged to defend and protect this sovereignty. Lebanese leaders have responded to Hezbollah's demand, each according to the level of their association with the party and the political and organizational alliances they hold with Hezbollah.

2- At the Parliamentary Level

The presidency of the Lebanese Parliament issued a statement conveyed by the official National Information Agency saying that “the sanctions are an attack on the Parliament and certainly on Lebanon as a whole.” The Lebanese Parliamentary Speaker Nabih Berri, leader of the Shiite Amal bloc which is aligned with Hezbollah, described the US decision as “unreasonable.” He also emphasized the statement made by the presidency of the Lebanese Parliament.⁽⁵⁾

3- At the Governmental Level

The Lebanese Prime Minister Saad Hariri addressed the effects of the US sanctions on the Lebanese economy without going into whether it was right to impose the sanctions, Hezbollah’s activities, nor whether the decision was related to Iran or not. In a statement issued by his office, Lebanese Prime Minister Saad Hariri said, “It is something new [sanctions] that we will deal with as we see appropriate. Most importantly, we should preserve the banking sector and the Lebanese economy. God willing, this crisis will pass sooner or later.”

“Sanctions are unjustified and do not serve financial stability,” said Finance Minister Ali Hassan Khalil, a senior aide to Parliament Speaker Nabih Berri.

“Lebanon is a committed country and its banks are committed to all legislation. There can be no justification for escalating these sanctions,” he added.⁽⁶⁾

4- Iran’s Reaction

Iran quickly announced its solidarity with the Lebanese state in the face of the US sanctions. It has used the same language as Hezbollah’s media by depicting the crisis as an attack on the Lebanese state and its institutions. Iran also declared that these sanctions are not targeting Hezbollah, which supports Iran. As a matter of fact, Hezbollah violates the sovereignty of the Lebanese state by involving its citizens in armed conflicts that the Lebanese state has not agreed to enter. It practices terrorist activities that extend beyond the borders of the Lebanese state, although it is an active political faction in the government. This exposes the Lebanese government and its people to the dangers of unilateral decisions taken by Hezbollah in which Lebanon bears its cost.

Iran sent its Assistant Speaker of the Iranian Parliament for International Affairs Hossein Amirabdollahian to Lebanon to meet Lebanese officials and to assert that Iran does not want to get Lebanon involved in its problems. It is keen to maintain the security and stability of Lebanon. During his meeting with Amirabdollahian, Nabih Berri tried to reassure the Lebanese public about the balance in its relations with Iran and Saudi Arabia when he stated that Lebanon has always been interested in establishing normal relations with Iran and Saudi Arabia as well as regional cooperation, which aims to help stability and collective security in the region.⁽⁷⁾

III. The Consequences of the US Decision

Despite the apparent solidarity with Hezbollah inside Lebanon which is triggered by the US decision of imposing sanctions on two Lebanese parliamentarians, a genuine change in the Lebanese political structure has not been achieved because these parties have solidified relations with Hezbollah and are allied politically with Hezbollah. Given the fact that Hezbollah is an armed faction, it is natural to see some sort of political hypocrisy in dealing with Hezbollah or, at the very least, some kind of politeness and prudence, even by its rivals. However, the sanctions decision has created other repercussions that can be assessed as follows:

1- Economically

The value of Lebanon’s dollar-denominated sovereign bonds fell and the cost of insuring its debt rose the day after the US sanctions were imposed. In addition, the cost of insuring

Lebanon's five-year debt jumped 17 basis points from 925 basis points, according to IHS Markit data. The statements of government officials about possible debt restructuring have caused investor disquiet in Lebanon.⁽⁸⁾

This economic shock comes as Lebanon suffers from foreign debt accumulation, which reached 150 percent of its Gross Domestic Product (GDP). It is considered as one of the largest debt rates in the world. However, the remittances of Lebanese living abroad, numbering approximately 18 million Lebanese, declined in 2018 to \$7.2 billion after reaching \$9 billion in 2014. These remittances are mainly transferred from Saudi Arabia and the United Arab Emirates, where half a million Lebanese live. This means that from among the 18 million Lebanese living abroad, half a million remittances entered the country. These remittances account for about 14.5 percent of the country's GDP. Over the past decades, Lebanon has considered these remittances as an irreplaceable supporting tool in its balance of payments.⁽⁹⁾

Half of these remittances are transferred to Lebanon from the Gulf countries, especially Saudi Arabia and the UAE, given the higher incomes earned by the Lebanese population living in these countries. Lebanon ranked first among the Middle East countries in the ratio of remittances to GDP by 12.7 percent. It is a strong indication of how vulnerable the Lebanese economy is with regard to its relation with the Gulf states, which undoubtedly conflicts with Hezbollah's relations with Iran.

2- Externally

Since the US decision in imposing sanctions on Amin Sherri and Muhammad Raad included a call to US allies to declare Hezbollah a terrorist organization and not to distinguish between its political and military arm of the party, the United States had manage to push Argentina into issuing a decision to declare Hezbollah a terrorist organization and to end all the party's activities in Argentina. Also, Argentina is considering a decision to block the assets of Hezbollah members in Argentinian banks.⁽¹⁰⁾ Hezbollah is known to have a strong presence in South America generally and in Argentina particularly.

This decision came in conjunction with the US Secretary of State's visit to Argentina. Expectedly, this decision is going to restrict the activities of Hezbollah and Iran accordingly in South America, which is the center of their financial and terrorist activities.

