

Arabian Gulf Centre
for Iranian Studies



IRAN CASE FILE

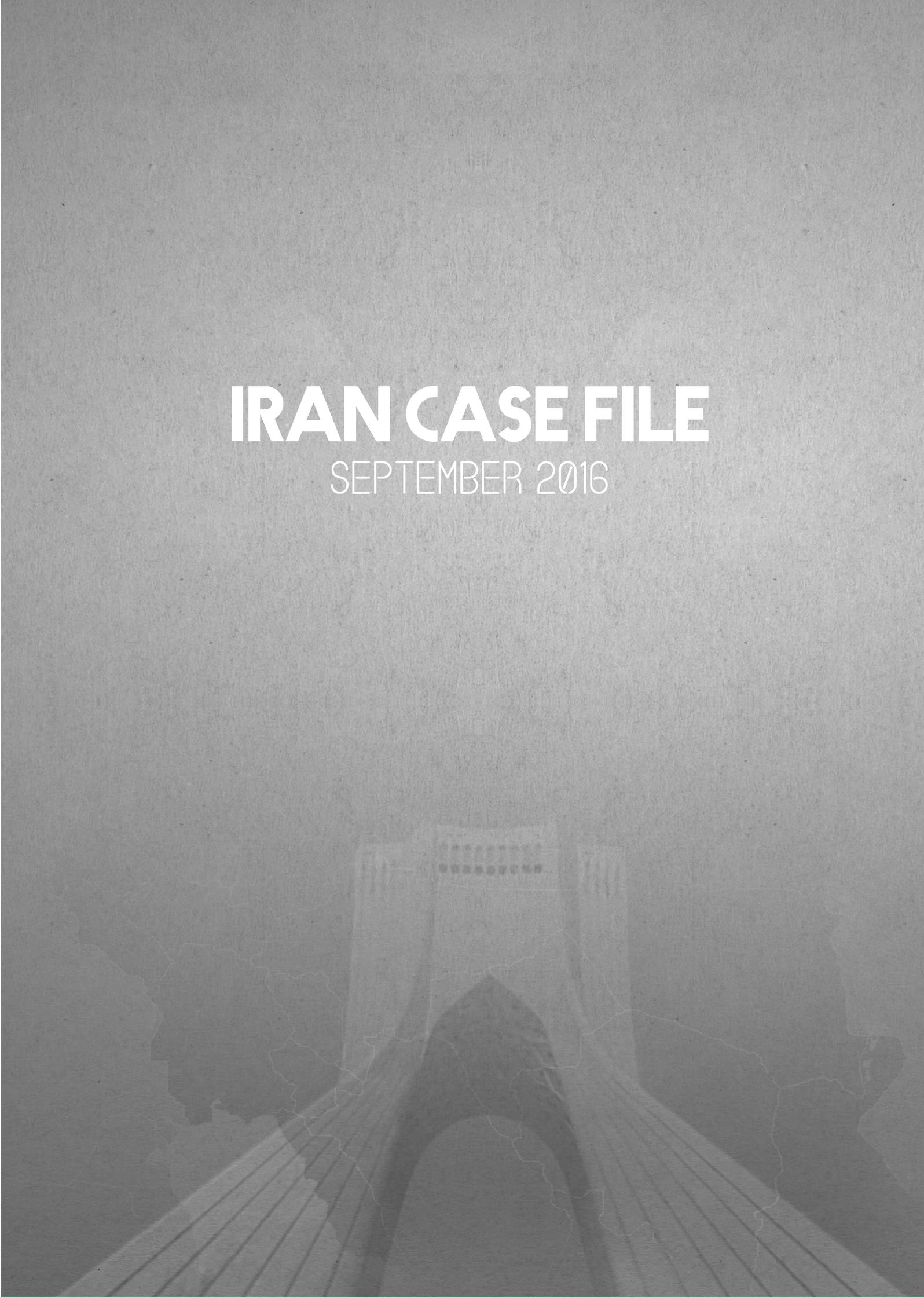
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EXECUTIVE SUMMARY

This report traces the most substantial developments over the month of September 2016 to present accurate specifications about the Iranian case-file during this month on the internal, Arab, and international levels.