Conclusion

Although Hezbollah has claimed that it has not been affected by the US financial sanctions imposed on it after it was declared as a terrorist organization by the United States, these decisions have encouraged many countries to adopt the American position, whether by declaring Hezbollah a terrorist organization or issuing financial sanctions against its members. Therefore, this has constrained the movement of funds between the party and Iran. It has become apparent that the party is suffering from a funding crisis. This is reflected through the reduction in the activities of the party internally and externally, its announcement to reduce the number of its troops in Syria, and its attempts to pursue funding sources to compensate for the shortfall in the remittances coming from Iran.

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International Affairs

Internationally, Iranian interactions were highly dynamic during July 2019. Iranian diplomacy was active in an attempt to improve Iran's capabilities to face American pressure, by maintaining the nuclear agreement to prevent the formation of an international consensus against Iran. Meanwhile, it also aims to reduce its nuclear obligations. However, Iran has threatened to return to its nuclear activities and to conduct further tests on its long-range missiles to exert more pressure on the international community and the European countries in particular, as it will work toward ending the US pressure policy or to pursue negotiations under Iranian conditions. Iran has increased its cooperation with the Russian side to ensure international support, whether in the Security Council or in the case of entering direct negotiations with the United States. In return, the United States imposed further sanctions on Iran to achieve the fundamental goal of its strategy, which is to change the behavior of the Iranian political system regionally and internationally and to make a significant modification in the nuclear agreement.



IRAN-US RELATIONS

In July 2019, Iran-US relations underwent several developments. These developments were as follows:

I. The US Position on the Crisis With Iran

The US position was based on escalation towards Iran and it can be defined through the following elements:

1- New Sanctions on Iran and its Affiliated Militias

Table 1 shows US sanctions imposed on Iran and its joint forces in June as part of the Trump administration's "maximum pressure" strategy, which the US President Donald Trump has confirmed will increase in the next phase, and the US Secretary of State Mike Pompeo said it could last for years.⁽¹⁾

Table 1: US Sanctions on Iran and Its Militias in the Region in June 2019

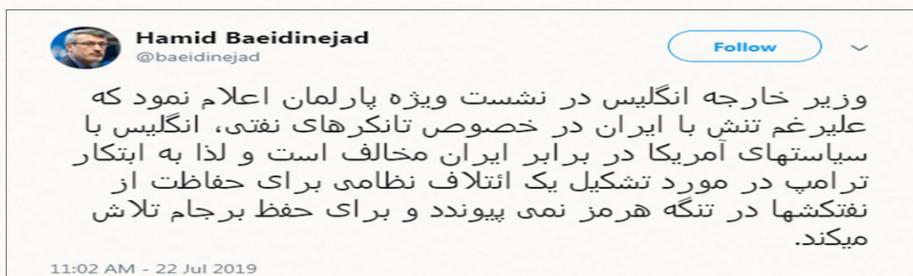
Date	Sanctions on
July 9	Lebanese leaders for allegedly using their political authority to facilitate Hezbollah's malicious agenda and supporting Iran.
July 18	Two Iraqi leaders in the Iranian-backed Popular Mobilization Forces (PMF), as well as two other officials accused of human rights abuses and corruption.
July 18	Five individuals and seven companies under the pretext of working with the Iranian nuclear program and buying sensitive items for Iran. In addition, four Chinese companies and one Belgian company.
July 19	The US Treasury listed Lebanese Hezbollah leader Salman Rauf Salman as a terrorist and offered a reward of \$7 million for any information concerning him.
July 22	The Chinese Zhuhai Zhenrong company and its Chief Executive, Youmin Li, for violating US sanctions against Iran.

Date	Sanctions on
July 23	The US Treasury has warned companies not to deal with Iranian airlines, claiming that many within the organization are supporting Iran in regional violence by moving fighters and weapons to international sites.
July 31	The Iranian Foreign Minister Mohammed Javad Zarif and listing him on the Office of Foreign Assets Control (OFAC) special-rated individuals list.

Iran considered these sanctions as reaching their maximum level, covering everything that can be sanctioned, and an announcement of economic war.⁽²⁾ Despite the US escalation against Iran, the Trump administration emphasizes that it does not seek to change the Iranian political system.⁽³⁾

2- Forming an International Alliance to Protect maritime Navigation in the Gulf

The United States sought to form an international alliance to protect shipping in the Arabian Gulf from Iranian interference. The EU countries have called for a global power to protect oil tankers in the Gulf, while the United States faces some challenges to establish an alliance, as some EU countries oppose this under their policies of maintaining the nuclear deal with Iran.



3- Targeting an Iranian Drone Over the Gulf

The US aircraft carrier USS Boxer (LHD-4) targeted an Iranian drone within its range in the Strait of Hormuz,⁽⁴⁾ in response to Iran's shooting down of the US drone over the Gulf in June 2019.

4- Accusing Iran of Violating the Nuclear Agreement

The United States has tried to take advantage of Iran reducing its nuclear obligations as well as the IAEA report which revealed that Iran has exceeded its enriched uranium stockpile ceiling. The IAEA has written a complaint to the IAEA Board of Governors as a prelude to transfer this file to the UN Security Council.⁽⁵⁾

"The Iranian regime took action today to increase its uranium enrichment," the White House said in a statement.