A. Internal Affairs

1. Presidency of the Republic

After Khamenei's recommendation to Nejad and other prominent politicians to not run the elections of 2017, competition reversed, which paves the way to Rouhani to win a second term. That was reflected in Rouhani's external activities through his speech at the General Assembly of the United Nations.

2. Military

This month witnessed the anniversary of the Iraqi-Iranian war. During the so-called, "The sacred defense week," some military industries were displayed such as

- a. Fighting Robot
- b. The Iranian-made frigate "Naziri."
- c. Military demonstrations in most Iranian cities
- d. Limited military exercises "Limited but efficient," on how to face and block any radiation leak in the areas neighboring the Iranian nuclear reactors.

3. Security issues included

- a. Seizure of ISIS cells on the Iranian western borders.
- b. The course of the war with the Kurdish Democratic Party.
- c. Consecutive explosions and fires in bordering areas.
- d. Continuation of arresting dual-nationality citizens for espionage activities in Iran.
- e. Increase in executions for drugs accusations, which were internationally condemned.

4. Economy including,

- a. Energy, investment, foreign trade, banks, and tourism.
- b. Living conditions of the Iranian people.

5. Social problems

Over the month of September, the Iranian society suffered some unresolved social problems such as,

- a. The spread of the No-Standards state in the Iranian society and vagueness of adherence to common values, which resulted in the spread of common-law marriages, leading to a decline in the legal marriages and birth rates.
- b. The increase in addiction.
- c. Growth in divorce rates.
- d. High unemployment rates
- e. Growth in suicide rates
- f. The increase in domestic violence.

B. Arab Affairs

Rivalry between Iran and Kingdom of Saudi Arabia heightened during the month of September due to the following reasons,

1. The Iranian attempts to politicize Hajj "Pilgrimage," through raising political slogans such as "Death to Israel," "Death to America," which were rebuffed by Saudi Arabia due to their adverse impact on Saudi international relations, and the Iranian nefarious intentions to impair the holy ritual of Hajj.
2. Truce in Syria ended with no solutions, and the Syrian-Russian military campaign continued in Aleppo city with Iranian support.
3. The Iranian role in the liberation of Mosel from the ISIS is noticeable through supporting a Shiite project against the Sunni and Kurdish ones, which signifies a very dangerous and precarious situation is to happen after liberating the city.
4. The Yemeni situation is still unmoving and standoff since the aggression of Houthis of the Yemeni capital Sanaa in September 2014 and storming and assailing the presidential palace, leading to,
 - a. Houthis have institutionalized the sectarian reflection on the conflict.
 - b. President Hadi has moved the central bank from Sanaa that is dominated by the Houthi-Saleh forces to Aden
 - c. The Yemeni foreign minister, Abdul Malik Almiklafi unveiled information about minting new money, but the time is still undetermined.
 - d. The Iranian newspapers revealed that Egypt broke up its ties with Kingdom of Saudi Arabia invoking the Egyptian Foreign Minister's meeting with his Iranian counterpart on the sidelines of the 71st session of the General Assembly of the United Nations in New York on September 9th, 2016. The Iranian media also referred to the statement of former secretary-general of the Arab League, Amro Mousa when he said that Saudi Arabia had committed a mistake by forming the Arab coalition in Yemen. .

C. International Affairs

1. The United States

The nuclear deal has contributed to the improvement of the Iranian- American relations and rapprochement towards the unresolved regional and international issues, especially the nuclear file.

In fact, the United States cares about neither the Gulf States Security nor the Arab World security but does care about its interests in the region, which was evident and unambiguous in President Obama's veto of the congressional draft law to unveil the financial accounts of the Iranian senior officials. In addition to that, the Iranian foreign minister referred to American assurances about urging the European countries to enhance trade relations and re-build banking ties with Iran.