"It was a mistake under the Iran nuclear deal to allow Iran to enrich uranium at any level."⁽⁶⁾

The US administration also addressed the importance of "reviving non-proliferation standards that demand zero enrichment of uranium in Iran; the United States and its allies will never allow Iran to acquire nuclear weapons."⁽⁷⁾



II. Iran's Confrontation Policy Against the US Position

Iran responded to the US hardline position with measures to ease the pressure:

1- Reduction of its Nuclear Obligations

Iran announced that it will reduce compliance with its nuclear obligations, including an increase in enriched uranium beyond the limit set by the nuclear deal. Articles 26 and 36 of the Joint Comprehensive Plan of Action (JCPOA) provide the right for Iran to return to the starting point if the JCPOA signatories did not comply with their obligations.⁽⁸⁾ Iran looks forward to forcing EU parties and other partners to take a real step towards maintaining the nuclear deal, particularly by pressuring them to ensure its oil exports and banking facilities.

2- Circumventing Economic Sanctions

The Iranian government is counting on thwarting US sanctions and reducing their economic impact. Thus, on June 20, 2019, Iran sent 1 million barrels of oil to China through a national transport company.⁽⁹⁾ Also, some companies practiced deceptive tactics, such as turning off the tracking system, transporting goods from one ship to another at sea, identifying fake access points, and renaming oil barrels. The use of these four tactics helped Iran to export at least 300,000 barrels of oil per day in June 2019; half of this amount has gone to China, according to Bloomberg reports.⁽¹⁰⁾

3- The Threat of Offensive Military Action against US Forces and Israel

The Iranian political system and its officials insist on delivering a message of its capability by targeting US forces in the region. The Cultural and Social Affairs Assistant General Commander of the Iranian Revolutionary Guards Brig. Gen. Hussein Najat stated on July 9, 2019, that if the US aircraft carriers carry out any foolish action towards Iran's borders, Iranian missiles will strike these carriers, as the US military bases are within range of these missiles.⁽¹¹⁾ The message also contained threats to target Israel. The Chief of the National Security and Foreign Policy Committee in the Iranian Parliament Mojtaba Zonnour on July 6, 2019, stated that if the United States and its followers want to make a mistake, the Zionist regime will disappear from the planet in less than half an hour.⁽¹²⁾

4- Using the Crisis to Achieve Social Cohesion

There is no doubt, Iran exploited US pressure through its propaganda strategies to calm the internal arena, absorb public anger, and to create a national consensus on an external existential threat. Also, the IRGC's formal review showing US threats in the Gulf was used to raise government and public morale.⁽¹³⁾



5- Refusing to Internationalize Navigation in the Arabian Gulf

Iran believes that the international trend towards enhancing navigation security in the Gulf poses a threat to its influence there and removes the government's ability to use the card of closing the Strait of Hormuz. Iran feels that it will militarize the Gulf, thus limiting the movement of the IRGC and their navy in the Gulf. Acts to threaten the maritime security and the freedom of navigation of is no longer fruitful. Iran believes that the pursuit of Washington and London to establish a military alliance will have negative results.⁽¹⁴⁾

6- Maintaining the JCPOA and Disabling an International Consensus Against Iran

Despite the reduction of its nuclear obligations, the Iranian government is keen on the nuclear deal surviving. Iran believes that this deal may still play an essential role in disabling an international consensus against Iran because leaving it would lead to the restoration of international pressure and UN sanctions against Iran.⁽¹⁵⁾

7- Relying on Trump's Non-Re-election

Despite Trump's popularity and signs of success in the upcoming elections, the Iranian government is still counting on the American people not to renew confidence in Trump, thus, the possibility of a change in US policy toward Iran. The Cultural and Media Affairs Advisor to President Hassan Rouhani, Hesamodin Ashna said on July 3, 2019, that as Iran had prevented Jimmy Carter from being elected in 1980, it could sabotage Trump's re-election as president.⁽¹⁶⁾

III. Mediation Efforts and the US-Iran Positions Towards Negotiation

With the increased possibility of military confrontation, mediation efforts were multiplied. The statements of the two parties reflected their unwillingness to start such a confrontation and their mutual approval to start conditioned negotiations:

1- Mediation Efforts to Calm the Crisis

From April to July 2019, multiple parties tried to mediate between the United States and Iran. With the recent escalation in July, many initiatives and mediation efforts were proposed to ease tensions between the United States and Iran. The most prominent effort was from the French President Emmanuel Macron and the Republican senator Rand Paul, who had the approval of President Donald Trump himself to meet the Iranian Foreign Minister Mohammed Javad Zarif, who came to New York to participate in UN meetings.

The French President Macron, who recently held many talks with Trump, and had a telephone conversation with the Iranian President Hassan Rouhani, sent his political adviser to Tehran to assess whether negotiations between the United States and Iran were possible. It is reported that President Macron is considering the possibility of a “freeze-for-freeze” deal, which includes allowing Iran to export 1 million barrels of oil per day in return for Iran’s retreat from the steps taken in the nuclear field, which violate the JCPOA. In addition to these direct efforts of Macron, European efforts continue to prevent the collapse of the nuclear deal entirely as well as an escalation in the Gulf, which could lead to a military confrontation.⁽¹⁷⁾

Alongside these French efforts, there were regional efforts led by the Iraqi prime minister and the Omani foreign minister, all of which have been pushing for calm without offering integrated initiatives to resolve the crisis.

2- Mutual Willingness to Negotiate

Both Iran and the United States have expressed their willingness to negotiate, but both sides consider the issue of negotiation from a different and perhaps contradictory point. Iran considers that its willingness to negotiate is subject to the US lifting its sanctions that were reactivated after the US withdrawal from the JCPOA.⁽¹⁸⁾ While the United States wants to negotiate unconditionally, both sides adopt a strategy to pressure the other to accept negotiations upon its terms.