2. Russia

The Iranian-Russian relations witnessed growth in most sectors in September such as,

1. Signing an agreement to implement the second and third stages of Bushehr nuclear plant to enhance cooperation in nuclear energy and electricity.
 2. Cooperation in the Radioisotope field in Frodo Reactor
 3. Transporting heavy water from Iran to Russia.
 4. Opening an Iranian bank in Moscow
 5. Signing an agreement to establish a joint bank that facilitates trade exchange between the two countries.
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INTRODUCTION

This is the **third strategic report prepared** by the Arabian Gulf Center for Iranian Studies. It comprises three key aspects of the Iranian affairs over the month of September; Internal, Arab, and International. On the internal level, its primary focus is on the presidency of the republic, military and security issues, and internal social and economic affairs; the Arab affairs included Iran's relations with Saudi Arabia, Iraq, Syria, and Egypt. Moreover, on the international level, the report covers Iran's relations with Russia and the United States of America.

This monthly report provides the necessary information for the readers to update and keep them up with the accelerated developments of all Iranian aspects where security issues and spread of distrustful language among the media prevail and overshadow everything else. On the Arab and International levels, Iran has adopted a hostile policy toward its neighbors through supporting sectarian militias for two reasons; regional expansion and ending its international isolation through creating new coalitions to serve its expansionist objectives.

The methodology of this report relies on analyzing the Iranian political, social, and economic developments during the month of September in order to draw a comprehensive overview of the Iranian movement on the three aforementioned levels; local, Arab, and international. In the end, the report demonstrates the most prominent conclusions that the experts of the AGCIS have reported and scrutinized over the last month of September.

Conclusively, since this report is confined to a short period, it cannot provide a well-defined and thorough scrutiny about the Iranian future tendencies, which means that the Iranian future readings and potential scenarios on all levels will be presented in a biannual report prepared by the AGCIS.

SUMMARY AND CONCLUSIONS

The conclusions of this report provide a number of indicators, which can be summarized as follows:

Internal Affairs

» On domestic political rivalries, Iran moved beyond its previous state of de-escalation this September, further consolidating the traditional political lineup after skirmishes in the past two months, and trying to change the political alliances formed since 2013. Reformists are no longer discussing the post-Rouhani phase, with their support for him in the upcoming presidential election now inevitable, although he faces some pressure from them to change the ministerial line-up.

September also saw the emergence of a state of truce between Rouhani and Khamenei, especially following Khamenei's removal of Ahmadinejad from the presidential race. Rouhani has acknowledged the shortcomings in the administration's implementation of the nuclear deal and formulated a program for his international strategy to increase Iran's gains from the groundbreaking deal. Notably, Rouhani initiated this program by putting pressure on the United States to implement the terms of the deal by internationalizing the issue in his speech to the United Nations. This subsequently resulted in further gains for Iran, most notably in allowing the export of civilian aircraft to Iran, and in the US Treasury's moves to abolish the banking sanctions previously imposed on the Islamic Republic.

» The regime's continuous updating of its armaments and military capabilities of the Iranian armed forces, particularly, the Navy and Air Defense Force, reflect the nature of the armed confrontations which Iran expects both offensively and defensively. The most noteworthy of Iran's military upgrade operations was the introduction of the Russian S-300 missile defense system into service. Moreover, the completion of construction work on domestically built Iranian warships, including the "Naziri" Frigate, along with moves to increase nuclear reactors' resilience to attack, protecting them from possible radiation leaks.

» The number of attacks by the armed domestic opposition in Iran on the regime's oil and industrial facilities decreased in September compared to the previous two months, with the opposition instead returning to carrying out bombings against regime military targets. Combat operations by the Kurdistan Democratic Party of Iran (KDPI) increased in Western Iran after the party declared war against the regime.