IV. Results and Implications

Through exploring the developments in US-Iranian relations in July 2019, we can conclude the following points:

- 1- The United States has returned to an intense sanctions policy and has not responded to Iranian provocations in the Gulf region, a sign that the United States is confident in succeeding through its new strategy.
- 2- The United States seeks to internationalize the freedom of navigation in the Arabian Gulf, which is consistent with its policy of building an international alliance to counter Iranian adventures and may enhance its pressure strategy on Iran.
- 3- US sanctions continue to cripple Iran’s regional influence through a series of sanctions targeting its arms and militias, as well as its leaders, influential elements and financial channels. In addition, the US is tracking international networks that serve the Iranian political system and help it circumvent US oil and financial sanctions.
- 4- The US strategy has long-term objectives, which has allowed Iran to show off, and to appear as a capable and powerful regional power. Furthermore, multi-mediation efforts strengthened Iranian confidence in its escalating options. Instead, the pillars of the Iranian government talked about Iran’s deterrence capability and challenging the United States.
- 5- The chances of negotiations between the status quo are very modest. Iran refuses to negotiate under sanctions because it makes Iran the weaker party and it will have no option but to accept all US conditions. It seems that the United States will not cancel the sanctions, because that would mean its “maximum pressure” policy would end and the failure of its strategy against

Iran. This situation, thus, will have significant psychological effects on the popularity of the Trump administration in the upcoming US elections.

6- While mediation efforts focus on appeasement with no integrated initiative for settlement, the crisis may escalate at any moment.

7- As the United States and some European countries seek to internationalize Gulf security and to enhance military presence in the Gulf, Iran's ability to harm and threaten the freedom of navigation in the Gulf diminishes significantly.

IRAN-EUROPE RELATIONS

During the month of July, Iran continued its policy of pressure on the three European countries that signed the nuclear agreement. However, the seizure of the British oil tanker 'Stena Impero' on July 19 marked a pivotal change in the Iranian pressure policy on Europe, shifting from political pressure and diplomacy to the point of confrontation and hostility. This prompted a reaction from Britain and the European Union member states, which called for the formation of an alliance to ensure the freedom and safety of navigation in the Arabian Gulf and the Strait of Hormuz. However, as one of the countries that have joined the joint naval force along with Britain, France chose to launch a new mediation initiative between Iran and the United States. It sent Emmanuel Bonne, the political adviser to the French president, to present a new initiative to the Iranian government.

These successive interactions on the level of Iranian-European relations witnessed in July 2019 have led to questions concerning the nature of Iranian objectives with regard to the policy of pressure on European countries, the mechanisms used by Iran to achieve these goals and the impact of naval forces guaranteeing freedom of navigation in the Gulf in response to the policy of Iranian pressure.

This file will also discuss France's ability to manage mediation between Iran and the United States in light of the escalation of tensions between Iran and Europe over the seizure of tankers and the intensification of European military presence in the Gulf.

I. The Aim of Iran's Pressure Policy on the European countries

The three European countries (Britain, France, and Germany) are the targets of Iranian pressure. These countries continue to be signatories to the nuclear agreement after the United States withdrew from the agreement in May 2018. Iran understands that the European countries that have shown a degree of adherence to the nuclear agreement and are equally willing to amend it in a way that prevents Iran from acquiring a nuclear weapon. They are also willing to put a ceiling on the Iranian missile program, although they are not decisive in seeking to stop Iranian interference in the region and halt Iran's support for its armed militias. However, there is no doubt that they are affected by the unstable situation in the Middle East as a result of Iran's hostile acts and the resulting massive implications for European countries. In spite of the foregoing, Iran has not engaged in a serious dialogue with Europe on the points which raise fears and concerns among the European countries. In the face of Europe, Iran adheres to the terms of the nuclear agreement, without conforming to its spirit, which was originally intended to turn Iran into a normal state integrated into the international community.

However, with these Iranian behavior, which has raised concern among European countries, Iran exploits the desire of the European countries to maintain the nuclear agreement but it makes sure not to reach the point of no return by creating justifications for the entire agreement to be scrapped without amendments made to it. Iran adopts this strategy in order



to achieve the following objectives:

- Maintaining the nuclear deal while reducing Iran's commitments.
- Pushing the European countries to continue importing Iranian oil and not to participate in the US embargo on Iranian oil exports.
- Implementing the European financial mechanism INSTEX to continue trade with Iran via a banking system that cannot be hit with US sanctions.
- Dissuading the European countries from pressuring Iran to cease or reduce its missile program.
- Keeping the European countries away from supporting the US in its efforts aimed to stop Iranian interventions in the Middle East and to cease supporting its armed militias in the region.

II. The Iranian Mechanisms to Implement Pressure on the European Countries

Iran is exerting pressure on European countries through a number of mechanisms and measures that it has taken in an escalating manner:

- Announcing a three-stage plan to reduce Iran's nuclear commitments. This ultimately aims to relieve Iran from all restrictions imposed by the nuclear deal on its nuclear activities, whether related to Tehran reducing its low-enriched uranium, storing enriched uranium and heavy water on its territory,⁽¹⁹⁾ and ultimately restarting the Arak reactor with heavy water to be capable of producing plutonium and thus facilitating Iran's ability to produce nuclear weapons.
- Conducting tests on long-range and medium-range ballistic missiles such as on the Shahab-3 missile, given the danger they pose to European soil as their range covers parts of the European continent⁽²⁰⁾ if fired from Iranian territory, while Iran currently has its militias deployed across a number of countries in the Middle East that can launch missiles from these territories and thus increase the range of missiles to cover wider areas within the European continent.
- Rejecting successive international mediation attempts aimed at resolving the crisis and insisting that the United States should revoke all sanctions imposed by it before Iran enters into any negotiation process.

III. European Movements in the Face of Iranian Pressure

European moves in the face of Iranian pressure are slow, given the multitude of decision-making circles and the intersection of European governments' decisions with those of the European Union, which have always ensured Iran a great ability to negotiate through long-term talks. But successive US escalations, as well as Iran's handling of the oil tanker crisis and endangering maritime navigation in the Arabian Gulf, European countries feel that the situation requires faster action. European countries have tended to deal with Iranian pressures out of a desire to resolve the crisis through three levels, namely:



1- Ensuring the Safety and Security of Navigation in the Gulf

Iran launched a series of hostile and provocative acts aimed at threatening the security and safety of navigation in the Arabian Gulf starting on May 2019, in which it claimed responsibility for some acts but denied responsibility for others, most notably seizing and abducting the British oil tanker *Stena Impero*. Following this, Britain called for the formation of a maritime alliance to ensure freedom of navigation in the Gulf by then Foreign Secretary Jeremy Hunt.⁽²¹⁾

The British invitation received an initial response from France, Italy and Denmark, but some countries rejected the British proposal, such as Poland, and others had reservations such as Germany. Britain has stated that the coalition it is advocating is not part of the US maximum pressure strategy against Iran.⁽²²⁾

Table 1: Iran's Attacks Against British Oil tankers Since the Scrapping of US Exemptions on Iranian Oil Exports

Date	Attacks
May 12	The US and regional countries accused Iran of targeting four commercial ships near Fujairah port in the UAE
June 13	The attack on two oil tankers in the Sea of Oman
July 10	The attempt by Iranian ships to prevent the passage of the British commercial ship <i>British Heritage</i> in the Strait of Hormuz before the British frigate <i>Montrose</i> intervened and drove away the Iranian forces

Date	Attacks
July 15	The CIA announced that Iranian ships seized RIAH M1, a Panama-flagged oil tanker. It is believed that the tanker is owned by the UAE, but the UAE has denied this
July 20	IRGC personnel forced an oil tanker owned by an Algerian oil firm to change course towards Iranian territorial waters when it was crossing the Strait of Hormuz
July 19	The IRGC abducted the British tanker Stena Impero as well as its crewmen. It was British-flagged.

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But the British proposal was parallel to that of the United States which preceded it and was announced on June 27. It was rejected by France and Germany as they feared the step may lead to a military confrontation with Iran. The United States renewed its call on July 9 before the incident of the British oil tanker being seized. The US proposal aimed to form an alliance dubbed 'The Guard' in order to impose measures to monitor the Iranian and Yemeni coasts to confront any hostile acts by Iran and its backed Houthi militias. This alliance was supposed to be formed in two weeks from the date of its announcement. The nature of the missions undertaken by the alliance's forces shall be based on the contributions of its members, with the United States leading the force.⁽²³⁾

The US secretary of state announced that he had asked a number of European and Asian countries to join the coalition. He asked Britain, France, Germany, Norway, Japan, South Korea, and Australia.⁽²⁴⁾

On the other side, the Russian Federation proposed the establishment of a collective security system to ensure the safety of maritime navigation in the Arabian Gulf through a written proposal distributed by the Russian delegate in the UN Security Council to the member states.

The Russian delegate did not clarify the nature of the proposed security alliance and its mechanisms, while the proposal was called, "Russia's security concept for the Gulf area."⁽²⁵⁾

It is clear that the Russian proposal, although formalized by its presentation to the UN Security Council, was intended to thwart the two previous proposals rather than actually being implemented on the ground.

As for the British proposal, it was made by the government of Theresa May days before her departure. However with British Prime Minister Boris Johnson, who is known for his close rapport with the US President Donald Trump, coming to power, the British position on the establishment of a European alliance independent of the US alliance is expected to change.

Regardless of the creation of an independent European alliance or its integration into the proposed US alliance, Iran's actions threatening navigation in the Gulf have led to an intense presence of Western naval forces in the region to ensure the safety of navigation and oil shipments.

Iran has failed to use the strategy of endangering navigation in the Gulf as part of its efforts to end the embargo imposed on its oil exports.

2- Activating French Mediation to Resolve the Crisis

As tensions escalate in the Gulf and following Hassan Nasrallah's remarks about Hezbollah's readiness to enter the battle if an attack is mounted on Iran, France sent

Emmanuel Bonne, the political advisor to the French president, to Tehran for the second time to present its proposal on “mutual stopping,” which means that sanctions would be stopped in return for Iran maintaining its commitments to its nuclear obligations. During his visit to Tehran, Emmanuel Bonne was keen to stress that he does not carry any message from the United States to Tehran and that French President Emanuel Macron is looking for efforts to stop the tension in the region and the US economic war on Iran.⁽²⁶⁾

In response to the French proposal, Iran’s Supreme National Security Council Secretary Ali Shamkhani said during a meeting with Bonne, “The program of gradual reduction of Iran’s nuclear obligations is an unchangeable strategy.”⁽²⁷⁾

The French proposal entailed a temporary suspension or moratorium, as a prelude to opening the doors to negotiation. However, the difference over the two terms ‘suspension of sanctions’ and the ‘abolition of sanctions’ triggered uproar in Iran.