» Iran continued to ignore international pressure over its imposition of arbitrary death sentences against dissidents, usually under the patently false pretext of their being involved in the drug trade. Iran also continued its policy of arresting dual nationals visiting the country from Western nations, accusing them of involvement in espionage activities.

» Despite Rouhani's acknowledgment of the impact of reduced oil prices on the Iranian economy,

Iran announced its unwilling to reduce or freeze production levels during an informal meeting of OPEC member states in Algeria. Meanwhile, other OPEC members, led by Saudi Arabia, agreed in principle to reduce oil production by about one million barrels per day, postponing any final agreement on this until the next official OPEC meeting in November with the possibility of excluding Iran, Libya, and Nigeria from any agreement on reducing production. This announcement resulted in a rebound in oil prices, which again rose above \$50 per barrel after having fallen to around \$47. Iran is continuing to increase its oil production and export levels according to statistics revealed in September concerning the size of its standard exports to South Korea and India, brokering new agreements with oil and gas companies to develop existing fields and establish new ones.

» The World Bank's latest report on Iran's economic prospects predicted that Iran would achieve an annual growth rate of 4.6 percent between 2016 and 2018. Striking a note of caution, the World Bank linked this anticipated growth to various conditions, including a need to reduce the geopolitical risks surrounding Iran which could adversely affect investment and trade volume. As well as to ensure investments and implement agreements on the ground and for the government to meet its commitment to implement structural reforms in state-owned enterprises, and ensure more efficient management of its oil revenue.

» Iranian non-oil exports to Europe increased by 21% in the first five months of the current Iranian year, with Iran focusing commercially on its flourishing trade relations with Germany, as trade volume between the two countries reaches over \$2.8 billion within a year

Iran is also continuing to expand its investment relations with Asian countries and some neighboring Arab countries, particularly the Sultanate of Oman. Meanwhile, the crisis over a delayed aircraft deal with the United States is over, with Iran declaring that it would buy only six planes from the European Airbus firm in response to the US' allowing only 17 of the original 118 Airbus aircraft ordered.

» Iran's banking sector saw positive news in September, with a tour of European countries by the Iranian Central Bank Governor aiming to expand business relations resulting in France giving the go-ahead for the opening of three branches of Iranian banks in the country. Other European banks remain cautious in their dealings with Iran, prompting Iranian Foreign Minister Javad Zarif to request during a meeting with US Secretary of State John Kerry on the sidelines of the UN General Assembly conference in September that the United States reassure the European banks about conducting financial deals with Iran.

» On Iran's tourism sector, Hashemi Rafsanjani exploited the occasion of Tourism Week in Iran to promote tourism in Iran, describing it as one of the state's 2025 vision priorities. This event also witnessed the opening of the maritime link between the Iranian port of Bandar Abbas port and the Omani Khasb port.

» Living conditions for Iranian citizens, meanwhile, continue to deteriorate, although the Iranian Central Bank recently announced a 30 percent increase in financial liquidity since the beginning of the Iranian year following news of low production rates and large numbers of factory closures. It's predicted that the sharp increase in liquidity will result in price rises and reduce the purchasing value of the Iranian currency, further magnifying the already substantial economic burden on Iranian families and increasing suffering, especially since families with a single breadwinner now constitute 55 percent of all Iranian households. Moreover, the percentage of households with no members currently in employment has risen by 26%, per statistics released by the Iranian Central Bank in September.

» Continuing deterioration in Iran's domestic economic and security situation is reflected in worsening social conditions in the country, leading to an increase in the rates of drug addiction, unemployment, divorce and suicide, all of which are rising steadily, while the regime continues to increase its already brutal violence towards minorities, particularly Arabs, Kurds, and Baluchis.