After a phone call between the Iranian president and his French counterpart in which Rouhani said that the suspension of all sanctions could be the beginning of action between Iran and the P5+1, Western media reported that the Iranian president had agreed to start nuclear talks with the P5 + 1 if sanctions are suspended. This was rejected by Iranian decision-making circles. Mohammad Javad Larijani, Iran’s former assistant foreign minister, warned that the suspension means that sanctions can be reinstated at any time. Iran’s demand is abolition, not suspension. Rouhani’s position expresses a naive and dangerous vision.⁽²⁸⁾

However, the Iranians did not want to close the door on the French proposal as an outlet to negotiations with the United States, if they were to be needed at some point from their point of view.

The French considered the proposal as a third step,⁽²⁹⁾ followed by an understanding to be reached on a number of other outstanding issues.

Perhaps postponing an understanding on regional security, the French terms for Iran’s intervention in the region and its support for armed militias, is what prompted Iran to totally reject the French proposal, especially as it focuses only on nuclear issues and avoids talking about its missile program as well.

This keeps the French proposal hanging in the balance for the Iranians because they are seeking a greater gain: the complete abolition of sanctions and reinstating Iran’s previous status as it was before May 2018.

3- Standing up to Iran’s Reduction of Its Nuclear Commitments

In a European effort to stop Iran from implementing the third phase of its plan to gradually reduce its nuclear obligations, in which Iran has already implemented two phases, Britain, France and Germany have requested the convening of an emergency meeting of the Joint Comprehensive Plan of Action (JCPOA) member states in the presence of Russia, China and Iran alongside the countries that called for the meeting.

“The Foreign Ministers of France, Germany, the United Kingdom and the High Representative of the European Union express their deep concern that Iran is continuing activities inconsistent with its obligations under the Joint Comprehensive Plan of Action, and that Iran should act accordingly by reversing these activities,” the three European countries said in a joint statement. The statement called for an “emergency” meeting of the Joint Committee overseeing the agreement, which is composed of the participating countries.⁽³⁰⁾

The Joint Committee meeting was held on July 28 at the level of assistant foreign ministers in the Austrian capital Vienna. European countries failed to convince Iran to back down from its plan to reduce its nuclear commitments. Furthermore, Iranian Deputy Foreign Minister Abbas Araghchi said that any obstacles to Iran’s export of oil would contradict the Joint Plan of Action. Araghchi,⁽³¹⁾ who considered the talks in Vienna as constructive, issued a number of threats to European countries and said that Tehran would continue to reduce its nuclear

obligations if the Europeans did not succeed in salvaging the agreement.

Araghchi said that the Europeans have provided good clarifications on the mechanism of financial transactions known as 'INSTEX.' He further stated that trade dealings will be conducted via this mechanism within a short time. All European countries are now able to trade with Iran through the financial channel INSTEX, and even non-European countries can use it. However, he asserted that INSTEX cannot achieve all that Iran wants.

He expected European countries would discuss ways to comprehensively resume the import of Iranian oil. The official said that the talks also dealt with the development of the Arak reactor so that it works without heavy water in accordance with the terms of the nuclear agreement.^[32]

Thus, the Vienna meeting did not result in any Iranian pledges to stop reducing its nuclear obligations. However, Iran did not announce its third step in reducing its nuclear obligations. Russia and China, both of which took part in the meeting, blamed the United States for undermining the nuclear deal, but at the same time rejected Iranian measures to increase the rate of uranium enrichment. Perhaps undeclared understandings have been made regarding the extent of Iran exceeding the enrichment ceiling stipulated in the nuclear agreement.

Conclusion

Despite the European rejection of Iran's reduction of its nuclear commitments, and strained British-Iranian relations in the aftermath of the oil tanker crisis, the Europeans remain adherent to the nuclear agreement and continue to provide mediation between Iran and the United States in order to maintain the nuclear agreement, and to prevent the escalation of tensions to the verge of military confrontation. In the meantime, Iran continues to demand that European countries do not participate in US sanctions and activate the European financial channel in a manner that relieves US pressure and for it to become an alternative means for Iran to export its oil. The Iranian actions threatening the safety of navigation in the Arabian Gulf have not provoked a strong response from the European countries to preserve their interests related to navigation safety and security. But there are reports of a European alliance aimed to form a joint naval force, which has not yet been formed, although the British navy has already begun sending its battleships to protect tankers.

IRAN-RUSSIA RELATIONS

Iranian-Russian relations witnessed further rapprochement through the holding of a series of meetings between the officials of the two countries at various levels. These relations were driven by the growing tension between Iran and the West. July 2019 witnessed a series of mutual escalations between Iran and the West, which increased the possibility of military confrontation between two parties. This followed the incidents involving the seizure of oil tankers between Iran and Britain, and the announcement by Britain and the United States to form a joint naval force with Western countries to ensure the freedom of navigation in the Arabian Gulf and the Strait of Hormuz, through two parallel tracks with integration prospects between both of them. This crisis situation compelled the Russian Federation to react, especially since it threatens the security and plans of Iran, Russia's regional ally. Meanwhile, it limits the growing Russian influence in the region since the outbreak of the Syrian crisis. Iran encourages and motivates Russia to have a naval presence in the Gulf region by inviting it to carry out joint naval exercises. Iran aims to show off its growing naval power with the support of its Russian ally. However, international mediation efforts which aim to reduce tensions between Iran and the United States have not stopped. In the same context, there were French and Omani mediation initiatives. The possibility of escalation has become equal to that of calm and negotiation. Iranian consultation with its Russian ally has become central to the course of Iranian foreign policy. Although the two countries have not disclosed the details of their rapprochement, it has become clear through the frequent meetings between officials of the two countries. All these developments took place due to the desire of both parties to strengthen bilateral relations. In addition, both countries have the common desire to reduce the threats against them from Western countries, and maximize the opportunities available to them.