Arab Affairs

» Increasing levels of divergence between Saudi Arabia and Iran are reducing opportunities for consensus between the two regional powers due to Iran's aggressive stance towards Saudi Arabia, which has worsened since the Saudi authorities rejected Iran's politicization of the annual Haj pilgrimage. Add to that, the Iranian regime wishing to use the occasion for pilgrims to chant its customary "Death to Israel" and "Death to America" slogans. From the Iranian perspective, the nature of Hajj should be changed from the traditional one of religious duty to become a politico-religious duty. Apart from any other considerations, any such move could reflect negatively on Saudi Arabia's international relations since pilgrims travel from around the world to participate in the Haj, and some might be hindered by the politicization of the annual event.

» Iran is leveraging the increasing Russo-Iranian role in the Syrian crisis to achieve real gains and maximize its influence in Syria in light the United States' current preoccupation with the upcoming presidential elections, using the imminent arrival of a new US president to introduce new factors that could change facts on the ground. In addition to, tip the scales of power in the Syrian equation or even in future negotiations about the Syrian crisis. This role has crystallized through US pressure for a new peace agreement on Aleppo, with the talks on a new truce proving unsuccessful. Add to that, the joint military escalation by Russia, Iran and the Assad regime against the strategic city being used both as an effort to break the opposition and to gain an influential card in future negotiations.

» Iran is supporting a project of Shiite dominance adopted by al-Abadi's government and the "Popular Mobilisation Forces" Shiite militias in Iraq for the next step after the liberation of Mosul from ISIS grip. This project aims to maintain the same absolute subjugation of the predominantly Sunni province's populace as under ISIS in order to prevent the city and region from claiming independence, which is the alternative favored by Sunnis and Kurds. Al-Abadi's Iranian-backed sectarian project is flatly rejected by Sunnis and Kurds in the area, who see it as leading inevitably to the resumption of the previous sectarian conflict, which resulted in the emergence of ISIS in the first place. The Iranian support for the project means theoretically that the Iraqi army would assume control of these areas, though practicing this means giving the Iranian regime's militias control over Mosul.

» Iran is unhappy at the Yemeni president's decision to move the country's Central Bank away from Sanaa, which is currently controlled by Iranian-allied Houthi militias and forces loyal to deposed former dictator Ali Saleh. A move which would restore the power over financial decision-making for the country to the government backed by most of the country's population. Economists believe that this move will economically strangle the Houthi forces and Saleh loyalists, paving the way toward a battle to liberate Sanaa. Moreover, stripping the militias of the economic power which has enabled them to attain dominance over the country's elected government over the past two years through purchasing weapons, recruiting fighters and buying tribal and military loyalties.

» Iran has made a number of attempts to drive a wedge between Saudi Arabia and other Arab countries such as Egypt in order to fracture unity and to weaken Saudi-Egyptian relations and gain further control.

International Affairs

» US-Iranian relations have continued to improve since the signing of the Iran nuclear deal with the P5+1 nations, with relations between the two countries now entering a new phase dominated by political rapprochement and consensus on critical regional and international issues, especially the nuclear file. The United States is not interested in the GCC states or the issue of Arab security but cares only about its interests in the region. Among the most obvious indicators of this new regional status are the Obama administration's efforts to ensure that Congress passes legislation to allow senior Iranian leadership access to funds. In addition to, confirmation that the Iranian foreign minister has received US assurances that Washington will work to encourage European countries, particularly European banks, to promote business dealings with Iran.

» Russia and Iran are moving toward strengthening cooperation, and genuine partnership, with using this connection as pressure card from both counterparts against the United States and Western countries.

» Russia has continued to show its superiority over its European competitors, particularly Germany, in the field of nuclear cooperation with Iran regarding long-term contracts to develop the Bushehr nuclear power plant supposedly to produce electricity, although Moscow faces some competition from European countries in other fields of economic cooperation with Iran.

» Russo-Iranian cooperation has raised concern among some US officials, with the US Congress and US Department of Defense following the trends in this collaboration. This decision was taken without consulting the presidential office, reflecting the US Congress' lack of confidence in the presidential institution's dealings with Iran, the same concerns which have recently become notable within the US Department of Defense.