I. Political, Security and Military Relations

1- Political Outlook

At a recent meeting at the Valdai Discussion Club in Moscow, policymakers discussed ways to weaken international opposition against Moscow and Tehran. Both capitals want to develop convergent points of view to build a new world order that increasingly takes into account their shared interests. Russian experts at the club warned Iran that making wrong political decisions could lead to misunderstandings when diplomacy is essential to building shared views. Both sides agreed that depending on Europe to jumpstart diplomacy is not yielding results, because of Europe's close relations with the United States. They also agreed that it was essential that Russia, China, India and Iran strengthen cooperation through the Shanghai Cooperation Organization (SCO), and to disperse Iran-phobic trends that are hindering diplomatic efforts. If trade between them was to expand then it would be essential to avoid rivalries that could lead to crises.

Russia wants Iran to work with it to develop a regional military and security structure. ⁽³³⁾ Russian experts emphasized that more confidence building measures were needed before Moscow and Tehran could build unity and manage crises in a cohesive manner.

Iranian-Russian relations seem to be going through a testing time. Iran believes that it can offer Russia a winning card in the Gulf region to overpower the United States. Iran's collaboration with Russia in Syria has granted Moscow strategic access across the Middle East where Iran has been an influential actor. ⁽³⁴⁾ As a result, Tehran is assured that Russia will not harden its positions towards Iran, as it does not seek tension in its southern borders until Iran holds its next presidential election in 2021. At the same time, Russia is unlikely to alter its relationship with Iran for the better or to invest too much effort in advancing those ties. It is likely to offer some diplomatic and political support for the time being. This means that Iran will remain an important factor for Russia's Middle East policies, but it will be up to Iran to make the right geopolitical calculations that would turn Russia into a strategic regional partner.

2- Cooperation Over Iran Nuclear Deal

Russia and Iran will continue their nuclear cooperation after the United States renews sanctions waivers which generally last for 90 days. This will allow Tehran to work with foreign countries to build a civilian nuclear program. In an emergency meeting in Vienna to salvage the Iran nuclear deal, the Russian Permanent Representative to International Organizations Mikhail Ulyanov offered reassurances that Iran's new uranium enrichment levels, after withdrawing some of its nuclear commitments in July in response to tightened US-led sanctions, will not exceed 5 percent instead of the 3.67 percent limit set by the nuclear deal. ⁽³⁵⁾ Russia has urged Europe to be clear in its opposition to Washington's policy of wanting to bring Iran's oil exports to zero through its sanctions. To this end, it has proposed to help Iran export oil through Russia, a proposition that Tehran might be carefully weighing. ⁽³⁶⁾

3- Advancing Gulf Security

On July 23, Russia unveiled a doctrine for collective Gulf security. The doctrine avoids dispatching foreign forces or expanding foreign military bases in the region. The doctrine, also taken to the United Nations, was unveiled at an event in Moscow in the presence of representatives from Arab countries, Iran, Turkey, the five permanent members of the United Nations Security Council (UNSC), the Arab League, the European Union (EU) and BRICS member countries. ⁽³⁷⁾ Moscow has also called on all involved Gulf countries to avoid escalating tensions in order to undermine destructive policies by external powers. The former Russian Ambassador to Saudi Arabia Andrey Baklanov, who helped develop the doctrine, believes a Russian plan for a Middle Eastern version of the Organization for Security and Co-operation in Europe has far better odds today to materialize, especially if Gulf countries do not adhere to all US policies.

4- Opportunities and Challenges in Syria

The trilateral Astana summit on Syria between Russia, Iran and Turkey will take place at the end of August. Based on Iran's proposal, Russia has invited Lebanon and Iraq to join as observers. Jordan and the Syrian Kurdish Democratic Forces have asked to join as well.

The Astana efforts have been ongoing parallel to UN efforts to establish peace in Syria, through coordination with the five permanent UNSC members in helping draft a Syrian constitution, ⁽³⁸⁾ and ending the conflict around Idlib. Under the terms of the Astana deal, insurgents such as the Hayat Tahrir al-Sham (HTS) terrorist group were to withdraw from demilitarized zones. In recent weeks, HTS has stepped up attacks against Syrian government strongholds in

neighboring provinces, and Damascus has launched strikes against their targets.

Simultaneously, on July 2, an Israeli airstrike in the outskirts of Damascus killed 16, which Russia condemned. This is amidst reported tensions between Russia and Iran in Syria. According to the Syrian Observatory for Human Rights, there is increased chaos between Iranian and Russian forces in Syria, which has increased as Moscow prepares to host a security meeting with Tel Aviv. Israel insists that Iranian forces should leave Syria while Russia has defended the presence of Iranian forces in Syria on legal grounds because they have been invited to stay by the Syrian government. But tensions arising due to militia activity backed by Iran around Aleppo have been ongoing, especially in checkpoints watched by both Russian and Iranian forces. Israeli attacks against Iranian-linked targets at the T-4 Airbase in Syria happened in close proximity to Russian aircraft. This may also suggest that Moscow supports Iranian activity in Syria, but also allows Israeli military actions against Tehran.⁽³⁹⁾

There are growing concerns around Iran's attempts to fortify itself in the Syrian Baniyas terminal and refinery on the Mediterranean. These concerns were heightened when the tanker *Grace 1* was seized by Britain carrying approximately 2 million barrels of Iranian oil off the coast of Gibraltar and was reportedly heading to the Baniyas terminal in violation of European Union (EU) sanctions against the Baniyas Oil Refinery Company. Iranian fortification in the Baniyas terminal brings it closer to Russian military positions in Tartus and Hmeimim in Syria. This will have long-ranging consequences including Tehran's expanded control of Syrian ports including Baniyas and Latakia as well as a pipeline connecting Iraq to Baniyas, allowing Iran to circumvent sanctions.⁽⁴⁰⁾ Syria and Iran have already held investment discussions to boost trade, despite the sanctions imposed on Tehran.

II. Military Cooperation between Russia and Iran

For a second consecutive year, the Russian army hosted an international military game in which Iran's army, revolutionary guards, and disciplinary forces participated. On a parallel track, the Russian Defense Ministry and Iranian Armed Forces signed a non-binding memorandum of understanding (MoU) without allied-commitments, during the Navy Commander Hossein Khanzadi's three-day visit to St. Petersburg on the occasion of Russian Navy Day celebrations. According to Khanzadi, the MoU is the first of its kind that has many confidential clauses to boost military cooperation particularly with regard to naval forces in the Caspian Sea.⁽⁴¹⁾ But Iran also insists that a joint Gulf military exercise with Russia later this year as part of their classified MoU does not mean that the two countries are strategic partners. Tehran believes that Moscow wants to be present in Gulf waters. Iran wants Russian presence in Gulf waters to improve deterrence as tensions rise with the United States.⁽⁴²⁾ Russia and Iran have plans to expand military drills in the Indian Ocean, the Makran coast and the Strait of Hormuz.

There are concerns that Russia could train Iran in the practice of hybrid warfare. As the two embark on expanded military cooperation in the Gulf region, Iran can improve its hybrid warfare practices. Iran was able to demonstrate some of these practices recently by seizing oil tankers. Furthermore, Iran prefers increasing asymmetrical operations without resorting to direct military action, which is another method practiced in hybrid warfare. In these cases, despite its provocations, Iran can shift the burden of conflict escalation on to its adversaries. This serves to deter its adversaries' resolve to fight back or to retaliate in grey zones where both them and Iran, along with their international supporters, have different narratives to offer about the conflict. This in turn questions the sanity of an escalation and helps to prevent a military battle. It also allows Iran and Russia to continue to increase their relatively undeterred military global operations to become a hybrid superpower, in the case of Moscow, or a hybrid regional power, in the case of Tehran.



III. Overview of Economic Relations Between Russia and Iran

1- Shanghai Cooperation Organization

Iran insists that it should join the Shanghai Cooperation Organization (SCO), a position that it held on to at a recent meeting in Bishkek in June. President Hassan Rouhani is also working on expanding mutual ties with Tajikistan, a country opposed to Iran joining the SCO. Russia and Iran want to build a north south trade corridor to India, which the SCO can help with. Iran believes that US-led sanctions cannot hinder its activities in the SCO,⁽⁴³⁾ but it is also aware of its poor ties with both Tajikistan and Uzbekistan that are members of the SCO. This can impede the SCO's cooperation with Iran since a consensus among all of the organization's members is required to allow Iran to join or to work with it. As a result, Iran cannot hope to be a major player in the SCO's economic and foreign policy affairs, though it tries to be more proactive in the SCO.

2- Financial Mechanisms

Tehran expects that an online payment system and trade services should be developed between innovative companies in Russia and Iran, according to the Vice President for Science and Technology Sorena Sattari's latest statement at the INNOPROM Exhibition. Iran is currently making software in the cyber security sphere, and planning in the enterprise resource sphere, as well as developing capacity in integration planning and multi-dimensional technology. These are areas in which Iran expects better coordination with Russia.

Russia has signaled its willingness to join the EU-led payment channel, the Instrument in Support of Trade Exchange (INSTEX), designed to circumvent US sanctions banning trade with Iran, and it has called for expanding INSTEX to cover Iran's oil exports rather than just covering the delivery of food, medicine and humanitarian aid to the country. A few million

euros worth of payments to Iran have already come through this financial channel, which is backed by 10 EU countries and is open to other non-European countries to join. Russia's comments on INSTEX echo those made by Iranian officials who say INSTEX is a positive development for transferring some goods, but insufficient to keep Iran's economy financially sound under sanctions. The EU has hinted that oil trade could be added to the trading scheme.⁽⁴⁴⁾

In Iran, hardliners fear that despite its confidential non-disclosure clauses, joining INSTEX will reveal Iran's secret financial information. Iran's Parliament is therefore studying building a parallel SWIFT financial channel similar to the Russian system for the transfer of financial information, and a card national payment plan.⁽⁴⁵⁾ Both measures will help Tehran to avoid disclosing financial information that it does not want to through INSTEX, while trading through its own financial channels.

3- Oil Cooperation

In OPEC, Iran continues to oppose Russian and Saudi measures to keep production low in the first three months of 2020. Iran also fears that a drop in its oil exports will grant Russia an excuse to insist on the rise in its oil production quota.⁽⁴⁶⁾

4- Other Trade

Iran continues to import Russian equipment and agricultural products in exchange for crude oil that it has already sold to Moscow. The Russian Ambassador to Tehran Levon Dzhagaryan has said that Tehran, Beijing and Moscow need to form a strategic trilateral trade cooperation bond to defy the United States. But Iran's total value of trade with Russia has declined in value compared to last year. Russia is Iran's 11th largest trading partner, and Iran exports to Moscow kiwi, tomatoes, cabbage, pistachios and dairy products worth on average over \$20 million quarterly. On average, Russian exports to Iran are worth over \$62 million on a quarterly basis, and the country remains the 10th largest exporter to Iran in the first half of the Iranian calendar year.⁽⁴⁷⁾

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